# France: State-Sponsored Development in the First NIC?

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## The Emergence of French Planning after World War II

Many people, notably Shonfield (1965) have seen in France an interventionist tradition going back through Napoleon to Colbert, with post-war planning and 'dirigisme' as the logical follow-up to this. I would argue that this view, whilst built on a foundation of fact, is nevertheless highly misleading. The post-war period represents not so much the continued development of a state-regulated system of economic activity, but rather an attempt by the state to break with pre-existing institutions in order to create a new type of modern capitalist economy which would ultimately outgrow its patron. In 1945 France did not have a modern capitalist economy; most importantly, it had a very primitive capital market. The state stepped in to provide this and to promote capitalist development. On this interpretation the liberalising moves of the current Chirac government, implicitly endorsed by the socialist opposition, are less a rejection of the past than a logical consequence of the relative success of what can be seen as France's post-war development strategy.

The French state's involvement in the economy in the decades before the Second World War was largely defensive. It was protectionist and propped up cartels. Indeed, one of the most passionate critics of the laissez-faire attitude of the French state to the railway system was Leon Walras [see Walras 1980]. There was no systematic attempt to guide economic development in desired directions, except for the brief but abortive Popular Front government of 1936 which nationalised certain key firms.

In the 1930s, left-of-centre economists such as Pierre Massé made the idea of a plan central to the ideology, or perhaps mythology, of the Left, and in the programme of the Resistance. Ironically however, an equally important legacy of the war for post-war planning was the apparatus of control and corporatism established by the Vichy regime, much of which was taken over by the Fourth Republic. Kuisel (1981) has shown how the Liberation was the occasion for a debate between those who wanted to see the greatly enhanced power of the state used to build a socialist-type economy and those who, using the rhetoric of 'statism', nevertheless ultimately aimed for a liberal capitalist economy.

The post-Liberation Minister of the National Economy, Pierre Mendès-France, was a thoroughgoing planner. He used the slogan 'Un Plan, un gouvernement, une legislature', to mean that a newly elected parliament should vote for a detailed plan with sectoral investment priorities which should be enforced, and he sought a reduction in the domain of economic decision-making over which the profit motive held sway. However, it was ultimately General de Gaulle who held sway and he declined to endorse Mendès-France's vision. Mendès resigned and remained in the political wilderness apart from a brief spell as Premier in 1953-54 when his energies were overwhelmingly occupied with Indo-China and the European Defence Community.

Rather than drawing on a left-wing tradition, De Gaulle in 1946 chose Jean Monnet to found the Commissariat Général du Plan (CGP), precisely, Kuisel argues, to ensure that planning did *not* become a vehicle for a socialist restructuring of the economy. Monnet was opposed to and by dirigistes of the time. Chadeau (1986) contrasts the 'liberalism' of Monnet with the instinctive 'dirigisme' of the Industry Ministry and the fiscal orthodoxy of the Finance Ministry. Perhaps this 'revisionist' view of French planning can be exaggerated, but as Petit (1983) has recently observed, the received view of French planning was very much a product of the 1960s and the role the planners wanted to project for themselves in that period.

Jean Monnet was a pragmatist. He had been a businessman as well as a wartime administrator, and he had close links with the Americans. His vision of planning was directly influenced by the practice of war-time planning in Britain and the USA, where Monnet had worked during both world wars. Marshall Aid funds were willingly furnished for the declared objectives of Monnet's Plan, since his ultimate aim was to use the plan to build an entrepreneurial capitalist economy in France rather than to create socialism. The nature of the post-war plans is crucial to the understanding of subsequent developments if we are to distinguish between the view which says that the demise of planning in the late 1960s was a betrayal of an earlier tradition, and the alternative view which sees the aims of post-war

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planners as having been largely achieved by that time [see Kuisel 1981 and Chadeau 1986].

Petit argues that a major element in the economic transformation of France was the arrival of a new technocratic élite whose legitimacy was fostered by the Liberation and by the discrediting of the old élite that had led France into defeat. A new generation of young technocrats was able to enter high administrative and business posts and to create the Ecole National d'Administration in their image. The ideology of the plan was, of course, one key element in the fostering of the legitimacy of the new régime. A popular and legitimated 'Plan' which promoted capitalism was capable of mobilising significant political leverage over the industrial system. It could push business in the direction of modernisation faster than it might otherwise wish while at the same time seeming to satisfy some of the more radical aspirations set in train by the war. In this respect the Liberation of France was equivalent to independence for post-colonial states. The role of mythology is therefore not just to mislead foreign economists but to maximise the effectiveness of the plan. At the simplest level the planners have to convince firms that they do indeed have the power to promote the rapid economic growth that will justify investment by individual firms. In retrospect it seems clear that the post-war planners did this. In the Marshall Aid era there was indeed state control of investment funds, but many observers have concluded that the most effective role of the planners was to inculcate an atmosphere of dynamic expectations for the future and of the need for technological change. At the same time the planners were addressing a wider public on the left as well as in the business classes. As Lipietz (1984) has observed, the modernisation ethos was shared by all political groups.

## The Nature and Impact of State Involvement in the Economy

The role of the French state in the capital market has been much discussed. Zysman (1983) and Hall (1986) have argued that state control of the banking system and the absence of a flourishing private capital market meant that the state was able to have a direct influence over firms' choice of products and technology for investment. This can be disputed. Statistics show that although the National Plans typically did a good job in identifying certain key macroeconomic trends in the economy until the mid 1960s, better, one supposes, than private agents could have done independently, the sectoral distribution of output does not correspond to what was anticipated [see Estrin and Holmes 1983]. Case-study evidence from the 1960s indicates that the planners did not control enterprise decisions [see McArthur and Scott 1969]. The Finance Ministry may have imposed decisions on firms but not as part of an agreed all-embracing Plan. Moreover, until 1966 there was a sharp distinction between the largely state-owned deposit banks which did not make long-term equity investments and the substantially private investment banks which did. Even where the state itself was directly involved in technical decisions, its influence was less than often suspected: from the late 1940s the Direction Générale des Télécommunications (DGT) the telecommunications wing of the Post. Telegraph and Telecommunications (PTT) Ministry, had been trying to develop a French telecommunications industry. But until the early 1970s it was unable to secure more than token cooperation from French Firms. The giant Compagnie Générale d'Electricité (CGE) group would only make products under licence from ITT or Ericsson, while Thomson, France's leading electronics group, kept out of the business until 1975.

On the other hand, the state does seem to have had a general environmental influence on the shape of industrial structures. Mergers were encouraged and promoted through the close personal links that existed between the political and business élite. At the end of the war it was widely perceived that French management was not dynamic and entrepreneurial, lacking the giant joint-stock companies that Monnet admired in Anglo-Saxon business. Even the biggest firms tended to be family-owned, including Peugeot, Renault (before nationalisation), Citroën, and Dassault. Multi-divisional firms were rare even in the 1960s [McArthur and Scott 1969]: it was more common for parent companies to take the form of a financial holding company with shareholdings, often less than 100 per cent or even less than 50 per cent in legally independent subsidiaries. CGE was typical of this type of firm, formed early in the century to reinvest the proceeds from the public takeover of electricity utilities; so was the Suez group, effectively the financial hulk of the old Suez Canal Company (whose largest shareholder in the 1960s was the British government!)

There is room for dispute about the extent to which this pattern of business was in fact a disadvantage, but it was widely perceived as being anachronistic. In the 1950s and above all in the 1960s the state sought to encourage the rise of National Champions, although it is not so clear how far the state actually influenced the detailed formation of the 'Grands Groupes' that took shape in the late 1960s.

The Fifth Plan for 1965-70 was the first to enunciate the principle that it was the job of firms, not the state, to direct investment. The Plan declared that its sectoral forecasts were not targets, but it also advocated an increase in industrial concentration. This certainly happened in the late 1960s: the share of the top 500 firms is estimated as varying between 30 and 35 per cent of total industrial production between

1961 and 1965, rising to 46-57 per cent in the period 1971-75 [Gilly and Morin 1981:23]. Such a movement was of course not a uniquely French phenomenon, and we may legitimately ask how far it was really connected with government policy and planning. Auquier (1984) suggests that during the period of opening up of the French economy to EEC competition, French firms, rather than concentrating on rationalising production structures and exploiting technical economies of scale, were actually seeking to get together for cartelistic reasons. In common with other countries' experience there is certainly no evidence that the consolidation of French firms in this way actually did increase efficiency or even profitability. Gilly and Morin [1981:115] note that profitability of firms belonging to 'groups' was actually lower than that of independent firms!

Whatever one concludes about the actual responsibility of the state during this phase of capitalist modernisation, it is clear that the politico-industrial élite, whether in industry, banks or ministries, all thought it desirable for firms to merge, and the close personal links that existed facilitated this process.

## The Decline of the Plan and the Evolution of State-Industry Relations

The mid-1960s represent a peak time for the prestige of the planners. They were able to claim the credit for the economic transformation of France since 1945, and for the Fourth Plan 1961-65 under de Gaulle. The Plan was renamed the Plan for Economic and Social Modernisation. The significance of this is that the Gaullist government saw that modernisation of social infrastructure had lagged behind that of the industrial sector, especially in education. The planners were able to bring together a wide range of 'social partners' for comprehensive discussions about the future priorities for public spending. In fact there was no formal legal link between the rather general projections in the National Plan and the detailed annual budget, but de Gaulle's government was able to ensure that in the early 1960s the Finance Ministry respected the priorities identified in the plan, despite the major upheavels in macroeconomic policy engendered by the Algerian War and its aftermath. The political circumstances were unusual: the legitimacy of the de Gaulle government was unprecedented since 1945 and the President's personal commitment to certain social goals made it possible for him to override his more conservative colleagues. Moreover, economic growth was accelerating and thus increased social spending could be implemented without frustrating expectations with regard to the growth of private spending. In the late 1970s socialists harked back to this golden era as one they could and would reproduce. This seems to have been a dangerous illusion. The early 1960s were exceptional although the popular view of French planning in the UK and the USA was formed then, as exemplified by Shonfield (1965) and the attempts to apply indicative planning in the UK.

If, as I have suggested, the role of planning in France was to create modern capitalist enterprises not to manage them, the fact that they had been brought into existence by the late 1960s implied a major rethink of the role of economic planning and industrial policy. Indeed, the role of the Planning Commission became extremely slight from the end of the 1960s. The Plan became essentially a document affirming the government's medium term economic objectives, which were increasingly those of creating a business environment generally favourable for private profit. The planning process continued to operate as a forum for a potentially interesting but in practice politically rather irrelevant discussion, comparable to what occurred in the British NEDC under Conservative governments.

Nothwithstanding this, the apparatus of the developmental state stayed in place and 'industrial policy' was fashionable in the 1970s. The industrial actors (which the relatively successful development policy had fostered) became more autonomous and there is evidence that the firms were able to use the state rather than the other way round [see Cohen and Bauer 1985]. In 1976-81 President Giscard and Premier Barre tried to give the state a new role in industrial policy. The slogan of 'modernisation' became 'redeployment'. Industrial subsidies were to be made conditional on firms adapting to the new market forces of international competition. In practice, however, this meant unregulated export and R & D subsidies to the biggest firms who were becoming increasingly dependent on the state for financial support, and supporting 'lame ducks' such as steel. French industrial policy degenerated into a mass of literally hundreds of ill-coordinated subsidy schemes, many handed out automatically 'on a subscription basis' [CGP 1982].

The oil crisis hit the largest French firms badly. They had poorly digested their conglomerate expansion schemes and had built up huge debts to pay for them. The biggest French firms were disproportionately dependent on public procurement contracts, e.g. Thomson in military and then telecommunications electronics, CGE in telecommunications, nuclear power and TGVs [Trains Grande Vitesse — high speed trains], Saint-Gobain for public works building materials. The Giscard commitment to helping the firms become free of the state was overwhelmed by the decisions in the mid-1970s for telecommunications modernisation and the expansion of nuclear power, which meant that between 1974 and 1981 investment by state enterprises rose 80 per cent while that by other industrial enterprises fell slightly [OECD 1983]. Whilst these undertakings had clear rationales and were macroeconomically propitious, these and other so-called 'Grands Projets' (major programmes) are now seen by many as having severely distorted industry. Just as the big firms were ready for emancipation from the state, they were drawn back into a somewhat unhealthy form of symbiosis via public procurement.

The nationalisation of nine of the leading private industrial firms and of the private banks (including investment banks) in 1982 was presented at the time as a move towards socialism. With hindsight, however, this appears to be simply a change of tack in which the state took just enough control of the firms to shake them up and push them back on to the course of increasing independence from the state, a situation which was inherent in the stage the economy had reached in the 1960s. The enlarged nationalised sector could never have been controlled and subjected to the degree of influence necessary to ensure compliance by the biggest firms with a National Plan drawn up within the state apparatus. Before 1982 the state-owned industrial sector had long been a jumble of autonomous entities which the central organs of the state in fact frequently failed to regulate even where it was appropriate they should do so [see Feigenbaum 1985]. Indeed, President Mitterand firmly intended that newly nationalised firms should have the maximum possible autonomy. The state acted in its capacity of lender of last resort to the industrial sector. It was able to impose managerial changes at the top and give extra funds on condition that profitability be rapidly re-established. The rise in values on the Paris Bourse relieved the state of a major share of the burden of re-financing the firms it had taken over; they raised large sums of private capital by issuing non-voting shares and performance-linked securities. Many in the socialist administration proposed that before the 1986 elections the Socialist government should privatise one or more of the firms it had taken over in 1982, demonstrating by the resulting capital gains on the Bourse the pragmatic shrewdness of the nationalisation programme. Indeed, the Socialist Party has not taken up any stand of principle against the Chirac government's privatisation programme.

## Conclusions

The fate of the nationalisation programme clearly indicates that even the most apparently interventionist policies in France have, in reality, essentially served to create institutions which might not otherwise have come into being for the development of a thriving capitalist economy. The weak point of the strategy does not so much lie in the abandonment of state direction and intervention in the late 1960s, but in the unwillingness to consummate the new strategy in practice. The old system of planning should have been genuinely reformed or abolished, with the system of industrial subsidies scaled down instead of built up. By the 1970s the big firms had acquired a 'monopoly of legitimate expertise' [Cohen and Bauer 1985] which Monnet and the planners could have claimed in 1946. Some 'private firms' were giant industrial complexes within the state itself, e.g. the DGT and Electricité de France. These were powerful actors conjured into existence by the state, but which escaped control and developed their own strategies. The Socialist period from 1981 to 1985 has been widely seen as a 'learning experience' during which French intellectual and public opinion turned to 'liberalisation' on the non-Communist left as well as the right. There was the idea that the developmental state had to be wound down. The implication of this analysis is that the slow weight of history will not be resisting this trend, but pushing (albeit gently) in the direction Chirac now wants to go. It will take a long time: ex-civil servants run most leading French firms and the state will remain a major actor in the industrial system. Nevertheless, if we are right in seeing the post-Liberation period as being historically specific, it is quite possible that the next 30-40 years of economic development in France could look very different from the past.

There are obvious lessons from French experience for development economics. The dichotomy between 'capitalist' and 'state-led' industrialisation is a false one. Spontaneous market forces may not generate all the institutions needed for the development of capitalist industry. There is a role for the state to foster their development and to assist in the socialisation of risk. The French state system does appear to have taken a voluntaristic initiative to steer the economy along a particular path.

However, once such a process gets under way, attempts by the state to direct its development in detail are fraught with problems, and the state needs to change. Firms will then go their own way and try to use the state to their advantage. But if firms can free themselves from the tutelage of the state, can the state free itself from the grip of the business interests it has created? French experience suggest that this is a long and difficult process. Economic crisis makes it both harder and easier: harder because business can claim a need for massive 'temporary' financial aid, but easier because the state itself can claim penury, and, if France is any guide, ill-judged attempts to push a country in the direction of socialism may drive things the other way!

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