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INDUSTRIAL STRATEGY AND THE STATE IN FRANCE: MODERNIZATION AND ADJUSTMENT STRATEGIES IN THE FIFTH REPUBLIC

by

JAMES C. MURPHY

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE

DOCTOR OF PHILOSOPHY

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ABSTRACT

French industrial strategy in the postwar period is examined in the context of theories of state autonomy. The underlying continuity of industrial strategy is brought to light. The attention of French policymakers, particularly in the Fifth Republic, was focused on the relationship between the international economy and the domestic economy as they sought to guide French industrial development. The strategic orientation of the French state has been to encourage national champion firms capable of competing in the global marketplace. The ability of the state to integrate its economy into the global trading regime while retaining control over the rate and direction of industrial change is crucial to state power. In formulating state industrial goals, policymakers have derived their policy preferences from the nature of the international environment. The organization of the French state and state interaction with the international environment give French industrial strategy its characteristic features. Domestic institutions, traditions, and the ideology of state elites are found to be important factors shaping industrial strategy; the influence of the international economy is found to be decisive in shaping changes in that strategy over time. The structural consistencies underlying French industrial strategy are due to the
organization of the state. Changes in the focus of industrial strategy under various governments are due to the influence of the international environment. The French state is found to be relatively autonomous in pursuing its industrial goals, while the theories of state autonomy are found to be useful in elucidating industrial strategy.
ACKNOWLEDGEMENTS

The completion of this dissertation marks the end of a lengthy period of study and reflection which began in 1979 when I began the Ph.D. program at Rice. I of course had no conception of the rigor and sacrifice necessary to complete a Ph.D., but I had in mind a faint glimmer that it might be done.

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The state, being an artifical body is not limited in any way . . . . It can always increase; it always feels itself weak if there is another that is stronger. Its security and preservation demand that it make itself more powerful than its neighbors. It can increase, nourish, and exerise its power only at their expense . . . while the inequality of man has natural limits that between societies can grow without cease, until one absorbs all the others . . . Because the grandeur of the state is purely relative it is forced to compare itself with that of the others . . . . It is in vain that it wishes to keep itself to itself; it becomes small or great, weak or strong, according to whether its neighbor expands or contracts, becomes stronger or declines . . .

-- Rousseau, L'Etat de Guerre

INTRODUCTION

In this study, I undertake an examination of French industrial strategy in the postwar period, concentrating in particular on the Fifth Republic. My contribution in this work is, I believe, threefold: (1) I attempt to bring to light the underlying continuity of state industrial strategy. French policymakers realized early in the postwar period that there is a relationship between the international economy and the domestic economy in shaping the capacity of the executive to guide industrial development. An industrial strategy that attempts to be "statiste" but not necessarily "dirigiste" has been the result, and that strategic orientation has been central to the growth of state power in the Fifth Republic; (2) I show that the French state has retained a relative autonomy in formulating a set of strategic goals to achieve industrial independence in the world economy. In the context of global interdependence, the ability of the state to integrate its economy into the global trading regime while retaining control over the rate and direction of industrial change in the domestic economy is crucial to state power; (3) I attempt to demonstrate that the international environment wielded a pervasive influence in shaping postwar French industrial strategy, and I show that the French state--defined here as the
French executive and its associated bureaucracy—has largely derived its industrial and economic policy preferences from the international environment. Two major international events had a decisive influence on the scope and direction of French industrial strategy: the formation of the Common Market, and the global recession induced by the rise in the price of oil in 1973-74.

My principal theoretical position ties in with these points. The state, in the area of industrial strategy, can be autonomous of domestic society. In a highly competitive global marketplace, the centralization of industrial and economic policy is an essential attribute of state autonomy. My thesis is that the French state is well organized to formulate and pursue a coherent industrial strategy, and that the state has used its industrial leadership to achieve political goals, chief among which has been the transformation of French society. French industrial strategy represents one set of political choices made by the state to guide that transformation.

State autonomy correlates with state centralization. A decentralized state has more points of access through which pressure groups can penetrate the policymaking apparatus. Centralized and autonomous states, such as France and Japan, can more readily formulate independent policy goals, change the behavior of specific groups, and
alter the structure of society than decentralized states possessing relatively less autonomy. State autonomy does not mean that the state can necessarily shape policy outcomes it finds desirable in every case. In my conception of state autonomy, the state has the capacity to formulate and pursue goals that may or may not be consistent with societal preferences. This is clearly a relative autonomy, since the state may be constrained to adopt industrial and economic goals congruent with the international structure. Ultimately, state autonomy is influenced by the pressures of the international environment.

I argue that the organization of the French state and state interaction with the international environment give industrial strategy its characteristic features. Domestic institutions, traditions, and the ideology of state elites are important factors shaping industrial strategy; changes in the international economy produce shifts in industrial strategy over time. The structural consistencies underlying French industrial strategy are due to the organization of the state. Changes in the focus of industrial strategy under various governments are due to the influence of the international environment.

In Chapter One, "Organizing the French State," I define my use of the terms industrial strategy, the
state, and the international environment. I then examine the nature of the French state in the Fifth Republic, what I call the "Gaullist state." The underlying consensus in the Fifth Republic on economic growth and industrial modernization exists in large part because of the cohesiveness of the state administrative elite who share a commitment to those goals. In Chapter Two, "Perspectives on the State," I examine closely some theories of the state in an attempt to sharpen and refine my perspective on the French state. I then turn to a discussion of a "model" of the ways the state responds to the international environment through a mix of offensive and defensive adjustment strategies. State industrial strategy is a response on the part of the state to the intrusive international environment. Sudden international events such as the oil embargo of 1973-74, or longer-term events such as the gradual opening of European markets under the EEC regime, have significant impact on the French economy.

Clearly, the international environment is not a single causative factor shaping industrial strategy. The role of politics, political parties, institutions, and ideologies must be considered as well. In Chapters Three, Four, and Five, I undertake an account of French industrial strategy in the Fourth and Fifth Republics, examining closely the approaches adopted by De Gaulle, Pompidou, Giscard d'Estaing, and Mitterrand. Despite
variations in methods and rhetoric, certain themes of continuity emerge in the industrial strategies of each government. The modernization of French industry to achieve economic growth and international competitiveness has been at the core of the French state's mission to transform French society in the postwar period.
CHAPTER ONE
ORGANIZING THE FRENCH STATE

"The French state... has the structural potential for autonomous action, but structure does not determine how or whether that potential is used. A political explanation will always be required to explain the direction of state activity."

The survival of private enterprise in France seemed to many problematic after the Second World War. The strength of the parties of the left, stemming from their participation in the Resistance, coupled with a suspicion that French industrialists had collaborated with the Germans during the Occupation, called into question the legitimacy of private industry. The nationalization of the Renault automobile company and several large banks in 1946 was supported by many in France. The beginnings of the structure of the postwar French state lie in the early attempts to formulate a coherent approach to rebuild French industry.

French industrial policy derives from a long tradition of state intervention in the economy. The state has played a major role in the development of French industry at least since Colbert chartered the
Saint-Gobain glassworks during the reign of Louis XIV. State policy over the centuries since has been neither consistent nor sustained, but the involvement of the state has given a distinct cast to industry-state relations that sets France apart in the community of industrial nations.

In this study, I examine French industrial strategy in the postwar period, concentrating in particular on the Fifth Republic. This period has seen a great deal of change in French industrial structure and, more interestingly from a political science standpoint, an evolution in the way the state has planned and administered a strategy for industrial growth. French industrial strategy has emerged as a state response to the integration of the French economy into the world economy. Indeed, it has been a component of the effort by state policymakers to expand the power of the state over French society. The state has used the pressure of international competition to extend its control over the development of key industrial sectors.

A. The State

An industrial strategy advances the primacy of some objectives over others. It requires that the state possess a relative autonomy from the domestic structure. Moreover, a degree of consensus must exist both within
the state (among state policymakers) and between the state, industry, and society on the manner and extent of the state's role in industrial intervention. If such a consensus is present, the state is potentially autonomous in defining and pursuing its objectives.

In this study, I define the French state as the political executive and the associated administrative bureaucracy. In looking at French industrial strategy, this does not appear to be an overly restrictive definition. In France, industrial strategy is formulated at the level of the executive. The centralization of state power is crucial to the state's capacity to formulate and implement a coherent industrial strategy.

One of the conceptual difficulties in the literature on the state which bears on the question of state autonomy is the problem of differentiating the state from civil society. In Marx's view, the world was divided into social relationships of structure and superstructure. Civil society—the realm of private economic relationships of production—constituted the structure of human society. The state—the political and juridical order—was superstructure, conceived to be subordinate to civil society. Civil society defines the nature of the state and the goals it pursues.²

Gramsci later modified this view. He saw much of civil society as itself superstructural. The social relations of civil society are the cultural, ideological,
economic, and intellectual relations embodied in organizations like political parties and the bureaucracy. In the realm of social relations the hegemonic class uses its political, moral, and economic leadership to articulate a basic worldview that comes to pervade society. It is accepted as given by society and comes to be reflected in the practices, ideologies, and institutions that comprise the political order.³

In terms of economic and industrial policy in France, the elite administrative bureaucracy trained in the grands écoles has contributed to the creation of a broad consensus on the importance of the state, state control over the rate and direction of industrial development, and Keynesian economics. It is the permanence of the administrative state with its core economic values that lends continuity to postwar French industrial strategy. In Gramscian terms, the state elite does not derive its policy preferences from civil society, but creates its own set of goals. The administrative elite has more or less insulated itself from shifts in public opinion, the pressures of organized business and labor, and from domestic interest groups which have sought to influence the political balance of the Fifth Republic.⁴ An important attribute of elite survival has been the use of industrial strategy to maintain control of the levers of state power in the Fifth Republic. Economic and industrial policy were
identified in the early postwar period in France as the core of the state, and by nurturing an administrative elite to guide economic policy, a measure of societal consensus has been created in France on the purposes of national economic policy. The pursuit of specified goals for French industry has formed a major component of that economic policy.5

B. Industrial Strategy

Industrial strategy may be defined as an attempt by the state to guide the rate and direction of domestic industrial change. As such, it is a component of general economic policy and of foreign economic policy. The key to industrial strategy is selectivity. It differs, therefore, from general industrial policy which is a catch-all term used to describe a variety of measures taken by the state to shape the evolution of industrial structure. It is almost impossible to draw the boundaries of industrial policy since any government action directed toward industry could be included. Often its aims are multiple and uncoordinated and can conflict with each other. One definition offered by a prominent economist points to the difficulty of identifying industrial policy as a distinct policy area:
By industrial policy is meant political actions designed to affect either the general mechanisms of production and resource allocation or the actual allocation of resources among sectors of production by means other than general monetary and fiscal policies.\(^6\)

The scope of what may be included under this definition is wide indeed.\(^7\)

Industrial strategy implies something more systematic and less ad hoc. An industrial strategy advances certain goals for industrial order, ranks them according to priority, and sets an agenda for implementing measures based on these goals. An industrial strategy attempts to introduce an element of rationality into the process of industrial change and to minimize random intervention by the state. Whether governments can achieve the goals they set for themselves is a political question. Strategic goals are linked to questions of economic efficiency, social order, international prestige, and domestic political objectives. The concept of an industrial strategy, then, raises questions about state power.

In an interdependent world economy it is open to question how much even a powerful state can achieve in implementing an industrial strategy. Political and economic modernization bring an increasing degree of state control over the domestic environment, but the
consequence is that the distinction between domestic and foreign economic policy is broken down, and the international environment comes to exert an influence over domestic industrial strategy. As an economy becomes integrated into the international system, as did France's in the postwar period, the state becomes the only intermediary capable of brokering between the international marketplace and domestic producers who often demand protection from the intense competition of foreign producers for domestic markets. The internationalization of production eventually causes the state to redefine its role in the global system. For example, the prevailing liberal trade order invites the use of state intervention to protect national producers. Yet the state becomes enmeshed in a web of global interdependence which acts to constrain its power to pursue industrial goals. The international rules of the game condition industrial strategy. Given that the French state is organized to control the domestic economic environment, to what extent are its strategic industrial goals derived from its desire to compete globally?

While French industrial strategy must be examined in a broad context, one of the political elements I wish to emphasize in this study is the effect of the international system on state behavior. Looking at the way the state forms a strategy for industrial order is
one way to focus on the effect of the international system on state behavior. Among the other points I attempt to emphasize are the following.

1. For the state to implement the array of industrial policy instruments available to it, a framework must be constructed to lend coherence to policy. The state, by linking the international system and the domestic industrial order, provides a framework at the strategic level for industrial intervention.

2. A strategy implies a state organized such as to have mechanisms for thinking about the direction it wants to move. Indeed, part of the evolution of French industrial strategy has to do with the way the state has organized itself to enunciate a strategy.

3. Political leaders in France have acted as what Keohane and Nye call "modernizers." De Gaulle, Pompidou, Giscard, and Mitterrand recognize and promote, in varying degrees, the influence of the international system in moving industry toward the achievement of the political goals of the state. Presidential power in France is highly dependent on the skillful political
manipulation of the international order to serve domestic political ends.

4. The *grands projets*, *l'impératif industriel*, *Redéploiement industriel*, and *modernisation* are all strategic projects for French industry formulated by the state.

5. The political executive in France and the associated administrative agencies are the level at which international pressures are received and channelled. Industrial strategy is formulated at this level.

6. Through the use of industrial strategy, the French executive has increased its power in the political system of the Fifth Republic. The decline in power of the Commissariat Général au Plan (CGP) and the Industry ministry and the rise of the more directly controlled Finance Ministry and its Trésor is one result of the centralization of industrial strategy at the level of the presidency.

7. The influence of the state in industry is not uniform. Direct guidance is felt most in industries defined politically as critical.
Industrial strategy is not a general macroeconomic policy designed to produce well-functioning markets or stable prices. Its distinguishing feature is selectivity. Not all industries or companies will be treated alike or have access to the same state aid sources.

Various strategic projects have been formulated by successive governments to achieve industrial growth. In the Fourth Republic, which was a parliamentary regime, state policymakers focused their efforts on reconstruction, renovation, and modernization of French industry. The goal of the state was to create a new societal consensus in favor of growth, trade, limited competition between European countries, and international cooperation in economic and defense policy. The major agency of state policy was the Planning Commission (CGP) led by Jean Monnet, which worked closely with the Industry ministry to implement a series of plans focused on selected sectors called the économie concertée. Politically, it was (as Andrew Shonfield describes it in Modern Capitalism) "an act of voluntary collusion between senior civil servants and the senior managers of big business." Political parties and labor unions were largely excluded from power as technocratic planning guided the modernization process. The nationalization of the important banks, utilities, and industrial firms such
as Renault gave the state sufficient control over the
economy to command the respect of big business; and big
business in turn sought a stable economic environment
only the state could provide. The économie concertée
encouraged cartels in the interest of modernization
through the rationing of credit, through tax exemptions,
and through the provision of medium- and long-term
credit. Under De Gaulle in the Fifth Republic, mergers
came to be seen as strategic and were encouraged in order
to create firms of international scale—"national
champions"—capable of profiting from economies of scale.

The major industrial strategy approaches of
successive governments in the Fifth Republic are
presented schematically below.

DE GAULLE/POMPIDOU

**Industrial Strategy:** Industrial Imperative

**Methods:**
- the grands projets; restructuring through mergers; aid to high-technology sectors; focus on sectors and selected firms.

**State Goals:**
- creation of national champions; modernization; offensive selective adjustment.

**Rhetoric:**
- grandeur; national self-sufficiency; state power; pro-planning.

GISCARD

**Industrial Strategy:** Industrial Redeployment; Strategic Reinforcement

**Methods:**
- selective aid to growth sectors; state aid to restructure declining industries; support for export-oriented firms.
State Goals: internationally competitive firms; export-led growth; offensive selective adjustment.

Rhetoric: markets; interdependence; anti-planning; competition.

MITTERRAND

Industrial Strategy: Phase I (1981-83): Modified
Industrial Imperative; Phase II (1983-86): Modernization

Methods: restructuring through mergers; selective aid to growth sectors; nationalization of major firms and banks; focus on sectors and selected firms.

State Goals: (Phase I) reconquer domestic market; create national champion firms; defensive selective adjustment; (Phase II) modernization; offensive selective adjustment.

Rhetoric: (Phase I) industrial democracy; pro-planning; grandeur; state power; nationalized industries the fer de lance of new industrial imperative; (Phase II) markets; interdependence; economic growth; competition; modernization.

In the neo-mercantilist political idiom of France, the state is the agent of national society. The use of state power at home and abroad to achieve domestic economic ends has been a constant theme in the postwar period, linking De Gaulle and Mitterrand, Pompidou and Giscard. As Zysman puts it:

The French state defined policies which were intended fundamentally to support its domestic strategy for growth. In agriculture, for example, this meant finding solutions to domestic problems in
international arrangements and extracting the best possible terms and outcomes from international exchange. There has thus been an effort both to construct international economic institutions favorable to French interests and susceptible to French influence and to achieve the best possible deal for France within any particular regime. The individual elements of policy form part of this larger effort. Agriculture has been buffered by the European agricultural policy. Critical sectors of industry have been defined through a mixture of domestic investment and market control over export promotion. Multinational corporations were first approved in particular sectors, then an effort was made to use their own needs to the ends of the French government. The shifting balance between political and economic purposes was clear-cut in monetary policy where efforts to promote exports required an undervalued currency and the attempt to manipulate the monetary order required hefty reserves and a strong currency. These policies were implemented in a coordinated and coherent fashion which linked domestic policies to international policies in an often purposive and directed fashion. The state, in essence, sought to use every trick of the trade to mediate the relationship between France and the international economy.
C. The International Environment and State Autonomy

French industrial strategy was strongly affected by the character of the world economy in the postwar Bretton Woods system. Thus, France has pursued an export-based strategy for three reasons: (1) the postwar liberal trading regime led by the United States favored exports and trade; (2) the expansion of the EEC opened new markets for French products; (3) the competitive challenge of France's European and American trading partners encouraged the building of large concentrated firms which had to open foreign markets because the small size of the domestic market did not favor firms of global scope.

International structure and events have significant causative impact, but the domestic structure of the nation is a critical intervening variable without which the relationship between interdependence and the political strategies of France cannot be understood. It is clearly in response to international challenges that the French state adopted particular industrial strategies, but the substance of those strategies is largely determined by the structure of the French state.

When examining the autonomy of the French state to formulate and pursue an industrial strategy, two interrelated concerns must be emphasized: the relationship of the state to the domestic structure, and the state's relationship to the international structure.
While I do not argue for the primacy of international structure as a constraint on state autonomy, it is clearly important and has not been sufficiently emphasized in studies of the autonomy of the French state.

I define state autonomy as the ability of the state to define selective goals for French industry and to formulate a strategy to guide industrial development. Thus, I am not contending that state autonomy has a uniform character that applies to all policy areas. It is a particularly useful concept in examining industrial strategy because it helps to distinguish state behavior and to show that in the conduct of foreign economic policy, specifically industrial strategy, the state does not merely represent private domestic interests. Yet, state action is constrained by the structure of the international regime which is a source of state policy preferences. The state derives its power to control domestic interests from its unique position at the crossroads of international and domestic politics. Feigenbaum, for example, examines the autonomy of the state in relation to large public enterprise, in particular the oil sector of the French economy, and raises interesting questions about state autonomy. He demonstrates the limits to the autonomy of the French state: on the one hand it is capable of extracting concessions from society (higher prices for gasoline, for
example), but less successful in demanding or enforcing concessions from the oil industry. In large part, this owes to the doctrine of "managerial autonomy" that has been followed throughout the Fifth Republic in dealing with large public firms right through the Socialists' Nationalization measures. Feigenbaum correctly points out that there is a unifying ideology that joins the state elite with the managerial elite (and which is reinforced by common grandes écoles training). This ideology is clearly based on the idea of the supremacy of the market over étatisme.10 (Indeed, one pre-election slogan of the Parti Socialiste in 1981 was "Nationalisation but not Etatisation.") That the French state is essentially "captured" by the same ideology that suffuses the managerial elite is amply demonstrated in several studies.11 But to state this is not to establish a causative direction: a study has yet to be carried out that demonstrates that business interests are primarily responsible for the direction the state moves in economic policy.

D. The Gaullist State and the Emergence of Industrial Strategy

It appears to be the case that in the Fifth Republic, the state has succeeded in establishing a shared set of goals between the state and business. This formula owes much to the Gaullist efforts to establish
the legitimacy of the state. The Gaullist system fused the civil service and the government and used this combination to assert the independence of the state. The importance of this for the construction of the postwar French state can be seen in contrast to the political system of the Fourth Republic. Under that regime Parliament wielded the entire range of powers: determining general policy, making law, and controlling the government by exercising control over the executive. Parliamentary power varied with the strength of political parties. It was a multiparty regime based on proportional representation and weak party discipline. Importantly, however, as I note in detail below, the CGP operated with relative independence from parliament, thus avoiding the immobilisme in policy formulation in the Fourth Republic.

The Fifth Republic, by contrast, depends entirely on the executive; the executive derives great benefit from the support of the civil service. The power of parliament has been diminished. The Gaullist state stresses independence from political parties, and in the constitution of the Fifth Republic, the state is expressed in the executive, which is charged to remain above parties.

The Gaullist state recruits its ministers primarily from the civil service, not from parliament as was the case in the Fourth Republic (that ministers are members
of parliament is only a minor consideration in their selection). Since many senior civil servants are products of the ENA (Ecole Nationale d'Administration) they possess a technical competence which the state draws upon to promote modernizing goals and intervention in the economy.

Pierre Birnbaum claims that this system enhanced considerably the autonomy of the state in the Fifth Republic, but he contends that, particularly under Giscard, the civil service eventually abandons its ideology of public service and adopts the same perspective as private sector or business interests. Thus, Birnbaum writes, "the contemporary state in France claims so much the less independence that on the one hand, it no longer attempts to influence the world of business from the outside but instead cooperates with it." 12

The source of state power is based on the state's ability to intervene in a broad range of activities from economic policy to regional affairs. Birnbaum contends that the driving force behind state interventionism is the ministerial cabinets whose members are eventually themselves, or are the counterparts of, managers of large enterprises; that is, there is an interchangeability among these members of the grands corps who operate through a system of pantouflage ("the revolving door" in American parlance). Birnbaum holds that this elite
system has diminished the autonomy of the state by making state ideology identical with business ideology. This position probably overstates the influence of business interests in the councils of state, and in any case it ignores the fact that in the early phases of postwar reconstruction, many actions taken by the government were perceived by businessmen as hostile to their interests. Yet it is true that the state emerged in the postwar period as the main advocate of large-scale capitalism, contrary to the wishes of a business culture that placed a premium on the virtues of small business. Thus, by acting against the interests of small enterprise, the state brought about a dramatic transformation of the French economy. By forming an alliance with a civil service trained to accept a market-oriented ideology, the state altered the balance decisively between the small business ideology that dominated the Parliament of Fourth Republic France and large-scale enterprise.

The function of postwar planning was essentially to fight against the underdevelopment of capitalism in France. Thanks to planning and state intervention through nationalization of the major sectors of the infrastructure (transport, energy, etc.), the state facilitated the growth of the large firms which benefited from Marshall Plan credits.

France was the only country in the West to create an elaborate planning structure in the postwar period.
Under the Fourth Republic, the CGP essentially represented a modernizing ideology in favor of large scale capitalism. It was the institutional expression of a state that was preparing to embark on a strategy of state-led growth. The actual structure of the state, then, was created and evolved for the purpose of modernizing France economically, politically, and socially. Institutions were created and modified to accomplish this modernization. Central to the success of this enterprise was the creation of a myth that the state possessed autonomy from special interests and represented the general interest.

Now, the gradual abandonment of Planning coincides with the rise of a state-created industrial strategy. Once planning had accomplished its goal of changing the attitudes of businessmen toward the state, the state emerged as a sort of entrepreneur itself, working closely with firms and even acting as their representative abroad through agencies such as the Institut du Developpement Industriel (IDI).

But does this "shared ideology" necessarily mean that the state does not possess a degree of autonomy? Clearly, the distinction between public-private economic sectors has broken down, but the state still remains the only authoritative agency capable of defining an industrial strategy for the economy as a whole. By creating an environment where national competition is
discouraged but international competition is promoted, the state has retained for itself an autonomous sphere of action it can use to control large firms. That sphere largely consists of using industrial strategy to promote the foreign policy goals of France.13 The state still controls the political agenda, and industrial strategy is one of its key elements. The increasing penetration of the French economy by international firms may gradually undermine the basis of French industrial strategy, but France's neo-mercantilist pursuit of its own interests, while sometimes infuriating its Common Market partners, nonetheless allows the state to control the basis of its power in industrial affairs.14 In key industries that are now being "privatized" under the current Chirac government, such as Saint-Gobain, the state still limits foreign ownership to a minority of shares of stock. I will return to these matters in the concluding chapter.

Birnbaum's elite continues to monopolize key posts in the public and private sectors. Yet it is precisely this shared commitment to the same economic goals that allows the state to retain a sphere of autonomy. The goals and functions of the state have changed in the postwar period. Stanley Hoffmann wrote in the early 1970's:

What are the functions of the state? Today, to the earlier ones, we must add: nothing less than the
transformation of society. Industrialization, the reconversion of a dwindling agricultural sector, the social-security system and a policy of "social transfers," a policy of regional balance (amenagement du territoire), urbanization, the development of a modern network of communications and telecommunications --these are all undertaken, either under state guidance or by state agencies. There is, to be sure, a link between the old Colbertisme and the modern French state. But what a difference there is between state participation in developing commercial and manufacturing activities when economic development was a side issue, and a state where economic growth is the collective goal!\textsuperscript{15}

Suleiman found in his study of elites that the areas of greatest public-private cooperation named by administrative elites were all linked to industrial growth.\textsuperscript{16} He concludes that the degree of cohesion between French business and administrative elites "has allowed for a relatively smooth formulation and implementation of economic and industrial policies."\textsuperscript{17} But he notes that elite cooperation and the shared state-business goal of industrial growth does not mean "that political power has lost its independence and become subordinated to economic power. The problem of
state autonomy is more complex than it appears." He continues:

that there are discernible "public purposes" or "state interests" is not the same as saying that there is a general interest over which the state keeps guard. It implies merely that the state itself defines its own goals, and it seeks to rally the private sector, in much the same way as it seeks to rally, say, trade unions around these goals.18

In Feigenbaum's case of the French oil industry, he may be selecting an example where the size, international scope, profitability, and autonomy of the two major oil companies allow them to operate independently of direct state control, as states within the state, as it were. This may well be the destiny of many of the large state enterprises, but the common commitment to export-led growth means that, in general, the state and big industry are pursuing similar objectives.

State interests are not epiphenomena of class interests; politics and institutional structure matter. Marxists are prone to define the state in terms of class nature and functions, and state autonomy is generally defined in terms of the relationship of the state to the dominant class, since the presumption is that the state upholds the interests of that class. But the state can
also be defined as a set of institutions (civil bureaucracy, the executive) and those who formally control them (the government). Autonomy can be defined as the ability of the state to use its power for ends other than those defined by the dominant class, but state autonomy remains limited by domestic and international structure.19

The state can assert itself when society is weak and organized around an agricultural/rural base, as was the case in early postwar France. In a period of rapid modernization, the state can exert great control and influence over the process. Once societal and technological factors reach a certain level, and as the economy becomes more integrated into a regional (the EEC) or international trading system, the power of the state becomes more conditional. Political goals implemented through foreign economic policy are one way for the state to retain power. An analysis of the state, then, moves away from a social analysis of politics. It is at the intersection of domestic and international politics that one finds state power to be most prominent.

The success of industrial strategy depends on the capacity of the state to organize and direct domestic industry and to use state power in pursuit of politically defined goals. The state's ability to accomplish the former has come about largely through the control of financial instruments. Zysman convincingly argues the
case for state control of industry through the control of financial systems in *Governments, Markets, and Growth*\(^{20}\), comparing the United States, France, Japan, West Germany, and Great Britain. He demonstrates the importance of financial systems in shaping the postwar policies and politics of industrial change and growth. In the French case, a credit-based financial system with government-administered terms and state-led adjustment processes was constructed. Politics in the Fourth Republic were dominated by a coalition of rural and small-town interests which were fundamentally anti-market. The political undercutting of this class and the rapid industrial growth that followed were not inevitable, but the use of the financial system by the state allowed industrial expansion while "buying off" the traditional forces through political arrangements. Moreover, competitive pressures were brought to bear on the economy through the Common Market. This combination, as Stephen Cohen says, held traditional groups in check while the economic ground beneath them was cut away.\(^{21}\)

Gaullism succeeded at this because De Gaulle himself was a modernizer, yet he represented traditional France as well. A fourfold "pincer" was gradually established by the state to ensure the success of its industrial policies. It consisted of (1) the insulation of government economic policy making from direct parliamentary and pressure group influence; (2) the
establishment of the Common Market; (3) the establishment of a broad nationalist conservative coalition; (4) the arrangement of subsidies that made the government appear responsive to the demands of all groups while still assuring the investment needs of the modernizing sectors. The financial system permitted the state to establish this pincer. It expanded the resources the government could distribute while obscuring their precise disposition, allowing the executive to support growth sectors without overtly withholding subsidies from the traditional sector. The state sought to avoid conflict between modernizing and traditional forces by using the administrative discretion embodied in the financial system. It used inflation to diminish political conflict by disguising the nature of state choices. Inflation undercut the returns of uncompetitive traditional sectors and expanded the returns of modernizing sectors. The contradictory purposes of growth and the maintenance of social order could be pursued simultaneously by the state through manipulation of credits and subsidies, thus clearing away the political underbrush to allow markets to function. This was the first step in the twofold process of constructing a powerful French state.

The second step was political intervention in the industrial economy through the manipulation of foreign competition to generate pressure for domestic economic modernization. French industry after World War Two was
not structured to facilitate expansion and modernization. Its organization encouraged firms to resist adjustments and to defend narrowly-defined market positions. Small and medium-sized firms were predominant. By the 1970s, the largest French firms had begun to resemble corporations of the American type. It seems clear that without the concerted efforts of the state to organize industry for international competition, many French firms would have lost market share at home to imports before they were able to adjust to international competition. As Zysman points out, "it is not possible...to contrast French intervention and its consequences with outcomes that might have been produced by competitive firms operating in free markets. The struggle was to create the markets and competitive firms themselves."
CHAPTER TWO

PERSPECTIVES ON THE STATE

PART I

State Autonomy and Industrial Strategy

Andrew Shonfield, in his last, uncompleted book, reflects on the vanishing dichotomy in the advanced industrial states between market forces and state intervention. The aim of state intervention, he suggests, is not to destroy capitalism, but to increase long-term profit expectations. To this end, he writes, "Governments have to appear as credible interventionists, who can be relied on to offset probable deficiencies of private demand and mitigate the risks of sudden and uncontrollable increases in the costs of certain inputs. . . which may put a severe and long-lasting squeeze on profits." This points to governments that are increasingly interventionist, risk-taking, and entrepreneurial.¹

France has seemingly exemplified the entrepreneurial state over the last decades. The state has played a leading policy role in defining the strategic objectives of French industry and has developed an integrated policy network designed to implement industrial goals.
In this chapter I explore in more detail the concept of the state and state autonomy, and the nature of the relationship between the international environment and the state. My theoretical perspective is that of the "strong state" which is capable of defining its industrial goals and which designs appropriate policy networks for implementing its strategies for industrial order.

A. The strong state and the national interest

Industrial strategy implies the primacy of some objectives over others. It requires a degree of consensus both within the state and between the state, industry, and society on the manner and extent of the state's role in industrial management and intervention. If such a consensus is present, the state is potentially more autonomous in defining and pursuing its objectives. The structure of the state is of equal importance. As Morse notes, the primacy of certain goals "can only occur in the state-minded administrative tradition of a political order that has hierarchically defined the interests of the state. . . ."² Yet consensus need not necessarily exist for the state to be successful in pursuing its interests. As Nordlinger writes, "The preferences of the state are at least as important as
those of civil society in accounting for what the
democratic state does and does not do; the democratic
state is not only frequently autonomous insofar as it
regularly acts upon its preferences, but also markedly
autonomous in doing so even when its preferences diverge
from the demands of the most powerful groups in civil
society."

Accounting for the behavior of the democratic state
has in political science been confined largely to a
society-centered perspective which assigned private
actors (those outside the state) the central role in
policy networks. The state is conceptualized as one
actor among many, in the scheme of what Lowi calls
"interest-group liberalism." Nordlinger summarizes the
society-centered perspective thusly:

"The state, that is, public officials taken
all together, is commonly seen as a permeable,
vulnerable, and malleable entity, not necessarily
in the hands of most individuals and groups, but
in those of the most powerful ones."$

Several recent works have attempted to counter the
society-centered approach. The basic idea expressed is
that state actions cannot be reduced to socioeconomic
interests, nor to the activities and interests of key
groups in society. Rather, state action is an outgrowth
of state activity which sets goals and pursues ends which may or may not accord with the interests of societal actors. In Krasner's work, *Defending the National Interest*\(^5\) the state is conceived as "a set of roles and institutions having peculiar drives, compulsions, and aims of their own that are separate and distinct from the interests of any particular societal group." These state aims can be termed the "national interest." In Krasner's view, the state autonomously formulates goals and then attempts to implement them against resistance from international and domestic actors. Its success in achieving its aims depends on the instruments of control that it can exercise over groups within its own society. Skocpol's *States and Social Revolutions*\(^6\) also advances state autonomy as a major explanatory variable in her analysis of revolutions, but like Krasner limits its use to cases of conflict between state and society.

Nordlinger's systematic critique of the statist perspective refines and enlarges these views. Defining state autonomy in terms of the state acting according to its interests when these conflict with those held by the politically dominant actors excludes those cases in which the state acts on its preferences in the absence of conflict.\(^7\) State preferences do not always involve the alteration of private behavior or of socioeconomic structure. Moreover, state preferences do not derive entirely from social structure. In many cases, state
preferences are internally generated and derived from the characteristic features of the state itself. Nordlinger proposes a state-centered model which we will want to explore in the context of French industrial strategy formulation:

1. Among the panoply of state preferences many converge with, many are compatible with, and many diverge from societal preferences.

2. When state and societal preferences do not diverge, public officials invariably translate their own preferences into authoritative actions, and their preferences have at least as much explanatory importance as societal preferences.

3. When state and societal preferences do not diverge, public officials periodically capitalize upon their autonomy-enhancing capacities and opportunities to reinforce societal convergence, deference, and indifference so as to forestall the emergence of preferences that diverge from the state's.
4. When state and societal preferences diverge, public officials periodically capitalize upon their autonomy-enhancing capacities and opportunities to free themselves from societal constraints, and they then translate their preferences into authoritative actions.

5. When state and societal preferences diverge, public officials periodically rely upon the inherent powers of the state to translate their preferences into authoritative actions.

6. When state and societal preferences diverge, public officials periodically rely upon the inherent powers of the state to translate their preferences into authoritative actions.

This model provides for state autonomy both when state-societal interests converge, and when they diverge. By focusing on the state, political analysis moves away from studying policy formation according to a weighting of societal opinions. A society-centered perspective begins by asking the question, "What is the mix of policy preferences of all groups relevant to this policy area?"
and describes through a systems/process/group model policy outcomes as a reflection of the preferences of the most influential groups (or classes). The possibility that the state's preferences have at least as much impact upon policy is ignored:

... the state's having certain distinctive interests and divergent preferences is not considered; the state's many autonomous actions are not calculated; the state's numerous autonomy-enhancing capacities and opportunities are not examined; and most fundamentally, the failure to differentiate state and society eliminates the possibility of validating or invalidating the societal constraint assumptions."^9

In a statist model, these possibilities can be examined systematically. The state, which is defined as central decision-making public officials, acts autonomously to the extent that "public policy conforms to the parallelogram (or resultant) of the public officials resource-weighted preferences."^10 That is, the state is a set of unified actors pursuing aims understood in terms of the national interest, with the national interest defined inductively as the preferences of French central decision-makers.
While the state can, then, be treated as a autonomous actor, it cannot be ignored that its actions are conditioned by domestic and international structures. How effective the state is in establishing and pursuing its objectives will serve as a measure of its autonomy. A statist perspective, however, posits at the outset that the state has interests which are not reducible to the interests of groups or classes within society. It therefore provides a necessary counterbalance to the society-centered approach.

In applying this approach to the study of French industrial strategy, one must avoid reification of the state and take care not to ignore the influence of politics in decisionmaking. The strong state perspective does not require one to think that the political orientation of the governing coalition does not matter. The perspective allows one to search for a set of consistent goals over time, thereby permitting a more precise determination of the relative influence of the governing coalition on longer term industrial aims. Even in states like France or Japan, public ownership or state intervention have varied according to the coalition in power, and the international structure has a major influence on the way the state manages industry.

In approaching the study of industrial strategy in terms of a statist perspective, a distinction must be made between policy objectives and policy instruments.
Objectives reflect a choice among values. To the extent that is can be demonstrated that French industrial strategy has been centered around a consistent set of rank-ordered principles which remain constant over time, we can speak of the national interest as a given set of policy objectives, regardless of who is in power. Policy instruments, on the other hand, largely determine whether objectives can be achieved in the process of policy implementation. Certainly, the use of policy instruments may vary from government to government without altering the objectives of policy. For example, even if French industrial strategy has remained consistent, the Socialist government has employed the instrument of nationalization to achieve its objectives, a policy instrument not formally used during the tenure of the previous government.

C. State structure and domestic structure

The distinctive characteristic of the French state is centralization. The central bureaucracy controls all institutions concerned with policy implementation, but the power of the state varies depending on whether one analyzes the definition of objectives or the implementation of policy. In France, the decentralized private sector has little influence on the shaping of industrial strategy, and the efforts to organize
collectively business in order to influence state policy have, in the past, been remarkably unsuccessful.\textsuperscript{12} France is characterized, then, by a high degree of state centralization and a low degree of societal centralization. This is in contrast to, say, West Germany where the opposite relationship obtains.

In a strong state, the connection between state and society is the opposite of that in a weak state. In a country such as the United States, private interest and the interaction of groups are seen as the most influential sources of public policy. In the strong state, however, public policy by and large shapes private preference. Katzenstein points out that, "The locus of decisions in a state-centered model of policy lies in the public realm; in many ways states organize the societies they control."\textsuperscript{13} In reality, of course, the relationship between state and society is often mixed. In practice, the French state is relatively unencumbered by the usual vagaries which accompany the democratic process in the United States, where the state may be said to be virtually besieged by interest groups, or by the highly institutionalized corporatist bargaining arrangements in a country like Sweden. Trade unions in France, for example, "have been more or less isolated in the process of industrial and economic planning."\textsuperscript{14} The French state essentially defines the public good and has structured a
highly centralized administration to pursue it.\textsuperscript{15}

D. \textbf{State structure and the international system}

Modernization corresponds to an increasing degree of control over the domestic environment and breaks down the separation of foreign and domestic affairs. In an international system characterized by interdependence, domestic policies are externalized, and foreign policies become more important domestically.\textsuperscript{16} The international system exerts a high degree of influence over domestic industrial strategy. In fact, the growing reliance on some concept of industrial strategy among Western nations is a direct result of the post-war system of international trade and production, and is related to how each state pictures its role in the international marketplace. The process of internationalization of trade and production leads each state to redefine its role in the global system. The prevailing liberal trade order gives rise to the use of state intervention to protect domestic markets and to privilege national enterprises in global competition.\textsuperscript{17}

Domestic policies have never been completely isolated from international influences, but the different policy responses of each nation to the post-1973 world economic crisis raises the interesting question of why,
given a similar set of problems, policies vary so widely from country to country. Part of the answer to this question is to be found in the inter-relationship of domestic and international structures. National factors—the domestic economic structure, the force of tradition, differing goals—condition the policy objectives of governments, but the interactive relationship between domestic structure and the international system may be of more importance in explaining policy than domestic structure alone. As Gourevitch notes, "students of comparative politics treat domestic structure too much as an independent variable, underplaying the extent to which it and the international system are parts of an interactive system." 18 Thus, while domestic structure remains an important variable in explaining policy, it is best treated, along with the international system itself, as a conditioning variable.

There has clearly been a steady erosion of the traditional distinction between domestic and international politics. The increase in transnational cooperation, the increased mobility of capital and production, the liberal international trading order under GATT, the OECD, the Organization for European Economic Cooperation in the 1950's, and the steady integration of Western Europe through the European Economic Community have all contributed to linking the major industrial countries of the West, including Japan. Interestingly,
however, it is precisely this growing interdependence which is the source of the increased use of the instruments of government intervention. Blackhurst notes that the lowering of trade restrictions and the eventual elimination of tariff barriers in Western Europe spurred European states to devise two primary means to get around the international rules:

. . . one involved the use of restrictive measures taken outside the multilateral GATT framework (primarily bilateral 'orderly marketing agreements' and 'voluntary export restraints'), while the other relied on ostensibly domestic policies to deal with trade-related problems. 19

That governments devise an industrial strategy grows out of the need to compete in the international marketplace while at the same time protecting the domestic market from the encroachment of imported goods. The international system consists of an interstate system of sovereign political units which develop in accordance with market trends, economic opportunities, but also along lines of economic conflict. An industrial strategy is an attempt to extract maximum advantage and benefit from a liberal trading regime. While some states may attempt to do this through ad hoc measures taken on a case by case basis, a conscious and planned effort
systematizes protectionist measures. What gives the state strength vis-à-vis the domestic environment is its intermediary position between international and domestic structures. Domestic actors must attempt to influence international events through the state. The international environment thus strengthens the state domestically, but an interdependent international structure weakens its control over events in the interstate system.

One way to approach the study of industrial strategy is to examine its effectiveness in promoting industrial efficiency, its impact on production and output, and the impact of governmental involvement on the structure and organization of the firm. This material would form the basis for an economic study of great interest to economists. Approaching industrial strategy from the point of view of politics involves somewhat different purposes. While an economist might argue the merits of state intervention on the grounds of economic efficiency, the political scientist is concerned with how the state makes choices, formulates its aims, and attempts to implement its vision through the exercise of state power. In fact, state intervention in the economy by means of certain policy instruments available to the state is based only partly on economic considerations. The guiding logic of intervention is a political vision of the place of the nation in the international economy.
Industrial strategy describes a set of fundamentally politically goals. Once political goals are defined, policymakers may turn to economists to gain an understanding of the range of potential instruments available to promote certain industries, and seek economic justification for intervention in a given sector. In other terms, policymakers do not ask themselves at the outset: what industries are we best situated to support and what products are we best equipped to produce, i.e., what is our optimal comparative advantage as we seek to enter and establish ourselves in foreign markets? Rather, certain goals and aims are posited and the economic means to pursue them are found. In a market-oriented economy, the ultimate aim of industrial strategy is to create well-functioning markets, and the choices concerning the best way to do this are, at bottom, political and not economic choices. It would be difficult in any case to refine the idea of comparative advantage into any workable strategy for industrial growth. As Lindbeck points out:

Comparative advantages of various highly developed countries are rather similar when looking at broad aggregates of products; and...when studying the 'fine' structure of production, the comparative advantages are too complex to be explained or predicted either by
central planners or by academic economists with the help of available methods of analysis.\textsuperscript{20}

France may or may not be an efficient producer of, say, computers. The decision to commit the state to developing the computer industry is not a decision based on a rigorous economic analysis. The idea is to develop a world-class computer industry because (1) French prestige requires it, and (2) since high-technology industries are the wave of the future, France needs a computer industry to keep pace with and move ahead of the changing nature of production and international markets.

At the root of industrial strategy, then, runs a network of inter-related political goals.

"Ce qui ressort de notre analyse, c'est la faiblesse des analyses économiques qui veulent expliquer les politiques d'intervention à partir des 'besoins objectifs du modèle d'accumulation.' Il faudrait donc conclure que la logique dominante de l'intervention de l'État n'est pas une logique économique. C'est plutôt à partir d'une analyse politique qu'une certaine cohérence peut émerger. Nous accordons donc une très large autonomie à l'État dans la détermination de sa politique et dans l'emploi des moyens. . . ."\textsuperscript{21}
PART II

The State and the International Environment:

Theoretical Perspectives on the State

A. Political Economy and the State

Before turning to an analysis of French industrial strategy, it will be useful to examine in more detail certain theoretical perspectives bearing on the question of state autonomy, then turn to an examination of the role the international environment plays in state power. The state has limited autonomy vis-à-vis the international environment, and state adjustment strategies are largely derived from the interdependent linkages with other states in the international system.

The concept of the state requires sharpening and refining. In political science in the postwar period, an attempt has been made to disaggregate the concept of the state. Yet the concept of the state is central to political analysis. As Bendix and Lipset have written:

Political science starts with a state and examines how it affects society, while political sociology starts with society and examines how it
affects the state, i.e., the formal institutions for the distribution and exercise of power.  

Systems analysis, as Nettl points out, whether of the structural-functional variety or of the input-output variety, leaves open the problem of the goal-attaining or regulatory structures which form part of the traditional state.  

Among the reasons why this is so is the conceptual difficulty of marking out the boundaries of the state in clearly pluralistic polities like the United Kingdom and the United States. Yet even in the case of France and Germany, where intellectual, cultural, and historical conditions have worked to give the state a prime place in political analysis, systems theorists have continued to apply their model to the analysis of politics in these countries. The results of the application of this model have proven useful, but they are primarily sociological in nature and do not show a concern for a systematic analysis of the impact of the state on society.  

Easton once wrote:

In part, political science could emerge as a discipline separate from the other social sciences because of the impetus Marx had given to the idea of the difference between state and
society, an idea virtually unheard of before his time. 24

Indeed, the separation of state and society is a modern phenomenon, reinforced by capitalism. Thus, political economy, the study of the political sources of economic policy, bridges the gap dividing politics from economics. Traditionally, comparative politics looked at the role of government and the state, but in the late 1950's specialists in the field determined that the concept of "political system" should replace that of "state." Easton, Almond, and others prevailed in holding that the concept of the state was limited by legal and institutional meanings. The use of "system" was a more neutral term, but in fact "system" came to designate nation, and comparative politics tended toward configurative country studies. The revival of political economy is occurring largely because of the problems shared by the advanced industrial states. The study of economic issues using concepts derived from political science is an excellent way of linking state economic behavior and politics. The notion of political economy reaggregates the concept of the state, which Almond's analysis disaggregates into specific institutions and individuals. In conceiving of the relations between state and society, a political economy approach sees the state as a single, relatively autonomous actor designing
economic and industrial strategies to achieve political goals and to maintain the power of the state.\textsuperscript{25}

Nettles proposes a fourfold definition of the state in order to make it an operating variable for comparative analysis.

1. The state is a "a collectivity that summates a set of functions and structures in order to generalize their applicability." This places it on a level with nation, territory, or sovereignty in law. The state, however, implies the institutionalization of power.

2. "The state represents a unit in the field of international relations." There is a clear distinction between the civil society over which the state is sovereign, and the international arena where the state is the basic, irreducible unit, equivalent to the individual person in a society. The state acts in behalf of the society internationally. "In short, the state is the gatekeeper between intrasocietal and extrasocietal flows of action."\textsuperscript{26}

3. "The state represents an autonomous collectively as well as a summatizing concept of high societal
generality. It is thus in a functional sense a distinct sector or arena of society."27 Here, Nettl makes an important point. If one accepts a pluralistic view of society, then the state, as a distinct sector of society, is one actor of several, and whether or not the state is in fact a more autonomous actor than any of the alternative sectors of society is a question for each policy case. Thus, the state may enjoy greater autonomy in questions of industrial or military policy, and lesser autonomy in, say, questions of social policy. Moreover, we might also expect varying degrees of autonomy in the international arena as the pressures of supranational organizations (such as the EEC) work to limit external autonomy.

State autonomy also implies structural or role specificity. On the structural level, Nettl notes, "a relatively autonomous state tends to proliferate specific institutions both for the adequate fulfilment of functional tasks of primacy within society and for replicating various internal functional requirements within its own autonomous sector -- such as administrative courts, offices of coordination, civil service commissions, and so on. At the role level, the autonomy of the state represents the primary role-identification of being
a state official; only within this role-set are subsidiary and more specific roles evolved in turn.

4. The state is a sociocultural phenomenon. Recognizing the state as a separate arena or sector of society depends on "the existence of a cultural disposition to allot recognition to the conceptual existence of a state at all." Nettl enumerates three ways of identifying this cultural disposition: One is historical: Is there a historical tradition in any particular society for existence, primacy, autonomy, and sovereignty of a state? Another is intellectual: Do the political ideas and theories of the society past or present incorporate a notion of state, and what role do they assign to it? Yet another approach is cultural: To what extent have individuals generalized the concept and cognition of state in their perceptions and actions, and to what extent are such cognitions salient?28

State autonomy, then, is a useful variable for comparing political systems, for the presence or absence of a well-developed concept of state identifies important empirical differences in these systems.
B. A Political Economy of Industrial Adjustment

Political economy is about the relationship between economics and politics. This relationship is reciprocal. As Gilpin writes:

On the one hand, politics largely determines the framework of economic activity and channels it in directions intended to serve the interests of dominant groups; the exercise of power in all its forms is a major determinant of the nature of an economic system. On the other hand, the economic process itself tends to redistribute power and wealth; it transforms the power relationships among groups. This in turn leads to a transformation of the political system, thereby giving rise to a new structure of economic relationships. Thus, the dynamics of international relations in the modern world is largely a function of the reciprocal interaction between economics and politics.\(^\text{29}\)

One goal of state behavior is power. States attempt to adjust their relative gains and losses in the international arena through the pursuit of wealth and power. Because of this, political goals become primary. Power is not the sole or even the principle goal of state
behavior, but states regard the distribution of power in the international system as key to their ability to achieve what they perceive to be their interests.

Robert Gilpin distinguishes three conceptions of political economy which he identifies as liberalism, Marxism, and mercantilism. A brief discussion of these three will provide a perspective on the French state. Gilpin's own conception of political economy provides an accurate description of the international behavior of the French state.

The basic assumption of liberalism is that international relations are more or less harmonious. Pareto optimality is achievable: international relations can be a positive-sum game where everyone benefits, provided economic relations are properly ordered. There is a harmony between the national interest and the international order. Given this underlying harmony, the state should not interfere with economic interests across national boundaries. A free exchange of goods between countries will result in an efficient utilization of resources. The national interest is best served by cooperative international economic relations.

Mercantilists and Marxists on the other hand start from the assumption that economic relations are conflictual. There is no underlying harmony: international relations is a zero-sum game. Whereas for the liberal the goal of economic activity is maximization
of world welfare. Marxists and mercantilists stress the distributive effects of economic relations. For Marxists the distribution of wealth among classes is central; for the mercantilist it is the distribution of power among nation-states. Thus, the goal of economic and political activity for Marxists and mercantilists is the redistribution of wealth and power.

These three perspectives differ in their views regarding the nature of economic actors. In Marxist thought, the basic actors in domestic and international relations are economic classes; the interests of the dominant class determine the foreign policy of the state. The mercantilist, however, believes that the real actors in international relations are nation-states. National interest determines foreign policy.

Each perspective conceives of the state differently. For liberals, the state is an aggregation of private interests; public policy is the outcome of a pluralistic struggle among interest groups. For Marxists, the state is merely the executive committee of the ruling class. Mercantilists regard the state as an organized unit in its own right; public policy embodies the national interests, or even the "general will" of Rousseau. In the mercantilist conception, politics is primary and determines economic organization. National security, industrial development, and national sentiment form the basis of national power.
Robert Gilpin argues for a modified form of mercantilism to explain the international environment, emphasizing the distinction between absolute and relative gains. The emphasis of liberal economics is on absolute gains, a world of Pareto optimality where everyone gains in wealth. It is a world freed from "interpersonal comparisons of utility" and thus a world free from what is central to politics, i.e., ethical judgement and conflict regarding the just and relative distribution of utility. Rejecting this formulation, Gilpin writes:

The essential fact of politics is that power is always relative; one state's gain in power is by necessity another's loss. Thus, even though two states may be gaining absolutely in wealth, in political terms it is the effect of these gains on relative power positions which is of primary importance. From this political perspective, therefore, the mercantilists are correct in emphasizing that in power terms, international relations is a zero-sum game. 30

Because power is relative, states are constantly struggling to improve or preserve their relative power positions. Power can be defined as having two characteristics. Nation states gain in power by improving their economic or military capabilities, i.e.
by improving material or physical capacity. Power is also psychological: who can influence whom to do what?

In the long run the pursuit of wealth and the pursuit of power are identical. As Viner wrote interpreting classical mercantilism:

What then is the correct interpretation of mercantilist doctrine and practice with respect to the roles of power and plenty as ends of national policy? I believe that practically all mercantilists, whatever the period, country, or status of the particular individual, would have subscribed to all of the following propositions: (1) wealth is an absolutely essential means to power, whether for security or for aggression; (2) power is essential or valuable as a means to the acquisition or retention of wealth; (3) wealth and power are each proper ultimate ends of national policy; (4) there is long-run harmony between these ends, although in particular circumstances it may be necessary for a time to make economic sacrifices in the interest of military security and therefore also of long-run prosperity.31

Economic motives and economic activities are fundamental in the struggle for power among nation-states. The
pursuit of the national interest regulates the actions of nation-states, even in an interdependent world economy.

C. **Industrial Adjustment Strategies**

Industrial policy lacks a basic economic model, so there is no clear-cut rationale for the form and direction of a government's approach. There is as yet no general definition of the market framework behind industrial policy. Such a framework would have to specify social and political agreement on three macroeconomic factors: the limits to growth, the role of the state, and the degree to which redistribution is both necessary and desirable. The emergence of industrial policy as a distinct field for study remains problematic.

An industrial strategy, however, grows from the political interests of the state. Industrial strategy denies that marketplace decisions are autonomous from the state and challenges the legitimacy of unregulated markets. In this section I examine ways states formulate industrial adjustment strategies by looking at state strategies for international adjustment in general, and at the international sources of national political action.

In his *Theory of International Politics*, Kenneth Waltz notes that the international system creates constraints on behavior which states can choose to
ignore, but only at a cost. National and international political economy impinge one on the other. Gourevitch uses international structure, phases of development in the international economic system, and global economic and political crises to explain patterns of political development. Sabel & Piore, in *The Second Industrial Divide*, find that change in the international system and in regimes follows from national political and economic struggles. Katzenstein and Zysman treat the national and international realms as discrete.

The sources of state behavior in a political economy context lie in the challenge presented by international competitiveness. The chief inspiration to action is the place of the nation in the international trading regime. Thus, much of industrial strategy can be seen as a response to crisis, and much of state action as crisis management. The notion of crisis adjustment, however, should not be taken to connote ill-advised or rash action; on the contrary, crisis management often produces the most durable policy responses.

In focusing on a single state actor, the international structure must be taken as given: states operate within a context structured according to a mixture of preferences involving many other nation-actors. Clearly, the capacity of individual states to influence the international structure varies across time and place. We know, for example, that the
ability of the United States or France to influence international regime structure far outweighs that of Indonesia or Chad. States adopt various strategies to influence international regimes, strategies that can be usefully thought of as either "offensive" or "defensive". The explanation for state strategy may be approached on two levels. One level focuses on the intentional behavior of the state; the other on the structural constraints that delimit that behavior. State response to international challenge can be described as "adjustment". Many cases of adjustment do not involve clear-cut commitments by states to a single policy. States will, in the process of industrial adjustment or restructuring attempt all sorts of efforts in all types of venues to meet the challenge of adjustment. The most useful way to approach the conditions of state choice is through an examination of state strategy. Why this is so is suggested by Ikenberry in "The State and Strategies of International Adjustment."37

The international environment is a source of constant pressure on states for national adjustment to international change. As Gilpin notes,

"In every international system there are continual occurrences of political, economic, and technological changes that promise gains and losses for one or another actor. . . . In every
system, therefore, a process of disequilibrium
and adjustment is constantly taking place. 38

This differential change may be gradual—a glacial shift
in the competitive position of particular industrial
sectors—or it may come about as a result of sudden
upheaval, such as the oil price shocks of the 1970s.
States will respond to these dislocations with an
offensive response to the new opportunities generated by
change, or with defensive actions to preserve existing
domestic arrangements. Given the consistency of the
French state's commitment to modernization, one can
characterize French behavior as a mixture of offensive
and defensive responses: offensive to restructure
industry for global competition, defensive to ease the
burden of change on traditional producers, shopowners,
and workers, and to protect domestic markets. Adjustment
processes can take place even in the absence of a clear
state strategy (ad hoc or reactive adjustment), but it is
the understanding of intentional actions that provide a
cue to the structural capacities of states in the
adjustment process.

In his exceptional study, Ikenberry attempts to
model adjustments policies of states. All nations are
continuously in the process of adjusting to changes in
international and domestic systems and processes. The
state—i.e. the state elite—is the crucial actor within
this adjustment process. States are essentially in a bargaining process with societal and economic actors.  

Ikenberry begins his analysis by explaining the necessity for state adjustment. Constant pressure is exerted by the changing international environment for national adjustment. Adjustment strategy may be directed outward at international regimes, or directed inward at domestic structures. States seek to define themselves as players in an intermediary role between the two. The adjustment strategy a state adopts will depend on its position between domestic and international structural circumstances.

Ikenberry states that the logical possibilities for solving adjustment problems fall along two dimensions. Along one dimension is the location of adjustment, either international or domestic. Along the other is the object of the adjustment initiative, divided between actions seeking to transform the national or international system and actions seeking to preserve the existing arrangements (Figure 1).

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<tr>
<th>Adjustment Strategies</th>
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<td><strong>International</strong></td>
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<td><strong>Domestic</strong></td>
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<td><strong>Offensive</strong></td>
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<td>Create New International Regimes</td>
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<tr>
<td>Change Domestic Structure</td>
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<td>Remedial Steps to Defend Old Order</td>
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Figure 1: Source: G. John Ikenberry, "The State and Strategies of International Adjustment," p. 8.

Ikenberry explains this matrix of choices as follows:

"Along one dimension is adjustment conducted within international arenas. The strategy behind the use of international regime agreements is to avoid difficult domestic adjustment. This can be done by either creating new international regimes (offensive international adjustment) or using international regimes to protect existing arrangements (defensive international adjustment). The other possibility is adjustment within national borders, adapting to new international realities. This is done by either actually changing domestic economic and social structures (offensive domestic adjustment) or by protecting those structures with subsidies or other obstacles (defensive domestic adjustment)."
Offensive international adjustment, since it involves creating new rules for international interactions, is the most ambitious strategy. Defensive adjustment is less so since it involves only the creation of trade quotas or orderly marketing agreements. Domestic offensive and domestic defensive strategies mirror this distinction. Domestic offensive strategy involves changing the structure of national industries and institutions in an effort to cope with new international realities. This may involve phasing out particular industries, or creating new institutions or arrangements that facilitate domestic economic adaptation. Domestic defensive adjustment is protective. Strategy of this sort typically culminates in the erection of barriers to new international economic competition or other forms of change. Tariff and subsidies are examples of devices used in domestic defensive adjustment.41

D. State Preferences

The elaboration of Ikenberry's model centers around how one explains when a state will choose among the range of adjustment strategies. This problem encompasses two aspects: under what conditions can state interests be specified; and, what are the constraints that delimit how state interests may be realized.42
Ikenberry draws on an essay by Steven Lukes from *Essays in Social Theory* entitled, "Power and Structure" (1978) to analyze these two types of explanation. Lukes distinguishes between "rational" and "structural" constraints. "Rational constraints" refers to the economic costs of particular policy options: decisions are based on a rational calculation of costs and benefits. The costs of pursuing a particular policy option constitute a constraint on action. "Structural constraints" refers to the institutional conditioning of action. Institutional structure shapes policy choices.

The rational constraints on state action can be grouped into four varieties:

1. "States seek to minimize the costs of governance and maximize national competitiveness; when there are conflicts they will prefer the former over the latter." States seek to minimize the political costs of making domestic changes, and even the most autonomous and powerful state is part of a complex political and economic environment that rewards and punishes state action. Moreover, states seek to maximize national competitiveness, i.e. to establish the national economy on a sound basis.

2. "International policies have lower costs of governance than domestic policies." Adjustment can be achieved by making internal changes or by seeking
international changes. This assumption means that "the state will bear fewer political costs if the changes come at the international rather than domestic level." Where possible, states will seek international solutions to domestic adjustment problems. Ikenberry notes, for example, that

A state... with a national steel industry facing a major international competitive challenge and diminished markets would prefer to have international agreements limiting surplus capacity than to engage in wholesale industrial restructuring. The international agreement limits the pressure on the domestic industry; the cost of surplus capacity and competitive threat is shouldered by a number of producing nations, rather than the single national industry. The governance costs that are conserved by the state concern the political pressure generated by displaced workers and the turmoil surrounding the insecurity of other domestic constituencies that suffer from temporary or long-term employment or industrial disruption. 43
The French steel industry, during its prolonged crisis beginning in 1974, was the object of heavy government intervention, but after 1979, during the worst period of the steel crisis, the French government accepted regulation of the industry when the Commission of the European Communities invoked Article 58 of the Treaty of Paris and declared a "manifest crisis" in steel. The "Plan Davignon" sought to impose rigorous production quotas. By accepting international regulation, the French government reduced the domestic costs of restructuring steel. The burden of change was shifted to other actors, and thereby helped preserve the legitimacy of the economic and political institutions of the state while restructuring of the industry continued even under the Socialist regime.

(3) "Offensive policies have higher competitive gains than defensive policies." Offensive policies "seek to create new conditions that reestablish efficient or competitive relationships between domestic and international systems." States seek to maximize national economic efficiency and competitiveness.

From these assumptions, Ikenberry constructs a fourfold preference function that states pursue, which delimit the borders of rational adjustment
strategy: in order of preference, a state will pursue
(1) an Offensive International Strategy;
(2) a Defensive International Strategy;
(3) an Offensive Domestic Strategy;
(4) a Defensive Domestic Strategy.

Ikenberry explains the ranking of these preferences as follows:

If a state can change the international regime to facilitate adjustment, this will be the preferred strategy. This is because it maximizes competitiveness (more than defensive international strategy) and it has lower governance costs than the domestic alternatives. If this strategy is not possible, the next likely is defensive international adjustment because it allows more adjustment than the domestic defensive alternative. It does not achieve more adjustment than the domestic offensive strategy, but it has fewer governance costs. And as the first assumption of the model indicates, the state will exchange adjustment gains for fewer governance costs when the choice has to be made. The third best strategy is domestic offensive adjustment, because it allows more adjustment than the defensive alternative while costs of
governance remain equal. The final strategy is defensive domestic adjustment, which does not have the adjustment maximizing possibilities of either the international strategy or the offensive domestic strategy.44

Choices are made, however, in the context of domestic and international structures which may operate to limit the range of choice. "The preference function predicts what states will seek to achieve. Structural circumstance will determine what is possible."45 Structure is defined according to the perspective of each state. Domestic structure refers to the ability of the state to alter the behavior of domestic actors. Small states, for example, may be more "penetrated" by international structure; domestic structure will thus be less pliable, and international structure inflexible. Large states will have a correspondingly greater ability to influence the nature of international structure and will also exert greater control over the domestic environment. To the configuration of domestic economic and political institutions attach certain structural properties usually summarized in terms of state-society relationships, a configuration which places constraints on state action. A recent study of cross-national industrial adjustment capacity focuses on industry-state
relations and the relative constraints of one on the other. Ikenberry notes, however, that:

There are two levels to the analysis of domestic structure as it defines the character of state capacity. First, there are the characteristics of the state itself—state structure—that are important. These include: (a) the ability of the state to autonomously plan and develop programmatic national policy, and (b) the availability of policy tools to intervene into and extract from the society and economy. And second, domestic structure defines enduring aspects of industrial and other societal institutions that may facilitate or thwart state action.

States also differ in their capacity to influence the international system. While perhaps only a single hegemonic actor can rework the extant international regime for adjustment purposes (as, for example, the United States did in 1971 when President Nixon dropped the gold standard), medium-sized states like France and West Germany may use the international environment to externalize domestic adjustment. While this is a limited
method, it is nonetheless effective. The economic summits begun by Giscard in 1975, which continue now, were a way for France to act upon the international environment to achieve domestic industrial adjustment.

In summary, then, two distinct but overlapping approaches to analyzing industrial adjustment strategy present themselves. On the one hand, one may work inductively from the strategies to the structure. Structural conditions would remain unspecified as one focused the analysis on the strategies themselves, assuming that they would reveal the structures. As Ikenberry notes, the strategies would provide a window into the structural world. Alternatively, one may attempt to specify the structures themselves, and thereby enumerate deductive propositions about the likely adoption of an adjustment strategy. The presence or absence of structural variables would help predict policy outcomes.

Because of the methodological difficulties of each of these approaches, it is not possible to use one or the other in a clear-cut, consistent way. The first method does not supply a basis for predictive propositions about state behavior. The second method depends upon a clear specification of structure—domestic or international—which is difficult. Moreover, structure is not a source of causation; it merely places limits on the possible
range of state actions. State interests are not determined by structure alone.

Ikenberry advances two alternative research strategies that combine the deductive and inductive methods. The first is to look for patterns of structural influence: "If the same country adopts the same adjustment strategy over a long stretch of time and within a variety of policy areas, the structural argument would be supported." One would seek to determine consistency in state policy over time and space. A second strategy focuses on state strategies proper. If the assumptions and preference function are accurate one should observe states attempting to pursue the most desired strategy—offensive international adjustment. If the structural argument is correct one should observe the state adapting its preferred strategy to the constraints imposed by domestic and international structures. Interestingly, one should observe the state adjusting its adjustment strategy. 48

By focusing on changing adjustment strategies, one is close to Theodore Lowi's admonition that political studies should analyze and assess the "impact of policies on the political system itself." 49 Although state preferences are derived partly from the international environment and partly from the domestic, state behavior may be altered by the nature of the policy in which the
state engages. One observes in the French case the emergence, the reign, and the decline in relative influence of some state agencies: the CGP (Planning Commission), the Industry ministry, the Finance ministry, the Trésor. As sectoral strategy from the early days of planning gradually gave way to a more market-oriented industrial adjustment policy, the influence of the Plan receded. As macroeconomic regulation emerged in the latter period of Giscard's presidency, the Finance ministry became the key actor in industrial strategy.

The proposition I wish to advance here is that the French state derives its interests from and pursues an industrial strategy consistent with the international system. The French state derives its policy partly from the structure of the international system and the position of the country within it. The role of domestic structure cannot be discounted, of course, and other policy areas may possess different configurations. It is difficult to imagine, for example, that social security or health care policy derive principally from an international context, although connections might be made.

In his classic article on the levels of analysis problem, J. David Singer discussed the problem as a methodological choice between competing alternatives, each with advantages and disadvantages. The systemic level of analysis was more parsimonious, while
description at the national level was richer. This distinction has been accepted in much of the literature of international relations. But an attempt to test the utility of different perspectives in a given case (the outbreak of World War One, for example) would still have to cope with the either-or choice of whether the international system was of greater causation or whether domestic structure gave rise to state behavior.

One could also think of the relationship between the systemic, national, bureaucratic, and individual levels of analysis as overlapping, as Kenneth Waltz does in *Man, the State, and War*. The international system explains the general cause of war, but specific cases must rest on analysis of national politics or individual behavior. No single level determines policy outcomes, but taken together, a coherent explanation can be formulated.

One cannot safely deny, then, that domestic structure is important for a full explanation of French industrial strategy. But an equally important source is the nature of the international system and its influence on the French state. The state is the gatekeeper, mediating between domestic politics and the international system. International sources of state behavior, are as significant as the domestic influences on the state.

States attempt to maximize the resources of the state (rent-seeking) and of the country as a whole (profit-seeking) and usually pursue each strategy
simultaneously. But aberrations may occur, as was the case during the first two years of Socialist rule in France (1981-1983) where the government followed a "socialism in one country policy" that set French industrial strategy against the international system.

As Lake points out, the state finds itself in a bargaining relationship with society. The form of bargaining and the ability of the state to fulfill its interests (i.e. state capacity) is influenced, Lake argues, by three interrelated factors: state structure, policy instruments, and the policy arena.

In responding to the constraints and opportunities of the international economic structure, the state will seek to maximize the returns to the country as a whole. Doing so will entail the making and implementation of policies consistent with the international economic structure. A centralized state such as France, with a wide range of policy instruments available to it, all else considered, can more readily transform its interests as derived from the international economic structure directly into policy. A decentralized state such as the United States with few policy instruments, on the other hand, will encounter greater difficulty in accomplishing this same objective. Specifically, it will have to bargain with negatively affected interest groups, pursue its interests in a perhaps hostile legislature, mobilize public support among positively affected or neutral
groups, and finally, compromise on peripheral issues to obtain societal compliance on important policy preferences. States, in short, adapt to the constraints and changes of the international economic structure and bargain in the domestic political arena to implement policies derived from the international system.

French industrial strategy is partly explained by the nature of domestic policy networks linking state and society. A "domestic structure" explanation of industrial strategy would postulate that differences in domestic structure will lead to dissimilar policy responses in advanced industrial states. There are indeed policy variations among industrial states, partly accounted for by the types of policy instruments available. But in the case of Japan, West Germany, Great Britain, and other industrial countries, policy responses are efforts by the state to cope with an intrusive international structure. In the case of France, the conception of where the French state ought to fit into the world economy is a primary motivating factor of French industrial strategy, and it helps explain the growth of state control over the pace and direction of industrial change in postwar France. It also partially accounts for the way the French state was restructured from the Fourth to the Fifth Republic, to exert greater control over the direction of industrial strategy in the Fifth Republic.
CHAPTER THREE

POSTWAR INDUSTRIAL STRATEGY FROM THE
FOURTH REPUBLIC TO POMPIDOU

All significant political action must
start with the state, whose role and raison d'être
is to serve the general interest.

PART I

The French conception of industrial strategy
elevates it to something more than just one aspect of
macroeconomic policy, although macroeconomic policy
clearly impinges on industry. Industrial strategy may be
said to lie at the center of a broad conception of the
role and place of France in the international order.
Since exports and trade are ipso facto international
activities, there is a twofold purpose behind French
industrial strategy: the use of industrial development
to satisfy domestic needs while at the same time
maintaining an important place for France in the
international economic (and therefore political) order.
These objectives have defined the tasks of the French state since World War Two, and the story of industrial strategy is one of a steady reorganization of the state to make it into an efficient manager of industrial development.²

A. Growth in the Fourth Republic

The immediate postwar period brought a new departure for France. Rather than reconstructing along the lines of pre-war France, as had been done following World War One, the government chose to change the structure of society and the economy by involving the state more directly in the management of the postwar economy. The central goal of the state (defined as the political executive) was the political one of subjecting the French economy to a political vision of the place of France in the international economy. In practice, the policies of the state were essential to sustaining growth throughout the postwar period. As Zysman has written:

One set of state policies served to contain the political opposition of the traditionalists who resisted the marketplace developments that were slowly displacing them. A second set of state policies served as instruments for directly promoting and organizing the forces of change in
the economy. Subsidized privilege to encourage change was consequently set against subsidized protection to preserve existing social and economic relations.³

The ability of the state to bring about and control industrial modernization depended critically on the organization of the state's apparatus for intervention in and guidance of the economy. In this chapter, I begin with the description of the building of the state's interventionist institutions, move to a discussion of the conception and role of the Plan, and set out the Gaullist model of industrial strategy which reaches its most distinct phase after 1965 with the *impératif industriel* and the focus on the *grands projets* of that period. I then provide a brief overview of Giscardian and Socialist industrial policy, anticipating Chapters 4 and 5.

B. *Constructing the State Interventionist Apparatus — The Plan and Financial Reorganization*

The French State, traditionally circumspect and conservative in the Third Republic, became after World War Two the driving force behind the project to adapt the French economy to a changing and more competitive international economic order. For this reason, among
others, it is the state that commands our attention in the study of the evolution of industrial strategy. State power has been used as an instrument of persuasion and coercion in the battle to maintain French technological and industrial prowess in the postwar world economy. Perhaps in no other Western country has the state been so successful in organizing the economy as in France. That this is so owes partly to state power, and partly to other factors over which the state had no control, such as the historical development of the capitalist world system, the extent of wartime destruction, and the transformation of other Western economies which competed with France for markets.

French industry developed in the nineteenth century under the kind of state protection represented by the Meline Tariff. The prevailing economic orthodoxy of the Third Republic was a roughly classical liberal approach which regarded state involvement in the economy as more or less undesirable.² Reconstruction following the First World War, however, gradually brought the state into the economy, although this trend was consistently resisted by industry and commercial interests. There were cautious moves by the state to create "mixed companies" with state participation, and in the 1930's the railroad, for example, was brought completely under state control. The prevailing approach remained, however, the protection of
the home market for national producers and by and large
the market was allowed to structure the economy.

Yet, as Kuisel points out, the decade of the 1930's
was a period of intellectual ferment when ideas of
dirigisme and planning began to be seriously discussed by
the (then) young men who would take the reins of the
French state in the wake of World War Two. Michel Debre,
for example, wrote in 1938:

The state must take account of circumstances
that require it to assume general direction of
the nation's economic life. The state must be
alive to its new mission and conceive its
activity scientifically rather than acting purely
according to politics. . . . The problem is no
longer to decide whether or not the French
economy will be managed; the only choice is
between shilly-shallying, letting numerous pilots
each follow their own course, and firm direction
provided by one, good pilot.5

While the intellectual origins of postwar state
intervention may be found in the 1930's, it was the
experience of the state under the Vichy regime that
provided the institutional foundations for increasing
state power in the 1950's and beyond. Petain himself
concluded that the liberal economic approach of the Third Republic had failed. He wrote:

Two basic principles will guide us: the economy must be organized and controlled; and the state's coordination of private activity must break the power of the trusts and their capacity for corruption. Far from destroying individual initiative the economy should be liberated from its shackles and subordinated to the national interest.6

Pétain implemented his vision in the form of an industrial control system and a planned economy. Kuisel provides a detailed account of this system, which gave rise to the first two truly national Plans, the Plan d'Équipement National and the Tranche de Démarrage in the 1940s,7 both of which were used by the provisional postwar government in framing its projects for national recovery. Institutionally, the various agencies set up under Vichy to control the economy, such as the statistical office and the production ministry, blended into the postwar administration. The programs formulated under Vichy and the momentum generated by the war merged with the reformers of the resistance to move France to a new political economy.8
The institutional arrangements within the French administration beginning in 1946 were engineered by a small elite committed to economic modernization. The disruptions of the war had opened the way for a reorientation of the role of the state in the economy, but the shift in state policy still required a battle within the bureaucracy. These innovative institutional structures laid the foundations for state control over the economy by creating an administrative elite through the formation of the new Ecole Nationale d'Administration (ENA), and the Commissariat Général au Plan (CGP), an agency designed to prioritize resource allocations and legitimize direct state control of the economy. The Plan represented a clear political initiative to use the reformed administrative machinery to bring about changes in French industry.

Economic and industrial planning had as its goal the improvement of productive efficiency and social welfare without recourse to authoritarian control. The model of planning introduced in France had two principal elements. One was the element of promotional stimulus provided by raising incentives to invest or to adapt production to the directions set by the Plan. The second was that of agreement among various groups on objectives, which was to be established through consultation among firms and government agencies - the économie concertée. Indicative planning means the setting up of goals for a
given period of time and the provision of aid to help in attaining them. "Indicative" can mean in practice anything from complete direction to mild persuasion. The first Plan, the Monnet Plan, was closer to overt direction of the economy. It set up a small, central planning agency which was ostensibly to rely on persuasion. It concentrated on improving the basic sectors of the economy which the Plan regarded as essential to rapid modernization. Since the postwar situation did not permit a comprehensive approach, the careful use of resources was important. The production target specified for particular industries were not derived from direct estimates of probable markets at all. According to Baum,

"no systematic studies were attempted of the comparative costs and benefits of alternative investment projects. Some rough pragmatic judgements along these lines must have been made, but the overall criteria were never made explicit. . . . Similarly, no comprehensive study was made of how the use of resources by the investment program would affect consumption standards or how the necessary resources could be diverted to the program without adding inflationary pressures."12
The targets set by the First Plan were based on the idea of a rapid return to pre-war production levels and ultimately aimed to achieve production levels of 25 percent over the best prior figures of 1929.13

The initial concept was that the Planning Commission would serve as coordinator for all economic agencies of the government, but it became instead more of a bargaining agency acting between private industries and government agencies. As such, however, it still had a great deal of influence since it was virtually impossible for any industry to carry out a major investment program without government help. The industries for which investment was favored by the Planning Commission were able to obtain investment financing when most others were not.

In this connection, it must be mentioned that it is practically impossible in the case of France to dissociate macroeconomic policy from wider planning considerations. Fiscal and monetary policy were the tools used to achieve the aims of the plans. During the immediate postwar years, the main aim of the state was to maintain a satisfactory level of investment. In order to achieve this, both inflation and several devaluations of the currency were allowed. If inflation got out of hand, the government resorted to price freezes which proved fairly effective as a temporary device. Inflation was at first caused by the large increase in the supply of money
due to the war, as well as to the budget deficit. To counteract the effects of inflation, price freezes were implemented in 1947, 1950, 1953, and 1954, and the manipulation of monetary devices such as the bank rate and the control of credit allowed investment to rise steadily. Fiscal policy was heavily weighted as it is even today in favor of indirect taxation for two reasons: the relative ease of efficiently collecting the tax, and the social equality function which allows a broad distribution of benefits.

French planning thus manifested in its early stages the characteristics which continued to structure its activities. There was an emphasis on ambitious industrial development along with attention to the quality of life and the reduction of inequalities.

Aside from administrative reforms and the creation of the CGP, three other steps were taken by the state to extend its control over the economy: nationalization, expanded regulation for bank stability and macroeconomic control, and the establishment of mechanisms for selective credit allocation, which was important to the modernizers in the bureaucracy.

The first step in the postwar reforms, the nationalization of the Bank of France, was at first resisted by the financial community. Once it became clear that little would change in the daily operations of banks, the bank's management carved out some autonomy
from the government. The bank's reaction had been similar in 1936 when after being reorganized by Leon Blum and Vincent Auriol it changed its policies very little. As Bloch-Lainé recounted:

In 1947-1948, for example, the nationalized banks refused to finance the investment plans of nationalized industries until sufficient pressure was brought by the Ministry of Finance through the intervention of the Trésor and a state guarantee of such loans.¹⁷

The state retained, however, overall control of credit allocation and its ability to manipulate financial resources simply increased over time. The banks retained some autonomy but became government allies in the overall project of development.

The second element of expanded state power was the framework set up for government regulation of banking practices and control of credit policies. This move had germinated under Vichy, and the postwar reforms shifted power more firmly into the hands of the government.

The third extension of state power in the financial system was the establishment of mechanisms to influence the allocation of credit, an important step with broad implications for industrial policy, as will become apparent in the examination of the Giscard d'Estaing
government and Socialist rule. The commercial banks, through this reform, were eventually drawn into a closer relationship with their industrial clients. Bank risk was reduced and longer-term industrial lending was encouraged by state policy.

The Plan, and the reorganized financial system, took root during a period when leftist and labor influence was strong and that of business weak. Zysman notes:

The modernizers, a political-bureaucratic alliance symbolized by the alliance between Monnet and Robert Schuman, tended to concentrate their power in the Plan and the Trésor. The traditional ministries, which had closer ties to their client groups, were sidestepped. One must not interpret this development as a fragmentation of the state, a loss of purpose and direction. It was instead part of a political struggle to redefine the purposes of the bureaucracy, a struggle in which one side made its camp around the state-financial system. 18

C. The Impact of the Plan on Business and Industry

The recognition that the state could influence capital investment as a producer, buyer, and financier had a great impact on the thinking of French businessmen.
One area of planning which has been inadequately analyzed is that concerning the changes in the qualitative attitude of French businessmen toward the planning process. At first their support for planning was not enthusiastic. They soon became accustomed to it, however, and have been associated with the planning process on both the forecasting side and regarding the objectives of the Plan and its implementation. Nonetheless, it is extremely difficult to determine the actual impact of the planning process on the behavior of the large enterprises. One of the major conclusions of McArthur and Scott is that the Plan itself had very little effect on the strategy of large industrial enterprises in France. The direct intervention of the state in the industrial structures has been felt, but these interventions have been made independently of any pre-established national strategy, so the critical issue of the influence of the formal planning process remains in doubt.

One problem involved in attempting to assess the impact of planning on industry is the fact that there is no adequate theoretical approach to the relationship between business and the state. The two extant approaches are unsatisfactory. One the one hand, the neoclassical view has it that the state is simply a producer of collective goods and services and therefore it is merely one more enterprise responding to
microeconomic stimuli and goals. On the other hand, the neo-Marxist approach assigns the state a double role, that of agent for the absorption of capital surplus, and that of the agent of monopoly capitalism. Thus, in this view the state is not given a separate identity of its own. A middle-range theory which defined the discreet boundaries of state autonomy would allow a more precise assessment of the impact of the state on business, but my own assumption is that the state has a certain degree of autonomy which can be described and analyzed. One way to approach this issue is by looking at the relationship between the state and private elites. In the study of state intervention in the key sectors of the economy, McArthur and Scott found that French industries could be divided into three categories: where the degree of state intervention was high; where it was moderate; and where it was low. The state was found to have little or no influence with regard to two types of industrial firms. The first is small firms: in general these firms knew relatively little about the shape and direction of national planning, and they expressed considerable frustration concerning their contacts with the state. They found that state officials viewed small business and businessmen in unsympathetic terms, often regarding their role, competence, motives, and contribution of small businessmen. . . with considerable contempt and
The second group that the state appeared to have little interest in "comprised companies in certain industries that seemed to be regarded as falling outside the pale of twentieth-century respectability." The two most important examples cited in this group were textiles and food, neither of which are large-scale, nor which attract the highly-skilled management that would gain them entry into the official network. The development of French agribusiness in the 1970s, however, placed this industry high on Giscard's agenda of industries of the future deserving special state attention. At the same time, the textile industry was allowed to fade.

The large industries came in for more favorable treatment by the state. In following a policy that aims at the development of large, concentrated firms, the state believed it would be encouraging competition. From the French point of view, competition and oligarchy seem to be reconcilable. As Cohen has observed:

The French attitude towards concentration and ententes differs from that of American economists. The American generally studies industrial concentration with the assumption that high concentration prevents competition, permits monopoly and profits and reduces competition.
The French economist generally looks at industrial structures to see whether concentration is high enough to allow for big, efficient firms.\textsuperscript{24}

In this regard, a distinction must be made between national and international competition. The tendency toward oligopolistic industries is encouraged because while it decreases the degree of domestic competition, it increases the competitiveness of French firms internationally. Industrial concentration which leads to conglomerates with international markets accorded well with Gaullist foreign policy in the Fifth Republic. McArthur and Scott observe that in the Fifth Republic, the political leaders have been aware that

a strong economy depends in large measure on strong competitive enterprises. Even here, however, the idea was not so much to compete with one another as with outsiders.\textsuperscript{25}

Thus, international prestige was one factor influencing French industrial and economic policy from the postwar period and throughout the 1950s. A second factor, to which I shall return, was the influence of the Common Market and the challenge presented to French markets by European but especially American multinationals. The
later Gaullist policy of encouraging "national champion" firms was supported strongly by the felt need to resist the défi américain and to develop French firms large enough to compete with American and other firms beyond French borders. 26

D. The Impact of the State

One can see that French planning underwent a pragmatic development, related to successive problems which it had to resolve. Until 1965, the French planning experiment can be clearly related to the overarching goals of the state as expressed in the Plan. But pragmatic considerations and the increasing state control of industry through financial mechanisms rendered the Plan less effective as a guide to state goals after the introduction of the Fifth Plan covering the period 1966-1970. Thus, planning itself has not been the result of a body of doctrine. 27 As Ullmo points out, two basic aims guided the development of French planning: the aims of rationality, i.e., the seeking of the most efficient combination of means to attain one's goals, and transparency, or the application of these techniques in a public context, of having choices made within a socio-political process. 28 This means that the state has aimed to make economic and social matters subject to political control. Planning by the government shifted
authority away from parliament as the government sought to establish a consistency of action.

While planning began as an essentially microeconomic exercise, it evolved into a macroeconomic approach. The Sixth Plan, for example, introduced the notion of collective functions while as early as the Fourth and Fifth Plans the distribution of social benefits came under the planning purview. Finally, the regionalization of the Plan linked regional and town planning with national planning in order to balance regional development. Each of these developments may seem to have been guided by some logic, but they were in large measure responses to a variety of problems which arose. Originally, for example, planning may have been intended to be apolitical, but beginning with the Fourth Plan and under the influence of Massé, and with the support of de Gaulle, the idea arose that the Plan should become a

forum of national consensus and consequently an enthusiastic commitment. But with the Fifth and Sixth Plans, this idea faded and was replaced by the realization that the Plan represents the government's medium term economic and social policy and is thus a case of the majority imposing its wishes on a minority, even if in a politically liberal society this involves taking
considerable notice of the minority's aspirations and claims. Ideological debates became concerned with the content of the Plan. . . .\textsuperscript{29}

The planning process became one of the most prominent political exercises undertaken by the state. Planning remained a technocratic process even when it became overtly politicized during the 1960s. It was accepted by both Left and Right on the grounds that it offered a middle way between the anarchy of the free market system and central direction. Thus, planning itself has never been an ideological issue in France, even if the content of the Plan, particularly under the Socialists, has been subject to ideological debate.\textsuperscript{30} What shifted planning off its purely technocratic base was the increasing difficulty of national planning in an uncertain international environment. France was essentially playing a game of "catch-up" in the international marketplace, taking advantage of what Thorsten Veblen called the "advantages of backwardness." As Cohen states, catching up lends itself particularly well to administrative direction, when the civil servants of France were guided by and shared a general understanding of and consensus on industrial development, even when they had no precise theory of the nature and operation of a modern industrial sector. The idea of "modernization" formed the core around which the twofold
process of state reorganization and industrial development through state guidance could take place. The Plan itself was the vital center for promoting long-term modernization of the industrial structure, and the reorganization of the financial sector was one direct consequence of this. Cohen goes on to argue that the Plan's strong impact was based on two fundamental factors which gradually disappeared as the state gained more control over the financial aspects of industrial development: (1) The Plan had simple and well-understood goals that fit with the national purpose and the objectives of business. The goal of modernization translated concretely as the rapid growth of the industrial sector of the economy.

The Plan was charged... to promote a concerted attack on French industrial backwardness, and to reorient the partnership of the administrative state and big business from protective to expansive cartelization. (2) The plan was smart politically. It recognized its limits and tried to stay away from areas which were outside its influence, such as macroeconomic policy and inter-industry balance. The Plan succeeded in its goal of promoting modernization within the large enterprise core of the economy, but as the structures and attitudes of modernization became
self-sustaining, the substantive role of the Plan was gradually eroded. 31

E. The Neo-liberal Order of the 1950s

In contrast to the 1930s and before, what emerged in France in the postwar period was a commitment to growth on the part of the state, and a determination to construct stable institutions within the framework of the Fourth Republic both to guide industrial development and to alter the conservative anti-growth mentality of French business the state itself had helped nurture in the pre-war period. Like most capitalist economies after the Second World War, France embarked on a form of managed capitalism and developed institutions for managing the economy. Like other countries it recognized the need to regulate the business cycle, adjust to economic dislocation, to promote growth and full employment, and, most particularly in France, the need to coordinate public policy. France's unique contribution to postwar managed capitalism was the development of new public institutions staffed with modernizers relying heavily on state intervention and planning. Alongside this state guidance, however, remained a commitment to market values. As Kuisel writes:
What emerged during the early 1950s in France was a new synthesis of these elements or what should be defined as a neo-liberal political economy. Despite the socialist surge of the liberation most of the private sector remained intact. After its temporary eclipse in the 1940s the market revived, though tempered by public economic management and heightened self-organization among private interests. For its part the state altered its behavior and priorities. It acted more as a guide than as an arbiter among competing interests. The state also simultaneously encouraged expansion through selective promotion and control of industry and through more lively competition. A corporatist network developed and competed with the traditional mode of relations between public authorities and organized interests. Although some ministries practiced the tutelle and pressure groups continued to lobby, a new, highly structured form of interaction emerged. The symbol of the new political economy of France was the plan, and its slogan was the économie concertée.\textsuperscript{32}

This new political economy, faced with the choice between growth and stability, gave priority to growth and the
state accepted responsibility for promoting French industry in the international marketplace. Expansion required new technologies and a sweeping away of structural obstacles built into the pre-war economy to promote stability. The crucial aim was to avoid the debate over the merits of free enterprise versus dirigisme and reconcile the market with an interventionist state, what Bloch-Laine defined as the économie concertée, a system of permanent collaboration among the administration, business, and labor.

The new approach to industrial control grew directly out of this conception of economic planning: the concepts and methods of industrial guidance were present in the planning scheme, but industrial strategy took on a life of its own, especially after the Fifth Plan went into effect, as coherent objectives were set out for achieving industrial growth.

The later discussions of "politique industrielle" or "l'impératif industriel" were manifestations of the changing relationship between industry and state. The new function of the state with regard to industry changed from protection to the promotion of development, that is, the management of industrial change. The shift in the role of the state can best be understood by comparing the traditional model of sectoral regulation and the competitive model of intervention in the firm. In effect, the focus of state action shifted, particularly
after the opening of the Common Market in the period 1958-1965, from a concern with sectoral coordination among industries to direct guidance of particular firms and products.

F. The Traditional Model: Sectoral Regulation

Throughout the 1950s the management of industry was dispersed throughout the administration along functional lines, with each government agency enjoying a degree of institutional autonomy and following a set of objectives more or less fixed either by the Plan or within the agency. This *tutelle sectorielle* was divided up among agencies as diverse as the Ministry of Industry, Ministry of Transports, the P.T.T., et cetera. The Ministry of Finance divided up financial management and control along sectoral lines as well, often delegating authority to quasi-public financial institutions like the Crédit National or the Banque de France, with one emphasizing control of exports, the other control over prices, and so on.33

There developed therefore a close relationship between the administrative agencies and industry itself, with the administration relying on industry for information on production performance and statistics. The state encouraged the formation of professional
associations to act as interlocuters in the policy formation process, and used the postwar nationalizations to narrow the basis from which prewar organized business interests had influenced government policy. Unions as well formed along functional lines reflecting the internal organization of the state and were used by the state both for advice and as legitimizing agencies for state action. It was a very mild form of corporatism, but corporatism directed by the state. A more or less mutual dependency developed, and particularly a client relationship between given sectors of the administration and "their" professions.

In the sectoral model, then, the state guided industry in a general way with policy being made for a sector as a whole. Particular actions were taken on an ad hoc basis and not as part of any overall plan of direct intervention in the firms. The perspective of state policymakers was macroeconomic, Keynesian, and based on sectoral planning with no firm singled out for special treatment since all firms were considered equal within their sector. A study by Friedberg and Desjeux demonstrates that the Ministry of Industry was broken up into independent departments rather than being unified under a ministry guided by one set of policy objectives.

The sectoral model is characterized by indirect state action rather than by direct state intervention.
State activities were filtered through selective sectoral guidance and professional groups such as trade associations and to some extent unions. In this way the state balanced interests and attempted to maintain a social equilibrium.

An extreme example of this state-business arrangement was the cartelized steel industry from 1947-1952. The central organization in the steel cartel was the Comptoir Français des Produits Sidérurgiques, which was a private corporation with capital distributed among some ninety-nine firms. The functions of the Comptoir included the responsibility for applying the decisions and programs decided by the Chambre Syndicale de la Sidérurgie Française, and the Ministry of Industrial Production. The activities of the Comptoir were closely supervised by the government.36

This kind of state control was not only necessary in the postwar atmosphere of reconstruction, but an intentional policy was needed which was designed to ensure the smooth functioning of the economy through consensus-building and the management of the industrial-economic environment. The function of the Plan itself was to bring a broad coalition of business and trade associations into the planning process. This consultation between administration and groups resulted in about 4,000 commissions, committees, and higher
consultative councils attached to the central administration by 1960.37

The Plan itself became the primary instrument for guiding the economy, although it remained "indicative" and the Planning Commission possessed no formal powers to coerce compliance with the Plan's objectives. But, as Zysman convincingly argues, the Plan's effectiveness was due not only to the legitimacy it enjoyed throughout France, but to the political alliance which was formed early on between the Planning Commission and the Trésor in the Ministry of Finance. The Planning Commission began as a fragile group led by Jean Monnet, who realized that if the Plan was to succeed, conflict would have to be minimized and a pro-business attitude adopted within the state. To make the influence of the Plan felt, the Planning Commission constructed an alliance with the Trésor in the Ministry of Finance which allowed control over credit. Through the selective allocation of credits, the Plan's targets could be met with the cooperation of the Trésor. Zysman writes, "the planners' original decision to pursue their aims through Finance proved useful, for with this single instrument they were able to confront varied opponents on different political terrains."38

While the traditional sectoral model continued to define state intervention, sectoral action was gradually extended, particularly after the opening of the Common
Market in 1958. Up until about 1958 the state was engaged in essentially its traditional pre-war role, protecting domestic industries and keeping tariff barriers up to ward off foreign competition. But the Common Market and its planned gradual elimination of barriers to the free movement of goods compelled the state to redefine its position, and to move away from defensive and protective action to offensive intervention which would be more direct and more selective.

The intrusion of the international economy, the integration of France into world markets, and the exposure to foreign competition constituted the essential reasons for the shift from the traditional model to the competitive model. This break had been prepared by the modernizers of the Planning Commission. Of course, this did not all occur in one deft stroke. The opening of the EEC was not an abrupt movement from protected markets to free trade; rather, it was the putting in place of a timetable for the gradual abolition of restrictive practices and tariffs on a wide range of goods. Coinciding with this movement toward free markets, French strategy shifted from defensive to offensive action. Henceforth, state strategy would consist in defining and implementing structural changes in the industrial base in order to compete in an international environment.

G. The Competitive Model
The move to free markets undermined the relations between state and industry which existed in the traditional model and upset the economic balance on which sectoral regulation had been based. The state changed partners and ways of operating. Study groups on industrial performance and strategy were set up, circumventing the traditional client relationship between ministries and their charges. Operationally, the focus of state strategy shifted from a macroeconomic relationship to a microeconomic one: the firm was now to be the point around which to organize an offensive industrial strategy. The firm had been absent from the traditional model, but under a competitive economic regime it was to become the economic unit of development. Competitive pressure forced a restructuring around the principle of performance, which was defined as competitiveness in the marketplace. Because of this requirement, French policy moved toward a serious effort at industrial planning at the level of the firm. The Comité de Développement Industriel (CDI) declared in March, 1966, that the doctrine which was to guide state action would be based on the laws of competitive markets, a doctrine which was progressively integrated into the Nora Report and the Sixth Plan. 39

The state began to transfer legitimacy and power to the large firms and progressively took charge of their reorganization at the expense of traditional professional
groups. Their role was rendered superfluous as the centralized power of the state was asserted under the Fifth Republic. The increased ability of the state to assert its power was the result of the shift from the rather untidy parliamentary-centered government of the Fourth Republic to the executive-centered government of the Fifth. Channels of interest intermediation shifted from parliamentary control over the ministries to executive control over an increasingly powerful bureaucracy. A central executive was better able to articulate the goals of a coherent industrial strategy and possessed the means to implement this strategy.

The move towards markets and competition affected both (1) the instruments of state action, and (2) the objectives of state action. The redistribution of power and control moved away from sectoral control towards financial instruments as the main method of state intervention. This shift was reinforced by the change in perspective on how to use financial instruments. As soon as the state became engaged in international competition and industry moved toward competition, the maintenance of the economic balance became disequilibrated. To counter this, the state began to concentrate on methods to move industry into a competitive posture. These methods centered around quasi-independent industrial development banks which were empowered to provide low-interest funds for industrial restructuring and for the promotion of
exports. Through financial control, moreover, the grand firms were brought under state control through a series of mergers and financial incentives. Quite naturally, the locus of decision-making shifted to the Ministry of Finance as it became the sought-after interlocuter for industries. As the traditional model of regulation broke up and sectors were exposed to competitive pressures, industries sought protection from their patron ministries. Some ministries became spokesmen for their client industries. As pressure on the ministries increased, the locus of state decision-making began to move to the insulated interior of the state--the Trésor--where interest group pressures would be felt less.
PART II

A. The Effects of Competition on Planning and Industrial Strategy

McArthur and Scott argue that the passage from a closed to an open economy marks a fundamental cleavage in the evolution of French industrial strategy. There is no doubt that the sea change in the economic environment brought about by the EEC was crucial. But the passage from the économie concertée to the économie concurrencée in the 1960's did not occur swiftly, nor was it a deliberate choice by the state. The decision to quit protectionism was clearly brought on by modifications in the international environment. The EEC was one cause of the change; a factor of at least equal importance was the perceived challenge to France by American investment in Europe.

The most notable effect of competition on the French economy was the formulation and emergence of a rough industrial strategy in the years from approximately 1966 to 1968. In this period a transformation of priorities diminished the role of planning and promoted the concept
of an industrial strategy to replace planning. Coinciding with this shift was the argument that market values ought to begin to guide economic development. The Rueff-Armand Plan took this position as early as 1958 but was followed by no action to break with the tradition of state guidance. The initial attempt to implement some of the ideas of the Rueff-Armand Plan came ten years later, in the preparation of the Vle Plan. The FIFI model, which was conceived as a statistical tool to facilitate medium-term projections, was based on the idea that the économie concurrencée had altered the international position of France:

La mise en place du Marché Commun, la libéralisation des échanges, l'intensification de la concurrence étrangère modifient notablement l'environnement de l'économie....La croissance physiquement possible n'est plus ipso facto réalisable; la production est en effet, du moins pour les entreprises exposées à la concurrence étrangère déterminée beaucoup plus par leur compétitivité que par leur demande.

Thus, the new environment exposed many firms to foreign competition. Prices would be determined not by demand, but by the competitive conditions of the market. Only protected industries could escape this condition.
For "exposed" firms, competition therefore became the central concern. Exposed industries would be able to compete to the extent that they are given tax advantages, access to outside financial sources (as opposed to autofinancement), and that the salaries of their workers are kept from rising too fast. In other words, the state would shift its emphasis from protection to indirect subsidies, accompanied by an incomes policy. Rather than stimulating internal demand (the policy initially followed by Mitterrand in 1981), the state would promote competition:

"Une telle politique de relance de l'offre est fondamentalement differente de celle d'inspiration keynesienne, qui est fondée sur une relance de la demande intérieure."  

B. A New Industrial Strategy

Out of the reconsideration of the role of the state vis-à-vis industry, and the challenge of the international marketplace, emerged a new set of industrial strategy principles premised on the idea that the state had a role to play in promoting competitive industries—what Stoleru later called l'imperatif industriel. Stoleru argued that the survival of exposed industries depended on the role of the state in
following a coherent policy. The state should coordinate and rationalize public intervention in the economy. He pointed out that state action too often took the form of a series of "interventions ponctuelles trop au hasard des événements". The objective of state action should be to follow an industrial strategy defined as "une somme d'orientations majeures et de choix conscients ordonnant les moyens publics d'intervention en fonction d'objectifs clairement définis." State guidance of industry would henceforth take the form of aids to restructure certain sectors and incentives to promote competitiveness through mergers, the creation of De Gaulle's "grandes entreprises." Three major directions became apparent: state assistance for declining industries; aid to high technology sectors; and state support for French multinationals.

With this strategy, relations between industry and the state became more direct, no longer dependent on the mediation of the Plan. In two studies published in 1969, the conclusion was drawn that the Plan had been only a negligible influence on the business strategies of smaller firms, but that larger industries had been influenced by its objectives. Thus, the more direct state intervention of l'impératif industriel diminished the importance of the Plan for the large firms now the object of state attention.
The shift to market values and direct state intervention implied that the state must also respect the laws of the market in dealing with large public firms. Thus, Stoleru argued, the state's actions should not be based on a command system; the state must "seduce" industries to cooperate. That is, the state must, in attempting to promote competitive firms, "se conduire comme un autre agent," respecting the optimal market allocation of goods and not attempting to override the market. The state should concentrate on maintaining a balanced external trade while leaving growth to the private sector. Moreover, nationalized industries must be subjected to the same standards of profitability and management as private firms. Already in 1967 the Nora Report had advocated the notion of efficiency for public firms. Efficiency also meant that unprofitable firms must not be propped up by the state aid if turning them over to the private sector would ensure a more efficient management approach. The Nora Report had also advocated "growth contracts" between public firms and the state.

The appearance, then, of French industrial strategy can be dated from the Fifth Plan, implemented in 1965-1970. With the Sixth Plan in August 1969, the specifically industrial aspects of economic policy were clearly distinguished. What these two Plans did not do was reorganize industrial policy decision-making within the administration. As Bonnaud writes:
At the beginning of the decade [1960], the situation was as follows. There was intense centralisation based on the ministries in Paris, especially as far as all decisions about tax or financial incentives were concerned. There was a dispersion of functions between many ministries or agencies: the Ministries of Industry, Transport, Armed Forces, Housing for specific industries; the Finance Ministry for fiscal and financial incentives, prices policy, export promotion and public purchasing policy. Also involved were the Ministries of Scientific Research and of Labour, as well as major financial bodies such as the Crédit National, the Central Fund for Hotel Finance and the Bank of France (especially for medium-term loans); finally, public enterprises whose purchasing policy could be decisive in certain industries. Coordination and the search for consistency in administrative action were secured by either temporary or permanent bodies. Of the latter, the most important in the industrial field was the Economic and Social Development Fund (abbreviated to FDES in French) and particularly four of its specialised committees which advised the Finance Ministry. Committee No. 1 was responsible for all subsidies, tax exemptions,
assistance for firms being decentralised or reorganized (of industrial). It had as its chairman the planning commissioner, and included representatives of all ministries (other than Defence) and the aforementioned financial bodies. Committee No. 5 was responsible for public financial intervention in the agricultural and food industries, secretarial staff being provided by the Planning Commissariat, while Committees 4 and 6, responsible for defining and implementing the investment programmes of the energy and transport public enterprises, were both presided over by a member of the Planning Commissariat. In addition, the planning commissioner gave his advice directly on the major medium and long-term loans of the Crédit National (a public bank channeling public loans to private industry) and belonged to the Bank of France's Medium-Term Committee.

This system had a rather striking feature: lacking a charter of industrial development—neither the Fourth nor the Fifth Plans could be considered to have provided such a charter—decision-making power and the definition of policies were dispersed among the various ministries and agencies concerned. On the other hand, implementation was partially coordinated,
planning experts playing a role that owed more to their personal skills than to their ability to invoke the letter or spirit of the Plan, the Finance Ministry remaining firmly in control.\textsuperscript{54}

The period from 1965-1969 saw the formulation of an industrial strategy for the promotion and control of large public and private firms. The overall period from 1965-1974 is a period of continuity with emphasis given to industrial development in a period of internationalization for the French economy. This meant supporting the creation of international firms large enough to be globally competitive (De Gaulle's \textit{grands projets}) and supporting exports. The modernization of industry was the overriding goal, what Cohen refers to as a "modernization imperative."\textsuperscript{55} The \textit{impératif industriel} described by Stoleru in 1969 influenced Pompidou and Giscard more than De Gaulle. The De Gaulle period of 1965-1969 was an era of rapid growth, transformation of the economic and industrial base, and the organization of state intervention around a set of market values. The policy of promoting \textit{grands projets} evolved into a policy of promoting the firm and creating the sectoral conditions for the success of favored firms. The Fifth Plan was concerned mainly with the renovation of industrial structure, particularly in critical sectors like aeronautics and electronics which were to lead
France into the international competition of the world market. The Sixth Plan gave priority to an explicit set of industrial principles separate from general economic development. The Plan itself moved from being a general statement of development to singling out specific goals, becoming more selective in concentrating on the form rather than the sector. As the French economy became more open and internationalized, the state shed the role of protector and adopted a strategy that was offensive and selective, and which acknowledged that a single nation could no longer selectively control the economic environment.

C. Le Redéploiement Industriel

The Pompidou stewardship, from De Gaulle's resignation in 1969 until Pompidou's death in 1974, marks an interesting, although little-studied, period in the transformation of the French economy. In many ways Pompidou was far more free-market oriented, far more "capitalist" than De Gaulle. The Ortoli report in 1968 had re-emphasized the importance of unleashing free market forces in the French economy, and Pompidou's own industrial strategy was suggested in the Montjoie Report: industrialization and economic growth became the main criteria of government performance:
Industrialization was to create a competitive economy, a competitive industry that would lead to the development of exports, itself a further condition of long-term industrial growth.\textsuperscript{57}

With the advent of the (short-lived) "new society" of Chaban-Delmas, the renewal of industrial competition was to occur within the framework of a socially responsible state.

Pompidou clearly spurred industrial growth. After the devaluation of the franc in 1969, the French economy reached a record seven percent growth rate.\textsuperscript{58} Two interesting effects came of this free-market strategy: (1) industrial and economic policy was brought completely under the supervision of the President and wrested away from the technocratic planners; (2) the social contradictions of growth began to surface as the remnants of the "traditional model"--the unions and small businesses--were pushed aside as the government began to favor large firms. In response, Pompidou added a small businessman, Royer, to the cabinet, and in 1973 the \textit{loi Royer} was passed, protecting some four million small businessmen from the effects of the modernization of commerce.\textsuperscript{59} This marked a turning point in the way the state viewed the social costs of modernization. As Berger points out, however, the Royer law was cast with a view toward the Right's dependence on its electorate in
declining sectors and among owners of small and medium entreprises.60

The focus of the state shifted in the 1970s to a commitment to selected firms both to promote growth and to salvage declining sectors, especially in the wake of the 1973 hike in oil prices. Giscard d'Estaing, the finance minister of Stoleru's impératif industriel, became the President of redéploiement industriel. In a series of articles in Le Monde, François de Combret, one of Giscard's closest advisors, summarized this "new" orientation, which had as its chief aim the reduction of state intervention in industry. Public intervention was to be the exception, restoring competitiveness in all sectors in priority, and encouraging the growth of small and medium enterprises a new emphasis (even to the extent of creating in 1976 "un délégué à la petite et moyenne industrie").61 Industrial redeployment differed from the industrial imperative in its being not a response to international growth, but a response to international crisis:

Une procédure de révision des dispositions du Vle Plan avait été prévue pour 1973. Le renchérissement des prix du pétrole, la perception d'une situation de crise économique ouvrent la phase actuelle de la politique industrielle. La politique des entreprises
acquiert un poids plus grand dans le cadre du thème du "redéploiement industriel." La contrainte principal change. Elle est celle de la compétitivité dans un environnement de crise économique internationale.\textsuperscript{62}
CHAPTER FOUR

GISCARD: READJUSTMENT AND RESTRUCTURING FOR CRISIS
1974-1981

Under the economic technocracy of Valéry Giscard d'Estaing, the state began to act as a financial manager and facilitator. The emphasis on financial structure in relation to industrial strategy involved the state heavily in the process of guiding industrial development, but the methods differed from the Gaullist-Pompidolian dirigiste approach. Under Giscard, economic policy would define the environment within which French firms operated, with the market structuring the rules. Intervention by the state would be confined to selected industries of the future and to "lame ducks" - such as the steel industry - in need of restructuring over the long term in order to return to profitability.

French industrial strategy in this period was shaped by the radically altered nature of the international economic environment. Throughout the postwar period and Gaullist era, the challenge to industrial planners was to
maximize the French presence in a growing international marketplace. The major factor shaping Giscardian industrial policy was undoubtedly the international economic crisis. Beginning in 1973 with the first of the OPEC oil price stocks, the recessionary/inflationary ("stagflation") trend engendered by rapidly increasing oil prices had a major influence on the course of French industrial strategy and on Giscard's response to the challenges posed by a more open, competitive global environment. Giscard himself referred to the economic crisis as, "la plus sérieuse, la plus durable, la plus épouvantable, que le monde ait connue depuis les années trente."¹

Giscard's accession to power marked not only a critical turning point in the world economy, but a watershed for the political economy of the Fifth Republic. The notion that the growth of the 1960s would continue unabated under conditions of a stable international system was brought into the harsh light of global economic collapse: the combination of the undermining of the international monetary system, rapid industrialization in some Third World nations, and the emergence of the OPEC cartel accelerated inflation and set off a steep rise in unemployment in the Western industrialized nations. Against this background, the management of industrial growth became a major concern since the competitiveness of French industry would have
major domestic consequences in terms of unemployment and the foreign trade balance.

The international dimensions of the crisis are worth emphasizing because more than any other single factor, the shape of French industrial strategy in this period depended critically on the analysis of the world situation. Much of Giscard's tenure can be viewed as a response to the deteriorating world economy.

Giscardian industrial policy had essentially three key aims. At the macroeconomic level the focus was on removing constraints and providing incentives for the operation of the market. At the microeconomic level the aim was to encourage traditional industries to adapt to the new international realities of the 1980's and to foster the development of growth industry. Finally, firms were encouraged to export through subsidy mechanisms.

A. The Political and Economic Background 1974-1976

The seven years of Giscard's presidency must be divided into two periods during which the policies pursued were very different. During the first period, when Jacques Chirac served as prime minister, government economic polices failed largely because the scale of the crisis was not properly understood. The initial response of the government demonstrated that it was thought that
the crisis was temporary, and that a short-term policy response was called for. Major structural changes were treated as cyclical problems, and Giscard's plan de refroidissement served only to exacerbate the problem of inflation and low growth rates. The second period, under the premiership of Raymond Barre, was marked by a counter-inflationary plan designed to promote growth and exports while holding wages and prices down. The Plan Barre required a number of "basic balances," the balance of payments, a balanced budget, wage moderation, a stable currency, and moderate growth in the money supply.  

Barre's economic policy concentrated on wage stability as the route to higher profits for business. It should be noted that Barre's approach depended heavily on his analysis of the influence of the international economy on French economic health. If wages could be held constant in real terms, then any increases in productivity would lead to higher profits (or more competitive prices), which would strengthen French firms. Stronger firms would reinvest profits thereby creating new employment. Most new jobs would come from export-oriented companies. Barre explained in 1978 that the priority of the "external front" must be emphasized, as 40 percent of all jobs in industry depended on exports.  

Wage stability was the key to adapt the French economy to the changed international division of labor.  

As Barre later noted in Une politique pour l'avenir, the
function of the state in the new international order was to smooth the transition to a liberal economy within an orderly international trade context. International competition would spur French firms into improved economic performance once it became clear that the well-being of the firm depended critically on international trade. Demands for protectionism and special governmental favors would cease as the state opened up the domestic economy to international penetration.  

Competitiveness was thus the byword of the Giscard/Barre government. Once the dimensions of the crisis became apparent, French policy responded with a series of industrial restructuring measures designed to streamline French industry, to free industry from excessive government regulation, and to stimulate growth through market mechanisms and competition, an approach I shall refer to as "neoliberal."

The period from 1973-1976 was marked by a movement toward floating currency exchange rates and the advance of the united Left parties. Government policy was conditioned by the external constraints of a restrictive monetary policy adopted by the United States and the West German central bank (Bundesbank) and the rise in world raw materials and oil prices. Since some 45 percent of French imports were payable in dollars, yen, or sterling, French monetary policy concentrated on sustaining the
value of the franc. In response, the Tresor encouraged state firms (EDF, SNCF, et.al.) to raise funds internationally (a practice the Socialists later attempted to curtail, then promote during the austerity period) in order to reduce pressure on domestic capital markets. Nationalized banks, including the Credit Agricole began raising loans on the international capital market in order to finance the balance of payments to sustain the franc. Thus, the period was marked by a gradual integration of French capital into the world monetary system, a movement which increased pressure on national producers and contributed to rising unemployment levels. As international pressures mounted the state sought to mediate the effects by setting up an industrial promotion program sustained by extensive state financing and an industrial strategy centered on restructuring for competition.

Politically, the dynamique de la gauche continued to condition government policy. Mitterrand had come extremely close to winning the presidency in 1974, and his standing clearly moved the PS into the role of leading party of the Left. Giscard's response to the left was to soften his economic policy with generous social security provisions (such as the provision for 90 percent of wages paid for one year to laid off workers).

This period of "soft growth" ended with the 1975 budget. Sixteen billion francs were added in April, 1975
to stimulate the economy, and by June, some 15,000 new public service jobs had been created. In September, 1975, the plan de relance was launched with approximately 30.5 billion of government funds marked for investment. The cost of the adjustment to the oil shock was transferred from the business firms to the state, which created a large budget deficit (38.2 billion francs). The massive infusion of state funds did fuel growth and bring a temporary halt to rising unemployment, but business indebtedness continued rising. "But the one single factor that doomed the relance Chirac more than anything else was the massive foreign trade deficit which it produced, and which upset the balance of payments, as economic stimulation led to a great increase of imports."  

In the summer of 1976 Chirac resigned, his economic approach scrapped, and Barre took over as prime minister. It is during Barre's government that Giscardian industrial strategy began to emerge as a response to economic crisis. For more than two years Giscard had concentrated on macroeconomic management; now microeconomic management in the form of a coherent industrial strategy began to take shape.
B. Barre à la barre

Barre's appointment in September 1976 pointed to a movement of French domestic policies away from Gaullist conceptions. The position of the state had been significantly modified under the influence of a competitive world economy. In the increasingly uncertain environment brought on by the 1973-74 oil crisis, the government attempted to "free up" the economy and to orient it toward an open market system. While this process was associated for the most part with the post-1973 period, the ideas behind this change reach back to 1958 when the classical liberal economist Jacques Rueff first formulated the advantages of operating on an open market system.  

French policy in the first half of the 1970s was dominated by memories of May 1968, when it seemed that society itself was being ripped apart by a series of strikes and occupations of factories and schools. Giscard's initial response was a mixture of contradictory elements: his economic goal was the containment of inflation while his social goal was not to antagonize the working classes. The deflationary Plan Fourcade, named after the minister of economics and finance, was followed the next year by a second Plan Fourcade, which encouraged expansion. Meanwhile, the government, in honoring concessions made to labor during the events of May, 1968,
made it harder for firms to lay off workers, and it increased benefits to the unemployed. But when unemployment subsequently increased and did not provoke social unrest, the government embraced business interests and pursued deflationary policies. The turn was marked with the appointment of Barre.

C. The Changing International Context

The quadrupling of oil prices at the end of 1973 began a period of slowed growth for the Western economies. The rhythm of growth was interrupted and trade competition intensified. It was clear by 1974-75 that the crisis was structural and that the growth of the 1960s was over. The French economy entered the stagflation cycle in late 1974. From that point forward, the French economy grew at less than three percent a year between 1974-1979.

<table>
<thead>
<tr>
<th>Economic Growth Under Three Presidencies</th>
<th>1959-69 (%)</th>
<th>1969-74 (%)</th>
<th>1974-81 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP by volume</td>
<td>+ 5.7</td>
<td>+ 5.1</td>
<td>+ 2.6</td>
</tr>
<tr>
<td>GDP by price</td>
<td>+ 4.2</td>
<td>+ 7.3</td>
<td>+10.6</td>
</tr>
<tr>
<td>Billion franc (1970 prices)</td>
<td>31.5</td>
<td>42.0</td>
<td>27.0</td>
</tr>
</tbody>
</table>

Artus and Morin examined the relative contributions of external factors to the slowdown of growth. They found that the rise of oil prices, the rise in the cost of imported raw materials, inflation, and the decrease in overseas production of French firms accounted for much of the disruption in French economic growth between 1973-1977, and that the inflationary increase from six percent in 1973 to over eleven percent in 1977 was largely attributable to external factors.\textsuperscript{10} Renaud du Tertre confirms the role of external factors in altering the economic and industrial landscape between 1974-1979.\textsuperscript{11}

The structural crisis was above all in France a crisis of industry, and Giscard's response can be seen in the formulation of an industrial strategy as what Dyson and Wilkes call "crisis management."\textsuperscript{12} Crisis management facilitates adaptation to changes in the international economy, but the basic problem of how to define and measure successful adaptation looms. Giscard's alternatives were to pick industrial winners through the financial/banking mechanism and through strategic choice. But the outcomes were never foregone: what appears in one year to be a good choice might appear in later years to be a serious misjudgement. Second, crisis management is not measured by economic efficiency alone. "The quality of crisis management is defined subjectively by reference to the distributional impact of the costs and benefits of
different crisis measures."\(^{13}\) Political efficiency is also a criterion. Third, value is placed on retaining an equilibriated economic and political system: industrial intervention serves the function of "system maintenance."\(^{14}\)

Giscard's response to changes in the global environment was to lay on a crisis management strategy he termed "industrial redeployment." This was an essentially defensive strategy disguised as an offensive one.

D. Industrial Redeployment

The policy of redéploiement industriel was Giscard's version of l'impératif industriel, and responded to the critique provided by Lionel Stoleru in his 1969 book, L'Impératif Industriel.\(^{15}\) Stoleru dealt largely with the Gaullist grands projets period, but raised the issues relating to French industrial strategy in an international environment characterized by fierce trading competition. While most of the grands projets conceived in the 1960's were intended to break away from dependence on American technology, in the 1970's there was a reorientation toward becoming competitive internationally. The policy of projets moved gradually to a policy of firms: not only were particular products or technologies emphasized, such as the development of
graphite gas reactors or the Concorde, the state began to emphasize certain firms or groups in selected sectors. By 1979, for example, the 20FF billion in state aid to industry (2.5% of industrial production) was concentrated in only a few sectors like steel and naval construction (sectors restructuring), mechanical and electric equipment (export sectors), and aeronautics, space, and electronics (high-tech sectors).\(^{16}\) By 1981, when Giscard had taken to referring to his industrial strategy as "strategic reinforcement," the total sectoral aid reached 52FF billion, distributed to a broader group of selected firms in additional areas like information processing and telecommunications, with thirty-five percent of aid going to subsidize exports.\(^{17}\)

The first phase of Giscard's industrial management was marked by the absence of a specifically industrial strategy. Instead, under Chirac as prime minister, an attempt was made to alter the domestic economic environment within which French firms operated, first through a plan de refrodissement which froze prices and wages, then through the plan de relance, a reflactionary policy which stimulated industrial production but resulted in increased imports not paralleled by increased exports, leading to a massive external deficit.\(^{18}\)

Barre's analysis of the plan de relance when he assumed office in 1976 was that it had brought the economy to the brink of disaster. The consequences of
the 1974 oil shock had not yet been faced adequately. In 1974, he noted, business had carried the costs of readjustment (and had as a result cut back on their investments), but Chirac's plan had transferred the cost of readjustment to the state, leading to increased business investments, but also to a large budget deficit and a weakening of the franc. Lauber points out, however, that "such a policy could not last; sooner or later discipline would have to be re-imposed if French industry was to be able to confront the intensified competition in the world markets that was to characterize the decade to come."

The core of industrial redeployment was Barre's economic reasoning, which emphasized stronger and more export-oriented firms. Export-oriented firms would make new investments and thus create new employment. The French economy would adapt to the altered international division of labor which the oil crisis brought into focus. Success for Barre's economic strategy would place French industry on an equal basis with West Germany:

"It was in the best interest of the French nation to practice a policy of economic liberalism on the international level; France would benefit from it by increasing her exports and by becoming one of the heartlands of the industrial world."
The role of the state in international competition would be to smooth the transition to export-oriented firms, giving priority to the "external front." The resulting exposure to the bracing forces of international competition would spur French firms to better economic performance.

If the *imperatif industriel* marked the fifteen years leading up to 1974, the concept of "industrial redeployment" (*redéploiement industriel*) became the guiding theme of the seven years of Valéry Giscard d'Estaing's presidency. As a concept, industrial redeployment conveyed the idea that a coherent approach to industrial development guided governmental action while at the same time implying that a rationalization of French industry was imperative.

Industrial redeployment was a response to the 1973-74 oil price hikes and the subsequent productive crisis which hit France particularly hard. As French exports went in great proportion to its Common Market partners, reduced demand in these countries cut into French exports and left France with no alternative markets for these goods. Giscard perceived early on that a new and different strategy would be needed to strengthen exports, particularly to the United States.

In a series of articles in *Le Monde*, François de Combret, who was Giscard's advisor for industry, described three principles which formed the basis for
industrial redeployment. First, state intervention was to become the exception rather than the rule. Firms would be subjected to the rigors of the market. Combret asserted that the state simply lacked the expertise to remake industry. The international economic crisis was seen as a bracing wind which would propel the most competitive French industries into the front ranks of global exporters, much as the opening of the Common Market had spurred French production fifteen years earlier. But the role of the state in guiding industrial development would be confined to shaping strategy while backing away from direct intervention.

Secondly, according to Combret, competition would be restored in all sectors. This was evidently aimed at breaking up the conservative business mentality which saw competition between domestic firms as a social evil to be avoided. In Combret's analysis, internal competition could only strengthen the firm's position in the international marketplace. This principle would necessitate a change in business leadership, bringing in "a new generation of managers" who would be oriented toward entrepreneurship and competition. The success of this principle obviously depended critically on the ability of French firms to export, which was linked to the need to acquire dollars to pay for France's oil bill.

Thirdly, industrial redeployment would place greater emphasis on small and medium-sized companies (petites et
moyennes entreprises, or PME). Industrial strategy would not necessarily center on the large firm as the optimal export leader as had been done under the industrial imperative. PMEs, because of their greater control over costs, their adaptability to changing market conditions, and their smaller, more manageable organizational structure, would be best able to create jobs and operate profitably. In general, Combret noted, the growth rates for PMEs exceeded those of larger firms and required less investment to achieve this. Moreover, work in a PME was less alienating than in a big firm, and therefore losses due to strikes and labor unrest would be minimized. The emphasis on the PME did not exclude, of course, maintaining the large firms already in place since only they were capable of holding their own against U.S. and Japanese multinationals.

Industrial redeployment really referred to a redeployment of the state and its interventionist role. Given that competition was now the guiding principle for industry, what, according to Combret, would the function of the state be? He defines the first task of the state as consisting of "overseeing the transitional period of change or decline and mitigating its brutality in certain firms or certain sectors." This idea was implemented at the level of the firm through aid from the Comité Interministériel pour l'aménagement des structures industrielles (CIASI), which was created in September,
1974 to provide financial aid to firms in difficulty. By 1978, over 500 firms employing some 250,000 workers had received aid from the CIASI. At the sectoral level, in troubled sectors like steel or naval construction, state loans were extended to modernize facilities and to provide severance payments to workers terminated in the modernizing process.

Combret defines two additional state activities: the state should encourage the development of such industries as automobiles, heavy equipment, petroleum refining, agriculture machinery, and should formulate and support a clear research and development policy directed particularly at industries of the future like electronics and energy. In short, the state should intervene where such action would encourage sectoral development but otherwise leave the economy open to the free play of the market. These three interventionist principles were designed to stabilize employment and production.

A second set of tasks enlists the support of the state in the promotion of foreign trade to restore a favorable balance of payments. This will involve (1) a systematic policy to "reconquer the internal market;" (2) the selective use of protectionist import controls. Combret notes that the free trade regime in the EEC evolved over a period of twelve years during which time import controls were shed gradually; there is no reason to expect, therefore, that France will suddenly throw
open its borders to the world market. Rather, a stabilization of the internal market, while developing exports behind selective protective barriers, will replicate the procedure followed in the development of the EEC; (3) growth of exports through a fourfold policy of technical superiority, support of PME exports, and a unified marketing strategy (unlike the grands projets, "products must be designed to be sold": for example the Mirage 2000 was switched from a twin engine design to a single engine design based on potential sales); (4) because of the cost and dimensions of developing world-class firms in computers, aerospace, and nuclear power, cooperative technical agreements with other countries should be sought where necessary and beneficial.

Industrial redeployment was presented as the way to avoid dependance for France. It was not, however, aimed at independence in the sense de Gaulle had used the term, but at playing the game of interdependence, which, Giscard believed was in France's highest self-interest. He noted:

"Le redéploiement auquel on veut conduire l'industrie est une politique qui veut se distinguer de l'impératif industriel qui a inspiré la fin de l'ère Pompidolienne et le Ve Plan en particulier.\"23
This should be interpreted as meaning that the period of an assertive go-it-alone policy of industrial development would be replaced by an era of political and technological cooperation with other countries. Redeployment was seen as the alternative to protectionism, and as the proper method to promote the export drive which Giscard saw as the motor of growth.

Giscard's approach differed from the Gaullist-Pompidolian strategy in several ways. Fundamentally Giscard had to cope with the economic consequences of the rise in oil prices which threatened to slow the growth of the French economy for the first time in the history of the Fifth Republic. The crisis, together with structural difficulties in several traditional industries, brought increasing political pressure to protect jobs in declining industries like steel and textiles. 24

Giscard's "modernist" world view, however, moved him away from the Gaullist strategy of achieving sectoral coherence behind an overtly manipulated protectionist policy, toward a "laissez-faire" set of economic and industrial principles based on "modern managerial and marketing techniques, and the search for a new world economic order." 25

In a speech in October, 1977, Giscard defined his economic project for France:
"Il s'agit de bâtir une économie adaptée aux données nouvelles du monde. ... Si nous nous abandonnons à la pente du protectionnisme sous le prétexte honorable de protéger telle ou telle branche en difficulté, nous condamnerions inévitablement au déclin tout ce que notre économie comporte de plus sain."26

Giscard's conception of industrial economic policy signaled a change, at least at the level of rhetoric. No longer would growth "tous azimuts" occur; instead, a selective industrial redeployment would be guided by the state, strengthening the international competitiveness of French firms, and attempting to redistribute the international division of labor. The major objective was to create optimal conditions for selective competitiveness. But, while Giscard's rhetoric indicated that the state would confine its intervention to "incitative" action and follow the dictates of a liberal market economy, in fact a twofold strategy was followed that promoted liberal market values while at the same time the state intervened to compensate for market insufficiencies. The implementation of this strategy took place at two levels:

1. Environmental/indirect measures which reinforced the general position of the French
economy through such measures as decontrolling prices to restore profits and maintaining a stable franc;

2. Direct measures/"actions tactiques" consisting in the creation of a number of special industrial funds which loaned money to - or in some cases actually took over and run - firms that were singled out to compete globally or which were restructuring.

E. Shifting In, Shifting Out: Giscard's Export Model of Industrial Strategy

Industrial redeployment was in part a rhetorical device, but it also signified a real shift in the way the state approached industrial strategy. Particularly after the oil crisis, Giscard began to elaborate a political vision different from that of De Gaulle and Pompidou, yet one that retained the basic elements of French postwar industrial strategy: independence, international-scale, firms, and export promotion. To this, Giscard added his conception of global interdependence and multilateralism. Giscard's willingness to cooperate with other nations was signaled by his effort in bringing together four heads of state (representing Italy, the U.K., the U.S., and West Germany) at Rambouillet in November, 1975.
Giscard's growth policy began to privilege the export sector which was seen as the engine of growth in a time of high energy costs and rising inflation. Raymond Barre explicated the shift in economic priorities in the following terms:

The policy chosen by the government in September 1976 is guided by a single precept: the adaptation of the French economy to the world's changing conditions. . . . [Our policy] is aimed at preserving the competitiveness of the French economy which, in turn, conditions our level of employment and our standard of living. This is the central question. Everything else depends on it. . . . the priority which we have chosen is the 'external front' i.e. the equilibrium of the balance of payment and the defense of the franc. . . . It is the 'external front' which commands the rest and first of all the level of employment. . . . A country which imports both raw materials and energy products, a country which is in fact a gigantic manufacturer of finished goods, a country where two industrial jobs out of five depend on exports, has only one priority: the equilibrium of the balance of payments. 28
Giscard himself, in speaking of Germany and Japan as "models" of economic development, expressed a similar view:

We must sell abroad. We must sell our agricultural products. We have already done so under favorable conditions. We must do better, particularly with regard to marketing. As for industrial goods, we must push our foreign sales beyond our present producing capacities. . . . Our main objective is to foster the export of tradable goods and services. . . . 29

The context of these remarks must be grasped. The "crisis" in the world economy after the oil shocks coincided with a period when France had by and large exhausted its "advantage of backwardness." For most of the postwar period, France was catching up with its future. The broad lines of economic development and industrial objectives were known. "How to do it, not what to do and how to do it, was the planning problem." 30 With the eclipse of this era during Giscard's presidency, the problem became competitive exporting of specialized goods and services. 31 This meant moving away from a continuation of the Gaullist grands projets, shifting resources to more productive uses.
The so-called "lame ducks" became the first targets of Giscard's restructuring program. In textiles, for example, the state had been covering the deficits of the Boussac firm throughout much of the 1970's. But almost immediately following the March 1978 elections, the state pulled the plug on Boussac and began to restructure the textile industry. The Boussac holdings were transferred to new private owners who agreed to follow the state's guidance in determining the rate of plant closings. In steel, the March 1978 elections also represented a watershed. For more than fifteen years the state had been directing a fundamental restructuring of the industry by building giant modern facilities at Fos and Dunkirk while older mills, primarily in the Lorraine were shut down. By 1979 employment in the steel industry had fallen from 200,000 to 150,000. The 1978 elections were the signal for the state to move toward the final target of 110,000.\textsuperscript{32}

The shift to high productivity industries followed a logic which Cohen describes thus:

France must import its energy–some 55 billion francs worth each year. To pay for it, it must export massively. Competition in export markets is keen, and because markets are not growing at anything like the speed of the recent past, competition is all the tougher. Very careful
positioning for market niches is thus increasing. 33

Under De Gaulle's grands projets, scale was all-important: without one or two world-class firms in each sector, it would be impossible for France to maintain a role as an important intermediate industrial power. Giscard's approach made the finer distinctions necessary to meet the international challenge. Giscard's policy sought to indentify areas of comparative advantage for France and move industrial resources into those areas.

Viewing this strategy in the context of the 1973-74 oil price shocks, one sees the very direct impact on French thinking of the international environment. Since France was (and remains) a net importer of oil, higher oil prices meant a loss of real income equivalent to a "tax" or "transfer" of about four percent of the French GNP. 34 The problem faced by French policymakers was how to absorb this "transfer" into the economy. The economic difficulty of determining who would pay the "oil bill" is the tradeoff between corporate profits and a potential rise in wages. Wages could rise in line with the increase in consumer prices as energy costs are passed along, thus protecting real wage incomes but squeezing corporate profits. Investment is likely to be reduced. But if wages are held down in relation to prices, the associated decline in labor costs provides firms with a
margin that partially offsets energy costs, thus maintaining investment incentives.\textsuperscript{35} Either the producer or the consumer pays the bill, and Giscard and Barre chose the consumer.\textsuperscript{36}

Alain Cotta, one of Giscard's economic advisors explained the rationale underlying this policy in a government study.\textsuperscript{37} Cotta argued that too rapid a growth rate (six percent or more) would release strong inflationary pressures which would contribute to increasing the "cost" of the transfer and to a disequilibrium in the balance of payments. Workers would seek higher wages, and producers, if they responded favorably to wage demands, would increase prices in order to maintain their profit margin. A wage-price spiral would result. Domestic inflation would push up the cost of exports, thereby making them less competitive while stimulating imports.

Conversely, too low a rate of growth would weaken demand for imports without producing a demand for domestic goods. Investment would decrease and exports would decline, but the balance of payments disequilibrium would persist. Cotta proposed the only reasonable solution: a moderate rate of growth of about three-percent which would hold down the wage-price spiral thereby restricting imports. But, to be successful, this "intermediate" strategy required a major "restructuring" (redéploiement) of industry designed to eliminate lame-
duck firms and to develop selectively the most dynamic and promising elements of the French export sector.

A consequence of the global recession, then, was a questioning of the Gaullist doctrine that bigger firms meant more efficient and profitable ones. Since Giscard's main aim was to increase French competitiveness in world markets, restructuring focused on rationalization. At the sectoral level concentration was no longer an end in itself but was seen as a way of accelerating the specialization of French industry. At the level of the firm it meant pulling out of unprofitable activities. There was a more explicit attempt to pick industrial "winners" and "losers."³⁸

The restructuring of the economy promoted by Giscard and Barre was an approach that can be termed "export-led growth." Theoretically, there are three possible ways to stimulate export activities: by favoring structural shifts toward key exporting firms; through subsidization of the export sector with tax incentives, low-interest loans, and subsidized risk insurance; or by depreciating the currency.

Giscard's policies relied primarily on the first two types of state intervention. The third possibility--depreciation--was never considered appropriate, despite two apparently successful precedents: De Gaulle's 1958 devaluation and Pompidou's 1969 devaluation, each of which was followed by a period of rapid growth.³⁹
Giscard held that a devaluation would stimulate both technically-oriented industries and traditional ones, including lame-duck industries which might survive simply because of a devalued currency. That result would undermine the government's top priority of shifting resources from traditional industries to selected growth sectors and firms. Giscard stated: "We must strive toward a specialized economy. We must gradually give up production of mass products at a low price. That is not our speciality." The refusal to devalue the franc was an integral part of the Giscard-Barre approach, and a direct response to the structure of the international regime. International competition was a lever that could be used to bring French industry into line with Giscard's export-led approach to industrial development. As Barre stated in 1980:

I shall never devalue the franc in order to stimulate the economy. Far from improving the competitiveness of our industry, a devaluation would only increase the oil bill while encouraging our industrialists to rely, once more, on a certain lack of managerial rigor. I shall never attempt to reduce the pressure which international competition puts on our industries,
for it is this pressure, alone, which forces us to "muscle" the economy.\textsuperscript{42}

The Gaullist national champions approach was streamlined under Giscard. "White elephants" like the Concorde, and "lame ducks" like steel, came to be seen as hinderances to a policy of selective competitiveness. In order to reassert French industry in the export sector, market niches were sought where profits and prestige could combine. Four key sectors were selected to lead Giscard's export offensive: armaments, nuclear power, agriculture, and automobiles. All constituted areas of heavy state involvement through direct aid and state procurement policy.

Armaments were the centerpiece of the export strategy. As Cohen states:

No industry better fits the model of the new political-economy in which France is seeking to specialize. It is the sector where formal rationality is perfected, but completely divorced from substantive rationality.\textsuperscript{43}

The quantitative importance of armaments production to the French economy was clear: in 1981, arms sales were estimated above three billion dollars, making France the number one country per capita in arms sales.\textsuperscript{44} The
domestic market could not begin to support the complex
generations of weapons and aircraft needed to stay in the
game. With the economies of the Third World and the
Middle East on the upswing with profits from oil, the
French found ready markets in which to sell.

Another component in promoting this sector was the
putative technological advantage that would accrue to the
commercial economy through involvement is a high-tech
industry, the rationale for France's concentration on the
development of nuclear power as well. Compared with the
U.S. and U.S.S.R., the French had remarkable success in
developing nuclear energy. The all-out nuclear program
was a direct response to the 1973 oil embargo which left
France in a particularly dependent position because of a
high level of energy imports. At that time, it seemed
clear that nuclear power would become a relatively cheap
alternative to oil, and a potential export-item in the
form of turn-key nuclear reactors. Substantial over-
capacity was thus built into the nuclear development
program to cover the domestic and export markets that
would develop. But, for a complex series of reasons, the
export market never materialized, and the nuclear program
moved into a state of highly-subsidized limbo, with the
potential to join the Concorde as a "white elephant."

In agriculture, technology seemed to promise the
development of French agribusiness. The bargain that was
struck as early as 1952 between France and West Germany -
that France would endorse the rebuilding of German industry and Germany would agree to be a major market for French agricultural goods - had contributed toward an efficient, export-oriented industry. While the export program had been successful (France is still a net food exporter), it did not create domestic employment. Moreover, French agriculture, as in most western countries, was saddled with overproduction and heavy state subsidies. It, too, failed to become the motor of the export strategy.

Automobile manufacture had been a robust industry until the late 1960's. Successful state-led restructuring of the industry in the 1970's helped develop a profitable export market for the two major firms, Renault and Peugeot. The major difficulty from the point of view of a state-led growth strategy, however, was the increasing internationalization of car production. True multinationalization of the industry would undermine the legitimacy of the postwar French political economy: a national interest in a successful expansion of French big business--both public and private--orchestrated by the state.45 Feigenbaum's study of the oil industry in France points to some of the dangers of the multinationalization of French industry in terms of a loss of state control. In retrospect, however, it is clear that the overseas expansion of the French auto industry was
undermined by the slump in world demand and competition in the critical American market from Japanese imports.

Clearly, in all four cases, mutations in the international environment affected the growth path France had followed for over a generation and caused Giscard to attempt to reposition the state. The focus on high prestige sectors continued, however, while potential areas for economic restructuring, such as the service sector, were relatively neglected. The state remained committed to firms which were attempting to pursue an international strategy, while bailing out declining firms.

A subtle shift in industrial strategy was attempted in 1980, however. The new strategy, termed "Strategic Reinforcement," focused for the first time on the rapid development of products. Rather than assuming that technology would create a commercial product cycle, strategic reinforcement selected key areas to lead the marketing side of the export strategy. These areas were underwater oil drilling technology, office automation, consumer electronics, robotics and biotechnology. The example of the Japanese industrial model had begun to penetrate French thinking. Japan's success, it was believed, was based not on its research and development capacity, but on its ability to develop "generic" products for constantly shifting markets such as electronics. The strategic reinforcement strategy was
underpinned by institutional reform that sought to coordinate industrial policy functions along the lines of the Japanese MITI model. The Interministerial Committee for the Development of Strategic Industries (CODIS) was created to rationalize industrial strategy implementation, i.e., to introduce coherence into a variety of dispersed industrial activities and thereby to enhance state control. One new policy tool was the "development contract," drawn up between the state and the relevant firm. Development contracts were derivatives of the "growth contracts" first used in the 1960's in electronics policy. Like growth contracts, development contracts specified performance targets together with sanctions for non-fulfilment. They differed from growth contracts, however, in extending beyond the provision of financial assistance, bringing different forms of state aid together in a package, for example, export subsidies, preferential public purchasing, and/or temporary import controls. As Green notes, referring to development contracts, "this regime, then, which had nailed its colours to the mast of economic liberalism, created, prima facie, the means of devising and carrying out the most coherent, systematic and detailed industrial policy ever seen in France." Strategic reinforcement was not, however, a comprehensive approach to the problems of industry in the 1980's. Important sectors like aerospace were not part
of this strategy. Moreover, Giscard continued to devote state resources to declining industries.

In broad terms, the underlying strategy pursued by Giscard did not depart significantly from that of De Gaulle and Pompidou, that is, the concentration on building internationally competitive industries. Giscard differed from his predecessors in his emphasis on selectivity, the focus on the firm rather than the sector as the key to industrial development, in his acceptance of France's role in an increasingly interdependent world economy, and in his use of the global marketplace to pressure French firms to compete.

This industrial strategy was a tentative step toward adjusting state adjustment policy. Throughout the Fourth Republic and De Gaulle's presidency in the Fifth, the position of the state was that of the agent in the wholesale transformation of the French economy and society to move France away from what Stanley Hoffmann called "the stalled society" of the Third Republic. De Gaulle's approach to this task, in terms of industrial strategy, was primarily a mix of an offensive domestic strategy designed to transform domestic industry, and a defensive international strategy designed to create the conditions (particularly within the EEC) for the gradual adjustment of French industry to the rigors of international trade. Giscard continued an offensive domestic strategy, while going on the offensive on the
international front, attempting to create an international trading regime favorable to French industry. Giscard was particularly effective in this within the EEC, where France was the second-largest economy. The capacity of the French state to move industry in directions the state found desirable was perhaps at its highest point between 1976 and 1980 when industrial strategy combined with efficient control over the financial system to pressure industry to follow the state's lead. After the 1978 elections, when the French left was thrown into disarray, Giscard manipulated the levers of state control to apply greater pressure for industrial restructuring.

Suzanne Berger summarizes Giscardian industrial intervention in these terms:

What is new since 1974, then, is not the emergence of liberalism alongside dirigisme, nor even the growing scope of liberalism, a phenomenon which dates at least to the mid-sixties and to France's entry into the Common Market. Rather, the change is a reversal between those economic objectives which the government seeks to achieve through intervention and those which the government believes can be brought about best by allowing individual entrepreneurs the freedom to take their cues from market
forces. To put it simply, in the past government intervention was directed primarily to the realization of positive objectives of economic policy-higher growth, the creation of national champions, the development of industries based on advanced technologies, and so forth. The negative objectives of government policy were, on the other hand, left to the market.

. . . Since 1974, the principal targets of government economic interventions have been industries that the government's own policies identify as *canards boiteux*, lame ducks that are candidates for demise, while government intervenes less and less often to bring about economic outcomes it deems desirable and leaves to the market those industries which the new industrial policy defines as the hope of the future.48

This chapter points up the inaccuracies of this characterization. The reversal Berger describes did not take place under Giscard. State industrial strategy continued to emphasize the traditional themes of economic growth, the development of selected firms, and intervention to bring about state-defined outcomes. If anything, declining industries were left more and more to the market, with the government providing the subsidies
to ease the transition period in restructuring those industries.

What was new in Giscard's approach was that the goal of state intervention was no longer to build French industrial capacity at any cost, but to create an environment within which French firms could be restructured to compete in the global marketplace. This goal took on particular urgency after—and indeed was a response to—the international recession induced by high oil prices began to cripple the French economy. Although Giscardian industrial strategy was just as interventionist as that of De Gaulle and Pompidou, the underlying inspiration was liberal. Giscard pursued his main aim quite consistently: to secure a French presence in international markets in selected key sectors. State intervention in the 1970's was not consistent, despite the attempts to make it more methodical. But the goals of the state in industrial strategy were unwavering, and the position of the state seemed unambiguous beneath the liberal rhetoric.
CHAPTER FIVE
FROM NATIONALIZATION TO THE MIXED ECONOMY:
THE SOCIALISTS IN POWER

"A quoi bon multiplier les nationalisations si
c'était pour ne rien changer à la structure du
pouvoir économique ni aux principes de la gestion
des entreprises?"

Valéry Giscard d'Estaing

PART I: THE ECONOMY

As the Socialists took power in May, 1981, they
began the process of further diminishing the distinction
between the market and the state. The proposed program
of nationalizations coupled with economic and social
reforms promised to lead France away from the policies of
Giscard and the modernizing technocrats, toward a
restoration of French global competitiveness and security
of place in domestic markets. In this chapter, I examine
three principal phases in the Socialist program: the
development of the Socialists' commitment to
nationalizations; the formulation and implementation of
the nationalization program itself between June, 1981, when the bill on nationalization was proposed to the National Assembly, and February, 1982, when the measures became law through their publication in the *Journal Officiel*; and finally the subsequent course of industrial strategy and the failure of the nationalizations to produce the kind of transformation the Socialists had envisaged. I argue throughout that the constraints of the international economy militated against the Socialist goal of "keynesianism in one country", the *de facto* Socialist economic policy, and that the costs and effects of the nationalization program itself imposed major constraints on the course of economic policy after 1982.

Socialist industrial strategy continued the Gaullist theme of modernization, but in practice modified and extended the concept to include Giscardian elements. The process of industrial modernization as carried forth by the Socialist government recapitulated modern French industrial strategy from the 1960s through 1981 in moving from *étatism* to the mixed economy, from an independent to an interdependent policy, from state control to state guidance to a market-oriented approach. Before turning to an analysis of the Socialist period, a brief summary of economic policy will be useful in setting the context for a richer exploration of Socialist industrial strategy. It is against the background of economic policy that the industrial strategy of the socialists
must be understood. Unlike De Gaulle and Giscard, the economic doctrines of the PS and the PCF were developed qua party doctrine and therefore have a direct bearing on industrial intervention after 1981. It is clearly difficult to separate economic and industrial strategies during the Mitterrand presidency. The analysis of economic doctrine in the 1970s, before the PS came to power, forms the background needed to analyze state industrial strategy in the 1980s.

A. Economic Policy: Old Wine, New Winos

When the Socialists took power the French economy was in a second period of recession induced by a combination of oil price increases and a global recession. A recession is characterized by problems of high inflation, an increasing external deficit, and rising unemployment. The new government chose to focus its efforts on the last problem at the expense of the first two, thereby overturning the Barre government's commitment to maintain the external value of the franc, and rejecting the deflationary strategy being followed in nearly every other western country. In going against the international tide, the Socialists nonetheless counted on global recovery to lift France out of the recession. They freely admitted that their economic decisions were
based on the assumption of a world recovery expected to take place in 1982, a recovery which would favor exports. The Socialist strategy was to prepare for the expected export demand by stimulating domestic consumption (and therefore production and inventory stockpiling). A consumer-led reflation of the economy, through stimulus of demand, arising in part from a government mandated rise in wages, would encourage productive investment and help maintain and even create jobs. When world recovery commenced, the French economy would be at a productive peak, poised to take full advantage of the export boom.

In its first budget, the government targeted a GDP growth rate of 3.3% in 1982. Although this was not reached, France did manage a growth rate of 2% in a year when the rest of the industrial world experienced a negative growth rate. The OECD average was -0.5%, with West Germany at -1.1%; moreover French unemployment leveled off in June, 1982, at around 2 million at a time when it continued to rise in other industrial countries.

Initially, then, the Socialists remained true to their constituency. In a time of recession purchasing power was maintained and even increased for workers at the lower end of the wage scale. These results, however, brought reactions from two very different sectors. Trade unions complained that the wage increases were inadequate. Small and medium sized employers complained of the burden of cost imposed on them along with
prospective labor laws that promised more democracy in the work place. A certain bitterness thus emerged because, on the one hand, increasing demands went unsatisfied, while on the other private sector needs were neglected.

The world recovery expected by the government did not materialize on schedule. Instead, the recession deepened in early 1983, exacerbating the adverse side effects of the government's strategy. Inflation and growth differentials widened between France and her major trading partners, the trade deficit worsened (a total deficit of $12 billion in 1982)\(^2\), and recurrent speculative runs on the franc contributed to two devaluations within nine months.

B. The Crackdown on Inflation

Between 1976 and 1981, the French government was chiefly concerned with controlling inflation. By fighting inflation, the government hoped that the wage share in the distribution of income would stabilize. Wages as a percentage of income distribution had risen steadily throughout the 1960s, and began to climb acutely after 1973. By holding wage increases down, the productive base could be modernized, thereby restoring external competitiveness, promoting growth, and reducing unemployment.
The policy of the Socialists up until June 1982 was intended to control inflation, but its primary focus was on reducing unemployment. As described in the Plan intermédiaire: stratégie pour deux ans 1982-1983\textsuperscript{3}, government policy objectives were faster growth, a reduction in inequalities, and greater national solidarity.

A new phase of policy was initiated with the second devaluation of the franc in June, 1982, characterised by a wage and price freeze (Barre had lifted price controls in 1978). The freeze ended Socialist hopes of going it alone against the international tide. The effect of this new policy phase was felt not only in economic and industrial policy. Social policies were called into question as the need to restore internal and external stability began to take precedence. The wage-price freeze succeeded in bringing inflation to below 10\% in its first phase lasting from June to October. At the conclusion of this phase and in the run-up to the municipal elections in March, Prime Minister Mauroy announced that the worst was over. But an even tougher austerity plan was in the offing, following the Socialist setbacks in the municipal elections. The new program sought to cut the external deficit by one-half within a year by squeezing domestic demand, particularly consumption and government spending. This, the Delors programme de rigueur began with a third devaluation of the
franc, placed a one-percent surtax on taxable income to offset the social security deficit, extracted a forced loan to the government from higher-income taxpayers, increased public service charges by eight percent, froze FF20 billion in expenditures budgeted for 1983, and restricted the amount of foreign currency that could be taken abroad by French tourists in addition to barring the use of credit cards abroad except for legitimate business expenses.

This new austerity drive represented a 180-degree turn in Socialist economic strategy, in effect undoing what had gone before. Rather than passing out higher pay and social benefits, the government was taking back through cuts in disposable income and certain welfare payments. Instead of reflating unilaterally amid a world recession, the government deliberately deflated the French economy just as the upturn was beginning for other industrial countries. In the process, the government was forced to accept the rise in unemployment which ensued. The effects of the programme de rigueur on Socialist industrial strategy were dramatic, as will be discussed later in this section.
PART II
THE POLITICAL FOUNDATIONS OF SOCIALIST INDUSTRIAL STRATEGY

In order to comprehend the course of economic policy, and to elucidate the relationship between industrial strategy and economic policy, it is necessary to delve into the history of the Socialist Party in the 1970s and to trace the evolution of economic doctrine within the Party. It becomes clear that the doctrine guiding the party as it took power had an unstable base, which contributed to its splintering after the implementation of the Nationalization program.

A. The Politics of the Programme Commun

The economic policies of the Socialist Party were shaped largely by its negotiations with the Communist Party for a Union of the Left. In economic policy, the party moved clearly to the left in comparison both with its own past and with other West European socialist parties. The emergence of Francois Mitterrand as leader of the new Parti Socialiste (PS), born during the party congress at Epinay in 1971, marked the beginning of the refinement of party economic doctrine. The PS committed
itself to a battle against monopolistic capitalism, and the major weapon in the battle would be specific nationalizations of privately-owned enterprises. This marked the first time since the end of World War Two that the Socialists agreed to nationalizations. Earlier, they "had always rejected nationalizations as either unnecessary or as tending toward the development of centralized state capitalism which would be as exploitative as private enterprise capitalism." But with the 1972 Programme Commun of the Left (signed on 27 June 1972), the Parti Socialiste joined ranks with the Parti Communiste Francais (PCF) in a call for the nationalization of nine large industrial firms, plus major private banks and insurance companies, and agreed to majority control through mixed ownership of several other large companies. To insure coherence the Parti Socialiste pledged increased government economic planning and industrial development. To avoid the exploitative aspects of state capitalism, they proposed to introduce greater worker self-management in public enterprises, particularly those selected for nationalization. The Programme Commun represented PCF principles in the nationalization proposals more than Socialist wishes. The nine companies, selected for nationalization were Dassault, Rousesel-UCLAF, Rhone-Poulenc, Honeywell-Bull, ITT-France, Thomson-Brandt, Péchiney-Ugine-Kuhlmann (PUK), Saint-Gobain-Pont-à-Mousson, and the Compagnie
Générale d'Electricité (CGE). Excluded from the list were many other major concerns which had been on the PCF's shopping list, notably the Compagnie francaises des petroles (CFP), Hachette, Peugeot-Citroen, and steel and merchant shipping companies. The CFP thus "lost" in some respects, but the Parti Socialiste had won only in limiting the list to nine companies. It was more than the Parti Socialiste would have liked to have conceded.⁶

In contrast to his presidential campaign of 1981, Mitterrand's campaign for the presidency in 1974 against Valery Giscard d'Estaing did not invoke the Program.Commun. His campaign was highly personalized and he did not seem to regard himself as bound by the previous PS agreements with the PCF. His closest advisors, including Michel Rocard and Pierre Mendès-France, evaded the commitments of the Program.Commun and helped Mitterrand steer a course away from the PCF while at the same time remaining captain of the united Left, a position from which he derived enormous advantages in 1974, as in 1981.

Although he was not tied down by the Program.Commun in 1974, Mitterrand's weak position on economic policy was none the less evident. Instead of the Program.Commun he had a three-phase plan to deal with inflation, unemployment, and growth. There would be a preliminary six months of price control, government loans, price-indexed savings, increased spending (social and industrial), and cuts in VAT on certain goods. A
second stage, of eighteen months, would be a phase of industrial reorganization; and a third stage (over five years) would involve the completion of the Left's program (but exactly how and what was unclear). Mitterrand's foreign policy included a commitment to the Atlantic alliance; his Prime Minister would be a Socialist, while the Communists agreed through Marchais that they would not impose demands for particular ministries. But Giscard d'Estaing made convincing attacks on Mitterrand's economic programme in two major debates, and the Communists insisted, if not openly, that Mitterrand was still bound by the Common Programme. 7

Thus, in contrast to the 1981 presidential campaign, Mitterrand did not see himself in 1974 as strongly committed to the economic programs of the united Left. With such a lukewarm endorsement, one wonders why the 1981 campaign was marked by such a strong commitment to the nationalization. The weak overall commitment of the Socialists to the nationalization program is confirmed in Pierre Mauroy's book, Héritiers de l'avenir:

... Il est clair qu'en signant le Programme commun, le parti communiste a reconnu le principe de l'alternance, qu'il a accepté le Marché commun et l'Europe, et qu'enfin il s'est résigné à un nombre réduit de nationalisations, alors qu'il en
proposait deux pages, pas moins, au début des discussions!

Mais il est manifeste que les socialistes ont fait aussi des concessions. Nous ne sommes pas des maniaques de la nationalisation. Pour nous, elle ne résout pas tout. Ce qui compte, pour le Parti Socialiste, c'est de mettre fin à l'exploitation de l'homme par l'homme. Il n'entend pas remplacer le capitalisme de la technostructure et des banques des petits chefs. Est-il libéré, le travailleur, simplement parce que son patron devient l'Etat, le 'plus froid des monstres froid', comme dit Nietzsche? Est-il libéré si, après la nationalisation, il est toujours un matricule qui n'a pas son mot à dire? Evidemment non.

Ce n'est pas trahir un secret de dire que le Parti Socialiste a accepté, dans le Programme Commun, davantage de nationalisations qu'il n'en aurait souhaité à l'époque. Les craintes tournaient toujours autour du risque bureaucratique. Elles furent vite apaisées par une lecture attentive de la charte de l'union au niveau des principes et de leur appréciation. L'autogestion ou le contrôle démocratique des travailleurs sera un antidote à la
nationalisation qui n'est pas synonyme d'étatisation. 8

Again in view of the first six months of the Mitterrand presidency, one notes the excessive emphasis placed on the nationalizations, and the care taken to undermine the purpose of the nationalizations by linking them to autogestion, supposedly a major Socialist preoccupation but one which played a relatively minor role in their post-1981 practice.

In the run-up to the 1978 legislative elections, the Socialists appeared well-positioned to make significant gains. This led the PCF to conclude that the PS was moving farther away from the maximalist interpretation of the Programme Commun. Thus, the PCF sought to anchor this group of incipient social democrats (the PS) to a very precise series of measures, involving the "updating" of the Programme Commun. The Programme contained a flat statement that only nine companies were subject initially to nationalization in the event of a victory of the Left, but the PCF interpreted this quite differently from the Parti Socialiste. The Communists took the nationalization commitment to mean the complete nationalization of the main holding companies and all subsidiaries in which the main company held over 51 percent of the stock, which would have meant about 730 companies. 9 The Parti Socialiste sought to draw the line
at about 100 companies: they interpreted the provisions to mean state ownership of the holding companies and only those branches owned one-hundred percent by the major company. The Socialists demonstrated, then, their profound differences with the Communists over the questions of étatisme. They did not subscribe to the prevailing Communist view that only the state would effectively suppress the capitalist economy in France.

The final rupture of the united left came precisely in the conflict over the nationalization question, although of course the ingrained suspicion of each party toward the other played a role. Kesselman maintains that the break came over nationalization: but while it has frequently been asserted that the PCF seized on the issue of nationalizations as a pretext to break the Left alliance, the real reason was the shift in the balance of power between the two parties. Tactical consideration, however, may have been more important than ideology. Political calculations concerning the respective power of the parties probably played a role in PCF planning, but the equation can as plausibly be reversed: it may have been precisely because the PS was recalcitrant regarding the PCF's economic demands that the relative power positions of the two parties assumed such importance for the PCF. If the PS had proved more tractable on the nationalizations issue, the growth of the PS might have deterred the PCF less. In this
interpretation, nationalization and other economic proposals were not a mere pretext for breaking the alliance; they were the crucial issue for the PCF. ¹⁰

Even without resolving the question of exactly where the PS stood on the Programme Commun, questions can be raised about the party's commitment to social democracy. The history of French Socialism since the end of World War Two contrasts sharply with the experiences of post-war social democratic parties in other Western European countries, notably Britain, West German, Sweden, and Austria. Most socialist or social democratic parties in these countries had made basic choices about their role as parties of government in an advanced capitalist democracy, principally as concerned the acceptance of the general framework of democratic capitalism and the rejection of the traditional objectives and principles of socialism. The model most commonly accepted by these parties involved three essential elements. ¹¹ The first was welfare state liberalism based on the Keynesian principles of economic management coupled with a social safety net which aimed to counteract unemployment occurring in cyclical downturns and provide a basic minimum for the population and in particular those least able to benefit from economic growth. The second was the mixed economy in which the state owned certain infrastructures in public services and large "flagship" industries important to the overall economic well-being
of the nation. Finally, a special consultative role would be given to trade unions to countervail business pressures on the setting of governmental priorities, thus incorporating workers into a cooperative relationship within the framework of an industrial democracy.

In Britain and West Germany, for example, experiences of the Labour party and the Social Democratic Party shifted their allegiances toward the mixed economy. Labour's experience in the wartime coalitional government and the reform period of Labour Government in 1945-1951 apprenticed the party to moderation. The SDP, concerned over its inability to win power in the 1940s re-examined its identity at Bad Godesberg in 1959, renounced its Marxist principles, and entered into a "Grand Coalition" which eventually led to its role as standard bearer of a stable, prosperous Modell Deutschland.\textsuperscript{12}

The key to this government-capital-labor consultative mechanism was the existence of a long period of sustained economic growth which came to an end only with the 1973 oil crisis. The impression of governments was that there was plenty of money to go around to finance social measures. The economic inefficiencies inherent in the reliance on growth rather than rational choice and planning were revealed first in the 1960's in Britain as the problems of long-term structural decline became manifest and forced governments to attempt to hold down rises in wages through "voluntary agreements" on
incomes policies with unions. The oil price shocks of the 1970s induced similar effects in more prosperous West Germany itself. In the main, however, the social democratic parties held to their commitment to non-Marxist principles in pursuit of prosperity.

The trajectory of the French Socialists was quite different from the steady movement into government of the other West European parties of the left. The old SFIO was never faced with the question of coming to terms with a coherent economic strategy. Thus, the socialist party programme published after the founding congress at Epinay, *Changer la vie*\(^{13}\) was a first attempt at formulating an economic stance. Part of the explanation for the weak commitment to radical socialist economic policies may be found in the document, and in the views of the new party's first secretary himself, François Mitterrand, who evidently was a closet social democrat, surrounded by radical reformers whom he hoped to keep at bay during the long drive to power:

I am amazed by the Swedish achievements and I cannot relate them in public without shocking my own friends and a good part of the militants, not to mention the problem I would have with the Communists. And if I dared to say that the National Health Service in Great Britain is a
great achievement of socialism, what an uproar this would produce with militants and voters.¹⁴

Yet Lauber contends that Mitterrand gave priority to wage increases and nationalizations and that his views largely corresponded to those of the PCF.¹⁵ A more plausible view, which takes into account Mitterrand's long non-socialist political career (especially in the Fourth Republic) was his concern to hold the powerful left fractions within the PS, like Ceres, together in solidarity with party aims. This strategy gave Mitterrand the strong base he believed the PS needed to draw votes from the PCF and reflected his lack of concern with economic questions. Unlike, perhaps, the Ceres group and the PCF, Mitterrand was primarily a political strategist and viewed economic questions as mere corollaries to victory. Because of the continual support of Ceres for the leadership of the Parti Socialiste, the economic doctrines Mitterrand adopted even into the 1981 campaign relied heavily on the Ceres analysis: a rupture with capitalism and an increased role for the state via nationalization and increased national planning. The reward for Ceres' support was the early prominence of its leader, Jean-Pierre Chevènement, in Mitterrand's government of 1981-1983.

What of the doctrinal disputes carried on in the 1970s? Political bickering with the PCF over the
Programme Commun was evident, and continued right up until the PCF quit the government on 1983; within the Parti Socialiste itself several dominant streams of thought over economic and industrial strategy existed. A close analysis of these disputes is necessary before turning to the nationalization program in 1981, for one can see clearly why, after the implementation of the nationalizations in early 1982, the influence of the radical party wings waned as Socialist economic policy veered toward a social-democratic order.

A coherent Socialist view of industrial strategy began to emerge in 1972 with the signing of the Programme Commun. This document was fundamentally anti-capitalist in orientation:

En présentant un programme commun de gouvernement, le Parti socialiste et le Parti communiste français ont conscience d'accomplir un acte politique de grande importance. Ils affirment ensemble leur volonté de mettre fin aux injustices et aux incohérences du régime actuel.17

The twofold implications of this statement remained unclear. Was the intent to reduce simply the inequalities of the system and create a more just, but
not radically different, social order? Or, was the intent to bring an end to the existing system and replace it with another? From 1972 through 1981 both these tendencies found expression in the unified left. In Changer de Cap, the PCF document which interpreted the Programme Commun, however, the latter tendency seemed to be the dominant one, to create a socialist society:

...il faut nécessairement abolir la propriété capitaliste, transférer à la société les grands moyens de production et d'échange, assurer l'exercice du pouvoir politique pour la classe ouvrière et ses alliés, la prise en mains par tous les travailleurs, par l'ensemble du peuple de la gestion de leurs affaires à tous les niveaux. Il n'y a pas de socialisme sans cela.18

For the PCF, no doubt was entertained that a radical transformation of society was at hand despite their oft-repeated claim that their objective was "un socialisme aux couleurs de la France."19 The PCF intended to keep their alliance partners at the outer extremes of possible interpretations of the Programme Commun; the PCF remained convinced that the PS was a party of closet social-democrats, not entirely committed to the étatisation of French society. And in this, of course, the PCF was generally correct.
The PS from its inception was a collection of diverse perspectives and groups, and a far different party from the monolithic PCF. The PS encompassed a variety of approaches and analyses and was, therefore, a more flexible organization than the PCF. Although there were extreme poles of opinion, the PS was a more direct descendant of the French socialist tradition which asserts that there is no one model of socialism. Moreover, the progress toward a socialist society is democratic:

... tout an long de cette entreprise à laquelle nous, socialistes, appelons le peuple français, c'est lui qui sera jugé. C'est de lui que le socialisme tirera sa victoire. Nous n'en voulons pas d'autre. 20

The crosscutting currents within the PS included the radical Ceres wing as well as the more moderate Rocardians who were committed to a market model of economic policy. Although the PS was home to many different groups, two major trends can be discerned which were at odds with each other, even throughout the first two years of the Socialist government. These were two themes characterizing the two major anti-capitalist wings of the party. On the one hand there was the group
favoring autogestion; on the other, those favoring a rupture avec le capitalisme.

Autogestion has a long tradition in the Étatiste conception of socialism. Mitterrand himself defined it thusly in 1970:

L'autogestion est notre perspective parce qu'elle suppose la pleine responsabilité du travailleur, donc sa pleine éducation et sa pleine information dans un système où il sera libéré de l'oppression économique. Evidemment l'autogestion est une affaire de longue haleine et ne se décrète pas. Elle sera le fruit d'une politique qui devra mettre en place un formidable dispositif. Mais il est bon d'affirmer tout de suite la tendance et de faire comprendre et admettre que le citoyen de l'économie a autant, sinon plus, de raisons d'être que le citoyen de la politique.  

The "new" PS, however, created in 1971, did not detail the concept of autogestion, stating only that

le Parti socialiste qui ne sépare pas le concept de la démocratie économique du concept de la démocratie politique fait sienne la revendication des travailleurs pour décider de leur travail, de
son produit, de leur vie sous tous ses aspects. Il estime que l'autogestion est la finalité de la société socialiste dans la mesure où cette finalité signifie la disparition des classes antagonistes, l'abolition du prolétariat, l'instauration plénière de la démocratie.22

The perspective of altering capitalism through autogestion was a constant theme for the PS in the 1970s. During the same period, however, pressure from Ceres mounted for a policy of a rupture with capitalism. This, too, was not a new theme in the history of French socialism. Mitterrand had examined the possibility as early as 1970 for "une stratégie globale de rupture,"23 and in a unanimous resolution adopted at the Party Congress in Epinay in 1971, the PS declared:

la classe ouvrière prend de plus en plus conscience qu'elle ne se libérera que par une rupture totale avec ce système exploitateur qui ne peut lui-même maintenir sa domination que par un recours de plus en plus fréquent à la répression.24

In fact, the debates and strategies of the 1970s aside, the left in power proposed only an enlarged
 shaky and did not follow a coherent strategy resembling any single formula promulgated in the 1970s.  

Clearly, these various perspectives, along with the expansionist policies pursued in the first two years of Socialist rule, made more difficult the recognition of economic reality. The left suffered from what one observer has termed le mirage de la croissance. But this mirage was the covenant that held the left together: the idea of questioning the basis of capitalism, of reforming it, or breaking with it completely under Socialist rule infused the left with a vitality in the 1970s that was noticeably missing after 1981, when theory and practice diverged radically.

B. The Nationalizations

Mitterrand achieved his victory over Giscard in May, 1981, for a variety of reasons, but certainly the bleak economic outlook played a significant role. Giscard had difficulty convincing voters that his version of austerity was the way to future prosperity. Inflation was over 13%, well above the average for France's major trading partners, and 58% of French voters expressed dissatisfaction with Giscard's economic policy. The experience of numerous scandals during Giscard's tenure, and the President's seemingly haughty disregard for the politics of the election (until the eleventh hour) helped
bring about Mitterrand's rather rapid and convincing victory. 28

The advent of the Socialists coincided with the realization that, following the second oil "shock" of 1979, the period of steady growth would not return. Persistent problems were already evident to Giscard and Barre by 1980; it was clear by then that the economic and industrial problems confronting France were structural rather than conjunctural. The question the Socialists faced in 1981 was whether the French economy was strong enough to withstand world economic stagnation and still remain a major industrial power, in the same league with the United States, Japan, and West Germany, or whether France faced a long-term decline to the second rank along with Britain and Italy.

The Socialists reasserted the Gaullist precept that the state can and must influence the response to this question. An underlying tenet of the Socialists philosophy is a belief in the efficacy of the state, not only as an inciter of economic growth, but as an alternative to private investment capital. Enlarging the scope of state control is fundamental to achieving the chief Socialist goals of redistributing economic growth and equitable control of the producing sector of the national economy. Private capital investment, for its part, should be channeled by the State toward priority sectors and not be permitted to shape economic
priorities. Investment capital ordinarily seeks out profitable returns, not necessarily in the interests of the state. Investment decisions that represent the collective sum of self-enriching transactions by private investors are not an appropriate means by which to guide the economy. The state, then, in a medium-sized economy like France, possesses the requisite financial, economic, political, and social information to conduct a successful economic and industrial policy. It should therefore control the resources not only to make decisions but to implement them as well. By controlling the major industrial and financial groups, the state can leverage its influence to bring that part of the economy outside state control into harmony with economic priorities.

To gain the leverage appropriate to their political ambitions, the Socialists introduced two major reforms immediately after the 1981 victory: decentralization and nationalization of major industries and banks. Decentralization was a reform intended to give greater political (and to a limited extend economic) autonomy to the regions of France, traditionally subject to centralized control from Paris, and I will therefore not deal with it here.

The nationalizations, on the other hand, represented sweeping economic reform that aimed to alter fundamentally the balance between the state and the economy. To a large extent the passage of the
nationalization bill was meant to demonstrate the government's commitment to deep change and it was to be proof that French Socialism in power would differ from social democracy. With the revisions related to compensation of shareholders in firms on the nationalization list, which the Constitutional Council had ordered after submission of the bill to the Council by the parties of the right for a review of its constitutional status, the nationalization bill was passed by early 1982. The effect of the measure was to bring industries employing 834,000 people under state ownership along with some 36 banks. About 16 percent of French GDP would be produced by public enterprises.

Although the nationalization bill was rapidly pushed through the National Assembly, the rationale for nationalization of the particular companies and banks chosen was never entirely clear, and the definition of their future role and operation was left open until after the passage of the bill itself. Nationalization had originally figured in the Programme Commun as the price of Communist support, and formed one of the "110 theses" of Mitterrand's 1981 campaign platform, but the nationalization measures fell short of transforming the mixed economy of France into a Socialist one. By and large the nationalization seemed to be a result of tactical considerations rather than philosophical ones. Attempts were made post-facto to define the role of the
nationalization firms in the French economy, but even when one examines the **Interim Plan** of October, 1981, one finds only general definitions of the role the companies are to play in the Socialist program.

The nationalization program constituted the most radical reform the Socialists implemented, but that radicalism was attenuated by subsequent economic policy. It seems clear that the nationalizations were Mitterrand's repayment of debt to the left elements of his party, particularly the Ceres group, led by Jean-Pierre Chevènement. Unlike some of their colleagues who argued that a Socialist program must be deferred until recovery, Ceres argued the opposite. The crisis puts increased pressure on Western societies, especially social democratic countries. Social democracy has merely tided over capitalism and helped engender the crisis. Conventional economic solutions are simply inadequate. Only the transition to **autogestion**, i.e. self-managing socialism, Ceres argued, would provide the structural reform necessary to undermine the capitalist world system. To attain the goal, an irreversible break (**la rupture**) with capitalism must occur. For Ceres, the role of the state in this break is critical. The 1972 **Programme Commun** staked much of its economic strategy on nationalizing key sectors of the economy to ensure a basis for national planning. Ceres was very attached to this strategy, as the public sector would accomplish two
important priorities: (1) it would give the state a minimum of independence from the constraints of the world economy; (2) it would serve as a pilot area where new forms of workers' control could be introduced. A nationalized public sector would speed up la rupture.

There is of course the implied contradiction in this analysis between the state, on the one hand, as economic manager, and the demands of self-managing workers on the other. The Ceres solution was to argue that the only way to begin to approach this problem is for the state to seize the commanding heights of the economy and use this power to meet the demands of autogestion. The state is the central focus in the transition from capitalism to socialism. Links to the world economy, such as those of the EEC, tie France to the crisis of capitalism and should be severed. In this sense, Ceres clearly advocates a policy of "socialism in one country" if necessary.

Autogestion was probably not the ultimate goal of Mitterrand and other socialists like Rocard in advocating the nationalizations, although gestures in this direction were made after the nationalization bill passed. But the nationalizations favored the aspirations of many groups in the socialist left, and portended the rompre avec le capitalisme that Mitterrand promised in 1980. The nationalizations were presented as the way out of the crisis.
C. The "Project Socialiste" and the Reasons for the Nationalizations

At the Congrès de Créteil in January, 1981 at which Mitterrand was designated the presidential candidate of the PS, the electoral campaign opened with a manifesto entitled 110 propositions pour la France. Point 21 stated:

Le secteur public sera élargi par la Nationalisation des neuf groupes industriels prévues dans le programme commun et le programme socialiste, de la sidérurgie et des activités de l'armement et de l'espace financées sur fonds publics. La Nationalisation du crédit des assurances sera achevée. 30

The nationalizations constituted the central element of the Socialist programme. No one really believed that the government would go as far as it claimed it would, but in the face of a vociferous campaign against the nationalization bill from the right, the program was implemented as promised. The nationalizations could have been effected through a series of decrees and been implemented more rapidly. But the cautious route was chosen--legislative enactment through normal parliamentary channels. The result was to carry most of French
public opinion and to leave the opposition casting about for ways to block the programme. The transparent manner of the implementation of the nationalizations favored the government and reduced opposition to the reforms. In any case, the clear hold on parliament gave the government the confidence to press for the bill. The public sector was increased considerably by the nationalizations. 31

The idea of nationalization constituted the core of Socialist thought. The tyranny of capitalism, private property, and private monopoly would end once the government transferred ownership to the state. Enterprise would be run for the common good. Two passages from Changer la vie and Projet Socialiste clarify this commitment:

. . . lorsque la propriété devient si importante, si dominatrice que ceux qui la possèdent déterminent par là un immense pouvoir, il y a danger. . . . C'est la raison pour laquelle le parti socialiste propose d'arracher aux monopoles l'instrument de leur pouvoir et transfert les grands moyens de production du secteur privé au secteur public. 32

Libérer les travailleurs de l'exploitation qu'ils subissent, libérer les consommateurs des normes et des prix que la loi du profit impose,
libérer la puissance publique du diktat du grand capital, libérer enfin le marché du poids des entreprises qui exercent un monopole dans un secteur clé. Les nationalisations ont pour objet de répondre à ces exigences.

Both these statements seem to convey the idea of étatisme as opposed to worker's control - the syndical/anarchist nineteenth-century rationale for nationalization. A new role for the state is implied as new goals are assembled to construct a modern industrial policy.

Mitterrand, four months into his presidency, provided a remarkable definition for the nationalizations summarizing eloquently the basis for the nationalizations and at once putting into question that rationale:

Plus d'un siècle et demi après le développement du capitalisme en France, les phénomènes d'accumulation et de concentration du capital, de la multinationalisation du capital dans le monde, me conduisent à considérer comme juste et nécessaire qu'un certain nombre d'entreprises devenues des monopoles ou tendant au monopole et fabriquant des produits nécessaires à la nation soient nationalisées, fassent corps avec la nation; qu'elles ne disposent pas d'un pouvoir économique, et donc politique, qui leur permette
de se prévaloir sur les décisions de l'intérêt général, et pas davantage, ayant aboli toute concurrence national au-dessous d'elles, d'être maîtresses du marché. Voilà une première déclaration. La deuxième est que—si je pense que ces nationalisations nous donneront les outils du siècle prochain et des vingt dernières années de celui-ci—si cela ne se faisait pas, loin d'être nationalisées, ces entreprises seraient rapidement internationalisées. Je refuse une division internationale du travail et de la production décidée loin de chez nous, obéissant à des intérêts qui ne sont pas les nôtres. Nous ne sommes pas un pion sur l'échiquier des plus puissants que nous. Il faut que ce soit clair: les nationalisations sont, pour nous, une arme de défense de la production française.\textsuperscript{34}

Monopolies producing essential goods for France must be nationalized to avoid outside economic and political predominance. Monopolies clearly subvert the general will, unless run by the state in the national interest. These same monopolies have quashed competition. But will competition be restored when the state has control? Here, Mitterrand is silent.
Mitterrand is also saying that unless the state undertakes to nationalize these industries, French control will be rapidly undermined through foreign investment thus giving other countries the dominant role in French markets. An international division of labor which does not permit France to control her own productive facilities is unacceptable. France will not be a pawn. The way to remain a player, or a major piece on the board, is to put the full weight of the state behind French industry. The bureaucratic cavalry of the State will stave off the international warriors encircling the Hexagon: the nationalizations are one way of defending French production.

But the nationalizations are only a first step in an offensive battle. Continuing Mitterrand's chess metaphor, once the defensive array is in place, France will play a gambit designed to open up the international trade board. Through technological progress, and by meeting the multinationals on their own terms in the global marketplace, the coherence provided by a unified industrial strategy will restore French industry to the ranks of important players.

Monopolies are acceptable as long as they are state monopolies; market domination is defensable as long as the state makes the choices. The state is not subject to the logic of profit, and the conduct of national economy will not be guided by private investment decisions.
Alain Boublil, perhaps the major theoretician of the nationalization program, advanced three major reasons for undertaking it. First, the international division of labor is transforming the French economy. Because of the internationalization of capital, control over key enterprises could slip from national control. Nationalization conserves for the nation the means to control its own economic destiny. Second, the nationalizations can aid in overcoming the crisis. The mission of the nationalized industries could be twofold: to contribute to a resurgence of investment and therefore to the creation of jobs; and to modernize the productive base and contribute to a recapturing of the domestic market. Third, the nationalized industries would offer a place to experiment with new social reforms to create new programs and incentives for workers, to serve as a model of worker-enterprise relations.

At bottom, the Socialists argued that:

Nationalizations would make it possible for the French government to go against policy trends prevailing in the international environment, to bet on growth and dynamism while other governments and economies retrenched and deflated.
Given the policy goals of the Socialists, the nationalizations appeared as a reasonable way to begin to reorient the productive sector. But in fact, economic logic had little to do with the nationalizations for, as I have attempted to show, the nationalization program was the thread binding together the left throughout the 1970's. Different elements of the party had differing stakes in the nationalizations, but in the end the bill was the payoff for unity. No clear idea of how the newly nationalized companies would actually fit into a socialist industrial strategy appeared before or after the law of 13 February 1982.

The initial appointment of Pierre Dreyfus as Minister of Industry showed that the Socialists had goals little different from previous governments. Dreyfus clearly believed that the Renault model for nationalized firms was the valid one.\(^{37}\) Significantly, however, Dreyfus was replaced by Chevenement shortly after the nationalization bill took effect, and the new minister of industry and research and Ceres leader set out to define a new role for the nationalized firms.

The Socialists took power accepting a sort of *impératif industriel* which compelled the nationalizations. One would have thought that a government prepared to bring under public control more than one-third of the nation's industrial base would have had a strategy spelling out the goals for the public sector, but in fact
it was not until late 1982 that Une politique industrielle pour la France appeared, the result of the "journées de travail" on industrial policy in November 1982,\textsuperscript{38} a remarkable document in which the government attempts to formulate a coherent and detailed national strategy for the public sector. In the almost visionary exhortation to the working group at the outset of the conference, Chevènement declared:

Notre objectif est clair: nous voulons reconstruire un appareil de production industrielle capable de répondre à nos besoins, cohérent et équilibré.

Il n'y a pas de secteur condamné, il n'y a que des technologies dépassées. C'est pourquoi il faut moderniser les industries traditionelles, diffuser en leur sein les technologies de l'avenir et non pas se résigner à les laisser disparaître et, simultanément, développer les activités nouvelles qui sont susceptibles, dans les prochaines années, de créer des emplois, de rétablir l'équilibre extérieur, de maintenir la France au premier rang des puissances technologiques et industrielles et d'assurer ainsi son indépendance.\textsuperscript{39}
Chevènement's definition of industrial policy centered on five key points, but he noted that

le rôle du marché et des entreprises privées de taille petite ou moyenne reste prééminent. Le rôle des pouvoirs publics est d'aider ces industries à retrouver ou à accroître leur compétitivité.\textsuperscript{40}

The five "choix stratégiques" which formed the foundation of the "new" industrial strategy were to: (1) reduce France's dependence on external sources of energy; (2) modernize basic industries, such as petrochemicals, paper, and steel. Here the state can intervene directly to restructure firms and control redundancies; (3) promote competitiveness through environmental aids: subventions, research and development, sectoral rationalization, etc.; (4) promote the agricultural sector; (5) promote new technologies.

Chevènement alludes only in passing to the central tenet of Ceres theory, \textit{autogestion}. Once certain limited reforms were in place such as a gradual reduction of the working week to 35 hours and a fifth week of paid holiday, \textit{autogestion} receded as a serious concern of the left.

An enlarged public sector was the Socialist response to the crisis of capitalism. Interestingly, although the
crisis was considered by the Socialists to have been caused by the oil shocks and the conjoncture internationale, the Socialists response was to try and reform the domestic order. Although the crisis had objective causes, the immediate causes were the policies of Giscard d'Estaing which had led to inflation and unemployment, which favored profit over jobs. The causes of the economic troubles of France were not cyclical or temporary and therefore susceptible of policy adjustments. They system had to be changed, even replaced if necessary. To transform the state would be to transform the economic logic of a failed capitalist model.

The nationalizations constituted, then, the structural change to achieve this end. They responded to a political goal, the compromise between the marxist appropriation of the means of production and the Socialist view that an enlarged public sector would become the engine of recovery.

Socialist policy preferences clearly derived from an analysis of the place of France in the global order, but unlike Giscard, Mitterrand did not initially adopt an offensive international strategy. The strong pull of domestic economic isolationism temporarily overcame the Giscardian commitment of inserting France into the international system. The failure of the Socialist's strategy was due to France's strong interdependent links
to the global order. The attempt to shelter the industrial economy of a major European economy from world markets did not work.

It is important to note, however, that the hope of recovery for the French economy, according to the Socialists, was the expected upturn in the world economy. The expense of implementing their goals would be counterbalanced by the strong offensive position French industry would be in once world demand picked up after the recession. Contradictory or not, the initial industrial strategy of the Socialists derived from the nature of the international structure, and thus placed itself squarely in the Gaullist tradition of state-led international expansion.

D. Modernization

External factors constrained Socialist industrial strategy, but not exclusively; changes in the situation of the party itself were important. In 1972 the French left was more or less united on an anti-capitalist strategy. The programs of the gauche unie, the proposed reforms, the hopes of the left, all turned on the failure of liberal capitalism. Some of these programs and ideas were put into effect in 1981. The disruptive element of their plans was that, eventually, the capitalist
structure of production and finance had to be reckoned with if socialist programs were to advance. That is, capitalist measures had to be used to further socialist goals. The major difficulty was that, in 1981, capitalism was in crisis.

Fundamentally, the program implemented by the left in 1981 was far from the famous rompre avec le capitalism promised in 1980. Recovery through a combination of consumer demand and a program of industrial modernization in order to restore competitiveness was not the radical approach envisioned by Ceres. The left in power in 1981 was not the unified left of opposition. By placing such diverse personalities as Chevenement at Industry and Delors at Finance, the fissures of the radical Programme Commun of the 1970's had developed into major structural cracks in the architecture of change. The anticapitalist strategy was simply abandoned at the level of industrial strategy.

The left discovered that they needed capitalism, the alternative being a complete étatisation of the national economy. Thus, the Socialists' program became openly a liberal democratic approach, completing the transformation of the party from the radical partner of the PC in the Programme Commun to a party of governance, firmly ensconced in a world capitalist economy.

To cope with their new role as defenders of the social democratic order, the Socialists moved industrial
strategy along a road that they begun to call "modernization." This was a new and different approach from the Giscardian industrial strategy of specialization. Modernization was a commitment to produce throughout le tissu industriel the most modern products and to use the management techniques associated with modern production. Modernization meant that the Socialists rejected the international division of labor that Giscard had defined as "specialization:" that in order to compete globally, French industry should specialize in selected areas of strength, and leave to other areas of production where industry could not profitably compete. The strategy of modernization rejected the idea that French industry should concentrate on high technology goods such as computers, electronics, and so on, to the detriment of traditional industries that might temporarily be experiencing a weak competitive position in international trade. Once the nationalizations were in place, and well into the period of the austerity plans, the government began to search for a strategic policy for industry that would go beyond the Barre-Monory-Giscard approach of the 1970's. The strategy defined by Giscard and implemented by his prime minister and minister of industry centered on a policy of creating a macroeconomic environment that favored industrial adaptation through such means as deregulated price structures, a higher exchange rate, and acceptance
of the international division of labor, on the one hand, and selective intervention in certain "industries of the future" on the other. This "liberal interventionism" was rejected by Mitterrand because it ignored entire sectors and failed to provide a sufficient analysis of the underlying structural weaknesses of French industry itself.

Secondly, the lessons of the first two years of Socialist industrial strategy experimentation could, by 1983, be drawn. Two years of active state intervention in various sectors failed to revivify French industry. The Socialist approach in the first two years targeted all sectors for improvement through state action, an approach that came up against, among other things, budgetary limitations. The lesson of this broad based approach was that the state could not act unilaterally to bring about industrial change. Rather, there must be a specific focus on the enterprise itself, not just on the sector, and the state must become an active partner with the firm, not the main instigator of change. Under modernization, a balance could be struck in 1983-84 between sectoral intervention, partnership with the firm, and the maintenance of a favorable industrial environment.41

Why did the Socialists ultimately choose a strategy of modernization? First, the choice was rooted in the
Socialists' analysis of "the crisis" and their views on how France could "faire sortir de la crise." For the PS, the crisis was considered a structural transformation of not just the French economy, but the world economy. The Socialists did not believe, however, that this structural transformation was a movement toward a "post-industrial" economy or an information-based economy that would justify concentrating state aid on high technology industries exclusively. The PS analysis explicitly rejected this. Traditional industries, with standard production methods, would remain at the core of the industrial sector. The case of the French steel industry clearly demonstrates how the Socialists moved from a dirigiste approach to one based on modernization.42

When the price of petroleum began to rise dramatically in 1974, the steel industry found itself faced with two crises, one cyclical, the other structural. The cyclical crisis resulted from the slowdown in the world economy; the structural crisis stemmed from a variety of factors, commonly summarized in the phrase, "excess capacity." In the face of excess capacity, French producers could either maintain prices, and thereby lose out competitively, or lower prices, in which case they would still lose money.

From 1974-1978, the state followed a countercyclical policy, which did little for the underlying structural problems. By 1978, capacity utilization had dropped to
60 percent, while the ratio of debt to sales had risen to 115 percent.\textsuperscript{43} The state began to impose some structural reform, but state action related mainly to financial measures: the state assumed roughly one-half of the medium- and long-term debt of the industry and converted some of this debt to equity, replacing several of the old financial holding companies (Denain-Nord-Est, Wendel-Sidelor). Early retirements were financed by the state, while regional investment to create new employment was promoted through the Fonds Spécial d'Adaptation Industrielle (FSAI). Steel production began to be concentrated in two companies: Usinor and Sidelor.

After the oil shocks of 1979, the Commission of the European Communities invoked Article 58 of the Treaty of Paris and declared a "manifest crisis" in steel, and subsequently began to regulate the industry. The EC policy, known as the Plan Davignon, imposed production limits on the European steelmakers, and encouraged mergers, joint ventures, product innovation, and specialization. A trade association, EUROFER, was established at the Community level to regulate compliance with the restructuring plans.\textsuperscript{44}

The Socialists devised two plans for steel, one in 1982, the other in 1984. The 1982 plan granted broad managerial autonomy to the firms of Usinor and Sidelor, and mandated a modernization and rationalization of production. Twelve thousand jobs were to be eliminated
and certain plants closed. Yet production quotas were not strictly enforced, nor were plants in the Lorraine closed altogether. By 1983, losses in the steel industry amounted to FF10 billion a year, as compared with FF4 billion in 1981. The March, 1984 plan recognized the importance of the ability to compete. If plants were poorly located (as with speciality steels at Fos-sur-mer), or specialized in outmoded products (as in the Lorraine), or technologically backward, even modern plants would be closed and layoffs allowed to rise. Investment would be concentrated at the most efficient plants likely to be able to compete globally. 45

The managerial autonomy granted to the steel industry and the focus on the competitiveness of the industry in the 1984 plan are signposts of the distance traveled by the Socialists from 1981 to 1984.

The second reason the Socialists adopted a strategy of modernization derived from their view of France's place in world trade, and here their foreign economic policy placed them squarely in the camp of traditional Gaullist foreign policy. The idea of national independence is linked to industrial independence. Although high-technology industries and products would play an important role in industrial independence, a balance must be struck between these industries, and traditional industries and industrial products such as leather, textiles, and chemicals. The industrial economy
should not come to rely too heavily on certain sectors singled out for special government treatment.

Thirdly, the notion of intersectoral interdependence was the key to efficient industrial performance. A properly coordinated production system would lend a necessary coherence to French industrial strategy and render French industry more competitive. Domestic demand and domestic markets are closely related to international markets. An integrated industrial structure is evident in Japan, West Germany, and, to some extent, in the United States. The Socialist government after 1983 saw as one of their main tasks the achievement of this type of integrated market structure.

Yet two problems obtained: the effects on the balance of payments of a policy of modernization, and the scale of French industry. As for the first, an attempt to reconquer the domestic market required control of imports, i.e., control of demand elasticity. But this alone was not sufficient, thus an austerity policy had to be imposed. In the second case, it was questionable whether French industries had achieved the scale necessary to compete effectively with Japanese, American, and, in some cases, West German firms. Firms, especially in the nationalized sector, were often undercapitalized, and the operation of the Paris bourse did not encourage raising capital apart from the traditional methods of autofinancement.
Finally, as the Socialists to their chagrin discovered, a modernization strategy was no guarantee of job creation. One French economist estimated that 20,000 employees in the industrial workforce per year would lose their jobs through 1987.47

Three projects of Socialist reform were at the forefront of the campaign to break with capitalism when Mitterrand assumed power in 1981: the reestablishment of planning; the nationalizations; and new rights for workers. By 1984, however, Mitterrand had broken substantially from all these things and had announced that the mixed economy had become the basis of his policies. The notion of modernization replaced the idea of a break with capitalism.

In fact, almost from the time the nationalizations took effect, the policy of the Socialists moved toward the creation of a mixed economy. The nationalizations were undertaken as a break with capitalism, but from the beginning state control over gestion was relinquished. Thus, the principal tools of a "new" industrial strategy, the nationalized firms, were almost at once subjected to the effects of the market; the logic seemed to follow Giscard's, with the only difference being that the state now commanded ownership of the major industries. After assembling, then, a formidable array of industry and finance, and melding upstream and downstream operations with state guidance, the Socialists eventually came to
focus more and more on one aspect of their original program: modernization. The rise of modernization as the guiding force of French industrial strategy levelled the other concerns of the left: *autogestion*, social transformation, reduction in working hours, and the like. The logic of modernization returned the Socialists to the rules of profit and of innovation in order to compete effectively.

The Socialists promised a total transformation of society, an all-encompassing reform of society from top to bottom. Jacques Attali, the chief intellectual dilettante of the PS, and later chief economic advisor to President Mitterrand, wrote:

"Le socialisme, c'est la fin du règne de la marchandise, c'est-à-dire la suppression du marché, l'appropriation sociale de tous les moyens de production, l'autogestion de toutes les organisations, la décentralisation des institutions politiques, la suppression de la division du travail." 48

In coming to power, the left was held together by this vision, or more properly by the critique of capitalism they shared and the series of social, moral, political, and economic transformations that would replace it. But after grappling with a no-growth,
inflationary economy, an external deficit, and a set of problems in basic industries, the left began to fragment. From the beginning Mitterrand's cabinet was a mixture of PC and Ceres radicals, mainstream PS moderates (Mauroy, Rocard, Cresson), and those who were so moderate as to be on the extreme fringes of the party, like Delors, who was placed in the important position of Minister of Finance and Economy.

From the 1980 goal of a "rupture avec le capitalisme" Mitterrand would say in 1984:

En réalité, nous avons mis en place une société d'économie mixte où cohabitent, par définition, secteur privé et secteur public.  

The patronat were no longer a class of exploiting capitalists, but became partners in modernization. The Ninth Plan 1984-1988 focuses on competitiveness, the promotion of exports, and furthering the integration of the French economy with international economy. Nationalization was the primary anti-capitalist measure taken by the Socialists, but the nationalization bill hardly advanced a new logic of production. One major illusion of Socialist industrial strategy in 1981 was the idea that France could go it alone and achieve growth in a recessionary world economy. They violated thereby one of their own maxims, "La croissance ne se décrète pas."
Thus, the industrial strategy of the Socialists has shifted in two ways from its initial formulation. First, the PS came to power with the announced intention of creating an economy of growth. In fact they created an economy of austerity. Second, and perhaps more fundamental, the left arrived in power, pledged to break with capitalism. While in power, and particularly under Fabius as Minister of Industry then as Prime Minister, they came to advocate competition and entrepreneurship.

What lay behind these changes was the Gaullist goal of French prestige in the world. Mitterrand simply refused to accept that France might become a second-rate power, and the evolution of his economic and industrial policies reflected the determination to avoid that. Mitterrand throughout his career has never been a committed ideologue; he has shifted pragmatically when circumstances demanded it. He conceived his political mission, in the final analysis, to be the building of a greater France and not necessarily the achievement of a socialist economy.

The nationalized companies, which were to be the lance de fer of the break with capitalism, were caught between capitalist markets and étatisme. They were subject to a market logic of profit and efficiency, but also to the decisions and guidance of the state, in essence becoming privileged instruments of industry. They were caught between the market and the state, i.e.,
between national goals and international competition. That had been their lot since at least the advent of the Fifth Republic, subjected, as they were, to a strongly organized state committed to a transformation of the French economy.
CHAPTER SIX

CONCLUSION: CONTINUITY AND CHANGE IN STATE
INDUSTRIAL LEADERSHIP

One of the achievements of the French state in the postwar period has been to make internationally competitive industries the reference point of national economic policy. Industrial strategy has largely come to ignore other policy areas, such as full employment, in favor of the industrial imperative. The commitment that began under Barre and continued under Laurent Fabius was to promote the profitability of French firms competing abroad. This meant abandoning instruments of state intervention such as price controls and also tolerating rates of unemployment that were previously thought unacceptable. State industrial strategy became more highly selective while attempting to retain a consistency of public action.

The theoretical origins of the "new" industrial strategy are to be found in the "Nora Report" published in 1967. It stated:

Whenever possible, the government should delegate tasks. Thus let someone else do it,
rather than trying to do everything itself. Economic centralisation does not lead, as many seem to believe, to stronger government power. On the contrary, centralisation dilutes power. A government that merely guides the economy is better than an administration paralyzed by the proliferation of its activities.

Giscardian industrial strategy implemented this recommendation by proliferating quasi-state agencies to funnel funds to lame-duck firms and to firms in need of restructuring, while focusing the efforts of the executive on the support of selected industries of the future. Under Mitterrand, this tendency has continued, with the clear trend toward running state enterprise like private enterprise, subjecting firms to the laws of the marketplace. While selected firms continue to have privileged access to state funds, profitability has become a major criterion of access. The privatization policy of the current Chirac government is merely an extension of this logic. The difference between state ownership and state influence is one of degree, not kind. Ownership of firms may shift, but control will not.

The key factor in the capacity of the state to carry out its industrial strategy is the presence or
absence of national champion firms. Where such firms already exist, the government must essentially "sub-contract" the implementation of its policies to them, with the state providing financial assistance to the firms. As large firms grow and become profitable, they begin to slip the grasp of the state, and their own strategies come to prevail over the goals of the state. The policy of creating national champions carries the seed of its own demise: once these firms reach the scale of global industrial power, they in fact become multinationalized, and their own strategies begin to compete with the strategies of the state. The sole instrument available to the state (and it is a relatively powerful tool) to retain a modicum of control is to limit foreign ownership of the firms.

French industrial strategy has been a process of learning by the state. As secular trends in the domestic and international economies came to exert a predominant influence on the scope of national policy state strategy shifted, becoming less broadly ambitious, and more selective. Consequently, state industrial strategy under the Socialists became more amorphous and less easily identifiable. Additionally, the view expressed in the Nora Report, that the state can retain its autonomy in the area of industrial management only by acting as strategic planner and not as gestionnaire, came to exert a strong influence in
the Giscard period, reemerging in the modernization strategy of the later Socialist government. In fact, with some detours and dead ends along the way, the state has become more and more concerned with creating an economic climate favorable to industrial investment and the operation of the market.

One apparent lesson to be drawn is that state intervention is not remarkably effective when market forces are strong and changing rapidly. State strategies must shift with changes in global competition. The industrial strategy of national champions that has been the core of French political economy for over two decades may be gradually eroded by new competitive conditions, among them the nature of high-technology marketing and competition from NICs such as Korea. The French state has intervened successfully to promote the competitive positions of some companies, but it has been less successful in developing entrepreneurial industries that are characterized by flexibility in the face of shifting market conditions.

In terms of Ikenberry's model of state adjustment strategies, France has pursued a mix of offensive and defensive strategies. Within the EEC and with its former colonies, the French state has sought to structure international agreements advantageous to its industrial development. It has aggressively sought
industrial, trade, and economic arrangements consistent with its export strategy. On a broader international level, however, where it possesses less control over the international environment, its strategy has been to pursue a combined offensive-defensive strategy designed to promote multinationalism and exports.

There is a clear and consistent pattern underlying French industrial strategy in the postwar era, and this examination reveals a strategic set of state goals for industry that remains more or less constant over time. The agenda of the French state has been to transform and modernize an underindustrialized economy. The primary method used by the state has been its capacity to define and shape economic choices through control of the political agenda. By equating the modernization of French industry with the strength and glory of France, the state promoted a political consensus that bolstered the goals the modernizing bureaucrats advocated.

Gaullism is clearly the crucial political link between developments in the economy and society, and it is under the Fifth Republic that the role of the state as the primary agent of structured change is enhanced. De Gaulle's promotion of France's foreign policy mission of independence, and the achievement of a consensus on economic growth and political norms, lay at the core of French modernization. In pursuing their self-appointed task of modernizing the French state,
the Gaullists were concerned above all with establishing institutions which were autonomous.¹ Their critique of parliamentarianism was essentially that the Third and Fourth Republics had been too divided and weak to control production and international functions which the state needed to operate in a complex world economy. Only the reform of the state itself could provide the engine of economic growth and national independence.

While instituting these structures in the Constitution of the Fifth Republic, Gaullism achieved a position of political dominance through the electoral victories of 1958 and 1962. In attempting to reform the state while retaining political legitimacy, Gaullism, as the dominant political party during the transition to the Fifth Republic, was the key transmission belt between the processes of economic modernization and the political institutions of the state.

Gaullism was partially eroded under the Giscard presidency, but the role of the state also changed in becoming less planned. Giscard's era marks, however, the maturation of both state power and the state's role in shaping the industrial environment. The logic of Gaullism—that France should be a player in the global game and not a bystander—was translated under Giscard to an interdependent internationalism, which meant that
France's industrial competitiveness would now be linked irrevocably to the world economy. De Gaulle was an internationalist partly because of the difficulties a medium-sized economy faced in developing complex technology without a sufficiently large domestic market to support it; products, particularly armaments, had to be sold abroad.

State industrial leadership, such as that exerted by the French state, requires a concentration of financial and economic power, and a strategy around which to organize investment, industrial structure, and production. First through state planning, then through an industrial policy formula, the state provided this strategy. The creation of the Fifth Republic with its strong executive insulated the administrative elite from direct political pressures in devising and coordinating an industrial strategy. It was within the state bureaucratic structure that a strategy of state adjustment was formulated. Stoleru's formalization of this strategy in *L' impératif industriel* marked a turning point: Stoleru defined the theoretical underpinnings of industrial strategy under De Gaulle, while adumbrating the selective interventionism of Giscard.

Under the Third Republic, the state had been too weak to control the fundamental direction of economic policy. In the Fourth Republic, special interests
threatened to undermine economic and industrial modernization. Through a process of elite transformation, and the institutionalization of the technocratic state in the Fifth Republic, the state inscribed its policies in the culture of business. Once a partnership was formed between the state and big business through shared economic values like competitiveness and modernization, the state was able to control the political agenda for industrial change. To trace the pattern of industrial strategy in the Fifth Republic is to follow the development of the state itself. In this sense, the alternance, that is the coming to power of a party of the left for the first time within the framework of the Gaullist state, marks the penultimate stage in the political modernization of postwar France. The final step in this process is occurring now with the experiment in cohabitation. The possibility of two opposing camps sharing power could only occur under conditions where each shares with the other a set of core values concerning the economy. Certainly, ideological divergence and political strategies make a difference in which methods will be used to guide French industry, but the central commitment to modernization among the state elite contributes in an important way to policy continuity.
The state is the instrument through which elites in the Fifth Republic have disseminated their goals throughout French society. The CGP was designed as a state agency to bring together elites committed to a particular vision of French industrial development. When this vision was institutionalized in the structure of the Fifth Republic, the state could emerge as a powerful coordinator of industrial strategy. The CGP was the legitimating agency of the new elites who were gaining control over the levers of state power. As Hall notes:

In some respects, the planners . . . were able to promulgate a strategic vision of the potential implicit in the French economy. In Monnet's words: "Les gouvernements changeaient, nos idées s'incrustaient."²

Giscard undermined planning in order to remove pressure on state finances from aid-dependent firms, thereby shifting pressure for economic results from the state to the firms themselves. His policy was to strengthen the resources of firms through price decontrol, further weaning them from state aid resources. But behind this strategy important continuities between new and old approaches endured. Behind the liberal rhetoric of the Giscard/Barre
regime, huge sums were still being channelled to firms from state resources. In 1978, almost two years into Barre's policy, approximately 20 billion francs of public funds, worth 2.7 percent of GDP, were spent on industrial aid.

The bulk was sectoral aid: 36bF to steel, 3bF to aeronautics, 16bF to computers, 16bF to telecommunications, 1.5bF to shipbuilding. A special 3bF fund was established to aid industry in depressed regions; 1bF was spent on research and development; and 6bF went to subsidize exports. These sums indicate that the state still intervened heavily in industrial sectors. The importance of planning declined under Giscard, but France still carried on a state-led industrial strategy.

The coming to power of the Socialists allows at least a provisional judgement on whether the course of French industrial strategy has been altered by ideological differences between regimes. There are fundamental continuities from De Gaulle to Mitterrand, but it is difficult to see what is particularly "socialist" about Socialist industrial strategy. However, by the time the Socialists came to power, France was too integrated into the world economy to permit any government to set an independent course. The influence of the international environment became more pronounced in the 1970's, and the ill-timed
implementation of the Socialist's economic policies was disrupted by a persistent global recession. Broad continuities in industrial strategy survived this period, and the French state remained committed to an étatiste industrial strategy. The realization of the policymakers of the industrial imperative that international competitiveness should be at the core of French industrial strategy rather than a simple emphasis on growth resurfaced as the key to Mitterrand's industrial strategy with the appointment of Fabius as prime minister, thus definitively resolving the conflict in the Socialist Party between autogestionnaires and étatists in favor of the later. As Hall states:

The Mitterrand years revealed the extent to which even a Socialist regime with a firm mandate is constrained by the international economy and the existing organization of society. As the government ran up against economic constraints that derived from its insertion into world markets, it faced the difficult choice of adapting its strategy to the operating market forces or of moving down a more radical path than anticipated. In this unenviable position, it chose the former.\textsuperscript{4}
French industrial strategy in the postwar period appears to suggest evidence for what Nordlinger calls "Type II State Autonomy.\textsuperscript{5} The state bureaucracy engaged in aggressive shaping of societal preferences to bring about policy outcomes it deemed desirable. The history of French planning suggests that an interactive state-business learning process occurred that served to minimize societal opposition to state industrial goals. Yet Nordlinger ignores potential constraints on the state from the international environment. Moreover, his model does not allow for the possibility of intrastate conflict over the goals and methods of state industrial policy. Clearly, as I show, the Industry Ministry and the Planning Commissariat are two "losers" in the development of state industrial strategy under Giscard, and therefore they represent two potential sources of intrastate conflict. That the pro-planning groups remained opposed to Giscardian methods is shown by the manner in which they reasserted their existence in the early days of Mitterrand's government. It would constitute an interesting case study to examine who were the "winners" and the "losers" as industrial strategy became more centralized at the level of the executive. If extensive intrastate conflict could be shown to exist over the direction of state industrial strategy, the case for state autonomy would certainly require modification, at least to the extent of
allowing for heretofore unspecified constraints on state power. As Ambler suggests, Nordlinger's model "seeks to factor out such untidy phenomena as intrastate conflict and public-private coalitions, when in fact the essential character of the policy process would seem to be the interaction among elected officials, government agencies, political parties and private interest groups." The case for state autonomy will require further research, case studies, and theoretical refinement before it assumes a permanent place among the important analytical concepts used to analyze the policy process.

At the founding of the Fourth Republic there were no domestic political pressures on the state to modernize, to compete. Indeed, business resisted the notion, small shopowners denounced it, and organized labor opposed it. In an effort to carve a role for France in the emerging international economy, elite policymakers elaborated a set of industrial goals--summarized in the concept of modernization--which have continued to guide French industrial strategy.

Economic growth, industrial development and restructuring, and state power are all political problems. Industrial strategy is one principal way the
French state has adjusted to changing structural constraints in the domestic and international environment while attempting to shape economic policy outcomes. The state competes with other powerful groups in society for legitimacy. Political struggles over economic policy questions therefore always occur, particularly in the context of a modernization policy that acts to dislocate traditional groups. In the French Fifth Republic the state has, so far, retained a measure of autonomy in shaping the direction of industrial development. The idea of a coherent, rational industrial strategy has been created by the state for political reasons as much as for economic ones.

The privatization of large French firms which began in 1985, even before the Chirac government came to power, will probably not result in a disruption of the continuity of state industrial strategy. The pilots of the strategic state will continue to exert some measure of control over French industry. But now that the postwar transformation of the economy and society has been largely accomplished, now that "la France profonde" has given way to "la France du progrès," how will the state define for itself new goals and purposes?
CHAPTER ONE

FOOTNOTES


4 Working largely through Parliament, some groups have been somewhat successful in extracting concessions from the government to protect them from the dislocations of rapid economic change.


Some general categories of industrial policy that could be included are: anti-trust or competition policy; technology policy; regional policy; adjustment policy; direct government involvement in decision-making or ownership; environmental, health and safety regulations, and other regulations aimed at improving non-economic aspects of lifestyles; social policy. This list is not exhaustive, but it does convey the range of options available to policymakers. Moreover, most other economic policies impinge in some way on industry and are therefore factors in the shaping and implementation of industrial policy. See Western Economies in Transition: Structural Change and Adjustment Policies in Industrial Countries, eds. Irving Levenson and Jimmy W. Wheeler (Boulder: Westview Press for the Hudson Institute, 1980), pp. 27-28; 305-306.


Harvey B. Feigenbaum, The Politics of Public


The famous example in 1984 of Japanese video recorders clearing customs in Poitiers, where the two customs officers there were charged to inspect thousands of VCR's piece by piece, is just one example of the way the state continues to protect the domestic market by neo-mercantilist methods.


Suleiman, *Elites in French Society*, p. 266.

Ibid, p. 271.


22 Zysman, Governments, Markets, and Growth, p. 135.


25 A portrait of Thomson SA reveals the extent to which this resemblance has been carried in the 1980's, in "The Pentagon's French Connection" Fortune, December 9, 1985, pp. 137-144.

CHAPTER TWO

FOOTNOTES

1 Andrew Shonfield, The Use of Public Power (Oxford University Press, 1983) p. 18.


4 Nordlinger, op. cit., p. 3.


6 Theda Skocpol, States and Social Revolutions (Cambridge University Press, 1979).

7 Nordlinger, p. 21. It is true that Nordlinger and Krasner differ on the precise definition of the state, with Nordlinger's conception including all public officials from mayors up. Krasner, in Defending the
National Interest, does refer to the state as a set of institutions and roles, and to state behavior as "the actions of individuals occupying certain positions in the central government (pp. 10; 32; 346). In a later article, however, he warns against conceiving of the state as consisting only of individuals, citing Nordlinger and Dahl as cases in point. "Approaches to the State: Alternative Conceptions and Historical Dynamics." Comparative Politics (January 1984), pp. 223-246. It seems to me useful to conceive of the state as a set of institutions, roles, and individuals, and Krasner's distinctions in this regard are not always clear.


9Ibid, p. 5.

10Nordlinger, p. 8.


13 Katzenstein, p. 18.


16 Morse, Foreign Policy and Interdependence in Gaullist France, pp. 22-23.


21 Blais and Faucher, op. cit., p. 33.


26 Nettl continues: "The fact is that this international function is invariant; countries with a low degree of "stateness" in the intrasocietal field have to make special differentiated provisions accordingly . . . . This difference between extrasocietal and intrasocietal problems of control and action is much less marked in countries with a strong state tradition, like Germany or France. Hence, whatever variation we may find in
the degree of stateness in the analysis offered here, and even where the notion of state is very weak, as in Britain and the United States, the effective extrasocietal or international role is not affected."


32 Sharon Zukin, ed., *Industrial Policy: Business and*

33 Kenneth Waltz, Theory of International Politics (Reading, MA: Addison-Wesley, 1979).


39 Charles Tilly closely examined the historical importance of the bargaining relationship and demonstrated that the survival and growth of the state depends on how well the state can use its position as an intermediary between the international and domestic environments to extract resources from society. Charles Tilly, *Big Structures, Large Processes, Huge Comparisons* (Beverly Hills: Russell Sage, 1985).

40 Ikenberry, pp. 8-9.

41 Ibid, p. 10.

42 Ibid, p. 11.


47 Ikenberry, p. 21.

48 Ibid, pp. 24-25.


53 Ibid, pp. 16-18; See also, David A. Lake, Structure and Strategy: The International Sources of American Trade Policy, 1887-1939, Ph.D. dissertation, Cornell
University, 1984; "Beneath the Commerce of Nations: A Theory of International Economic Structures,"
CHAPTER THREE

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5Ibid, p. 127.

6Ibid, p. 131.

7Ibid, p. 147.

8Ibid, p. 156.
9 Zysman, Governments, Markets, and Growth, p. 105.


16 This section is drawn from Zysman, Governments, Markets, and Growth, pp. 110-112.

Ibid, p. 111.


McArthur and Scott, p. 391.


McArthur and Scott, p. 229.

Charles-Albert Michalet, in Vernon, Big Business and the State, pp. 116; 121-122.

J.E.H. Hayward and Michael Watson, Planning, Politics.

Ibid, p. 28.

Ibid, p. 28.


Henry Ehrmann, Organized Business in France (Princeton:


37 Hayward and Watson, p. 94.


39 Friedberg, in L. Nizard, op. cit., p. 94.

40 McArthur and Scott, p. 394.


44 Ibid, p. 61.

Ibid, p. 100.


Ibid, and Jean-Jacques Bonnaud, "Les instruments d'exécution du Plan utilisés par l'Etat à l'égard des

54 Bonnaud, in Hayward and Watson, pp. 101-102.

55 Cohen, "Twenty Years of the Gaullist Economy," p. 244.


59 Ibid, p. 158; Suzanne Berger, "D''une boutique à l'autre: Changes in the Organization of Traditional Middle Classes from the Fourth to the Fifth Republics,"
Comparative Politics, 1, 10 (October 1977), pp. 121-136.


CHAPTER FOUR

FOOTNOTES


2Green, in Ibid, p. 141.


6Lauber, p. 85.

7Charles Albert Michalet, "France" in Vernon, Big Business and the State, p. 117.

8J.C. Dutailly, "La crise du système productif" Economie


14A Marxist analysis, however, might argue that industrial intervention is an attempt by the capitalist state to compensate for the inherent failures of capitalism in order to maintain control over workers by individual capital interests.

15Lionel Stoleru, L'impératif industriel (Paris: Editions


19 Ibid, p. 89.

20 Barre noted in 1978 that 40 percent of all jobs in industry depended on exports. Interview in *L'Expansion*, September 1978, p. 163.

21 Lauber, p. 91.


p. 131.


26 GRREC, op. cit., p. 134.

27 Lacorne, p. 54.


29 Interview with Jean-Louis Servan-Schreiber, Channel One, October 16, 1978; quoted in Lacorne, p. 57.


31 Fortune, "Giscard's New French Revolution: Capitalism"
April 9, 1979, pp. 66-74.

32 The textile and steel examples are drawn from Cohen, "Informed Bewilderment," pp. 3-4.

33 Ibid, p. 5.

34 Lacorne, p. 58.


40 Lacorne, p. 63.


CHAPTER FIVE

FOOTNOTES


2 OECD survey, France 1982-83, p. 29.


7 Ibid, p. 74.

8 Pierre Mauroy, Héritiers de l'avenir (Paris: Le Livre

9Bell and Criddle, Ibid, p. 97.


12The term is drawn from Andrei S. Markovits, ed., The Political Economy of West Germany: Modell Deutschland (New York: Praeger, 1982).


14Roger Priourel, Les Français mystifiés, quoted in V. Lauber, The Political Economy of France, p. 34.


16Programme commun de gouvernement (Paris: Flammarion,
17 Ibid, p. 2.


22 *Changer la vie*, p. 15.

23 *Le Socialisme du possible*, p. 17.


With 51.7% of the vote, Mitterrand's winning margin exceeded that of Giscard in 1974 when Mitterrand polled 49.3%, greater than Giscard's losing total in 1981 of 48.2%.


Press conference, 26 September 1981, quoted in Michel Beaud, La politique économique de la gauche, p. 86.


*Une Politique industrielle pour la France* (Paris: La Documentation Française, 1982).

Ibid, p. 23.

Ibid, p. 23.


The description of the steel sector is drawn from Raymond Levi, "Industrial Policy and the Steel Industry," in ibid, pp. 63-73; Jack Hayward provides a

43 Levi, p. 69.

44 Based on comments by Robert Schanen, retired executive of Arbed Steel (Luxembourg) and special EUROFER envoy to the Italian steel industry; interviews at Usinor, Paris, in January 1984, and at Usinor, Dunkerque in June, 1984.


46 *Fortune*, October 14, 1985, p. 158.

47 Bernard Soulage, "Les chances et les Risques d'une politique de modernisation industrielle," *Critiques de l'Economie politique*, 30 (January-March 1985), p. 120.


50 See Jean Le Garrec, *Demain la France: Les choix du IXe*
Plan 1984-1988 (Paris: Editions La Découverte, 1984). The first chapter of this work, "La stratégie: Moderniser la France," formalizes the modernization strategy of the Socialists and encodes it in the Plan itself, although the Plan, which was to be resurrected under the Socialists, remained simply a guide for setting out the general outlines and priorities of the budget.


CONCLUSION

FOOTNOTES


3Ibid, p. 190.


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