TOCQUEVILLE'S REVENGE: DILEMMAS OF INSTITUTIONAL REFORM IN POST-DIRIGISTE FRANCE

by

Jonah D. Levy

A.B, Government
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Signature of Author

Department of Political Science
November 1, 1993

Certified by

Suzanne Berger
Thesis Supervisor

Accepted by

Donald L. M. Blackmer
Chairman, Graduate Program Committee
THESIS ABSTRACT

This dissertation describes the crisis and transformation of France's statist (or "dirigiste") political economy since the late-1960s. Traditionally, the French state has been depicted as "strong," thanks to a combination of autonomy and capacity to direct a "weak" civil society. What this dissertation demonstrates, by contrast, is that the very features that made for state strength in the postwar period -- the ability of a cohesive elite to selectively manipulate all manner of powers, unchecked by weak and divided societal and local actors -- ultimately handicapped French officials in their efforts to promote industrial competitiveness.

The dissertation roots the crisis of dirigisme in the system's fundamentally exclusionary mode of operation. During the 1970s and early-80s, deprived of feedback mechanisms from employer and labor groups, French planners were slow to apprehend the limits of their postwar industrial strategy based upon mass production and the pursuit of economies of scale. French policy not only proved unable to change for the better; it also changed for the worse, once again due to the exclusionary nature of dirigisme. The tremendous concentration of power and resources in Paris left state authorities without a co-conspirator or buffer to deflect the growing demands for relief from various perceived "losers" of economic modernization (farmers, shopkeepers, small businesses, and workers). Unprotected from these burgeoning societal demands, dirigiste policymaking evolved from a support for rapid modernization to a prop for conservative, uncompetitive enterprise.

The dissertation shows that the underdevelopment of non-state institutions continued to haunt French policymakers even after the Socialists' public repudiation of dirigisme in 1983. Many of the desirable alternatives to dirigiste policymaking were predicated upon the existence of vibrant, responsible local and societal institutions outside the central state. The irony is that it is precisely these institutions that had been stifled under the postwar policymaking system.

The difficulty of fostering new agents of economic intervention in the place of the dirigiste state is illustrated through case studies of decentralization and local efforts to promote small- and medium-sized enterprises (SMEs) in two industrial agglomerations, Besançon and Saint-Etienne. On the basis of archival work and some 250 interviews with local political and business elites, three basic obstacles to the decentralized industrial strategy are identified. The first obstacle is historical. After decades of dirigiste policymaking, in which provincial economic problems were a matter for state, not local, authorities, local officials entered the 1980s with neither the experience, resources, nor contacts with industry to provide effective assistance to SMEs. The second obstacle is institutional. A tepid decentralization reform, undertaken at a time when the Socialist government remained wholly
wedded to dirigiste economic measures, failed to correct historic institutional weaknesses: insufficient local financial resources and powerful incentives for subnational officials to engage in wasteful, self-defeating competition. The third obstacle is organizational. The absence of effective collaborators in the organizational arena -- i.e. of powerful, cohesive representatives of business and labor -- has handicapped local government efforts to devise policies corresponding to the interests and potential of industry.

The limits and dysfunctions of local action have opened the door to renewed state intervention. State authorities have returned to the provinces under a variety of guises: as coordinators of diffuse and conflicting local initiatives; as firefighters, extinguishing social blazes that transcend meager provincial resources; and as substitutes, advancing in areas neglected by local officials, notably aid to SMEs. While Paris remains a force in the provinces, recent state intervention has been conducted in a more market-conforming and consensual manner than the dirigiste methods of yesteryear.

The dissertation suggests that the combination of blocked institutional innovation along with renewed, if modified state intervention is not confined to the local arena. Rather, the same trajectory of frustrated reform can be observed across a range of recent government initiatives, from industrial relations, to financial deregulation, to European industrial policy. In each instance, the legacy of dirigisme left non-state institutions poorly prepared to assume weighty new economic responsibilities. These historical legacies were corrected little, if at all, by the half-hearted reforms of the 1980s. Consequently, in each case, the institutions in question stumbled in their economic missions, creating pressures for renewed state intervention. State action has thus constituted a kind of second-best solution, made necessary by the failures of post-dirigiste institution-building.

France’s experience points to the need for a fundamental revision of the notion of state capacity. Typically, state capacity is depicted as a function of the actors, tools, and resources within the state (a technocratic elite, imbued with an étatiste ethos, able to manipulate a variety of policy levers, such as protection from foreign competition, tax concessions, price controls, and cheap credit). This dissertation shows, by contrast, that state capacity is shaped as much by what lies outside the state (by the availability of powerful local or societal actors) as by what is found inside the state. Because of the weakness of societal institutions, French officials, for all their celebrated power, have proven unable to replicate patterns of economic intervention that have prevailed for years in Germany, a political system with no particular reputation for strategic capacity.

Thesis supervisor: Suzanne Berger
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INTRODUCTION

"In every case, at the head of any new undertaking, where in France you would find the
government ... in the United States you are sure to find an association."

-- Alexis de Tocqueville, Democracy in America

One-and-one-half centuries ago, Alexis de Tocqueville crafted the images that have
defined popular perceptions and civics courses on American democracy throughout the
ages. America, for Tocqueville, was a land where liberty was secure, where power was
decentralized and accessible to the people, and where politics revolved around concrete
issues subject to pragmatic bargaining and compromise. What most struck the French
aristocrat, however, was the vitality of American associational life, the multitude of
possibilities available to its active and self-organized citizens to directly manage their public
affairs. In Tocqueville’s mind, this capacity for association underpinned both the liberty
and prosperity of American society: liberty because the people’s capacity to take matters
into their own hands checked the extension of a potentially tyrannical state; prosperity
because a plethora of associations organized for specific purposes were far more effective
than a central government that “can only dictate precise rules” and whose action is therefore
“always inadequate.”

Tocqueville’s paean to democracy in America had a downside, however. Like a
disappointed father who lavishes praise on a neighbor’s child the better to highlight the
inadequacies of his own progeny, Tocqueville célébrated in America precisely those
features whose absence from France he deplored. His Old Régime and the French
Revolution offered a virtual mirror image of Democracy in America. Where politics in

2 Ibid., p. 516.
America revolved around pragmatic bargaining, in France it was suffused with the utopian schemas of intellectuals; where power in America was dispersed and decentralized, in France it was concentrated in the central state; and where voluntary associations organized much of American social and political life, no such entities mediated between the French citizen and the Parisian leviathan. Tocqueville lamented these features of French political life. In an overbearing central state, unchecked by strong independent institutions and associations, he located the sources of France's political instability and propensity for repressive regimes, as well as its relatively slow rate of economic development.

No man is a prophet in his own land. Tocqueville's writing had far greater influence in the polity he celebrated than the policy he decried. While any generalization about 150 years of politics must be taken with a grain of salt, it is fair to say that the prevailing tone in France has been decidedly un-Tocquevillian. Interest groups and local authorities have met with broad and sustained suspicion. At best, they have been regarded as "private wills" in a political culture that values the "general will," a common good believed to exist above and beyond the vector sum of the partial interests composing French society. At worst, they have been branded "corporatiste," a uniquely French definition of the term, designating parasitic, protected groups, who receive undeserved advantages at the expense of the common good.

While French distrust of intermediate associations goes back at least two centuries, to the loi le Chapelier of 1791, some moments and policy areas have afforded greater opportunity of expression to this sentiment than others. One of the purest incarnations has been France's postwar model of economic policymaking, known as dirigisme. Faced with what were widely viewed as a Malthusian bourgeoisie and a collection of corporatiste organized interests and local elites, French authorities after the war charted a fundamentally anti-Tocquevillian course of reconstruction and industrial development. In a fusion of the Rousseauian notion of the "general will" with a Saint-Simonian faith in enlightened technocratic leadership, state officials based their strategy upon the premise that rapid
economic development could be pursued most effectively without the participation of narrow interest associations that might stand in the way of rationality and modernization. “Private wills” could not be allowed to impede “the general will.”

This dissertation traces the consequences of France’s state-centered growth strategy when confronted with the political and economic challenges of the 1970s and 80s. As disenchantment with traditional dirigiste methods grew and policymakers began casting about for new approaches, they discovered that the various desirable alternatives were predicated upon the existence of vibrant, responsible local and societal institutions outside the central state. The irony is that it is precisely these institutions that had been stifled under the postwar policymaking system. After decades of dirigisme, French local and societal institutions have displayed extremely limited capacity for renewal. The phrase, “Tocqueville’s Revenge” refers to the resulting policy conundrum. State authorities can continue to manage economic affairs directly, perhaps adjusting their intervention in a more market-conforming direction, or they can pursue a course of deregulation, shifting the locus of regulation from state to market. What they have proven unable to do is to cultivate new institutional actors to intervene in their place.

The French case suggests the need for a fundamental revision of the notion of state capacity. Traditionally, state capacity has been depicted as a function of the actors, tools, and resources within the state (a technocratic elite, imbued with an étatiste ethos, able to manipulate a variety of policy levers, such as protection from foreign competition, tax concessions, price controls, and cheap credit). This dissertation will show, by contrast, that state capacity is shaped as much by what lies outside the state (by the availability of powerful local or societal actors) as by what is found inside the state. Because of the weakness of societal institutions, French officials, for all their celebrated power, have proven unable to replicate patterns of economic intervention that have prevailed for years in Germany, a political system with no particular reputation for strategic capacity. The French
experience suggests further that rather than zero-sum, the relationship between state and
civil society is, in many instances, complementary.

The story of Tocqueville’s revenge, of the difficulties of finding actors to relay state
intervention, will be told primarily through the case of economic policymaking in the
provinces. For decades, if not centuries, Parisian rulers sought to limit the autonomy of
local elites, and in no area was this resistance more heartfelt than that of economic
policymaking. If the bourgeoisie was Malthusian and employer and labor organizations
corporatiste, then local authorities were clochemerlesque (or dominated by an “esprit de
clocher”), that is, unable to see beyond their narrow community interests, as symbolized by
the church belltower found in every French village.

The 1980s brought a fundamental shift in relations between Paris and the
provinces, however. In combination with a much-ballyhooed decentralization reform, a
renewed government interest in the plight of small- and medium-sized enterprises (SMEs)
gave local authorities a privileged position within France’s post-dirigiste economic strategy.
Under the new economic approach, both the public actor and the economic agent of
industrial policy were to change. Instead of Parisian technocrats concentrating resources
on a select few “national champions,” industrial policy would revolve around the
decentralized intervention of regional, departmental, and municipal authorities in support of
legions of SMEs. This was not the only area in which state authorities turned to previously
marginal actors, but it will be suggested that the difficulties, blockages, and state responses
observed in the local arena are characteristic of reform efforts across a range of economic
policies.

The core field research for the dissertation was carried out in two French industrial
cities between 1990 and 1992: Besançon, in the Doubs department, near the Swiss border,
and Saint-Etienne, in the Loire department, 70 kilometers southwest of Lyon.4 Both cities

4 Beyond historical and archival work, the author conducted some 250 free-ranging interviews, averaging
two hours in length, with local economic and political figures. The interviews were split roughly evenly
between business persons in 60 companies, on the one hand, and officials of national and subnational
governments, employer and union organizations, technology centers, and research institutes, on the other.
boast a long industrial history, but have suffered significant economic difficulties over the past twenty years. Besançon is the capital of the troubled French watch industry; Saint-Etienne has been home to some of the more ill-fated French sectors: coal, steel, machine-tools, and textiles. Despite their economic travails, both cities count a high concentration of SMEs, which local officials see as a bright sign for future development.

The political context in Besançon and Saint-Etienne, like the industrial context, has evolved tremendously over the years. Whereas in the 1970s and early-80s, active state intervention was the norm in sectors and even individual firms, since 1983, national authorities have moved away from dirigiste practices. At the same time, newly-empowered local officials have adopted a far more interventionist approach. Thus, the cases of Besançon and Saint-Etienne afford an ideal opportunity to gauge the impact of two key orientations of post-1983 economic policymaking: the emphasis on SMEs, rather than national champions; the attempt to organize intervention around local authorities, rather than Parisian ministries.

Structure of the Dissertation

This dissertation is organized into three parts, totaling seven chapters. Part One characterizes the recent evolution of France’s dirigiste system. Chapter One confronts leading interpretations of France’s political economy to developments of the past two decades and suggests how they might be complemented or extended through a historical-institutional approach. The central insight of this approach is that the very institutional features that made for French state “strength” in the postwar period -- the concentration of power within a core of Parisian ministries, the weakness of societal institutions with the potential to check central state impetuses -- impeded efforts to adjust the dirigiste system in light of new economic challenges. Political factors, notably the fall-out from the events of May 1968 and the implications of a tightly-contested electoral context, contributed further to the crisis of dirigisme.
Chapter Two describes this crisis as well as subsequent policy experiments. The brand of free-market liberalism propounded by the Chirac government from 1986 to 1988 failed to resonate with the French electorate. Rather than returning to traditional *dirigiste* ways, however, French authorities have gravitated toward a more institutionally coordinated form of liberalism, referred to in this dissertation as "Tocquevillean liberalism." The product of French traditions emphasizing the virtues of a dynamic civil society, notably Catholic associationalism and the Second Left, turned toward economic objectives and blended with themes from the corporatist "German model," Tocquevillean liberalism seeks to shift key economic responsibilities from the central state to local and societal institutions. It is liberal in its aversion to state intervention, while Tocquevillean in its faith in the salutary effects of local and societal activism.

Part Two demonstrates why, despite the consensus behind Tocquevillean liberalism, France is proving unable to implement changes along these lines. Focusing upon what is widely viewed as the most promising of the Tocquevillean liberal reforms -- the efforts of newly-empowered regional, departmental, and municipal authorities to promote local small-scale enterprise -- this section identifies three sets of obstacles to the Tocquevillean liberal project. Chapter Three describes the historical obstacles. In the postwar period, for a variety of political and institutional reasons, economic intervention in Besançon and Saint-Etienne was viewed as a matter for state officials more than local officials. Such a pattern of state-periphery relations proved not only dysfunctional in and of itself (as exemplified by the plight of the Lip watchmaking firm in Besançon and the Manufrance mail-order house in Saint-Etienne); it would also leave French local officials ill-prepared to assume the responsibilities associated with aid to SMEs.

Chapter Four identifies the political-institutional obstacles to Tocquevillean liberalism in the provinces. The Defferre decentralization laws, inspired by political rather than economic objectives, fell short of the kind of sweeping changes needed to overcome the adverse historical legacy described in Chapter Three. Indeed, this legislation left in
place or accentuated a variety of fiscal and jurisdictional incentives for local authorities to engage in conflictual, self-defeating economic strategies: luring firms away from neighboring communities, rather than promoting endogenous enterprise; adopting a go-it-alone tack, instead of cooperating with other authorities on projects of common interest; multiplying underfunded programs, as opposed to concentrating resources upon a few substantive initiatives.

Chapter Five depicts the organizational obstacles to the Tocquevillean liberal project. The weakness of non-state actors in France extends beyond formal political institutions, to the representatives of business and labor. This weakness, particularly the underdevelopment of business organizations, compounds the dysfunctions of local development policy in two ways. First, it allows provincial officials to ignore the preference of industrialists for measures to promote SMEs already present in the community, focusing instead upon the pursuit of mobile investors. Second, even when officials seek to assist endogenous enterprise, their initiatives tend to falter for lack of a collective business mediator to harmonize public proposals with the needs of industry, help administer programs, and induce member firms to participate.

Part Three examines the response of French state authorities to the difficulties of the Tocquevillean liberal reform project. Chapter Six notes that state officials, driven by reasons both noble and not so noble, have returned to the local arena under a variety of guises: imposing order and clear priorities upon diffuse local initiatives (the state as coordinator), providing relief to hard-hit agglomerations (the state as firefighter), and intervening in areas neglected by local authorities, notably in the provision of services to SMEs (the state as substitute). The French state has not come full circle, however. Present intervention differs in essential ways from the dirigiste methods of the past: it is more sensitive to the preferences of local officials, emphasizing the virtues of concetration, consensus, and contractuantization, not simply state guidance; it is conducted by actors enjoying genuine autonomy from Parisian supervisors and whose loyalties run as much in
a horizontal direction as a vertical direction; it is more market-oriented, aiming to accelerate the development of emerging SMEs, as opposed to resisting the decline of lame ducks, and leaving considerable initiative in the hands of private entrepreneurs and consulting companies.

Chapter Seven suggests that the trajectory of reform observed in the case of local development policy and decentralization, far from an isolated experience, is characteristic of a range of post-dirigiste experiments, from industrial relations reform, to financial deregulation, to arguably European industrial policy. In each case, state authorities pinned their hopes on local and societal institutions disdained in the era of dirigiste policymaking. In each instance, tepid institutional reforms failed to overcome this historical legacy. Consequently, in each situation, the would-be relays to state action have proven incapable of handling their weighty new responsibilities. The result has been that state authorities have come under pressure to reinsert, whether to limit social dislocation or to address priorities underserved by others. Once again, though, post-dirigiste state intervention differs in fundamental ways from the pre-1983 period: it is less directive, more market-oriented, more consensual, and much reduced in its resources. Thus, if societal and local institutions have proven relatively impervious to the reforming efforts of government officials, the state itself has displayed considerable capacity for renewal and innovation.

A final concluding chapter, speculates as to the implications of this pattern of post-dirigiste reform for French industry, on the one hand, and the study of comparative politics, on the other. From an economic standpoint, two readings are possible. A pessimistic interpretation is that having failed to replicate the patterns of intermediary coordinating institutions characteristic of places like Germany, French industry is handicapped by an undersupply of the kinds of collective goods that these institutions provide: worker training, technology diffusion, support for industry in hard economic times, etc. An optimistic interpretation is that while France may not be Germany, it is achieving the same ends in uniquely French ways. The combination of the dismantling of
dysfunctional *dirigiste* practices along with renewed, more market-conforming state intervention stands French industry in good stead relative to foreign competition.

Turning to the broader questions of comparative politics and political economy, this dissertation suggests four hypotheses for future research. The first is that taking the state out of the economy is not the same as putting other institutional actors in. Ironically, to truly empower civil society, it may be necessary for state officials to act in a heavy-handed, *dirigiste* manner. The second conclusion is that the notion of state capacity needs to be extended to incorporate the capacity of local and societal institutions. The ability of government officials to attain certain objectives depends as much on what is outside the state as what is inside the state, and contrary to the statist literature, this relationship is not always zero-sum. The third hypothesis is that societal and local institutions constitute a critical distinguishing feature between different forms of capitalism. It is not enough for authorities to roll back a dysfunctional *dirigiste* state for France’s political economy to converge on that of Germany because France does not possess the same kind of coordinating institutions between market and state. The fourth and final lesson is that the evolution of statist (France, Japan), market-oriented (US, UK), and institutionally-coordinated (Germany) political economies during the past decade may reflect a certain degree of path dependence. Statist systems are able to deregulate or revise the forms of state intervention, but tend to be frustrated in attempts to secrete intermediary institutions; market systems can reinforce their basic market orientation, but find it difficult to introduce elements of state or institutional coordination; and institutional systems can renegotiate the terms of this institutional coordination, but confront powerful internal resistance when they seek to boost the role of the state or the market.

**Acknowledgments**

While the writings of Alexis de Tocqueville provide a rich theoretical justification of the virtues of small communities, the author has been able to gain such an appreciation
through more personal means. This dissertation has been nested and nurtured in at least one-half dozen communities of scholars. What is more, in contrast to Tocqueville, who lamented the absence of collective life in France, I have drawn equal doses of support and inspiration from intellectual communities on both sides of the Atlantic.

Communities provide many forms of support, not the least of which is financial. In this respect, I have been unusually fortunate. In the summer of 1989, a pre-dissertation grant from the Harvard Center for European Studies funded exploratory research on the local development policies of five French municipalities. Between the fall of 1989 and the spring of 1991, an appropriately-named “Tocqueville Fellowship” from the Fulbright Foundation and the Social Science Research Council financed eighteen months of research in Paris, Besançon, and Saint-Etienne. During this time, I was also assisted by a stipend from the French Ministry of Employment, made possible by the sponsorship of the Centre de l'Etude de l'Emploi. The following year, a Châteaubriand grant from the French government underwrote research on recent trends in French economic policymaking as well as an additional round of interviews in Besançon and Saint-Etienne.

Support for this dissertation has been much more than financial, however. At every stage of the project, I have had the pleasure of drawing upon rich communities of scholarship. The initial foray into the French provinces in the summer of 1989 brought me into contact with researchers, who shared their writings, documents, and most important, their accumulated insights into local politics and economics. Among the scholars I wish to thank are: Albert Mabilleau, Evelyne Ritaine, and Claude Sorbets at the CERVL in Bordeaux; Bernard Moré and Bernard Planque at the University of Aix-Marseille; Michel Quéré, Jean-Jacques Silvestre, Alain d'Iribarne, and Pierre Garnier of the LEST in Aix-en-Provence; Jean-Pierre Garnier, Paul Alliès, Roger Brunet, Loïc Grasland, and Michel Marchesnay at the University of Montpellier; Bernard Ganne and Marie-Françoise Raveyre at the GLYSI in Lyon; Pierre Kukawka, Claude Courlet, Bernard Pecqueur, François d'Arcy, Michel Bernardy de Sigoyer, and Pierre Boisgontier at the University of Grenoble.
Pursuant to the imperatives of research on local politics, the author spent most of his time in France ... in Paris. Such behavior attests not only to the charms of the French capital and its wealth of research resources, but especially to the opportunity to take up residence at the Centre de l'Etude de l'Emploi (CEE) of François Eymard-Duvernay and Laurent Thévenot and the Centre de Sociologie des Organisations (CSO) of Michel Crozier and Catherine Grémion. More than financial assistance, the CEE provided valuable logistical support and stimulating conversation. My understanding of French small-scale enterprise was fashioned, to a considerable extent, by the insights of CEE scholars, François Eymard-Duvernay, Armelle Gorgeu, René Mathie, Bruno Courault, and Françoise Rerat. I also wish to thank Isabelle da Costa, Marie-Thérèse Letablier, and especially Laurent Thévenot for making the CEE (not to mention life in Paris) so enjoyable.

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The benefits of being associated with the Grémions may come as no surprise to anyone familiar with their work, but the CSO's contribution to my dissertation did not stop there. I owe a tremendous intellectual and social debt to CSO graduate student, Olivier
Borraz. A comrade-in-interviews for a portion of the Besançon research, Olivier provided much-welome company (especially when accompanied by his lovely and fiesty partner, Daniel Le Salomon), patient explanations of the intricacies of French municipal politics (not to mention soccer), and supportive, but exacting reviews of initial drafts of my work. He was joined in this latter capacity by Patrick Le Gai, a fellow graduate student at the Observatoire Sociologique du Changement, with whom I conducted a number of interviews in Saint-Etienne. Together, Olivier and Patrick did their best to assure that in striving to make big theoretical points, I did not stray too far from the realities of French local politics. They also did their best to ensure that in developing an understanding of French local politics ... I had an awful lot of fun

Perhaps the most precious gift provided by the CSO was the opportunity to become friends with the Franco-Jewish mother in residence, Martha Zuber. Martha provided invaluable professional contacts, a sympathetic ear for my confused gropings toward a dissertation argument, and a fierce insistence that my work actually be of interest beyond a circle of ten academics in Cambridge, Massachusetts. No less important, Martha's unyielding conviction that to be living in France is the best of all possible worlds, a conviction substantiated by splendid dinner parties and weekends in Burgundy, offers a living incarnation of why it is that so many American scholars find France an irresistible object of research.

In addition to social and culinary opportunities, I have Martha to thank for introducing me to French mentor, Elie Cohen, whose healthy skepticism toward the proclamations of government officials informs much of this dissertation. Cohen not only provided a method and a sense of understanding of French economic policymaking; on occasions too numerous to remember, he took the time to explain the facts. It is fair to say that my understanding of French industrial policy would have been far less advanced were it not for Cohen's firm guidance.
My other essential source of insight on the new shape of French economic policymaking was provided by the Minister of Industry in the Rocard Government, Roger Fauroux. Fauroux generously opened his Ministry’s actions to an outsider’s prying eyes. He also shared his philosophy on the importance of both local authorities and Europe for relaying the central state, a philosophy that perhaps most closely approximates the vision of “Tocquevillean liberalism” described in this dissertation. Equally important, Fauroux permitted me to accompany him on visits to the provinces, where he met with local officials and industrialists to discuss strategies and problems associated with the promotion of small business. In addition to Fauroux, I wish to thank Cabinet Director, Alain Delouis for taking time from his busy schedule to patiently answer a battery of (often naïve) questions about the Ministry’s actions. Other Parisian scholars and officials who contributed to my understanding of center-periphery relations and industrial policy included: Yves Mény and Marie-France Toinet at Sciences-Po, Serge Wachter at DATAR, Claude Riveline at the École des Mines, and Robert Boyer of CEPREMAP.

While all roads led to Paris, my research was also nurtured by communities of scholars and policymakers in the provinces. In Besançon, Mayor Robert Schwint graciously provided office space and logistical support. The assistance of the municipality opened a number of doors that would have remained closed otherwise. Perhaps the most valuable of those doors were within the Municipality itself. I wish to thank Mayor Schwint, along with his staff in the Economic Affairs Commission, notably Louis Martin and Jean-Claude Bloch, for submitting to multiple, lengthy interviews concerning the municipality’s economic policies. In addition, Martin offered a veritable treasure trove of documentation and statistical information on the city. Also in Besançon, the author owes a great debt to the CETAP at the Law Faculty of the University of Franche-Comté, in particular to Jean-Claude Chevailler and André Larceneux. Beyond office space, Chevailler and Larceneux generously shared their interview contacts, research findings,
documents, and most important, their own rich understanding of Besançon politics and the local economy.

In Saint-Etienne, the author was based at the CRESAL research organization. Like its CETAP counterpart in Besançon, CRESAL provided a rich memory of local political and economic life. I benefited, in particular, from the guidance of Etienne de Banville and Bruno Vennin, and in the latter case, scholarly exchange extended to joint interviews among Saint-Etienne start-up firms. Also in Saint-Etienne, two officials -- Michel Peyre at the Loire Department Prefecture and Guy Veynard of the local branch of DATAR -- earned my deep gratitude for submitting to over ten hours of interviews, responding to all manner of indelicate questions with frankness, professionalism, modesty, and good humor.

It is often claimed that writing a dissertation is a lonely process. Yet given the wealth of friends and colleagues in Cambridge, the author can make no such claim. I was among the last of a generation of graduate students to experience the relocation of the Harvard Center for European Studies from a cozy house on Bryant Street to its present palatial surroundings. If the Center has proven able to maintain its homey, intimate feeling, it is due primarily to the warm direction afforded by Abby Collins and Guido Goldman. The Center provided numerous study-breaks and conversations on subjects both serious and not-so-serious. Among the Center denizens who livened (and probably lengthened) the dissertation-writing process, special thanks are due to: Barbara Butlter, Thomas Ertman, Daniel Goldhagen, Fiona Grigg, Susan Pedersen, Simona Piattoni, Paul Pierson, Anna Popiel, Louise Richardson, and Stuart Wood.

A number of members of the Cambridge community provided valuable advice and criticism at key moments of the dissertation. Anthony Daley, Bertrand Guillarme, Richard Locke, Janice McCormick, and Nicholas Ziegler helped in formulating the research project and argument, while Andrew Moravscik and Vivien Schmidt served as constructively exacting readers. I have also benefited from the helpful criticisms of an extra-Cambridge friend and colleague, Carol Evans of Georgetown.
The most important advice came from what was arguably the best dissertation committee ever assembled on this side of the Atlantic for the supervision of a project dealing with France's political economy. Charles Sabel fueled my interest in small firms and local politics, a field that he has largely defined. Sabel continually pushed me to go beyond the conventional wisdom, even when his own published ideas might be called into question. Stanley Hoffmann taught me everything that I know about Tocqueville -- and a whole lot more. It was through his courses that I discovered the majesty of French history and politics. I also discovered a complex and sensitive advisor, one who despite an oft-stated aversion to the theoretical pretensions of political scientists, ultimately proved a prized source of critical comments concerning the theoretical architecture of my dissertation.

Peter Hall opened my eyes to the world of political economy and the French state when I was an undergraduate. That I abandoned plans for law school and attended graduate school instead is a testimony to the power of his ideas (to borrow a phrase). In graduate school, Hall's ideas continued to shape my thinking about the French state. On a more personal level, Hall has bullied me into achievement by holding me to exacting intellectual standards, while remaining fully available to help me meet these standards.

Finally, my greatest debt, both academic and personal, is owed to Committee Chair, Suzanne Berger. Berger trained me in political economy, and her intellectual influence has been so pronounced that she could legitimately lay claim to co-authorship of this dissertation. Yet beyond her weighty intellectual contribution, Berger excelled as an advisor. At the moments of crisis and self-doubt that are the inevitable handmaiden of graduate life, Berger's support made all the difference. When I was sure that I would never figure out how to frame my dissertation, she insisted that I was on the verge of cracking the puzzle. Leaving nothing to chance, however, she ordered me into her office every two weeks to discuss my purported progress. Likewise, when dissertation-writing sagged under the weight of new parenthood, Berger cheerfully affirmed that, of course, I
would finish the project on time. Again leaving nothing to chance, she noted that she had personally guaranteed a timely completion to my future employer, hence that our respective professional reputations were jointly on the line. As if guiding my dissertation weren’t enough, Berger also advised me on the truly important things in life -- from when to have children to where to shop and eat in Paris.

This dissertation has benefited further from two shadow advisors who, while not members of the formal committee, have left an important mark. Richard Samuels often teases that he has already covered the subject of my dissertation in his own books on local politics and industrial policy ... in Japan. At some level, he is right, and I have learned much from his writings. More important than his writings, however, has been his personal tutelage. As a graduate student, working with Samuels on interfirm collaborative research in Japan, I was pushed to move beyond the traditional “state versus market” dichotomy in characterizing the role of the government in the economy. While Samuels may have thought that he was teaching me about Japan, I was, in fact, learning about France.

John Zysman of UC Berkeley is the other unsung advisor of this dissertation. Zysman’s analyses of the workings of the French dirigiste state constituted the chronological and intellectual starting point for my research. I have benefited on various occasions from his reflections on the subsequent evolution of France’s political economy as well as helpful criticisms of my work. I can think of no more satisfying culmination to the dissertation than the fact that it has enabled me to join Zysman as a colleague at Berkeley.

While intellectual communities have been essential to the development of this dissertation, it is the communities of friendship and family that have sustained the author down the long graduate school road. When I think of my happiest moments in graduate school, I invariably return to four friends: Simon Johnson, Mary Kwak, Andrew Tauber, and Megan van Frank. In times of need, these were the friends on whom I could count. In times of anger, these were the friends with whom I could vent my frustrations. Most important and most frequent, in times of neo-adolescent regression, these were the friends
with whom I could be myself -- watching a silly movie, exchanging immature putdowns, and behaving in a most unacademic manner.

Frequent travels have permitted me to enjoy the company of congenial and supportive roommates, notably: Karen Fiss, Edwige Lefebvre-Leclercq, and Claire Ullman. I have also acquired a second set of parents in my travels, Gérard and Nicole Koutchouk, the anchor of my life in France. The Koutchouks have given a home to my French possessions, my French car, and most important, my French person, taking me in for three consecutive holiday seasons.

This is not to suggest that my original parents have been deficient in any way. On the contrary. At critical moments in the writing process, I took refuge chez mom and dad, ceasing from being a parent for awhile, to once again become a (very spoiled) son. What is more, last summer, when Mohammed could not come to the mountain, my parents moved the mountain to Mohammed. As the dissertation-writing crunch climaxed, a crunch that coincided with my wife's final preparations for the California bar exam, my parents came to Boston to provide the extra hands needed to preserve our hygiene, sanity, and marriage.

After a decade of pursuing the study of France, I may now be considered something of an expert on the subject. Yet that most French of concepts, joie de vivre, would have remained wholly foreign to me were it not for my wife, Leslie Santos. Possessing as much joie de vivre in her little finger as can be found in all the cafés in Paris, Leslie constituted the perfect partner for enjoying life in France. She has also been the perfect partner for surviving graduate school, responding with charisma and cheer to a husband who was away from home often and grouchy more frequently still. Finally, by not only bearing with me, but bearing me a son, Leslie recently became the perfect partner in parenthood. In gratitude for teaching me that there is more to life than books, politics, and factories, I dedicate this dissertation to Leslie Santos, my mentor in the art of joie de vivre.
PART ONE - \textit{DIRIGISME IN DISTRESS}

The past decade has brought sweeping changes to France's \textit{dirigiste} political economy. In 1981, the vast majority of observers of French politics would have ventured that having survived, indeed proliferated, under the purportedly liberal Giscard-Barre regime, \textit{dirigiste} practices were in for a period of rapid development. With the election of a Socialist president, much of industry and the entire banking sector passed under state control, ambitious objectives were established for all manner of industries from coal, to machine-tools, to toys and telecommunications, the hand of labor was strengthened (or so it seemed) by the Auroux Laws, and the government pledged to revive the celebrated French planning system. "Socialism in one country," it appeared, represented the highest stage of \textit{dirigisme}.

Twelve years later, appearances have changed. The Socialists' wrenching decision in 1983 to choose European solidarity over domestic reflation touched off a broader shift in French economic policy. Lofty industrial policy goals have given way to insistence on corporate profitability as the sole yardstick of industrial performance, even for public sector enterprises. Redistributive, reflationary macroeconomic policies have been abandoned for austerity budgets, a strong French franc, and one of the lowest inflation rates in Western Europe. And a wave of liberalization has swept across key policy arenas, from capital markets, to price controls, to the regulations governing the hiring and firing of labor.

At the same time and much less publicized, state officials have launched new initiatives in such areas as technology policy, manpower training, and regional development. Many of these initiatives are being undertaken in new institutional contexts, involving subnational (regional, departmental, and municipal) or supranational (European) partners. Thus, it is unclear whether \textit{dirigisme} is simply retreating, or rather transforming, adapting, and experimenting in a radically changed political and economic environment. This question is of interest, not only to theorists of France's political economy, but
especially to French politicians and administrators Trying to chart a new course amidst the turbulent economic seas of the 1980s and 90s.

The first section of the dissertation examines the debates among theorists (Chapter One) and political elites (Chapter Two) respectively concerning the plight of France’s political economy, paying special attention to the changing role of the state: the origins of the crisis of dirigisme, the nature of the reforms that have taken place, and the possibilities for renewed intervention by public authorities. The two sets of debates are by no means independent. On the contrary, the positions of competing theoretical camps underpin and inform the various strategies put forward by rival political coalitions for revitalizing the French economy.
CHAPTER ONE - RETHINKING THE DIRIGISTE PARADIGM

Characterizing France’s political economy used to be a relatively straightforward exercise. France, often paired with Japan and opposed to the US and Britain, represented the paradigmatic statist or dirigiste system. Theorists debated the origins of state strength (whether it dated to Colbert or emerged only in the wake of the catastrophic defeat of 1940), the sources of state strength (an étatiste political culture, elite networks originating in the grandes écoles, or various institutional mechanisms, such as planning and a credit-based, government-administered financial system), and the economic consequences of state strength (favorable or deleterious to French industrial performance), but few contested the fact of state strength. Analytically speaking, all roads led to Paris. For any scholar seeking to understand evolutions in the French economy, the place to start was the all-powerful Parisian ministries.

Today, these analytical certainties have vanished. In the wake of the dramatic curtailing of state intervention during the past decade, France can no longer be described as dirigiste in the same way that it was before. Yet models of Anglo-Saxon liberalism or Northern European corporatism seem equally remote from the French experience. For the first time in decades, the debate about the very nature of France’s mode of economic regulation has been reopened.

This chapter considers competing assessments of the recent transformations in France’s political economy. Three sets of interpretations seem particularly germane to the debate: cultural/statist, liberal, and regulation school. Each approach boasts a distinguished intellectual pedigree. Each offers valuable insights into the functioning of France’s political economy: the basis for the rapid growth rates of the trente glorieuses (the postwar boom period); the sources of crisis in the 1970s and 80s; the origins and implications of the reforms to the dirigiste state; the changes needed to strengthen French
industry. Yet it will be suggested that each is in some way limited or incomplete, owing in particular, to a relative neglect of the dynamics of French politics and institutions.

Cultural Statism

Cultural interpretations depict the shared values of a society as the primary determinant of economic and political behavior. These values are assumed to be cohesive within any single ethnic, religious, linguistic, or national community and variable across different communities. They are also seen as relatively resistant to change: governments may come and go, but the basic character of a people remains the same. Exogenous shocks are less likely to change a particular culture than that culture is to define the way in which its inhabitants collectively respond to the challenge.

Many of the most celebrated interpretations of France’s political economy draw upon cultural traditions. Indeed, the very vocabulary employed to characterize basic traits of French economic behavior and policymaking -- Colbertisme, dirigisme, étatisme, Malthusianisme, Saint-Simonisme, and the peculiar French usage of the word corporatisme -- is essentially nation-specific. It harkens to events and historical figures long ago -- Colbert, Malthus, Saint-Simon, the abolition of “les corporations” during the French Revolution -- as if to suggest that French policy has been defined for centuries by these unique historical features and personalities.

Seen through cultural lenses, France is the land of eternal dirigisme. Dirigiste policymaking is rooted in longstanding patterns of social interaction, which do not lend themselves easily to change. It derives from the blockages and dysfunctions of French society, on the one hand, and the administrative traditions of the French state, on the other.

Societal incapacity fuels state intervention in two ways. First, the French have a horror of face-to-face confrontation and negotiation.¹ Rather than resolve problems among

themselves, they seek refuge in impersonal rules or a higher authority (which they then seek to bend to their purposes). The inability or unwillingness of the French to manage their conflicts in an open, forthright manner creates a need for the state to serve as rule-maker and arbiter.

Second, and more closely linked to the role of the state in economic policymaking, French industrialists are inordinately cautious and patrimonial in their approach to enterprise.² For the heads of small family firms, the company is a source of social standing and the children’s future to be preserved, not a revenue stream to be maximized. Borrowing for the purposes of investment could jeopardize that future and bring disgrace to the owner. It could also compromise the employer’s absolute control. Consequently, rather than risk the shame of bankruptcy and suffer the prying eyes of bankers, family firms simply forego investment.

Excessive caution is not confined to small business. Since the days of Colbert, France’s leading enterprises have made money, not by producing inexpensive, utilitarian items for the masses, but by supplying the king and his nobles with weapons, strategic inputs (from glass, to steel, to semiconductors), and exquisite luxury goods. Never having developed the ability to sell in competitive mass markets, the largest enterprises are reluctant to venture into markets other than those guaranteed by the state.

Diregiste practices are rooted in positive, as well as negative features of French political culture. It is not just that French society and business are weak, but that the French state is strong -- a powerful unitary state has traditionally served as a counterweight to a divided and fractious society.³ Left to their own devices, the French may be unable to resolve their problems and develop the nation’s productive resources, but officials within


the highest reaches of the French state have rarely demonstrated such reserve. They are motivated instead by an *étatiste* ethos:

The essential French view, which goes back to well before the Revolution of 1789, is that the effective conduct of a nation’s economic life must depend on the concentration of power in the hands of a small number of exceptionally able people, exercising foresight and judgement of a kind not possessed by the average successful man of business.\(^4\)

Andrew Shonfield’s characterization suggests two basic features underpinning the French state’s inclination to intervene. The first is the nature of elite networks in France.\(^5\) The best and the brightest do not tend to go into business, as in the US, at least not at the initial phase in their careers. Rather, following selection through rigorous, meritocratic exams, they are trained in the *grandes écoles* (notably the *Ecole Polytechnique* and *Ecole Nationale d’Administration* or ENA) for careers in public service, and then “parachuted” at a very young age to key positions within the French state. Ultimately, after a distinguished career of public service, many of these officials engage in *pantouflage*, assuming top positions in private or publicly-held companies enterprises. The result, then, is that the commanding heights of both big business and the state are occupied by a small coterie of extremely talented people, who attended the same schools, speak the same language, and therefore, know how to work together.

The second element highlighted by Shonfield concerns the vision or ethos of this coterie. In contrast to the Anglo-Saxon faith in free markets, French technocrats display a Cartesian belief in reason and planning. Market signals do not produce a socially optimal outcome, particularly if acted upon by a Malthusian business class. Rather, there is a common interest that is superior to the sum of the private interests pursued by individual

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industrialists, and French elites are in the best position to identify and pursue this common good.6

From a cultural perspective, the predominance of the state in France’s political economy is rooted in basic traits of French society: an inability of social groups to resolve their differences, an aversion to risk-taking on the part of the business class, the faith of a powerful, cohesive technocracy that it can trace a better economic destiny for the country than that produced by the market alone. These traits have been a constant of French political culture for centuries, and a nation’s core identity does not change overnight. Consequently, in seeking to understand developments in France’s political economy during the past decade, scholars operating in the tradition of Shonfield look, as they always have, to the initiatives of the dirigiste state.7 The restructuring of France’s largest industrial groups offers a case in point.8

In 1982, the newly-elected Socialist government nationalized an anemic collection of loss-making, under-investing industrial conglomerates, the epitome of the Malthusian bourgeoisie. Five years later, these companies were prosperous and poised to expand their operations abroad. Statists portray this miraculous transformation as the result of a furious process of recapitalization, rationalization, and specialization by product spearheaded by French technocrats. In other words, as has occurred so often before, the dirigiste state succeeded where pure market processes had failed.

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8 Schmidt, An End to French Economic Exceptionalism?, op. cit..
The subsequent privatizations conducted by the Chirac government are seen as demonstrating the enduring salience of dirigiste mentalities. While meddling with markets is the essence of Socialist policy, whether in France or elsewhere, one would expect otherwise from a Right-wing government espousing a Thatcherite agenda of deregulation, privatization, and market reform. Yet in conducting its privatization program, the Chirac government acted in a classically dirigiste manner, displaying a clear preference for state ordering over market mechanisms. The Ministry of Finance allocated a controlling stake in each company (a so-called “noyau dur”) to a select group of investors, so as to shelter privatized firms from hostile takeovers, that is, from market forces. What is more, the determination of who was to receive the noyaux durs and at what price was the result, not of open competitive bidding, but of government fiat, with most of the firms being acquired by allies of Chirac’s Gaullist party (at below-market prices). Thus, even under a liberal government, the state continued to play a decisive role in organizing French capitalism.

Cultural statist scholars do not deny that liberalization has made important inroads in France during the past decade. However, they see this process as a largely state-initiated, state-controlled affair that has not fundamentally altered the pattern of state leadership. As French firms mature into global players, as the French market becomes more exposed to international competition, and as French decisionmaking becomes subject to EC supervision, state authorities have had to reform their policy tools and even discard some, but these changes should be seen as a necessary adaptation, the better to intervene more effectively in a new context, rather than as a full-scale retreat. While the methods of state leadership may be evolving, French capitalism continues to be state-directed:

... the state is no weaker than it was; its action has simply changed. Thus, although it is true that deregulation has eliminated certain aspects of state dirigisme -- controls over prices, wages, exchange rates, and so forth -- and that denationalization combined with the more recent approach to industrial

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policy has reduced not only state ownership but also direct state control of enterprises, this does not mean that statist policymaking is dead. It means only that government decision-makers have chosen to take a different approach to macroeconomic and microeconomic leadership.\textsuperscript{10}

The cultural statist interpretation sounds a valuable cautionary note against taking the recent liberal rhetoric of French politicians and civil servants at face value. For all the talk of an "end of French exceptionalism," France's economic system has not converged on that of the United States or Britain. The French state remains a formidable entity, absorbing 45% of French GDP and controlling one of the largest nationalized sectors in the advanced industrial world. State agencies exercise leadership in a host of areas vital to the economic well-being of the country, from infrastructure -- building highways, sophisticated telecommunications networks, and high-speed train networks -- to education and training. In short, the levers at the command of French state officials far outstrip those available to their Anglo-Saxon counterparts.

It is not just the levers that distinguish French technocrats, but their willingness to pull them. This is probably the most profound insight of the cultural interpretation: the French are and always have been fundamentally less comfortable with markets and more inclined to entrust their destiny to the strategies of high-flying technocrats than the peoples of any other advanced industrial democracy, with the possible exception of Japan. As the tale of nationalizations and privatizations revealed, even during the ostensibly liberal 1980s and even under the self-styled liberal Chirac government, state officials continued to pull key policy levers.

They are also generating new levers. Since the mid-1980s, governments of both Left and Right have supported an effort to resurrect voluntarist national-champions-style policies at the European level in high-definition television (HDTV) and semiconductors. At the local level, Chapter Six of this dissertation describes the emergence of a variety of state initiatives in favor of small- and medium-sized enterprises (SMEs). Cultural statists are not

\textsuperscript{10} Schmidt, \textit{Patterns of State Intervention}, op. cit.
surprised by such institutional entrepreneurialism, which they see as a recurring feature of French history. What is more, they anticipate a further flurry of state activism in response to the current recession, just as occurred during the hard times of the late-1970s. As Stephen Cohen quipped with reference to the earlier Giscard-Barre period, “In France ... when the going gets tough, the state takes over.”

A series of recent events -- the naming of an ultra-dirigiste figure, Edith Cresson to head the government in 1991-92, the Right’s shift away from a Thatcherite platform, the public pillorying of Thatcherite EC Competition Commissioner, Sir Leon Brittan, the raging debate over French participation in the European Monetary System -- lend credence to this expectation.

While highlighting the enduring role of the state in France’s political economy, the cultural statist interpretation leaves a number of developments unexplained. Reading accounts like that of Shonfield, one has a sense that the French, having wholly embraced dirigisme since Colbert, will continue to do so forever. This vision exaggerates the hold of dirigiste beliefs on French society, however, both historically and in more recent times.

Shonfield’s image of an eternally dirigiste France misrepresents large segments of French history. As Richard Kuisel relates, the dirigiste style of economic policymaking was essentially a postwar innovation. The preceding half-century saw the predominance of a liberal, minimalist state, committed to balanced budgets, a strong franc, and a hands-off attitude toward industrial relations and social reform. The one notable exception to prewar liberalism was a Malthusian dedication to preserving the equilibrium of “the stalemate society” through restraints on both foreign competition (the Méline tariffs of 1892 and the multiple trade barriers of the 1930s) and domestic competition (support for cartels

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and restrictions on new firm creation). Such intervention was a far cry from the technocratic modernizing ethos described by Shonfield.

The *dirigiste* ethos not only emerged later than the cultural interpretation suggests; it also triumphed less completely. Liberal ideas continued to hold sway with important sectors of French society, even during the golden age of *dirigisme*. Just around the time that Shonfield was publishing his celebrated analysis, the much-discussed Armand-Rueff Report (1960) was calling for a significant scaling-back of what the authors viewed as excessive and nefarious state intervention in the economy. The Nora Report (1967), a few years later, sounded a similar theme with respect to France’s public sector enterprises. Certainly, by the mid-1970s, with the election of an avowedly liberal former Minister of Finance as President (Valéry Giscard d’Estaing) and the appointment of an economist as Prime Minister (Raymond Barre), the *dirigiste* model had ceased to be an object of broad consensus.

Cultural arguments excel at accounting for continuity, and indeed, this is the central thrust of the statist analysis: patterns of French society since the age of Colbert have fostered a *dirigiste* style of policymaking. The problem arises when such arguments are confronted with rapid and significant change. There is nothing in writings like that of Shonfield to suggest that the French would ever question their *dirigiste* policy paradigm. Yet French leaders of both Left and Right have done precisely that.

The past decade has seen a broad retreat of *dirigisme*. This retreat has taken place at several levels. The first is in the character of French political discourse. Whereas in the past, government officials openly affirmed their faith in voluntarist industrial policy measures, today, policy pronouncements are framed in liberal terms, emphasizing the salutary role of market signals, private enterprise, and the profit motive. This is not to say

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that all voices for *dirigisme* have been silenced, but that these voices now fall outside the political mainstream. The rhetoric of an Edith Cresson or a Jean-Pierre Chevènement, which would have been indistinguishable from the pronouncements of the majority of French economic policymakers during the 1960s and 70s, appears shocking in the 1990s, even to elites within the Socialist party.

The charges in French economic policymaking extend well beyond the rhetorical. Many of the policies most closely associated with *dirigisme* have been drastically curtailed or eliminated. Sectoral industrial policies have been scuttled, as have the celebrated "*grands projets*" — efforts to catapult France to the leadership of high-tech sectors, through a combination of subsidies, captive markets, and the transfer of technologies developed in public research labs. The minimal resources channeled to today’s purported strategic industry, high-definition television, pale in comparison to those involved in the telecommunications or high-speed train projects of the 1970s.14

The government has cut its aid to lame ducks as well as national champions. The bankruptcy of Creusot-Loire in 1984 signaled the end of the government’s willingness to pay to preserve jobs in such declining sectors as shipbuilding, coal, and steel.15 Nationalized companies have been largely freed of industrial policy or social obligations; their sole requirement is to be profitable. Like microeconomic policies, macroeconomic policies have shifted in a more market-oriented direction. France’s traditional inflationary growth strategy, coupled with periodic “aggressive” devaluations to give French firms an edge on their foreign rivals, has yielded to tight fiscal and monetary policies that are the envy of the Anglo-Saxon financial community.

French authorities have not only shifted policies; they have the eliminated the key instruments that gave these policies teeth. Exemption from price controls or exchange

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controls can no longer be proffered as carrots to induce firms to cooperate, since these controls have been lifted throughout the economy. The system of government-administered credit rationing, which many theorists saw as the decisive feature in French state "strength," has been swept away by a massive deregulation of the country's financial markets.\(^{16}\)

The French state has lost sticks as well as carrots, notably the requirement that firms wishing to make more than ten lay-offs receive the approval of an inspector from the Ministry of Labor. Finally, the forum in which much of the give-and-take between government and industry was hammered out, the celebrated planning commissions, has lapsed into obsolescence. French planning today remains little more than an exercise in economic forecasting and statement of government priorities, and the institution may not survive the new conservative government.\(^{17}\)

Beyond domestic changes, French officials have accepted a variety of international ties that bind the dirigiste state. Membership in the European Monetary System precludes traditional reflationaly growth strategies, as the Socialists discovered during their first years in office. If the European Monetary Union goes forward, it will transfer French macroeconomic policymaking to a European institution constitutionally pledged to make the fight against inflation its top priority. EC competition policy has severely limited the opportunities for subsidizing domestic industry; even government attempts to increase the capital of public enterprises have run afoul of Sir Leon Brittan's vigilance. Perhaps the most binding tie is less institutional than economic -- the increasing integration of the French economy into international markets. Protectionist, "fortress France" strategies of the kind often used in the past to launch "infant industries" are precluded, on the one hand,


\(^{17}\) If the Planning Commissariat does survive, it will be in the dreary Parisian suburb of Saint-Denis -- appropriately, the final resting place of France's kings -- to which it was exiled as part of Prime Minister Cresson's administrative decentralization campaign.
by France's heightened vulnerability to foreign retaliation, and on the other hand, by the ability of foreign companies to export to third-countries within the EC and then re-export to France.

Because it ignores or downplays the strong anti-statist tradition that has always been present (and often predominant) in France, the cultural statist interpretation is confounded by the sweeping changes of the 1980s. It is confounded by the extent of the change -- a radical break with patterns of policymaking that were assumed to date back for centuries and to be embraced by the overwhelming majority of French elites. It is also confounded by the direction of the change -- toward less, not more, state intervention in the economy.

In the face of the unsettling developments of the 1980s, the tendency of scholars operating within the cultural statist tradition is to downplay the changes that have taken place: France only appears to have moved toward liberalism, when in fact dirigiste reflexes remain alive and well, ready to resurface at the first opportunity; the French state has not retreated, but merely adapted its forms of intervention; deregulation has been conducted in a statist manner, with the result that state control has been preserved. While such caution yields important insights into the sources of renewed state intervention, it fails to acknowledge adequately the extent of change in a liberal direction.

The claim that the move toward the market is easily reversible, for example, understates the tremendous diminution of state power that has taken place during the past decade. It is not just the ethos of dirigisme that has retreated, but the instruments and institutions through which this ethos is implemented. Resurrecting these instruments or creating new ones is no simple task and would run up against a host of EC prohibitions. In reemphasizing political will while downplaying institutional structures, the cultural statist interpretation interjects far more plasticity and reversibility into French policy than is readily

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18 For the argument that the political capacity to conduct protectionist policies is undercut with the growing internationalization of a nation's economy, see Helen Milner, *Resisting Protectionism: Global Industries and the Politics of International Trade*, (Princeton, NJ: Princeton University Press, 1988).
available. Yet as Edith Cresson discovered during her recent tenure as prime minister, a dirigiste ethos does not a dirigiste system make.

Cresson brought a dirigiste style and discourse to French leadership the likes of which had not been seen since the early years of the first Mitterrand presidency. A renowned Japan-basher, Cresson issued a call to arms in the “economic war” against “Japanese industrial imperialism.” Upon taking office in May 1991, she immediately blocked an agreement under which the Japanese computer manufacturer, NEC was to take a stake in its ailing French partner, Bull. A few months later, she moved to shore up the faltering Thomson electronics group, the linchpin for French aspirations in semiconductors and high-definition television (HDTV), by announcing that Thomson would be merged with the cash-rich CEA-Industrie nuclear power conglomerate.

Not all of Cresson’s dirigiste initiatives focused on national champions. SMEs also came in for special attention, with Cresson announcing a special program of tax breaks and subsidies in September 1991. Industrial relations reform likewise mobilized her energies. Borrowing a page from the German model, Cresson prepared legislation to introduce workplace codetermination and pledged to double the number of engineers in France by 1993 and to triple the number of apprentices within five years. Even France’s administrative geography became a target of the prime minister’s reforming zeal. Invoking the cause of decentralization, Cresson announced that some twenty-five agencies, employing 4200 workers, included the celebrated Ecole Nationale d’Administration (ENA), were to be transferred from Paris to the Provinces.

For all Prime Minister Cresson’s boisterous declarations, her policy legacy has been extremely limited. The majority of her dirigiste initiatives, launched with little or no consultation of the concerned parties, foundered on their indifference, or even hostility: French employers were scarcely interested in apprenticeships and would not hear of

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codetermination with France's militant trade unions; CEA-Industrie refused to come to the rescue of Thomson; the Bull computer company had no desire for protection from a Japanese partner that held the products and technology essential to its survival; Parisian civil servants protested in unison against the prospect of having to relocate to such unappealing sites as Clermont-Ferrand or the suburbs of Marseille.  

Cresson's policies confronted further obstacles within the state. Bitter enemy and all-powerful Minister of Finance, Pierre Bérégovoy was not about to loosen the purse strings so that Cresson could offer generous gifts to SMEs or bail-outs to troubled national champions. The package of concessions to SMEs, for example, was almost completely negated by an increase in inheritance taxes. In more general terms, cash-strapped French authorities no longer possessed the resources for dirigiste ventures and they had abandoned their regulatory levers over industry (credit rationing, price and exchange controls, restrictions on hiring and firing). What is more, even if they could find resources, an increasingly vigilant EC competition policy was designed to prevent just the kinds of policies that Cresson had in mind.

The final blow to the strategy of dirigiste revival was political. President Mitterrand had conceived of Cresson's appointment as a means of patching up relations between the Socialists and Communists in anticipation of the 1993 legislative elections. In replacing the consensual, pragmatic Michel Rocard with the resolutely dirigiste Cresson, Mitterrand shifted from a strategy of cultivating the center to one of resurrecting the Union of the Left. Shortly after Cresson assumed the post of Prime Minister, however, the Soviet Union collapsed, taking the fortunes of the French Communist Party with it. Rather than an asset, the Socialists' alliance with a party that had welcomed the August 1991 putsch had become an embarrassment. With neo-dirigisme having reached a dead end, both as an economic

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22 The list of "delocalizations" proposed by Cresson eventually reached 15,000. When the Socialists left office in 1993, 2000 civil servants had, in fact, moved. Libération, 17-18 April 1993, p. 7.
25 Prime Minister Cresson had also become something of an embarrassment, publicly describing the Japanese as "ants" and asserting that 25% of British men are homosexuals. Ibid., p. 61.
and a political strategy, Mitterrand put an end to the experiment less than a year after it had begun, jettisoning his increasingly cumbersome prime minister in favor of the more sedate, conservative Bérégovoy.

If the cultural statist interpretation overestimates the prospects for a return to traditional dirigiste methods, it also exaggerates state power under the present circumstances. Schmidt's depiction of the Socialist nationalizations as a vindication of dirigiste methods, for example, rests upon an excessively broad definition of the notion of "dirigisme." To the extent that dirigiste methods were applied to the French public sector, they can scarcely be judged a success. During the initial Socialist years, when the government attempted to force the newly-nationalized enterprises to meet ambitious industrial policy objectives -- "reconquering domestic markets," boosting exports several-fold, expanding output, investment, and employment -- these companies actually increased their losses. It was only when the Socialists turned away from their dirigiste strategy and gave managers a free hand, with the sole requirement that they restore profitability, that the nationalized companies began to recover. To portray this policy reversal as a successful adaptation of dirigiste methods is to empty the concept of its substance. The Socialists did not adapt dirigiste industrial policy; they abandoned it.

Likewise, the suggestion that because French officials often initiated and controlled a process of deregulation or privatization, their authority emerged essentially undiminished, fails to acknowledge the loss of jurisdiction that deregulation and privatization provoke. It highlights the process of reform at the expense of the substance. Yet dirigiste processes are not necessarily synonymous with dirigiste outcomes. Consider the case of financial deregulation. Ministry of Finance officials launched the deregulation of French financial markets with little prompting from the French financial community; the measures were designed by a few Treasury technocrats; and the entire process was conducted largely out of the public eye.26 In other words, the process of deregulation was dirigiste from

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beginning to end. The consequences were not, however. When all was said and done, the French state had given up a number of instruments of intervention in the economy.

Even the heavy-handed Chirac privatizations cannot be judged to have left state power undiluted. While a number of companies wound up in the control of RPR loyalists, it was only loyalty that could lead them to heed the preferences of the Chirac administration once they had been privatized. Legally, the government held no power over them. What is more, less than two years after the privatizations, the government had changed, so to the extent that the owners were motivated by a political agenda, they would be even less likely to cooperate following the inauguration of the new Socialist administration. Finally, it bears mentioning that the restrictions on trading of noyaux durs shares were binding for only five years and have now lapsed. In short, while there may have been less liberalization in France than meets the ear, there is more than can be easily incorporated within cultural statist analysis.

Cultural statist interpretations lack a mechanism for explaining sudden, dramatic change. If a country has remained wholly wedded to a set of practices for over 200 years, then it is difficult to imagine its discarding them in quick order. The fallback position of minimizing the extent and significance of liberalization in France provides a valuable warning against those who would dismiss the role of the French state altogether. However, it yields a vision of France’s political economy that is too static and that affords an excessively prominent place to the allegedly neo-dirigiste state.

**Liberalism**

Liberal/neo-classical assumptions about political and economic behavior diverge sharply from those of cultural statist. Whereas the cultural interpretation emphasizes the unique traditions and worldviews of each community, liberals apply the axioms of rationality, equality, and maximization of interest to all individuals, wherever they may live. Whereas the former school argues that culture shapes the way in which communities
respond to markets, the latter maintains that markets shape culture, imposing a convergence on global best practice. Finally, whereas the cultural statist interpretation attributes a prominent and positive role to the state in spearheading the transformation of France’s political economy, liberals see state intervention as intrinsically dysfunctional.

The basic assumption of liberal theory is that markets offer the most efficient mechanism for allocating scarce resources. Consequently, the policy instruments of the *dirigiste* French state cannot help but undermine the health of the French economy. Sectoral industrial policy, i.e. government picking winners, is an intellectually daunting exercise. In practice, it invariably degenerates into subsidies for the politically powerful. Government-imposed rigidities in labor and capital markets raise the price of these factor inputs, while impeding their flow to the sectors for which demand is greatest. Nationalizations enable the state to short-circuit the market signals needed to assure that these firms operate efficiently. The same can be said of protectionism, as France’s dismal economic performance between-the-wars demonstrated.

In the liberal view, France has prospered in the postwar period, not because of *dirigisme*, but in spite of *dirigisme*. Dirigisme produced the deleterious consequences described above, but these have been counteracted by the progressive opening of the French economy to the salutary forces of international competition. The key decisions, from this perspective, were the commitment to European integration via the European Coal and Steel Community and Common Market in the 1950s and the Socialists' reaffirmation of this pledge in 1983, in the face of strong autarkic temptations.

In contrast to cultural statists, liberals are quite comfortable with the shifts in French economic policy during the past decade. They offer two sets of somewhat related explanations for the decline of *dirigisme*. The first is a functionalist argument: the *dirigiste*
system collapsed because it was ineffective. Its dysfunctional consequences could be
tolerated during the postwar boom period, when expanding markets afforded opportunities
to all, but by 1983, competition had grown intense. Hard times and fierce foreign
challengers meant that dirigisme had to go. It was rolled back, rather than reformed,
because like Communism, it is fundamentally unrefordable. The only good dirigisme is a
dead dirigisme.

The second kind of explanation highlights the role of international institutional
constraints. France’s peculiar dirigiste ways were practicable under the permissive
Bretton Woods regime underwritten by the US. As US hegemony receded and EC
restrictions took shape, however, dirigiste methods ran up against tightening international
constraints. France’s inflationary growth strategy was precluded by a European Monetary
System that did put an end to the possibility of using “aggressive” devaluations to offset the
effects of rapid inflation on French industrial competitiveness. Under EMS rules,
devaluations required approval from France’s partners. As a result, France had to settle for
much smaller currency adjustments that no longer sufficed to cover the gap between French
and German inflation rates, let alone confer a temporary advantage upon French firms.

The effects of international constraints did not stop at macroeconomic policy, but
extended to the microeconomic instruments of dirigisme, such as state-administered credit
rationing. Michael Loriaux argues, for example, that, “... international change, set in
motion by the United States’ abandonment of monetary leadership in the 1960s, is the root
cause of French financial liberalization in the 1980s.” The hallmark of the French
financial system was a high level of company indebtedness, which meant that any
significant tightening of monetary policy would have triggered a wave of bankruptcies

29 The strongest statement of this view is offered by Michael Loriaux. Michael Loriaux, France after
"States and Markets: French Financial Interventionism in the Seventies," Comparative Politics, Vol. 20,
No. 2, January 1988, pp. 175-93. Peter Hall also privileges the role of international factors. Peter Hall,
"The State and the Market," in Peter Hall et. al. (eds.), Developments in French Politics, (London:
throughout the economy. For most of the postwar period, French authorities accommodated this so-called "overdraft economy" through lax monetary policies and accompanying high rates of inflation. Such an approach was viable only as long as the authorities could engage in periodic aggressive devaluations, however. Once the Bretton Woods regime collapsed and aggressive devaluations became impossible, the French needed to rein in inflation, hence monetary expansion. At this point, the dismantling of the dirigiste system of credit rationing became inevitable.

Whatever the origins of the decline of dirigisme, liberals see it as an unambiguously positive development for the French economy. They anticipate that to the extent that the government is true to its post-1983 discourse, that it really does allow market forces to dictate the flow of resources, French firms will be better off. They will be compelled to be efficient by the pressures of international competition; they will be permitted to be efficient because the removal of state restrictions means that labor and capital can be raised cheaply and deployed flexibly. Any problems which French industry might encounter can be attributed to the lingering consequences of the dirigiste excesses of the past or to a stubborn unwillingness of policymakers to fully deregulate the system.

The liberal interpretation illuminates many of the recent evolutions in France's political economy. Contrary to the claims of an admiring literature on the "strong" French state, the dirigiste system came to be seen by broad segments of French opinion as constituting a drag on the country's economic performance. What is more, the kinds of dysfunctions these critics highlighted are precisely those symptoms that liberals emphasize in describing the perils of excessive state intervention in the economy: concentration of aid on declining sectors, employing large numbers of workers, instead of on the industries of the future; inflation due to excessive government spending; crowding out of private investment.

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Liberal theory not only locates the deep roots of French disenchantedment with *dirigisme*, but suggests the proximate causes of the system’s demise. The Socialists’ break with *dirigisme* was triggered, as liberals anticipate, by the constraints of the international system. The moment of truth for the Socialist government was the 1983 decision to remain within the EMS, rather than devalue the franc and embark on an autarkic course of development. Prior to this moment, the Socialists had embraced an ultra-voluntarist economic strategy; immediately thereafter, they plunged into a sweeping program of deregulation. From a liberal perspective, it is no coincidence that the Socialists’ break with *dirigisme* was triggered by an international development because *dirigisme* was practicable only outside the discipline of the market. Once the Socialists turned away from autarky, they had to turn away from *dirigisme* as well. International capitalist competition no longer allowed enough room for *dirigisme* as well. International capitalist competition no longer allowed enough room for the dysfunctional eccentricities associated with “French exceptionalism.”

Liberal theory also has much to say about the evolution of France’s political economy since the fateful decision of 1983. The move toward the market has been the most striking development in France during the past ten years. Certainly, as the cultural statist interpretation points out, the French state remains an important presence and has even extended its influence in a few areas, but the overriding trend has been toward a curtailing of state intervention. What is more, with few exceptions, the vast majority of French citizens believe that these changes have been for the better. France’s economy, only a few years ago the “sick man of Europe,” is now regarded as one of the strongest on the Continent. While virtually no one in France is satisfied with the present rate of growth, only the most diehard Communist militant would suggest that the economy is not on a sounder footing than it was in 1983.

In short, the liberal interpretation anticipates a number of the dysfunctions of the French *dirigiste* system, points to the mechanisms that seem to have brought the system

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into crisis, suggests the need for a deregulatory program that has been embraced by French policymakers on both Left and Right, and predicts -- correctly, it appears -- that if France would swallow the bitter medicine of austerity and deregulation, the economy would ultimately be strengthened. For all its undeniable assets, however, liberal theory leaves important issues unexplained. Variations in economic performance across both time and place are particularly perplexing to liberal analysis.

The evolution of the French economy in the postwar period is at odds with many of the expectations of liberal theory. For more than 40 years, liberals have been denouncing the French state for its numerous interventionist sins, yet during this period, the French economy did not collapse. Instead, it grew rapidly to become the fourth or fifth largest in the world. What is more, contrary to liberal expectations, French growth was especially strong, both in absolute and relative terms, during the initial postwar years, when dirigiste practices were at their pinnacle and the economy was largely closed to foreign competition. Nor can it be claimed that this rapid growth was purchased at the price of international competitiveness, as France’s successful entry into the Common Market in the 1960s demonstrated.

By contrast, liberal economic theory draws comfort from more recent developments. During the late-1970s and 1980s, French economic performance slacked off both in absolute terms and relative to France’s trading partners. What these facts suggest, however, is not that dirigisme was intrinsically dysfunctional, but rather that at some point, for some reason, it became less effective. Liberal theory, with its blanket denunciation of government intervention, cannot accommodate the diversity of French experience across time. It offers no insight as to why government intervention would prove functional at one moment, but not another.

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Liberal theory is confounded by developments beyond as well as within France's borders. The positing of an "end of French exceptionalism" rests upon the assumption that public intervention in the economy is somehow an "exception" to the "rule" of laissez-faire. Yet French authorities are scarcely the only ones who have tampered with free markets. Indeed, it was not laissez-faire Britain and the US that were outcompeting France during the 1980s, but Germany, with its powerful unions and "social market economy," and Japan, with its dirigiste MITI and lifetime employment guarantees. This is not to say that MITI and the strong German unions are responsible for their nations' becoming economic powerhouses, but that at the very least, such factors are not incompatible with economic dynamism.

The liberal interpretation is missing an analytical step. It is not enough to claim that the French state was dirigiste, therefore the French economy performed poorly. The "therefore" is by no means self-evident. Rather, a finer analysis is required to distinguish between different kinds of industrial policy, to explain why the interaction of state and market produced such varying results in France and Japan, for example. Unless one is prepared to take the dubious position that Germany has succeeded in spite of its unions and Japan in spite of MITI and that the US is experiencing difficulty because it is insufficiently free market, then the relevant analytical question for understanding France is not, "How far have state and institutional forces deflected the French economy from the ideal market model?" Rather, the question becomes, "Why did the particular combination of market and institutions in France, having apparently served France well for much of the postwar period, then begin to produce relatively unsatisfactory economic results, as compared to the different combinations of market and institutions found in Germany or Japan?"

The liberal perspective offers a limited understanding of French politics as well as the economy. If dirigisme was so patently dysfunctional, it remains to be explained why it was not rolled back until 1983. The period between 1974 and 1981 is particularly troubling to liberal analysis. France was ruled by self-styled liberals, openly proclaiming
their intention to shift away from voluntarist industrial policies and allow French firms to specialize within international markets. Yet dirigiste practices -- from the telecommunications and nuclear power "grands projets" to institutionalized bail-outs of firms in difficulty -- proliferated during this period. One must explain why liberal leaders were unable to enact liberal policies.

The liberal political argument emphasizing the role of international constraints fails to meet this challenge. International constraints existed prior to 1983 and were ignored. Like Mitterrand, Giscard d'Estaing confronted currency crises early in his administration, but simply chose (twice) to take the franc out of the European snake. International constraints have also been ignored in the period since 1983. In September 1992, the British, Italian, and Spanish governments all opted for devaluation over the painful measures necessary to keep their respective currencies within the EMS. In other words, the liberal explanation is underdetermined. It is not enough to assert that the EMS defeated the Socialist strategy in 1983. One must also show why the French government chose to accept international constraints this time, rather than devaluing in the manner of Giscard before and a variety of foreign regimes subsequently. The level of explanation then shifts, however, from the international arena to that of domestic politics.

Even if it were conceded that the pressures of the international community left Mitterrand no choice in 1983 but to compromise his initial reflatory strategy, it is by no means self-evident that a commitment to defending the franc spelled the end of dirigisme. One could easily imagine a government decision to scale back certain spending programs, perhaps even curtailing some of the more costly industrial policy efforts, without launching into a full-scale assault upon the dirigiste edifice. Many dirigiste practices could have continued largely as before. It is very hard to believe, for example, that membership in good standing in the EMS somehow necessitated the deregulation of labor markets or the

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elimination of price controls. Once again, this seems to have been a matter of domestic political choice.

The one case study purporting to demonstrate a technical link between international macroeconomic constraints and domestic microeconomic reform fails to stand up to close scrutiny. Loriaux suggests that membership in the EMS compelled French authorities to dismantle the administered system of credit rationing because this system was inherently inflationary. Yet he fails to prove that the system necessarily had to function in an inflationary manner. Much of the excessive growth of the money supply was due to categories of lending exempted from credit ceilings, such as housing or energy projects. These exemptions could have simply been eliminated.

The other main obstacle to tightening monetary policy identified by Loriaux, the continued need for borrowing by heavily-indebted French firms, also cannot be reduced to technical factors. This vulnerability of French business was not the inescapable result of a state-administered credit policy. Japan had developed a similar set of arrangements, yet as Loriaux himself points out, financial authorities were able to tighten monetary policy and fight inflation successfully because Japanese firms were highly profitable and had reduced their debt.35 In other words, it was not the existence of a state-administered credit system per se that made it difficult for French authorities to restrict lending, but rather the fact that French firms were not performing as well as Japanese firms (even though both sets of companies operated within a state-administered credit system). As in the case exemptions from credit ceilings, the explanation of the French dilemma cannot be reduced to the purely technical mechanisms of the country’s financial system.

Like the cultural statist interpretation, liberal theory does not adequately explain the mechanisms that have driven the changes in France’s political economy during the past decade. While welcoming France’s turn toward the market, it cannot account for this movement. Nor can it account for the inability of self-proclaimed liberal leaders to

35 Korea also appears to be developing along these lines, according to Loriaux. Loriaux, *France after Hegemony*, op. cit., pp. 289-98.
implement liberal policies in an earlier period. Furthermore, whereas the cultural statist approach offers an excessively sanguine depiction of the role of the state in the French economy, the liberal vision errs in the opposite direction. Its a priori condemnation of all but the most limited public intervention leaves it without a way of understanding either the shifting fate of France’s economy across time or the reasons for the superior performance of countries, such as Japan and Germany, which also deviate from free-market principles.

**Regulation School**

The French regulation school (école de la régulation) traces its origins in Marxist analysis and, therefore, embraces a radically different set of assumptions from those of either cultural statism or liberalism.36 Whereas the cultural approach portrays the national community as a relatively cohesive entity, sharing the same broad set of values, Marxism depicts the nation as fractured into antagonistic classes. Capitalist wage relations are necessarily conflictual, so whatever consensus there may appear to be should be regarded as unstable, as perpetually mined by the “contradictions” generated within the system of production.

This vision of capitalism spills into expectations about change. The cultural interpretation is essentially static and has great difficulty accommodating change. Liberal theory suggests a one-time need for change: intrusive public authorities must be pushed to the sidelines to create a functioning market economy. Once this adjustment has been made, however, no new institutional shifts are needed, since markets are assumed to be self-equilibrating. The liberal view of politics and institutions, like the cultural view, becomes static.

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Marxist analysis, by contrast, is predicated upon change. Given the tensions within the capitalist wage relationship, any arrangement is likely to be contested periodically by one side or the other. What is more, even if a particular political or institutional arrangement is satisfactory to both workers and employers at a particular moment, since capitalism experiences continuous evolution, this compromise will eventually be called into question by the changing imperatives of capital accumulation. As Marx put it, shifts in the "base" will inevitably necessitate adjustments of the "superstructure."

The Marxist interpretation parts company with liberalism on the impact, not only of markets upon society, but of society upon markets. Whereas liberals see markets as utility-maximizing, self-equilibrating systems, whose performance can only be undermined by public intervention, Marxists believe that markets do not arise naturally and cannot function on their own. The regulation school extends this Marxist insight -- that public intervention is required to establish a market economy\(^\text{37}\) -- into a broader argument that public intervention is necessary to make a market economy function effectively. Regulationists emphasize two kinds of coordinating functions performed by institutions: 1) matching changes in supply with changes in demand; 2) assuring a set of financial and especially labor relations that permit firms to meet the imperatives of the current phase of capital accumulation.

While extending and applying Marxist analysis to the present day, the regulation school takes issue with classical Marxism on two key points. First, it does not portray capitalism as in terminal crisis. Rather, particular capitalist arrangements are challenged at various moments, but then reconfigured, permitting the accumulation process to be launched anew for an extended period, until the next crisis. In short, although not as sanguine about the functioning of capitalist economies as liberals, regulationists are less pessimistic than classical Marxists.

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The second, related difference between the regulation and classical Marxist visions concerns the very integrity of the concept of "capitalism." From a classical Marxist standpoint, capitalism is an essentially undifferentiated entity across both place and time. It arose in England in the early-nineteenth century, has spread around the world, and will eventually enter into crisis and be supplanted by socialism. With the exception of the final outcome, this image also corresponds to the liberal understanding of capitalism.

From a regulationist standpoint, however, "capitalism" is a word that should be used in the plural. The periodic crises and reconfigurations of market economies mean that French capitalism today is fundamentally different from French capitalism in the 1930s. What is more, French capitalism is fundamentally different from German capitalism. Against the liberal vision and closer to the spirit of the cultural statist camp, regulationists maintain that there are a variety of ways to organize a competitive capitalist economy. The nature of a country's economic system is determined by that country's unique institutions and class struggles, not by some overarching logic of convergence.

Seen from a regulation standpoint, France's political economy is distinguished not only by dirigisme, as noted in the cultural and liberal approaches, but by "Fordism." The notion of "Fordism" refers to a particular mode of capital accumulation pioneered in the United States. Fordism has both a supply and a demand dimension. On the supply side, it involves a system of mass production of standard commodities (hence the reference to Henry Ford), using unskilled workers and dedicated equipment, and striving toward an ever greater division of labor and separation of conception from execution. On the demand

side, Fordism designates a set of mechanisms, notably wage indexation, assuring that aggregate demand grows in tandem with productivity.

Regulationists often refer to France as “the best student of Fordism.” France came late to Fordism, but did so with a vengeance. If in the period prior to World War II, the nation’s economy was dominated by agriculture, on the one hand, and small family firms, producing customized goods in limited quantities, on the other, the postwar era saw a headlong rush into industrialization based upon mass production. The dirigiste state spearheaded this shift. State authorities sponsored mergers to create giant “national champions,” provided investment capital to these champions at privileged rates of interest, and repeatedly tapped new sources of cheap, unskilled labor -- peasants, immigrants, women -- to toil in the burgeoning Fordist factories.

Management of demand also ripened gradually into Fordism, with state policies once again playing a central role. The creation of a social security system after the war introduced automatic stabilizers into the economy, and a bias toward inflationary growth policies helped assure steadily expanding domestic markets. Fordist demand management was not fully enshrined, however, until after the events of May 1968, when the government took the lead in creating a system of wage indexation.39

The problem for France is that just as it was putting the finishing touches on its Fordist political economy, this system entered into crisis.40 As markets became saturated and consumers more discriminating, competitive advantage began shifting from low-cost manufacturers of standard commodities to those capable of innovating rapidly, targeting high-value-added market niches, and guaranteeing quality. French industry, with its unskilled workers and lumbering multinationals, was poorly positioned to make the necessary adjustments. Aggravating the situation, Fordist demand management policies

also began to reach their limits. Heightened exposure to international competition meant that reflationary measures of the kind pursued in the early years of the Giscard and Mitterrand presidencies increasingly benefitted France’s trading partners, instead of stimulating production at home.

From a regulation perspective, the crisis of dirigisme is inextricably intertwined with the crisis of Fordism. During the postwar period, the dirigiste state gradually developed and perfected a set of institutions and practices that were well-adapted to the imperatives of Fordist competition. Once these imperatives began to change, however, dirigiste arrangements appeared far less attractive. To borrow a Marxist phrase, they became “a fetter” on the forces of production. In order to cross the “second industrial divide,” France needed skilled workers, flexible firms, and SMEs capable of organizing in production networks -- and the dirigiste state was not very good at producing these. Thus, forging a “post-Fordist” political economy meant tearing down the dirigiste edifice and recasting French institutions in support of a new set of economic practices.

The predominant tendency within the regulation school is to portray the present situation in France as extremely open. Regulationists see the crisis and reconfiguration of institutions as a regular feature of capitalist development. France has experienced such shifts before, undertaking sweeping changes in its institutional arrangements following World War II, for example. Thus, there is no reason to suspect that the nation will prove incapable of adjusting in the current situation. This analysis yields a rather voluntarist tone concerning France’s future: the old institutional arrangements have been destroyed, and now France must choose a new set of institutions to accommodate the imperatives of post-Fordist production.

Such voluntarism is particularly evident in the writings of Alain Lipietz. Lipietz believes that at moments of crisis, just about any outcome becomes possible: “In each

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41 To be sure, there is some disagreement within the regulation camp. Robert Boyer appears less sanguine about the possibilities for change than Alain Lipietz.

42 Lipietz, Rebel Sons, op. cit.; L'audace ou l'enlisement, op. cit.; Choisir l'audace: Une alternative pour le vingt-et-unième siècle, (Paris: La Découverte, 1989); Danièle Leborgne and Alain Lipietz, “Flexibilité
major crisis, there is a debate, and humankind searches out new relations, new
compromises. At each major crisis the way is open, history is open." His works
emphasize the broad choices confronting French authorities: between "audacity" and
"becoming stuck" (l'audace ou l'enlisement) or between "offensive" and "defensive"
flexibility. France can have "winning regions" characterized by "offensive flexibility"
provided that political leaders make the right choices.

The regulation approach illuminates central features of France's political economy.
First of all, it correctly identifies France's economic crisis as structural, rather than
conjunctural. The problems of French industry were not simply the result of one-time
shocks, like the oil price increases of 1973 and 1979, or an excess of government spending
(although these certainly did not help matters). They were more deeply rooted. It is the
very nature of French industry, its strongly Fordist character, that has been called into
question. Today, this diagnosis is shared by policymakers and industrialists alike, with
French elites of all political persuasions urging the promotion of small firms and the "de-
Taylorization" of large ones.

A second strength of the regulation interpretation is its ability to account for
variations across time. In contrast to liberal theory, it does not offer a blanket denunciation
of government intervention. Rather, it suggests that dirigisme was well-suited to the
economic challenges of the trente glorieuses, but then became dysfunctional as new
challenges emerged. This periodization corresponds to the evolution of French economic
performance over the years. It also corresponds to a number of industry studies suggesting
that the standard recipes of dirigiste industrial policy became less and less effective over

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offensive, flexibilité défensive: Deux stratégies sociales dans la production des nouveaux espaces
economiques," in Georges Benko and Alain Lipietz (eds.), Les régions qui gagnent -- Districts et réseaux:
347-77. Charles Sabel also offers a relatively upbeat assessment of the possibilities for forging new
arrangements. Charles Sabel, "Studied Trust: Building New Forms of Cooperation in a Volatile
Economy," in Frank Romo and Richard Swedberg (eds.), Human Relations and Readings in Economic
43 Lipietz, Rebel Sons, op. cit., p. 22. Emphasis in the original.
time. As long as the imperatives of competitiveness conformed to a Fordist logic, the dirigiste strategy of boosting investment and pursuing economies of scale worked reasonably well. The problem occurred when Fordist methods were no longer enough. When competing successfully meant offering more sophisticated, quality products (like specialty steels), developing the organizational capacity to undertake continuous innovation (computers), or producing small batches of customized items (machine-tools), standard dirigiste prescriptions yielded disastrous results. Thus, from a regulation perspective, it makes sense that French economic performance was stronger in the 1940s, 50s, and 60s than in the 1970s and 80s because Fordist strategies could be expected to yield better results in the earlier period.

It also makes sense that the decline of French economic performance was not only absolute, but relative (notably relative to Germany). During the phase of triumphant Fordism, French dirigisme and German corporatism served as functional equivalents, with both nations mobilizing industry for mass production. As the imperatives of competition shifted, however, long-muted national differences acquired salience. The greater decentralization of both political and industrial power in Germany, the robustness of networks of SMEs supported by local institutions, the vitality of shopfloor codetermination, placed German industry in a more favorable position than its French counterpart for meeting the challenges of post-Fordist competition. Regulation analysis is further comforted by the fact that it was Germany, as opposed to Britain or the US, that was outdistancing France. Because it envisages a significant and potentially positive role

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for institutions in shaping industrial competitiveness, the regulation school, unlike the liberal approach, has no difficulty accounting for the dynamism of countries in which market forces are mediated by powerful institutions.

While the regulation approach offers a penetrating characterization of the relationship between dirigisme and industrial competitiveness, one that is able to accommodate variation across both time and place, it leaves certain questions unanswered. Like the liberal interpretation, it identifies key challenges confronting the dirigiste system, but fails to explain why the system was unable to meet these challenges. By the mid-1970s, French policymakers were well aware of the need to push French industry away from mass production of standard commodities toward higher-value-added output that could be sold in competitive international markets. They were also trumpeting the virtues of dynamic, flexible SMEs, that could rapidly occupy international market niches. Yet for all the public declarations and planning documents, government officials were unable to shift the thrust of industrial policy in the desired direction. Countless studies reveal that in the late-1970s and early-80s, the overwhelming share of government aid was being channeled to a select few national champions, with precious little left over for SMEs.

What is more, the aid was being used, not to promote adjustment, but to delay it.

This final point suggests a further limitation of regulation analysis. Regulation theory speaks to one dimension of the crisis of dirigisme -- to the incompatibility of traditional dirigiste strategies with the changing imperatives of international competitiveness. The crisis of dirigisme had a second dimension, however. It was not just that the dirigiste system failed to adapt, but that it shifted in perverse ways. In the 1970s, dirigisme deviated from its modernizing mission, becoming wedded instead to the preservation of the status quo. Increasingly, dirigiste instruments were being deployed to

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comfort lame ducks in their resistance to international markets signals, not, as before, to accelerate the pace of adjustment. This reorientation requires explanation.

If the regulation approach has difficulty accounting for policy shifts in the decade prior to the Socialist U-turn of 1983, it is also limited in its understanding of subsequent evolutions. Theorists like Lipietz insist on the ability of the French to choose their economic and institutional destiny, but do not speak to the question of how they are to go about implementing this choice. The implicit assumption is that it is relatively easy for the authorities to foster new institutions. Yet, as this dissertation will demonstrate, French officials have met with tremendous difficulty in their efforts to recast institutions, even in such cases as decentralization in which there is a broad consensus in favor of reform.

In short, regulation theory explains much about the crisis of French industry since the mid-1970s. It says little, however, about the ability of public officials to respond to this crisis. It alternates instead between a structuralist vision of the pre-1983 period that limits the room for political maneuvering, and a voluntarist depiction of the post-1983 period that neglects the role of structure.

Extending the Analysis: History, Institutions, and Politics

The analytical approaches examined thus far define the broad challenges confronting France’s political economy since the mid-1970s as well as the basic resources at the hands of policymakers to meet these challenges. From the liberal and regulation perspectives, we learn that shifts in the global economy (increasing economic integration, the crisis of Fordism) and in international politics (the collapse of the Bretton Woods regime, the tightening of EC constraints) began to severely undermine traditional dirigiste strategies. From the cultural statist approach, we are led to privilege the role of the state in understanding France’s response to the new political and economic environment.

While setting the structural parameters of France’s political economy, the cultural statist, liberal, and regulation approaches say little about evolutions within these
parameters. They do not tell us why the French system appears to have been less able than that of some other countries to adapt to the changing conditions of international competition. Nor do they illuminate shifts in the nature of state strategy -- the loss of the modernizing mission in the 1970s, the growing contradiction between liberal proclamations and dirigiste actions. Finally, they say little about the evolution of institutions outside the state. To fill these voids, the cultural statist, liberal, and regulation theories must be enriched through an understanding of the sources of both change and blockage within the French system. Such an understanding requires greater attention to the dynamics of French politics as well as the opportunities and constraints afforded by French institutions. For this reason, the following analysis will privilege a fourth perspective, that of "historical-institutionalism."

Historical-institutionalism is rooted in three basic claims. The first is that institutions matter. The configuration of institutional actors -- as opposed to national culture or international market signals -- constitutes the central structuring feature of both economic policymaking and the broad evolution of national (or sub-national) economies. This configuration varies from country to country and some maintain, from region to region.

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Institutions matter for policy. Historical-institutionalists argue that not all policies are possible in all places: the "weak" Italian or American States are ill-equipped to run a strategic industrial policy; the fragmented employer and union associations of Britain cannot easily sustain an incomes policy; German officials find it difficult to push through large-scale deregulation in the face of resistance from powerful banks, unions, and employer associations. Institutions also matter for the economy. In contrast to the liberal approach and much like the regulation school, institutionalists assert that rather than "one best way," a range of competitive strategies are viable at any given time. However, the full range is not possible -- or, at least, equally plausible -- for every firm in every country. Instead, certain kinds of strategies tend to cohere geographically (at the national or regional level) under the influence of indigenous institutions. The configuration of institutional actors in a particular country (or region) tends to bias local company strategies: toward "Fordism" or "flexible specialization"; toward autarkic or cooperative relations with other firms; toward innovation- or price-based competition; toward internal or external labor mobility, etc.

The second claim of historical-institutionalism is that history matters. Strategic choices made at critical junctures radically redefine the options available at a later point. The decision of British officials in the immediate postwar period to forego physical quotas, for example, handicapped subsequent efforts to institute economic planning. This kind of path dependence applies to the evolution of institutions as well as policies. While British and American leaders look with envy on the German system of apprenticeships and worker training, historical-institutional analysis is very skeptical of the possibilities for recreating the institutional actors who organize these programs (chambers of commerce, local authorities, unions) on foreign soil. As difficult as it is to recast policies, it is perhaps even more difficult to recast institutions.

The third claim of historical-institutionalism, that politics matters, is somewhat at odds with the first two claims. While institutions and historical legacies constrain the
options available to policymakers, they do not fully determine them. Political choices -- sometimes strategic, often unwitting -- play an essential role. This is particularly true in periods of crisis, so-called "critical conjunctures," when traditional constraints are relaxed.

A favorite metaphor of historical-institutionalists is that of a branching tree. Periodically, a collectivity reaches a branching point, where politics plays a determining role in pushing the system toward one branch or another. Then, the moment of contingency draws to a close, and the collectivity is tracked along its chosen trajectory. For awhile at least, past choices and present institutional constraints make it extremely difficult to jump from one branch to another. Only with the next crisis or branching point will the opportunity arise to shift to a new path, and even at this point, historical legacies will continue to shape available options. While a collectivity may be able to shift to a neighboring branch, not all branches will necessarily be within reach.

The statement that history, institutions, and politics matter may appear lapidary, but it points the way for understanding the evolution of France's political economy during the past two decades. The starting point for such an understanding is the striking imbalance between the state and the institutions of civil society in France. France is a country in which the state is "strong" and all other institutions (employer associations, chambers of commerce, trade unions, local government, autonomous financial institutions, universities, etc.) are "weak." As the statist literature describes, this imbalance enables French technocrats to define and pursue economic strategies, unchecked by rival actors, with an authority that their Anglo-Saxon counterparts could only dream about. What this dissertation aims to demonstrate, in contrast to the statist literature, is that the state's preponderance is a source of "weakness" as well as "strength."

In the next chapter, we will see that the crisis of dirigisme stemmed in many ways from the marginality of French intermediary associations. The same "capacity" and "autonomy" that allowed state officials to pursue far-sighted developmentalist strategies allowed them to ignore the growing signs that traditional dirigiste methods, emphasizing
the virtues of mass production and economies of scale, were diminishing in their effectiveness. Aggravating matters, to the extent that officials attempted to shift the course of economic policy, these efforts were handicapped by rigidities within the dirigiste system itself, historical legacies of earlier policy choices. Authorities found it all but impossible to direct resources away from traditional clients toward emerging priority areas, such as high-tech SMEs. They also confronted demands from the less productive segments of society that proved difficult to resist: given the tremendous concentration of power in the French state, it was logical for the various "losers" of modernization -- a rapidly growing cohort with the onset of economic crisis in the 1970s -- to demand that Paris provide relief.

While institutional dynamics and historical legacies posed a number of problems for traditional dirigiste arrangements, the collapse of this system cannot be reduced to purely mechanistic or structural factors. The non-adaptation or mis-adaptation of dirigisme was also driven by politics. Readjusting the course of dirigisme would have been no easy feat, no matter what the circumstances. In the political circumstances of the 1970s and early-80s, however, this was not the top priority of government officials. The Pompidou and Giscard governments, shaken by the events of May 1968 and a growing challenge from the Union of the Left, were more concerned with keeping workers off the streets and the Left out of power than with perfecting the instruments of economic policymaking. Likewise, the initial Socialist governments in the early-80s, wedded to dirigiste prescriptions by electoral calculations as well as convictions, were little inclined to overhaul the system.

The historical-institutional approach casts light upon developments subsequent to the crisis of dirigisme, as well as the origins of that crisis. Even after 1983, France's state-centric institutional configuration has continued to shape the options available to government authorities, and not always for the better. Officials have found that they can deregulate various policy areas or they can attempt to craft new, more effective modes of state intervention. By contrast, efforts to transfer responsibilities from the state to societal and local actors have foundered upon the weakness of the latter. This point will be
illustrated primarily through analysis of the policies of French local authorities to promote provincial SMEs, but the difficulties described extend well beyond the case of decentralization. Across a range of areas, the weakness of organized interests and local institutions outside the central state, both cause and consequence of the operation of the postwar dirigiste system of economic policymaking, has proven extraordinarily difficult to reverse and has limited the options of Parisian policymakers in trying to tackle the current economic crisis.

While emphasizing historical legacies and institutional constraints, this account of post-dirigiste France will also point to the salience of political choices. France's state-centric past bequeathed rather unpromising materials for the kinds of policies that require the active involvement of intermediary and local institutions. Nonetheless, institutions can and do change, particularly at moments of contingency or "critical conjunctures." The initial Socialist years were precisely such a moment, when a newly-elected government, backed by an overwhelming parliamentary majority, turned its attention to the reform of French institutions. To understand the limits of institutional change in France, one must understand the politics of this moment.

The leading institutional reforms, notably decentralization and the Auroux laws, were enacted at a time when the Socialists were fully wedded to a dirigiste industrial strategy. Consequently, these measures were not crafted with an eye to optimizing their technocratic or economic potential. They represented a political project, rather than an economic project -- to democratize France, as opposed to enriching it. What is more, despite their undeniable significance, they constituted but a small component of a very heavy legislative agenda. As a result, a number of compromises or omissions were accepted for the sake of swift passage. In short, if the objective of recasting French institutions confronted a mountain of obstacles, the political will to scale that mountain was questionable at best.
The presentation to this point has been, of necessity, somewhat brief and general. The next chapter offers a more detailed analysis, characterizing the shifts of French economic policy during the past twenty years. The insights of the historical-institutional approach will be shown to be quite helpful in understanding, first the growing crisis of *dirigisme* in the 1970s, then the succession of policy experiments in the 1980s. The evolution of France's political economy -- the frustrations of efforts to meet the challenges described by the liberal and regulation schools and the limitations of post-*dirigiste* reform -- can be explained primarily in terms of the dynamics of French politics and the opportunities and constraints stemming from the country's *dirigiste* institutional legacy.
CHAPTER TWO - THE CRISIS OF DIRIGISME AND SEARCH FOR ALTERNATIVES

For "thirty glorious years,"¹ activist industrial policy and exceptional economic growth coincided in France to the point that it seemed self-evident that the former was responsible for the latter. Before the Second World War, France's minimalist state had countenanced the timorousness of a Malthusian bourgeoisie, bringing decline and the humiliation upon the nation; after the war, technocratic planners had launched a forced-march industrialization, and France experienced the most sustained, rapid development in its history. Clearly, it was state policy that made the difference.

This identification of dirigiste policies with economic prosperity was constructed upon the basis of an extraordinarily favorable historical moment, however. The thirty years following the war were "glorious," not only for France, but for most of France's neighbors as well. It was a time of abundant market opportunities, fueled initially by the demands of postwar reconstruction, then by a burgeoning middle class, and relayed by the creation of the Common Market. It was also a time when France enjoyed "the advantages of backwardness." A predominantly rural economy after the war, the nation was able to reap huge productivity gains from the transfer of labor out of agriculture and into industry. French authorities could pursue a relatively straightforward "extensive" strategy of development, secure in the knowledge that standard items produced at low cost would find an eager clientele in a populace just entering the consumer age. Thus, rapid economic development reflected more than the talents of French planners.

By the 1970s, the relatively benign environment of the trente glorieuses had begun to erode, and France's dirigiste model confronted a new set of challenges. As liberal theory predicts, increasing international competition brought pressure upon the protected domestic markets in which many French firms had thrived. Responding to this pressure,

¹ The phrase used to describe France's postwar boom period was coined by Jean Fourastié. Jean Fourastié, Les trente glorieuses ou la Révolution invisible de 1946 à 1975, (Paris: Fayard, 1979).
the regulation school adds, required more than lowering costs. Firms needed to develop
the capacity to customize their products, to innovate continuously, to target market niches,
and to rally workers and suppliers behind this set of objectives.

While the challenges to the *dirigiste* model were multiplying, the French state’s
resources for meeting these challenges were declining. With international integration,
French authorities were losing many of the traditional weapons in their *dirigiste* arsenal,
such as the capacity to protect markets and to carry out aggressive devaluations. They
would need to reconfigure this arsenal, constructing new instruments to meet the
competitive imperatives of the 1970s. What is more, they would have to do so in an
increasingly difficult economic climate, as the *trente glorieuses* gave way to post-OPEC
stagflation.

Instead of successful adaptation, however, *dirigisme* suffered blockage and
maladjustment. SMEs and the industries of the future continued to be shortchanged in the
allocation of publicly-controlled resources. What is more, it is not just that *dirigisme* failed
to change, but that it changed in perverse ways. From serving as a spur to modernization,
*dirigisme* evolved into an instrument for the preservation of the *status quo*.

This chapter describes the political and institutional forces that provoked the
dysfunctions of French economic policymaking and ultimately brought the *dirigiste* model
into crisis. Having analyzed the origins of the crisis, it then turns to the various projects
put forward in the 1980s and 90s to redress the situation: exacerbated *dirigisme*,
deregulatory liberalism, and institutionalized or Tocquevillean liberalism. These three sets
of prescriptions parallel the theoretical interpretations of France’s political economy
examined in the previous chapter: the cultural statist, liberal, and regulation approaches
respectively. The economic policy experiments of the 1980s were no mere academic
exercise, however. Rather, successive reform packages were driven as much by a political
logic as by a theoretical or economic logic.
The Crisis of Dirigisme

The inability of France's dirigiste system to meet the challenges of the 1970s can be traced to the very institutional logic upon which the system was founded. As the cultural statist interpretation points out, the dirigiste style of economic policymaking was rooted in the belief that the French state represented an oasis of enlightenment and integrity amidst a desert of selfish, risk-averse societal actors: a Malthusian bourgeoisie, corporatiste interest groups, clochenerlesque local authorities. Given such unpromising societal materials, state technocrats felt justified in their dirigiste outlook -- in pursuing the "general will" without or even against the bearers of "partial wills."

One can, of course, debate the merits of this position. To the charges of Malthusianism and corporatisme, critics of state expansionism since Tocqueville have responded with indictments of stifling dirigisme. French civil society is weak, they maintain, because state officials will not let it develop, preferring to monopolize power and clamp down on autonomous initiatives. It is Colbert who has created Malthus. If the state were less invasive and more willing to share responsibility, groups in French civil society would "make the difficult apprenticeship of democracy" and learn to exercise power effectively.

Whether it was Malthus who created Colbert or Colbert who created Malthus, the hallmark of the dirigiste system became a concentration of authority in Parisian ministries, with minimal input from societal and local organizations. The initial Liberation hopes for a new era in industrial relations, for example, quickly gave way to a set of policy arrangements in which organized labor was reduced to the role of disgruntled spectator. This shift resulted from a number of factors: the pervasive distrust between French employers and unions; the weakness and divisions among French unions; the radicalization of the largest union, the Communist Confédération Générale du Travail (CGT), with the intensification of the Cold War; and perhaps most important, a fundamental disagreement over social priorities, with planners and industrialists favoring corporate investment, while
union officials sought to alleviate pent-up consumer demand and to repair a damaged and underdeveloped social infrastructure. There was plenty of blame for all parties, from dirigiste technocrats, to Malthusian employers, to corporatiste union officials. Whatever the exact balance of causes and responsibilities, within a few years after the Liberation, French unions were essentially absent from the policymaking scene.²

The collective organizations of business fared scarcely better under dirigisme. Many of these associations had originated as recession cartels under the Third Republic and remained faithful to their Malthusian founding mission. They represented a segment of French industry, small- and medium-sized enterprises (SMEs), that was widely regarded as hopelessly backwards. What is more, they tended to view the state as the enemy, the source of their problems, with its excessive spending and commitment to market opening, rather than as a potential ally.³ State officials returned the disdain and focused their attentions upon an alternative set of interlocutors. The overriding share of subsidies and cheap credit were channeled to “national champions,” a select group of multinationals constructed through a series of mergers, with whom planners could negotiate directly. Once again, the logic of both Colbert and Malthus pointed in the same direction: an organized interest group became marginalized, not only due to its own incapacity and ambivalence toward state modernization projects, but as a result of technocratic considerations. From a planner’s perspective, it was far easier to implement industrial policy measures through direct negotiations with one or two corporate giants than through bargaining with a weak industry association that often could not control its members.⁴

² Two of the leading French unions, the Confédération Générale du Travail (CGT) and Force Ouvrière (FO), complaining of a lack of consultation, withdrew from the preparation process for the Second Plan, not to return until the Eighth Plan. The Confédération Française Démocratique du Travail (CFDT) withdrew for similar reasons during the Sixth Plan. Hall, Governing, op. cit., p. 158.
⁴ This reasoning was embodied in the so-called "80/20 ratio," according to which planning becomes feasible when 80% of the output in a sector is produced by no more than 20% of the firms. Shonfield, op. cit., p. 138.
As will be seen in the next chapter, economic relations between Parisian technocrats and local elected officials unfolded according to a similar dynamic. Provincial elites were concerned primarily with preserving the stability of the community; they tended to perceive state-sponsored economic development efforts more as a threat or nuisance than as a desirable good. Such antipathy did not deter Parisian officials, however. Instead, they intervened directly in the provinces, via technocratic agencies such as DATAR (Délegation à l'Aménagement du Territoire et à l'Action Régionale), and by creating new institutional channels (i.e. regions) to provide a sympathetic interlocutor at the local level.

For much of the postwar period, the meeting of Malthus and Colbert served state priorities well. Officials could channel resources to industry in order to accelerate the pace of growth, unconstrained by a burdensome partnership with organized labor that would have necessitated greater attention to consumption. They could negotiate the terms of industrial policy with interlocutors of their own choosing (or, in the case of the national champions and the regional authorities, of their own creation), rather than with adversarial interest associations. Such autonomy had its price, however. In the 1970s, the very features that had made for “state strength” -- independence from employer and worker organizations, the capacity to privilege a select group of national champions, control over vast economic resources -- would undermine efforts to adjust the course of France’s political economy.5

The ability of state policymakers to ignore pressures from the representatives of business and labor revealed itself to be a double-edged sword. On the one hand, it sheltered state officials from corporatiste demands; on the other, it cut away checks and feedback mechanisms that might have redirected policy in a more fruitful direction. As a result, French policymakers continued to pursue certain strategies, notably the commitment to mergers and Fordist mass production, long after such approaches had begun to demonstrate their limits. This was not the inevitable result of government tampering with

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5 The structure of this argument borrows heavily from Peter Hall's treatment of the decline of French planning. Hall, Governing, op. cit., ch. 7.
market forces. Rather, as a comparison with Germany illustrates, it stemmed from the lack of institutional checks that might have reoriented dirigiste initiatives in a more market-conforming direction.

In the machine-tool industry, for example, French authorities embraced a mass production approach that was completely at odds with the strengths and potentialities of French manufacturers, yielding disastrous results. France counted a number of promising SMEs, but no large-scale multinationals. Instead of helping the SMEs to modernize and target market niches, policymakers resorted to the standard national champions recipe and merged them into giant lame ducks. Instead of encouraging customized, high-profit output, officials pushed firms to establish ever-longer production runs of standard commodities. Instead of supporting the diffusion of new computer control technologies throughout the industry, they encouraged a few privileged companies to make extremely difficult and risky technological leaps. Instead of employing technological innovation to upgrade the skills of workers, state technocrats incited firms to substitute capital for labor, to deskill or replace workers.

The contrast with Germany could not have been more striking. This is true, not only in terms of the kinds of policies implemented and their economic effect -- German firms successfully countered the threat posed by Italian and Asian competition, whereas their French counterparts were all but wiped out -- but in the way in which these policies were devised. Germany did not pursue American-style liberalism; the German state was involved heavily in the development and dissemination of microelectronics technology. Nor did it pursue French-style dirigisme. Rather, the public policy impulse was refashioned through a process of careful negotiations among the relevant social partners.

Because German authorities worked hand-in-glove with organized interests, they avoided many of the errors of their French counterparts. Union input prevented a strategy of deskilling and pushed industrialists to use the new technologies to make workers more

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6 This account is drawn from Verdier, op. cit.; Maurice and Sorge, op. cit.; and especially Ziegler, op. cit.
productive. Industry association input made sure that the needs of small firms would be taken into account. Consequently, German industry averted the Fordist pitfall of pursuing economies of scale. Technology was deployed to facilitate niche production by SMEs, rather than mass production by national champions. Finally, close contact among academic, professional, and union organizations assured that the technology developed and diffused corresponded to the needs of industry and its workers, not to some planner's vision of the ideal "factory of the future."

If the mechanisms of dirigiste policymaking dulled the sensitivity of French authorities to the need to change their methods, to move away from the promotion of Fordist mass production, they also complicated the task of adaptation once decided. Even when French authorities sought to redirect their strategies, they were confounded by the legacy of earlier choices. Traditional dirigiste arrangements proved extremely resistant to revision. Government relations with the national champions offer a case in point.

The national champions represented perhaps the purest incarnation of dirigiste industrial policy. They were established through a series of state-sponsored mergers, according to a technocratic vision of the ideal firm structure, and with the goal of facilitating planning. Yet this did not make them wholly beholden to the whims of state authorities. Rather, the national champions were dirigisme's Frankenstein: created in state policy laboratories, they soon took on a life of their own, escaping their erstwhile master's control.

The reasoning of French technocrats had been Schumpeterian in inspiration. Officials believed that only large companies, earning high profits and operating in multiple markets, would possess the resources needed to compete against American or German multinationals. The reality of the national champions strategy was less Schumpeterian, however, than Malthusian. France's national champions showed little incentive to embark on mercantilist crusades. Ironically, this was precisely because the mechanisms of the national champions strategy provided these firms with safer, more attractive alternatives.
Rather than innovate, the national champions relied upon public R&D or licensed technologies from abroad. Rather than sell in competitive industries, they sought lucrative public procurement niches. Rather than export, they milked the protected home market. To the extent that they did sell abroad, they focused on markets procured by the state: weapons or high-price public infrastructure projects (telephone switches, trains, subways, nuclear plants), in which government-to-government relations constitute a crucial component of sales. That the national champions were able to adapt such a passive stance and survive was testimony to the large number of quasi-captive markets -- protected domestic markets, government and defense procurement, state-arranged foreign contracts -- guaranteed by the French state.

Beyond the problems inherent to the national champions strategy in its own right, the legacy of this strategy constituted a formidable obstacle to subsequent efforts at reform. Under the Giscard presidency, particularly following the naming of Raymond Barre as Prime Minister in 1976, government authorities proclaimed the objective of shifting resources from national champions to long-neglected SMEs. National champions would not only receive less aid, but be prodded to use it more effectively: subsidies would be scaled back; competition introduced into public procurement; and cheap-labor strategies vitiated through commitment to a strong franc. Taken together, officials hoped, these measures would force long-coddled national champions to rationalize production and move into higher-value-added export niches (a movement presented under the banner of "industrial redeployment").

What the Giscard-Barre tandem discovered, however, was that the arrangements they had inherited were extremely inertial. The national champions possessed a number of weapons that permitted them to resist state cutbacks. Their participation was essential to high-profile state projects in computers, semiconductors, telecommunications, high-speed

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7 Cohen, "Informed bewilderment," op. cit..
8 The philosophy underpinning Giscard’s economic strategy is presented in Stoffaës, Menace industrielle, op. cit.. For a discussion of Giscard's policy and its limits, see Andrews and Hoffmann, op. cit., ch’s 12-17; Cahiers Français, Politique industrielle, op. cit..
trains, and nuclear power. State officials could not easily reduce subsidies while urging the national champions to sign onto expensive, voluntarist public missions.

Further reducing policymakers' leverage, across a range of sectors, they confronted what were essentially domestic monopolists. The concentration of production had been the raison-d'être of the national champions policy, but "success" in this respect brought new constraints. Whereas Japanese planners could typically play off five or six fiercely competitive firms against each other, their French counterparts enjoyed no such option. If officials could not enlist the cooperation of the relevant national champion, they had nowhere else to turn. Finally, the merger movement had provided the national champions with the ultimate trump card in their dealings with the state: control over tens of thousands of jobs.

Despite its small-is-beautiful rhetoric,9 the Giscard-Barre regime proved unable to shift significant resources from the national champions to SMEs. The former were far better positioned to pressure the state for resources than the latter. In 1978, the government quashed the release of the Hannoun Report, which it had itself commissioned, because the report showed that seven firms were capturing more than one-half of all public aid to industry.10 The figures for R&D support were equally skewed: in 1980, SMEs employing fewer than 500 employees received only 3.5% of public R&D subsidies.11

Finally, SMEs continued to be the last served under the state-administered credit-rationing

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9 Typical of this rhetoric is the following policy declaration by François de Combret, a close advisor to Giscard on industrial affairs, in a 1978 Le Monde interview: "... the new industrial policy is centered on small- and medium-sized enterprises and does not make an absolute strategic objective of large scale. Very often, in fact, a small- and medium-sized enterprise is easier to manage and, therefore, responds better than a large company to the imperatives of competitiveness: controlling costs is easier, overhead is lower, there is greater flexibility in adapting to the market. In addition, the small- and medium-sized enterprise creates jobs because its growth rate is, in general, greater and it requires less investment per job created. Finally, because of its very size, the small- or medium-sized enterprise naturally has the characteristics that respond well to the concern for configuring human relations and work organization in a manner that respects the individual person." Cited in Cahiers Français, Politique industrielle, op. cit., p. 9. Translation the author's.

10 The seven companies were: Thomson, CGE, CII-Honeywell Bull, Alsthom-Atlantique, Empain, Dassault, SNIA. Adding the largest steel and chemical groups, along with Saint-Gobain-Pont-à-Mousson, to this list, the share of government aid rises to 75%. Ibid., p. 16.

11 OCDE, op. cit., p. 279.
system, to the point that a study for the preparation of the Eighth Plan (the Mayoux Report) urged financial deregulation as a means of improving their access to capital.\footnote{Loriaux, \textit{op. cit.}, p. 205.}

The relative neglect of SMEs reflected not only the enduring clout of the national champions, but a host of other demands thrust upon the Giscard-Barre regime. This overload stemmed from a third legacy of \textit{dirigiste} policymaking: the identification of the plight of the economy with the decisions of state technocrats. Given the absence of any significant collaboration with business or labor organizations, the government lacked a buffer or co-conspirator. In the public eye, the fortunes of industry, the distribution of benefits among different social groups were determined, not by markets, as in the US, nor by a diffuse assortment of national and local government officials, public and para-public agencies, administrators and interest groups, as in Germany. Rather, all were agreed that the fate of the French economy was in the central government's hands.

As will be seen in the next chapter, when French firms ran into difficulty, even small provincial companies like Lip or Manufrance, they inevitably turned to the state for help. Given the \textit{dirigiste} character of France's political economy, this reflex made perfect sense. No other institution could provide the necessary assistance: not the local authorities, who had neither the know-how, the legal mandate, nor the financial resources to mount a rescue operation; not the banks, who maintained an arm's-length relationship with their industrial clients; not the industry associations, who never intervened in the management of member firms. Having monopolized control over the key levers of France's political economy, state officials could not plausibly suggest that workers seek remedy elsewhere, since there was nowhere else to go.

The political context of the 1970s heightened government vulnerability to such pressures. In a sense, the institutional legacy of \textit{dirigisme} -- the tremendous concentration of power in Parisian ministries -- set the stage for the difficulties of the era, but a series of political struggles then moved the actors across that stage. The absence of input from
social partners blinded the authorities to ongoing economic shifts and restricted their ability to shift resources to emerging priority areas. The institutional context was only part of the problem, however. The task of adjusting the instruments of dirigisme to changing economic imperatives was further complicated during the 1970s by political factors, notably the legacy of May 1968 and a tightly-contested electoral context.

The events of May 1968 sent a shockwave throughout the French political establishment. In a country with a relatively new and contested constitution and a long tradition of revolutionary politics, such unrest was not taken lightly. Violent protests by shopkeepers, workers, and farmers served as a periodic reminder of the shaky legitimacy of the Fifth Republic. In the face of these protests, technocratic considerations of economic modernization tended to take a backseat to the political imperatives of regime preservation. Policies toward French shopkeepers were emblematic of this evolution.13

During the 1960s, the Gaullist regime had welcomed the spread of supermarkets as a way of modernizing France’s distribution system and dampening inflation. A 1960 reform (the “Fontanet Circular”) made it illegal for suppliers to comply with a shopkeeper-led ban on sales to supermarkets seeking to undercut the high prices of small shops. Because of this and other measures, new supermarkets multiplied, while tens of thousands of shops went out of business. In the wake of May ‘68, however, and in response to a well-organized campaign of violent demonstrations by shopkeepers, the government of Georges Pompidou backtracked. Sacrificing modernization to political prudence, Pompidou’s regime enacted the infamous Royer Law of 1973, which essentially gave local shopkeepers veto power over all proposed supermarket construction in the community.

If fear for the stability of the regime did not offer sufficient grounds for tempering modernizing strategies, Pompidou’s successor as President, Giscard d’Estaing also feared

for his electoral future. Having been elected by a razor's edge in 1974, Giscard confronted
a rising Communist-Socialist alliance and a plummeting economy. To make matters worse,
as of 1976, he also confronted a challenge from his erstwhile ally and Prime Minister,
Gaullist party leader, Jacques Chirac.

Such a political and economic context did not augur well for far-sighted economic
policymaking. Sluggish growth deprived Giscard of the resources needed to invest in the
industries and the SMEs of the future, while simultaneously paying off the losers of the
present and past. The political hammer blows of the opposition, its repeated denunciations
of the "irresponsible abandonment of the flowers of French industry," pressed the
government to choose the former over the latter, to privilege present jobs over future
enterprises. This was particularly evident in the run-up to the hotly-contested legislative

Where Pompidou had protected shopkeepers from supermarkets, Giscard protected
workers from lay-offs and firms from bankruptcy. Giscard was acting upon the
assumption, widely shared among French elites, that if unemployment reached a certain
level (first 500,000, then 1 million, then 2 million), France would become ungovernable.
Given such stakes, almost any measure became permissible if it would contribute to
limiting unemployment. A 1975 law required firms seeking to make more than ten lay-offs
for economic reasons to obtain permission from a local Ministry of Labor inspector.
Approval was by no means granted automatically, particularly in the case of the high-
profile, often heavily-unionized national champions. In other words, the goal of inducing
"redéploiement" among the national champions was increasingly subordinated to the
imperatives of preserving the social peace, not to mention the electoral prospects of the
Right.

The evolution of the Comité interministériel de l'aménagement des structures
industrielles (CIAST) embodied the shift in government priorities.14 An elite agency,

14 This account is drawn from Cohen, Etat blanchardier, op. cit.
created in 1974, attached directly to the Prime Minister’s office, and possessing wide-ranging powers, CIASI was the administrative heir to the celebrated Planning Commissariat of the reconstruction period and DATAR in the 1960s. These so-called “administrations de mission” were established only for the most important public tasks. The Planning Commissariat sought to modernize French industry, DATAR to assure that all regions of France participated in the process of industrialization. As for CIASI, its mission was to help rescue companies in difficulty ...

While CIASI functioned with reasonable prudence during its initial years, insisting on substantial private investment before any commitment of public resources to a firm, it soon fell prey to political pressures. Following a surprise victory in the 1978 legislative elections, the government sought to take advantage of its fresh mandate to initiate long-delayed industrial restructuring. When workers in the steel town of Longwy responded to announced plant closings by rioting and occupying public buildings, however, the sight of the “classes dangereuses” taking to the streets, as they had in May ’68, along with the denunciations of the Left, which claimed that such lay-offs were entirely unnecessary, sapped the government’s will. Aggravating the situation, the second oil shock of 1979 triggered a new wave of bankruptcies throughout the French economy. Confronted with the choice of either tolerating social and economic dislocation or bailing out firms of dubious merit, the government opted for the latter. CIASI quickly disintegrated into an ingenious mechanism for keeping afloat companies that were better left to the sanction of the marketplace.

By the dawn of the 1980s, France’s dirigiste system had entered into full-blown crisis. Crudely put, the system suffered three basic dysfunctions. First, the thing that it did best -- creating and promoting Fordist mass producers -- no longer sufficed to meet the economic challenges confronting France. Second, the system was unable to do perform

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new tasks: helping SMEs as well as national champions, encouraging firms of all size to innovate and specialize within international market niches. Third, the one new thing that the system was doing -- resisting adjustment, whereas in the past, it had accelerated change -- was precisely what it had been invented in 1945 to prevent.

Giscard's efforts to reform the system had proven particularly disappointing. Economic policy not only failed to evolve in the promised direction; it lapsed into the worst kind of conservatism. With state priorities shifted from assuring growth to assuring stability, lame ducks swallowed the resources intended for emerging SMEs and high-tech sectors. Worse still, these resources were utilized, not to undertake much-needed restructuring and positioning in viable market niches, but to delay lay-offs and adjustment -- at least until the next election.

The irony, of course, is that conservative policies did not conserve much of anything. They did not conserve jobs, as unemployment jumped from 2.8% in 1974 to 7.4% in 1981.16 Nor did they conserve Giscard's hold on power. Rather, in 1981, with France's economy sliding into ever deeper recession, the nation's electorate turned for the first time in twenty-five years to a Left-wing government. This produced yet another irony: the French response to the crisis of dirigisme was to adopt an even more dirigiste tack.

**Exacerbated Dirigisme**

Given all the difficulties that dirigiste policymaking had been experiencing under the Giscard presidency, it might seem surprising that Giscard's successors would have called for an intensification of dirigisme. The Left was responding less to Giscard's dirigiste actions, however, than to his liberal rhetoric. It was also responding to the imperatives of electoral politics. To a government proclaiming the virtues of international openness, market signals, and a "redployment" to market niches, the Union of the Left opposed "the

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reconquest of domestic markets," voluntarist industrial policy, and the fleshing out of industrial "filières." In contrast to painful industrial restructuring, the Left proposed painless industrial revival. Neo-dirigisme allowed the Left to present a far more palatable alternative to Barrist austerity, a strategy for lifting France out of economic crisis that created jobs, rather than shedding them.

The construction of a dirigiste program reflected political dynamics within the Union of the Left, as well as between the Left and Giscard. The centerpiece of the new government’s economic program, a massive program of nationalizations, was a top priority for the Communist party. The Socialists were less enthusiastic about this plank, and indeed, wrangling over the scope of nationalizations proved to be the straw that broke the Common Program’s back in 1978. More to the point, the Socialists had no real sense of what they intended to do with the newly nationalized enterprises.

It was not until the eve of the 1978 parliamentary elections that the PS commissioned a young technocrat at the Commissariat au Plan to craft an economic rationale for the party’s political pledge. Alain Boublil’s Le socialisme industriel did, then, insert the companies to be nationalized within an economic program. Boublil argued that in a morose economic climate, private companies would not invest, even under conditions of Keynesian demand stimulus. Consequently, the only way to revive French industry and create new jobs was for the state to lead the way through massive investments in public enterprises. Still, economic analysis had come as an afterthought: rather than driving government strategy, it served as cover for a decision made on the basis of intra-Left alliance politics.

The Left’s embrace of dirigisme represented something of a shift from its traditional position. As we have seen, French unions had held little place in a system described by Shonfield as a conspiracy of big business and senior civil servants. To many on the

Left, *dirigisme* appeared as little more than institutionalized backroom bargaining, enabling politically connected "capitalists without capital" to enrich themselves, while the working class bore the brunt of the costs of economic development. This critique received confirmation from a much-publicized 1974 OECD study that revealed France to have the least equitable distribution of wealth of any member nation.20

Nonetheless, there was much in Socialist doctrine that lent itself to *dirigiste* practices. Nationalizations constituted a significant step toward the total "socialization of the means of production." Industrial policy signified a refusal to accept the pure logic of international markets. Taken together, the two measures sent the bourgeois-bashing message that the economic fate of the nation would not longer be a hostage to "*le capitalisme défaillant*.”

The Union of the Left program also encompassed a variety of measures to correct the regressive distributional effects of *dirigisme* as practiced by the Right. Through the nationalization of large sectors of French industry, the authorities could assure that state aid would be utilized for productive investment and job creation, rather than to line the pockets of private owners and stockholders. The government also moved to bring labor in from the cold through the Auroux Laws. No longer would *dirigisme* operate without the workers; their representatives would sit on the boards of nationalized enterprises and have access to strategic information in all companies. Furthermore, government macroeconomic policies had a strong redistributive bias: steep hikes in family allowances, old-age pensions, and the minimum wage were coupled with new tax on "large fortunes" that, while economically marginal, represented a potent political symbol. Most important, whereas Giscard had maintained that industrial adjustment required redeployment and lay-offs, the Left pledged to create jobs. Thus, *dirigisme*, as conceived of by the Left, became a means for protecting and increasing the earnings of core constituents.

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The initial years of the Socialist administration marked a revival of dirigiste policymaking on a grand scale. Government officials argued that Giscard had erred in being too cautious, too market-oriented. What France now needed was a “real industrial policy.” It was time for the state to move to the center stage in restructuring France’s economy. Even relatively moderate Socialist figures, such as the first Minister of Industry, Pierre Dreyfus, a former head of Renault, declared without hesitation that the plight of France’s industry was too important to be left in the hands of private entrepreneurs: “When men, by their private decision, can affect the lives of entire regions, the future of several sectors, the evolution of our foreign payments, then this means that the State has abandoned its responsibilities.”

The Socialists moved quickly to “assume their responsibilities.” Aid to industry jumped from 35 billion francs in 1981 to 86 billion in 1985, while public research subsidies climbed 25% annually through 1984. Most important, of course, was the sweeping program of nationalizations, covering twelve leading industrial conglomerates and some 38 banks. When combined with the Liberation-era nationalizations carried out by General de Gaulle, this latest program, costing 47 billion francs, left thirteen of the twenty largest firms in France in state hands. Public enterprises accounted for 24% of employees, 32% of sales, 30% of exports, and 60% of the annual investment in the

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23 The twelve industrial conglomerates were: Compagnie Générale d'Electricité (CGE), Compagnie Générale de Constructions Téléphoniques (CGCT), Thomson-Brandt, Rhône-Poulenc, Pêchéy-Ugine-Kuhlman (PUK), Saint-Gobain-Pont-à-Mousson. Sasilor, Usinor, Dassault-Bréguet, Matra, CII-Honeywell-Bull, Russell-Uclaf. The Sasilor and Usinor steel makers had been under de facto public control since the state had saved them from bankruptcy in 1978. Nationalization was accomplished by converting their debt into equity. The state took a 10% stake in the first eight companies and negotiated the purchase of a majority share in the last four.
24 As for the financial institutions, the largest French deposit banks had passed under public control just after the war. The Socialist measures were aimed at two leading investment banks, Suez and Paribas, and those deposit banks whose holdings surpassed 1 billion francs (36 in all).
industrial and energy sectors of the French economy.25 They would also receive 62 billion francs in subsidies between 1982 and 1986.26

Socialist industrial policy objectives were more than a match for these resources. President Mitterrand captured the voluntarist spirit of his new administration with the oft-repeated declaration: "There are no condemned sectors; there are only excessively old factories and workshops."27 Ambitious production targets were announced for all manner of French industries, including those suffering the most severe crises. Steel output was to rise from 18 million metric tons in 1981 to 26 million in 1986 and coal from 18 million tons in 1981 to 30 million in 1990.28 The first two years of the Mitterrand administration also witnessed a proliferation of sectoral plans to "reconquer domestic markets" in such troubled French industries as chemicals, textiles, machine tools, furniture, leather goods, and toys.

The case of the machine tool industry epitomized the dirigiste approach of the new administration.29 A weak link in French industry for decades, the object of repeated unsuccessful sectoral measures, including under Giscard, the machine tool industry was nonetheless deemed salvageable if only the government would conduct a "real industrial policy." In this spirit, the Socialists tendered 4 billion francs in subsidies, 3 billion francs in loans, and immeasurable additional funds through public procurement of unattractive domestic products -- all for an industry whose total sales represented no more than two weeks' business for the Renault car manufacturer. At the same time, as described earlier, Pa' sian technocrats fused a collection of SMEs together in the hope that this would enable the industry to achieve the necessary scale to become internationally competitive. The Socialists expected that taken together, these measures would permit the industry to double

25 Hall, Governing, op. cit., p. 204.
26 Hall, "State and Market," op. cit., p. 177.
its output in three years, cut imports from 60% to 30% of the French market, and move from a position of technological backwardness to global leadership in numerically-controlled equipment.

Such voluntarism was by no means confined to traditional or declining sectors. Perhaps the most ambitious strategy was reserved for the electronics industry. A five-year “Programme d’Action Filière Electronique” announced in 1982 pledged to mobilize some 140 billion francs (55 billion from the government), create 80,000 jobs, boost the annual rate of growth of production from 3% to 9%, and transform a 1½ billion franc balance of payments deficit into a 14 billion franc surplus. The project was centered around five newly-nationalized companies: Bull, Thomson, CGE, Matra, and CGCT. A sixth company, Saint-Gobain, which had been diversifying into computer, office automation, and semiconductor activities, was forced to relinquish these interests and return to its traditional glass and tubing vocation. The government pressed each company to specialize in one or two areas and organized an elaborate exchange of assets for the purpose.

Spearheading the government’s electronics strategy was the successor to Pierre Dreyfus as Minister of Industry, Jean-Pierre Chevènement. The founder and leader of the CERES, the ultra-Jacobin wing of the PS close to the Communist party, Chevènement incarnated the dirigeiste spirit of the early Mitterrand years. Chevènement moved to reorganize the electronics sector with little regard for the preferences of its member firms. The CEOs of the two leading French computer companies, Bull and Thomson, learned of the government’s plans from the press. Chevènement not only told companies what to do; he told them what not to do. When Thomson arranged to sell its semiconductor and

32 Boublil, Soulèvement, op. cit., p. 78.
medical equipment businesses to American companies, Chevènement vetoed the deal. Nor was his intervention confined to broad strategic questions. Saint-Gobain received a detailed questionnaire from the ministry demanding to know, among other things, the number and brands of the company’s typewriters.

The limits of the Socialist strategy were felt first, not in microeconomic policy, but in macroeconomic management. Gambling on a US-led global recovery beginning in 1982, the government had sought to launch France upon a fast-growth track by priming the pump. The policy of “redistributive Keynesianism” held the further advantage of rewarding Socialist loyalists. Instead of recovery, however, 1982 brought the worst recession since the war. What is more, while French authorities were priming the pump, raising government spending by 27.6% in 1982 and creating 60,000 new civil service jobs, France’s trading partners were slamming on the brakes in order to combat inflation. The predictable result was a surge in France’s budget and trade deficits -- the former rose from 0.4% of GDP in 1981 to 3.0% in 1982 and the latter from 56 billion francs to 93 billion francs -- bringing pressure on the franc.

For much of 1982 and 1983, President Mitterrand and his inner circle agonized over how to respond to the growing macroeconomic crisis. Mitterrand’s advisors were divided into two basic camps. On the one hand were those who, following Chevènement and the PCF, advocated a strategy of autarky, encompassing withdrawal from the EMS, a sharp devaluation of the franc, and tightened exchange and trade controls. On the other hand were those, led by Prime Minister, Pierre Mauroy and Finance Minister, Jacques Delors, who favored European solidarity, backed by a severe austerity program to eradicate inflation once and for all and stabilize the franc’s position within the EMS.

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33 Barreau et al., op. cit., pp. 71-72.
34 Boubli, Soulevement, op. cit., p. 79.
35 The phrase is Hall’s. Hall, Governing, op. cit., pp. 193-95.
37 Hall, Governing, op. cit., p. 198.
38 Bauchart, op. cit., provides the most comprehensive discussion of this decision. For a more concise presentation, see Hall, Governing, op. cit., pp. 195-202.
Mitterrand chose the path of austerity for a variety of reasons. A loyal Europeanist, he balked at pulling France out of the EMS. It was also unclear that such a strategy would resolve the nation's balance of payments problems. France depended upon imports for almost one-quarter of its GDP, twice the level of 30 years earlier. Demand for many of these imports, notably oil, was relatively inelastic, so that devaluation would produce a sharp rise in France's import bill, which would, in turn, fuel domestic inflation. It was estimated, for example, that for every 10 centimes that the franc fell against the dollar, the cost of imports would rise by 2.5 billion francs.

Finally, although technically a macroeconomic policy decision, Mitterrand's choice also reflected a disenchantment with the microeconomic dimensions of Socialist policy. Those favoring withdrawal from the EMS argued that a relaxation of international constraints would provide the breathing room needed for dirigiste measures to work effectively. Once French industry had been restructured, recapitalized, and revived, France could rejoin the international community on a stronger footing. Such a strategy was predicated upon the assumption that dirigiste measures were improving the competitive position of French industry.

It was becoming increasingly evident that Socialist dirigisme was not producing the desired results, however. French firms were falling well short of the ambitious targets enshrined in the various sectoral plans. Even the "fer de lance" of industrial policy, the newly-nationalized enterprises, could not meet their obligations. In 1982 and 1983, the vast capital grants to these companies were offset by equally large losses. As a result, their investment levels increased not by 50%, as planned, but by a mere 5%. Disappointing as this might have been, it was a far better performance than that of the private sector, where investment decreased every year from 1981 to 1984.

40 Monde, Economie française, op. cit..
At root, the problems that had plagued *dirigiste* policymaking under Giscard were proving even more intractable for the Socialists. Deeply distrustful of business interests, the Left received less feedback from industrialists and paid it less regard than had the Right. Yet the standard *dirigiste* strategy, premised upon Fordist mass production, was reaching exhaustion. Socialists *dirigisme* could mine more coal or roll more steel, but it could not create buyers for these products.

Like Giscard, the Left found it difficult to shift resources from traditional to emerging sectors. Given its claim that there were no declining sectors, only outmoded technologies, the new government was obliged to attempt to turn around lame ducks. Supporting industries like shipbuilding or coal deprived the authorities of resources needed for more promising sectors, however. The electronics industry, for example, received less than one-third the public aid pledged under the "*filière électronique*" program.41

Most important, as difficult as it was for Giscard to resist the tendency to protect jobs at all costs, the Left was under even greater pressure. Having pledged that *dirigiste* policies would enable industry to create jobs, not eliminate them, the government was trapped by its own campaign rhetoric. Worse, job cuts would strike at the core of the Left's electorate -- unskilled and semiskilled blue-collar workers in heavy industry. Alliance politics further complicated matters. Many of the most vulnerable industries were strongholds of the Communist trade union, the CGT. Rather than risk an open conflict with their Communist partners, the Socialists, like Giscard before them, opted to buy social peace. But this yielded increasingly untenable economic outcomes. By 1983, a number of firms were so heavily subsidized that it would have been far cheaper for the government to pay workers not to produce.42 Taken together, these many dysfunctions raised the question of whether *dirigisme* was worth defending.

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42 In shipbuilding, for example, it was estimated that each job paying 100,000 francs in annual wages cost the government 300,000 francs in subsidies. Cohen, *Etat brancairdier*, op. cit., pp. 230-31; *L'année politique. 1986*, op. cit., pp. 342, 452.
Strictly speaking, the government's acceptance of European solidarity and the accompanying austerity did not automatically necessitate the dismantling of dirigisme. Technically, austerity could have been combined with dirigiste industrial policy by either raising taxes or cutting non-industrial expenditures, such as welfare measures. Still, there were important linkages between the two sets of issues. As we have seen, the case for leaving the EMS was based, in no small part, upon the belief that given time, dirigiste measures would improve the competitive position of French industry. Conversely, once France accepted austerity, significant budget cuts would be needed in some area, and ballooning industrial policy expenditures seemed the obvious candidate. But this then raised a further problem: if the state could no longer fund the investment needs of French enterprises, how would these companies meet their needs? The government would have to allow industry the means to help itself, through improved profitability and access to alternative, non-state sources of capital.

The government's break with dirigisme reflected political as well as technical factors. François Mitterrand had won election as president by assembling an amalgam of hardline Communists, long-time Socialists from the old SFIO, the Jacobin CERES movement, and so-called "Second Left" elements encompassing progressive Catholics, Trotskyists, and the CFDT trade union. While united in their opposition to the Giscard regime, these groups held very different views as to what they sought to accomplish in office. Dirigisme, supplemented by redistributive Keynesianism, was the strategy of choice for the PCF and Jacobin Socialist currents, whereas centrists and the Second Left advocated a more prudent, market-oriented approach.

During the initial Mitterrand years, the latter group was largely marginalized.

Jacques Delors, a prominent social Catholic and the architect of Jacques Chaban-Delmas's

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43 Boubil, in his account of the period, distinguishes between a strategy of "austerity" and a strategy of "investment." Both entailed sacrificing consumption and wages, but the latter would have continued to privilege public investment -- by nationalized companies and through large-scale infrastructure projects (TGv, fiber-optic cable networks, etc.). Boubil believes that Mitterrand's great mistake was to have opted for austerity, rather than investment. Boubil, Soulèvement, op. cit., pp. 85-92.
"New Society" program, was named Minister of Finance, but shadowed by Mitterrand loyalist, Laurent Fabius, who undercut his commitment to balanced budgets. Michel Rocard, the leader of the Second Left, who had sought to supplant Mitterand as the Socialist presidential candidate, was relegated to the Ministry of Planning and Territorial Development (the surest sign that the Socialists had no intention of reviving France's once-celebrated planning process). The two men were soundly defeated in their most visible political battle -- an attempt to save some 20-30 billion francs by having the government purchase only a 51% stake in the companies to be nationalized, rather than acquiring them outright.\footnote{Hall, Governing, op. cit., p. 204.}

The marginalization of centrists and the Second Left was driven by more than personal considerations. From an electoral standpoint, Mitterrand had revived the PS by anchoring it firmly on the Left and subscribing to the Common Program. He was not about to reverse this extraordinarily successful strategy for the sake of a few centrist voters. What is more, the majoritarian logic of the Fifth Republic's two-round winner-take-all system of presidential balloting placed a premium upon solidifying the alliance with the Communist party (or at least with Communist voters). Finally, as we have seen, dirigisme and Keynesianism offered greater immediate rewards to the Socialist and Communist faithful than prudent, market-oriented reform.

The growing economic crisis created a political opening for Second Left and centrist figures, however. With dirigisme in disarray, Mitterrand and his advisors began casting about for alternatives. Having tried and failed to revive French industry, the Jacobin, dirigiste Left had little to propose, except more of the same. By contrast, Delors and his allies propounded a coherent alternative program of reform which, while painful in the short term, might just be able to turn the economy around in time for the 1986 legislative elections. Thus, the turn toward the market was both cause and consequence of a political realignment within the governing coalition.
Most on the Left accepted the new economic orientation with a heavy heart, as a necessary evil about which little could be done. The Socialists had fought the good battle and lost, just like Léon Blum in 1938. Others bided their time, hoping to revive dirigiste policies when the political and economic climate became more favorable. The Cresson government of 1991-92 represented a kind of last gasp of this aspiration. Finally, a third group simply refused to countenance the new liberal policies. The Communist party quit the government in 1984, bitterly denouncing Socialist “betrayal” and “capitulation.” Still, for a number of enterprising leaders, the Socialist U-turn, while painful, also afforded important political opportunities. Chief among these leaders were Laurent Fabius and the late Pierre Bérégovoy who, after advocating withdrawal from the EMS in 1982-83, became the architects of post-1984 liberalization.

Fabius, Bérégovoy, and others like them had multiple motivations in adopting a liberal agenda. At one level, they underwent a genuine conversion. Having reviled profit-seeking and private enterprise, they learned through painful experience that France could not do without these forces, that the initiatives of a dirigiste state were not enough. The shift in their positions derived from more than learning, however. For a Fabius or a Bérégovoy, the embrace of the market offered an appealing political identity, a “modernist,” “competent” profile, in contrast to the “archaic” and excessively “ideological” image of a Chevènement or a Georges Marchais. Both men found political capital in this identity. Fabius was attempting to position himself as the head of the new generation of Socialists and as the successor to Mitterrand; Bérégovoy, a metalworker by trade, lacking the fancy diplomas of the Socialist elite, sought technocratic credentials to shore up his legitimacy, particularly once he became Minister of Finance in 1984.

The program implemented by Delors, Fabius, and Bérégovoy went well beyond a retrenchment of dirigisme. As Minister of Finance, Delors triggered a revolution in macroeconomic policymaking. Long wedded to an inflationary growth strategy, an approach revived in the initial Socialist years, France moved toward an orthodox monetarist
stance, emphasizing the virtues of "competitive deflation." Whereas governments in the past had paid lip service to the fight against inflation, Delors backed his words with price and wage controls, compulsory savings measures, and most important, painful public spending cuts. What is more, Delors reversed the decade-long pattern of heightening the burden shouldered by French corporations. Beginning in 1983, it was consumers who would pay, through higher taxes and reduced purchasing power; by 1986, the share of GDP devoted to wage earners had dropped from 56.3% to 53.3%. Bérégovoy, who succeeded Delors as Finance Minister in 1984, sustained the commitment to austerity, while also breaking France's longstanding system of wage indexation. With inflation greatly reduced, Bérégovoy was then able to lift most price controls.

The changes in microeconomic policy were no less sweeping. The government launched a frontal assault upon many of the key instruments of dirigisme, from manipulation of public sector enterprises, to state-controlled credit rationing, to restrictions upon hiring and firing, to sectoral policies and bail-outs. The common philosophy guiding these reforms was to restore the conditions for corporate profitability, thereby reducing the need for government subsidies. Firms would receive less government aid, but be subject to fewer restrictions, so that they could then raise necessary resources by their own means.

As Minister of Industry in 1983-84, then Prime Minister, Fabius was at the center of many of these revisions. In 1984, he cut off support to the giant private steel and mechanical engineering conglomerate, Creusot-Loire, thereby triggering the largest bankruptcy in French history. The decision sent the message that the government was no longer willing to throw money at lame ducks, no matter how many jobs might be at stake. As a counterpoint, however, the Socialists relaxed their opposition to the large-scale layoffs needed to turn companies like Creusot-Loire around.

Fabius also introduced a more market-oriented approach into public sector management. Upon succeeding Jean-Pierre Chevènement as Minister of Industry in 1983,

he affirmed the "autonomy of management" and put an end to the meddling characteristic of his predecessor. At the same time, he warned that "heads would roll" in those companies that failed to return to profitability by 1985. While scaling back capital grants and subsidies, Fabius offered no resistance to the ensuing lay-offs, number being in the tens of thousands. Nor did he intervene when nationalized companies withdrew from government priority areas, for example, when designated telecommunications champion, Thomson sold its activities to its lone domestic competitor.

France's financial system, long the hallmark of dirigiste policymaking, was also refashioned by the turn toward the market. As in other policy areas, the government both gave and took away. The percentage of subsidized loans dropped from 42.7% in 1984 to 20.6% in 1986. At the same time, Ministers of Finance Delors and Bérégovoy extended the opportunities for companies to raise funds through private market mechanisms. Whereas in the past, virtually the only source of external financing available to firms had been state-controlled bank lending, deregulation multiplied their options. The "Delors Act" of January 1983 authorized companies, including public sector enterprise, to issue non-voting stock (investment certificates, participatory shares). SMEs gained access to equity markets one month later through the creation of a "Second Market" for unlisted securities. In December 1985, a commercial paper market was established, enabling companies to raise capital directly from the public, without passing through financial intermediaries, while two months later (and just three weeks prior to the elections), Bérégovoy inaugurated a futures market, the Marché à Terme des Instruments Financiers (MATIF). Perhaps most important, the Bank Act of 1984 introduced competition in the previously segmented, regulated, and overpriced world of French banking.

French industry quickly made use of these and other options provided by the government. By 1986, the share of external financing provided by banks had dropped to

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46 Ibid., p. 161.
33.7% (from 58.6% in 1984). To maintain business customers, banks were compelled to slice one to two points from their traditional interest margin (i.e. the difference between the price at which banks raise and lend capital), lowering the cost of borrowing. Most important, rising corporate profitability, fueled by tax breaks and greater freedom in hiring and firing, improved the ability of firms to finance investment out of retained earnings. Thus, the Socialists’ economic program was beginning to bear fruit. The problem is that it was not the program upon which they had been elected.

In 1986, as in 1981, a wide gap had arisen between the initial economic discourse of the governing coalition and its policies in office. Whereas the Giscard-Barre tandem had been liberal in words and dirigiste in deeds, the Socialists were voluntarist in spirit but liberal in action. In 1981, the Union of the Left had hoped to implement an improved and more equitable version of the dirigisme of Giscard. Instead, the government found itself even more vulnerable to the problems that had plagued its predecessor: lack of responsiveness to shifts in the international economy, inability to intervene selectively, diversion of resources to the least dynamic sectors, reinforcement of change-resisting behavior. Like Giscard before them, the Socialists responded to economic crisis by moving in a direction that was increasingly at odds with their basic political philosophy. Also like Giscard, they were then defeated by a political coalition that preached what they practiced.

**Deregulatory Liberalism**

One might have imagined that the Left’s retreat from dirigisme, its wrenching shift toward a more market-oriented economic strategy, would have put an end to ideological debates in French politics, at least where the economy was concerned. Instead, the 1986 legislative elections brought to power a coalition whose strategy was every bit as radical as that of the Left in 1981. This time, the ideology driving economic policy was not dirigisme

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or Socialism, but deregulatory liberalism. No less surprising, the embrace of liberalism was the work of precisely those actors who had administered the dirigiste system in the pre-Socialist period -- the Rightist alliance of Jacques Chirac's Rassemblement pour la République (RPR) and Giscard d'Estaing's Union pour la Démocratie Française (UDF).

The ideological reorientation was particularly shocking in the case of the Gaullist RPR. Whereas Giscard and Barre had propounded a liberal, technocratic ethos, even if their actions had fallen short of their words, for loyal Gaullists, dirigiste policymaking represented a core component of their political identity. Indeed, to the new Prime Minister, Jacques Chirac and the all-powerful Minister of Finance, the Economy, and Privatizations, Edouard Balladur had begun their careers as protegés of Georges Pompidou, whose presidency had been the embodiment of voluntarist Gaullist economic policymaking.

The transformation of the caretakers of dirigisme into the handmaidens of liberalism reflected both general trends and movements specific to France. On a general level, across Europe, the mid-1980s marked the apogee of the liberal ideas associated with Ronald Reagan and Margaret Thatcher. American and British economic vitality contrasted with the "Eurosclesrosis" prevailing on the Continent. Between 1983 and 1986, GDP grew roughly twice as fast in the US and the UK as in Germany, Italy, and France (Table 2.0).
Table 2.0  Evolution of Real Gross Domestic Product, 1983-86

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Through a combination of deregulation, privatization, and tax cuts, Reagan and Thatcher had eliminated many of the rigidities in their nations’ economies, permitting renewed growth and job creation. European leaders dreamed of replicating the dynamism of Anglo-Saxon capitalism. It was a time when Wall Street and Silicon Valley were the symbols of unleashed entrepreneurial energies, churning out fantastic profits, jobs by the hundreds of thousands, and the pioneers for the industries of tomorrow.

While all were seduced by the glitter of supply-side economics, the attraction was particularly strong for the French Right. In a country that was pensioning off workers at age 55 or even 50, yet still suffered almost 11% unemployment, politicians took notice of a program that promised to generate jobs. Whereas 69.4% of Americans between the ages of 15 and 64 and 65.9% of the British held jobs in 1986, in France, the figure was a mere 59.0%.49 The French Right’s embrace of liberalism stemmed from more than economic calculations, however. Having lost their ideological moorings during the Giscard period,

then been voted out of power for the first time in twenty-five years, French conservatives were looking for a new political identity. In this respect, the electoral success of Reagan and Thatcher was as important as their countries’ apparent economic success.

Liberalism held further political appeal as a response to profound shifts in French attitudes toward the state. \(^{50}\) *Dirigisme* was coming under attack not only on efficiency grounds, but in terms of equity. A series of populist bestsellers detailed the enormous advantages received by assorted unworthy groups thanks to state rules and privileges. \(^{51}\) Whereas in the past, the French state had been seen as the only viable alternative to the rein of “*les corporatismes,*” now it was being depicted as their hostage. In a fusion of anti-statism and anti-*corporatisme,* French liberals could present themselves as the defenders of fairness and “*les petits*” or “*le Français moyen*” against those who would use their political connections to bilk the public interest.

Such themes also struck a chord among the French business class. \(^{52}\) Those excluded from *dirigiste* favors denounced a system in which economic success derived from insider connections, from old-boy ties among “*Enarques*” and “*X’s,*” rather than from the proper management of business affairs. These charges grew even more virulent in the 1970s and early-80s, when governments beefed up the welfare system and imposed restrictions on lay-offs, measures which were paid for primarily by employers. For the vast majority of French industrialists who were not heads of politically-connected national champions, the *dirigiste* system seemed to be giving them the worst of both worlds: on the one hand, they received none of the benefits of the national champions; on the other hand,


they bore the costs of wasteful government industrial policy initiatives and electorally-inspired pay-offs to the working class.

The new employer spirit crystalized with the election of Yvon Gattaz as head of the Conseil National du Patronat Français (CNPF), shortly after the Socialist victory in 1981. A self-made man, the founder of a dynamic industrial group composed of SMEs, Gattaz had little regard for dirigisme. He had succeeded without state help and believed others like him could as well if only they were granted the right to manage. In contrast to his predecessor, François Ceyrac, who had compromised employer interests for political reasons -- signing collective bargaining agreements that restricted lay-offs and provided generous unemployment benefits in the hope of keeping the Left at bay -- Gattaz eschewed partisan politics, focusing instead upon the “defense of the enterprise.” The rallying cry for his strategy was “flexibility,” a word Gattaz imbued with an almost mythical sense:

Flexibility is above all the opposite of the rigidities that are suffocating our enterprises. It is suppleness, mobility, adaptation, questioning, change, in a word, it is life. The life of the enterprise.53

Gattaz’s campaign for flexibility tapped widespread employer resentment against the web of dirigiste regulations restricting the "right to manage." It also meshed with new human resource practices that were gaining currency among the cutting-edge of French management.54 Borrowing from the personnel methods of American and especially Japanese companies, these managers were looking to cultivate worker allegiance to the enterprise and to undercut the power of unions by opening alternative channels of communication and bargaining. Such a strategy was predicated upon firm-level “flexibility,” however. As part of the campaign to tie workers more closely to their company, employers sought to shift the locus of bargaining (on such issues as wages, bonuses, and working hours) from the national or sectoral level to the plant level or even the individual level.

53 Le Monde, 5 March 1986, p. 36. Translation the author’s.
Gattaz fought tirelessly on behalf of flexibility and firm-level autonomy. To a Socialist government that claimed to be concerned about unemployment, he argued that all that was needed to immediately create 350,000 jobs was to restore flexibility in hiring and firing.\footnote{Ibid.} At least 100,000 more jobs could be added through reduced employer social security contributions.\footnote{Berger, "Socialists and Patronat," op. cit., pp. 236-38.} Finally, countless further employment would result if flexibility were extended to salaries, working hours, and "social thresholds" (i.e. not requiring any kind of worker representation in firms with fewer than 100 employees, in contrast to prevailing rules extending worker rights as of 10 and 50 employees). Thus, a program of liberal deregulation dovetailed with the preoccupations of an increasingly combative and influential French business class.

For the Rightist opposition, liberalism had much to offer: association with the glittering results of the Reagan and Thatcher regimes; a solution to France's economic ills, notably unemployment; a strategy for reversing the traditional identification of the Right with the interests of the privileged; a means of bringing a core constituency, French employers, back into the fold. Most important, liberalism gave the Right a club with which to beat the incumbent Socialist administration. As in 1981, it was government rhetoric, not substance, that mattered. Just as the Left had campaigned in 1981 against the liberalism of a president whose behavior was becoming increasingly dirigiste, the Right could now wage war against the dirigisme of a regime that had essentially become liberal. Like two magnets of the same polarity, the movement of one political coalition toward the other served only to drive the latter away.

The RPR-UDF economic program was centered around three basic themes: 1) reductions in government spending coupled with tax cuts, 2) deregulation; 3) privatizations. We have seen that the Socialists had begun moving in a liberal direction in many of these areas. Nonetheless, the changes sought by the Right were of a different order of
magnitude from those of the 1984-86 period. Whereas the Left had barely managed to stabilize government spending, the Right sought to shrink the government's share of GDP from 45% to 35%, a level Chirac described as more appropriate for "a society of liberty and responsibility."57 Whereas the Socialists had begun to broaden the latitude enjoyed by company directors, the RPR-UDF alliance pledged to eliminate anything that might interfere with the right to manage, from price controls, to exchange controls, to all manner of restrictions on hiring, firing, working hours, and pay arrangements. Finally, whereas the Left had tolerated a slight "respiration du secteur public" -- the entry of private investors into the subsidiaries of nationalized enterprises -- the Right pledged that the breathing would get much heavier, with the privatization of 66 companies worth one-quarter of the total value of the Paris Bourse.58

In fiscal policy, the Right made a virtue of the austerity reluctantly practiced by the Socialists. Championing the need to "loosen the yoke of taxation," the Chirac administration slashed corporate taxes by 37 billion francs and individual taxes by 31 billion francs over a two-year period.59 To finance these cuts while reducing the national debt, Chirac pledged to shrink government spending by 1% of GDP every year. Only one of every two retiring civil servants would be replaced, resulting in the elimination of 20,000 posts in two years.60 Spending cuts reflected ideological as well as fiscal considerations. The entering class of the ENA was reduced by half under the pretense that this would slow bureaucratic growth, since there would be fewer enarques in search of high-level administrative positions.61

Emblematic of the new spirit in governing circles was the Belin-Gisserot Report.62 Commissioned in May 1986 by Minister of Finance Balladur to identify ways of reducing

58 Bauer, op. cit..
60 Le Monde, 13 January 1987, p. 9.
61 Ibid., p. 9.
waste and duplication in civil service, Belin and Gisserot passed some 250 central administrations in review, calling for the elimination of 30. Among those targeted were such celebrated "administrations de mission" as the Planning Commissariat and DATAR. While these two agencies ultimately survived, others fared less well. The *Fonds Industriel de Modernisation* (FIM), *Agence de Développement de l'Informatique* (ADI), and *Centre d'Etude des Systèmes et des Technologies Avancés* (CFSTA) were among a dozen administrations or programs that were abolished.

Even when the lives of agencies were spared, their budgets were not. DATAR, for example, saw its resources reduced to under 600 million francs from a level of 1 billion francs in 1983. The axe fell particularly hard on agencies involved in industrial policy, as ultra-liberal Minister of Industry, Alain Madelin proposed steep reductions in his own budget. The *Agence Nationale de la Valorisation de la Recherche* (ANVAR), an administration specializing in technology transfer to industry, survived Belin and Gisserot's recommendation that it be eliminated, but suffered a 40% reduction in its budget in 1987. The *Fonds de la Recherche et de la Technologie* (FRT), which helps defray the costs of collaborative undertakings between public and private research organizations (with 70% paid by private industry), was initially slated to lose one-half its funding, but escaped with a 30% cut. Madelin's own budget was slashed by more than 50%, while the Ministry's contribution to nationalized enterprises in the form of capital grants dropped from 15.2 billion francs in 1986 to 6.2 billion in 1988.

Technology policy was particularly revealing of the hold of free-market ideology upon the Chirac administration. Even though technology is a public good -- meaning that it is underprovided by market mechanisms -- the government did not hesitate to abolish or radically shrink agencies like ANVAR, FRT, and FIM. The case of FIM offered the

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64 *La Tribune de l'Economie*, 4-5 October 1986, pp. 1-14.
65 Ibid.
clearest illustration of the government’s free-market orientation. FIM had been created in 1983 to tender low-interest loans to SMEs seeking to modernize their equipment or to develop promising technologies. The reasoning of Socialist officials at the time was that given France’s historically weak venture capital markets and the arm’s-length relations prevailing between banks and their small industrial clients, some other instrument was needed to channel capital to SMEs for investment in new technologies. The Chirac government eliminated FIM, but maintained the pool of low-interest funds available to SMEs. Nonetheless, it put an end to the program’s technological vocation. Instead of being allocated by a government agency, ANVAR, according to essentially technological criteria, low-interest loans were to be dispersed by banks, according to strictly financial criteria.

The relief proposed to French industry by the Chirac government was not only fiscal, but regulatory. The RPR-UDF platform had called for “the suppression of abusive regulations that block the liberty to be entrepreneurial and to produce.” In his inaugural address, Prime Minister Chirac emphasized deregulation as the key to economic renewal:

... the French economy needs a supplement of liberty in order to regain its dynamism and create jobs anew. Three liberties that are fundamental to the smooth functioning of companies will be rapidly guaranteed: the liberty to fix prices; the liberty to engage in foreign trade without exchange controls; greater liberty in the management of workers, so as to eliminate obstacles to employment.

Echoing the reasoning of Yvon Gattaz, the RPR-UDF campaign program declared, “No new jobs without flexibility of labor” and pledged to introduce flexibility in hiring and firing, wage determination (including authorizing sub-minimum wages), work hours, part-time employment, and “social thresholds” for worker representation. The government

quickly translated these promises into action. Having been prime minister when the hated requirement of inspector of labor approval for lay-offs had been created in 1975, Chirac made amends to French employers by presiding over its elimination. Minister of Social Affairs, Philippe Séguin, predicted that this reform would yield 367,000 new jobs by the 1988 presidential elections. One piece of labor legislation that was not repealed was the Auroux Laws, which after meeting with tremendous employer hostility when passed in 1982, were now viewed as a useful adjunct to firm-level bargaining. To further reinforce employer efforts to promote worker identification with the enterprise, Chirac offered a variety of tax breaks for profit-sharing wage agreements (known as "participation") and loosened restrictions upon the "individualization" of pay packages.

Deregulation extended well beyond the sphere of workplace relations. Price controls, almost as widely despised among employers as the restrictions on lay-offs, were dismantled in 1986. Credit rationing which, like price controls, had already been watered down under the Socialists, came to an official end in 1987. The government also began eliminating foreign exchange controls. By 1990, these controls would be completely abolished -- a mere seven years after the draconian restrictions of 1983, when French tourists had been barred from taking more than 2000 francs out of the country. Finally, Balladur completed his predecessor’s efforts to deregulate France’s financial markets. The “little big bang” of 1988 put an end to the monopoly enjoyed by a small number of brokerage houses in trading on bond and share markets.

The Chirac government not only cultivated the private sector, but expanded it. Privatization represented the third broad pillar of the government’s economic program. In less than one year, thirteen industrial and financial groups, worth roughly 100 billion francs, were privatized. Privatization was a logical strategy for a government that, in the

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72 Cerny, op. cit.
73 The thirteen companies privatized were: Saint-Gobain, Paribas, SOGENAL, Banque du BTP, Banque Industrielle et Mobilière Privée, Compagnie Générale de Constructions Téléphoniques (CGCT), Crédit Commercial de France (CCF), Compagnie Générale d’Electricité (CGE), Agence Havas, Société Générale, TF 1, Mutuelle Générale Française, Suez. Saint-Gobain, CGE (now known as Alcatel-Alsthom), and
words of Balladur, "believes in man more than the State." Nationalized companies would become more efficient, officials argued, as a result of escaping burdensome government tutelle and being subject to the sanction of the marketplace.

Privatizations also brought a windfall to the cash-strapped French state. Even though the program was stopped in mid-course due to the stock market crash of October 1987, it still netted 70.8 billion francs, a figure roughly equal to the total corporate and income tax breaks granted during Chirac's term in office. Finally, the privatization campaign provided a potent political weapon. As in Britain, the government sought to create a "nation of shareholders," who would presumably feel strong loyalty to the institutions of a private market economy (and to the political parties that defended them). In just two years, the number of French shareholders jumped from 1.5 million to 8 million, a tremendous success by any measure. What is more, since the shares were sold for less than their fair market value, as evidenced by the fact that the issues were massively oversubscribed, the government was essentially giving away money to the new shareholders. Thus, had it not been for the stock market crash, privatizations would have offered a highly effective and perfectly legal means of vote-buying.

The liberal prescription of supply-side fiscal policies, deregulation, and privatization both accelerated and extended the cautious changes initiated by the Socialists. What is more, Chirac's reforms, unlike the early Socialist measures, enjoyed real staying power. Indeed, most of his initiatives survived the Socialists' return to power in 1988.

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CGCT had been among the leading industrial groups nationalized by the Socialists. The Paribas and Suez investment banks had been the largest financial institutions brought under state control in 1982. Le Monde, Economie française, op. cit., p. 192.

74 Officially, the revenues from the privatizations were utilized to reduce the national debt (50 billion francs) and to debudgetize capital grants to the remaining public enterprises (20.8 billion francs). John Vickers and Vincent Wright, "The Politics of Industrial Privatisation in Western Europe: An Overview," West European Politics, Vol. 11, No. 4, October 1988, p. 5.

75 Ibid., p. 22.

76 The figures overstate the increase of shareholding somewhat. Because of limits upon the number of shares that could be acquired by any single individual, purchases were often spread across an entire family, but then managed by one person. In addition, many people took advantage of the low issue price to make a quick profit, and then withdrew from the market. By the end of 1992, the number of French shareholders had dropped to 4.5 million. Bauer, op. cit., p. 54. Le Monde, 2 June 1993, p. 21.
That said, the Right's radical agenda, like the Left's five years earlier, was undercut by both political and economic obstacles.

In the economic sphere, liberalization was unable to make good on the exuberant campaign promises of 1986. Once freed of dirigiste regulations, France's enterprises failed to create anywhere near 350,000 jobs. Indeed, the unemployment rate barely budged from 10.2% in 1985 to 10.0% -- this at a time when unemployment was dropping from 7.3% to 6.3% among the seven leading OECD nations.\textsuperscript{77}

The other black mark on the Chirac administration's economic record was the balance of trade. From a surplus of 20.5 billion francs in 1986, France's account slipped to a deficit of 21.1 billion francs in 1988.\textsuperscript{78} Even more alarming was the position in manufactures, for which the trade deficit almost quadrupled from 13 billion francs to over 50 billion francs.\textsuperscript{79} French observers spoke increasingly of "holes in the industrial fabric," industries in which French manufacturers were no longer present.

The economic strategy of the Chirac administration had overestimated the extent of pent-up entrepreneurial energies in France, requiring only relief from taxation and regulations to be released. France was not Silicon Valley. Its start-up companies were weak and isolated, lacking the ties to research universities and access to venture capital characteristic of the American environment. Tax cuts certainly did not hurt, but the obstacles to dynamic development and job creation ran deeper than fiscal policy. The same could be said of problems afflicting traditional SMEs, like machine-tool manufacturers. Battered by a series of ill-advised sectoral plans and operating without the supportive network of local authorities and employer associations found among the German Mittelstand, they did not simply "bounce back" in response to improved business conditions.

\textsuperscript{77} OECD, \textit{Historical Statistics, op. cit.}, p. 43.
\textsuperscript{79} \textit{Ibid.}..
The Chirac administration's difficulties were political as well as economic. It was not just that liberalization failed to produce the desired economic results, but that the government found it difficult to produce liberalization. While some measures, such as tax cuts and privatizations, were relatively popular, others confronted fierce political resistance. Proposed liberalization of universities, for example, provoked massive student protest. The government's efforts to introduce greater competition into university admissions (the so-called "Devaquet reform," after Minister of Education, Alain Devaquet) brought 200,000 students into the streets. To make matters worse, the administration then responded with heavy-handed police repression, killing one student. Faced with a growing political crisis and having lost whatever sympathy its proposals might have enjoyed, the government cut its losses and withdrew the reform.

Liberalization in budgetary matters also met with political resistance. Whereas the Reagan and Thatcher administrations pursued heavy social spending cuts, the RPR-UDF coalition ruled this option out even before the 1986 election. Sensing the political danger of tampering with France's generous and popular system of welfare provisions, the alliance publicly pledged to respect "les acquis sociaux." Given its conservative orientation, the Chirac administration was poorly-positioned to reduce spending on defense or law and order, and nothing could be done about the sizable interest payments on the national debt. This did not leave many opportunities for savings, however.

The logic of the political business cycle soon squeezed the government's room for maneuver even further. One year after assuming office, facing a lackluster economy and the prospect of presidential elections in 1988, the Chirac administration began to prime the pump. The government privileged public investment, boosting infrastructure programs, notably TGV and highway construction. It also moved away from its initial visceral

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opposition to technology policy. Having survived a brush with bureaucratic extinction in 1986-87, ANVAR and FRT received 10% budget increases for 1988.81

While support for highways and high-technology could be accommodated within liberal doctrine as investments in public goods, this was not the only area of government largesse. In order to improve the pre-election unemployment figures, the administration adopted the time-honored strategy of revving up spending on make-work programs in both the public and private sectors.82 Thus, for all its rhetoric about shrinking bloated state expenditures, total government levies under the Chirac administration decreased from 44.0% of GDP in 1986 to ... 43.9% in 1988.83

Not all resistance to liberalization originated outside the government. The RPR’s own commitment to liberalism was limited. Certainly, the party’s liberal convictions did not extend beyond the economy. Indeed, feeling the heat from the xenophobic, far-Right National Front, the Gaullist party borrowed a certain number of Le Pen themes, notably on immigration and law-and-order issues. In a highly-publicized decision merging the two themes, the government expelled 100 Malian immigrants accused of drug trafficking without so much as a trial. The handling of the student demonstrations also reflected a preference for order over liberty.

The RPR’s misgivings about autonomous spheres of power applied to its own conservative allies. The domination of top cabinet positions by Chirac’s party and the relatively insular mode of decisionmaking irritated the junior partner in the coalition, the UDF. Indeed, it was UDF officials who leveled the most damaging charges against Chirac’s reign, denouncing the hegemonic aspirations of an “Estat-RPR,” a party-state dominated by the Gaullists.

Even within the economic arena, the RPR’s commitment to liberalism was tenuous at best. After all, prior to Chirac’s repositioning in the 1980s, it was the Gaullists who had

83 INSEE, op. cit., p. 195.
been the standard-bearers of dirigisme. Many party figures found it difficult to discard a central feature of the Gaullist tradition. Chirac's own inner circle was not immune to this problem. One of the reasons why the "Etat-RPR" label stuck was the dirigiste manner in which Balladur carried out the most publicized reform of the Chirac term -- privatizations. Rather than relying upon market processes, the Ministry of Finance fixed the price at which shares would be privatized and selected the groups of investors who would acquire controlling stakes. What is more, this process was conducted behind closed doors, without reference to any general rules, and placed a suspicious number of privatized firms in the hands of individuals close to the RPR.\textsuperscript{84}

In the end, Chirac's flirtation with Reaganite or Thatcherite liberalism proved not only incomplete, but unsuccessful. The government's economic reform package delivered mediocre results, particularly in terms of unemployment. While two years may be too short a period in which to judge an economic program, this was the standard that the Right itself had set with its pledge to immediately create hundreds of thousands of jobs through the simple introduction of "flexibility." Similarly, while no government ever adheres strictly to a political ideology, the Right's hyperbolic liberal rhetoric in opposition increased popular sensitivity to any signs of illiberal behavior once in office. This is why the charges of manipulating the privatizations or establishing an "Etat-RPR" proved so damaging.

The Right's commitment to liberalism was insufficiently deeply rooted to withstand the shock of electoral defeat. The conservative economic platform for the 1993 legislative elections contained none of the messianic liberalism of 1986.\textsuperscript{85} Instead of sweeping economic reform, the platform offered schemes for tinkering with retirement pensions and the family allowance system. Conspicuously absent from the Right's "Twenty Reforms to

\textsuperscript{84} Michel Bauer argues that the Chirac privatizations represented the pinnacle of dirigiste policymaking: "... the minister [of Finance] intervened not only to define the new rules of the game but also to fix the price, choose the shareholders and decide on the composition of the board. There never was so powerful a Minister of Finance in France: never did the rue de Rivoli matter so much in the business world. The French privatisation programme did not represent any great break with the past. Quite the contrary: it fully illustrated the State's interventionist tradition and even reinforced it." Bauer, \textit{op. cit.}, p. 57.

Begin Changing France" (the title itself is revealing of diminished ambitions) was any pledge of massive tax cuts or job creations. To the extent that the newly-installed Balladur government hopes to create jobs, the mechanism it is privileging is not the magic wand of flexibility, but old-fashioned Keynesian public works. The Right has also diluted its free trade stance, with Chirac pledging to defend French farmers against US pressures for liberalization, if necessary by tearing up the recent GATT agreement on the reduction of agricultural subsidies.

The toning down of the Right's liberal agenda has been driven by many factors. The experience of 1986-88 taught the bitter lesson that the real battle is not the legislative elections of 1993, but the race for the Elysée palace in 1995. Given a morose economic climate, officials are wary of raising expectations that could later provoke a backlash against them. They also face a backlash of a different nature -- that against liberalism within Chirac's own party.

Chirac faces a growing challenge to his leadership from the nationalist wing of the RPR, headed by Charles Pasqua and Philippe Séguyin. Occupying the ideological space abandoned by Chirac in his embrace of liberalism, Pasqua and Séguyin have used traditional Gaullist positions as a vehicle for attacking the RPR leader. Whereas Chirac endorsed the Maastricht Treaty (albeit with reservations), Pasqua and Séguyin openly opposed it as an undue infringement upon French sovereignty. Whereas Chirac accepted the high interest rates necessary to keep the franc within the EMS, Pasqua and Séguyin have led the camp calling for withdrawal from the EMS, so as to permit domestic reflation. Whereas Chirac and his advisors periodically float the idea of tax cuts, Pasqua and Séguyin appeal for an expansion of public works programs, financed by higher taxes, and openly deride the premises of supply-side economics. Séguyin, a former Minister of Social Affairs in the Chirac government, recently declared: "I am always stupefied to hear that one might

simultaneously and immediately lower social security levies, taxes, [the national] debt, and even the budget deficit."^87

In a sense, liberalism has both triumphed and lost in France. Looking over the past decade, one cannot but be struck by the extent to which dirigiste rules have given way to market forces in regulating the economy. The Chirac government was the most outspoken advocate of liberalization, but this movement both preceded and continued after the 1986-88 period. Socialists and Conservatives alike have come to accept open markets, limited state intervention, an anti-inflationary macroeconomic orientation, management autonomy, and the centrality of corporate profitability. In short, the commitment to a basically liberal economic orientation is all the more secure for being insulated from the vicissitudes of electoral politics. Considering that just ten years ago, France was widely accepted as the paradigmatic dirigiste system, and the newly-elected Leftist government was looking to push dirigisme onward toward Socialism, the liberal consensus today is nothing short of amazing.

Yet the victory of liberalism has been less than total. The most outspoken advocates of the doctrine practiced a peculiar and truncated version of liberalism when in power from 1986 to 1988. The Chirac government's liberalism was strictly an economic doctrine, as Malian immigrants and student demonstrators discovered. What is more, even within the economic arena, French liberalism looked rather different from the brand of liberalism practiced by Ronald Reagan or Margaret Thatcher: a generous welfare state was declared off limits to budget-cutters, and the plight of France's massive public sector was deemed too important to be Left to the determination of the market. Most important, while the French may have reconciled themselves to liberalism, they did not fall in love with it, at least not in 1988. Five years later, a chastened Jacques Chirac has toned down his liberal rhetoric, fearful of defections on his Left and, especially of open revolt among neo-dirigiste nostalgics on his Right.

^87 Ibid., p. 28. Translation the author's.
Tocquevillean Liberalism

The policy experiments of 1981 and 1986 looked to radically different forces to spur economic renewal. For the Socialists, salvation was to come from the enlightened intervention of an all-powerful state; for the government of Jacques Chirac, from the market-driven adjustments of profit-maximizing individuals. Alongside the political pendulum swing between government and market, the state and the individual, French elites have shown considerable interest in a third possible locus of renewal -- the institutions and organized interests of civil society.

The idea that some kind of collective life should mediate between the state and the individual is a longstanding theme of French politics. This notion has taken many forms, from the reactionary Right to the Trotskyist Left. Among the most influential manifestations have been the Catholic associational movement of the Third Republic and, more recently, the Second Left wing of the Socialist party.

The Catholic associational movement arose in the late-nineteenth century as a means of preserving traditional rural society against the disruptions of politics and the market. With the triumph of the Third Republic and the consequent fading of prospects for restoring a conservative, pro-clerical monarchy, the strategy of the French Catholic hierarchy shifted from recapturing the state to forging an alternative to the state. To shield the flock from the subversive influences of "progress, liberalism, and recent civilization," notes Suzanne Berger, the Church enshrouded believers in a network of Catholic organizations:

In the absence of any prospects for a reconquest of all society, the Church reformers proposed to build a world for the faithful within which social

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relations would be ordered in accordance with Catholic teachings. The integralists sought to Christianize the world by carving out in it a protected sphere within which Catholic social doctrines would organize collective life. They tried to incarnate religious beliefs in the values and institutions of a Catholic subculture.\textsuperscript{89}

Catholic associations organized all aspects of life. Some were specifically religious in character; others paralleled the professional and leisure associations of republican lay society. There were Catholic schools, Catholic lawyers' associations, Catholic sports teams, even Catholic drinking establishments. This vibrant associational life encircled and protected believers, reproduced Catholic values and behaviors, and created a microcosm of the kind of society that the Church hoped to establish throughout France some day. Most important, the Catholic subculture kept the faithful away from the services proffered by the republic.

Ministering to the needs of the faithful involved more than social activities. The Catholic associational movement also had an important economic dimension. Berger describes how, as market relationships began to penetrate the French countryside in the late-nineteenth century and as the state began to intervene to cushion or mediate these relationships, conservative Catholic elites moved to create an alternative means of regulating and preserving traditional rural society.\textsuperscript{90} To protect the peasants against disruptive market forces, agricultural syndicates purchased key inputs in bulk, such as fertilizers, selling them to members at unbeatable prices. They also experimented with joint sales of certain products, so as to dampen income losses during periods of slack demand. When progressive republican coalitions proposed to extend old age pensions or accident insurance to the peasantry, conservative Catholics countered by organizing the provision of these services through professional associations. Thus, by offering a solution to emerging peasant problems, Catholic corporatism sought to steer the faithful away from the temptations of market and state.


\textsuperscript{90} Berger, \textit{Peasants against Politics}, \textit{op. cit.}.
Politics, from the conservative Catholic perspective, was both evil and unnecessary. It was unnecessary because all the needs of the faithful -- social, spiritual, and material -- could be met through Church-sponsored organizations. Catholic associations and corporate groups offered a superior substitute for the republican state. Politics was evil because it created artificial divisions, disturbing the natural harmony of society. Left to their own devices, the individuals within a profession (landlord and landless peasant, employer and worker) would gladly accept their unequal status, each recognizing the complementary functions performed by the other. It was only politics that upset this peaceful organic social order.

The Catholic movement steered clear of any political involvement. With the exception of voting, believers were enjoined to restrain from participating in politics. The leaders of Catholic organizations rarely ran for office, and these organizations did not support political parties, even the Christian Democratic MRP of the immediate postwar period. In short, all efforts were channeled toward the creation of an alternative world, toward the organization of civil society, as opposed to attempting to refashion the republican political world.

In the extreme version, articulated during the 1930s and experimented with under Vichy, Catholic corporatists sought, not only to provide an alternative to the state, but to dismantle the state and parcel its responsibilities to the various professional associations. From a conservative Catholic perspective, the state represented a residual, rather than an essential actor. Long before the notion of “subsidiarity” entered Europarlance, as a means of defending the state against the imperialist pretensions of Brussels bureaucrats, it was invoked by the Catholic hierarchy to limit the incursion of the nation-state into areas better left to local authorities and the organizations of civil society.

Catholic corporatists argued that the state’s activities should be restricted to those functions that other groups in society were unable to perform, such as national defense, police services, and general administration. By contrast, all matters of social and economic
regulation could be handled by professional organizations, enjoying a monopoly of representation so as to avoid artificial divisions, and ideally operating on a regional basis. These organizations were portrayed as the natural social units of society. They were weak only because Paris had usurped their powers, but once restored to their rightful place, they were far more qualified than a corrupt and incompetent state to regulate their members' affairs.

Vichy marked the high point of Catholic corporatism, but the experience of collaboration discredited the movement in the eyes of many. In the postwar period, Catholic corporatism also confronted doctrinal limitations. The disdain for national politics became increasingly untenable in a nation in which the state manipulated the principal levers of the economy. So, too, did the insistence upon the unity of rural society. Peasant syndicates were unable to extend their intervention to the coordination of production and sales, since this required favoring those members able to meet international market standards. Yet existing corporate arrangements were proving less and less effective in shielding the flock from the ravages of the market.

Postwar social changes posed further challenges to Catholic associationalism. Rapid industrialization emptied the French countryside, the locus of Church organization and recruitment. The decline of religious practice drained the ranks of the faithful. The attenuation of the clerical/lay divide and widespread acceptance of republican government sapped support for a separate Christian society, while affluence, leisure, and new forms of communications opened previously insular subcultures to external ideas. Taken together, these various pressures -- economic, social, and cultural -- fractured the fragile ecosystem of Catholic associationalism.

The desire to forge a vibrant civil society outside or in opposition to the Jacobin state did not disappear with the demise of Catholic associationalism. Many of the themes carried by the Catholic movement migrated from Right to Left, as did, not coincidentally, a
number of Catholic militants. The crucible into which Catholic and Leftist ideas and militants were blended was the so-called “Second Left.”

The Second Left emerged in the 1970s under the leadership of Michel Rocard as an alternative to the Jacobin, statist orientation of the “First Left,” the Communist and Socialist parties. Providing a forum for the reconciliation of progressive Catholics and lay Socialists, it brought together social Catholics, like Jacques Delors, the deconfessionalized CFDT trade union, and Rocard’s Parti Socialiste Unifié (PSU). Out of this melting pot came such ideas as worker self-management, democratic participation, decentralization, and individual liberty. More generally, the theme that united the various groups within the Second Left, while setting them apart from the First Left, was the emphasis upon civil society rather than the state as the dynamic, creative force on the road to socialism.

Although nominal allies of the Socialist party of François Mitterrand, Second Left leaders were highly critical of Jacobin strategy embodied within the PCF-PS “Common Program for Governing” signed in 1972. They regarded this strategy as fundamentally flawed because based upon the assumption that once in office, the Left would be able to create socialism with a wave of the legislative wand. Second Left leaders were far less sanguine about the prospects for state-led reform. In their view, creating socialism involved a “multi-polar” process, one that stemmed from changes within civil society as well as the state. Absent the mobilization of the dynamic forces of society, predicted the

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CFDT's Edmond Maire shortly after François Mitterrand's victory in 1981, Jacobin initiatives would not go far:

Will the new course limit itself to changes concerning the State ... or will it irrigate all society via the creative and dynamic intervention of individuals, local authorities, and social forces? The question can be formulated in another way: will the new government be the sole source of initiative, and this action from above, within the State and directed at the State, will quickly reach its limits, or will it be able to coordinate its decisions with the autonomous action of social forces mobilized for profound transformations of society as well as the State?92

Second Left leaders also worried about the potential threats to liberty and democracy attendant to the statist strategy. They pointed to the contradiction between a long-term goal of eliminating the state and short-term political tactics that strengthened it. Vigilant critics of "real socialism," as practiced in Eastern Europe, they raised the specter of a government at home, frustrated in its efforts to legislate socialism by the resistance or lack of maturity of civil society, turning toward more strong-armed methods. In short, unless coordinated with the vital forces within civil society, the statist strategy would navigate between the scylla of ineffectiveness and the charybdis of totalitarianism.

Skepticism of statist methods was especially apparent in the Second Left's attitude toward the central plank of the Common Program, the nationalization of large segments of French industry and banking. Whereas for mainstream Marxists, socializing the means of production was synonymous with creating socialism, Second Left leaders argued that nationalizations would change little. Nationalizations skirted the real issue of socialism, which was not ownership of the means of production, but rather worker control. Indeed, Rocard suggested that socialism could be achieved without nationalizations: "The long-term objective of socialism is not necessarily nationalization, but the internal transformation of the management of companies."93 Second Left intellectual, Jacques Julliard went a step further. In a 1977 polemical pamphlet against the statist approach, Julliard maintained that

92 Hamon and Rotman, Deuxième gauche, op. cit., p. 352. Translation the author's.
93 Hamon and Rotman, Effet Rocard, op. cit., p. 92. Translation the author's.
nationalizations not only did not create socialism, they reinforced capitalism since, like capitalism, they concentrated political and economic power in the same hands.94

To the state-centered strategy of the mainstream Left, the Second Left opposed a reform movement rooted in the mobilization of civil society. Standing the Jacobin worldview on its head, Second Left militants argued that it was civil society, not the state, that was the principal bearer of innovation and progress. Jacques Julliard noted that virtually all the new social and political ideas of recent times had emerged outside the state and political parties: ecology, human rights, feminism, concern for the plight of immigrants, worker participation.95 Consequently, rather than utilizing the state to unblock or push forward society, socialists should strive to unleash the creative energies of civil society from the deadening grip of the state.

The Second Left was not an anarchist movement, seeking to substitute free-floating individuals for the state. Rather, power captured from big business and the state would be exercised through a vibrant network of local and professional associations. Implicit to this vision was the belief that French society harbored tremendous potential for self-organization and collective action, a belief that struck a chord with each of the three components of the Second Left. For social Catholic militants, the cultivation of the organizations of civil society followed in the spirit of Catholic associationalism, conducted outside and in opposition to politics. For Rocard and Trotskyist elements in the PSU, it harkened to the spontaneous popular energies released during the events of May 1968, suggesting that these forces might be channeled toward more lasting achievements. For the CFDT, the societal approach validated the syndicalist presumption that, more than a “transmission belt” for the Socialist party, the union represented an independent “force of proposition,” every bit as capable of serving the general interest as its political counterpart.

The watchword for the Second Left ideal of a participatory, self-regulating society was “autogestion,” a phrase imbued with multiple meanings. Originally, autogestion

94 Julliard, *Contre la politique, op. cit.*, pp. 31-32.
denoted a system of worker self-management or cooperatives, loosely derived from the
"Yugoslav model." As a Second Left economic strategy championed by the CFDT, it came
to represent democracy and participation in the workplace. Seen through Second Left
lenses, it was autogestion, as opposed to nationalizations, that represented truly
revolutionary change. By giving employees a voice in the decisions that shaped their
worklives, from the organization of production to corporate strategy, autogestion would
finally transform labor from an alienating into a creative, fulfilling process.

The notion of autogestion was not confined to the workplace. It was also invoked
by the Second Left in a more general sense, as a kind of blueprint for reorganizing French
society. The French political system, like the economic system, was a source of alienation:
the citizen was every bit as dispossessed of power and control by the institutions of a
centralized state, a stifling administration, and an authoritarian educational apparatus as by
French capitalism. Ending alienation, then, required more than ending capitalism; it
entailed spreading the practice of autogestion to all aspects of collective life -- economic of
course, but also political, social, and ideological. Autogestion in this broader sense,
observed centrist politician and Rocard sympathizer, Bernard Stasi signified the extension
of participation and the revival of civic activism:

... autogestion of society, it’s the new form of democracy. It’s
decentralization of power, the emergence of new powers, of counter-
powers. It’s associational life, society organized from the bottom up.96

Decentralization constituted an essential plank of the Second Left program, the
political counterpoint to worker self-management. Just as economic power would be
shifted from corporate headquarters to the shopfloor, political power would be diffused
from the reified heights of the central state to the local arena, where it would become
accessible to every citizen and where it would provide a check against misguided efforts to
achieve socialism by authoritarian means. In the early-1960s, Michel Rocard had penned
an appeal to "decolonize the provinces," a metaphor suggestive of the alienation of

96 Hamon and Rotaman, Effet Rocard, op. cit., p. 147. Translation the author's.
provincial power by the state authorities. Decolonization meant recapturing power at the local level, thereby multiplying the possibilities for participation and democratic control. As Rocard put it, decentralization would "restore to the French the habit of taking care of their own affairs."97 Once again, this anti-statist vision was collective, rather than atomistic. The French would "take care of their own affairs" through intermediary organizations. Just as the CFDT offered a key vehicle for the exercise of economic power, local government authorities would provide a forum for the exercise of political power.

While a fount of ideas, the Second Left was first and foremost a political movement, seeking to displace or capture the Socialist party. As such, it foundered upon two basic obstacles. The first was the bipolar logic of the French Fifth Republic. Whatever the merits of the Common Program as an economic strategy, it served the electoral interests of the Socialist party brilliantly. By pledging allegiance to a Jacobin dirigiste program essentially penned by the PCF, Mitterrand established the Leftist credentials of the PS. This was essential both for earning enough votes to outpoll a Communist candidate in the first round of presidential elections and for convincing Communist electors to rally to candidate Mitterrand in the second round. Unfortunately for the Second Left, the road to the Elysée palace, the only prize worth winning under the Fifth Republic, passed through an embrace of the dirigiste state, not of civil society.

The second basic impediment to the Second Left movement was the bitter battle between its leader, Michel Rocard, and François Mitterrand -- a duel that began in the 1960s and continues to this day. In the late-1960s and early-70s, Rocard and his PSU followers had visions of supplanting a sclerotic SFIO, discredited by its combination of dogmatic Marxism and opportunistic political practice and especially by Guy Mollet’s vigorous prosecution of the war in Algeria. Instead, a revived PS, led by François Mitterrand, drove the PSU into oblivion.

97 Ibid., p. 92. Translation the author’s.
After abandoning a sinking PSU for the rising PS, Rocard sought to garner the Left’s support as the candidate best suited to defeat Giscard d'Estaing for the Presidency in 1981. Following the collapse of the Union of the Left in 1977 and the disastrous electoral defeat of 1978, he and his supporters argued that it was time for a change of strategy -- and of candidates. Once again, Rocard’s challenge was defeated. His popularity in the opinion polls was far greater than within the Socialist party. To the average PS militant, Rocard was a latecomer and an opportunist. His pragmatism and expression of doubts about the Common Program branded him a “Trojan horse of the Right,” rather than the bearer of an alternative revolutionary project. What is more, his effort to displace Mitterrand smacked of parricide. Since Mitterrand held the party apparatus firmly in hand, there was nothing Rocard could do to push him aside.

With Mitterrand’s election as President, Rocard was exiled to a succession of unappealing cabinet positions (Ministry of Planning and Territorial Development, then Ministry of Agriculture when France’s farmers began to stir up trouble). For over a decade, he remained at the mercy of his nemesis. In 1988, Rocard’s exile appeared to end when, following Mitterrand’s reelection as President, the Socialists were able to manage but a plurality in the subsequent legislative vote. Needing to build bridges to the center in order to form a governing majority and seeking to cultivate an image of moderation -- in contrast to the “dogmatic liberalism” of the Right -- Mitterrand appointed the consensual Rocard as Prime Minister. The President also hoped that the often unpopular position of Prime Minister would weaken Rocard, just as it had Mitterrand’s Conservative rival, Jacques Chirac during the two previous years.

Rocard managed to remain at the helm of the government for three years. He also positioned himself as the so-called “virtual candidate” of the PS for the 1995 presidential elections. Once again, though, Rocard was felled by a combination of illwill on the part of the President and the bipolar logic of Fifth Republic. In 1991, he was dismissed by Mitterrand and replaced by the ultra-dirigiste Edith Cresson. The move was seen as an
effort to tarnish the record of "virtual candidate" Rocard -- to open the way for criticism that he had accomplished little during his tenure in office, while squandering the resources made available by several years of strong economic growth. At the same time, the appointment of the Jacobin Cresson signaled an effort to revive the Union of the Left in anticipation of the 1993 legislative elections. As in the late-1970s, Mitterrand gambled that victory under France's bipolar system could be achieved by tendering a statist olive branch to the Communist electorate.

Rocard finally earned a measure of revenge in 1993. The impolitic Cresson, along with the economic downturn of the early-90s, triggered a free-fall in the Socialists' fortunes. The 1993 elections were the worst for the Left since 1815. As in 1978, political disaster opened the way for an alternative on the Left, and this time, Rocard was able to exploit the opportunity. Shortly after the elections, he captured the leadership of the Socialist party from Laurent Fabius, the figure whom Mitterrand has persistently sought to install as his successor. Given the abysmal state of the party, however, it is unclear whether Rocard has gained anything more than an empty shell, and there will certainly be political battles aplenty between now and 1995. Most important, even if Rocard proves successful, the ideas of the Second Left no longer carry the same meaning and resonance that they did in the 1970s. The issue today is not the nature and mode of transition to socialism, but rather how best to manage French capitalism. That said, Second Left ideas and institutions are by no means irrelevant to this concern.

Despite the frustrations of the Second Left as a political movement, its institutional and policy contribution has been considerable. François Mitterrand's PS was a catch-all party: just as it marginalized the PCF by integrating its economic ideas, the PS adopted many elements of the Second Left agenda. The 1982 Auroux laws were the legal translation of autogestion, an effort to promote plant-level bargaining and opportunities for "democratic expression" by the workforce. Likewise, the initial Socialist year in office brought a sweeping decentralization reform. Indeed, with the 1983 retreat from dirigisme,
Second Left spokesman Julliard crowed that the only lasting Socialist achievements appeared to be those inspired by the Second Left:

The truth is that far from having lost the battle, the anti-authoritarian and autogestionnaire Left has never, in its long history, scored as many points as during the recent period... the most incontestable and enduring achievements of this government incontestably bear its mark... decentralization, the Auroux laws, the reduction of inequalities.98

The ideas and institutions spawned by the Second Left have provided a bridge to a post-dirigiste economic strategy emphasizing the contribution of local and associational agents within civil society, a strategy designated henceforth as “Tocquevillean liberalism.” Tocquevillean liberalism shares the broad distrust of dirigiste economic policy characteristic of deregulatory liberalism. However, it is less sanguine about the possibilities for market forces alone to produce optimal social and economic outcomes. Whereas deregulatory liberalism is as hostile to “corporatiste” groups as to the state, Tocquevillean liberalism attributes a key role to non-state institutions and organized interests. Between the anarchic market, on the one hand, and the rigid central state, on the other, certain institutions -- notably banks, trade unions, employer associations, and local government authorities -- can perform coordinating functions and provide public goods that are essential to economic dynamism. Thus, Tocquevillean liberalism is liberal in its aversion to state intervention, while Tocquevillean in its faith in the salutary effects of local and societal activism.

Tocquevillean liberalism offers a new spin on some very old ideas. Like the Catholic associational and Second Left movements, it harbors deep misgivings about politics and the French state, but for very different reasons. Catholic associationalism was viscerally opposed to the liberal, democratic values borne by the Third Republic. The Second Left embraced these values, but feared their erosion at the hands of Jacobin politicians. Second Left ambivalence toward the state also reflected the belief that absent

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98 *Intervention*, No. 7, November-December 1983-January 1984, p. 6. Translation the author’s. The reduction of inequalities became a casualty of post-1983 austerity. However, the traditional Second Left/Social Catholic concern for the most disadvantaged took concrete form under the Rocard government, with the creation of the "revenu minimum d’insertion" (RMI), a minimum income of roughly 2000 francs per month ($375), available to all needy French citizens, and ideally accompanied by efforts to heal, house, retrain, and find jobs for the recipients.
the mobilization of civil society, a statist strategy would lack the leverage to achieve socialism. Tocquevillian liberalism echoes this skepticism toward state action. However, whereas the Second Left pointed to the shortcomings of the state as a vehicle for promoting socialism, Tocquevillian liberalism emphasizes its limits as an agent of capitalist competition.

The flipside of distrust of the French state is the valuing of the institutions of civil society. Once again, though, the source and meaning of this interest varies considerably across the three movements. Catholic associationalism sought to organize civil society on behalf of an illiberal political agenda, the creation of a conservative, clerical alternative to republican France. The Second Left pursued an illiberal economic agenda, the establishment of a participatory, democratic form of socialism. Tocquevillian liberalism shares the “Tocquevillianism” of these two movements, buts parts company with their illiberalism. It is firmly rooted in liberal republican politics and hitches the institutions of civil society to a liberal economic agenda, that of improved firm competitiveness within an open market economy, largely free of state intervention.

Tocquevillian liberalism is separated from its antecedents not only by its liberalism, but by the nature of its objectives. Catholic associationalism and the Second Left defined the role of civil society primarily in terms of political objectives. Catholic associationalism sought to establish an illiberal political order; corporatist economic action was simply a means to achieve this political goal. As for the Second Left, while striving to establish a socialist economic order, what set this movement apart from the mainstream Left, what characterized its unique identity, was its political agenda -- the pursuit of democracy, decentralization, and participation in the political sphere as well as the economic sphere. By contrast, the institutions of civil society in the Tocquevillian liberal vision are tied to a set of economic objectives, the forging of an alternative mode of economic intervention between the unsatisfactory extremes of state (dirigisme) and market (deregulatory liberalism).
Tocquevillean liberalism represents a reworking of the ideological and institutional materials originated by Catholic associationalism and especially the Second Left. During the 1960s and 70s, Second Left themes had a clear anti-capitalist thrust: pluralism and liberty as the guarantees that socialism would not be synonymous with Stalinism; autogestion as a humane socialist alternative to hierarchical capitalist methods of production; decentralization as a means of permitting citizens to control their destinies against the centralizing tendencies of the French state and French capitalism. In the 1980s and 90s, these same themes have been redirected: instead of socialist or at least social goals, they have been mobilized on behalf of economic objectives.

Decentralization offers a case in point. Conservative Catholics wielded decentralization to chip away at the hated republican state and to anchor the faithful in the rural community. In the postwar period, successive governments invoked decentralization, or at least territorial development (aménagement du territoire), on behalf of a social mission: reducing inequalities between Paris and the provinces, or in the words of Jean-François Gravier, "Paris and the French Desert."99 From a Second Left perspective, decentralization offered a means of resisting the centralizing tendencies of French capitalism, a theme captured in the Second Left rallying cry, "vivre et travailler au pays" (to live and work in one's birthplace). Most important, it would bring power to the people: in contrast to statist socialism, decentralization would permit participation and democratic control.

In the past decade, French authorities have come to see decentralization in a different light, as an instrument of economic policy, with special competence in servicing the needs of provincial SMEs. This is a role for which the central state is poorly suited. Part of the problem is financial: Paris simply does not possess much money for new programs and priorities. But the problem is also technical. Whereas the traditional national champions strategy was conducted through negotiations among a small group of elites,

efforts to reinforce French SMEs involve far more actors than can be gathered around the table of a ministerial conference room. In dealing with SMEs, notes a Ministry of Industry publication, another system of intervention becomes necessary:

... it is not from Paris that one can reach thousands of SMEs spread across the entire country. To be effective, this policy [in favor of SMEs] must be conducted at the local level, as close as possible to firms. It must mobilize all the actors involved in [local] development. 100

The linchpin of the French strategy is the array of newly-empowered government authorities at the municipal, departmental, and regional levels. These authorities received heightened legitimacy and resources with the 1982 Defferre decentralization laws and have moved to promote local enterprise. State officials hope that as decentralization gains momentum and local officials become accustomed to their new responsibilities, a community of actors will come together to define and provide the services needed by provincial industry. Ultimately, predicted Roger Fauroux, Minister of Industry in the Rocard government, local initiatives could offer the kind of aid to SMEs that Parisian technocrats, with their sectoral approach to industry, never could:

Experience has shown that sectoral plans ... were of limited effectiveness. By contrast, I believe that we can expect a lot from actions rooted in local initiatives and conducted in cooperation with the different forces of intervention and stimulation that exist at the level of a regional or local employment basin. 101

Like decentralization, Catholic and Second Left ideas associated with worker training and workplace dialogue have been redirected along economic lines. Conservative Catholics cast these themes in paternalistic terms: an employer who treated his workers well could reaffirm the natural unity and hierarchy of producers, the organic community of the workplace, as against the artificial class allegiances fomented by France’s militant trade unions. The Gaullist interest in profit-sharing reflects this traditional preoccupation with cultivating employee identification with the firm. At the same time, the designation of such

profit-sharing arrangements as “participation” attests to the limited scope of power-sharing attendant to the conservative vision.

The Second Left embraced a much broader vision of workplace participation and democracy. Jacques Delors penned the first French legislation mandating minimum company expenditures on worker training in 1971, as part of Jacques Chaban-Delmas’s “New Society” program. In the wake of the events of May 1968, amidst a wave of disturbances among unskilled workers (“la révolte des OS”), worker training was presented as an empowering device. Through access to training, blue-collar employees would be able to escape alienating line work, to gain access to more fulfilling job opportunities as well as to culture. The Second Left pushed workplace self-determination even further. Autogestion became the sine qua non of socialism, even more important than socializing the means of production. Reforms like the Auroux laws would extend the concepts of freedom of expression, democracy, and self-determination beyond the political realm to the economic realm.

In the 1980s, workplace reform, like decentralization, has been turned from political and social to economic purposes. Instead of a vehicle for personal development and empowerment, training and workplace dialogue are promoted as a necessary set of arrangements for optimizing technical modernization, for introducing flexibility into production operations, and for tapping the latent productivity within each worker. Despite the collapse of French unionism, “participation” is still valued by employers -- but as a

102 Jacques Delors presented the objectives of the 1971 legislation in emancipatory terms, even invoking the notion of autogestion: “In my mind, the idea in launching a worker training policy was to achieve progressively, over a period of time that might prove quite long, four essential objectives. First of all, to permit each man and woman to confront the more or less predictable changes that occur in our professional life. Second, to contribute, by dint of this policy, to the battle against inequalities of opportunity. Third ... to create around the Ministry of Education an environment that would be favorable to its evolution and reform.... Fourth and finally, to permit each man and women to master his or her life, that is, to elevate his or her cultural level and, in a formula that is more personal, to arrive at a kind of autogestion of his or her own existence.” Jacques Delors, “Genèse d’une loi et stratégie de changement,” Formation Emploi, No. 34, April-June 1991, pp. 31-38. Translation the author’s.

device for motivating employees to work harder, rather than for wooing them from union membership. The Auroux laws have evolved in a similar direction. Indeed, it is a measure of their reorientation toward economic ends that -- while the bane of the French Right and the CNPF when enacted in 1982 -- they were one of the few significant pieces of workplace legislation to survive the deregulatory Chirac government.

The leading spokesman for this blending of concertation and productivism is Antoine Riboud, the head of the BSN food group, one of the most successful and socially progressive companies in France. Commissioned by Prime Minister Chirac in 1987 to assess the social consequences of the introduction of new technologies, Riboud's report denounced French employers for focusing exclusively on the technological dimensions of modernization, while ignoring what he viewed as the far more important social dimension. Riboud argued that to be successful, technological modernization must be integrated within a long-term strategic plan and accompanied by extensive training of all concerned employees. Most important, it must be carried out in close consultation with the workforce up and down the line (including union representatives):

Modernization cannot be decreed; it must be negotiated. More time is needed to prepare the personnel and the organization than to buy the machine. [Sharing of] information, concertation, negotiation, an organization capable of fostering skills and appropriate expenditures on training constitute essential factors. In particular, quality and innovation necessitate the mobilization and utilization of all the human resources in the company.\(^{104}\)

Worker training plays a prominent role in this vision. Employers are urged to integrate training into their corporate planning, what the French term "la gestion prévisionnelle de l'emploi" (the anticipatory management of employment). The idea is that by identifying future tasks that workers will need to perform and training them in anticipation, firms can meet the challenges of tomorrow using the workers of today.

Instead of American-style hiring and firing ("external" labor flexibility), French firms could adjust through German-style redeployment of "polyvalent" workers within the factory ("internal" labor flexibility). In so doing, they would move away from price-based competition, underpinned by a sweated labor strategy, toward a high-value-added strategy, making use of and reinforcing the skills of the workforce.

Although originally commissioned by the Right, Riboud’s ideas have also been taken up by the Left. The Rocard government selected Riboud to head the committee on "Technological, Industrial, and Commercial Europe" for the Tenth Plan (1989-1992), which essentially reproduced the analysis in his report to Chirac. The themes of "modernisation sociale" and "modernisation négociée" also inspired recent Socialist policy, notably the efforts of Ministers of Labor, Jean-Pierre Soisson and Martine Aubry (daughter of Jacques Delors) to promote firm-level bargaining.

Another area in which politically-inspired reforms have been reoriented toward economic objectives is the financial sphere. Government authorities have been encouraging France’s largest banks and insurance companies to emulate the practice of the "Big Three" German banks by taking equity stakes in leading firms, particularly public-sector enterprises. The movement to entrust French financial institutions with a greater role in guiding the economy did not originate with Catholic corporatism or the Second Left, but it did stem from political considerations. When the Chirac government undertook its massive campaign of privatizations in 1986, it devised a number of "golden share" arrangements (noyaux durs), permitting privileged groups of investors to acquire a controlling stake. The government’s motives had less to do with economic principles than with a desire to reward RPR allies and to keep privatized companies out of foreign hands.

Upon returning to power in 1988, the Left also found a political interest in manipulating the ownership of public enterprises. Mitterrand had pledged in his campaign

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to put an end to the pendulum swing of nationalizations and privatizations by freezing the *status quo*. The problem with the so-called "ni-ni" policy (neither privatizations nor nationalizations) was that it prevented nationalized companies from raising capital through equity issues, since this constituted a partial privatization. The government, for its part, was unable to provide much financial assistance due to a combination of fiscal constraints and EC prohibitions on subsidies. Introducing publicly-held banks into the capital of publicly-held industrial groups offered a way of squaring the circle: industry received fresh funds, while the government was able to respect its politically sensitive "ni-ni" pledge.\(^{107}\)

Government officials have since discovered economic virtues in their politically-inspired practices. The newly-installed Balladur government has resurrected the "*noyau dur*" method for the current round of privatizations, but stripped this time of any hint of favoritism toward RPR allies.\(^{108}\) The *noyaux durs* are vaunted instead on their technical merits, as a way of providing a variety of safeguards to privatized firms: protection from hostile takeovers, particularly foreign takeovers; relief from pressures to maximize short-term profits; investment capital in hard economic times, when arms'-length lenders tend to back away. More generally, stable ownership shares and equity cross-holdings are championed by both the Left and the Right as offering a superior alternative to either pure state or pure market, to public control (nationalizations), on the one hand, and the Anglo-Saxon universe of hostile takeovers, on the other.

The transmutation of fragments of Catholic associationalism, the Second Left, and recent institutional reforms into instruments of Tocquevillean liberalism has been driven by a variety of factors. Hard times have made government officials and industrialists more sensitive to the latent economic potential within socially- or politically-inspired initiatives.

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\(^{107}\) The "ni-ni" pledge lasted until mid-1991, when budgetary constraints and the desire of public enterprises like Renault to forge alliances with private companies, a process that involved exchanges of shares, led the government to accept partial privatizations.

\(^{108}\) Whereas in 1986, the Ministry of Finance determined the composition of the *noyaux durs*, this time, an ostensibly independent "Privatization Commission" will make the determination. *Le Monde*, 27 May 1993, pp. 1, 16-17.
Still, economic difficulties have plagued France for two decades, whereas the increasing prominence attributed to intermediary associations and local authorities is a relatively new development. More than the economic crisis, it was a political crisis that augured the turn toward Tocquevillian liberalism.

Interest in Tocquevillian liberalism originated with the collapse of France's dirigiste postwar policy paradigm. Tocquevillian liberalism has held a particular attraction to a Left disoriented by the traumatic U-turn of 1983 and uncomfortable following the Right into deregulatory liberalism. For many Socialists, Tocquevillian liberalism offered the possibility of a middle ground, a "third way," between discredited dirigisme and free-market liberalism. Despite the retreat from dirigisme, Socialist policy is not reduced to laissez-faire. Socialists can still maintain that the inevitable dysfunctions of a capitalist economy require corrective institutional intervention -- only a different kind of intervention, more flexible and market-oriented than ministerial decrees.

The Tocquevillian approach has provided further political benefits to the Left. In emphasizing the role of local authorities or firm-level bargaining, it has focused attention upon the relatively successful dimensions of Socialist action, rather than the wrenching break with dirigisme. The oft-repeated characterization of the Defferre Laws as "la grande réforme du septennat" (the key reform of Mitterrand's first seven-year term in office) reflects this shift in emphasis. It is as if decentralization were being called upon to make the French forget that economic reform had been the central project of the regime.

Tocquevillian liberalism has been reinforced and validated through reference to the "German model." In a recent best-selling book, entitled Capitalism against Capitalism,109 Michel Albert, a former Planning Commissariat and close advisor to Raymond Barre, argued that with the end of the Cold War, the battle is no longer between capitalism and socialism, but between two basic variants of capitalism: a liberal, deregulated capitalism, derived from Anglo-Saxon practice, and an institutionalized capitalism, based upon the

experiences of the "Rhinish countries" (Switzerland, Sweden, and especially Germany). The former values individual achievement and risk-taking; the latter collective success and equitable distribution. The former seeks to maximize short-term profitability; the latter long-term industrial development. The former is driven by market forces; the latter coordinated by intermediary institutions. Albert believes that France stands poised between the two systems and urges French authorities to embrace the "Rhinish" or German model.

As The Economist reported in 1991, many in France share Albert's objective:

... Germany and the German model crop up continuously in talk of French business. France needs training in industry -- like the Germans. France needs small, export-minded companies -- like the Germans. France needs to link financiers and industry with big blocks of shares -- like the Germans. Twice this summer, the Prime Minister, Edith Cresson, has announced German-inspired initiatives -- one to help small businesses and the other to prepare a law on apprenticeships.\(^\text{110}\)

The German model offers a two-fold legitimation of the Tocquevillian liberal project. In economic terms, it suggests -- as against deregulatory liberalism -- that the cultivation of intermediary associations and local institutions is favorable to industrial development. Germany has achieved its lofty economic position thanks to universal banks that nurture industrial clients, a training and codetermination system that promotes high skill levels and workplace flexibility, and a network of local institutions that provide a supportive environment for SMEs. For France, then, institutional reform appears as the prerequisite for economic renewal.

In social terms, the German model seems to suggest that sharing power with a variety of organized interests offers a way of combining efficiency and equity. German-style Tocquevillian liberalism offers a far more reassuring social vision than that of American-style "libéralisme sauvage." Unlike the US, or Japan for that matter, Germany is a European country, one that shares France's social priorities. Its generous welfare state, 35-hour workweek, and six weeks annual paid vacation seem to demonstrate that industrial

dynamism need not be purchased at the expense of social principles dear to the French Left.

While Tocquevillian liberalism originated with the Left, there is good reason to believe that it will continue under the rule of the Right. Many of the most prominent individuals associated with the Tocquevillian agenda issue from centrist, non-aligned, or Barrist movements: Rocard's Minister of Labor and Training, Jean-Pierre Soisson and Minister of Industry, Roger Fauroux; businessman Antoine Riboud, whose influential report had been commissioned originally by the Chirac government; and, of course, Barre loyalist, Michel Albert. Clearly, they are no strangers to conservative circles, nor are the ideas they espouse.

The ties between Tocquevillian liberalism and the Right are more than personal. The ease with which the leading spokesmen for Tocquevillian liberalism cross political boundaries also testifies to the broad appeal of their agenda. As noted above, Tocquevillian liberalism shares the Right's belief in a minimalist state -- no small point of agreement in a country with France's dirigiste record. Conservatives since, well Tocqueville, have argued that the most effective way to keep the state weak is to make the institutions of civil society strong. This philosophy is echoed in appeals by Chirac among others for French citizens to become "more responsible," less dependent upon the state to resolve their every problem.

Tocquevillian liberalism may offer the most potent weapon in the battle against the state -- an alternative, or at least a perceived alternative to state regulation. Whereas the deregulatory agenda is vulnerable to charges of irresponsibility and neglect ("le désengagement de l'Etat"), of throwing France's economy and its citizens to the wolves of international market forces, the Tocquevillian project purports to introduce new forms of intervention in the place of dirigisme. Conservatives can claim that rolling back the state does not constitute an abdication of their responsibilities, but rather a means of adapting or modernizing the forms of public intervention. The Chirac government, for example, called
for the elimination of the once-mighty regional development organization, DATAR under
the pretense that the Defferre decentralization laws had given local authorities the means to
take their economic destinies in hand. If, for some conservatives, Tocquevillean liberalism
constitutes a genuine relay to dirigisme, for others, it offers politically useful smoke and
mirrors to mask the retreat of the state. Either way, it dovetails with the anti-statist project.

Even where it parts company with the laissez-faire agenda of deregulatory
liberalism, Tocquevillean liberalism offers grist to the conservative mill. To the extent that
it endorses intervention in the economy, this intervention is driven by a strongly pro-
business ordering of priorities: to channel capital to industry for investment, to boost the
skill levels of the workforce available to French employers, to provide a supportive
financial and technical infrastructure for SMEs. This is a far cry from traditional dirigiste
intervention designed to substitute for a deficient or Malthusian bourgeoisie. It is also a far
cry from redistributive social democratic measures. In short, "business hegemony,"
enshrined in state economic policymaking with the Socialists' 1983 U-turn, is diffuse throughout the institutions of civil society via the Tocquevillean project. Observers of
French local politics, for example, note that whereas in the past, economic development
was a secondary consideration, behind social services, houses, transportation, and social
stability, in recent years, the welfare of private enterprise has become the overriding focus
of local authorities:

... it is evident that the theme of local development has become the principal
reference point structuring the local political discourse and determining the
practice of local elites. As the evolution of economic intervention by local
authorities demonstrates, more and more, the entirety of local policy
(culture, training, environment ...) is hitched to the service of this norm of
development.¹¹¹

Tocquevillean liberalism has much to offer the Right in its narrow partisan conflicts
as well as broader ideological battles. Returning to power in 1993 in a context of high and
rising unemployment and with a presidential election at most two years away, the Right

¹¹¹ Françoise Gerbaux and Pierre Muller, "Les interventions économiques locales," Pouvoirs, No. 60,
needs to appear to be "doing something" about the problem. The strategy of deregulation was attempted in 1986 and generated very few jobs. Even if it had been more successful, since the Socialists Left the Right’s reforms in place, there are few further opportunities for deregulation. In such a situation, many on the Right are looking to Tocqueville’s lean measures, such as aid to SMEs and expanded spending by local authorities, to generate new jobs.

Finally, the Right is well-represented among many of the institutions that stand to be strengthened by the Tocquevillean liberal project. This is particularly true in the case of decentralization. Whereas the Socialists have been in power at the national level for ten of the past twelve years, the Right has dominated local elections. Most of the leading French cities (including Paris, Lyon, Toulouse, and Grenoble), the vast majority of departments, and all but two regional governments (Limousin and Nord-Pas-de-Calais) are currently in conservative hands. Any decentralization of power, therefore, represents a gain for the Right.

Ultimately, of the three broad policy experiments of the 1980s, Tocquevillean liberalism may prove to have the greatest staying power. Unlike dirigisme and deregulatory liberalism, it has not become the central issue of French electoral politics, where the endorsement of one party earns the undying enmity of the other. Rather, Tocquevillean liberalism has emerged, willy-nilly, on the basis of a series of institutional innovations -- the Defferre decentralization reforms, the Auroux laws, financial deregulation and privatizations -- devised for other purposes. Thus, it is not a hostage to the shifting winds of French public opinion.

Tocquevillean liberalism has also been protected by its conceptual ambiguity. Liberal, yet interventionist, it means different things to different groups: a new set of institutions to relay the dirigiste state, or a mask to hide the latter’s retreat; a strategy for empowering workers, or a means of assuring the hegemony of business interests. As a result, its agenda is palatable to both Left and Right. So, too, is the vision of society it
evokes. For a Left that has given up on socialism and a Right that wishes to promote competitiveness without attacking "les acquis sociaux," association with the German model offers an irresistible combination of industrial dynamism and a European quality of life.

**Conclusion: New Ideas and Old Institutions**

Like the exacerbated *dirigiste* program of the early Socialist years and the deregulatory agenda of the Chirac government, Tocquevillian liberalism has emerged as a result of both economic and political factors. The poor economic performance of Giscardian liberalism gave rise to Socialist *dirigisme*, the limits of which, in turn, begat deregulatory liberalism. With those solutions having failed to dent France's worrisome rate of unemployment, leaders on both the Left and the Right are experimenting with Tocquevillian liberalism.

If economic crisis has been the mother of invention, politics has served as midwife. A series of closely-contested elections and alternations in power ushered novel ideas out of the womb of academe and into the real world. In 1981, voluntarist industrial policy offered a rallying cry for Socialists to denounce the "irresponsible" passivity of the allegedly liberal Giscard. Five years later, Thatcherite liberalism gave the Right a club with which to beat the ostensibly *dirigiste* Socialists. While Tocquevillian liberalism has been put to less messianic usages, it nonetheless serves essential political purposes: reconciling Socialists to the abandonment of *dirigisme*, putting a softer edge on the Right's liberalism, enabling both sides to at least give the appearance of doing something about France's economy.

Each of the policy experiments of the past twenty years has fallen well short of the aspirations of its political sponsors. Giscard's flirtation with liberalism never got off the ground, victimized by two oil shocks, political pressure from the Left, and weakness and division on the Right. The Socialists' flight into *dirigisme* was checked by international macroeconomic constraints, electoral debts, and the exhaustion of an institutional system
that had been founded to meet the needs of postwar domestic reconstruction, not post-Fordist international competition. The Right's embrace of deregulatory liberalism fell prey to its own overblown rhetoric and to fierce resistance, not only from the government's political enemies, but from Chirac's own party.

The question one must ask, in light of these failed experiments, is whether similar frustrations await the project of Tocquevillian liberalism. While the political terrain appears firm, the institutional foundation is another matter. The Tocquevillian project is predicated upon a belief in the plasticity of institutions. French authorities not only should try to forge vibrant local and intermediary institutions; they can forge these institutions. Yet this is a hypothesis to be tested, a political aspiration, not an incontrovertible fact.

Regulation school analysis suggests that in a period of crisis, when the old order has crumbled, it is entirely possible to establish the institutions needed for a new order. The next section of the dissertation puts this hypothesis to the test by examining one dimension of the Tocquevillian institution-building project: the attempt to create a supportive local environment on behalf of France's SMEs. Decentralization represents a kind of low hurdle or critical case. Of the various strands of Tocquevillian liberalism, this is the area in which change has proceeded the furthest. Whereas industrial relations reform has remained largely blocked and banks are only beginning to redefine their ties to industry, local authorities have had over a decade to experiment with significant new powers and financial resources.

Decentralization also enjoys a broader consensus than the other initiatives. Conservative officials and employers are extremely wary of any extension of worker authority, and many in the financial community do not want to hear of boosting their responsibilities toward industry. By contrast, decentralization in the service of SMEs has become a motherhood-and-apple-pie issue in France. Despite initial misgivings, the Right has rallied to the cause of decentralization and is even advocating its extension in certain areas, such as education and training. In practice, Rightist regional, departmental, and
municipal authorities are every bit as active as their Leftist counterparts in rushing to support local industry.

Given the relatively propitious circumstances under which decentralization is taking place, it seems reasonable to expect that if France is capable of changing its institutional stripes in any area, it would be this one. Conversely, if French authorities are being frustrated in their efforts to foster decentralized intervention on behalf of SMEs, then we can conclude that the Tocquevillean institution-building project is likely to fizzle across-the-board. To investigate this crucial question of institutional plasticity, we turn now to case studies of local economic policymaking in two French industrial agglomerations: Besançon, a Left-leaning municipality near the Swiss border, and Saint-Etienne, a center-Right city not far from Lyon.
PART TWO - THE LOCAL EXPERIMENT

Since the mid-1980s, French authorities have been experimenting with new forms of economic intervention. Rooted in political traditions seeking to organize the space between the individual and the state, notably Catholic associationalism and the Second Left, the new approach has also drawn upon a series of recent institutional reforms: the Defferre decentralization laws, the Auroux laws, and changes in public sector ownership. While originally political in emphasis, these ideological fragments and institutions have been redirected along economic or technocratic lines. The process has been driven by the quest for a “third way” between discredited dirigisme and deregulatory liberalism and validated through reference to the institutionally-rich “German model.” The resulting synthesis, referred to in this dissertation as “Tocquevillean liberalism,” affords a central economic role to local and societal institutions that had been largely marginal to economic policymaking under the postwar dirigiste system.

French officials are pinning their hopes, in particular, upon the intervention of regional, departmental, and municipal governments. Local authorities received new powers and resources as a result of the 1982 Defferre decentralization laws. They have also received a new mission -- to assist France’s long-neglected SMEs, now seen as central to the nation’s economic vitality. The reasoning of national officials is straightforward: no uniform Parisian decree can accommodate the needs of France’s multitude of SMEs; what is needed instead are a multiplicity of solutions, devised in proximity to the target enterprises, by a partnership of concerned local elites. In short, decentralization is the institutional corollary of heightened public interest in the plight of SMEs.

The following section looks at this local Tocquevillean strategy through the prism of two French municipalities: Besançon and Saint-Etienne. Medium-sized provincial cities, with a population of 130,000 and 200,000 respectively, both boast a proud industrial history. Besançon has prospered for centuries on the basis of its near-monopoly
of French watch output. Traditionally, roughly 80% of all French timepieces have been manufactured within the tiny Franche-Comté region, of which Besançon is the capital. As for Saint-Etienne, while a center of French arms manufacturing since the seventeenth century, its golden age occurred in the early-nineteenth century, when it became the leading French producer of coal and steel. A veritable boomtown, Saint-Etienne's population quadrupled between 1820 and 1876.1

Recent industrial history has been much more troubled. During the past two decades, Besançon's watch industry has faced the twin challenge of the quartz technology revolution and emerging Asian rivals. At the same time, Saint-Etienne has confronted fierce competition across a range of industrial vocations, from steel, to autos, to machine-tools, to textiles. Presumably, the sweeping industrial restructuring that has occurred in the two agglomerations offers an opportunity to assess the nascent economic powers of local authorities.

Aside from their rich industrial histories, Besançon and Saint-Etienne were selected as case studies for four reasons. First, as Chapter Three describes, both cities have been the object of extensive state intervention. Their experiences provide a window on the mechanisms that led to France's dirigiste pattern of policymaking, as well as the consequences of this approach. Their travails also provide a baseline by which to gauge the shifts in economic policymaking of the past decade -- the attempt to organize intervention through local authorities, rather than Parisian ministries, and to focus resources upon SMEs, as opposed to large industrial groups.

Second, local authorities in both agglomerations are widely praised for their economic management, a strategy that has been centered upon the promotion of SMEs. Besançon has collected a number of citations from the business and popular press. A 1988 survey of managers for L'Expansion ranked it third (behind Rennes and Montpellier) in terms of economic dynamism; in 1989, L'Événement de jeudi rated it the best-managed city

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in France. Saint-Etienne’s mayor, François Dubanchet has received accolades for his policy of “everything for industry,” combining tax cuts, extensive industrial real estate operations, and support for high technology.\textsuperscript{2} With industry actually creating jobs anew, Dubanchet easily won reelection in 1989. Thus, both agglomerations afford a glimpse of what local initiatives in France might become if handled adroitly.

The comparison of municipal policies holds a further interest. While Besançon has been ruled by the Left for over four decades, Saint-Etienne has been governed by the Right (with the notable exception of the Communist municipality of 1977-83). The experiences of the two cities can, therefore, shed light on the links between party allegiances and ideology and local economic strategies.

The fourth and final motive for the selection of Besançon and Saint-Etienne is that the industrial landscape of these agglomerations counts an unusually large proportion of SMEs, the ostensible object of the new local policies. This is a relatively recent (and painful) development. In the early-1970s, Besançon was home to four companies employing over 1000 workers and Saint-Etienne to roughly one dozen. Subsequently, both cities experienced a veritable industrial decapitation, with every large employer going out of business or at least shrinking dramatically.\textsuperscript{3} Today, Besançon counts no firms with more than 1000 employees and Saint-Etienne only two (both of which are on the verge of dipping below this threshold).\textsuperscript{4}

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\textsuperscript{3} Among the leading victims: in Besançon, the Rhodiacêta synthetic fiber subsidiary of Rhône-Poulenc (3000 workers), the Lip watch manufacturer (1300), a Timex subsidiary (600 employees today, versus 2800 in the early-1970s); in Saint-Etienne, the Creusot-Loire steel and mechanical engineering group (10,000 employees), the coal mines (6000), the Manufrance manufacturing and mail-order business (3500).

\textsuperscript{4} The four Besançon firms employing over 1000 workers in the early-1970s were Kelton, Rhône-Poulenc Textile, Weil, and Lip. Rhône-Poulenc and Lip have gone out of business; Kelton and Weil have shrunk below the 1000-worker threshold. CMPDE Besançon, L’industrie à Besançon, Besançon municipal publication, February 1984. The Saint-Etienne companies with over 1000 workers (as of 1 January 1976) included: the Coal Board, Creusot-Loire, Marrel Frères, Bennes Marrel, Mavilor, Soma-Europe-Transmissions, BSN, Coop, Manufacture Nationale d’Armes de Saint-Etienne, and Manufrance. ADIRS, op. cit., pp. 44-45. Today, only C3F (the remnants of Creusot-Loire’s steel production, now owned by Usinor) and the national arms manufacture remain over the 1000-employee threshold, and both are undertaking massive lay-offs. Jean-Paul Freycon and Jean-Paul Villié, Profil de la Zone Loire-Sud, (Saint-Etienne: Sitelle, 1988).
While the experience of the largest firms has been uniformly catastrophic, SMEs in both cities have spearheaded a degree of industrial renewal. In Besançon, many small-scale watch part manufacturers have redeployed their talents in fashioning tiny pieces of metal on behalf of the demanding electronics, telecommunication, and medical equipment industries. Traditional industries in Saint-Etienne have undergone a similar evolution. Several ribbon manufacturers, for example, have diversified into the more lucrative production of medical bandages. A number of metalworking suppliers in both cities, cut loose or squeezed by traditional clients (notably Creusot-Loire in Saint-Etienne and the auto industry in both agglomerations), have cultivated new markets by upgrading their production, quality control, innovation, and marketing skills. In short, Besançon and Saint-Etienne offer a relatively receptive industrial terrain for the kinds of policies that local officials throughout France wish to implement.

By French standards, then, the political and industrial context in Besançon and Saint-Etienne is quite favorable to the Tocquevillian project. Both cities are home to a multitude of SMEs and to local officials eager to help them. What is more, both are seen by outsiders as something of a "success story" -- two industrial agglomerations that observers were ready to write off in the dark days of the late-1970s and early-80s, whose economic fortunes have since rebounded, thanks to a multiplication of high-tech SMEs. As will be seen, however, even under the relatively promising circumstances of Besançon and Saint-Etienne, the aspiration that local authorities would prove able to craft effective instruments of economic intervention has been largely frustrated. The local Tocquevillian project has encountered a three-fold set of obstacles: historical (Chapter Three), political and institutional (Chapter Four), and organizational (Chapter Five).

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5 Typical of this vision of SME-led resurgence is the following depiction of Saint-Etienne: "Little by little, the large industries of the past have been replaced by a network of SMEs specialized in robotics and cutting-edge electronics. With the strength of 200,000 residents, the capital of the Loire has thus passed without transition from the nineteenth to the twenty-first century." "Saint-Etienne: Mémorphose d'une mal aimée," Reader's Digest Sélection, p. 100. Translation the author's.
Center-periphery relations in postwar Besançon and Saint-Etienne offer a microcosm of the rise and fall of *dirigisme*. They also provide a measure of the gap between the economic responsibilities associated with Tocquevillean liberalism and the prior experience of French local authorities. For much of the postwar period, officials in Besançon and Saint-Etienne regarded industrialization with indifference, bordering on hostility. Such indifference stemmed in part from the easy prosperity of the *trente glorieuses*. In Besançon, the population doubled to over 113,000 between 1946 and 1968, so officials had little reason to fear for the city's future expansion.¹ Even in troubled Saint-Etienne, the economy and population grew at a pace not seen since the boom years of the early-nineteenth century.² For overwhelmed local authorities in both cities, the key challenge was keeping up with rapid development -- meeting the exploding demand for social services, roads, and especially housing -- not accelerating it.

The ambivalence of local authorities toward industrialization reflected more than the freedom of the wealthy not to worry about the source of their next meal. It was also fueled by political and ideological considerations. In Besançon, a municipality of the Left, officials saw their role as providing "services to the people" -- subsidized housing, public transportation, social programs, cultural activities -- rather than "gifts to capitalists." Environmental concerns militated further against aid to industry. In Saint-Etienne, a municipality of the Right, conservative local notables likewise feared the consequences of industrialization. They were less worried about the environmental impact, however, than

² While Saint-Etienne's population did not double between 1946 and 1968, like that of Besançon, it did increase from 181,613 in 1946 to 223,112. Étienne Fourmial et. al., *Saint-Etienne: Histoire de la Ville et de ses Habitants*, (Roanne: Editions Horvath, 1976), p. 404.
the social impact. New industry would disrupt (i.e. increase) local pay scales, open the
door to militant trade unions, and expand the electoral constituency for Left-wing parties.

The indifference of local elites toward economic development invited national
intervention, particularly in backwards or declining regions like Saint-Etienne. This
produced the ironic, if not atypical situation for France, in which the principal bearer of
(local) economic development projects was the central state. Compounding the irony, in
Saint-Etienne, state officials were opposed by the elites in the very cities that they were
seeking to assist. As a result, they turned to alternative local partners of their own
choosing -- and increasingly, of their own construction.

In the 1970s, hard times attenuated, but by no means eliminated, traditional local
ambivalence toward economic development. Likewise, the orientation of national officials
began to shift. Parisian intervention in the provinces increased dramatically, but was
decoupled from its postwar modernizing mission. For a variety of political and institutional
reasons, state energies and resources became absorbed in dubious rescue operations on
behalf of troubled local firms, such as Lip and Manufrance. What is more, rather than
aiding these firms in their industrial restructuring, the attentions of national authorities
tended to make matters worse.

The Age of Indifference: Local Economic Policy during the Trente Glorieuses

For most of the postwar period, Besançon was ruled by the center-Left and Saint-
Etienne by the center-Right. Neither context proved particularly hospitable to the
emergence of local economic development initiatives. Elites on both sides of the political
spectrum confronted a variety of more pressing problems, and these preoccupations were
often at odds with the imperatives of industrialization. Indeed, industrialization tended to
be perceived as much as a threat to be contained as a resource to be cultivated.

Besançon has been ruled continuously by the Left since the 1953: by Jean Minjoez
from 1953 to 1977 (following a brief Liberation-era mandate) and by Robert Schwint since
1977. In many ways, Minjoz was a remarkable and far-sighted municipal leader. This was certainly true of his political style. Although issuing from the old-guard, anti-clerical wing of the SFIO associated with Guy Mollet, Minjoz presided over the reconciliation between Socialists and progressive Catholics at the local level. Such a move did not come easily to Minjoz. In 1945, he had attempted to revive a long-ignored anti-clerical statute to ban religious processions in the city. The attempt failed, as 10,000 Catholics marched in defiance of his prohibition, and Minjoz never attempted to enforce the ban again. He was then ousted in the 1947 municipal elections.

Minjoz returned to power in 1953 on the basis of an anti-clerical alliance with Leftist elements of the Radical party. While his municipal position would remain secure for the next quarter-century, Minjoz lost his parliamentary seat in 1958, despite having been a popular Minister of Labor and Social Security in the Mollet government (1956-57), primarily because of an appeal by the Archbishop of Besançon for Catholics to vote against him. Twice burned, Minjoz attenuated his anti-clericalism. Gradually, relations with the Catholic milieu began to improve, and in 1965, Minjoz opened his cabinet to progressive Catholics from the MRP. A willingness to downplay the religious issue, along with municipal activism in a range of areas formed the basis for this entente. In terms of his political coalition-building strategy, then, Minjoz anticipated by a good decade the alliance of Socialists and progressive Catholics that would rebuild the moribund former SFIO in the 1970s.

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Minjoz was also far-sighted in his policies. Immediately upon his election in 1953, at a time when few French mayors saw the demographic writing on the wall, Minjoz launched a massive, long-term public housing construction project to accommodate Besançon's burgeoning population. Working closely with the prefect and local employer interests, he was able to build over 1000 new lodgings annually from 1953 to 1962. In 1960, Besançon began planning *La Planoise*, a working-class bedroom community to be constructed on the edge of the city, with the goal of providing clean, modern housing to some 50,000 people by the year 2000.

Municipal activism accelerated and broadened with the entry of progressive Catholics into the Minjoz administration in 1965. A collection of charismatic municipal commissioners, brimming with ideas, were given the freedom and resources to put them into place. This was the period when Besançon earned its reputation for dynamic municipal government, a reputation which it continues to enjoy today.

Besançon became perhaps best known for its social policy. In 1968, building upon earlier actions, the municipality launched a program of aid for the indigent, the *minimum social garanti* (MSG), which became a model for the Rocard government's national *revenu minimum d'insertion* (RMI) initiative twenty years later. The MSG paid the equivalent of 70% of the minimum wage to elderly citizens, women alone with children, and families in difficulty. When the economic crisis hit in the 1970s, the program was extended to all needy Besançon citizens, and an "*action sociale d'accompagnement*" added to help those receiving the MSG get back on their feet and seek employment. The MSG was only the most visible of a variety of Besançon social programs. Indeed, the municipal social service department soon grew to 600 workers, with an annual budget of 40 million francs.

Besançon's energies were not confined to social sphere. In 1973, the city devised a long-term plan to tackle the congestion resulting from increased automobile traffic. The

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4 Charles, *op. cit.*, p. 11.
"plan de circulation" created a pedestrian zone in the downtown shopping area, set aside ample room for free parking on the edge of the city, and then linked the parking areas to the center city via a first-rate bus system. Besançon also invested heavily in cultural activities: a dynamic and well-attended media center (Centre Pierre Bayle); several quality museums, including a path-breaking museum of the French Resistance; and a summer classical musical festival. By 1980, cultural expenditures accounted for 16% of the municipal budget.7

Finally, the city remained at the vanguard of housing policy. Having been one of the first to recognize the need for cheap and abundant housing for the masses, Besançon then turned its attention to preserving and restoring elegant neighborhoods in the old city. In contrast to all-too-many French agglomerations, Besançon was able to preserve its historical core. A large segment of the central city, much of it constructed by the celebrated military architect Vauban, was beautifully restored.

Minjoz was less far-sighted when it came to economic affairs. Like so many in his day, he took the prosperity of the trente glorieuses for granted. In response to a 1970 planning report presenting a fairly critical analysis of the city’s economic position, Minjoz declared that he must be doing something right, since the population had doubled in two decades.8

Minjoz’s cavalier attitude reflected more than the city’s comfortable economic situation. It was also rooted in essential tenets of Socialist ideology. With limited resources, the role of a Socialist municipality was not to "offer gifts to capitalists" by underwriting industrial development, but rather to meet the needs of the people. As a longtime Besançon official relates, for a Socialist municipality, the top priority was social policy, not economic policy:

One can understand that social action was for Jean Minjoz and for the elected municipal officials the essential preoccupation. It was a matter of

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7 Ibid., p. 156.
8 Charles, op. cit., pp. 53-56.
solidarity toward the disadvantaged and a clear will to attenuate social inequalities.\(^9\)

Economic development was not neglected entirely by the Minjoz Administration. In 1972, the Municipal Center for Economic Promotion and Development (CMPDE) was launched to study the local economy, its strengths and weaknesses, and to issue recommendations for improvement. At the same time, Besançon became one of the first cities in France to create the position of Commissioner for Economic Affairs. Nonetheless, this was a token gesture, rather than another pioneering initiative on a par with the city’s social, housing, or cultural programs.

The Economic Affairs Commission was never authorized to hire staff. Whereas 600 employees worked on behalf of the Social Affairs Commission, employment in Economic Affairs topped off at three. Equally revealing were Minjoz’s choices to head the agency (three in all between 1972 and 1977). Minjoz selected his Economic Commissioners more to reward political loyalists than to build an effective administration.

The first Commissioner, Georges Gaudot, was a well-regarded economist at the University of Dijon, who had translated Samuelson’s textbook into French. His principal qualification in the mayor’s eyes, however, lay outside the academic arena. A progressive Catholic union official, Gaudot had played a central role in negotiating the MRP’s entry into Minjoz’s municipal coalition in 1965. While an able thinker, Gaudot was an academic more than an administrator and had no contacts with local industry. As a result, few of his initiatives ever saw the light of day. Sadly, Gaudot was killed in a car crash just two years into his mandate.

Had Minjoz been sincerely committed to developing the Economic Affairs Commission, he would have appointed a dynamic successor to Gaudot. Instead, he offered the position to a party activist in recognition for years of loyal service to the SFIO. At least this official, the owner of a small printshop, had hands-on experience in industry.

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Unfortunately, the experience was not entirely favorable: Besançon's second Economic Commissioner was compelled to step down eighteen months later, when his company went bankrupt. Minjoz then named an aging trade unionist, widely regarded as a "brave type," but who knew little about industry. Indeed, Besançon's third Economic Commissioner was reportedly afraid of addressing employers directly and quietly (very quietly) served out the final eighteen months of Minjoz's term.

Whoever was at the helm of the Economic Affairs Commission, the interests of industry invariably took a backseat to other objectives. Besançon officials today, Mayor Robert Schwint included, bemoan the fact that throughout the 1960s and early-70s, virtually the only new housing construction authorized in the city was apartment complexes for low-income tenants. The predictable result was that Besançon's middle-classes, in search of single-family homes with a private yard, flocked to the suburbs, greatly weakening the city's tax base. As Schwint explains, social and ideological, not economic considerations drove the actions of municipal officials: "We were a socially-oriented municipality, so we built social housing."10

Environmental concerns, like social concerns, took precedence over development. Municipal policy was driven by the not very neighborly goal of pushing economic development, with its noise and pollution, as far away from the city as possible. The mid-1960s marked a pause in the creation of new industrial space within Besançon. By contrast, the city launched an industrial zone (Chemaudin-François) in collaboration with two much smaller municipalities, who did not share Besançon's indifference to economic development. These communes -- villages basically, counting a few hundred inhabitants -- wished to attract investors in order to boost their tax base. Lacking the resources to provide the necessary infrastructure (roads, utilities, etc.), they accepted Besançon's offer to front the expenditures and handle the logistical responsibilities in return for a share of the tax revenues. For Besançon, this kind of deal offered the best of both worlds: the city was

10 Interview with Robert Schwint, Mayor of Besançon since 1977, 12 November 1990.
able to reap the fiscal benefits of economic development, while keeping traffic and polluting factories at a safe distance.

On those occasions when Besançon could not have its environmental cake and eat it too, officials opted to sacrifice economic development. A superhighway designed to break Besançon’s isolation from other French cities was rerouted through a neighboring village. The exit was placed five miles from the edge of Besançon, with only a single-lane road linking it to the city. It is perhaps fitting that the final action of Minjoz’s political career, squeezed into the last municipal council meeting that he presided, was the creation of a giant "green zone," a wide band covering much of the northern part of the municipal territory, from which all construction was prohibited. Even in 1977, with the recession in full swing, economic development was still viewed as a nuisance to be shunted to Besançon’s neighbors.

At heart, local economic development policy was not near and dear to the Minjoz administration. Officials felt that Besançon already possessed as much industry as it needed; any more would threaten the city’s environment and quality of life. In any case, municipal energies were absorbed by other projects: building roads and public housing, bringing culture to the masses, providing social services. When push came to shove, these activities took priority over the needs of industrialization -- as evidenced by decisions concerning the location of public housing projects, industrial parks, and highways, as well as by the limited resources (both financial and human) accorded the Commission of Economic Affairs.

If the case of Besançon illustrates the obstacles to local economic development policies posed by the ideology and political interests of the Left, that of Saint-Etienne demonstrates that these obstacles were no less prevalent on the Right. Besançon and Saint-Etienne differ in one important respect, however. State policymakers were far more concerned about the economic plight of the struggling coal and steel city than that of the relatively comfortable watchmaking capital. As a result, in the absence of local
development initiatives in Saint-Etienne, a variety of state officials took the lead -- and confronted the systematic opposition, or at least obstructionism, of conservative local elites.

In contrast to many other French localities, Saint-Etienne suffered significant economic difficulties even during the *trente glorieuses*. Immediately after the War, the city faced the problem of reducing manning in the coal mines, far and away the leading local employer, with 25,000 workers in 1947. The decision to shut the mines completely dates to 1966, when almost 10,000 workers still toiled in the mines. Nor was coal the only local industry in decline. The cycle and ribbon industries struggled in the postwar period, while the steel and metalworking sector confronted a series of crises and reorganizations.

State officials and local economic notables were sharply divided over both the origins and solutions to the economic difficulties of Saint-Etienne. For state technocrats, the problems of French industry derived essentially from its small scale and inadequate investment. The First Plan (or Monnet Plan) called for extensive retooling and mergers in six basic industries, including two Saint-Etienne vocations, coal and steel. The prefect lobbied for similar measures in other Saint-Etienne industries, such as cycles and textiles.

Local notables disagreed with this diagnosis. The problem of Saint-Etienne industry, as they saw it, was not small size and lagging investment, but high taxes and wages and excessive exposure to competition from other countries, where public officials offered a more favorable environment for industry. If the French government would cut taxes instead of meddling in the affairs of private industry, they argued, investment levels

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13 The following account of economic development policies in Saint-Etienne and of the conflicts between state and local elites draws overwhelmingly upon the thesis of André Vant, *Imagerie et urbanisation: Recherches sur l'exemple stéphanois*, (Saint-Etienne: Centre d'Etudes Foréziennes, 1981), especially ch's 4-6. Other sources include: Cretin, *op. cit.*; Jacques Schnetzler, *Les industries et les hommes dans la région de Saint-Etienne: Étude de géographie humaine*, (Saint-Etienne: Le Feuillet Blanc, 1975); Fournial *et. al.*, *op. cit.*.
would rise accordingly. Certainly, they did not see mergers as offering a solution. On the contrary, mergers would merely create unwieldy patchwork structures. What is more, the close personal rapport between employers and employees characteristic of SMEs operating "on a human scale" would give way to impersonal bureaucracies, fostering irresponsibility and worker radicalization.

Local notables feared more than the economic effects of concentration. For many owners of SMEs, mergers meant losing control of businesses that had been in the family for generations. In a country in which companies were valued not only for their earnings, but for the jobs they provided to friends and family and for the social standing they conferred upon the owner, widespread mergers were perceived as something akin to a policy of social extermination.\(^\text{14}\)

Saint-Etienne notables were able to resist state pressure for mergers in the initial postwar years, but the recession of 1951-52 strengthened the prefect's hand. So, too did the possibility of manipulating protection from foreign competition.\(^\text{15}\) With the creation of the European Coal and Steel Community (ESCS), local producers came under threat from far more efficient German competitors. In this context and through a massive infusion of national and ESCS aid, the prefect was able to bring about the fusion of local steel firms into the Compagnie des Ateliers et des Forges de la Loire (CAFL). At the same time, the prefect induced six bicycle and motorcycle manufacturers to merge into the Compagnie Stéphanoise du Cycle et du Motocycle (COCYMO).

While the prefect led the local industrialists to water, he was unable to make them drink. The mergers were concluded on paper, but were unaccompanied by any real integration. Production was not rationalized across plants; managements layers were superimposed, rather than reorganized; wage levels were aligned on those paid by the most

\(^\text{14}\) On the attitudes of French employers in small firms, see Landes, op. cit..

generous unit. What is more, larger size did not translate automatically to more dynamic behavior. The sum, like its constituent parts, continued to neglect investment and plant modernization. Not surprisingly, then, the firms created under the prefect's aegis showed no more vitality than their antecedents. COCYMO went bankrupt within the year. As for CAFL, it was one merger away from becoming a more celebrated company in difficulty ... Creusot-Loire.\footnote{In 1984, Creusot-Loire would become the largest bankruptcy in French industrial history.}

Since merging the parts did not create a greater whole, the prefect shifted tactics toward procuring more parts. The vitality of Saint-Etienne would be restored by luring external investors, particularly dynamic, "modern" multinationals. Here, again, the strategy of state officials clashed with both the economic outlook and interests of local notables. The notables asserted that rather than wooing outside investors, the state should help existing firms become more competitive. State resources should go to insiders, not outsiders; endogenous development would contribute more to the Saint-Etienne economy than multinational outposts.

Local notables were motivated by more than the desire to capture state largesse. Small-scale industrialists, operating on razor-thin margins, dreaded the impact of the new arrivals on local wage scales. The multinationals paid significantly better wages than local SMEs. While the multinationals could afford these wages thanks to high productivity levels, the SMEs could not. In a context of tight labor markets, the small-scale Saint-Etienne enterprises risked either losing their best workers or having to pay wages that would drive them into bankruptcy.

The risk was also political. The high wages paid by the multinationals did not buy social peace. On the contrary, large factories were invariably hotbeds of working-class radicalism. Their large scale made them a natural target for union organizers. Their Taylorist workplace organization and reliance upon unskilled workers bred alienation, or which parties of the Left could prey. This was no idle concern in Saint-Etienne. Although
the city had known mostly center-Right municipal governments, it harbored a large, radicalized working class population and a long history of bitter industrial strife. The PCF counted Saint-Etienne among its strongholds. Thus, in political competition, as in economic competition, local elites were hanging on by a thread, and in both instances, the arrival of giant Fordist firms threatened to sever that thread.

In the face of strong local resistance, state officials adopted a different political tack from that deployed in earlier efforts to promote industrial restructuring. Rather than cajoling and coercing local elites into pursuing the desired course of action, the prefect and planners attempted to bypass them altogether. This required creating new interlocutors at the local level (or at least reinforcing local actors who were more favorably disposed), a strategy pursued not only in Saint-Etienne, but throughout France in the Gaullist era.

The concepts behind state strategy carried such awkward labels as "functional regionalism" and "deconcentration." The basic idea was simple, however: instead of working with local partners, the French state would reorganize internally to give itself strong representation at the local level. Alternatively, it would reinforce groups who shared its goals. In other words, the state was laying a structure that would permit it to negotiate with itself or at least with like-minded interlocutors. It was "deconcentrating" (shifting power from state actors in Paris to state actors in the provinces), as opposed to "decentralizing" (transferring power from the state to autonomous local officials).

The government's approach to regional development paralleled its tactics in a range of policy areas, notably agriculture and industry. In agriculture, state officials allied with progressive, young elements in the FNSEA behind a program of rapid modernization of

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18 For a discussion of this distinction, see Olliaux, *op. cit.*, pp. 19-21.
French agriculture.\textsuperscript{19} This alliance was cemented by aggressive state intervention to strengthen the FNSEA relative to rival agricultural organizations. In industry, planners colluded with emerging "national champions" behind a rapid-growth strategy, cutting out the industry associations, who were seen as excessively devoted to the preservation of the status quo.\textsuperscript{20}

In regional development policy, too, the state sought to promote modernization by intervening more actively and by co-opting like-minded elites, at the expense of traditional, conservative notables. A more activist approach was signaled by the creation in 1963 of the Délégation à l'Aménagement du Territoire et à l'Action Régionale (DATAR) to spearhead the development of priority zones. The following year, a regional reform sought to place responsibility for economic development policy in friendly hands. The 1964 reform was conceived not as a decentralization measure, but as a way of improving the effectiveness of state intervention at the local level. Indeed, the law was entitled "the organization of State services in the regional action constituencies" and opened with the following statement of purpose: "it appears that the moment has come to institute solid structures at the regional level, which will enable the government to implement its policy of territorial development [aménagement du territoire], while proceeding with all the indispensable consultations."\textsuperscript{21}

The 1964 reform sought to empower a newly-created regional prefect and the so-called "forces vives" (loosely translatable as the "vibrant social groups") the managers and new middle classes, who were represented in a consultative body, the Comité de Développement Economique Régional (CODER). The departmental prefects and traditional notables were seen as the big losers of the reform. State officials hoped that the forces vives, much like the young generation within the FNSEA and the national champions

\textsuperscript{20} Friedberg, \textit{op. cit.}.
\textsuperscript{21} Ollivaux, \textit{op. cit.}, p. 53. Translation the author's.
within industry, would act as agents of economic modernization, in opposition to conservative notables. Electoral considerations were also at work, the idea being to bring the *forces vives* within the sway of the Gaullist party.

State officials enjoyed considerably greater success in their efforts to restructure interest representation in agriculture and industry than in local economic development policy. Pierre Grémion's penetrating analysis of the implementation of the 1964 law describes how the reforming *impetus* was quashed by local elites in alliance with the departmental prefect.22 Neither the regional prefect nor the CODER was able to assert its authority at the local level. Resistance also came from above, as national ministries refused to accept "deconcentration" of power to the prefect and provincial outposts.

This battle between center and periphery, between new elites and traditional notables took various forms in Saint-Etienne.23 Time and again, state officials sought to create dynamic pseudo-local institutions, which they could manipulate for state-directed developmentalist purposes. Meanwhile, local notables maneuvered to prevent these institutions from seeing the light of day. Barring that, they sought to capture the new institutions, or in the worst case, to render them ineffective.

On the heels of the blocked industrial rationalization strategy, the prefect in Saint-Etienne turned to the task of institution-building. In 1954, he launched the *Comité d'Etudes et d'Action pour l'Expansion Economique et Sociale de la Région Stéphanoise* (CARS). To head this economic development organization, he appointed an *inspecteur des finances*, the purest incarnation of the Parisian technocrat. Local notables were unenthusiastic about the new agency, but the prefect took several measures to defuse their opposition. First, he enlisted three prominent national politicians with local roots to serve as honorary presidents: Georges Bidault, Eugène Claudius-Petit, and Antoine Pinay.24

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23 The account of this battle is drawn almost entirely from Vaut, *Imagerie*, op. cit., ch. 4, unless otherwise indicated.
24 Both Pinay and Bidault served as Premier under the Fourth Republic and occupied a variety of key cabinet positions (Minister of Finance, Minister of Foreign Affairs, Minister of Defense). Claudius-Petit
Second, the prefect observed publicly that Saint-Etienne industries had been spared, by and large, from the most recent round of French trade liberalization measures, but that this good fortune could be easily reversed. Third, he held out the possibility of cheap credit for local firms who were willing to cooperate.

Despite the prefect's precautions, the local notables fought back. Five months after the creation of CARS, the General Council, the governing body of the Loire department, launched a rival organization, the Association pour le Développement Économique du Département de la Loire. One year later, the two organizations were fused into the Comité d'Expansion, which was quickly captured by local notables.

State officials did not give up, however. The local branch of the nationalized Coal Board, the Houillères du Bassin du Centre et du Midi (HBCM) worked to attract outside investment to Saint-Etienne to counterbalance, at least partially, job losses resulting from the steady reduction in coal production since the War. The Coal Board was far and away the largest landowner in Saint-Etienne. In a city wedged between several mountain ranges, where virgin land was scarce, this was no small asset. What is more, the sites of abandoned mines already possessed a basic infrastructure: roads, electricity, water.

Consequently, HBCM was in a position to offer large chunks of prime land, with all the amenities in place, to firms who were willing to relocate to Saint-Etienne. Typically, the land was priced well below market value, with discounts running to 50%.

The problems of the coal industry gave rise to another round of state-sponsored development initiatives in 1966-67. With the announcement of the gradual closing of the mines in Saint-Etienne, the Coal Board created the Société Financière pour

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was the Minister of Reconstruction and Urbanism from 1948 to 1953 and is regarded as the founder of French territorial development policy (aménagement du territoire). At the local level, all three figures represented the Loire Department in Parliament. In addition, Pinay owned a leather works and was mayor of Saint-Chamond, an industrial city in the Gier Valley, to the North of Saint-Etienne, and Claudius-Petit was mayor of the working class town of Firminy, in the Ondaine Valley, to the South.


**l'Industrialisation des Régions Minières (SOFIREM)** to sweeten the pot for potential investors. SOFIREM offered direct subsidies covering up to 25% of the costs of an investment project, as well as long-term loans, in the form of convertible equity.\(^{27}\) Both the price of the land sold by HBCM and the subsidies and loans from SOFIREM were determined by the number of jobs to be created, with a special premium if the investor pledged to hire unemployed miners.

The role of SOFIREM and the HBCM was essentially passive, offering to defray part of the costs of any company investing in the region. While this was helpful if a firm was already considering Saint-Etienne, it did not address the problem of inducing companies to look at Saint-Etienne in the first place. In 1966, the *Agence de Développement Industriel de la Région Stéphanoise* (ADIRS) was founded to fill this need. It was ostensibly a local venture, sponsored jointly by a collection of local actors, including the expansion committee, the chamber of commerce, and the metalworking employer association (SMPL). In fact, the organization was created in response to a request from Prime Minister Pompidou that local officials pool their efforts in adjusting to the decline of the coal industry.

**Had state officials stopped at this point, ADIRS would have likely likely become another state economic development initiative that was absorbed and neutralized by local notables, like the CARS before it.** However, the following year, the head of ADIRS was given a second function, that of directing DATAR's Regional Commission for Industrial Reconversion. In other words, the head of the ADIRS was to report not only to local notables, but also to the Parisian development administration.

In contrast to the earlier battle for control of the expansion committee, the state won this struggle. ADIRS (later renamed the *Agence de Développement Industriel de la Loire*, ADIL) became the chief agency soliciting external investment for the region. Its position as

a DATAR outpost gave it privileged access to the Parisian administration’s contacts with potential investors in France and around the world. Since Saint-Etienne was classified as a priority region by the government, ADIRS could also offer potential investors large DATAR subsidies in proportion to the number of jobs created.

Local notables did not take defeat well. The expansion committee sought periodically to orchestrate ADIRS’s abolition, or else a “fusion” that would have amounted to little more than a hostile takeover.28 It criticized ADIRS for failing to attract more companies to Saint-Etienne, while often working behind the scenes (along with the chamber of commerce) to discourage potential investors. Nor did criticism of ADIRS’s failures preclude criticism of its successes. The expansion committee blamed new implants brought to Saint-Etienne by ADIRS for destabilizing local wage scales and spreading extremist militant unions.

Saint-Etienne was the object of state attentions not only for its weaknesses, but also for its (dubious) potential strengths. In 1966, DATAR launched the so-called métropoles d’équilibre program, the idea being to reinforce dynamic provincial cities in order to stem the flood of migration to Paris.29 Eight métropoles d’équilibre were selected, many of which were actually a (politically expedient) combination of neighboring cities. One such metropolis was the Lyon-Saint-Etienne agglomeration.

The premise of DATAR’s strategy was that the eight métropoles d’équilibre possessed most of the basic elements to become a world-class city, needing only a small boost from public authorities to be able to offer an attractive alternative to Paris. The metropolises were targeted for special consideration in the Sixth Plan, notably in the allocation of infrastructure equipment and decentralized administrations and industries. The

28 As will be seen in Chapter Six, the tension between the Loire expansion committee and ADIRS/ADII continues to this day.
29 For a presentation of this policy, see Michel Colot, "Métropoles d’équilibre et aires métropolitaines," Notes et Études documentaires, No. 363, (Paris: La Documentation Française, 1969). For a more critical analysis, see Niles Hansen, French Regional Planning, (Bloomington: Indiana University Press, 1968), ch. 10.
list of goodies to be distributed depended upon the perceived strengths and weaknesses of each metropolis.

Although Saint-Etienne was located in a dynamic industrial region and paired with Lyon in a single métropole d'équilibre, officials entertained few illusions about its potential, either industrial or aesthetic.\textsuperscript{30} A presentation of objectives for the metropolis recognized that, "the rapid expansion of the nineteenth century, based upon coal and metal industries, is running out of steam," and that a central preoccupation for Saint-Etienne would be the "reconversion of historic industrial activities."\textsuperscript{31} To help revive the city's economic base, planners recommended giving Saint-Etienne priority in DATAR efforts to decentralize "new, high-value-added industries."\textsuperscript{32} They also emphasized the need to revive the city's public image, "the principal obstacle to its development."\textsuperscript{33} Among the measures proposed: official recognition of nearby environmental sites (i.e. the creation of regional parks); renovation and cleaning of the downtown area; and highway construction to break the city's physical isolation.

In short, although paired with Lyon and counted among the dynamic, world-class agglomerations of France, in the nuts and bolts of the métropoles d'équilibre program, Saint-Etienne was rightly-regarded as an ugly, aging industrial city in need of assistance. The métropoles d'équilibre program, therefore, rejoined other state-supported reconversion efforts: the ADIRS initiative launched the same year and the long-standing measures proposed by the Coal Board. Each of these actions emphasized attracting emerging industries to Saint-Etienne, preferably large-scale enterprises, in the hope of breathing new life into the city's eroding nineteenth-century industrial base. The problem was that for the guardians of Saint-Etienne's industrial base, the local political and economic notables,

\textsuperscript{31} OREAM Lyon-Saint-Etienne, \textit{op. cit.}, pp. 20-21. Translation the author's.
\textsuperscript{32} \textit{Ibid.}, p. 24. Translation the author's.
\textsuperscript{33} \textit{Ibid.}. Translation the author's.
government measures signaled not new life, but likely death. Consequently, they sought systematically to capture or, failing that, to derail these measures.

The *trente glorieuses*, then, were anything but glorious for local economic development policy in Besançon and Saint-Etienne. In prosperous cities like Besançon, Leftist officials focused upon social and environmental programs, seeking to contain or accommodate development, not to accelerate it. By and large, provincial notables did not see the economy as an object worthy of their attention. Industry was growing quite rapidly without their intervention -- too rapidly in the opinion of many.

In ailing or backwards regions, like Saint-Etienne, such Malthusian indifference invited *colbertiste* intervention. State officials tried a combination of carrots and sticks initially, then shifted to a strategy of bypassing recalcitrant local elites altogether. This strategy, incarnated at the national level by the creation of DATAR and the 1964 regional reform, manifested itself in Saint-Etienne through the actions of the HBCM, SOFIREM, and ADIRS and via the *métropoles d'équilibre* program. Thus, where they existed, local development initiatives during the *trente glorieuses* were most definitely an *affaire d'Etat*.

**Truncated Experiments: Local Development Initiatives in the 1970s**

With the onset of recession in the mid-1970s, local elites began to rethink their attitudes toward economic development. The objections of the past did not simply disappear, but were counterbalanced by a growing concern for the economic health of the community. One might expect, under such circumstances, that a thousand local initiatives would bloom, as officials scrambled to secure their constituents' economic future. Indeed, numerous analysts point to the recession as a catalyst for the emergence of local economic intervention in France.34 Others contend, on the other hand, that prior to the

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decentralization reforms of the early-1980s, local initiatives never had much of a chance and were stifled by the Jacobin state. There is considerable truth to both sets of views: while local elites were becoming more sensitized to the needs of industry, they commanded at best limited resources for addressing these needs. The obstacles to local initiatives were not merely material, however, nor were they solely Parisian in origin. In both Besançon and Saint-Etienne, efforts by the municipality to take the community's long-term economic destiny in hand were checked by political and ideological opposition originating primarily from within the local governing coalition.

The plight of Saint-Etienne mayor, Michel Durafour highlights the difficulty of organizing a coalition for economic modernization within the Right. The son of a celebrated local centrist figure, Antoine Durafour, who had served as both mayor of Saint-Etienne and Minister of Labor, Michel Durafour gave the appearance of a traditional local notable. He espoused no clear political identity, changing his affiliation on several occasions. Where the father had stood on the center-Left, earning a place in local lore as a champion of the eight-hour day for miners, the son positioned himself somewhat to the Right, drawing support from local shopkeepers and small employers. Still, Michel Durafour's politics were personalistic, rather than ideological. His strength derived primarily from the aura of his father, close contacts with the press, an active presence throughout the community, and the ability to dispense favors. These resources catapulted Durafour to prominence in Saint-Etienne politics. Deputy-Mayor in the center-Right municipality headed by Alexandre de Fraissinette (1947-64), he inherited the post of Mayor upon Fraissinette's death in 1964. A strong sympathy vote assured a landslide victory in elections the following year.

Like Minjoz in Besançon, Durafour focused initially upon quality-of-life concerns, pledging to improve public housing, transportation, parks and leisure facilities, etc. Economic development was less of a priority. Part of the reason was the relative prosperity of the 1960s, but political considerations were also at work. Durafour hesitated to cultivate new investment for fear of antagonizing his main constituents, shopkeepers and small businesses.

Not all conservative figures shared Durafour's reluctance, however. In the 1971 municipal election campaign, Durafour's principal rival was a Gaullist candidate, Lucien Neuwirth (a doctor, best known for the Neuwirth Law legalizing contraception). Campaigning on a slogan of "Saint-Etienne Industrial Capital," Neuwirth pledged to accelerate the pace of industrialization. His strategy emphasized attracting new industries by allying with state technocrats in the context of the Gaullist regime's aménagement du territoire (territorial development) policies. Presumably, as a Gaullist loyalist, Neuwirth would be well-placed to solicit state favors.

Durafour, by contrast, steered clear of endorsing all-out industrialization. His slogan attested to a more diffuse agenda: "A job for all, quality of life, a city of fraternity and solidarity." Economic growth was but one of several elements needed to make Saint-Etienne an attractive, livable city -- and not necessarily the most important. In contrast to Neuwirth, Durafour conveyed a more cautious and locally-oriented image: rather than casting its lot with Parisian technocrats, Saint-Etienne would rely primarily upon its own resources; rather than making a dash for growth, with all the attendant disruption and class conflict, Saint-Etienne would pursue balanced development, centered upon an improved quality of life.

Durafour won reelection easily, but the mayor's subsequent behavior was not wholly consistent with his campaign. As will be described in greater detail below, Durafour challenged the management and the control of local notables over one of Saint-
Etienne's prize firms, Manufrance. Nor was this the only area in which he appeared to turn on his supporters.

In many ways, Durafour embraced the positions of the candidate whom he had defeated. While undertaking the promised infrastructure projects, he hitched them to modernist themes, seeking to present Saint-Etienne as an attractive place for "the new middle classes" (engineers, middle-level managers). He was not simply trying to improve the quality of life in Saint-Etienne, but to induce investors to locate there. Of course, there was considerable overlap between the two objectives. Locals and outsiders alike welcomed the physical cleansing of the city, the reclaiming of land from the coal mines, the planting of trees and creation of parks. Other measures were more controversial, however, in particular expensive industrial real estate operations and the construction of a giant shopping mall in the downtown area.

Durafour came to resemble Neuwirth not only in his objectives, but in his allies. Attracting and keeping firms in Saint-Etienne required two kinds of resources: land and money. Both were possessed in far greater abundance by state actors than local actors. The National Coal Board was far and away the biggest owner of undeveloped land in Saint-Etienne, possessing some 6000-7000 acres in the early-1970s. For political reasons, the Coal Board had adopted a policy of making land available cheaply to investors in proportion to the number of jobs created, particularly if unemployed miners were among the hires. In addition, the local branch of DATAR, the Agency for the Regional Industrial Development of Saint-Etienne (ADIRS), offered subsidies, low-interest loans, and tax breaks for local job creation. ADIRS also provided a link to a pool of prospective national and international investors, who consulted DATAR in Paris or abroad.

Durafour worked closely with ADIRS and local coal officials. Construction of industrial parks and commercial zones multiplied, much of it financed by the Parisian bank.

38 ADIRS, op. cit..
Paribas. This did little to endear Durafour to local notables. Durafour's statist bent received its clearest confirmation in 1974, when he accepted a cabinet post under Giscard.

In the 1977 municipal elections, Durafour found himself in a position analogous to that of Neuwirth in 1971. He was no longer an independent, apolitical notable, but a minister in the Barre government, worse still, the Minister of Labor. The Communists made political hay with the label, "Minister of Unemployment." Durafour, like Neuwirth before him, was charged with the sins, real or imagined, of the government in Paris.

Durafour's defections were not confined to the Left. Traditional supporters on the Right resented his prolonged absences from Saint-Etienne to attend to ministerial duties. The local notable seemed to have become a Parisian technocrat. Resentment was directed at not only the form, but also the content of Durafour's policies. The restructuring of Manufrance, the pitches to outside investors, the construction of shopping malls all posed a direct threat to the vital economic interests of his core constituents.

In the 1977 municipal elections, Durafour was narrowly defeated on the second ballot by a Communist CGT official, Joseph Sanguedolce. A lukewarm endorsement by Neuwirth just prior to the second round of voting, offered in very much the same spirit as Jacques Chirac's endorsement of Giscard d'Estaing in the presidential campaign four years later, yielded an identical outcome. But this was not the whole story. After all, Durafour had been able to overcome Neuwirth's open opposition in 1971. This time, he could not survive Neuwirth's tepid support. The rise of the Union of the Left, which peaked nationally in 1977, made for a difficult campaign, but the root problem for Durafour was that he had lost his powerful local base. In 1977, a year of unusually low turnout, his traditional backers stayed home.

In both the 1971 and 1977 municipal elections, candidates of the Right tied to a rapid modernization strategy alienated key elements of their traditional constituency, shopkeepers and small-scale employers, making victory impossible. In 1971, Durafour had been able to mask his somewhat ambiguous stance toward local economic
development. By 1977, however, he had left a paper trail. In combination with an unfavorable national political context -- the rise of the Union of the Left, divisions on the Right between Gaullists and Giscardians -- Durafour's support for economic modernization sealed his doom.

In Besançon, as in Saint-Etienne, the year 1977 marked a transition in municipal politics. Long-standing mayor, Jean Minjoz retired and was succeeded by Robert Schwint. While both were Socialists, Minjoz came from the anti-clerical, Jacobin wing of the party, associated with Guy Mollet, whereas Schwint was more sympathetic to the decentralizing and autogestion ideas promoted by Michel Rocard and the Second Left. The changes in Besançon were not merely biographical. In line with the growing bipolarization of French politics, the Socialist municipal slate jettisoned its centrist alliance to form a coalition with the Communist party.

The Commissioner for Economic Affairs in the new municipal government was Albert-Maxime Kohler. The choice is revealing of the Left's views about local economic development. Kohler, an eloquent and strong-willed lawyer, had spent twenty-four years as Commissioner for Cultural Affairs. In his words, the new appointment represented "punishment" for what Leftist militants viewed as an excessively elitist cultural policy. A member of the center-Left Mouvement des Radicaux de Gauche, Kohler was politically isolated within the Schwint cabinet. Clearly, local economic development policy was not a high priority for this administration. It was being employed, not to reinvigorate Besançon's economy, but to demote and contain a figure who could not be purged.

The response to Kohler's initial foray into local development policy was also revealing of the mentalities of the Left. Kohler adopted what he characterized as a "purely empiricist" approach to his new job. During the first few months, he and his assistants took inventory of the Besançon economy: identifying the distribution of activities across

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the primary, secondary, and tertiary sectors, detecting the leading employers, etc. Once they established a profile of the economy, they defined a certain number of potential axes for future development. For example, having discovered that the largest employer in Besançon was the health care sector, thanks to the presence of a leading medical school and a regional hospital complex, they suggested creating an industrial park targeted at pharmaceutical and health care companies.

Another idea for promoting local firms was to create a "regional center for foreign purchasing missions" in Besançon. The center would display the offerings of different companies in the Franche-Comté region to prospective foreign buyers. This would enable buyers to make a quick one-stop assessment of whether a Franche-Comté producer might meet their needs, instead of being dissuaded by the prospect of laborious and time-consuming visits to dispersed factory sites.

In November 1977, Kohler presented his agency's proposals to the Besançon municipal council for discussion, modification, and presumably approval.\textsuperscript{41} Instead, he confronted an onslaught of criticism and nay-saying from other municipal officials -- particularly, but not exclusively, from the Communists. Kohler prefaced his presentation with the remark that "economic action is the art of the possible," but his colleagues clearly felt that little was possible at the local level.\textsuperscript{42} One official noted that any positive contributions of municipal efforts paled in comparison to the decision of a single multinational, Rhône-Poulenc to close a Besançon plant that had once employed 3000 workers:

\begin{quote}
All the actions which are to be undertaken, will they create jobs, and if so, how many? Nobody knows, because if at the same time you have a large company like Rhône-Poulenc Textiles which ... brutally eliminates hundreds of jobs, this will be extremely difficult to overcome!\textsuperscript{43}
\end{quote}

\textsuperscript{41} Bulletin Officiel de la Commune de Besançon. Meeting held 18 November 1977, pp. 542-57.
\textsuperscript{42} Ibid., p. 543. Translation the author's.
\textsuperscript{43} Ibid., p. 551. Translation the author's.
Communist commissioners also linked Kohler's local development initiatives to unwarranted fatalism in the face of decisions by national authorities. They argued that the municipality should not simply take the decisions of Parisian corporations or government officials as given and then try to adapt on the basis of meager local resources. Rather, it should lend support to efforts to resist these decisions, to prevent Rhône-Poulenc from laying off workers, for example. Fundamentally, the Communists saw Kohler as operating in the wrong political arena: "... it seems to me that often we have not yet found the appropriate level of response for essential questions." 44

The problems of Besançon, in the eyes of the Jacobin Left, originated from national decisions and the dysfunctions of capitalism. Logically, their solution entailed changing the behavior of national actors, rather than wasting energy on hopeless, marginal local initiatives. In the short term, this meant resisting lay-offs by Rhône-Poulenc and lobbying Paris to create more jobs in Besançon's hospitals or railways. In the longer term, the only real hope rested with a victory of the Union of the Left, and with it, the implementation of the Common Program and the transition to Socialism. Local reforms, argued a Communist official, offered little more than palliatives:

The important thing, in my opinion, is not to try to glue more patches on that inner tube we call the liberal economic system because eventually, we will no longer be able to find the inner tube [underneath all the patches]; I think it would be better to orient our action in another direction. We must give ourselves the means and try to change the basic operating principles of the current system; in this way, we can find effective remedies. 45

The Communists' objections should be taken with a grain of salt. Obviously, these officials were grandstanding in a public forum; they were more concerned with the rapidly-approaching national legislative elections than with the specifics of Kohler's propositions. At the same time, such views were not a Communist monopoly, but were shared by broad segments of the Socialist party (particularly by the Jacobin CERES) and by much of the union movement. Even the autogestionnaire CFDT adhered to the CGT's line that day-to-

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44 Ibid., p. 552. Translation the author's.
day worker struggles should be subordinated to the cause of national political change, the only effective way of improving the lot of the working class. Most important, the opposition to Kohler's propositions was not merely rhetorical. None of his recommendations was ever implemented.

Opposition to Kohler's proposed innovations came from the national level as well as the local level. Giscard's Minister of the Interior, Michel Poniatowski, kept a watchful eye on local economic intervention, as symbolized by his 1976 "circular" reaffirming the illegality of local subsidies to industry. Even though Socialist local leaders were the principal challengers to Poniatowski's prohibition, once in power, they did not always welcome autonomous economic initiatives.

In 1981, Besançon's Economic Commissioner attempted to launch a "popular loan subscription," on the model of war bonds, but with the goal of aiding city industry. Kohler believed that he could translate local concern for industry into a source of low-interest loans. Citizens would lend money to the city of Besançon for ten years, receiving an interest rate of 5-6%. The city would then turn the money over to the Crédit National, a bank specialized in loans for industrial equipment, which would evaluate applications from local companies. In this way, Kohler estimated that investment capital could be made available to Besançon industry at interest rates well below the prevailing market rate of 18%.

Kohler claims that the mayor and Crédit National supported the project and that Prime Minister Pierre Mauroy even cited it as a model in a speech to parliament. However, it ran up against the opposition of two powerful Parisian administrations. The first was DATAR, which was afraid that the availability of sizable low-interest municipal loans would undercut its ability to influence the locational preferences of companies through its own subsidy program (primes à l'aménagement du territoire). The second, decisive adversary was the Ministry of Finance, which bristled at any dilution of its sweeping

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control of the mechanisms that convert French savings into investment. Since under French law, municipalities may not borrow from their citizens, except with the express approval of the Ministry of Finance, the Ministry could quash Kohler's proposal simply by sitting on its hands.

Not all Kohler's initiatives were frustrated, however. Under his guidance, Besançon became one of the first municipalities to utilize industrial real estate operations as a weapon for luring mobile investors.\textsuperscript{47} The beauty of the practice was that, thanks to an arbitrage opportunity generated within France's tightly-regulated financial system, Besançon could offer substantial subsidies to industrialists at no cost to the city.

Prior to the financial deregulation of the mid-1980s, French municipalities enjoyed access to privileged borrowing channels through the Caisse des Dépôts et des Consignations, a bank dedicated to servicing the needs of local authorities. At a time when industrialists were paying 18\% interest rates, municipalities could borrow from the Caisse at 7\%. While it was illegal to subsidize private companies directly, Besançon could skirt this restriction by buying industrial land and buildings, then offering a lease-buyback agreement to prospective investors. Even if the city priced the operation at cost, the company reaped a huge windfall, since it was paying 7\% interest to finance its new facilities, rather than 18\%. What is more, under French bookkeeping rules, leases do not count as debt, so the company could borrow additional funds for other purposes.

The 1970s did bring some changes, then, to local economic policymaking. Hard times began to erode the traditional ambivalence of local elites toward industrialization, opening the door to at least some of the initiatives proposed by pioneers like Kohler. Still, change remained incremental at best. As Kohler discovered, local economic projects confronted the enduring hostility of Parisian technocrats (DATAR, the Ministry of Finance), eager to preserve their monopoly over key policy instruments. What is more, such opposition was by no means confined to the national level.

\textsuperscript{47} As will be seen in the next chapter, this practice had an all-too-bright future.
In Besançon and Saint-Etienne, on the Left and on the Right, local economic initiatives encountered formidable political and ideological obstacles. For a politician of the Left, local economic development was a sideshow; worse, it smacked of class collaboration. Why should precious municipal resources be wasted on "gifts to the patronat"? What good would they do? At heart, most on the Left believed that Besançon’s economic problems were not amenable to local remedies. Short of national political change, the election of a government committed to Socialist reform, there was no solution. In the meantime, scarce local resources were better spent providing social services to the masses.

For a politician of the Right, such as Lucien Neuwirth or Michel Durafour, the embrace of economic modernization was fraught with risks. Rapid industrialization posed a threat to vested interests -- low-wage employers, marginal firms, small shopkeepers -- that were core constituents of the Right. Durafour's failure to take heed of such considerations probably cost him the municipality in 1977.

To the extent that officials on either the Left or the Right sought to make improvements in the local economy, their strategies focused upon national actors and resources. Kohler's Leftist critics argued that the most effective way to preserve or create jobs in Besançon was to put pressure on the Parisian companies (Rhône-Poulenc) and government administrations (SNCF, hospitals) that controlled these jobs. The initiatives of the Economic Commissioner, however well-intended, paled in comparison. Would-be modernizers in Saint-Etienne also threw in their lot with Parisian authorities. The programs for reviving Saint-Etienne proposed by Neuwirth and Durafour were predicated upon close collaboration with state agencies, such as DATAR and the Coal Board.

This vertical reflex of local actors, their tendency to look to Paris for salvation, was not confined to long-term development strategies. If anything, it was even more apparent in short-term crisis management. When celebrated local companies encountered difficulties

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48 Besançon is by no means unique in this respect. Patrick Le Galès describes a similar set of views among the Left-leaning majority of Rennes. Le Galès, *op. cit.*,.
-- Lip in Besançon and Manufrance in Saint-Etienne -- local officials pinned their hopes upon Parisian white knights. What is perhaps most striking is the frequency with which state officials responded to these pleas. Lip and Manufrance, then, offer a tale not only of center-periphery relations, but of a shift in the character of dirigisme during the 1970s. From a force for promoting new economic activities, dirigisme evolved increasingly into an instrument for adapting the old -- or, worse yet, for preventing the adaptation of the old.

**Dirigisme Diverted: The Lip and Manufrance Affairs**

Trouble had been brewing at both Lip and Manufrance long before their problems burst upon the public stage. However, efforts to restructure the companies had been handicapped by what one observer termed, "the infernal couple of strong unions and weak management." Indeed, opponents of rescue operations charged that the failure of internal adjustment mechanisms to operate had so degraded the situation of these companies that any attempt at restructuring was doomed to fail.

For much of the postwar period, the management of Lip had been anything but weak. Fred Lip, the grandson of the founder of "Lipmann," had taken a sleepy provincial enterprise and transformed it into a world-class company, far and away the leading French watch manufacturer. The company also produced machine-tools and timing mechanisms for the military. Fred visited US plants in 1940 and each year from 1945 to 1948 and was captivated by the mass production technology in evidence in such companies

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49 Interview with Bruno Vennin, a Socialist municipal official in Saint-Etienne, who was closely involved in efforts to restructure Manufrance in the late-1970s, 22 January 1991.

50 The account of Lip prior to the crisis of 1973 is drawn primarily from interviews with Fred Lip in Paris, 19 November and 17 December 1990; Gérard Jussiaux, local CFDT leader at the time of the Lip Affair, 11 October 1990; the late Paul George, Director of R&D at Lip from 1961 to 1972 and Director of the CETEHIOR, the research institute for the French watch industry, from 1972 to 1982, 8 and 12 November 1990; Albert-Maxime Kohler, Commissioner of Economic Affairs for the City of Besançon from 1977 to 1989, 30 October and 12 November 1990.

51 "Lipmann Horlogerie" was founded in 1867 and its name shortened to "Lip" by Fred's father, shortly after World War I. Fred's great-grandfather, Isaac Lipmann, presented Napoleon with a gold watch in gratitude for the Emperor's decision to confer civil status upon France's Jews. *Le Monde*, 12 December 1962, p. 13. By contrast, Fred's parents were deported under the Vichy Regime and perished at Auschwitz. Interview with Fred Lip, 19 November 1990.
as Kodak and Harley-Davidson, as well as the automobile industry. Lip was the first manufacturer in France and among the first in the world to automate watch assembly. It was also a pioneer in new technologies, including what would become the central breakthrough of the second half of the century, quartz watches. Fred's American travels sensitized him to marketing considerations as well as technology. Throughout the postwar period, French radio stations announced not "the time," but "the Lip time."

Fred Lip was an eccentric. In the entry to his factory, he erected an enormous fresco, depicting Newton, Einstein, and Lip, with the latter giving the time to Einstein. He could also be quite difficult. Lip was known to hide in the closet or under the table prior to meetings in order to hear what his subordinates were saying in his absence. Not suprisingly, managers and engineers rarely stayed at Lip for long.

Fred's quirkiness and panache had an upside, however. Managers were given considerable responsibility, freedom, and resources. New projects and new ideas were nurtured. Lip workers were also well-treated. Their salaries were higher than the prevailing wage in the industry. What is more, in 1968, Fred Lip broke ranks with the local conservative patronat, outraging his colleagues -- from whom he made no effort to hide his disdain -- by making a host of concessions, including instituting wage indexation.

While Fred Lip was his own man, he could not be his own successor. With no heir apparent, he sold a controlling interest in 1967 to the giant Swiss watch conglomerate, Ebauches SA. Fred remained at the helm for four years before stepping down in 1971, angered by what he judged to be the unwillingness of both Lip's owners and its workers to

52 Interview with Fred Lip, 19 November 1990.
54 Interview with Gérard Jussiaux, local CFDT leader at the time of the Lip Affair, 11 October 1990; interview with Albert-Maxime Kohler, Commissioner of Economic Affairs for the City of Besançon from 1977 to 1989, 30 October 1990.
make sacrifices for the health of the company.\textsuperscript{57} The Swiss were skeptical of the possibilities for quartz watches, balked at putting fresh money into Lip, and seemed to envisage the company’s future as a simple assembler of components designed and produced in Switzerland. Lip’s unions refused to make what Fred felt were relatively minor concessions in order to help the company through a difficult period. A local CFDT official concedes today that the unions were perhaps carried away by the heady sense of power resulting from May 1968 and made no effort to take into account the financial position of the firm when formulating wage demands.\textsuperscript{58}

With Fred Lip’s departure, the company found itself with a powerful, mobilized workforce and an absentee management. The Swiss had bought into Lip, not so much for the company itself, but as insurance should the Common Market try to exclude non-EC watch imports.\textsuperscript{59} When a deal was struck between the EC and Switzerland, Lip lost its strategic importance. The plant might be utilized to assemble Swiss components, and the "Lip" brand name had considerable value in France, but otherwise, Lip held little interest. It was entrusted to a notoriously weak personality, Jacques Saintesprit, and modernization of equipment all but ceased.\textsuperscript{60} Militant unions organized frequent work stoppages and pushed through wage increases above what the company could afford to pay. By 1973, having allowed the situation to deteriorate for three years, Ebauches SA moved to liquidate Lip.

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\textsuperscript{57} Interview with Fred Lip, 17 December 1990; \textit{Le Monde}, 9 February 1971.

\textsuperscript{58} Interview with, Gérard Jussiaux, local CFDT leader at the time of the Lip Affair, 11 October 1990.

\textsuperscript{59} Ebauches SA admitted as much. In a pamphlet released at the time of the Lip Affair, which sought to rebut charges that Ebauches SA had gutted Lip, the Swiss company nonetheless conceded that trade relations had offered the primary motivation for acquiring Lip: "The opportunity, indeed the necessity of reinforcing the implantation of watchmaking within the Common Market appeared obvious, at a time when EC policy held out little hope of a rapprochement with the EFTA [European Free Trade Association] countries."


\textsuperscript{60} As evidence of Saintesprit’s lack of will and talent, critics point to the fact that in contrast to virtually all Lip managers, he remained at the company, serving directly under Fred, for over a decade. The presumption is that no person with any self-respect or at least career options would have endured Fred’s often-abusive treatment for so long.
Manufrance's decline, while more drawn out than Lip's, spanning virtually the entire postwar period, had similar origins: a succession crisis and management unwilling or unable to address the company's burgeoning problems.61 Manufrance's charismatic founder, Etienne Mimard, ruled the company with an iron hand for 59 years. When he died heirless in 1944, he left behind a manufacturer of hunting rifles, sewing machines, and bicycles. This was not Manufrance's principal claim to fame, however. Rather, what made the company an institution in both rural and colonial France were its catalogue and magazine, Le Chasseur Français (The French Hunter), offering everything from fishing hooks to rugged clothing, with a smattering of lonely-hearts advertisements through which many a French peasant found his bride.

The problem for Manufrance is that Etienne Mimard, like Fred Lip, lacked an heir. Upon his death, Mimard bequeathed 50% of the shares of Manufrance to the city of Saint-Etienne. The municipality was to have no management role, but was authorized to use company dividends to finance vocational education in Saint-Etienne. Roughly 30% of the shares were traded publicly on the Lyon stock exchange and 20% held by Mimard's collaborators, local notables, described in the Saint-Etienne parlance as "les familles." The Blachon, Fasano-Vialla, Drevet, and Fontvieille families were the mainstays of the Saint-Etienne bourgeoisie. From 1944 to 1975, the CEO of Manufrance would always be either a Drevet or a Fontvieille.

Mimard's pioneer venture into sales by catalogue made Manufrance prosperous for decades. However, in the postwar period, decolonization and France's rural exodus began to erode the company's traditional clientele. An able successor would have repositioned the company, moving it into the upscale "nature" and "leisure" markets, in the manner of L.L. Bean in the United States. But "the families" were not up to the task. Manufrance was sapped by a lack of investment. Worse, corruption and nepotism were rampant. A kind of

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61 This account draws primarily upon Kukawka, op. cit.; Usine nouvelle, 15 March 1979, pp. 96-104; and interviews with Bruno Vennin, a Socialist municipal official in Saint-Etienne, who was closely involved in efforts to restructure Manufrance in the late-1970s, 10 and 22 January 1991.
parasitic gentlemen's agreement between the families, the municipality, and the CGT
governed the management of the firm: each party could appoint a number of clients and
friends to no-show jobs; neither managers nor blue-collar employees would work very
hard; and all turned a blind eye to occasional "borrowing" of company inventory.

Buoyed by its captive colonial and rural markets, Manufrance earned a reasonable
profit, so that little attention was paid to its internal inefficiencies. Ironically, a lack of
investment contributed to profitability, at least in the short term, hence to the sense that all
was well. The company also boosted its "earnings" by selling a number of prized pieces of
real estate, including a store on Paris's prestigious Rue de Rivoli. By the late-1960s,
however, Manufrance was looking more and more like a museum of prewar equipment,
profits were sliding dangerously, and both management and workers were asleep at the
switch. "La grande dame," as the company was known, was turning into "une vieille
dame."

For a variety of reasons, the situation at both Lip and Manufrance was allowed to
deteriorate significantly before anyone sounded the alarm. This is not unique to France.
Companies everywhere fail to meet competitive challenges and find themselves in
difficulty. What is perhaps unique to the French situation, however, was the extent to
which national actors and national politics determined the subsequent plight of these two
troubled enterprises.62

Lip: A Decade of National Intervention

Although not a very large city, Besançon claims two of the leading Socialist
theorists of the nineteenth century among its citizens, Charles Fourier and Pierre Proudhon.
At first glance, it is tempting to link the birthplace of utopian Socialism, across a 150-year
interval, to the events of Lip. What could be more natural than for the good people of
Besançon, imbued with the heritage of Fourier and Proudhon, to have risen in unison

62 Elie Cohen offers far and away the best account of the problems of French industry in the 1970s and
early-80s and of State policies toward companies in difficulty. Cohen, Etat brancardier, op. cit.
against capitalist injustice? How appropriate that the craftsmen of Besançon, true to their heirs, spearhead that most Proudhonian campaign of the 1970s, autogestion (worker self-management).

While such an interpretation has undeniable poetic appeal, it offers a misleading depiction of the events at Lip. Lip was not about autogestion. The workers were not looking to experiment in self management, but to find a "good employer," who would invest in their company's future. More important for the purposes of this analysis, Lip was not a local movement. The opinions of Besançon elites ranged from mildly supportive to openly hostile. Most were simply exasperated about an affair that would not end.

Certainly, local elites were not the driving force behind the movement. Rather, from start to finish, across a ten-year period, the plight of Lip was shaped by national political actors and their interests.

The Lip Affair began when Fred Lip's successor as CEO, Jacques Saintespirit resigned his post in April 1973. For two months, the company's workforce of 1300 grew increasingly anxious, while the Swiss parent firm, the Ebauches SA conglomerate, refused to pronounce on Lip's future. Two temporary trustees were appointed to examine the company's affairs. Then, on June 12, Lip workers "discovered" (i.e. stole) documents in the possession of one of the trustees, outlining Ebauches SA's intentions for the company. What they found was shocking in substance, but also in tone. Ebauches SA

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intended to eliminate the machine-tool and weapons production units and to lay off 450 workers. Worse, the memo described these measures in terms of the need to "dump" ("laruster") the two industrial sectors and to "get rid of" ("dégager") 450 workers.64

Outraged Lip workers refused to accept the decision of Ebauches SA. They occupied the factory and removed and hid over 100,000 watches, plus a large number of components and spare parts. Factory occupations were not unusual at the time, but the problem for workers, in an era of meager-to-non-existent unemployment benefits, was that the employer could simply wait patiently until the strikers exhausted their personal savings and gave up. The case of Lip would prove different, however. The workers controlled a large stock of finished or near-finished watches, which could be sold to raise strike funds. What is more, they possessed a talent for high drama and publicity.

In mid-June, Lip employees began "producing" and selling watches. The word "producing" is a bit of an exaggeration because the workers were, in fact, simply assembling left-over components. Nonetheless, this defiant action permitted them to continue the struggle. In late-July, the first "wildcat paychecks" were issued -- minus deductions for tax and social security contributions. The initiative not only paid the bills, but tapped into a powerful myth, that of "autogestion" or worker self-management. The Lip workers consistently refused proposals by the government or employers to form a cooperative, and their productive activities, as we have seen, were minimal. But Besançon had been home to Charles Fourier and Pierre Proudhon, and the workers knew a popular idea when they saw one. Drawing upon their ancestral roots, they coined the autogestionnaire slogan, "We are producing, we are selling, and we are paying ourselves."65

And sell they did! In June, the Socialist party congress ordered 200,000 francs worth of watches.66 Watches were sold to commuters in Paris subways and to via...
at mountain resorts and on the beaches of the Riviera. While Prime Minister Pierre Messmer denounced the illegal seizure of property and declared that "Lip is finished," employees in his cabinet and other ministries sported new Lip watches. All told, in a six-month period, some 82,000 watches were sold, raising over 10 million francs.67

For millions of French spectators, fed daily accounts by a news-hungry media in an otherwise dull summer, the events of Lip offered a captivating David-and-Goliath story. Lip's workers appeared hopelessly outgunned. Ebauches SA filed for bankruptcy, and the courts ordered the liquidation of the company's assets. Employer associations roundly condemned the violation of company property, calling for swift and harsh punishment of the "criminals." Police surrounded the plant, trying to stem the flood of illegal watch sales. Then, in mid-August, they expelled the workers violently, upon direct order from the Prime Minister. In other words, Lip's workers faced the combined hostility of employers, French and Swiss, the police, and the state.

But like David, they were more nimble than their enemy. They outmaneuvered the police, hiding and transporting the watches in a continuous cat-and-mouse game played in the streets of Besançon. The police were never able to capture the watches, perhaps because most of them were hidden at the residence of the Archbishop of Besançon. Like David, the workers of Lip seemed to have God on their side. They also had cirrus and more than a bit of humor. They did not steal watches, but "delocalized" them, in a phrase suggestive of the delocalization of production by multinationals to the Third World. When Prime Minister Messmer inveighed against them, they sold stolen watches to his employees. Then, they made sure to pay their taxes before dividing up the proceeds. Lip workers were a breed apart. Indeed, they were referred to not as "the employees of Lip" or "Lip workers," but quite simply as "les Lip" ("the Lips").

Their sense of publicity and panache notwithstanding, the greatest asset of Lip's workers was their moral position. Unquestionably, they were the aggrieved party in this

67 Ebauches SA, op. cit., p. 19.
conflict. They were not irresponsible troublemakers, but proud craftsmen, seeking to defend their livelihood. At a time when mass unemployment was unknown in France, it seemed terribly wrong that workers were losing their jobs through no fault of their own, but rather because of management that was, at best, incompetent and irresponsible and, more likely, deliberately destructive. This is why thousands of people bought Lip watches, whatever the law said, and why 100,000 demonstrators flooded the streets of Besançon in a mid-June show of solidarity. As one union leader put it, management behavior at Lip represented capitalism at its worst:

For us, this was a truly flagrant example of the perversity of capitalism.... Here was a company with everything -- technology, skilled and devoted workers, markets, equipment -- and it was declaring bankruptcy.  

Not content to seize the high moral ground, the Lip workers also seized the heavens. They were led by a devout Catholic craftsman, Charles Piaget and a Dominican priest, Jean Raguenès, and the Archbishop of Besançon was their public protector and accomplice. The Lip Affair was often depicted in religious terms. Thousands of Frenchmen made "pilgrimagess" to the Palente factory (Palente is the neighborhood in which Lip was located) to hear Piaget "preside over mass," explaining to "disciples" with a "messianic zeal" the purpose and tactics of Lip's struggle. Piaget was depicted as "the leader of the flock" and Lip workers became known as "the parishioners of Palente." In political terms, as will be described, Lip stood at the intersection of progressive Catholicism and Socialism, a potent moral and spiritual combination.

One of most widely-read books on Lip begins with the predictions, "Tomorrow, we will say, 'that was before Lip.' A bit like we say today, 'that was before the War.'" While such a claim cannot but provoke a smile today, it is indicative of the enormous importance attached to the events of Lip at the time. For some, Lip harkened the dawn of a

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68 Interview with Gérard Jussiaux, 11 October 1990.
71 De Virieu, op. cit., p. 7.
new age, of \textit{autogestion}. Lip's workers had produced and sold their output, issued paychecks, and paid taxes, all without the help of managers. Perhaps, this experience might be generalized throughout the economy. Maybe, \textit{autogestion} might form the basis for a reconciliation of progressive Catholics and Socialists. At the very least, Lip brought about a fundamental innovation in strike tactics. Workers throughout France began occupying plants and selling output.\textsuperscript{72} They also learned the value of gaining access to company archives, which were used at Lip to both discredit management and draft an alternative restructuring plan.

Finally, Lip called into question the treatment of workers as a mere commodity or factor of production. The slogan "\textit{vivre et travailler au pays}" (to live and work in one's community) represented a revolt against the disruptive, human consequences of industrial concentration and the integration of local enterprises into the international economy.

Workers were human beings, with lives, families, and roots in their communities. They should not be shifted around by distant multinationals, like other "assets" in the corporate portfolio.

Employers, it was felt, had a moral responsibility to look after their workers, to enable them to continue their worklives in their \textit{pays}. Failing that, there should not be the same kind of void seen at Lip, with angry and unprotected workers, on the one hand, and an absent \textit{patronat}, on the other. Rather, someone should help clean up the mess. In France, of course, that someone would be the state. Within one year, the labor code had been reformed to provide for twelve months of unemployment benefits equal to 90\% of the worker's previous salary, a reform presented as a direct response to the Lip Affair.\textsuperscript{73} At the same time, the government created the Interministerial Committee for the Adjustment of


\textsuperscript{73} Brizay, \textit{op. cit.}, ch. 4.
Industrial Structures (CIASI), so as to be able to intervene rapidly to find solutions in situations like that of Lip.\textsuperscript{74}

While Parisian writers, politicians, and union figures waxed poetic on the transcendent significance of Lip, the people of Besançon were far less enthusiastic. Today, if asked about the Lip Affair, many "Bisontins," as they are called, become uncomfortable or even irritated. They question the need to "dredge up the past," to resurrect an event that they see as having done Besançon much harm. Whether on the Left or the Right, they try to distance themselves from the events, asserting that Lip was an outside media affair, which interested Parisians far more than Bisontins. The 100,000 demonstrators for Lip were Parisians looking for a weekend thrill; the people of Besançon stayed home or left town.

Part of the reason for this response stems from an understandable inclination to avoid association with events that turned out badly, and as will be seen, the Lip Affair did not have a happy ending. However, there is also much truth to the Bisontins' claim: whereas the Lip Affair held considerable interest for national elites, local elites were ambivalent. Indeed, this combination of attitudes helps cast light on the dynamics of the Lip Affair. The plight of Lip was determined less by the health of the company and the preferences of local actors than by the political interests of national elites.

Although the Lip Affair was Leftist in its inspiration, involving the defense of the working class against the irresponsible behavior and perverse functioning of the capitalist system, it commanded tepid support, at best, among the Left in Besançon. Lip workers were separated in a variety of ways from the rest of the Besançon working class. They were separated physically. Their modern, air conditioned factory was located in a middle-class residential area, far away from the industrial heart of the city. They were separated socioeconomically. Lip workers received higher pay and better benefits than workers

\textsuperscript{74} Cohen, \textit{Etat brancardier}, op. cit., ch's 5, 8.
employed in comparable activities elsewhere in the area. They were even separated by their physical appearance. It was a matter of pride that Lip men wore a tie on the job, rather than the traditional blouse bleue. Finally, we have seen that they were separated linguistically. The employees of Lip were not "Lip workers," but "les Lip," as if belonging to a separate race.

For many Bisontins, the workers of Lip were a pampered lot, a stand-offish elite, undeserving of sympathy. This does not mean that the Lip movement was completely isolated within the Besançon population. The 100,000 demonstrators were not solely Parisians, and workers from other plants marched in support of their comrades. After all, whatever their feelings toward "les Lip," they had an interest in defending workers from the predations of irresponsible management. Still, the reservoir of good will toward Lip was limited, and it dried up quickly as the conflict dragged on. The locals became increasingly blasé about the strikers' media coups, which so charmed outsiders. Over time, the Lip Affair evolved from an injustice crying out for remedy to an irritant which the Bisontins wished would go away.

The workers of Lip were cut off, not only from the general population, but also from municipal authorities. While the mayor of Besançon was a Socialist, Jean Minjoz

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75 De Virieu, op. cit., p. 16.
77 Local published references to the Lip Affair reveal the Bisontins' ambivalence. Jean Debrasne, a municipal commissioneer from 1959 to 1989, writes in a recent book: "In Besançon, les Lip found support, but also provoked hostility. Some recognized their contribution in denouncing the dismantling of workplace production capacity in the process of capitalist concentration, which destroys companies and deprives workers of their jobs. Others condemned the illegal sales, the disorder, the requests for public money, the deviation into autogestion, and regretted the image the affair gave to Besançon, which ran the risk of discouraging potential investors." Debrasne op. cit., p. 159. Translation the author's. The quasi-official local history of Besançon, edited by Claude Füllen, offers a similarly lukewarm portrayal: "No one is a prophet in his own land! Lip found loyal supporters locally, but provoked solid hostility among certain groups of the population concerned above all with law and order in the streets, among certain members of the [watch] profession, long threatened, or simply annoyed, by the dynamism and prestige of the Pâténe company, or else indignant over the special attention the company received from the government." Füllen, op. cit., p. 571. Translation the author's.
78 Many of the following insights were provided by Joseph Pinard, Historian and Municipal Commissioner of Besançon, in an interview, 23 October 1990. Other sources include: Füllen, op. cit.; Debrasne, op. cit.; Charles, op. cit.
was not the same kind of Socialist as Charles Piaget. Minjoz issued from the traditional anti-clerical wing of the party, the SFIO of Guy Mollet. Lip, by contrast, was associated with the PSU, the CFDT, and progressive Catholics. Despite the tenuous municipal alliance with the MRP, Minjoz regarded the Catholic milieu with suspicion. As one local militant observed wryly, "In Minjoz's eyes, Jacques Delors was nothing more than a parish priest (cure)." Minjoz and the Lip movement also parted company on economic issues. A friend of F-J leader, André Bergeron, Minjoz saw industrial relations in bread-and-butter terms: capitalism was a cash cow to be milked to the maximum extent possible, and autogestion represented so much misty verbiage.

The movements in Lip's orbit reciprocated Minjoz's disdain. The SFIO, for them, was an anachronism, a bastion of declining rural France ("la France de la chênaie et du maronnier"), destined for the ashheap of history. Guy Mollet's vigorous prosecution of the war in Algeria had cast an indelible moral stain upon the party and all those associated with that government, including Secretary of Labor and Social Security, Jean Minjoz. The SFIO's economic program was also bankrupt. The PSU and CFDT viewed incremental reformism and bread-and-butter unionism as a sell-out; only structural reforms and autogestion could bring about a real change in the worker's lot.

The PSU saw itself as the logical successor to a moribund SFIO, but it was not to be. Indeed, the PSU's implantation in Besançon remained quite weak. In the 1973 cantonal elections, for example, which were held at the height of the Lip Affair, the PS outpolled the PSU by a factor of eight-to-one in the neighborhood of Palente, where the Lip factory was located.\(^79\) Lack of a local political base, Lip supporters would draw their resources from the national level, from the connections of their Parisian leaders -- Michel Rocard, Jacques Chérèque, and Jacques Delors.

Certainly, it cannot be said that the local economic crisis engendered a kind of local union sacrée behind Lip. Rather, as the first question posed to Minjoz on the Lip Affair at

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\(^{79}\) This fact was pointed out to the author, with glee, by a PS militant.
a meeting of the Municipal Council reveals, the mayor's ambivalence toward Lip was rather transparent. A Municipal commissioner asked Minjoz to respond to the charge made by Lip advocates that all he had offered was "bla ... bla...bla" and "hollow phrases."\(^{80}\)

Minjoz's response to the accusation was also revealing. In defending his actions, he made it clear that neither he nor the Lip unions saw much of a role for the municipality in resolving the company's problems:

They [the unions at Lip] explained what they wanted to me. I asked them what they thought I should do. They requested that I intervene on their behalf with the national authorities and gave me a certain number of indications as to what to present and to request.\(^{81}\)

Minjoz noted that he "lost no time" following the meeting with the unionists in drafting a letter to the prefect. He then read the message -- which, to say the least, was less than passionate in tone -- to the Municipal Council. The letter relayed the complaints of union officials: they were concerned about threatened lay-offs; they objected to the elimination of the machine-tool and military divisions; they were angry about the lack of information from company management. Minjoz made sure to represent these complaints as the views of the unions, rather than as objective facts or even his own opinion.\(^{82}\) His letter then requested politely that the prefect suggest a ministry to whom to turn: "I would be very grateful, Monsieur le Préfet, if you would be so kind as to inform me to which ministry I could address my request, joined to your own ..."\(^{83}\)

Minjoz's approach was both typical and atypical of the response of most French municipalities to the economic difficulties of local companies. It was atypical in its relative lack of conviction. Minjoz was going through the motions, but clearly his heart was not in it. He did not want to appear to be opposed to the Lip movement; he would perform his duty as mayor. However, he did little beyond the minimum necessary to fend off potential

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80 Bulletin Officiel de la Commune de Besançon, Meeting held 30 April 1973, p. 847.
81 Ibid., p. 848.
82 Minjoz wrote that the unions were concerned about lay-offs, for example, not that he himself was concerned about the lay-offs or that the lay-offs were unjustified.
83 Ibid.,
critics. By contrast, even his relatively low-key successor as mayor, Robert Schwint, made visible shows of support to the Lip movement by participating personally in protests, restoring utility services cut off by the police, and providing free meals to the strikers. In the case of Manufrance, in 1979, the mayor of Saint-Etienne actually threatened to undertake a hunger strike if the government did not help the company.

While atypical in its tone, Minjoz's approach was wholly representative of that of other French municipalities in terms of tactics. The guiding assumption was that there was little that local authorities could do directly to help improve the situation. Rather, their primary role was to solicit Parisian intervention. Since Minjoz lacked a national mandate, he was obliged to work his way up the administrative ladder, beginning with the representative of the central state in Besançon, the prefect.

The economic logic underpinning Minjoz's proposals was also typical of the times. There was never any suggestion that some of Lip's problems might be internal in origin, that painful lay-offs or restructuring measures might prove necessary. Indeed, Minjoz made no mention of any kind of internal adjustment strategy. Rather, if the state would only help out, Lip's problems would disappear, without any basic changes in the way the company operated and at no cost to the workers. Ironically, then, the economic impulse behind the revolutionary political movement at Lip was purely conservative -- to preserve the company and its workers in their present routine.

If the local political establishment in Besançon was ambivalent toward the Lip movement, the local *patronat*, spear-headed by the President of the watch industry association, Michel Dalin, was openly hostile. Indeed, Lip workers referred to Franche-Comté employers as "*des tuent-Lip.*" The industry position, during this affair, was exemplified in what Dalin termed, "the paradox of an ailing Lip amidst a profession in full expansion." French production and output were booming; if Lip could not make money,

84 A play on words: the phrase "Lip-killers" and "tulips" are homonyms in French. *Libération*, 17 June 1977.
it was because of bad management and overpaid workers. Watchmaking, it was frequently noted, is a business in which "the books [like the parts of a watch] must be examined under a magnifying glass."\textsuperscript{86} If Lip failed to do so, it deserved to go out of business. A \textit{Le Monde} report on the attitudes of employers in the industry relayed their resentment of aid to Lip: "How can the Franche-Comté \textit{patronat} not be irritated when the State is proposing millions to bail out a lame duck, while other employers, whose business is doing well and who manage their affairs well, cannot obtain loans?"\textsuperscript{87}

The profession also took issue with the widely-stated claim that Lip's lead in the technology for \textit{quartz} watches made it indispensable to the industry's survival. Industry officials consistently dismissed the prospects for quartz watches of any kind. Quartz watches remained expensive, unreliable, and bulky. As late as 1976, Dalin was still urging caution and predicting that quartz watches would capture a meager 6\% of the market in 1980 (the actual figure would be 41.6\%).\textsuperscript{88} Consequently, any lag by French producers was of minimal significance:

Some pessimists cannot resist the temptation to predict catastrophe in the near future, on the basis of France's lag in the technological race, notably in quartz watches, which risks placing them under the heel ... of large American and Japanese rivals. This reflects a fundamental misunderstanding of the facts of the problem. Contrary to popular opinion, manufacturing a quartz watch today remains, in effect, an almost impossible task.\textsuperscript{89}

Even if quartz watches had a future, the industry association argued, this did not necessitate using Lip's technology. For starters, Lip's technology was not very good:

The publicity surrounding the technological lead of Lip is judged by the profession to be based upon an exaggeration. The conception for the quartz watch developed by Lip is not particularly revolutionary; the quartz itself, which constitutes the \\textit{socle} of the watch, is alleged by certain experts -- Lip's rivals, it is true -- to be not very reliable.\textsuperscript{90}

\textsuperscript{86} \textit{Le Quotidien de Paris}, 31 January 1976; \textit{Le Figaro}, 31 January 1976.
\textsuperscript{87} \textit{Le Monde} 17 October 1973.
\textsuperscript{89} \textit{Le Monde}, 21 August 1973.
\textsuperscript{90} \textit{Le Monde}, 17 October 1973.
In addition, French producers had their own ace in the hole. Rather than leaping into an expensive and risky race with the Americans and Japanese, "France ... chose a more sensible course of action."\textsuperscript{91} A consortium had been founded in 1971 to develop and eventually mass produce quartz watches. The consortium, called "Montrélec" (electric watch), included the industry association, several manufacturers, and the semiconductor division of the electronics multinational, Thomson-CSF. The prototypes, industry officials shorted, were superior to the offerings of all foreign competitors.\textsuperscript{92} Consequently, there was little need to throw public money down a rat hole trying to bail out Lip, when the industry already possessed superior technology.

The hostility of the Franche-Comté watch profession had multiple origins, starting with the personality of Fred Lip. Fred was not always the diplomat. Obsessed with youthfulness, he once told an aged employer at an industry association meeting: "You are much too old. You ought to retire. You already smell of death."\textsuperscript{93} A Jew in a heavily Catholic milieu, he had done little to bridge the religious gap. On the contrary, he delighted in thumbling his nose at his fellow employers and offering gratuitous and provocative advice, particularly on industrial relations. In a 1962 interview, he declared, "As a general rule, I find it better to give what is due before people ask for it," a clear slight at the tight-fisted policies of the French patronat.\textsuperscript{94} In May 1968, he was the first employer in the region to cut a deal with the workers and made concessions far beyond what the others were prepared to offer, most notably in his acceptance of wage indexing. He then wrote an editorial in \textit{Le Monde}, denouncing the passivity of the CNPF in the conflict.\textsuperscript{95}

Fred Lip's liberality toward his workers contrasted sharply with retrograde labor policies pursued by most of his colleagues. The small firms of the conservative, Catholic Franche-Comté region were notorious for their low wages, unsafe working conditions, and

\textsuperscript{91} \textit{Le Monde}, 21 August 1973.
\textsuperscript{92} \textit{Ibid.}
\textsuperscript{93} De Virieu, \textit{op. cit.}, pp. 188-89.
\textsuperscript{94} \textit{Le Monde}, 12 December 1962, p. 1v.
\textsuperscript{95} Brizay, \textit{op. cit.}, p. 156.
visceral resistance to unions. They offered paternalistic control with little corresponding sense of obligation toward the workers. Fred Lip was a thorn in the side of employers, who gravitated toward Léon Gingembre's Poujadist CGPME. Even though Fred had left his firm two years before the Lip Affair, the Franche-Comté patronat was only too happy to see his former company, with its "pampered unionized workers," go out of business.

Economic considerations reinforced this ideological and personal antipathy toward Lip. Lip was an integrated manufacturer (manufacture) rather than a simple assembler (fabricant de montres). In other words, whereas most assemblers purchased the vast majority of the 120 or so elements in a mechanical watch from specialized subcontractors (fabricants de pièces), Lip tended to produce its parts in-house. Consequently, Franche-Comté fabricants de pièces were not at all dependent upon Lip for their economic well-being. Even if Lip had provided some subcontracting business in the past, its progressive integration into Ebauches SA was closing its ties to the local economy. From the perspective of Lip's rivals, the company was becoming little more than a Trojan horse, enabling a dangerous Swiss rival to sell its products in France's under a deceptive French brand name. Finally, all producers hoped that Lip's loss would be their gain, that they could replace Lip in the French market. In fact, however, the Franche-Comté watchmakers were concentrated in a lower segment of the market, and most of Lip's output was replaced by that of foreign companies.

With local elites ambivalent or even hostile to Lip, salvation would have to come from another source. Lip's workers understood this. Their campaign was directed, not at Mayor Minjoz, whose resources and goodwill were limited, nor at local watchmakers, who could not possibly be won over. Rather, the key audience for Lip militants was Paris. If Lip could remain in the public eye long enough, maybe the government or the national employer association, the CNPF, would feel compelled to intervene. From the beginning, then, Lip was a national affair, and it would remain a national affair to the bitter end. The bail-out that eventually permitted Lip to relaunch production, was initiated and conducted
by national actors. What is more, the collapse of Lip in 1976 reflected the interest and political considerations of national elites as much as the economic health of the firm. Finally, even the subsequent efforts to salvage a small part of the the firm, following a second bankruptcy and prolonged factory occupation, were tied primarily to national politics.

At the national level, the prospect for Lip supporters in 1973 did not appear very promising. The CNPF had been evolving in a more progressive direction in the wake of May 1968, but not to the point of intervening in the face of open opposition from Franche-Comté employers. What is more, the CNPF did not wish to give the impression of countenancing the theft of company property by Lip workers. Consequently, it remained conspicuous by its absence from the Lip Affair. CNPF President, François Ceyrac dismissed any role for his organization in the problems of private industry: "The CNPF is not a mutual aid society. We are not a kind of super-bank in charge of paying for the losses of companies."96

The prognosis on the government side appeared scarcely any better. Had Lip declared bankruptcy two years earlier, its workers might have received a sympathetic hearing from progressive Gaullist Prime Minister, Jacques Chaban-Delmas. Chaban-Delmas's "New Society" program sought to heal the wounds of May 1968 by giving the working class a greater stake in French society and in their companies, primarily through increased benefits and institutionalized collective bargaining. The idea was to extend the Gaullist electoral reach to progressive voters and the new middle classes. Chaban's policies were strongly contested, however, both within and outside the government, and in 1972, he was dismissed unceremoniously by President Pompidou. His successor, as Prime Minister, Pierre Messmer represented a shift toward traditional Right-wing themes: conservative social policies and law and order. Instead of reaching out to voters on the fringes of the Gaullist movement, the government sought to shore up support among its

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96 Ibid., p. 211.
traditional electorate. Needless to say, such an orientation did not bode well for Lip's workers.

Messmer, a petulant and authoritarian personality, rivaled the Franche-Comté employers in his zeal to see Lip liquidated. It was he who issued the order to the police to expel the workers from the factory in mid-August. Messmer also made repeated declarations that "Lip is finished," usually timed to upset ongoing negotiations among potential rescuers. He even went so far as to describe publicly the CEOs of two of the leading French multinationals, Rhône-Poullenc and BSN, as "patrons fantaisistes" in response to their efforts to rescue Lip. Messmer viewed the Lip movement as illegal and illegitimate, indeed, as something of an affront to his authority. Clearly, this was not an offense that he took lightly. Still, while Messmer was hammering nails in Lip's coffin, other actors, both within and outside the government, were reviving the dearly departed.

Lip's rescue was the result of a Parisian conspiracy involving progressive elements within the Gaullist party (Jacques Delors, Jean Charbonnel) and French patronat (Antoine Riboud, Renaud Gilet, José Bidegain), along with the Second Left (Claude Neuschwander, Jacques Chérèque, Michel Rocard, Tony Dreyfus). These figures were bound together by old-boy ties often dating to their school days, but the alliance also had an ideological basis. The participants tended to have a somewhat moralistic worldview; they sought to build communities, within the factory and at the local level; and they resisted both centralized Socialism and the harsh social consequences of untrammeled market competition.

Of course, these are general observations, and not every participant in the Lip Affair held all of these views, but the alliance among the Lip rescuers was based upon more than short-term interests. Indeed, many of these actors would come together subsequently on other occasions. A number joined the renovated PS in the mid-to-late 1970s. More

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recently, the Rocard Government from 1988 to 1991 reads like a "Who's Who" of the Lip Affair, starting with the Prime Minister himself and his close political advisor, Dreyfus. Delors, of course, has been serving as President of the European Commission. Chérèque became Minister of Reconversion and Territorial Development under Rocard; Bidegain was second in command at the Ministry of Industry; and Riboud was the model CEO, whose recipe for combining progressive social policies with economic success inspired the industrial strategy of the Tenth Plan (which Riboud essentially authored).

While common views and old-boy networks facilitated the Lip rescue operation, it would be more than a little naïve to neglect the role of political interests. One further feature shared by almost all the participants was strong personal ambition. The key Gaullist figures were Jacques Delors and Minister of Industry, Jean Charbonnel. Delors, who had served as Chaban-Delmas's advisor on labor affairs and who was preparing Chaban's 1974 presidential campaign, saw support for Lip as a way of reinforcing the candidate's progressive, socially responsible image.\textsuperscript{99} Charbonnel's motivations (as described in his memoirs) appeared more disinterested, a fusion of Gaullist paternalism and social Catholicism. Progressive Gaullists like Charbonnel saw the workplace as a community of mutual obligations. In order to transcend class conflict, to promote worker integration and participation in the community, employers must be willing to assume certain responsibilities. In the case of Lip, this meant that even though a rescue mission made no sense from a strictly economic point of view, it should be done for moral and political reasons. In negotiations with potential white knights, Charbonnel insisted on the obligation of the government and \textit{patronat} to live up to their social and moral responsibilities toward French workers:

I did not try to defend, in detail, a dossier which I knew was detestable in economic terms, but sought to situate the problem on the level of principles: I demonstrated that the disaster derived, in large part, from the accumulated mistakes of an employer and the team that had succeeded him, and that it was both the duty and the interest of the \textit{patronat} as a whole to ... repair

\textsuperscript{99} \textit{Ibid.}, p. 37.
these disasters, since all employers, whether they wished to be or not, were in this together. I added that State subsidies would be granted to whoever would attempt the adventure.100

The employer who finally accepted Charbonnel’s offer was Antoine Riboud, the CEO of BSN, a glass conglomerate that was just beginning a diversification into the food industry. Riboud was a renegade member of the CNPF in many ways. In 1968, he had attempted a hostile takeover of the far larger glassmaker, Saint-Gobain.101 His then-novel proposal to exchange BSN convertible bonds for Saint-Gobain stock shocked the staid French business community. Despite the failure of the takeover bid, Riboud became something of a cult figure among youthful executives eager for change.

In 1972, Riboud caused a stir at the CNPF meeting in Marseille.102 His report for the Commission on Economic Growth and the Quality of Life, denounced the obsession of French society with consumption and material wealth, calling for a new emphasis on such values as solidarity and responsibility. He recommended that a "five-year social and human development plan" be negotiated with every worker, focusing on personal development, rather than simply material gain. Not that Riboud neglected material considerations. He declared that French workers were underpaid and that the Communist CGT’s demand for a minimum wage of 1000 francs per month was entirely justified. After all, quality of life for the poorest citizens begins with being able to afford to live.

The Lip Affair offered Riboud another opportunity to strike a blow against the conservative, stodgy CNPF establishment. He was joined in this mission by a boyhood friend, Renaud Gilet, who had become CEO of the chemicals and textile conglomerate, Rhône-Poulenc, and by José Bidegain. Bidegain, like Riboud, was regarded as an "enfant terrible" within the CNPF.103 He had headed the progressive Centre des Jeunes Patron (Center for Young Employers) in the early-1960s and founded “Enterprise and Progress,”

100 Charbonnel, op. cit., p. 228.
102 Brizay, op. cit., pp. 188-91.
of which he was the Director, in 1970. The former organization emphasized the need for prowess and leadership by CEOs; the latter was more social in its orientation. Both took a dim view of the CNPF, denouncing its weakness and conservatism. It was no secret that progressive young elements around Bidegain entertained hopes of some day taking over and modernizing the CNPF, in emulation of the changing of the guard that had taken place within the national agricultural union in the early-1960s.¹⁰⁴

In August 1973, while the Lip Affair remained deadlocked, Bidegain resolved a similar conflict in a factory owned by the German shoe manufacturer, Salamander.¹⁰⁵ Using his position as head of the French shoe-making association, Bidegain was able to negotiate an agreement that preserved the jobs of 300 workers at no cost to the state. The contrast to the hands-off approach adopted by the CNPF in the Lip Affair could not have been more striking.

Before Bidegain could deploy his negotiating talents with the workers at Lip, the company needed a CEO, a restructuring plan, and financial backers. It was Michel Rocard who proposed Claude Neuschwander as CEO, but Neuschwander was by no means an unknown quantity to the backers of Lip.¹⁰⁷ Indeed, he was a living incarnation of the forces behind Lip, a fusion of social Catholicism, the Second Left, and the progressive patronat.

A graduate of the prestigious Ecole Centrale, Neuschwander had enjoyed a meteoric rise at the Publicis advertising agency, where he occupied the number two position. While a successful manager, Neuschwander also had a progressive political profile. A practicing Catholic and militant in the Catholic youth organization, the JEC, he had, like many Catholics of his generation, moved gradually toward the Left. In his university days,

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¹⁰⁴ For a discussion of the takeover of the national agricultural association, the FNSEA by the young farmers' CNJA, see Keeler, op. cit., ch. 2.
¹⁰⁵ Brizay, op. cit., p. 211.
¹⁰⁶ Bidegain's venture was not an unmitigated success, however. One year later, the subsidiary went bankrupt.
¹⁰⁷ Events of Neuschwander's life are drawn from Neuschwander, Patron, mais ..., op. cit..
Neuschwander had led a JEC-Socialist alliance which supplantd a conservative coalition at the head of the national student organization, the UNEF. This is when he met Rocard and Dreyfus, but his closest collaborator in the UNEF battle was Marine Michelland, the future wife of José Bidegain.

Neuschwander counted Jacques Delors among his friends, although the two were not of the same political stripe. By the time of the Lip Affair, Neuschwander had shifted definitively to the Left. He attributed his conversion to Michel Rocard, who had introduced him to Marxism, and he had joined Rocard's PSU as well as the CFDT. From both a biographical and an ideological standpoint, then, Neuschwander represented an ideal CEO for Lip's Parisian backers.

Once designated, Neuschwander immediately began drafting a restructuring plan. Two plans had been put forward and rejected prior to Neuschwander's arrival on the scene: one by the unions, the other by the government. Through it all, the French patronat remained essentially invisible. Indeed, this was the principal stumbling block of the so-called "Giraud Plan," proposed with Ministry of Industry support. The terms of the plan itself were not all that objectionable: initially, 334 workers were to have been laid off, but that number was eventually reduced to 163; Lip was to be separated into three distinct companies (engaged in watchmaking, machine-tools, and armaments), but this too was negotiable. The Communist CGT, the minority union at Lip, was willing to accept Giraud's offer, but the CFDT blocked agreement for a variety of reasons: Giraud was not viewed as a serious manager; neither the CNPF nor a large industrial sponsor was behind him; and his plan was vague and lacked financial backing, making it unlikely that it would ever be implemented. In short, without some kind of broader support, Henri Giraud was not considered a credible interlocutor.

The second plan was devised by the Interfinexa consulting company at the request of the CFDT. Interfinexa was not new to Lip, having drafted the draconian restructuring project for Ebauches SA, which touched off the conflict in the first place! Interfinexa's second proposal differed from the first, in that all the company activities were to be preserved. It was presented to the government by an Interfinexa official, who also happened to be on the board of José Bidegain's Enterprise and Progress. While the unions may have been willing to support this proposal, it was scuttled for lack of government and financial backing.

The third plan was the charm, however. Developed by Neuschwander with the assistance of the McKinsey consulting company -- and at no charge, reflecting perhaps the fact that BSN and Rhône-Poulenc were among McKinsey's leading French clients -- the plan called for the preservation of all three of Lip's industrial vocations. In another concession to the workers, no one would be fired. However, the workers would not be rehired all at once, but rather progressively, according to a carefully negotiated schedule. The financial requirements of the operation were estimated at 57 million francs, 15 million of which was to be in the form of government subsidies. In addition to the subsidies, the government would bear the costs of a pseudo-retraining program for the Lip workers awaiting rehiring. In other words, the state would pay a large number of employees to do nothing until their company was ready to rehire them.

Antoine Riboud took responsibility for organizing private financial backing for Lip, but he was by no means the leading investor. Roughly two-thirds of the 20 million francs in new private capital were provided by Ebauches SA, eager to avoid further bad publicity. The much-ballyhooed "club of liberal industrialists" -- Riboud and Gilet, along with their allies in the progressive patronat, the heads of Empain-Schneider, Schlumberger.

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Paribas, and Sommer-Allibert -- contributed only 5 million francs. The final 1.6 million francs came from a consortium of nationalized banks. In addition to this capital base, some 22 million francs in loans were made available to the new company.

Although Riboud and his allies were not the principal financial backers of Lip, they assumed lead management responsibilities, with Ebauches S.A and the French state acting as silent partners. The coalition of progressive employers held a majority of the seats on Lip's board of directors, and Riboud, Gilet, and Bidegain participated personally. At the operational level, Neuschwander's management team was dominated by managers from BSN and McKinsey.

Negotiations with the unions to end the strike and determine the pace of rehirings were carried out by Bidegain. Participants on all sides credit national CFDT metalworking union leader, Jacques Chérèque with having made a settlement possible by overriding a reluctant corps of local militants inside the plant.\textsuperscript{113} Indeed, in collaboration with Michel Rocard, Chérèque had undertaken to find an industrialist to take over Lip without informing the local CFDT of his actions.\textsuperscript{114} It was Chérèque who won over Riboud, undergoing a fierce cross examination to demonstrate that a rescue was possible. Finally, once a deal was in the works, Chérèque, by all accounts, brow-beat local militants into accepting what were relatively minor concessions -- most notably, that workers would be rehired progressively, rather than all at once -- in order to save the company.

One cannot but be struck by the Parisian-centric nature of the Lip bail-out. The operation was put together by progressive Parisian employers, eager to score points against the conservative CNPF, in collaboration with Second Left political and union figures, who, somewhat ironically, wished to demonstrate the validity of autogestion and worker struggle \textit{à la base}, and supported by dissident social Catholic elements within the Gaullist regime.

\textsuperscript{113} Neuschwander, \textit{Patron, mais ...}, op. cit., pp. 15-16; Interview with Gérard Jussiaux, local CFDT leader. 11 October 1990; Charbonnel, op. cit., pp. 236-37.

\textsuperscript{114} Local CFDT official, Gérard Jussiaux acknowledges that he and his colleagues would have been furious if they had known that Chérèque was negotiating with the patronat.
All of the key actors were national figures, pursuing Parisian political and ideological objectives through their participation in Lip. The man who would become CEO of Lip incarnated both this political agenda, as we have seen, and the Parisianism of the Lip conspiracy. Indeed, Neuschwander never set foot in Besançon, never visited the company of which he would become the CEO, until after the final agreements had been negotiated by Bidegain in January 1974.115

If the political interests of Parisian elites saved Lip in 1973, the shifting priorities of these elites contributed heavily to the company’s effective demise in early-1976. This is not to say that economic problems played no part. Had Lip been prosperous, its backers would not have had no reason to pull the plug on the company, and even if they had, presumably, other investors would have been eager to replace them. Lip was not prosperous, however. Whereas the company had been expected to be in the black by late-1975, its losses were mounting, as was its inventory. The most favorable estimate is that Lip lost 27.6 million francs in 1974-75, 7.6 million francs more than anticipated, even though the firm had performed better than expected in 1974.116

Critics, Antoine Riboud among them, charged that the company was poorly managed under Neuschwander.117 Too many workers had been rehired too quickly; excessive inventory had accumulated; there had been ill-advised investments in car clock and watch production units and in overseas marketing facilities. No doubt, Neuschwander had made some mistakes. After all, he was a Parisian marketing specialist, with no experience in manufacturing. His approach to Lip was very much in keeping with this background: he focused his efforts on advertising campaigns and bringing out new models. Perhaps his production management was less than sterling. Still, 1975 was a recession year: everyone in the watch industry lost money. Certainly, Lip did not perform

116 Boucon et. al., op. cit., p. 325; La Croix, 6 April 1976.
very well, but Claude Neuschwander seems more like a convenient scapegoat than the root
cause of Lip's demise.

At heart, the problem for Lip was that in the two-and-one-half years since the
workers first began their protests, a strong negative shift had occurred in the relative costs
and benefits, both political and economic, associated with supporting the company. From
a strictly economic standpoint, by late-1976, it was becoming clear that sustaining Lip
would require substantially more money than imagined previously. Whereas the rescue
operation had been conceived at the tail end of the trente glorieuses, France had now
entered the global recession. Worse, US and Southeast Asian watch producers had entered
France. Watch industry officials remained violently opposed to support for Lip, but their
justification had changed: instead of asserting that French producers were in terrific shape
and that Lip could only be losing money because it was managed badly, they argued that
with all French producers suffering under the impact of the recession and foreign
competition, it would be unfair to privilege a lame duck like Lip.\textsuperscript{118} Other French
companies had at least as great a need for the money.

Further raising the stakes of competition, contrary to industry officials' earlier
predictions, by 1976, the quartz revolution was in full swing. Quartz watches were
becoming far more accurate and reliable than their mechanical counterparts. What is more,
unit costs were plummeting. As Lip tottered on the edge of bankruptcy, Texas Instruments
announced the introduction of a solid state quartz watch, which would sell for only $19.95
(roughly 100 francs).\textsuperscript{119} To remain viable in the watch industry, Lip needed to master a
whole new set of technologies, from batteries, to semiconductors, to electronic displays, to
the the miniaturization of the quartz crystal.\textsuperscript{120} The mighty Swiss industry was laying off

\textsuperscript{118} Le Figaro, 3 February 1976; Le Quotidien de Paris, 4 February 1976; Le Monde, 5 February 1976;
\textsuperscript{119} Les Echos, 3 February 1976.
\textsuperscript{120} David Landes, Revolution in Time: Clocks and the Making of the Modern World, (Cambridge, MA:
Harvard University Press, 1983), ch. 21; Bruno Baranger, Les Institutions de Branche et les Entreprises:
Etude sur l'Industrie Horlogère, DEA Thesis, Department of Economics, University of Paris I, October
workers by the thousands and plunging heavily into debt; the uphill climb for Lip would be even steeper.

Neither quartz technology nor watch production constituted a strategic vocation for Lip's industrial sponsors. Indeed, Schlumberger had taken advantage of its position as shareholder to unload an unprofitable car clock business on Lip. Lip's backers lacked expertise and would gain little from mastery of new quartz technologies. Thus, what had begun as a relatively risk-free political gesture was now leading Lip's sponsors into a high-stakes competition with the leading electronics multinationals of the world. To add insult to injury, they were soon to be required to pay for the privilege. Under the terms of the 1974 restructuring agreement, they had been allowed to lease Lip's assets (land, buildings, equipment, brand name) for two years, but they were fast approaching the deadline for either purchasing these assets for 42 million francs or allowing them to be put up for sale.\(^{121}\) Not surprisingly, Lip's industrial backers were getting cold feet.

It was not only the economic benefits of Lip that were deteriorating, but also the political benefits. In 1974, Lip offered considerable political capital to its backers. It was a popular movement; there was a strong sense that the workers had been wronged by incompetent and irresponsible management. Helping Lip also permitted progressive employers, like Riboud, Gilet, and Bidegain, to dissociate themselves from both a conservative CNPF and the unappealing political leadership of Pierre Messmer.

By 1976, the cause of Lip's workers was far less popular.\(^{122}\) Massive lay-offs and plant closings were no longer a sign of gross managerial competence, but rather a regrettable feature of daily life in a capitalist economy. Lip workers were not the only ones losing their jobs; unemployment in France was rising rapidly. What is more, Lip's workers had already been helped, receiving 15 million francs of the taxpayers' money. As Dalin argued, was it fair to spend more on such an unsuccessful company, when workers


\(^{122}\) *La Croix*, 5 May 1976.
in other companies had not been helped even once? Finally, as a result of the events at Lip in 1973, the government had instituted unemployment payments equal to 90% of a worker's salary for a twelve-month period. Consequently, the impact of lay-offs was far less devastating to workers than on the previous occasion.

Public sympathy for Lip's workers was not the only component of the political balance sheet which had shifted against a renewed rescue attempt. Within the CNPF, the progressive employer movement had collapsed in the face of electoral disaster and economic misfortune. The progressive employers' candidate for President in 1974, Jacques Chaban-Delmas had been soundly defeated by Giscard. What is more, Chaban's socioeconomic platform, his belief in collective bargaining and the "modernization" of French industrial relations, had also fared poorly. France's highly ideological and politicized unions had never placed much stake in collective bargaining, pinning their hopes instead on national political change. They provided little in the way of social peace for employers who were willing to meet them halfway, setting the stage for a backlash by French employers against collective bargaining and against unions in general, beginning in the mid-1970s. Most important, nose-diving profits made employers far less attentive to humanizing the workplace than to salvaging the bottom line. In short, progressive social policies were coming to be viewed as an unproductive and unaffordable luxury.

The triumvirate of progressive employers behind the Lip Affair were reorienting themselves in line with the shift of political climate within the CNPF. This was most striking in the case of José Bidegain. In 1975, Bidegain traded his contestatory stance at the helm of Enterprise and Progress for a high-level position in the CNPF, that of President of Commission of International Economic Relations. But Bidegain was not alone in such pliant behavior. None of the progressive patrons objected to a very conservative general declaration issued by the CNPF General Assembly in January 1976.

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123 Brizay, op. cit., p. 239.
124 Le Quotidien de Paris, 23 February 1976.
Like Bidegain, Antoine Riboud and Renaud Gilet had reason to trim their sails. The former's company, BSN, was undertaking a difficult shift from glass manufacturing to food products. Many workers were losing their jobs. Likewise, Rhône-Poulenc was undergoing painful restructuring in its textile business, registering a loss of 800 million francs in 1975. In one of the many ironies of the Lip Affair, it was Gilet who would make the decision to close the biggest employer in Besançon, the Rhodiacéta synthetic textiles factory, which had once provided paychecks to 3000 Bisontins.

Given their troubles at home, Riboud and Gilet adopted a very low profile in their public relations. It would have been extremely difficult for them to justify pouring money into Lip at a time when they were laying off their own workers. They were also less inclined than during the heady days of the trente glorieuses to risk antagonizing government authorities, who lose support they might later need. In this respect, changes at the national political level also shaped their behavior.

The presidential candidate of the progressive patronat, Jacques Chaban-Delmas had been outpolled by an avowed economic liberal and critic of the Lip bail-out, Valéry Giscard d'Estaing. Even when Giscard subsequently softened his liberal edge, in an effort to curry favor with centrist voters, support for Lip remained politically dangerous. Divisions within the ruling Rightist coalition undercut Lip's political position.

One way in which Giscard sought to demonstrate this "libéralisme avancé" (progressive liberalism) was through public support of Lip. The new President met with Neuschwander on several occasions, and when Lip began to totter in December 1975-January 1976, he took the unusual step of announcing that the company should enjoy full "access to the procedures for companies in difficulty" managed by the CIASI.\(^\text{126}\) Ironically, it appears that Giscard's declaration sealed Lip's doom. To protest this show of "government favoritism" toward Lip, outraged Franche-Comté watchmakers responded by

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\(^{125}\) Ibid.

organizing a one-day general strike. More important, actors who were agnostic toward Lip but hostile to Giscard attacked the former in order to harm the latter. Chief among these was Prime Minister Jacques Chirac. Chirac was on the verge of breaking with the President -- he would soon resign his position as Prime Minister -- and tensions were running high. Giscard's public endorsement of Neuschwander made the Lip an irresistible target. In negotiations with Riboud, Jérôme Monod, Chirac's Cabinet Director and the head of the CIASI agency responsible for aid to ailing firms, insisted on Neuschwander's firing as a prerequisite for any government assistance. With the battle between the Giscardian and Gaullist camps making it politically dangerous to be associated with Lip, the progressive patronat prepared to bow out.

Lip's resurrection in 1974 had been a national political operation far more than an industrial operation. None of the progressive employers who floated the venture put much of their own money into Lip. Indeed, there are reasonable grounds for believing that Lip received less capital than had been pledged originally. Nor was there any kind of industrial synergy between Lip's activities and those of its sponsors. Rather, the rescue of Lip constituted a political statement.

By 1976, the costs of this statement were rising rapidly, at precisely the moment when Lip's sponsors were feeling particularly impecunious. More important, the national political context had shifted. Progressive Gaullist and social Catholic politicians had been battered, and progressive employers were running for cover within the protective, if highly conservative, fold of the CNPF. It was time for political statements of a different kind.

In January 1976, Claude Neuschwander was dumped unceremoniously, following mounting criticism of his management by Riboud and other board members. Although Neuschwander resigned officially, this fooled no one, given that his job had already been advertised in two national newspapers! Neuschwander was then charged with all Lip's

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127 Le Figaro, 3 February 1976.
129 Le Monde, 12 February 1976.
sins and, after a few months, the situation deemed irremediable. In April 1976, Lip's administrators filed for bankruptcy ... fittingly, in a Parisian court. As one commentator aptly described, Lip and Neuschwander had already been condemned in the court of Parisian political maneuvering:

[In 1973] Saving Lip, for these modernist employers ... had meant striking a blow against the most traditional patronat and against a Pompidou regime regarded as excessively conservative. Sacrificing Claude Neuschwander today represents a way of sealing the union sacrée within the patronat. Was it not recently that the so-called progressive employers returned meekly to the fold within the CNPF? It [Neuschwander's ouster] also closes the parenthesis constituted by the Lip adventure, with all that was exemplary in terms of social struggle and all that was irritating for most employers.

While Lip was without a backer, without a CEO, and without a serious industrial future, its workers were not without hope. Les Lip again occupied the factory and attempted to create a second Lip Affair. Constraints of space prevent a prolonged discussion of Lip's subsequent meanderings, and this would be of limited interest, given that the company ceased to have any economic or technological significance with the 1976 bankruptcy. Rather, it has eroded in a slow and painful process, which continues to this day. Nonetheless, despite the company's marginal economic impact, a few points about Lip's post-1976 evolution bear mentioning.

One cannot but be struck by the continuing hold of Parisian political considerations on subsequent efforts to revive Lip. When the company declared bankruptcy in 1976, some 450 of the remaining 867 workers organized a factory occupation. Unemployment benefits carried them until June 1977. During this hiatus, the workers sought to find a buyer for the company and to develop new lines of business in surgical instruments, printing, and consulting for Third-World industries. When the unemployment benefits ran out, the Lip militants revived the familiar tactic of selling watches to provide substitute paychecks. Their hope was not to find another Riboud or to induce the

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130 Le Monde, 10 April 1976.
131 Le Quotidien de Paris, 10 February 1976.
132 Le Monde, 4 April 1978.
133 Libération, 17 June 1977.
government to intervene, but rather to survive until the Spring 1978 legislative elections, which the Left was widely expected to win. Salvation once again lay with Parisian politics, for the Left was pledging to revive Lip and the French watch industry.\textsuperscript{134}

It was not until the fall of 1977, 18 months after the declaration of bankruptcy, that the workers of Lip and the municipality of Besançon finally began to consider what they themselves might be able to do to refloat the company. This change of strategy was prompted, as usual, by national political events, specifically the collapse of the Union of the Left in September 1977. With salvation through political victory no longer envisageable, Lip workers cast their sights a bit lower. In November, they formed a cooperative, Les Industries de Palente (L.I.P.).\textsuperscript{135}

It was at this point that the municipality of Besançon became more involved in trying to find a solution to Lip's difficulties. As mentioned earlier, the leadership and political composition of municipality had changed in early-1977. The new mayor, Robert Schwint, was closer to the Second Left and less anti-Catholic than his predecessor. What is more, his coalition now encompassed the PCF, which was championing Lip's cause in the name of national economic independence. Thus, Lip received a more sympathetic hearing from the municipality than it had under Minjoz.

The municipality was motivated by more than sympathy, however. Local elites, both political and economic, wished very much to put the Lip Affair behind them. Lip was making Besançon a pariah among potential investors, who feared the city's "wild unions" and "chronic labor problems." All were agreed that it was time to "clean up the Lip mess," to find a solution that would remove Lip from the public eye.

Municipal involvement derived not only from a subjective shift in relations with Lip, but also from heightened leverage. In 1973, Lip represented the leading French watch manufacturer. It employed 1300 people, and its problems touched upon finance.

\textsuperscript{134} Le Monde, 11 March 1978.
\textsuperscript{135} The Lip brand name was owned by the company's creditors, hence the use of an acronym by the cooperative.
international marketing, and technological change. Such concerns lay well beyond the
competence of municipal authorities. By 1978, Lip was but a shell of its former self. It
was no longer an industrial leader, but a small would-be start-up company.

While the municipality could not resolve all Lip's problems, it could address one
pressing issue, the question of where to locate the new company. The Palente site was far
larger than necessary for the rump cooperative, and in order to relaunch Lip legally, the
property, buildings, and equipment would have to be purchased from the creditors. This
meant finding a buyer for the Palente site and a backer to front the costs of acquiring and
preparing a new factory for Lip.

Industrial real estate operations represent the one area of economic development
policy, in which municipal officials have been able to intervene effectively. In contrast to
many other economic policies, real estate initiatives by municipalities have always been
authorized under French law. What is more, this domain is quite familiar to local officials.
Finally, real estate operations involve relatively limited risks, since the municipality holds
title to the land and plant in question until the firm repays its obligations.

In the case of L.I.P., the operation was attractive on two additional counts. First,
the Palente site, once cleared, could be converted in the future to an industrial park.
Second, a joint operation with the Chamber of Commerce to renovate the site and find
commercial clients offered an opportunity to put an end to a long-standing battle between
the two parties over who held primary responsibility for local industrial real estate
operations. Consequently, in 1977, the municipality, in collaboration with the Chamber of
Commerce, set about trying to purchase the site from Lip's creditors, move the cooperative
to a more suitable plant, and then transform Palente into factory and office space.

Despite the not entirely disinterested support of municipal authorities and the
Chamber of Commerce, the Lip cooperative went nowhere for the next two years. While
local officials could provide a new home for Lip, they could not finance the venture.
Private investors had no interest in acquiring an aging factory staffed by 450 militant workers. Consequently, the dossier again rebounded to the national political level.

The situation in Besançon remained frozen for two-and-one-half years, as negotiations with Paris went nowhere. In the wake of his surprising victory in the legislative elections of 1978, Giscard moved aggressively to restructure French industry and compel lame ducks to undertake long-delayed lay-offs. In such a context, a government-sponsored bail-out of Lip would have sent the wrong kind of message.

By 1980, however, the Parisian political context and shifted and with it Lip's prospects. Giscard's once-unassailable lead in opinion polls was eroding rapidly under the twin onslaught of global recession and Barrist austerity. With a presidential election fast approaching and with striking steelworkers staging violent protests, Giscard's commitment to restructuring began to waver. Industrial policy lost its liberal edge, and increasing emphasis began to be placed on electoral considerations.136

From an electoral standpoint, Lip offered a relatively inexpensive way for the President to polish his social image and possibly win over centrist or Left-leaning voters. In addition, it would help improve the government's relations with the CFDT. In the wake of the collapse of the Union of the Left, the CFDT had been moving away from its prior politicized stance and adopting a more open position in negotiations over proposed industrial restructuring. Among the concessions which CFDT leaders requested in return, as a kind of gesture of good faith, was aid to Lip.137 Thus, the rescue operation of 1980, while facilitated by the support of local authorities, ultimately came to fruition as a result of national political bargaining.

The cooperative began production in the fall of 1980.138 Only 60 of the remaining 340 workers were rehired initially, with an ultimate goal of 170, a far cry from the 1300 employees in 1973. Despite the miniscule size of the company, national authorities were

137 Interview with Michel Garcin, 17 December 1990.
heavily involved in its reorganization. The government required that an outside manager, with experience in the industry, be brought in to run the company. It also imposed a series of targets for sales and profitability, which L.I.P. would be required to meet in order to rehire more workers. Finally, L.I.P. agreed to gradually phase out watch production. From the government’s standpoint, the idea was to demonstrate, not simply generosity, but also a commitment to responsible management and wise use of the taxpayers’ money.

In return for accepting these many conditions, the L.I.P. cooperative was launched with a capital base of 12 million francs, two-thirds of which was provided by mutual insurance and pension funds close to the CFDT. Municipal authorities furnished 2 million francs as well as a new plant. The national government’s contribution took the form of 10 million francs in long-term, low-interest loans. Perhaps more important, with L.I.P.’s watch business essentially in dissolution, the government pressured a number of multinationals (Thomson, Alcatel, Schlumberger, Alstom) to give the cooperative subcontracting orders involving the transformation of small metal parts (a set of operations and skills similar to those deployed in watchmaking).

Even with this assistance, L.I.P. remained unviable. The company’s equipment was dated; it had no money for new investment; and its workers had been inactive for several years. L.I.P. had been revived as a political gesture, not an industrial venture. In 1983, L.I.P. was again saved from bankruptcy for political reasons -- this time, by the Socialist government, which could not turn its back on the cause it had championed while in opposition. The 6-million-franc bail-out, provided for sentimental, symbolic, and political reasons, represented a small-scale version of the aid that would be provided to Manufrance.

139 Libération. 26 March 1980.
140 Le Monde. 15 October 1980.
141 Libération, 26 March 1980.
In 1984, the Lip brand name was sold to another watchmaker to raise cash.\textsuperscript{142} The company produced its last watch April 30, 1986.\textsuperscript{143} One year later, it declared bankruptcy. An attempt by managers and the CEO to revive parts of the company also went bankrupt. The following year, a company called "Lip Précision" was organized by two industrialists from the Jura region. Although bearing no juridical link to Lip, Lip Précision operates in the metalworking subcontracting business, employs roughly 40-50 former Lip workers, and seems to house much of the defunct company's museum-age equipment.\textsuperscript{144}

The Lip brand name lives on. The company which purchased it in 1984, Kiplé, apparently inherited Lip's bad luck. It went bankrupt in 1990.\textsuperscript{145} The brand was then purchased by Sensemat, an enterprise with no production vocation, which specializes in importing items from low-cost East European or Asian manufactures and selling them under well-known labels.\textsuperscript{146}

As for the Palente plant site, it is now a gleaming new industrial park, geared primarily toward small start-ups. Not all the occupants are start-ups, however. In one final ironic twist, the largest firm in the park is the Compagnie Française d'Horlogerie (CFH), the French subsidiary of ... Seiko.

From start to finish, then, the Lip Affair was a national affair, not a local affair, a political affair more than an industrial affair. The company was bailed out in 1974 by a coalition of progressive Parisian employers and politicians, most of whom had never set foot in Besançon. Economic considerations were not foremost in their minds; their motives were chiefly political. By 1976, the political winds had shifted, and so too had the attitudes of Lip's sponsors. Once again, the fortunes of the company would be played out in the national political arena.

\textsuperscript{142} Financial Times, 17 June 1986.
\textsuperscript{143} Ibid.
\textsuperscript{144} Plant visit to Lip Précision and interviews with Michel Keusch, Plant Manager and Claude Cassar, Salesman, 30 October 1990. Both Keusch and Cassar are former Lip employees.
\textsuperscript{145} Financial Times, 17 June 1986.
\textsuperscript{146} Le Monde, 28 September 1990, p. 39.
Even when Lip ceased to be a significant industrial player and was reduced to a
hollow shell of its former self, even when the municipality began to intervene more
aggressively in 1977, hopes for a rescue continued to hinge on national politics. The initial
goal of the Lip workers was to survive until the 1978 legislative elections, when a Leftist
victory could bring support. When the Union of the Left collapsed, the workers formed a
cooperative and tried to relaunch their activities. However, they remained blocked for
almost three years, until a softening of Giscardian liberalism and a hardening of the 1981
presidential campaign brought a trickle of aid. A final stay of execution was offered by
Pierre Mauroy in 1983, in recognition of services rendered to the cause, but the reprieve
was of limited duration. In 1987, with no more Parisian cards left to play, Lip quietly went
out of business.

Manufrance: The Firm as National Political Football

The fate of Manufrance, like that of Lip, was played out primarily in terms of
Parisian political considerations. One might have expected otherwise. The municipality
of Saint-Etienne enjoyed far greater leverage than its Besançon counterpart, thanks to its
majority shareholding in Manufrance. This was a highly unusual situation in France,
making Manufrance a kind of low threshold, a "critical case" for possible local
intervention. If a municipality could not intervene effectively in a company that it
essentially owned, how could it hope to deal with independent private firms?

Saint-Etienne municipalities of both Right and Left had the opportunity to use their
leverage to restructure Manufrance. Yet officials on both sides of the political spectrum
were unable and, to a large extent, unwilling to do so. On the Right, the Durafour
Administration's policies toward Manufrance reflected the same ambiguity that we have

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147 The account of the Manufrance crisis prior to 1979 draws primarily upon Pierre Kukawka,
Manufrance: radiographie d'une lutte, (Paris: Editions Sociales, 1980); "Manufrance: la fin du grand
bazar," Usine nouvelle, 15 March 1979, pp. 96-104; and interviews with Bruno Vennin, a Socialist
municipal official in Saint-Etienne, who was closely involved in efforts to restructure Manufrance in the
late-1970s, 10 and 22 January 1991.
seen in Durafour's efforts to revive Saint-Etienne's economy. Durafour's inclination was to ally with Parisian technocrats to breathe new life into the Saint-Etienne economy, but in so doing, he would be attacking the very political base that had brought him to power. The case of Manufrance reproduced this dilemma, and all the attendant ambiguities of the Durafour Administration, within a single firm.

In 1969, a cohort of young Manufrance managers issued a "livre blanc" denouncing the company's lack of investment and strategy. A few months later, Durafour hired CEGOS, a Parisian consulting company, to study the firm. The CEGOS report depicted Manufrance as heavily overstaffed, particularly in management. It urged the firm to pare its personnel, but also to effect a strategic choice. The company's future lay with the mail-order business, not production activities. The latter should be abandoned and efforts focused on modernizing (i.e. computerizing) the mail-order division. The recommendations contained in the CEGOS report would be reissued in one form or another in over one dozen different restructuring plans for Manufrance during the next decade.

In response to the CEGOS study, Durafour undertook negotiations to bring in the Banque pour l'Expansion Industrielle (BANEXI), a subsidiary of the Banque Nationale de Paris (BNP), to restructure the company. In April 1972, the parties reached an agreement. BANEXI took a 6.9% stake in Manufrance, and three gerontocratic members of Manufrance's board, ages 71, 76, and 76 respectively, were replaced by technocrats from BANEXI. While Georges Drevet, a member of "les familles," remained as CEO, BANEXI representatives were effectively in charge of the company.

BANEXI's strategy hewed closely to the recommendations of the CEGOS report. The basic idea was to withdraw from industrial activities, while modernizing commercial activities. Concretely, this translated to selling Manufrance's historic plant, located on a prime piece of Saint-Etienne real estate, the Cour Fauriel, and channeling the proceeds into the sales business. BANEXI officials planned to use the revenues from the real estate

operation to boost the capital of the company from 60 million francs to 150 million francs over a five-year period.

BANEXI confronted fierce resistance on all sides, however. At one level, as BANEXI and subsequent Parisian reformers would discover, the opposition was cultural. Manufrance was very much a turn-of-the-century company: the building, its elaborate wooden furnishings, even its smells all seemed from a bygone era. More important, so, too, did its managers and workers, proud of their company's glorious past and set in their ways. BANEXI technocrats never succeeded in rallying Manufrance's staff to new organizational methods. One sociologist described a plant visit, in which a BANEXI manager proudly displayed a climate-controlled room, where the latest computerized system for registering orders was humming away. Yet in the next room, employees were taking orders by hand, working on row after row of adding machines.

Parisian technocrats were unable to gain a hold in Manufrance's turn-of-the-century environment. The phrases commonly used to describe the BANEXI period include "organic rejection" or "a graft that did not take." The above sociologist relates that this clash of cultures even manifested itself physically:

There was a visible difference between the BANEXI people and the rest of Manufrance. If you stood on the upper balcony of the plant, you could see all the offices below. The BANEXI offices were different. They had leather chairs, modern white desks, and plants. You could spot the BANEXI managers just by looking at the furniture.149

Resistance to BANEXI was not merely cultural. The "familles" saw the arrival of BANEXI as a dispossession of their natural rights. They could count upon the support of the mass of managers whom they had appointed over the years. For managers who had expected to spend their entire career in the company and who were not necessarily the most dynamic elements of French industry, the prospect of a BANEXI-led restructuring appeared extremely menacing.

149 I am indebted to sociologist Jacques Iton, of the CRESAL research organization in Saint-Etienne for these descriptions of Manufrance.
This fear was shared by Manufrance's powerful unionized workforce. In BANEXI, the unions saw the hand of Parisian capital scheming to drain the lifeblood from a thriving provincial enterprise. BANEXI was a bank, not an industrialist. It had no regard for Manufrance's industrial vocation, nor for the well-being of its workers. All it cared about was money. BANEXI's restucturing strategy was regarded as a thinly-disguised effort to make a killing on real estate speculation, while dismantling the company and throwing its employees onto the street.

In the face of systematic internal opposition, from workers and managers alike, and limited support from the mayor, who no doubt feared alienating his local allies and who himself had appointed a fair number of friends to cozy positions at Manufrance, BANEXI withdrew its team after less than one year. A 70-year-old Georges Drevet was back in charge. For two years, until his retirement in 1975, Drevet allowed the situation to rot. He undertook no new investments and made no effort to pare Manufrance's costs. On the contrary, employment swelled from 3400 in 1972 to 4000 in 1975. When Drevet stepped down, Manufrance was losing money for the first time in its history.

At this point, Durafour once again sought a Parisian solution, appointing an ENA graduate and Inspecteur des Finances, André Blanc, as CEO. Blanc's sole industrial experience had been in supervising the dismantling of France's computer national champion, CII, when the latter was acquired by Honeywell-Bull. This did not exactly endear him to Manufrance's unions.

Blanc represented another Parisian graft that failed to take. A Parisian technocrat, out of his environment as CEO of a medium-sized provincial enterprise, he made a series of ill-advised "modernization" decisions, which pushed Manufrance into bankruptcy. The worst was the construction of a computerized warehouse and order-processing system in the Molina industrial zone on the edge of the city. The system, which cost 60 million

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150 Kukawka, op. cit., pp. 32-33.
francs, was poorly designed and never functioned effectively.\textsuperscript{151} The company violated the first rule of inventory management by building the warehouse on five floors. Computer malfunctions resulted in long delays, lost orders, and stores without adequate inventory. Finally, none of the workers were trained to handle the new equipment. This led to yet another quaint juxtaposition of the new and the old: while high-priced temporary hires were running the computer system at the Molina depot, their co-workers at Cour Fauriel continued to transcribe orders on scraps of paper. As with BANEXI's computers, technological modernization took place through the addition of new elements and new people, rather than the substitution of the new for the old or the retraining of the old to handle the new. Not surprisingly, Manufrance costs rose with "modernization."

In July 1976, with the company plunging heavily into the red, Blanc finally conceded that modernization would not be enough to save Manufrance. Rather, he called for over 1000 lay-offs and the fusion of Manufrance's production facilities with those of other regional manufacturers. Blanc did not exactly mince words: "It is like gangrene. We must cut off the arm, or else the body will be eaten. Let's do it quickly."\textsuperscript{152} Durafour, however, felt queasy about such surgery. He postponed his decision on Blanc's plan until after the spring 1977 municipal elections.

Despite Durafour's efforts to avoid a showdown, the proposed cutbacks at Manufrance figured prominently in the municipal elections. In addition to being mayor of Saint-Etienne, Durafour was serving at the time as Minister of Labor in the Barre Government. The government's austerity policies came under heavy fire from the Left, with Durafour tagged the "Minister of Unemployment," an image that was reinforced by proposed lay-offs at Manufrance.

In the municipal campaign, the Left drew a direct link between the problems of Manufrance and national politics. Manufrance's difficulties stemmed from the austerity

\textsuperscript{152} Kukawka, \textit{op. cit.}, pp. 32-33.
policies of the Barre Government. The logic of finance capital, incarnated by Durafour's appointee, André Blanc, was to separate the company's sales activity from its industrial activity and reap windfall profits from real estate speculation, all at the expense of Manufrance's workers. The national government could prevent such painful measures if it so desired. A government of the Left would protect Manufrance's industrial output from cheap foreign competition and nationalize the banking sector, so that credit would at last be available to medium-sized firms, rather than only to giant multinationals. The Barre Government, however, supported loyally by Mayor Durafour, was willing to waste billions of francs on industrial policy fiascos, involving national champions who were shedding jobs in France, while refusing to help a fine provincial firm like Manufrance. Ultimately, then, in the view of Left, the solution to Manufrance's difficulties lay at the national political level.

The Left won the municipal election of 1977. Joseph Sanguedolce, a CGT official, became mayor of Saint-Etienne, the largest Communist-controlled city in France. The victory would prove bittersweet, however, and the Left's campaign slogan, "not one lay-off at Manufrance," a political trap. In insisting that the only solution to Manufrance's difficulties lay with sweeping changes at the national political level, the Left foreclosed any attempt to tackle the problem at its roots through a serious restructuring program. Blanc resigned shortly after the election, when the municipality refused to approve his proposal for over 1000 lay-offs. The problem for Sanguedolce, like Durafour before him, was that he could address Manufrance's difficulties only by imposing significant costs on key constituents, in this case, company workers.

During the next two years, across several bankruptcy hearings, a half-dozen different CEOs would propose all manner of restructuring programs, with the situation of Manufrance growing steadily more desperate. In each instance, the municipality would denounce the proposals as a sell-out, asserting that the restructuring program was not serious and that workers would be laid off for no good reason. The only solution lay at the
national level. A *Le Monde* editorial, dated 7 April 1979, underlined this obsession with a national solution:

Since 1975, we have seen countless plans to restore the company all based, in one way or another, on the indispensable State aid: successive directors of the Saint-Etienne firm, members of the municipality, and politicians never cease writing to the President of the Republic and holding meetings with the Prime Minister or the Minister of the Economy.\footnote{153}

The municipality was not the only actor to place all of its hopes in a national solution. The same held true for the principal French trade unions, the CGT and the CFDT, as revealed by the following joint motion submitted to the governing body of the Loire department, the General Council:

Your mission as elected officials obliges you to undertake the necessary interventions with the national authorities so that the problem of Manufrance will be resolved, without any further cost to the workers, who have already suffered too much. The workers of Manufrance, the population of Saint-Etienne will not tolerate that in doing nothing, you betray your mandate.\footnote{154}

Here was the reasoning of local officials and unionists in a nutshell. First, local officials themselves could do nothing to resolve the problems of Manufrance. The General Council was useful only in its capacity to mobilize the national government (perhaps because its President, Antoine Pinay, was a former Prime Minister and prominent figure on the Right). Indeed, this was described as the General Council’s "mandate" or "mission."

Second, Manufrance's workers must not be made to bear any of the costs of turning the company around. Third, as revealed in the vague phrase "so that the problem of Manufrance is resolved," Manufrance's advocates had no real industrial strategy. Rather, their goal was to prevent any significant change within the company. Fourth and most important, the problems of Manufrance could be resolved -- what is more, with no contribution from local authorities and at no cost to the workers -- if only the national government would do its duty.

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\footnote{153}{Cited in Kukawka, *op. cit.*, p. 233.}
\footnote{154}{Kukawka, *op. cit.*, p. 137.}
With legislative elections scheduled for March 1978, however, such support from the government was unlikely. The municipality was disinclined to compromise, hoping that the widely-anticipated victory of the Left would unleash a flood of national aid. On the other side of the table, the national government had little to gain from helping the Communists out of their mess. Critics, including conservative politician, Antoine Pinay, accused the Ministry of Finance of two-faced behavior: of holding out the possibility of subsidies if Manufrance could raise funds from other investors, while working behind the scenes to discourage any investor who showed an interest. From an electoral standpoint, such behavior made perfect sense. As Michel Durafour demonstrated, linking the difficulties of Manufrance to the stakes of national politics could play for the Right in 1978 just as it had played for the Left in unseating him from his mayoral post in 1977:

The Manufrance Affair provides food for thought. By leading a subversive combat within companies, the Communists have created exaggerated hopes and demands ... "The State need only intervene," they say. But the State is who? It is those who pay taxes, the French people. Will the French who work in prosperous companies be willing to pay higher taxes on behalf of companies in difficulty? ... This is what is at stake in the 1978 elections: Will France remain an industrial and free country? Or will it fall into a state of anarchy, soon to be followed by the impoverishment of the French people and the disappearance of liberties? Following the Right's surprise victory in 1978, the government, in an effort to mend political fences, offered to contribute roughly 22 million francs if Manufrance could propose a credible restructuring plan, including financing from private investors. Municipal authorities had backed themselves into a corner, however. On the one hand, eliciting the support of private investors required painful politically unacceptable sacrifices: massive lay-offs, the elimination of production activities, asset sales, the reduction of the municipality's stake in the company. These went against both electoral interests and the ideology of the Left. On the other hand, refusing all sacrifices prevented the company from

155 Le Figaro, 27 April 1977.
157 Kukawka, op. cit., pp. 63-64.
158 The 22 million francs were not pure subsidies, but rather long-term, low-interest, convertible loans drawn from the Treasury Department's Fund for Economic and Social Development (FDES).
receiving badly-needed government and private funds. In the meantime, Manufrance's problems did not go away. Rather, the situation deteriorated steadily over time. Despite the municipality's pledge, employment at Manufrance slipped to 2500 in early 1979, 1500 below its peak level.\textsuperscript{159} What is more, the company's options narrowed steadily. An article in the business press, passing in review successive rescue plans for Manufrance, noted that the proposed measures became increasingly radical over time:

The Petit plan retained all sectors, Orgex eliminated bicycles, the first Ouramouff study put an end to sewing machines and the second to the entire manufacturing division; finally, the Mestries plan seems to be oriented toward a complete overhaul of the company's stores.\textsuperscript{160}

In May 1979, after two years of protests, factory occupations, maneuvering through French bankruptcy courts, negotiations with Paris, and even hunger strikes, local authorities appeared to have found a way out of their dilemma. At long last, an agreement was reached to relaunch Manufrance.\textsuperscript{161} Actually, from a strictly juridical perspective, the old company was not relaunched. Rather, a new company, the \textit{Société Nouvelle Manufrance} (SNM), was created. SNM assumed the employees and businesses of Manufrance and leased its buildings, but was not responsible for the staggering debt of its predecessor, which totalled some 400 million francs, a figure on a par with the company's entire yearly sales.\textsuperscript{162}

In this restructuring operation at least, the municipality was able to honor its pledge not to lay off any workers. Although the workforce would be reduced from 2556 to 1947, this would be accomplished without firings, through a combination of early retirements, voluntary quits, and retraining. There was a very significant catch, however. The program, as presented, had little to offer to private investors: employment levels remained too high; production units were unviable; equipment was ancient; in fact, the company's

only real asset was its prestigious brand name. Yet the government refused to release 22 million francs in FDES loans unless the company raised 50 million francs from other sources. The municipality got around this problem by fronting the money itself. Of the 50 million francs, 10 million was contributed by the MACIF, a mutual insurance fund whose director was a Communist party official, and 40 million took the form of a loan to Manufrance guaranteed by the municipality of Saint-Etienne.

The loan guarantee was of dubious legality, but the prefect chose not to block it. It was of even more dubious rationality. The municipality was fully responsible for a large loan being extended to a company that was in terrible shape (to which was later added a guarantee for a further 20 million francs). Worse still, with French banks reluctant to become involved in Manufrance, city authorities turned to a Swiss lender. The loan was, therefore, denominated in Swiss francs, and no provisions were taken against possible currency fluctuations. In the end, the city would be hit with a bill of not 60 million francs, but 160 to 180 millions francs.

It did not require great foresight to understand that SNM lacked the financial resources to climb out of its difficult situation. The company was being relaunched with a capital of 72 million francs (plus a 10-million franc line of credit), yet it had lost over 100 million francs in both 1977 and 1978, and 1979 marked the beginning of a deep recession. In July 1980, one year after SNM’s official creation, the company was bankrupt. The FDES loan of 22 million francs, the city-backed loan of 40 million francs, and the line of credit for 10 million francs had all been exhausted, and losses were running at 20 percent of sales. Once again, Manufrance appeared to have reached the end.

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163 This position was stated most forcefully in a restructuring plan submitted by trustees for Manufrance to the Lyon bankruptcy court in August 1977. *Le Monde*, 2 September 1977.
165 Interview with Bruno Vennin (PS), a Socialist municipal official in Saint-Etienne, who was closely involved in efforts to restructure Manufrance in the late-1970s, 22 January 1991.
During the next few months, the municipality searched desperately for a possible white knight. The noted French industrial reorganizer, Bernard Tapie, made a bid, but was rebuffed for fear that he would simply dismantle Manufrance. The municipality’s best hope seemed to be that the MACIF would be willing to throw good money after bad, in this case an additional 40 million francs. At the same time, a request for a whopping 90 million francs was submitted to the government in the hope that some lesser amount might be made available. To the surprise of all, in August 1980, the government agency in charge of industrial bail-outs, the CIASI, came back with an offer of 150 million francs, 60 million francs more than requested and almost seven times what state authorities had contributed to the previous effort.

The government’s sudden generosity had both technical and political origins. From an economic perspective, it was clear that far more money would be needed this time if Manufrance were to be relaunched successfully. The company had to be given the means to modernize its equipment and withstand heavy initial losses. Otherwise, it would simply collapse again after a few months. But economic considerations were not foremost in the minds of government officials.

With the 1981 presidential elections nine months away and Giscard d'Estaing sinking rapidly in the polls, everything had to be done to shore up the incumbent’s popularity. From this perspective, the offer to Manufrance made perfect sense. If the municipality accepted the money and the company were turned around under a government-approved restructuring plan, the Right could claim credit for this success. If the company went bankrupt again, then the Right could blame Communist mismanagement, while applauding itself for showing concern for Manufrance’s workers. Finally, if the municipality declined the deal or was unable to mobilize other financial backers, then the government would have made a nice gesture at no cost.

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170 _Le Quotidien de Paris_, 14 August 1980.
Ultimately, the third scenario prevailed. The CGT refused the government's condition that 557 lay-offs be made at Manufrance, as opposed to the 400 proposed by the municipality.\textsuperscript{171} What is more, the MACIF balked at contributing another planned 40 million francs.\textsuperscript{172} Two months of frenzied searches for a new backer, highlighted by negotiations with Swiss investors who were rumored to be looking to launder illegally-exported French francs, went nowhere.\textsuperscript{173} On October 22, 1980, the Lyon bankruptcy court ordered the liquidation of Manufrance.\textsuperscript{174}

Manufrance was not through yet, however. Some 500 workers occupied the factory to prevent the sale of its assets. A workers' cooperative was created January 1, 1981, the Société Coopérative Ouvrière de Production et de Distribution Manufrance (SCOPD), with each worker contributing 500 francs. A few months later, the minority Socialist/CFDT allies were physically expelled from the plant.\textsuperscript{175} According to CFDT and Socialist officials, the creation of the SCOPD and expulsion of the CFDT were not local initiatives, but were imposed upon the municipality and the local branch of the CGT by national Communist leaders.\textsuperscript{176} The Communist party was pursuing what the French term "la politique du pire," rejecting any kind of compromise and denouncing their erstwhile Socialist allies as "class traitors."\textsuperscript{177} In other words, in the run-up to the 1981 elections, any possibility of trying to save Manufrance was sacrificed to national political objectives.

\textsuperscript{171} Les Echos, 13 August, 1980; Le Matin, 13 August 1980.
\textsuperscript{172} Libération, 25 August 1980.
\textsuperscript{173} Le Quotidien de Paris, 1 October 1980; L'Express, 4 October 1980; Le Monde, 27 October 1980.
\textsuperscript{174} Le Monde, 27 October 1980.
\textsuperscript{176} Interview with Bruno Vennin (PS), a Socialist municipal official in Saint-Etienne, who was closely involved in efforts to restructure Manufrance in the late-1970s, 22 January 1991 and with Pierre Hérrietier, CFDT official, 21 January 1991. Hérrietier claims that the Paul Chomat, the municipal commissioner responsible for economic affairs, was opposed to the cooperative and that leader of the CGT section at Manufrance, Monique Garnier, resigned rather than join.
\textsuperscript{177} For an analysis of this ill-fated strategy, see George Ross, "French labor and economic change," in Cohen and Gourévitch, op. cit., pp. 151-79. For a lively and at times moving account of "la reprise en main de la base" (the reimposition of order) by national Communist officials, see Jane Jenson and George Ross, The View from Inside: A French Communist Cell in Crisis, (Berkeley, CA: University of California Press, 1984).
Ironically, it was the failure of this strategy, the inability of the Communists to sink their rivals on the Left, that provided Manufrance yet another stay of execution. The newly-elected government of the Left could not turn its back on the very workers whose neglect by Giscard it had denounced so roundly. A combination of dirigiste zeal -- an almost messianic belief in the power of government to restructure markets -- and long-accumulated political debts opened the floodgates of public support.\footnote{Manufrance was not unique in this respect. Lame ducks in a host of sectors, from coal, to shipbuilding, to steel, also benefitted. Cohen, \textit{Etat brancardier, op. cit.}; Peter Hall, "The Evolution of Economic Policy under Mitterrand," in George Ross \textit{et. al.} (eds.), \textit{The Mitterrand Experiment: Continuity and Change in Modern France}, (New York: Oxford University Press, 1987), pp. 54-72.}

No doubt, the Socialist majority entertained few illusions about Manufrance. Bruno Vennin, the Socialist municipal official associated most closely with the company and a newly-elected deputy in 1981, claims that he tried to dissuade Prime Minister Mauroy from helping Manufrance.\footnote{Interview with Bruno Vennin (PS), a Socialist municipal official in Saint-Etienne, who was closely involved in efforts to restructure Manufrance in the late-1970s, 22 January 1991.} The government's calculus involved more than economic considerations, however. Following François Mitterrand's election as President and the stunning success of the Socialists in the parliamentary elections, the Union of the Left had been reconstituted, albeit on a less-than-equal basis. The Socialists felt that they would still need the PCF as a partner in future elections and feared labor unrest spearheaded by the CGT if the Communists were excluded from the government. Consequently, despite the PCF's weakened state, the government was willing to buy its support. It is in this spirit that we can understand renewed aid to Manufrance, which remained, after all, a cause célèbre for the French Communist party.

In September 1981, the Manufrance cooperative (SCOPD) began operating with substantial government backing. The government had not written a blank check, however. As part of the deal, the Manufrance catalogue and \textit{Le Chasseur Français} had been sold to other French firms. The cooperative would serve strictly as a production unit. In addition, it opened with 590 employees, and future rehirings were to be phased in gradually and made contingent upon meeting clearly defined sales and profit targets. Still, the terms of
state aid could only be described as extraordinarily generous. Of the 170 million francs
injected into the company, 80 million was provided directly by the state (40 million in
subsidies and 40 million in long-term convertible FDES loans). However, the remaining
90 million came from either Left-leaning pension and insurance funds or nationalized
banks. In short, the entire venture was financed by national actors.

But this is not the end of the story. Eighteen months later, the government
contributed another 40 million francs to the company.\textsuperscript{180} In addition, as part of the deal,
the workers were supposed to raise 30 million francs, but when they could garner only 10
million, the government made up the difference! Manufrance now employed 800 people,
far more than it was supposed to under its agreement with its bankers and the state. Total
sales were not even sufficient to cover the company's wage bill. The deal was so
obviously political that the government did not bother with the pretense of involving the
Ministry of Industry and the Ministry of Finance. Rather, it was negotiated directly
between Prime Minister Mauroy and the head of the CGT, Henri Krasucki. The
newspaper, \textit{Le Matin}, normally sympathetic to the government, entitled its article on the
rescue venture, "Manufrance: Mauroy gives the CGT a Gift."\textsuperscript{181}

The final years of Manufrance read like a chapter from George Orwell's \textit{Animal
Farm}.\textsuperscript{182} Founding members of the cooperative were laid off while Communist cronies
were hired in their place. Production plummeted and losses mounted, but some employees
received raises of 100 percent. Embittered Leftist workers, who had originally believed in
the ideals of the cooperative, denounced a climate of dishonesty and physical
intimidation.\textsuperscript{183}

\textsuperscript{181} \textit{Le Matin}, 3 May 1983.
\textsuperscript{183} In 1992, 17 CGT leaders were sentenced to a collective 36 years in jail and fined 35 million francs on
charges of theft, receiving and selling stolen goods, and breach of trust. The verdict is currently on appeal.
In 1983, Manufrance registered a 76 million franc loss.\textsuperscript{184} Sales of 60 million francs were far exceeded by the wage bill, totalling 80 million francs. In March 1984, the company found itself again on the verge of bankruptcy. This time, however, the government finally refused to help. The dirigeiste methods and calls for a "reconquest of domestic markets" of the early Socialist regime had given way to austerity and emphasis on the bottom line. Pierre Mauroy would soon be replaced as Prime Minister by Laurent Fabius, and the Communist party would leave the government. Even the increasingly strained political rationale for sustaining Manufrance had disappeared.

Manufrance declared bankruptcy April 4, 1985. One week later, its assets were sold and the last 396 workers fired.\textsuperscript{185} All told in less than three years, the Socialist government had provided 257 million francs in aid to the cooperative, either directly through subsidies and FDES participations, or indirectly through loans by nationalized banks.\textsuperscript{186} The original rescue operation of Manufrance in 1979 seems piddling by comparison: 82 million francs, of which 22 million came from the government and 40 million from the municipality. As mentioned above, an additional 20 million franc loan guarantee by the municipality and the appreciation of the Swiss franc relative to the French franc raised the total cost to Saint-Etienne taxpayers to some 160 million francs.

**Behind the "Nationalization" of Local Economic Crises: Institutions and Politics**

The plight of Manufrance, like that of Lip, was determined largely by the interests of Parisian actors. The municipality of Saint-Etienne's controlling interest in the company did not enable local officials to manage the problem themselves; indeed, it may have aggravated the crisis. While perhaps the most celebrated (or notorious) cases, Lip and Manufrance were by no means the only instances in which the bankruptcies of small- or

\textsuperscript{184} *Libération*, 27 March 1985.
\textsuperscript{186} *Libération*, 3 April 1985.
medium-sized provincial firms spilled into the national political arena. Rather, they were entirely representative of the functioning of center-periphery relations in France in the 1970s.

Two sets of factors explain the propensity of Paris to become embroiled in the difficulties of provincial firms, big and small alike. On the negative side, French firms in difficulty confronted a barren institutional landscape below the level of the state. Problems percolated up to Paris because no other institution was equipped to deal with them. But there was also a positive side to these developments. Both Parisian and local elites had a political and ideological interest in transferring local industrial problems into the national arena. In short, the "nationalization" of local economic problems reflected both institutional incapacity and political will.

Let us consider first the institutional dimension, that is, the different possible adjustment mechanisms, which might have precluded the need for state intervention in Lip and Manufrance. For starters, the companies might have resolved their problems internally, making the necessary adaptations in a timely fashion, on their own initiative. However, the nature of French industrial relations did not lend itself easily to such internal adjustment. Industrial relations in France were highly conflictual and politicized, with little sense of a shared plight. Managers viewed unions as fundamentally illegitimate, indeed dangerous, to be barred from the plant or, failing that, given as little information and responsibility in running the firm as possible. Unions returned the hostility, portraying managers as vicious and irresponsible exploiters. They, too, saw their adversary as illegitimate: the goal of the CGT and, for much of this period, the CFDT as well, was not to reform capitalism, but to destroy it.

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188 Cohen *Etat brancardier*, op. cit., ch. 3, describes the failure of many of these adjustment mechanisms in France.
For union officials on the Left, workplace struggles served an essentially pedagogical purpose. Unions were less interested in tangible gains, such as higher wages or the rescue of a company in difficulty, than in shaping worker mentalities. Industrial conflicts were to be used to demonstrate the intrinsic inequity and perversity of the system. By experiencing in their daily lives the bitter lesson that capitalism was unreformable, workers would come to realize that the only genuine solution rested with deep structural change, which could be brought about only through reforms at the national political level.

Consequently, when a French employer pleaded difficulty, the union response ranged from suspicious to hostile. Even an unusually progressive employer like Fred Lip was unable to induce the more moderate of the two main unions in France, the CFDI, to make minor concessions to help the company through a difficult period. While it is easy to denounce such short-sighted behavior in retrospect, union skepticism at the time was not without foundation. After all, for much of the postwar period, French employers had been pleading poverty when confronted with demands for higher wages, only to register massive profits. Union suspicion was heightened by management's systematic refusal to share information about the company's health, a practice demonstrated most spectacularly in the case of Ebauche SA's plans for Lip.

Even when management could make a convincing case that the firm was in trouble, union cooperation did not follow necessarily. As seen at both Lip and Manufrance, unions resisted the notion that workers should be made to pay for the failures of management, particularly since they had been excluded from any say in how the company was being run. Most important, for French unions, the primary battlefield was not the firm, but national politics. From a national political perspective, it might be worth sacrificing a few firms for pedagogical or electoral purposes, reasoning particularly evident in the case of Manufrance.

The poisonous state of French industrial relations did not facilitate internal adjustment. In some sectors, unions were weaker and/or management stronger than at Lip and Manufrance, permitting the stalemate to be broken. However, while the "infernal
couple of strong unions and weak management" probably added to the difficulties in these cases, such a couple was far from unusual. What is more, even when the couple was somewhat "mixed," internal adjustment in the absence of any kind of social consensus was no easy task.

If French industrial relations constituted a powerful obstacle to internal adjustment, there were few institutional supports for externally-initiated adjustment. In many countries, banks have played a leading role in helping firms through difficult periods. The economies of Germany, Switzerland, and Japan, for example, are characterized by close ties between finance capital and industrial capital, often originating with the perceived "imperatives of late development" in the nineteenth century. In the postwar period, these ties have taken the form of elaborate equity cross-holdings and long-term lending relationships.

Close bank-industry ties have led the former to assist the latter in difficult times for three reasons. First, lenders are highly exposed to their industrial clients. Consequently, they are disinclined to cut their losses by pushing for the liquidation of a company in trouble. Second, because of this exposure, financial institutions tend to keep themselves well-informed of their client's performance and often have a direct say in the management of the company. As a result, if the company's situation begins to deteriorate, they are well-positioned to identify the problem early and intervene before the situation is beyond retrieval. Third, if the problem is industry-wide, the banks' extensive industry holdings may make it possible to boost profitability through coordinated rationalization programs, output restrictions, and possibly mergers.

In France, by contrast, banks have tended to operate at arms'-length with their industrial clients. As a result, they have lacked both the information and the leverage to intervene preemptively. By the time that they find out about a firm's problems, the situation has usually become desperate. Even when they acquired knowledge in a timely

fashion, however, they have usually been disinclined to venture a risky rescue operation given their relatively limited financial exposure.

Aggravating the problem in the case of Lip and Manufrance, the major shareholder in each company was viewed with a high degree of suspicion by the financial community. The city of Saint-Etienne was seen as unwilling to make difficult decisions, particularly following Sanguedolce's election as mayor in 1977. Lip's principal shareholder, Ebauches SA, showed no sign of commitment to the company. Indeed, its neglect of the Lip had been the precipitating factor in the firm's crisis. Thus, from the perspective of potential lenders, neither Lip nor Manufrance offered reasonable prospects for recovering additional investments; it made far more sense to cut one's losses.

The one partial exception to the pattern of bank indifference was the aborted intervention by BANEXI in Manufrance. However, there were several fundamental differences between this operation and the model of bank-led restructuring described above. The initiative was taken by Mayor Durasfour, the majority shareholder in Manufrance, not by BANEXI. What is more, the bank was acting not as a longstanding creditor, but as a new investor. It bought into Manufrance, rather than intervening on the basis of outstanding loans. Finally, the bank did not have much leverage. It held a small minority share in Manufrance and several of its representatives were appointed to key positions, but the municipality remained in charge. This is why, unable to effect the changes it saw as necessary, BANEXI withdrew its team from Manufrance after one year.

French industry associations were no more effective than banks in assisting adjustment by Lip and Manufrance. Trade associations are notoriously weak in France: poorly funded, unable to coordinate actions among member firms, indeed uninformed of their real situation.\textsuperscript{190} What is more, perhaps because of their original vocation as administrators of state-sanctioned cartels, they have tended to see their role as protecting members from change, rather than helping them adjust to change. Thus, even when

\textsuperscript{190} Ehrmann, \textit{op. cit.}; Brizay, \textit{op. cit.}; Jean Bunel and Jean Saglio, \textit{L'action patronale du CNPF au petit patron}, (Paris: PUF, 1979); Friedberg, \textit{op. cit.}..
possessing resources, industry associations have usually failed to promote adjustment. The most spectacular instance of this problem is the case of the steel industry, but it is by no means an isolated example.\footnote{Padioleau, \textit{op. cit.}.}

In the case of Manufrance, the metalworking industry association, the Group of Metalworking and Mining Industries (GIMM), remained on the sidelines. Defining its vocation primarily in terms of labor relations, GIMM was not in a position to intervene. By contrast, in the case of Lip, the watchmaking profession, the \textit{Chambre Française de l'Horlogerie} (CFH), possessed both the financial resources and political mandate to help member firms restructure. Since 1963, a sales tax ("\textit{taxe parafiscale}") had been levied on all watches sold in France, to be used by the industry to fund projects of collective interest.\footnote{Edgar Hirschi, \textit{L'industrie française de la montre: Comment on détruit une industrie en dix ans}, unpublished pamphlet, Besançon, 1984.; Baranger, \textit{op. cit.}.} In 1969, the agency in charge of managing this fund, the Professional Committee for the Development of Watchmaking (CPDH), created an additional organization, the Society for the Development of Watchmaking (SDH) to support industrial restructuring, notably through injections of equity capital. Clearly, Lip was a logical candidate for such a fund, which was often employed to help firms in difficulty.\footnote{Lip's parlous financial position would hardly seem to have precluded receiving SDH assistance, since according to Hirschi, the vast majority of loans went to firms in difficulty. Indeed, Hirschi claims that over 80\% of SDH loans were eventually written off. Hirschi, \textit{Comment détruire, op. cit.}, pp. 24-25.} However, as we have seen, the last thing that the CFH wanted to do was to help Lip. This points to a further constraint on industry-association-led adjustment, the tremendous divisions within these organizations, fueled by conflicts of interest, ideology, and personality.

While economic institutions were unwilling and/or unable to help restructure Lip and Manufrance, conceivably, political institutions other than the central state might have taken the initiative. Local authorities in Germany and Italy, for example, have been active
in facilitating industrial restructuring. However, here too, the French context was particularly unfavorable.

Prior to the Defferre decentralization laws of 1982-83 (and to a lesser extent, even today), local institutions in France were much less endowed in personnel and financial resources than their counterparts in just about any advanced industrial nation. What is more, if French local authorities were weak in general, in no area were they weaker than in relations with private industry. State officials regarded industrial policy as their privileged realm and were vigilant in their resistance to local efforts to crack this monopoly.

France counts three forms of subnational government: municipal, departmental, and regional. To oversimplify only somewhat, in matters of industrial restructuring, the former two institutions possessed resources but no authority, while the latter possessed authority but no resources. The regions were the only subnational institution authorized to provide direct aid to industry.\textsuperscript{194} However, as described earlier, they had been created as an appendage of the state and lacked any real autonomy. The Regional Council was unelected and its agenda tightly controlled by the regional prefect, who also had the power to block its decisions. It had no permanent staff, and its budget was capped at a pathetically low level (15 francs per inhabitant in 1974).\textsuperscript{195}

The municipalities had both the greatest means and the greatest motive for seeking to assist a company in difficulty. The greatest means because their budget was considerably larger than that of the department or the region. The greatest motive because, as the smallest of the three constituencies, they felt the effects of plant closings most intensely. Municipal intervention was handicapped, however, by an accumulation of state-imposed restrictions, both formal and informal: legal provisions, decisions of the administrative courts (Conseil d'Etat), the tight supervision (tutelle) of the prefect.\textsuperscript{196}

\textsuperscript{194} Hayward, op. cit.; d'Arcy and Baenadel, op. cit.; Ollivaux, op. cit.; Grémion, op. cit.
\textsuperscript{195} Ollivaux, op. cit., pp. 96-98.
\textsuperscript{196} Rondin, op. cit., ch. 8.
Many of these restrictions dated from the turn of the century, when state officials feared rampant nationalization by Socialist municipalities. They had been eased gradually in the postwar period, normally to allow for the provision of public services. In areas ranging from bath houses, to cultural activities, to sports facilities, municipal authorities either provided services directly or subsidized private or quasi-public (sociétés d'économie mixte) actors to do so. However, state officials drew the line at subsidies to firms in the competitive sector, a principle reaffirmed as late as 1976 in a highly-publicized circular by then-Minister of the Interior, Michel Poniatowski.

Prohibitions, both formal and informal, did not prevent the municipalities of Besançon and Saint-Etienne from providing aid to Lip and Manufrance respectively. In both cases, the prefect turned a blind eye as the municipalities guaranteed loans and subsidized firms in what would appear to be a clear violation of the law. However, this aid was far from sufficient to meet the needs of either firm and was authorized only under exceptional circumstances, after a prolonged political battle, at a point when it was probably too late to restore the beneficiary to competitiveness.

In short, even in the rare instances in which municipalities were allowed to come to the rescue of local firms, they were not in a position to do so effectively. Since direct aid was barred in principle -- a principle which was not simply a dead letter, but rather an object of continuous government vigilance -- municipal authorities had never had occasion to develop close ties to industry. Industrial policy remained uncharted territory.

It was also treacherous territory. If a firm was turning to the municipality for help, then chances were that it was in desperate shape. In all likelihood, recovery would require not simply capital injections, but also radical restructuring, involving a large number of layoffs. However, preventing layoffs was usually the primary reason for municipal interest in the first place. Thus, the obstacles to effective municipal intervention were not only informational and intellectual (the municipalities did not know how to restructure firms), but political (they did not want to restructure firms).
In France, only the state could hope to save a firm like Lip or Manufrance. No other institution was in a position to restructure these companies. Internal adjustment was blocked by the confictual nature of industrial relations in France. Restructuring by employer associations was all but unheard of in France, and Lip and Manufrance were not exactly the darlings of the French patronat. Bank-led restructuring held little appeal for financial institutions with limited exposure to and knowledge of their industrial clients. Finally, local authorities were fragmented, weak, and held in check by the state. The regions, who were authorized to intervene, lacked the means; the municipalities, who possessed greater means, lacked the authorization, except under the kinds of extreme circumstances which all but guaranteed that intervention would fail.

While the state may have been the only institution in France that could intervene effectively in Lip and Manufrance, this does not mean necessarily that it would intervene. Government policy was driven by more than functionalist imperatives. Both institutional and politico-ideological factors militated for a "nationalization" of the problems of Lip and Manufrance.

One of the distinctive features of the institutions regulating relations between center and periphery in France is the possibility for elected officials to accumulate multiple local and national mandates. In many instances, it is misleading to describe a particular mayor as a "local official" because he or she also occupies a prominent position in national politics. Such was the case with Michel Durafour, who served simultaneously as mayor of Saint-Etienne and Minister of Labor under Giscard.

Just as it blurs the identity of "local" officials, so the practice of cumul des mandats confuses the character of "local" economic problems. Local problems, like the politicians called upon to resolve them, take on a national hue. It is not the mayor who is expected to address the problems of local industry, but the deputy, senator, or best of all, minister. Part of the job of the cumulard mayor is to utilize his or her national mandate to solicit Parisian resources on behalf of his or her local constituents. In normal times, this may
involve funds for a road or a school; in the 1970s and early-80s, it meant aid for ailing local industry. Thus, the logic deriving from the *cumul des mandats* was to pin hopes on mobilizing national resources, rather than addressing problems at the local level.

The *cumul des mandats* structured not only the resources available to treat a particular problem, but also the perception of that problem. Because the mayor wears two hats, opponents conflate these roles in their assessment of his or her handling of a given industrial dossier. In the case of Manufrance, Communist criticism was directed less at Durafour the mayor than at Durafour the minister. His crime was not simply failure to assemble a rescue package for Manufrance, but endorsement of policies, through service in the Giscard-Barre Government, that had allegedly brought Manufrance to its knees. Such a perception made it all but impossible for local elites to work together to try to craft a solution because it effectively transferred the local industrial crisis from the sphere of shared community interests to that of divisive national politics.

In this context, both sides found reason for allowing the situation at Manufrance to deteriorate, rather than trying to remedy it locally. For the Left, prior to the 1977 municipal elections, the difficulties of Manufrance could be used to illustrate the bankruptcy of not only the Durafour municipality, but of Barrist industrial strategy more generally. For the Right, in the run-up to the 1978 legislative elections, these same difficulties could be pointed to as a forwarning of the economic disasters that would befall France should the Union of the Left prevail. In other words, once the problems of Manufrance had entered the national political sphere, via the mechanism of the *cumul des mandats*, the industrial stakes paled in comparison. At different moments, both sides opted to allow the situation of the company to deteriorate for the sake of national political gain.

While the nationalization of the problems of Lip and especially Manufrance reflected a long-standing institutional dynamic in France, it also derived from the political and ideological context of the 1970s. For local elites of both Left and Right, soliciting national intervention held far greater appeal than attempting to intervene directly. Part of the reason,
as described above, is that local institutions possessed limited resources with which to intervene. However, the blockage was one of will as well as capacity.

To address seriously the grave problems at Lip and Manufrance required endorsing measures threatening to local officials' core constituents. Leftist municipalities had to countenance massive lay-offs: in the case of Lip, at a time when such actions were perceived as aberrant; in the case of Manufrance, after having been elected on a pledge to avoid precisely this outcome. Rightist officials also had to be willing to act against the clearly articulated preferences of their constituents: to dispossess the interests of the "familles" at Manufrance or to favor "Lip" over other Franche-Comté watchmakers. They faced the further obstacle of acting in direct opposition to the predominant Rightist rhetoric in favor of free markets and respect for property rights.

On both the Left and the Right, local elites were far more inclined to turn the problems of industry over to national officials. On the Right, the neoliberal discourse described above was counterbalanced by another conservative tradition, paternalism, which legitimated local appeals for Parisian intervention. In the paternalist system, the role of the notable, in return for recognition as the leader of the community, is to assure the preservation and stability of the system. Large-scale bankruptcies of the kind envisaged at Lip or Manufrance threatened the delicate local equilibrium. Consequently, the notable must step in, wielding his or her Parisian connections to assure that the system would be preserved. Thus, conservative former prime ministers Edgar Faure and Antoine Pinay lobbied the government aggressively on behalf of Lip and Manufrance respectively, particularly in the initial phase of these companies' difficulties. Needless to say, the presence of a Rightist coalition at the helm of the national government reinforced the conservative notable's penchant for national solutions.

Supporting national bail-out efforts involved far less intellectual contorsion and balancing of interests for local elites of the Left than of the Right. With the exception of the minority Second Left movement, militants of both the PC and PS saw local action as little
more than a chimera. The problems of French capitalism could find remedy only through sweeping change at the national political level. Consequently, even in the home of Fourier and Proudhon, the first reflex of municipal officials was to turn to Paris for assistance. This reflex, attenuated following the surprising defeat of the Left in 1978, was further reinforced with the no-less-surprising victory of 1981.

That undermanned, resource-poor local officials would turn to the central state for help is far from unusual in France. However, there remains the question of why state officials were willing to grant these requests. Here, again, we see somewhat different political and ideological factors producing a common outcome on both Left and Right.

On the Right, national intervention stemmed from a combination of internal divisions and external threats. The internal divisions were most prominent in the Lip Affair. While the majority of Rightist politicians and business leaders condemned the "illegal actions" of the workers and viewed any effort to aid the company as a waste of the taxpayers' money, progressive Gaullist politicians and employers maintained that the French patronat must face up to its responsibilities. In order to "normalize" and "modernize" French industrial relations and transcend "archaic" class conflict, the patronat had to give the lie to the dangerous, demagogic Leftist discourse that French capitalism and French employers were unreformable.

The divisions within the Right were not only doctrinal, but political. Progressive young employers, such as Antoine Riboud and José Bidegain, were looking to take over the CNPF, just as their counterparts in agriculture had captured the FNSEA. Likewise, progressive politicians, such as Jacques Delors and Jacques Chaban-Delmas, were preparing their revenge following Pompidou's tilt to the Right with the appointment of Pierre Messmer as Prime Minister. For progressive employers and politicians, Lip offered an opportunity to show up the CNPF mainstream and the conservative Pompidou regime. While the sclerotic CNPF and government did nothing, the young, dynamic progressive forces would provide real solutions to France's problems.
Rightist intervention was prompted by external, as well as internal threats. More than the enemy from within, Pompidou and especially Giscard were preoccupied by the enemy from without. The events of May 1968 had shaken the regime to its core. While benefitting politically from these events, Pompidou had no desire to repeat the experience. Most of his efforts were concentrated on appeasing traditional supports of the Gaullist movement, peasants and shopkeepers, but the sight of protesting workers in Besançon raised a haunting specter. Many elements on the Right felt that efforts to buy social peace should be extended beyond core constituents, to the working class.

This willingness to buy off worker unrest grew exponentially under Giscard. Ironically, Giscard had opposed the Lip bail-out in the name of economic liberalism. However, a razor-thin political majority during most of his term as President did not afford the luxury of giving full sway to his liberal instincts. The only point at which Giscard's government acted decisively in a liberal direction was in the initial period following the surprise victory of 1978, when the President's political future appeared secure. However, with the onset of recession in 1979, plunging opinion polls, and violent worker demonstrations over proposed plant closings in the steel industry, Giscard's liberalism was honored mostly in the breach.

Electoral considerations played an important role in the government's willingness to help out Lip and Manufrance. Following his election as President in 1974, Giscard publicly embraced Lip as a sign of the progressive character of his liberalism ("libéralisme avance"). Five years later, his government helped relaunch Lip as a cooperative. The cooperative was completely unviable from an economic standpoint, but it offered an inexpensive way of polishing the President's social image and improving relations with the CFDT. At roughly the same time, and likewise out of electoral rather than industrial considerations, the government came to the aid of Manufrance. What is more, it proposed, via the CIASI restructuring agency, to inject some 150 million francs into the company, a figure almost double what even the pie-in-the-sky Communist militants had requested.
If national officials on the Right balanced considerations of economic doctrine against those of political expediency, no such juggling act was required on the Left. The aspirations of the minority autogestion movement notwithstanding, the hopes of the Left rested clearly with the national level. While in opposition, the Left put continuous pressure on the central authorities to intervene. Militants pointed to the problems of companies such as Lip and Manufrance as evidence of the dysfunctions of French capitalism and the bankruptcy of national economic policy. They denounced a government that was willing to pour billions of francs into ventures on behalf of coddled multinationals, while neglecting potentially viable provincial SMEs. They blocked a number of compromise strategies, involving at least short-term sacrifices by the workers, under the pretense that all could be resolved painlessly if only the government would do its duty.

Once in power, the Left could hardly turn its back on the arguments it had put forward with such vigor under Giscard. There were also political debts to be repaid. Consequently, the first years of the Mauroy government saw aid to both Lip and Manufrance that no industrial logic could justify. The case of Manufrance went even further. In a sense, Pierre Mauroy’s reasoning paralleled that of Giscard a few years earlier. No one seriously believed that subsidies would suffice to rescue the company, least of all Saint-Etienne Socialists who experienced the rot of Manufrance first-hand. However, aid to Manufrance was not motivated by misplaced dirigiste impulses. Rather, like Giscard before him, Mauroy was buying social peace. Manufrance occupied a special place in the lore of the Communist party, and the PCF occupied a place in the government. A few-hundred-million francs to companies like Manufrance was a small price to pay to keep the PCF in the fold and the CGT demobilized.

The Parisian Kiss of Death: Dysfunctions of National Intervention in Lip and Manufrance

At first glance, it might be imagined that the transfer of the problems of Lip and Manufrance from the local to the national political arena would have represented a favorable
development for these companies. There was far more money to be made by shaking the tree in Paris than in Besançon or Saint-Etienne. Indeed, both companies eventually reaped substantial public subsidies. Nonetheless, with hindsight, it appears that the nationalization of their problems probably did Lip and Manufrance more harm than good.

One nefarious consequence involved the timing of government intervention. It is a hypothesis worth testing that the amount of aid received by a company varied inversely with its ability to make use of it. In 1971, Ebauches SA had applied for aid to the French agency in charge of assisting the restructuring of promising industries, the Institute for Industrial Development (IDI). Ebauches SA offered to boost its investment in Lip if the government would also make a contribution. IDI sat on the dossier for almost two years, however, and then declined the request, apparently because most of its budget had been diverted to the Plan Calcul (France's computer industry project). A timely injection of government aid might have averted much of the pain and drama that ensued at Lip. But Lip was not a government priority at this point. By contrast, when Giscard refloated the cooperative in 1980 and when Mauroy offered further subsidies in 1983, Lip was a political priority, but it had ceased to be an industrial entity. The case of Manufrance reproduced this phenomenon on a much larger scale: the lion's share of government aid was delivered in the 1980s, when even Saint-Etienne Socialists no longer considered the firm to be salvageable.

The mistiming of aid to Lin and Manufrance stemmed from the nature of the aid process. The cruel dilemma was that inducing Parisian authorities to intervene required sustaining protest for a prolonged period, thereby demonstrating that the problem would not simply go away. However, the longer the firm remained immobilized, the less chance it had for recovery, as clients switched to other suppliers, workers and managers found new jobs, banks wrote off loans, customers lost faith, and plant and technology fell behind the offerings of the competition. In short, the political logic of soliciting subsidies was directly opposed to the industrial logic of effecting quick adjustment. This was especially
true in an industry undergoing rapid technological transformation, such as watchmaking in the 1970s. In just a few years, Lip went from being among the world leaders in quartz technology to dropping out of the running altogether.

The recourse to Paris upset the timing of assistance via a second mechanism. It was not enough for protestors to demonstrate their tenacity; following the second bankruptcy, Lip workers occupied their plant for four years (1976-80) without securing any government assistance. No less important was appealing to Parisian political interests. In the waning years of the Pompidou Administration (1973-74) and during the neo-liberal phase of Giscard’s presidency (1976-78), appeals for public subsidies tended to fall upon deaf ears. By contrast, the situation grew far more favorable as Giscard scrambled to shore up electoral support from 1979 to 1981 and in the initial years of the Mauroy government, when the Socialists were repaying political debts. Unfortunately, the moment of truth for Lip and Manufrance from an industrial standpoint occurred prior to the loosening of government purse strings. By the time they were able to enlist significant public support, it was too late to turn them around.

Lip suffered from its dependence on not only Parisian political elites, but also Parisian employer elites. Without the progressive patronat, Lip might never have escaped its first brush with bankruptcy in 1973. But a durable recovery required more than a one-shot intervention. To weather the post-1974 recession and make the transition to quartz watch technology, Lip needed a long-term commitment from its backers. This was a lot to ask of the unstable world of Parisian politics. Perhaps in 1974, Riboud and company might have reached deep into their pocketbooks to score political points with Lip; perhaps not. In any case, by the time the second Lip crisis came to a head in early-1976, such action had become inconceivable. Following their strategic repositioning within the CNPF, the progressive employers had become far less favorably disposed toward their Besançon client.
Because of the nationalization of the bail-out process, aid was accorded not only at the wrong time, but in the wrong place. The adage, "the squeaky wheel gets the grease" certainly applied to aid to ailing industry. Unfortunately, the wheels that squeaked the loudest were usually those about to fall off. As noted above, part of the problem was that workers and their backers usually had to squeak for a long time before the state would intervene, meaning that the situation of the company had deteriorated severely. In short, the politics of subsidy solicitation tended to concentrate aid on companies whose competitive position had invariably suffered a severe decline (ironically, accelerated by the solicitation process itself).

In addition, the squeaking tended to grow loudest when the firm in difficulty had a well-known brand name or glorious past (which was the case for both Lip and Manufrance) and especially if large numbers of jobs were at stake. These were the criteria for political mobilization. However, they were not necessarily the best criteria for allocating scarce state aid.

That a well-known firm, with a highly-successful history, was in trouble probably meant that it had been slipping for a long time. Such companies do not usually tumble into bankruptcy overnight. What is more, the case of Manufrance suggests that such a firm could hide the signs of decline for a while by liquidating the fruits of past successes, allowing the situation to deteriorate even further before issuing an appeal for help. Consequently, it could be argued that celebrated firms were probably in the worst shape among candidates for government aid.

Certainly, there were other companies with at least as well-founded a claim on public resources. The celebrated firms enjoyed considerable control over their economic destiny. They were integrated producers, with excellent access to and recognition in consumer markets. If they were in trouble, it was to a large extent through their own competitive inadequacies. By contrast, many firms operating further down in the supplier chain were placed in difficulty by actions beyond their control: restructuring by key clients,
problems and/or changes of ownership of parent firms, plant consolidation within an industrial group. These firms, which lacked the celebrated brand names of companies like Lip and Manufrance, tended to receive far less public attention. Yet because they were often reasonably competent firms, placed in a difficult position by decisions of external actors, they might have been better able to make use of government assistance.

If government aid was granted at the wrong time and in the wrong place, it also tended to support the wrong kinds of actions. Given that workers and local elites usually mobilized in opposition to proposals for large-scale lay-offs, comforting them in their demands translated inevitably into providing government aid so as to minimize employment losses. Such a strategic orientation did not bode well for successful rescue operations. However, it did fit with the political logic of Parisian rescuers.

From the perspective of Parisian political or employer elites, the economic plight of a medium-sized provincial enterprise was of little importance. These elites were far more concerned with the political perception, the political fall-out of their initiatives than with whether the initiative actually succeeded in restoring Lip or Manufrance to health. They were looking to buy social peace and possibly some votes, not to build world-class companies. Consequently, government aid tended to support the conservative, market-resisting reflexes of frightened local elites. Employment was preserved and industrial adjustment delayed, with long-term industrial competitiveness sacrificed to short-term political equilibrium.

Provincial Patients and Parisian Remedies: Lip and Manufrance as Model

It might be objected to the analysis presented thus far that the cases chosen are unrepresentative. They were highly-politicized media affairs, exceptional situations and therefore a poor indicator of the nature of state-industry relations and of state-periphery relations during the 1970s. To a certain extent, the mediatization of Lip and Manufrance did orient case selection: the wide publicity attached to the two companies facilitated the
task of assembling a coherent body of information. However, Lip and Manufrance did not lay beyond the pale of French experience. Rather, they were representative of a broader pattern of preponderance of systematic state intervention in the problems of local industry.

Elie Cohen chronicles this pattern across a host of industrial crises: Boussac, La Chapelle Darblay, Ateliers Roannais de Construction Textile (ARCT), Normed, Longwy. Lip and Manufrance were not unusual cases. Throughout France, companies were experiencing difficulty and local notables were rallying to induce the state to intervene (a practice Cohen describes ironically as the "Rotary Club effect"). Lip was a pioneer in this respect, but not for long. The creation of the CIRI/CIASI administration on the heels of the Lip Affair provided the state with an elite agency to assess the prospects for restructuring firms in trouble and eventually putting together deals. In Cohen's view, this became the modal pattern of state intervention until the mid-1980s. The French state was not a developmentalist state, nor a technocratic state, nor a dirigiste state; it was a "stretcher-bearer state."

While Cohen's characterization of state policy may be a bit narrow -- after all, this same state was also pursuing an activist, developmentalist tack in such industries as nuclear power, high-speed trains, and telecommunications -- there can be no disputing his argument as to the centrality of the state in local industrial crises. The state, not local authorities, was the primary attendant to ailing industry. The processes described in the Lip and Manufrance Affairs were reproduced, perhaps in slightly abridged form, throughout France. What is more, not only were they unexceptional in France; they were unexceptional even in Besançon and Saint-Etienne.

Manufrance was not the most famous (or infamous) failed bail-out operation in Saint-Etienne. That dubious distinction goes to Creusot-Loire, the largest and perhaps most politicized bankruptcy in French industrial history. Much ink has been spilled over the Creusot-Loire Affair, including by Cohen, so it will not be described here. What is

\footnote{Cohen, \textit{Etat brancardier}, op. cit..}
more, the state's involvement in the problems of a giant multinational offer far less grounds for surprise -- even the neo-liberal American state was drawn into the problems of Chrysler -- than its propensity to bail out small provincial enterprises. Still, the point is that Manufrance was not alone.

State intervention in the restructuring of troubled local industry operated via two broad mechanisms. The first was the CIASI, the agency responsible for aiding companies in difficulty. CIASI was involved in negotiations with the giant Creusot-Loire, but its primary focus was on small- and medium-sized enterprises. Small dossiers were handled at the regional or even departmental level; larger affairs were settled in Paris. Typically, CIASI officials would intervene when a firm had declared or was close to declaring bankruptcy. If the firm was deemed viable, CIASI would attempt to find private partners, offering state subsidies to sweeten the pot. If the firm was not particularly attractive, the state would often fill the pot as well as sweeten it, and CIASI would play the lead role in restructuring the company and finding a new management team.

The second mechanism of state intervention was based not on an institution like CIASI, but on a competitive strategy, or rather, on an almost unbounded faith in the healing powers of large firm size. In industries characterized by a diffusion of small producers, state officials of both Left and Right administrations responded to pleas for help with plans for national champions. Small sow's ears were to be stitched together to make large silk purses. The pursuit of scale followed two paths: mergers within the industry and the introduction of a multinational "savior" to act as a kind of sectoral shepherd.

The intersection between state sectoral plans and the restructuring of provincial firms in difficulty were multiple. The story could be told of any number of textile, bicycle,
or even toy manufacturers in Besançon and Saint-Etienne. For Saint-Etienne, arguably the most important such story involved the machine-tool industry. Saint-Etienne has always occupied a major place in French machine-tool production. However, this amounts to damming the Stéphanois with faint praise because the performance of the French machine-tool industry has remained consistently poor, despite (or because of) decades of government efforts to revive it.

In the late-1970s and early-80s, successive "Machine-Tool Plans" by the Barre and Mauroy governments sought to consolidate the multitude of small French producers into powerful specialists. The city of Saint-Etienne entertained high hopes for becoming the capital of the French machine-tool industry, particularly following the victory of the Left in 1981. The Mauroy government made machine-tools a top priority, investing some four billion francs in the years 1982-85, a figure roughly equal to one year's sales for the entire industry.

Unfortunately, the Socialists' strategy, like those that came before it, ended in disappointment. Perhaps, it was too late to save an industry, whose competitive position had become untenable. Perhaps, the problem lay in the strategy adopted by state officials: creating giant mass producers, at a time when the Japanese and German competitors were discovering the virtues of small-scale niche production. While analysts debate the causes, there is no question as to the outcome.

Seen from the perspective of Saint-Etienne, the successive machine-tool plans brought chaos, disruption, and disappointment. The principal factory in the city, controlled by the Schneider Group (the parent of Creusot-Loire), employed over 1200 workers in the early 1960s. At this point, machine-tool production for the group was placed under the

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control of a single subsidiary, HES (H. Ernault-Somua), which had been created through a series of complex maneuvers, involving the hiving off of one division (Saviem, which was sold to Renault) and a merger with another company (H. Ernault Batignolles). Under HES's leadership, the Saint-Etienne factory was specialized in the production of large machine-tools.

In 1979, with losses from Creusot-Loire threatening the survival of the Schneider Group, the Saint-Etienne factory was transformed into an independent company, Saint-Etienne Machine-Outil, in order to facilitate its eventual sale or dissolution. The Barre government had launched an ambitious machine-tool plan in 1976, which was centered around a successful, dynamic, if not very large company, Liné. Liné had grown dramatically in previous years. In 1978, it had acquired two leading machine-tool manufacturers in the Rhône-Alpes region, Gambin in Haute-Savoie and Gendron (formerly of the US Litton Group) near Lyon. State planners gladly underwrote these acquisitions, happy to have found an aggressive leader for the industry -- a sharp contrast to the lackluster attitude of previous national champion designees, Renault and HES.

In 1979, Saint-Etienne Machine-Outil was added to Liné's collection. Unfortunately, however, the new parent was already taking on water. When the Socialists assumed office in 1981, with dreams of making the French machine-tool industry the equal of its rival across the Rhine, they found that their national champion was bankrupt in all but name. Undeterred, the government fired Liné's management and began restructuring the industry anew. The production of large machine-tools would be concentrated in a company known as Machine Française Lourde (MFL). Because of the catastrophic situation of the industry, private backers were nowhere to be found. Consequently, 35% of the capital was provided directly by the state, via IDI, and 65% indirectly, via equity stakes of nine companies susceptible to arm-twisting by state officials.201

201 The nine companies were: SNECMA, SNIAS, Dassault, Saclor, Usinor, Creusot-Loire, Alsthom-Atlantique, Renault, and Peugeot. Seven of them were nationalized.
Within MFL, the Saint-Etienne plant was fused with an operation in Givors, some 35 kilometers away, to create Berthiez-Saint-Etienne (BS). The Givors workers were furious at this maneuver. They had no desire to move to Saint-Etienne, particularly given that the tasks performed at Givors, sub-contracting for the aeronautics industry, were seen as more "noble" than the work in the Saint-Etienne plant. Further complicating the process was the problem of harmonizing the widely divergent pay scales of the two plants. Numerous strikes ensued, not simply over pay, but also in protest over the lack of communication by management and the rapidly deteriorating position of the plant.

Liné went bankrupt in mid-1982. MFL, along with virtually the entire French machine-tool industry, was kept afloat solely by virtue of government subsidies. In 1985-86, when the government decided to cut its losses and pull the plug on the Machine-Tool Plan, the industry collapsed in a spectacular succession of bankruptcies. Efforts at reorganization and revival were short-lived.

Ten years after the Machine-Tool Plan was launched in 1981, the legacy for the city that aspired to be its capital is meager. What was originally to be an industry research organization, the so-called "pôle machine-outil," was wisely rebaptized as a "pôle productique," a mission with a far greater longevity in French policymaking circles. Small pieces of the machine-tool industry survived the hecatomb of the mid-1980s, with some start-ups launched by managers and engineers from local production units enjoying rapid growth (RDC, Ramses). However, the largest employers are the companies which were taken over by Japanese firms (HES, Proméca). Unfortunately, this was by no means an unusual dénouement of France's sectoral plans.

Which brings us to the case of the Franche-Comté watch industry. Despite the insular nature of the profession, despite its quasi-Poujadist denunciations of state efforts to help Lip, the French watch industry, too, became ever more embroiled in government restructuring strategies. As in the case of the Saint-Etienne machine-tool industry, sectoral plans redefined territorial industrial landscapes.
We have seen that the virulent hostility of the watchmaking industry association, the CFH, to any aid for Lip derived from multiple factors: the personality of Fred Lip, the perception of Lip workers as pampered and overpaid, the lack of industrial synergies between Lip and the rest of the industry. CFH leaders couched their hostility in neo-liberal rhetoric: if Lip could not manage its affairs, then it should go out of business; it was not for the state to waste money supporting a lame duck. This argument was more than a little disingenuous, however, coming from an organization that was administering a fairly substantial fund for research and industrial restructuring financed by a tax on all watches sold in France. Indeed, it would be no exaggeration to claim that the industry association’s hostility to aid to Lip derived far more from organizational considerations, a desired to maintain control over state aid to the industry, than from doctrinal considerations.

The financial stakes underpinning the CFH’s hostility to Lip were particularly evident at the time of the second bankruptcy, in early-1976. When Giscard announced that he was notifying the CIASI to make sure that Lip benefitted from the full range of normal procedures available to firms in difficulty, the Franche-Comté watchmakers were furious.\(^{202}\) They even went so far as to stage a one-day protest strike against this "preferential treatment" accorded Lip.\(^{203}\)

While this action seems unbelievably spiteful and petty, it was motivated by more than jealousy. It can be understood best in terms of the ongoing negotiations between the CFH and the Ministry of Industry over what would prove to be the first of a series of state-sponsored Plans horlogers (Watchmaking Plans). CFH officials feared that money for their projects would be diverted to Lip, and their fears were not entirely groundless.

The CFH was trying to induce the Ministry of Industry to underwrite "Montrélec," a joint venture to manufacture quartz watches, involving the industry association, a number of Franche-Comté producers, and Thomson-CSF. Montrélec had been created in 1971.


\(^{203}\) *Le Figaro*, 3 February 1976.
primarily as a vehicle for bringing a national champion into the industry. Thomson-CSF was designated as the Parisian savior because, as the French leader in semiconductor technology, the company seemed in the best position to help design and mass produce electronic time pieces. Although it took a 20% stake in the consortium and assumed nominal responsibility for designing integrated circuits and quartz units, Thomson remained a reluctant national champion. Its commitment to the semiconductor industry was lukewarm at best; diversification into watch-making was even less of a priority. Indeed, in 1972, Thomson ceased its research on the integrated circuits needed for quartz watches. Thomson also proved unable to miniaturize the quartz crystals.

The hesitation of its national champion was not the only problem plaguing Montrélec. The organization had not moved beyond the R&D phase to undertake mass production. Indeed, it had only one or two staff members and no real production facilities. Worst of all, sensing that the venture was going nowhere, a number of leading Franche-Comté manufacturers (Jaz, Herma, Yema) had resigned from the consortium and cut deals to license quartz technology from US or Swiss competitors.\(^\text{204}\) At the same time, Claude Neuschwander had taken Lip out of Montrélec and established a rival consortium, Quartzélec. Given that Lip was the French pioneer in quartz technology and was collaborating actively with an American leader in the field, Hughes Aircraft, this development was particularly threatening to the CFH’s efforts to enlist public backing for Montrélec.\(^\text{205}\)

Ministry of Industry officials were disinclined to finance an organization that existed only on paper.\(^\text{206}\) Given that Lip was already mass producing quartz watches, might public money not be better spent on Quartzélec than Montrélec? Both ventures were receiving public support, but the amount was to be boosted significantly with the signing of


\(^{205}\) *La Croix*, 4 February 1976.

\(^{206}\) *La Vie Française*, 20 October 1975.
a "Plan Horloger" in early-1976.207 This was the context that gave rise to the strike of the Franche-Comté watchmakers, carefully shepherded by the CFH. Two weeks later, a group of Franche-Comté and industry official notables met with Minister of Industry d'Ornano in Paris, and the government guaranteed its support for Montrélec.208

Despite subsidies of 8 million francs, Montrélec never amounted to anything, and the situation of the Franche-Comté watch industry continued to deteriorate.209 Following a familiar pattern, state officials shifted over time from a strategy of funneling aid to the industry through its representative employer association to one of encouraging consolidation and leadership by a national champion. The Plan horloger drafted in 1977 represented a dramatic increase in state aid to the industry, with some 165 million francs allocated over a five-year period.210 Some of this money was to go to Montrélec, but the bulk was targeted at promoting the creation of "pôles de regroupement" around the strongest firms in the industry.211

In tandem with this merger strategy was the familiar effort to find a Parisian savior. That savior appeared to be the Schneider Group, which owned one of the leading French watch companies, Jaz. In the summer of 1978, Jaz absorbed two other companies, Finhor and Cupillard-Rieme (themselves products of earlier mergers) to create the largest French producer in the industry. The new firm, known as Framélec, then acquired Montrélec, giving it the capacity to manufacture quartz movements. State subsidies of 15 million francs seemed to cement Framélec-cum-Schneider's position as France's national champion in watchmaking.

The situation was not that simple, however. Six months later, Yema, a bitter rival of Framélec's, announced an agreement to collaborate closely with the German

clockmaker, VDO (through its subsidiary, Jaeger). The new venture would surpass Framélec as the number one producer, but it would be dominated by the German partner. At the same time, as we saw in the discussion of the machine-tool industry, Framélec's sponsor, the Schneider Group, was entering a difficult period and looking to sell its peripheral holdings. The watchmaking plan was in trouble: its chief backer had feet of clay and a powerful rival was on the verge of being created, a rival dwarfed by a foreign partner.

Enter Parisian savior number three. The Matra group, like Thomson several years earlier, was a leader in the French semiconductor industry. A tie-in with the watch industry would provide a captive market for part of the company's semiconductor output. In addition, Matra was undertaking a diversification campaign at this time, looking to reduce its dependence upon defense activities. Integrating downstream, it had absorbed end-users of semiconductors in a range of sectors, from automotive electronics, to telecommunications, to computers. The watch industry fit this strategy well. However, the initiative did not come from Matra. Rather, Ministry of Industry officials induced Matra to replace the Schneider Group with the promise of subsidies, as well as lucrative defense and public construction contracts.

Legally, the government could block Jaeger's takeover of Yema, since any foreign acquisition of a French company required the approval of the Ministry of Finance. In the end, a deal was struck that was amenable to all parties. The idea was that rather than

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213 Baranger, op. cit., p. 229; _Tribune de l'économie_, 20 June 1986. Baranger relates the following account of the deal, as described by a watch industry official: "Following the failure of the Empain Schneider affair, the [watch] profession asked the Ministry of Industry to get the project started again. It was the Minister of the era who passed the 'watch industry baby' to Matra, saying, 'you are much more technical... microelectronics fits you like a glove.... The Empain-Schneider Group, it wasn't their bag.' The deal was arranged in an airplane from Paris to Tunis between [Matra CEO Jean] Lagardère, Edgar Faure, and the Minister of Industry. It was give-and-take: Matra inherited a subway construction project in Tunis and an arms contract in exchange for taking responsibility for the French watch industry. Lagardère, therefore, did not come deliberately to the watch industry. This contract was the result, above all, of a deal..." (p. 229) Translation the author’s.
constituting rival poles, the Matra-Framélec and Yema-Jaeger/VDO coalitions would join forces (and eventually merge). Jaeger was allowed to take over Yema, but only after Matra acquired a 25% stake in Jaeger. For Matra, this was an important plumb, since Jaeger's auto electronics business offered a large potential outlet for the semiconductor division. The same day that the Jaeger deal was approved, Matra officially purchased Empain-Schneider's holdings in Framélec.

Matra's entry into the watch industry raised tremendous hopes among Franche-Comté producers. At last, the industry was in a position to make the transition to quartz technology. Following the aborted cooptations of Thomson-CSF and Empain-Schneider, the government had finally found a multinational group with both the means and the desire to turn the industry around. Alas, it was not to be. Matra was spread thin across a range of industries, and watchmaking was far from the top priority. Sensing this perhaps, VDO distanced itself from its French partner, postponing a planned merger for three years. This left Matra alone to manage an industry in which it had no expertise.

In theory, Matra could have benefited from the expertise of the Franche-Comté manufacturers. However, it is not clear that the experience of fragmented, small-scale provincial watchmakers was relevant to competition against multinational electronics manufacturers. Certainly, this was the view of Matra management and the Ministry of Industry, a source of great resentment among the marginalized Franche-Comté watch establishment.

Matra was doubly unsuited to the watch industry. As a manufacturer of commodities, i.e. semiconductors, it had little sense of styling and marketing considerations, and its disdain for Franche-Comté manufacturers cut it off from a

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216 Le Monde, 23 October 1980; La Vie Française, 24 November 1980.
217 Baranger, *op. cit.*
potentially valuable source of information. Matra was not alone in experiencing difficulty integrating downstream: American semiconductor manufacturers like Harris and Texas Instruments also floundered in their diversification efforts. Matra’s relative lack of sensitivity to the market was aggravated by a second feature, the company’s heavy dependence on defense contracts. This led the firm to place a premium on technological prowess, as opposed to value-for-the-money and other dimensions of competition in civilian markets (a familiar problem experienced by US defense contractors).

In 1981, with losses mounting in the watch division and no turnaround in sight, Matra signed an agreement with the Japanese leader, Seiko. The agreement was roundly criticized by the Franche-Comté establishment. Matra was not trying to license Seiko’s technology in order to establish a stronger position for raising its own technological level, a strategy employed with some success by the Besançon watch movements manufacturer, France-Ebauches. Rather, it was abandoning any pretense of an industrial vocation and equipping French watches with imported Japanese movements. The national champion had become a Trojan horse.

A trojan horse that limped, however. Even with Seiko’s watch movements, Matra was unable to earn a profit. Consequently, in 1985, as part of the company’s "recentrage" strategy, involving the reversal of the diversification movement of the 1970s, Matra sold its holdings to its Japanese partner. At the end of ten years of government watch industry plans, accompanied by generous subsidies, roughly one-third of French watch production, including the most widely recognized brand names, passed into Japanese hands.

Today, watch industry employment in the Franche-Comté stands at less than one-third its level twenty years ago. Defenders of the French performance, like industry association president Michel Dalin, note that Swiss employment figures are only slightly better. This comparison is misleading, however. While the Swiss industry has maintained

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both its technological independence and autonomous, competitive production units, there is no domestic industry to speak of in France. The vast majority of French watchmaking workers are employed by foreign (i.e. Japanese, Swiss, and American) multinationals.

Unfortunately for French industry, Lip and Manufrance were not isolated incidents, bizarre political melodramas brought about by extreme circumstances. On the contrary, throughout the 1970s, local economic problems spawned Parisian intervention. This was true elsewhere in France and even elsewhere in Besançon and Saint-Etienne (Creusot-Loire, machine-tool industry, watch industry). Although the process of government intervention varied -- sometimes relying upon CIASI; other times upon sectoral plans or national champions -- the economic outcomes displayed a remarkable and regrettable consistency.

**Conclusion**

In the 1970s, economic crisis spawned cautious local development experiments, but these initiatives did not go far. On the Right, fear of the social and economic change continued to handicap would-be modernizers, such as Mayor Durafour. On the Left, the prevailing sentiment was that local measures were inadequate to the challenge at hand. Only through national political change could provincial industry be revived.

The incapacity of local officials became especially apparent whenever pillars of provincial enterprise, such as Lip or Manufrance, began to quake. The problems of medium-sized companies far outstripped the financial resources and technical competences of local officials. While one might have imagined that they would be too small to merit the attentions of Parisian technocrats, this was rarely the case in the France of the 1970s and early-80s. Whatever their doctrinal differences, governments of Left and Right found themselves compelled to "do something." Part of the reason was institutional: there was no other institution to "do something" in their place. Part of the reason was political: the Right's concerns about worker unrest and electoral defeat; the Left's dirigiste agenda and
unpaid debts to allies in the struggle against Giscard. Internal cleavages within each camp also played a role: the "progressive patronat" used Lip as a vehicle for upstaging the CNPF establishment; Pierre Mauroy threw money away on a Manufrance cooperative that he knew was rotten in order to appease the Communist party and keep the CGT quiet.

Unfortunately, largely absent from these considerations was any kind of serious economic calculation. Parisian elites intervened for Parisian political motives, operating in a context far removed from the economic problems of ailing provincial enterprise. As a result, bail-outs in Besançon and Saint-Etienne followed a kind of Murphy’s law, under which the wrong kinds of firms invariably received aid at the wrong time and for the wrong purposes.

By the mid-1980s, dirigiste strategies had reached a dead end in Besançon, Saint-Etienne, and elsewhere. Rather than a prod to future development, dirigisme had become the last refuge of uncompetitive enterprise -- and a source of further loss of competitiveness. Seen in this light, the dramatic rollback of the central state during the past decade becomes entirely understandable. What also becomes understandable is the road that local authorities would need to travel to fill this void.

The postwar period had done little to prepare local elites to shoulder the daunting responsibilities associated with Tocquevillean liberalism. For over thirty years, they had been indifferent at best to industrialization, when they were not openly hostile. They had also lacked the resources to intervene effectively. The cautious experiments of the 1970s scarcely altered the situation: local authorities remained uncertain in their feelings toward industry, and their principal policy instrument seemed to consist in appealing to Paris for help. Overcoming this historical legacy, then, entailed nothing less than a revolution in French local government. As will be seen, however, what followed was nothing more than a modest reform.
CHAPTER FOUR - DEFFERRE'S LEGACY: DECENTRALIZATION AND ITS LIMITS

In the previous chapter, we saw that the economic mission associated with Tocquevillean liberalism -- providing a variety of decentralized, flexible programs in support of local SMEs -- runs counter to the entire postwar experience of French local officials. During the trente glorieuses, these officials were little concerned by the problems of provincial enterprise, even in underperforming areas like Saint-Etienne. When they did begin to worry in the 1970s, they looked to Paris, not to their own meager resources, for solutions.

It is not enough for local officials to revise their traditional mentalities, to develop the political spirit to come to the aid of SMEs. They must also possess the institutional flesh for such undertakings. As the Lip and Manufrance affairs revealed, the problem was not just that local authorities did not want to help local industry; they lacked the capacity to help local industry.

The prospects for Tocquevillean liberalism, then, are tightly intertwined with the reform of French local institutions. In order to break with past patterns of Parisian predominance, regional, departmental, and municipal authorities need resources commensurate with their new responsibilities along with the capacity to wield these resources effectively. As will be seen, however, the reform of France's local institutions has operated according to a very different logic. Crafted for reasons having little to do with economic intervention, the Defferre decentralization laws failed to equip local officials to meet the challenges associated with Tocquevillean liberalism. Indeed, the local institutional system steers officials in Besançon and Saint-Etienne away from the promotion of SMEs, leading them instead to privilege short-sighted and self-defeating competition.
The Defferre Decentralization Laws

Two features of the Defferre decentralization laws of 1982-83 are particularly relevant for understanding the problems of local economic development policy in France: the strategy for passing the legislation and the timing of the reform. The architect of the reform, the late Gaston Defferre, was a master political strategist, a veteran of Fourth Republic parliamentary maneuvering and mayor of arguably the most byzantine municipality in France, Marseille. Defferre was haunted by the possibility that his decentralization proposal, like so many that had preceded it, would become bogged down in endless studies, committees, and political wrangling. Consequently, he took a number of steps to improve the bill’s chances for enactment.

First, Defferre decided to move fast, so as to assure passage of his proposal before the newly-elected Socialist government lost its reformist momentum. Using his influence with President Mitterrand, Defferre was able to place his bill at the top of the legislative agenda, along with the nationalizations and the Auroux laws. As a result, his package went before parliament and was approved during the honeymoon period (“state of grace”) immediately following the Socialists’ 1981 victory.

Second, rather than attempting to pass a complex, comprehensive bill, Defferre broke the reform into different parts, or “wagons” of a train, as he described them. The “locomotive” was to be provided by the institutional reform legislation. The first measure would emancipate local authorities from the Prefect’s tutelle and transform the regions into a full-fledged government institution (as opposed to an établissement public régional) elected by direct universal suffrage. Once the institutional reform had been passed,

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2 See Rondin, op. cit., for a description of this strategy.
Defferre felt secure that the process of decentralization would become irreversible; indeed, he anticipated that the demands of local authorities would create pressure for further reforms. The "wagons" could, therefore, follow at a more leisurely pace. These wagons included: the delineation of the competences of the different subnational authorities, a reform of local finances, a revised statute for local civil servants, and electoral reform. The risk, of course, was that there would not be enough steam in the locomotive to pull all the wagons.

In a third tactic to improve the reform's chances, Defferre went out of his way to avoid conflict with the opposition and local notables. The legislation was based upon a proposal already under consideration by the Right at the end of the Giscard presidency (the Bonnet bill), and Defferre retained the key civil servants involved in Giscard's project, including the drafter of the bill, Pierre Richard. Defferre withdrew certain provisions to which the Right objected, notably the possibility for a vote of no confidence by the regional or departmental assembly against their respective presidents and a proposal to make mayors financially responsible for their actions in office.

More important than what Defferre withdrew, however, was what he never proposed. In order to insure smooth passage of his reform, he avoided some of the more controversial ideas being debated at the time, such as a compulsory regrouping of France's municipalities. France is home to some 36,000 independent municipal authorities, more than all of Western Europe combined, and 75% count fewer than 1000 inhabitants. Fusing municipalities might have put them in a better position to exercise their new responsibilities, but this idea met with the vehement opposition of the vast majority of

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3 For a historical account of these ideas and the reasons why they have never been enacted, see Pierre Grémion, "Région ou département: Les raisons d'un non-choix," Intervention, No. 3, March-April 1983, pp. 18-25.
municipal officials determined to preserve their prerogatives. Consequently, Defferre let sleeping mayors lie.

Likewise, many observers contended that three subnational political authorities -- 22 regions, 96 departments, and 36,000 communes -- constituted one too many and that the government should choose between the regions and departments. Decisive action represented a recipe for conflict, however, not only between the government and the leaders of whichever subnational authority was weakened or jettisoned, but within the Socialist party itself. President Mitterrand was known to harbor strong sentiment in favor of the departments, whereas more technocratic elements in the party, particularly those close to Michel Rocard, favored the regions. Once more, Defferre opted to avoid conflict: all three subnational authorities were attributed the same juridical status, and the text specifically repudiated any kind of hierarchical relationship between them. No single authority would be permitted to exercise a tutelle over another.

Defferre’s reform, then, was driven by a spirit of compromise and accommodation with both the national opposition and local notables. To his credit, Defferre was able to succeed where so many of his predecessors had failed, pushing through a sweeping decentralization reform, which has transformed the politico-administrative landscape of France. On the downside, the many concessions and omissions limited the scope of this change and has handicapped local authorities in the exercise of their functions, notably in economic development policy. A leading expert on French local politics, Yves Mény denounced the timidity of Defferre’s reform strategy:

... no tax reform, no territorial reform, no hierarchy between the different levels [of subnational government], no popular participation. In short anything that might have offended the sensitivities of the notables, the squeamishness of the senators, or local egoisms was prudently erased from the “most important reform of the Presidency.”

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5 Previous attempts to induce fusions among municipalities had been either scuttled or watered down to the point of ineffectiveness, as in the case of the Marcellin law of 1971.

The limited scope of the reform reflected not only Defferre’s tactical compromises, but also the strategic orientation of the Socialists during their first years in power. Here, timing played a central role. In 1982-83, as we have seen, the Socialists were pinning their economic hopes on voluntarist, state-led industrial policy hitched to reflationary fiscal measures. Decentralized intervention on behalf of SMEs had not yet become an important part of their economic strategy. Indeed, as Mény observed at the time, the Defferre laws were not conceived of in economic terms:

The first object of the Socialist reforms is ... not of an economic nature but is, rather, administrative and financial in character. Never, for example, has the Government invoked economic and financial arguments to justify its reform programme. It is only incidentally that some Socialists have uncovered certain possibilities which were perhaps deliberately concealed in the reforms ...7

Economic considerations were not completely absent from the Socialists’ discourse. Officials spoke of the need to empower local authorities to resist the inevitable capitalist tendency toward economic concentration that was emptying the provinces of their industrial substance. Interest in the economic dimension of the decentralization was especially pronounced among the Second Left wing of the PS, headed by Michel Rocard. Rocard had issued an appeal to “decolonize the provinces” as early as the 1960s, and his movement emphasized the need to forge local alternatives to statist policies. In a 1979 presentation, Jean-Pierre Worms, a leading Rocardian spokesperson on decentralization, declared that a reform “making the region a full-fledged local authority and transferring to it a considerable part of the central state’s power in economic affairs and local development” represented “the most important element of decentralization policy.”8

While vague notions of local economic development were on the minds of Rocardian militants and in the discourse of government officials, Mény’s depiction of this theme as marginal to Socialist action is on the mark. As Catherine Grémion relates, “The kind of decentralization that was in fashion in May 1981 was neither the self-management

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7 Mény, “Local authorities,” op. cit., p. 188. Translation the author’s.
8 Cahiers Français, La décentralisation, op. cit., p. 51.
nor the reformer-planner type.”⁹ The Defferre laws were political in their inspiration and tone; any economic ramifications were largely incidental.

Defferre himself, as a mayor of a large city, was concerned primarily with loosening the oppressive tutelle of state authorities. In his presentation of the reform bill to Parliament, he complained that, “Local government bodies and their elected officials are treated like minors, placed under [state] tutelle in managing local affairs.”¹⁰ Defferre’s program was a negative one, to roll back the prefect’s power, so that local authorities could take control of their own destinies. He was far less committed to any kind of positive agenda, to a particular program of local action in the economic arena, or in any other arena for that matter.

Even Second Left leaders saw decentralization in an essentially political light, as a vehicle for enhancing democracy and participation. Decentralization would bring the government closer to the people. Local authorities, in contrast to distant Parisian administrations, were accessible to the ordinary citizen. With the shifting of power down to the local level, citizens would have an incentive to become involved in politics and even join organizations because they would enjoy a genuine opportunity to influence public policy. In his inaugural address, Prime Minister Pierre Mauroy, echoing the themes of the Second Left, depicted decentralization, along with industrial relations reform, as creating “a new citizenship” that would give French citizens “the means to participate, truly, in the organization of their daily lives.”¹¹

Participation, democracy, local autonomy -- these were the ideas behind the Defferre reforms. The heart of the reforms was political, not economic. It was only a few years later, with the collapse of dirigisme and shift in the Socialists’ industrial strategy, that the latent economic dimension of decentralization began to emerge. By then, however, the

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¹⁰ Cahiers Français, La décentralisation, op. cit., p. 52. Translation the author’s.
¹¹ Ibid, p. 54. Translation the author’s.
institutional die had been cast. Choices had been made and opportunities missed to strengthen the economic capacity of local officials.

In their effort to enact a reform quickly and in their focus on the political as opposed to the economic dimensions of decentralization, the Socialists had shied away from the divisive choice between regions and departments and even from the less contentious goal of establishing some kind of division of labor between the two authorities. The government had also opted not to try to regroup France’s 36,000 municipalities or alternatively to strengthen the mechanisms and incentives for intercommunal cooperation. Finally, the reformist train had left the station without its “financial wagon”; ten years later, local authorities are still plagued by limited resources and an archaic and divisive system of taxation. As will be seen, all of these various choices and omissions, effected during the first months of the Mitterrand presidency, have frustrated local economic policymakers in Besançon, Saint-Etienne, and throughout France.

The Municipal Real Estate Obsession

Municipal authorities have eagerly embraced the mission of providing decentralized assistance to SMEs. There is scarcely a municipality in France that has not created some kind of “technopôle,” a research park, modeled upon Silicon Valley or Route 128, designed to house and promote the dynamic, high-tech SMEs of the future. SMEs in traditional industries are also targeted for assistance through a web of German-style technological, training, financial, and consulting services.

While the municipal discourse -- brimming with phrases like “endogenous development,” “synergies,” and “cross-fertilization” -- emphasizes the creation of an enabling environment for SMEs, municipal actions reflect a very different set of priorities. Few if any French municipalities can be said to have pursued an “endogenous development” strategy designed to promote the SMEs on their territory. Rather, the overriding preoccupation -- indeed, obsession is not too strong a word -- is to lure new companies to
the agglomeration. In other words, municipal sights are trained upon the transfer of
wealth, as opposed to the creation or development of wealth.

The most frequently cited "success stories" in France -- Montpellier, Rennes, and
Sophia-Antipolis -- are all cities with no industrial history. Montpellier was a sleepy
Southern university and wine-growing town; Rennes is the capital of previously-
backwards Brittany; Sophia-Antipolis was an empty plateau outside Nice. These
agglomerations have grown almost entirely through the arrival of new companies, with
little evidence of spin-offs or synergies leading to the development of existing enterprise.
This constitutes redistribution, not development.

Although Besançon and Saint-Etienne have not been as dynamic and successful in
prospecting for external investment as Montpellier, Rennes, and Sophia-Antipolis, the
same set of municipal priorities obtain. Local economic strategy is conceived of almost
solely in terms of attracting external investment. Even when actions are put forward with a
purportedly developmentalist mission, such as centers to improve the technological
capacities of local firms, these represent little more than window dressing to help make the
cities more sellable to potential outside investors.

The disinclination of Besançon and Saint-Etienne to launch policies to develop
existing economic resources (as opposed to trying to "import" resources from other
communities) is not simply the product of the limited imaginations of local officials.
Dynamic, "successful" municipalities in France have also fallen short in this respect.
Rather, such perverse behavior reflects a variety of factors, notably the set of incentives
generated by French local institutions. By fragmenting and pitting municipalities against

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12 On Montpellier, see Roger Brunet et al., Montpellier Europole, (Montpellier: GIP Reclus, 1988),
Evelyne Ritaine, Changement social et pratiques développementalis in Languedoc, Report to the
Ministry of Research and Technology, Contract No. 88 V 0243, January 1991; on Rennes, see Le Gaëls,
op. cit.; on Sophia-Antipolis, see Michel Quercé, Evaluation du parc de Sophia-Antipolis: Stratégies
d'entreprises et "milieu technopole", Vol. 2, Programme de recherche technopoles et développement, 1987:
Jean-Paul Laborie et al., La politique française de l'aménagement du territoire de 1950 à 1985, (Paris: La
Documentation Française, 1985).

13 For a stinging critique of this strategy, presented in the context of an overview of 20 French
technopoles, including those of Sophia-Antipolis, Montpellier, Rennes, and Saint-Etienne, see DATAR,
each other, the French institutional context enshrined by the Defferre laws undermines the possibilities for promoting endogenous enterprise.

As we have seen, the Defferre laws did not reform France's archaic system of local taxation. Local corporate taxes remain the lifeblood of French municipalities. Corporations contribute over 50% of municipal tax receipts, whereas they represent only 15% of expenditures. Fiscal logic, then, makes shaping the locational decisions of private enterprises the top economic priority of municipal authorities. The French situation contrasts sharply with that of Italy, the UK, or Germany, where local financial needs are met in large part by central state block grants and/or the proceeds of taxes levied nationally. By reducing local dependence on corporate tax payments, these foreign practices ease the pressure to bid for outside investors.

The Defferre laws left intact a second French specificity -- the multiplicity of municipal authorities. In a country with over 36,000 municipalities, more than all France's EC partners combined, every major city is ringed by a variety of much smaller communities. Both Besançon and Saint-Etienne count some 40 neighbors in close proximity. With each municipal authority free to set corporate tax rates at whatever level it chooses, the inevitable result is a perpetual battle for mobile investors.

The municipal real estate obsession also reflects historical legacies. In the late-1970s and early-80s, municipal governments could borrow at far lower rates of interest than private investors (primarily through the Caisse des Dépôts et des Consignations, which channels French savings to local authorities). Thus, if a city financed an industrial real estate operation and then leased the facilities at cost, private users would reap

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14 Much of the following analysis of the fiscal dilemmas confronting French municipalities draws upon Patrick Le Galès's excellent comparative study of Rennes (France) and Coventry (UK). Le Galès, op. cit.
substantial savings, as compared to conducting the operation themselves. As former Econonics Commissioner Kohler described in the previous chapter, Besançon made ample use of this lever, which in effect provided an indirect subsidy to industrial investors. Municipal officials saw the ability to borrow extensively at low cost as a major advantage in battles for mobile investors. While Besançon taxes were higher than those of small neighboring communities, the latter could not borrow as easily from the Caisse des Dépôts.

With the deregulation of French financial markets in the 1980s, the interest-rate differential between municipal and private borrowers has all but disappeared, but not the practices it inspired. The Defferre laws gave real estate operations a new lease on life. While maintaining the prohibition on direct aid to enterprises by municipal governments (except for projects launched by regional authorities), the legislation left open the possibility for municipalities to accomplish the same purposes by underpricing real estate transactions. Saint-Etienne officials concede, for example, that they often offer private investors land and facilities at 20% below cost, a strategy reflected in the city's burgeoning debt.  

Local economic history has further contributed to the real estate bias. Both Besançon and Saint-Etienne suffered the disappearance of major industrial employers during the 1970s and 80s, and employment losses were particularly heavy among the largest firms. Municipal officials confronted a dual task: on the one hand, finding new jobs for the many laid-off workers; on the other hand, rehabilitating the large, abandoned industrial sites of such companies as Lip, Manufrance, and Creusot-Loire. In the early-1980s, with the local economy and real estate market depressed, private investors were reluctant to assume these tasks. Consequently, municipal authorities in both cities were

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18 Saint-Etienne’s debt burden, at 12,500 francs per inhabitant, is the eleventh highest among French cities. Avignon is the most indebted, at 20,400 francs per inhabitant. Pierre Richard, the head of the Crédit Local de France, maintains that a city is at risk once it reaches the level of 7000 or 8000 francs per inhabitant. Saint-Etienne’s situation is worse measured in terms of the municipal tax base. The city’s debt represents 4.12 years of tax revenues, third highest in France. Avignon again heads the list at 4.97 years. “Endettement des villes: Les vrais chiffres,” Les Echos, 4 July 1991; “L'État c'est l'Europe: A Survey of France,” The Economist, 23-29 November 1991.
drawn into industrial and commercial real estate operations, knocking down and renovating old factories and developing new office space.

This movement appears to have developed independently of partisan affiliations. In Saint-Etienne, the big push in municipal real estate operations occurred, not under the Communist Sanguedolce municipality from 1977 to 1983, but with the election of a self-proclaimed liberal mayor in 1983. Given the morose economic climate and lack of private interest, municipal officials felt that they had no choice but to try to jumpstart the local economy. The city therefore launched some 600 real estate ventures during Mayor Dubanchet's first term in office, representing an investment of over 1 billion francs. In the words of Michel Thiollière, Commissioner for Urbanism and designated successor to Dubanchet, ideological considerations took a backseat to economic necessity: "We are pragmatic liberals. We are liberal in spirit, but when the house is burning, we still call the fire department."20

Municipal policy reflects political considerations as well as fiscal and historical considerations. Real estate operations yield benefits that are immediate, tangible, and even quantifiable. This is no small advantage for a politician, such as Besançon Mayor, Robert Schwint. In 1985, Schwint presented an overview of his municipality's economic policy for a book on French and foreign local development efforts.21 The presentation, which totals seven pages, offers a paradigmatic statement of the development priorities of municipal officials. The first page summarizes the recent economic history of Besançon, the crisis of local industry. The second page notes that the municipality was among the first in France to create an organization to study local industry (in 1972), that Besançon issues

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19 Interview with Christian Cabal, First Assistant Commissioner Responsible for Economic Affairs, Municipality of Saint-Etienne and RPR Deputy, 20 October 1992; Les dossiers de la revue parlementaire, No. 794, June 1990, pp. 16-21.
20 Interview with Michel Thiollière, Commissioner for Urbanism, Municipality of Saint-Etienne, 23 October 1992. Translation the author's.
an annual listing of local firms, and that the city counts numerous technical and worker training institutes. This part of the presentation is both brief and vague.

Schwint next turns to real estate operations. There follows five pages of incredibly detailed, technical description of the various operations: lease-back agreements, development of industrial zones, partnerships with para-public operators, etc. This is the only part of the presentation that provides hard numbers, including a two-page account of all the lease-back operations performed by the city (complete with amount of investment, names of firms, number of jobs involved). This is also the section that allows Schwint to demonstrate the effectiveness of his policies, to point to individual firms lured or retained in Besançon thanks to municipal operations and make such pseudo-statistical claims as, "Altogether, these eight turn-ky plant operations permitted the retention or creation of 772 jobs ...".\(^{22}\)

Endogenous development policies, of the kind brushed over in Schwint's introductory pages, are far less useful politically. Whereas real estate operations offer immediate, visible benefits -- the landscape is transformed, buildings are inaugurated, new investors are welcomed -- the effects of measures to comfort the position of local SMEs are far less certain, less quantifiable, and manifest themselves over a longer period of time. Schwint could not claim that local technology transfer programs have created 772 jobs. Such initiatives, therefore, tend to be seen as less useful politically. It is perhaps for this reason that, as will be described, the occasional individuals in Besançon or Saint-Etienne who have sought to move away from the real estate obsession have originated from non-political horizons. What is more, they have been quickly dismissed and shunted aside by the local establishment as misty-eyed dreamers (a charge not totally unfounded given their lack of political experience). "Pragmatism" and "realism" dictate concentrating efforts on attracting outside investors; this is what boosts the tax base, creates jobs, and keeps the voters happy.

Historical, institutional, and political factors, then, have tilted economic
development policies in Besançon and Saint-Etienne away from the promotion of local
SMEs. Instead, both cities display an obsession with real estate operations to lure or
maintain outside investors, typically from neighboring communes. In a 1988 Le Monde
article, the Deputy-Mayor of La Ricamarie, a Communist mining town to the South of
Saint-Etienne, offered the following account of his city’s economic development strategy:

The job creations which we have registered in recent years are due
primarily to [local] transfers of companies. We have been
witnessing an internal redistribution within the [greater Saint-
Etienne] agglomeration: to Saint-Etienne, the tertiary sector; to La
Ricamarie, the activities which require a lot of space.23

Needless to say, Saint-Etienne authorities have not seen the situation in quite these
terms. Indeed, they have fought tooth and nail against any transfer of companies outside
city limits (a key factor in the municipality’s burgeoning debt). To use another metaphor,
which is actually not a metaphor, Saint-Etienne has moved mountains to keep firms within
the city.24 Wedged in a valley, surrounded by steep hills, Saint-Etienne faces a chronic
shortage of industrial real estate. To alleviate the shortage, between 1988 and 1990, the
municipality carved out four small industrial and commercial zones from several hills on the
edge of town, an operation that entailed leveling the tops of the hills and building platforms
on the slopes.25 “We moved a lot of earth,” boasted one city planner. Some 40 hectares
(100 acres) of usable industrial and commercial space were thereby created, home today to
35 companies, employing over 1000 workers. On the downside, the city paid 160 to 180
francs per square meter to generate this space, whereas the land was sold to firms for 60 to
70 francs per square meter. As an official in a neighboring town that possesses hundreds
of acres of flat, unoccupied space observed, such a venture represents a huge waste of

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23 Le Monde, 8 November 1988. Translation the author’s.
24 This account is drawn from, Le Progrès, 12 May 1992; Eric Thomas, Politiques urbaines et
transformations socio-spatiales: L’exemple stéphanois. Doctoral thesis in Geography and Urban Planning,
University of Lyon II, 1991, pp. 282-84; interview with Mr. Richard, Director of Urbanism, Municipality
25 The zones created were Malacussy, Montmartor, Le Devoy, and La Croix de Mission.
resources: "If Saint-Etienne been willing to put the zone in our community and share the
tax revenues, it could have had the same amount of space for one-half to one-third the price
and left the hills to the cows [for grazing land]."

To be fair to Saint-Etienne, the city's obsession with maintaining the population of
local enterprises is in part a response to the predatory behavior of its neighbors. In
Besançon, too, relations between the "core" city and its "periphery" are less than ideal.
The reflections of the late Jean Boichard, First Assistant Commissioner to the Mayor of
Besançon and head of Financial Affairs until his demise in 1992, offer a fairly
representative, if somewhat sharply articulated, image of municipal sentiments.26 Boichard
did not hesitate to describe Besançon's neighbors as "parasites," and to protest, "we are the
tree and they are sitting on our branches." Extending the metaphor, Boichard predicted that
with their short-sighted behavior, the neighboring communes would "saw off the branch
that supports them."

Boichard's anger stemmed from the ability of neighboring communes to siphon off
industry and wealthy inhabitants from Besançon by offering lower taxes, while benefiting
all the while from the amenities financed by the core city. A Professor of Geography at the
University of Franche-Comté, Boichard wrote widely on local political and economic
affairs. In a 1982 essay on relations between Besançon and the suburbs -- which included
such revealing subheadings as, "The city, a reservoir of employment for the suburbs," "A
transfer of wealth from Besançon to the periphery," and "Much higher local taxes in the
city" -- Boichard exclaimed, "we find it deplorable to see taxpayers leaving the city only to
find these same people among those who wish to benefit from the services and
infrastructure of the city."27 Boichard noted that a family of four or five could expect to
save some 5000 francs per year in local taxes by moving to the suburbs (this was in 1982).

26 Interview with the late Jean Boichard, First Assistant Commissioner to the Mayor of Besançon and
Commissioner for Financial Affairs and Personnel, as well as Professor Emeritus of Geography, University
27 Fohlen, op. cit., p. 624. Translation the author's.
not to mention pay far less for housing. He added that such a move would diminish in no way the family's ability to enjoy the resources of their former place of residence:

It is understandable that so many Bisontins become suburbanites each year when one realizes that the proximity of their homes permits them to make abundant use of the economic, educational, cultural, social, sports, and sanitary facilities of the city without having to contribute to their creation or maintenance.  

The difficult position of cities like Besançon and Saint-Etienne vis-à-vis their neighbors goes a long way in explaining not only Boichard's frustrations, but also the weakness of intercommunal cooperation. Both Besançon and Saint-Etienne have been experimenting with timid efforts at coordinating development strategies with their neighbors. Launched against a backdrop of mutual firm-snatching and accusations of parasitism, however, these efforts have not gone far. In fact, in Saint-Etienne, the most recent intercommunal initiative degenerated into what is known locally as the "war over water" (la guerre des eaux).

In 1989, the mayor of Saint-Etienne, François Dubanchet proposed the creation of an "urban district" with some 40 of the city's neighbors. An urban district is a relatively constraining juridical structure, permitting the joint formulation of policy in a range of areas as well as a sharing of tax revenues. It is more comprehensive than an "intercommunal syndicate," which is typically chosen by municipalities seeking to experiment with intercommunal cooperation. This was part of the problem of Dubanchet's proposal: he was seen as seeking to move too far, too fast.

Saint-Etienne's neighbors were also put off by the unilateral, take-it-or-leave-it nature of Dubanchet's initiative. He had not consulted them in defining his project; then, they were told to sign onto a project that represented a significant loss of sovereignty.

What is more, Dubanchet sought to negotiate the entire deal in a very short period of time.

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Finally, the mayor of Saint-Etienne presented his proposal poorly. Rather than articulating a broad development scheme, in which everyone could find an interest, he made it clear that his primary concerns were to force Saint-Etienne’s neighbors to shoulder a greater proportion of the costs of providing services of benefit to all and to find new land to implant factories now that Saint-Etienne had run out of industrial real estate.

While Dubanchet’s diplomacy left much to be desired, even a virtuoso would have been hard-pressed to rally Saint-Etienne and its neighbors behind a common project. The climate going in was scarcely propitious. Both the core city and its periphery had been poaching each other’s companies. Now, with its industrial land almost fully occupied, Saint-Etienne needed to find a new way to boost corporate tax revenues. Its neighbors, however, were in no mood to help a municipality that had often lured away prized local employers (even if they had done the same to Saint-Etienne). For all the talk of common identity and the need to strengthen the Saint-Etienne agglomeration vis-à-vis other cities, the primary enemy was not Lyon or Barcelona, but the community next door.

Distrust of Saint-Etienne derived from the city's size as well as past behavior. Because of the fragmentation of French municipalities, a large city like Saint-Etienne or Besançon is usually surrounded by infinitely smaller villages. None of Besançon’s neighbors, for example, counts as many as 1000 inhabitants. Saint-Etienne has a few somewhat bigger neighbors -- Saint-Chamond boasts a population of 40,000 -- but taken together, they are still less than one-third the size of the core city. As a result, peripheral villages almost invariably fear “domination” or being "swallowed up" by the core and therefore jealously safeguard their autonomy.

Cooperation between Saint-Etienne and its neighbors was impeded by not only bad blood, but by a basic divergence of interests. Like Besançon, Saint-Etienne is paying for a variety of services enjoyed by neighboring communes free of cost and sees intercommunal cooperation as a way of eliminating, or at least diminishing, the free-rider problem. Dubanchet issued numerous Boichard-like declarations to the effect that his city was tired
of being a "cash cow" for the suburban communities. But "cooperation" on this basis does not represent a terribly attractive proposition for free-riding municipalities. Unless Dubanchet could articulate some larger common interest, his project was unlikely to enlist support.

Further compounding the problem, divisions are not confined to those between the core city and the periphery. The periphery itself is extremely heterogeneous, ranging from the relatively wealthy, conservative bedroom communities (in "La Couronne" to the North of Saint-Etienne), to blue-collar towns in crisis due to the closings of the mines and Creusot-Loire (La Ricamarie, Firminy, Unieux, Saint-Chamond), to the booming planes villages, which possess most of the uncongested land available for development (Andrézieux-Bouthéon). Needless to say, the wealthy communes are far less eager to change the status quo and pool efforts than are the poor. Development strategies also diverge: blue-collar cities seek to clean up their landscapes and retrain unemployed workers, problems which are scarcely posed in the other areas. Finally, relations between these communities, like relations with Saint-Etienne, are undermined by a history of dueling industrial zones and mutual firm snatching. All of this bodes poorly for establishing cooperation behind a project of joint interest, particularly when some 40 different municipalities have to be brought on board.

Perhaps Dubanchet might have been able to transcend the many political, economic, and institutional obstacles to cooperation had he played his cards right: negotiating patiently with Saint-Etienne's many neighbors, refraining from stealing firms from nearby localities, pointing to the state subsidies or infrastructure investments that could become available if everyone worked together, and emphasizing projects of benefit to all communities (joint promotion of the agglomeration, worker training, the building of train lines and highways), rather than divisive, zero-sum issues (distribution of corporate tax revenues, fiscal burden-sharing). This would have been a tall order, however. In any
case, as negotiations dragged on and the intercommunal district project stalled, Dubanchet shifted tactics. Instead of trying to win over his neighbors, he attempted to bully them.

Saint-Etienne produces more drinking water than it consumes, selling the excess to its neighbors. In the past, the water was priced roughly at cost. Then, in April 1990, Dubanchet announced a sharp price increase, from 3.5 francs per cubic meter to 4.5 francs. In theory, the increase could be justified as a measure to cover future investments in the water distribution system, but financial considerations were secondary. With talks stalled on the intercommunal district, Dubanchet wanted to send a message: if Saint-Etienne's neighbors were unwilling to share the costs of providing services enjoyed by all, then the city would find other means to extract payments. When the district project collapsed in the fall, Dubanchet announced a further turn of the screw, increasing water prices to 6.2 francs in 1991 and 7.9 francs in 1992, measures that raised 50 million francs in 1991 and 82 million francs in 1992.

For Saint-Etienne's neighbors, this unilateral action confirmed their suspicion that Saint-Etienne was not to be trusted. Dubanchet's professed desire to cooperate was belied by his unilateral, threatening actions. Critics added that the mayor, who flaunts his simple, rural origins, acted like a "typical peasant," scoring petty gains at his neighbors' expense ("faire des petits coups"), rather than working to build a more constructive, long-term relationship. Ironically, Dubanchet's initiative did contribute to intercommunal cooperation, but not in the manner expected: the city's northern neighbors banded together in the ten-member Syndicat Intercommunal de la Couronne (SICO) to negotiate water contracts with Saint-Etienne from a position of strength.

Dubanchet still had one more card to play, however. In the summer of 1992, he announced the privatization of the city's water service. The decision, made without the slightest prior consultation of Saint-Etienne's neighbors, brought a much-needed cash infusion to the city. Saint-Etienne will receive 1.12 billion francs for a 30-year operating
concession, with much of the money (400 million francs) paid in the first three years.\textsuperscript{30} For Saint-Etienne, privatization makes it possible to reduce the city's debt (of around 2.5 billion francs) to a tolerable level without raising taxes and without scaling back municipal services too severely -- a difficult endeavor in the best of times and one that would be especially painful in light of the current recession. For Saint-Etienne's neighbors, by contrast, privatization means even higher prices for water.

In defense of Saint-Etienne, Urbanism Commissioner and heir-apparent to Dubanchet, Michel Thiollière, a former teacher, asserts that the price hikes and privatization decision served a "pedagogical" purpose, demonstrating the unfairness of compelling Saint-Etienne residents to bear the full cost of services enjoyed by their often-wealthier neighbors.\textsuperscript{31} Dubanchet's frustration is understandable. One suspects that given the same opportunity, Besançon's Jean Boichard would have acted identically. Indeed, Besançon has also attempted to discriminate between residents and non-residents, charging the latter higher fees for municipal services.

Whatever the merits of Dubanchet's tactics, the "war over water" revealed the difficulty of establishing cooperation between neighboring communes. Intercommunal animosities, like Saint-Etienne's waters, run deep. Behind the thin veneer of cooperative spirit, a host of structural factors (the importance of local tax revenues, the multiplicity and small scale of communes) are pitting municipalities against each other. Even deft political bargaining -- of the kind not displayed by Dubanchet -- probably would not suffice to overcome these tensions.

Real estate and corporate tax considerations have torpedoed less ambitious cooperative ventures than that proposed by Saint-Etienne. Two intercommunal associations, the seven-member Syndicat Intercommunal de la Vallée de l'Ondaine to the South of Saint-Etienne and the twenty-three-town Conférence Intercommunale du Pays du

\textsuperscript{30} Le Progrès, 1 October 1992, p. 10.

\textsuperscript{31} Interviews with Michel Thiollière, Commissioner for Urbanism, Municipality of Saint-Etienne, 11 January 1991 and 23 October 1992.
Gier to the North, were created as second-best solutions, when member communes balked at establishing urban districts. The key divisive issue in both instances was the allocation of corporate tax revenues. Backers of these arrangements hoped that over time, as members learned to work together on projects of common interest, cooperation might spill over to industrial real estate operations and prospection for investors. Instead, the spillover has tended to be negative: industrial real estate considerations have weakened the climate for even modest common efforts.

In 1989, the Pays du Gier was dealt a devastating blow when Saint-Chamond, its largest member and purported leader, agreed to create an industrial zone in cooperation with Lyon and Saint-Etienne. Originally, Saint-Chamond was to have worked with the Pays du Gier, but Lyon and Saint-Etienne made a better offer. For Saint-Chamond, the hazy prospects of cooperation with twenty-two small communes paled in comparison to the possibility of getting an industrial zone up and running in quick order.

Intercommunal cooperation has fared no better in the Ondaine Valley. When Ondaine Développement was launched in 1989, as a vehicle for administering a development contract negotiated with the Rhône-Alpes region, the organization’s director anticipated that it would evolve into the de facto economic development agency for the Valley. Instead, the seven Ondaine communities continued to go their separate ways. Whereas only one of them possessed an economic agency in 1989, today, four such agencies are prospecting for investors. At the same time, the Ondaine municipalities blocked the creation of the economic arm of Ondaine Développement, the Maison de l’Ondaine, which was to have been responsible for aid to industry, the promotion of local exports, and the coordination of efforts to bring new investors into the Valley. Although the Maison de l’Ondaine was a central plank of the development contract signed with the region, it never saw the light of day.

The municipal real estate bias not only poisons relations between cities; it also undercuts development strategies within any particular city. In both Besançon and Saint-Etienne, the objective of promoting local industry has been subordinated to efforts to lure outside investors. The tale of Saint-Etienne's technopôle offers a clear illustration of this tension between real estate logic and industrial development.33

Saint-Etienne's technopôle originated with a state program to promote the use of "productique" (roughly defined as the integration of computer and electronics technologies into production equipment) by small companies in the provinces. The 1983 planning contract signed between the state and the Rhône-Alpes region called for the creation of a regional productique center, which would house various organizations devoted to research and technology transfer in the field. At the time of the contract, no site had yet been designated for this "Pôle Productique Rhône-Alpes," but Saint-Etienne was soon chosen for several reasons. The key productique agencies were already present in the city. What is more, Saint-Etienne's traditional vocation in metalworking and machine-tools, as well as its dense concentration of SMEs, provided a large potential clientele in proximity to the new organization. Finally, Saint-Etienne was selected for its weaknesses as well as its strengths. The Pôle Productique Rhône-Alpes was seen as a part of an aid package to a depressed agglomeration, an instrument that might help promote local industrial renewal. Having failed in its effort to be the machine-tool capital of France, Saint-Etienne might still become the productique capital of Rhône-Alpes.

While national and regional officials were pinning their hopes for Saint-Etienne on the technological modernization of local industry, city planners had other ideas in mind.

The newly-elected Dubanchet municipality was looking to erase the memory of such recent

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industrial debacles as Creusot-Loire and Manufrance. Creusot-Loire’s decline had left behind a rusting steel plant and fourteen hectares (35 acres) of unkempt land in the middle of the city. Municipal officials quickly seized upon the idea of using the Pôle Productique Rhône-Alpes as a vehicle for transforming this blighted landscape. Out of the ashes of Creusot-Loire would arise the phoenix of high technology.

The municipality lured the Pôle Productique Rhône-Alpes to the former Creusot-Loire site with the offer of free rent in a newly-constructed “Maison de la Productique.” It then hitched the Maison de la Productique to an industrial real estate operation, the technopôle, an industrial zone, designed to attract high-tech SMEs. As will be discussed in greater detail below, the technological component of the Maison de la Productique has remained dormant, receiving scant attention from municipal officials. By contrast, the industrial real estate operation has proceeded rapidly, arguably too rapidly.

The technopôle is criss-crossed by streets sporting such information-age names as "rue de l’informatique," "rue de la télématique," and "rue de la productique." Yet this image is belied by the vocation of many of the firms in the park. While there are a fair number of high-tech start-ups, the technopôle also houses such traditional activities as machine-tool manufacturing, printing, and simple metalworking. Indeed, at the entry to the technopôle stands the oldest profession of them all, a tax collection agency. Equally revealing, only 40% of the companies in the technopôle conduct any kind of research and just 26% enroll their workers in formal training programs. In short, the municipality sacrificed long-term notions of creating a core of complementary advanced engineering companies to short-term real estate considerations. Selectivity was compromised in order to fill the park quickly, to generate tax revenues, and to show local employment creation.

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34 That said, the street leading into the technopôle retains the muscular appellation “rue des aciéreries” (steelworks street).
36 Dupuis and Sabot, op. cit..
37 The city of Saint-Etienne is preparing to repeat this strategy on a slightly bigger scale in the area adjoining the technopôle. The impending closing of the last steel plant in the marais district, where the technopôle is located, has freed up another 25 hectares (62.5 acres) of usable land. City planners are
A similar logic is driving the ongoing renovation of the former site of Manufrance. The operative assumption is that the city can radically transform its image by installing shiny, futuristic facilities in the place of past industrial disasters (an assumption that also underpinned the renovation of Lip's Palente plant in Besançon).

During the real estate boom of the mid- to late-1980s, SARI-SEERI, the architectural firm heading the transformation of the Manufrance site at Espace Fauriel, earned a reputation as a specialist in prestigious, high-tech, tertiary projects. The mayor of Saint-Etienne, seduced by this image, sold the site to SARI-SEERI at well below market value, with the expectation that SARI would then transform Manufrance into a kind of provincial La Défense, bringing in high-tech industry and erecting a gleaming testimony to Saint-Etienne's revival.

Under the original plans drafted in 1987, the Espace Fauriel was slated to receive a high-class hotel, expensive housing and stores, a research institute on digital images, MRI machines, a convention center, a planetarium, and abundant office space. The problem is projecting to more than double the size of the technopôle and have once again lured a technology organization with cheap real estate to anchor the development. This time, the Centre d'Etudes et de Technologie de l'Industrie Métallurgique (CETIM), the research and technology transfer arm of the French metalworking professional association, will provide the technological veneer for what is likely to be yet another conventional industrial zone.


39 It designed the CNIT at La Défense in Paris, for example. Since then, the company has suffered massive losses and its founder, Christian Pellerin, now dispossessed of his controlling share, has become a symbol of the excesses of the French real estate boom. "Ascension et chute de Christian Pellerin," L'Expansion, 30 March/14 April 1993, pp. 104-11.

40 SARI-SEERI purchased the Manufrance site for 23.3 million francs. The site had been assessed at 55 million francs in 1974, and critics of the deal charged that its value had risen to 120 million francs. Beyond the discount on the purchase of the site, the city is widely believed to have made a number of side-payments to SARI in the form of municipal concessions to the parent company, Compagnie Générales des Eaux (CGE). Since the Manufrance deal was signed in 1987, CGE has been awarded exclusive cable TV operating rights, a 80-million franc golf course construction project, and one-half of the water privatization contract (even though CGE's bid was much worse than that of rival, Bouygues). Jean-Noël Thomas, "Stratégies d'acteurs," op. cit.
that a beautiful building does not a high-tech mecca make. SARI-SEERI's postmodern, Parisian project did not correspond to the needs and expectations of investors in Saint-Etienne. More important, it did not correspond to the prices that investors were willing to pay to locate in Saint-Etienne. The Espace Fauriel is as expensive as a prime site in Lyon and 30-40% above the prevailing rates in downtown Saint-Etienne.\textsuperscript{41} When added to the current real estate slump, this has spelled empty offices.

SARI-SEERI has not only failed to deliver the promised manne of high-tech companies -- teetering on the edge of bankruptcy, it has turned to the municipality for help in finding tenants. Although the venture is nominally in private hands, city officials have felt compelled to lend a hand. In the words of one urban planner, "Manufrance has already cost the last two mayors of Saint-Etienne their jobs [Durafour in 1977 and Sanguedolce in 1983]. Dubanchet is determined that the same thing doesn't happen again." Thus, the area designated for commercial clients has been reduced steadily, each time replaced by public agencies bribed or pressured by the municipality to relocate: the Ecole des Mines, a management school run by the chamber of commerce, and the regional branch of the Caisse d'Epargne bank (which has close ties to the municipality). While such tenants may fill the Espace Fauriel, their move from one area of Saint-Etienne to another will scarcely signal the dawn of a new economic era for the city.

Besançon, like Saint-Etienne, has experienced considerable difficulty conceiving of development in strategic or endogenous terms, as opposed to a simple series of real estate operations. This contradiction exploded, to the great embarrassment of the municipality, in the so-called "de Sury Affair."\textsuperscript{42} In 1989, Mayor Schwint was looking to bring new blood into his municipal management team and, having scuttled his alliance with the Communist

\textsuperscript{41} Libération, 23 January 1992, p. 7; Région Urbaine de Lyon, Répères et tendances économiques, 1992 édition, pp. 90-91.
\textsuperscript{42} Interviews with Louis Martin, Department of Economic Affairs, Municipality of Besançon, 21 September and 9 November 1990; Jean-Claude Bloch, Department of Economic Affairs, Municipality of Besançon, 4 October 1990; Robert Schwint, Mayor of Besançon, 12 November 1990; Jacques de Sury, former Commissioner of Economic Affairs (1980-90), Municipality of Besançon, 13 November 1990.
party, to reach out to moderate, centrist electors. As a gesture in this direction, he proposed the position of Economic Commissioner to Jacques de Sury. De Sury, a graduate of the prestigious Ecole Polytechnique, with experience in both government and finance, made no secret of his sympathies for the liberal ideas of former Prime Minister, Raymond Barre. Schwint was not interested in his Economic Commissioner's economic ideas, however. De Sury's utility was electoral, not strategic. Schwint did not know de Sury and met with him only once, for less than ten minutes, prior to the municipal elections.

Even at this point, there were signs of trouble. De Sury related to Schwint that as an economic liberal, he did not think that it was a good idea to give subsidies to companies in order to lure them to Besançon. Schwint replied that de Sury would get over his reluctance and do fine in his new job. Had Schwint made the slightest effort to find out a bit more about de Sury's economic philosophy, he would have soon realized that de Sury was the last person in the world he wanted for the position of Economic Commissioner.

De Sury sees subsidies to industry as a waste of money. He believes that they are of marginal impact in a company's locational decisions and that Besançon would fare far better if it channeled scarce resources to "second-degree" measures, that is, to actions that improve the general climate of the city, as opposed to "first-degree" measures in the form of subsidies to industry. For example, de Sury thinks that instead of giving 2 million francs to a Japanese company to induce it to settle in Besançon, city officials should spend the money on Japanese language classes for local workers and managers.

For de Sury, these ideas were not idle musings. He sought to put them into place as Economics Commissioner. This was particularly true of his reluctance to subsidize potential investors. De Sury responded repeatedly to employer requests for help in financing investments by recommending that they consult their bankers. He relished tweaking these solicitors, pointing out the contradictions between their liberal discourse and appeals for public support:
When companies requested aid, I would have a little fun, replying, "No, we will not intervene. But perhaps you would like us to have a Communist or Socialist policy and intervene more."43

De Sury's stance produced a flurry of complaints from aggrieved investors, and Mayor Schwint reversed many of his Economic Commissioner's decisions. Schwint had conceived of de Sury as a political ornament, a testament to his municipality's spirit of "political openness," and the gesture was supposed to be of little consequence in the day-to-day running of municipal economic policy. It was expected that de Sury would process requests for cheap land and buildings, just like any other Economic Commissioner. The mayor was shocked to discover that his gesture of openness had put in place a Commissioner who actually took his liberal principles seriously.

As for de Sury, he was annoyed at the mayor's reversal of his decisions. What is more, he quickly discovered that municipal economic policymaking was not centered on his agency. Rather, Mayor Schwint took guidance on strategic matters from the head of the chamber of commerce, Jean Michel, while technical details were handled by the municipal civil service and the Urbanism Commission. Increasingly, on matters both big and small, de Sury learned of decisions after the fact.

After less than one year in office, de Sury left his position by mutual agreement with Schwint. De Sury's failure was in part of his own making. His ideas were vague and, as he later conceded, he had been incredibly naive politically. He did not understand the limits of his power. He believed that he could reverse the course of municipal economic policy by simple, unilateral action, without consulting any other agency, let alone the mayor. What is more, he tried to change too much too quickly, instead of experimenting with modest pilot projects. Finally, his jibes at local businesspersons were -- to say the least -- not of a nature to build political support.

While de Sury's lack of political acumen undermined his efforts, it is difficult to imagine that someone more skilled would have fared much better. De Sury was not chosen to develop a new kind of economic development policy, but to continue the old one. Indeed, this is why Schwint did not care about de Sury's economic philosophy: his job was clearly defined, narrowly circumscribed, and strictly technical. The candidate's political and biographical profile were more important than his economic ideas because these ideas would never be implemented. From the perspective of municipal officials in Besançon (and just about any other city in France), economic development policy means giving subsidies in one form or another, in order to induce mobile investors to locate in the city. Anything else is window dressing or dreamy illusions.

The identification of real estate policy with economic development policy by Besançon officials was reaffirmed by the choice of successor to de Sury. Initially, the mayor himself assumed de Sury's responsibilities, relying heavily upon the chamber of commerce for assistance (to the point where rumor were circulating that it was the chamber of commerce, and not the mayor, that was making municipal economic policy). This was an interim solution while Schwint cast about for a successor. Conceivably, he could have brought in a new Commissioner of Economic Affairs, but the Mayor was concerned about the problems this might pose among the different components of his political coalition. Once again, the appointment of a Commissioner was defined by political considerations, as opposed to a strategy for promoting economic development. In the end, recognizing that real estate policy and economic development policy were one in Besançon, Schwint offered the position to the Urbanism Commissione: Jean Ponçot (who now holds both jobs):

I understood that between urbanism and attracting companies, the difference was small. As Commissioner of Economic Affairs [following de Sury's resignation], I was always working with Urbanism. So it made sense to give the job to Ponçot.  

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44 Interview with Robert Schwint, Mayor of Besançon, 12 November 1990.
It would be quite easy to dismiss the de Sury affair as an accident, the result of the overly hasty appointment to the post of Economic Commissioner of a somewhat off-beat individual. There was more to this incident, however. While de Sury fell outside the mainstream, his misgivings about channeling the lion's share of local economic development resources to firm-chasing real estate operations are well-founded. What is more, such sentiments have appeared periodically among other actors on the local development scene (as will be seen in the discussion of certain DATAR initiatives in Saint-Etienne during the 1980s). Here, the contrast with France's regions is revealing.

Under the provisions of the Defferre decentralization laws, regions are authorized to tender direct subsidies to companies. Initially, they pursued this strategy with gusto. After a few years, however, regional officials began to conclude that bribing companies to relocate or remain within the region (as municipal authorities do via real estate operations) was not a cost-effective use of scarce resources. In most regions, expenditures were reoriented toward the kind of indirect measures favored by de Sury, and direct subsidies phased out.46 It is not that regional officials are more enlightened than their municipal counterparts. Rather, because French regions receive little of their revenues from local corporate taxes, they are not compelled to focus their resources on shaping the locational decisions of companies.47

If the de Sury affair points to the existence of discontent with the current direction of municipal economic policy, it also suggests the weight of resistance to any change of this direction. Chosen for political reasons, rather than for his economic ideas, de Sury

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46 In 1986, all twenty-two regions made use of two direct subsidy instruments: the prime régional à la création d'entreprise (PRCE) and the prime régional à l'emploi (PRE). By 1989, the subsidy for new firm creation and the employment subsidy were offered in only ten and eight regions respectively. During the same period, the number of regions proposing loan programs for companies dropped from fourteen to four. Jean-Claude Nemery, "Les actions économiques locales: Vivre ensemble," Pouvoirs Locaux, No. 6, October 1990, pp. xiii-xlvi.

47 French regions receive roughly one-half their tax revenues from indirect taxes and licensing fees, whereas the figure for municipalities is less than 10%. In other words, regional authorities enjoy a variety of sources of financing, whereas municipalities are overwhelmingly dependent upon direct taxes (notably corporate taxes). Ministry of the Interior, Les Collectivités Locales en chiffres, (Paris: La Documentation Française, 1991), p. 55; Guy Gilbert and Alain Guengant, La fiscalité locale en question, (Paris: Monchrestien, 1991), p. 48.
was not supposed to try to launch a new kind of economic development strategy. There was no political support within the municipal establishment for the kinds of orientations that he wished to pursue. In a system that equates "economic realism" with bribing companies to relocate to Besançon, in which "economic development" is measured in terms of corporate tax revenues, de Sury’s ideas were both heretical and dangerous. His rejection by the system was inevitable, while his replacement by the Commissioner of Urbanism offered a symbolic reaffirmation of the prevailing wisdom on municipal economic development policy.

Although it is tempting to blame short-sighted politicians for the municipal real estate bias, the essence of the explanation lies with deeper structural factors. The fragmentation of French municipalities and centrality of corporate tax revenues bias local policies toward real estate operations designed to lure mobile investors -- often from neighboring communities. The salience of fiscal pressures is demonstrated by the contrast between municipal and regional development strategies: municipalities lack the fiscal autonomy to follow the regions in breaking with the practice of quasi-direct subsidies. In the current climate, as the plight of de Sury in Besançon and the technopôle in Saint-Etienne suggest, municipal authorities are unable to make strategic or endogenous development concerns a central feature of policy. What is more, as illustrated by the remarks of Besançon’s Jean Boichard, the "war over water" in Saint-Etienne, and the experiences of Ondaine Développement and the Pays du Gier, the municipal real estate obsession has a further price, presenting a significant obstacle to meaningful intercommunal cooperation.

**A Multiplicity of Local Actors**

The problems of cooperation are not confined to relations between neighboring municipalities. Beyond this "horizontal" rivalry, French local officials are handicapped by a multiplicity of "vertical" rivalries. In other words, it is not just that municipalities are
fighting each other. In addition, regional and departmental authorities have joined the fray, as have a variety of other para-public agencies, such as chambers of commerce and expansion committees. Once again, the problem can be traced to the institutional legacy of the Defferre decentralization laws.

The Defferre laws, as we have seen, represented a compromise or non-choice among backers of different subnational institutions in France. Although the regions were attributed nominal leadership over economic matters, the principle of non-discrimination meant that they were given few instruments with which to exercise this leadership. Their primary instrument is the ability to tender direct subsidies to firms. Departments and communes, by contrast, are barred from offering direct subsidies, except when co-financing projects initiated by the regions. However, since regional authorities have been phasing out direct subsidies and since departments and municipalities routinely skirt the ban on direct subsidies by providing indirect subsidies -- by selling or renting below cost, via tax breaks, or by channeling funds through third-party organizations -- this distinction is largely meaningless.

Aside from the possibility of offering direct subsidies and a somewhat privileged relationship with Paris and the European Community, the regions enjoy no particular advantage in economic policymaking. On the contrary, they suffer several handicaps. Government restrictions prevented the regions from developing a significant staff prior to 1982, whereas both communes and departments had been expanding in this area. What is more, regional government officials were not elected until 1986, delaying their entry into the local economic development foray. Most important, regional budgets, while rising more rapidly than those of the departments or municipalities, remain far smaller.

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48 Many departments have used the expansion committees to get around restrictions on direct aid. Rondin, _op. cit._, pp. 199-205.
Table 4.6 Evolution of Local Budgets, 1979-1991 (billions francs)

<table>
<thead>
<tr>
<th></th>
<th>1979</th>
<th>1988</th>
<th>1991</th>
<th>% increase 1979-91</th>
<th>% of '91 local expenditures</th>
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<tr>
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<td>4.6</td>
<td>34.5</td>
<td>48.7</td>
<td>959</td>
<td>8.4</td>
</tr>
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<td>Departments</td>
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<td>153.0</td>
<td>175.0</td>
<td>182</td>
<td>30.1</td>
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<tr>
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<td>317.4</td>
<td>357.0</td>
<td>212</td>
<td>61.5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>181.2</td>
<td>505.5</td>
<td>580.7</td>
<td>220</td>
<td>100.0</td>
</tr>
</tbody>
</table>


In cross-national perspective, expenditures represent 2% of the national budget in France, as opposed to 15% in Italy, 25% in Spain, and 50% in Germany. In 1991, the Hesse Länder, the fifth largest in Germany, spent the equivalent of 108 billion francs. This amounted to more than double the total budget of all French regions combined.

The weakness of the regions, along with the ambiguities of the Defferre laws, has tempted rival subnational institutions to take a more assertive position in local development policy. Municipal authorities, with the largest budgets and arguably the most at stake given their heavy dependence upon local corporate taxes, are little inclined to curtail their economic fortunes over to the regions. The departments are no less deferential. Their economic expenditures are at least as significant as those of the regions. What is more, many were involved in local development policy before the regions were even created.

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50 Ibid.
What is true of the departments and municipalities also applies to various parapublic agencies involved in local development, notably the chambers of commerce and industry and expansion committees. The chambers of commerce are financed by a tax on French enterprises, while the expansion committees draw almost all their support from their political sponsors, the departmental authorities. Prior to the Defferre laws, these agencies performed a number of economic tasks, from creating industrial parks, to improving infrastructure (airports, ports, etc.), to representing the interests of local industry. The expansion committees served as "local economic division on behalf of the departments."

With decentralization, the chambers of commerce and expansion committees did not simply turn their functions over to elected authorities and exit gracefully from the local development scene. On the contrary, like local political institutions, they have seen decentralization as an opportunity to extend their activities. Whereas in the past, they were hemmed in by the watchful dirigiste state, they now feel free to intervene wherever appropriate. At the same time, local elected officials, having been authorized by the Defferre laws to institute economic development policies, are less inclined to rely upon parapublic agencies to do their bidding. Clashes have been inevitable, with tensions running highest between departmental authorities and expansion committees. In 1989, the President of the Doubs department fired the head of the departmental expansion committee, and the Loire expansion committee director narrowly escaped the same fate.

The rivalry between subnational authorities takes many forms, including architectural. One of the first initiatives of most departmental and regional authorities following decentralization was to construct buildings appropriate to their new stature. In Besançon, the splendid regional headquarters offers a visible expression of the government's political pretensions vis-à-vis other subnational authorities. The region sees itself as the heir to Paris in the economic policy realm. Its goal is less to eliminate dirigiste
practices than to take them over from national authorities. In emulation of Paris, Franche-Comté authorities have negotiated multiyear planning contracts with "subordinate" departments as well as sectoral plans in key local industries (watches, glasses, toys). Lest the region's hegemonic aspirations be insufficiently clear, a downsized version of the Louvre's glass pyramid has been erected in the courtyard of Franche-Comté headquarters...

Other manifestations of the rivalry between subnational authorities are less amusing. Wasteful duplication of programs is rampant, as local actors rush to stake a claim to as many policy areas as possible. For a variety of economic actions, one finds at least a half-dozen agencies asserting that they are in charge and denigrating the efforts of their rivals. Among the most frequent objects of redundant public intervention are: prospecting for external investors, construction of industrial parks, technology transfer, training of managers and workers, aid to innovation, and "coordination" of the actions of other agencies.

The resources of local authorities have risen far less rapidly than their ambitions, however. In the decade since the Defferre laws, regional, departmental, and municipal governments increased their financial resources by only 1% of GDP (from 5% to 6%). What is more, in France, as in the United States, national officials succumbed to the temptations of "New Federalism," off-loading a number of expensive programs on local authorities without commensurate resources to pay for them, notably in the social and educational spheres. Thus, once the bills from incompressible obligations are paid, no subnational authority is in a position to mobilize significant resources on behalf of economic development policies. Ideally, in such a context, local authorities would pool

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51 The Franche-Comté region is not alone in this respect. Jacques Rondin describes the tendency of many regional authorities to emulate Parisian dirigiste methods: "The regional plans are often extremely elaborate documents with ambitious objectives: implementation of sectoral industrial policies [politiques de filières], reconquest of the internal market, aid for research and the dissemination of its results, export subsidies, etc. All the objectives of a national economic policy can be found in one way or another in regional policies." Rondin, op. cit., pp. 196-97. Translation the author's.
52 INSEE, op. cit., p. 195.
their resources behind a few priority projects. In France, however, inter-institutional rivalry has spawned a fragmentation and multiplication of (underfunded) efforts.

Consider, for example, the actions of the expansion committee for the Doubs department, known as the *Agence de Développement Economique du Doubs* (Economic Development Agency of the Doubs, ADED). ADED has served as the primary economic agent on behalf of the departmental authorities. As such, it is endowed with a budget for economic development projects of roughly 40 million francs per year (less than $8 million). This modest budget is spread across the following activities: worker training, grants to local researchers, loans and subsidies for start-up companies, contributions to exemplary industrial innovation projects, consulting studies on local economic problems, prospecting for foreign investment, industrial real estate projects, media operations to publicize the department (brochures, pamphlets, an annual listing of metalworking subcontractors, etc.), and support for tourism.

One does not have to be a mathematician to realize that ADED lacks the resources of its ambitions. This is true even if, as officials claim, they do not seek to finance all these programs alone, but to play an "inciting role," to "lever other resources," to create "triggering facts." While the case of ADED may offer an extreme illustration of the gap between means and ends, the problem is endemic to the French system. ADED's economic development budget is on the same scale as that of most local authorities and parapublic agencies, and its aspirations are only slightly loftier. The pressure to occupy the policy terrain in the wake of decentralization and to present an image of activism to constituents has led just about every agency to overextend itself.

The proliferation of local actors mobilizing limited resources produces not only dysfunctional competition, but also dysfunctional cooperation. Observers of local French politics note that the system of "financements croisés" (co-financing by multiple authorities)
has become the modal arrangement for underwriting local programs.\textsuperscript{54} This system is the bane of program administrators throughout France. They complain that each government authority seeks to have its name on as many projects while committing as little money as possible. For the bearer of the project, this means going hand in hand from agency to agency to raise extremely modest sums. Yves Chappoz, the Director of Ondaine Développement, has a less elegant name for the system of financements croisés. He calls it "going through the garbage cans."\textsuperscript{55}

In 1989, the seven Ondaine communities to the South of Saint-Etienne signed a three-year "employment basin contract" with the Rhône-Alpes region, which agreed to pay 45\% of the costs of a 15-million-franc development program. By "going through the garbage cans," Chappoz was then able to boost the program's budget from 15 to 21 million francs. He picked up 3 million francs from EC regional development programs, 800,000 francs from the department, 500,000 francs from a state fund for the reconversion of coal-mining zones, and 150,000 francs from Usinor, the steel multinational, which contributes to local development initiatives as partial compensation for the many lay-offs it has effected in the area.

On the one hand, Ondaine Développement represents a kind of success story for France's local development system. An aggressive policy entrepreneur has been able to utilize the multitude of local economic development actors to boost his agency's budget by 40\%. On the other hand, this increase amounts to all of 6 million francs over a three-year period (roughly $400,000 per year), and poor Chappoz is paying the price in administrative

\textsuperscript{54} Catherine Grémion and Pierre Muller lament the perverse consequences of the system of financements croisés: "The [single] thread running from the central State to the Prefect to local elected officials is being replaced by a complex weave, in which everyone is both solicitor and distributor, in which municipalities, departmental general councils and regions, prefects, European authorities and administrations craft one-time, temporary bargains, in which multiple financing and accidental cooperation coexist with the most intransigent competition and rigid, egotistical parochialism [égoïsme de clocher]. The frenetic chase after infrastructure and enterprises has led elected officials on both the Left and the Right to pursue an inflationary policy driven by the quest for subsidies and loans from multiple sources." Grémion and Muller, \textit{op. cit.}, p. 41. Translation the author's.

\textsuperscript{55} Interviews with Yves Chappoz, Director, Ondaine Développement, 6 December 1990, 18 January 1991, 5 October 1992.
headaches. Not only did he have to go door-to-door among the various potential donors; now, he must satisfy each one's bureaucratic imperatives. However small the contribution, every donor demands a series of reports. *Ondaine Développement*’s program is divided into twelve different actions, each financed typically by at least four or five different organizations. All of these organizations, in turn, require two or three reports per year (not at the same time, of course), which means that Chappoz can submit easily 100 reports in one year. Even allowing for duplication, this represents considerable bureaucratic hassles for $400,000. Displaying a giant stack of carefully coded dossiers for *Ondaine Développement*’s various sponsors, Chappoz lamented that he spends far more time "going through garbage cans" and filing reports than undertaking development activities.

In contrast to Chappoz, most French industrialists, the purported target of the lion's share of local initiatives, are unwilling to "go through garbage cans" in search of public subsidies. The snippets of aid or technical advice available are written off as not worth the time and effort. Of course, this attitude does not derive solely from the dysfunctions of public policy; many industrialists offer blanket denunciations of government programs as a way of justifying their unwillingness to even consider them. That said, the organization of local aid to industry in France, by multiplying the actors and procedures while fractioning the pay-outs, does nothing to coax industrialists away from their natural state of suspicion.

If the system of *financements croisés* dilutes the resources available to recipient organizations, it also dilutes the control exercised by sponsoring agencies. The corollary of an extended reach is a weakened grasp. This is particularly apparent in the case of local technology centers: the *Institut de Productique* in Besançon and the *Maison de la Productique* in Saint-Etienne. Although heralded by authorities in both cities as key

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57 The following account is based upon interviews with Emmanuel Louy, Engineer, ADEPA Franche-Comté, 10 October 1990; Jean-Gabriel Schamplhout, Franche-Comté Regional Delegate, CETIM, 11 October 1990; Jean-Michel Henrioud, Engineer, Laboratoire d'Automatique de Besançon (LAB), École Nationale Supérieure de Mécanique et des Microtechniques (ENSMM), Besançon, 25 October 1990, 15 June 1992; Michel Joliveau, Technology and Conservation of Energy, Franche-Comté Region, 5 November
agents of aid to local industry, these technology centers have largely neglected their public missions.

The *Maison de la Productique* (MDP) and the *Institut de Productique* (IDP) originated with the first regional planning contracts, covering the 1983-88 period. Ministry of Industry and regional officials hoped to accelerate the technological modernization of provincial industry, particularly SMEs, by establishing regional “centers of excellence” in close proximity to the target companies. The IDP and MDP brought together under one roof research and technology transfer organizations active in the field of *productique*: robotics labs from local universities and engineering schools, a para-public administration engaged in promoting the diffusion of *productique* technology to SMEs (ADEPA), and the technical consulting branch of the national metalworking industry association (CETIM). Officials reasoned that grouping several service-providers in the same building would create a kind of “one-stop shopping” environment, making it easier for local industrialists to seek technical help and assimilate *productique* technologies. In addition, the member organizations themselves would benefit from the possibility of sharing experiences (and

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58 Both the Besançon and Saint-Etienne *productique* centers house a regional branch of the Agence pour le Développement de la Productique Appliquée (ADEPA) and the Centre Technique des Industries Mécaniques (CETIM). In Besançon, these two organizations are joined by two research groups: an automation laboratory, the Laboratoire d'Automatique de Besançon (LAB), from the engineering school, the *Ecole Nationale Supérieure de Mécanique et des Microtechniques* (ENSMM), and a mechanics lab, the Laboratoire de Mécanique Appliquée (LMA), from the University of Franche-Comté. The Saint-Etienne center has only one research organization, the robotics lab of the engineering school, the *Ecole Nationale d'Ingénieurs de Saint-Etienne* (ENISE).
clients). They might also make use of their complementary skills to mount joint projects or tackle complex problems, which no single one could handle alone. To facilitate the pursuit of such "synergies," both the IDP and MDP were equipped with a common laboratory.

While the various organizations in the IDP and MDP welcomed government subsidies, they did not welcome the accompanying obligations. By and large, the members of the IDP and MDP have evaded these obligations. Their collaboration remains limited both with local SMEs and with each other.

Providing assistance to provincial SMEs is especially low on the list of priorities for the university and engineering school laboratories. These organizations see their vocation as basic research, "science for scientists," with at best distant real-world applications. Since they are virtually 100%-financed by the state, they are under no pressure to solicit contracts from private industry. With some 50 researchers, the Besançon engineering school research laboratory, the Laboratoire d'Automatique de Besançon (LAB), makes no effort to spin-off or sell its automation techniques to private firms, nor does it propose any kind of technical consulting services. Its marketing stance is purely passive. A LAB official related that the organization receives maybe four or five calls per year from private employers, few of which amount to anything. Even when such contacts pan out, they cannot be said to represent a great priority for the LAB. One research director noted that the LAB’s only significant industrial contract, an effort to help Peugeot improve its automobile assembly lines, had expired "a few months ago" and not been renewed. LAB researchers had not experienced any problem with Peugeot, but simply "lacked the time" to renegotiate the agreement.

To the extent that university or engineering research laboratories strike up ties with industry, it is far more likely to be with giant multinationals, such as Peugeot, than with local SMEs. Because the research conducted in these labs is so technically sophisticated and removed from inmediate commercial applications, SMEs have neither the capacity nor
the interest to make use of it. Declared Jean-Louis Vaterkowski, Dean of the Besançon engineering school (ENSMM):

We train high-level engineers, who aspire to leading positions in industry. We also conduct cutting-edge research, we are world leaders in our field. Given these two facts, we can't work with just any company. We can't work with a ten-person metal-stamping SME. We don't have a common language, a common framework for collaborating with such companies. We can only work with companies that have a serious R&D division. The vast majority of our contacts in the region are with large industrial groups: Peugeot, Alsthom, Bull. 59

In Besançon, most contracts between university, technical institute, or engineering school labs and private industry are managed for administrative purposes by a single organization, called Inter-Unec. More than one-half the contracts processed by Inter-Unec involve firms located outside the Franche-Comté region, and the lion's share of Franche-Comté contracts are with the three multinational giants cited by Vaterkowski (leaving only 13% for regional SMEs). 60 Thus, whatever their merits, the research labs located in the IDP and MDP are ill-suited to the publicly-attributed role of raising the technological level of local SMEs.

Even CETIM, the metalworking profession's technology institute, which directs its actions toward private industry, has little to offer local SMEs. While nominally making no distinction between large firms and small firms, CETIM representatives note that the former represent far more lucrative clients than the latter. Large corporations have a better sense of their needs, and are, therefore, less likely to waste a salesperson’s time. More important, they tend to place much bigger orders than SMEs. Consequently, the return on time invested is far greater. Since CETIM is run according to an essentially commercial logic, with local representatives judged on the basis of their "sales figures," the temptation is to focus on large industrial clients.

59 Interview with Jean-Louis Vaterkowski, Dean of ENSMM, 5 October 1990.
60 Inter-Unec documents; interview with Laurent de Vregille, Director, Inter-Unec, 3 June 1992.
In addition, CETIM services are not organized regionally. Instead of attempting to provide a full range of services in each regional branch, CETIM concentrates its resources on three large technology centers, located in Senlis, Nantes, and Saint-Etienne, each with different technical specializations. The other CETIM sites, such as that of Besançon, are staffed solely by sales personnel. CETIM's expectation is that clients will send engineers to the appropriate technology center if they need assistance, an assumption that is far more plausible in the case of large corporations than SMEs. In most regions of France, then, CETIM's presence is of little use to local SMEs.

In theory, Saint-Etienne represents an exception to this pattern. The city is home to a 100-person CETIM staff, and the agency's technical specialization is in mechanics, a field in which many Saint-Etienne SMEs operate. That said, the vast majority of the Saint-Etienne CETIM's business is conducted with major corporations, mostly from outside the region. Although geographic proximity lowers the threshold for local SMEs, since CETIM conceives of its role in national terms and relies primarily upon large clients, its services are not necessarily targeted to the needs of SMEs.

Of the various institutions present in the IDP and MDP, ADEPA is the only agency that is truly regional in structure and that considers SMEs as its principal clientele. ADEPA began organizing on a regional basis even before the Defferre decentralization reform, and in contrast to the CETIM structure, each regional branch is roughly comparable. ADEPA, therefore, presents a viable local interlocutor in every region.

ADEPA also presents a partner for SMEs. Whereas the research labs are not very interested in industry of any kind and CETIM is oriented toward large corporations, ADEPA focuses its offerings upon SMEs. ADEPA projects have varied over the years, but

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62 As will be described in the next chapter, CETIM has begun creating "centers of proximity," offering simple services targeted at local SMEs. If such a center is created at the Besançon IDP, then CETIM may conform more closely to its official public mission. No such change is anticipated at the Saint-Etienne MDP CETIM, however. The IDP CETIM will not be participating in the centers of proximity program, and its actions will remain directed toward large industrial groups.
the guiding principle has been to encourage SMEs to make a technological jump that they might not ordinarily undertake. In the 1970s, ADEPA offered training and assistance in introducing computer technologies into small firms and developed a highly popular industrial software program specifically for SMEs. In the early-1980s, ADEPA managed Ministry of Industry programs underwriting part of the acquisition costs by SMEs of what was then a novel product, numerically-controlled machine-tools. When these became widely diffused throughout industry, subsidies were shifted toward investments in cutting-edge industrial automation software and, most recently, in programs that link different automated equipment operations within the factory.

ADEPA, then, is the only member of the IDP and MDP whose vocation corresponds to the ostensible purpose of these technology centers -- aiding local SMEs. That said, the agency’s vocation may be changing. In the late-1980s, the ADEPA’s public sponsor, the Ministry of Industry, began transferring missions and accompanying resources to its own provincial branches, the Délégations Régionales à l’Industrie, à la Recherche, et à l’Environnement (DRIP:12). With government support shrinking, ADEPA has pared its staff and is relying on private consulting contracts to make ends meet. Increasingly, the agency lacks the resources to pursue public missions, such as assisting SMEs. Instead, ADEPA is being drawn toward a strategy like that of CETIM, focusing on the more lucrative market of large corporations.

If the organizations are not, the MDP and IDP are not working with local SMEs, they are also not working with each other. Whatever technological complementarities may exist between the different members are overshadowed by organizational tensions. The interests of the university and engineering school research labs diverge in significant ways from those of ADEPA and CETIM. The latter, as purveyors of services to industry, are driven by short-term commercial and industrial considerations. Much of their budget and the judgment of superiors depends upon the ability to generate business with industrial customers. The university and engineering school research labs, by contrast, are engaged
in basic research with little prospect of commercial application, at least in the immediate future. Fully financed by their parent institutions, their interest in industry is purely academic (in all senses of the word).

Representatives of the engineering and university labs, on the one hand, and CETIM and ADEPA, on the other, regard each other with thinly-veiled contempt. CETIM and ADEPA officials decry the lack of professionalism of their university colleagues. A CETIM engineer related that he had referred a Saint-Etienne industrialist to the ENISE lab. After calling ENISE for several days before anyone answered the phone, the industrialist was finally able to schedule an appointment with a researcher, who then stood him up. The CETIM engineer has since vowed never again to refer a potential client to ENISE.

Researchers in the engineering and university labs are equally dissatisfied with their colleagues. They portray CETIM and ADEPA engineers as little more than glorified plumbers, working on mundane problems, and far more interested in making money than making discoveries. The researchers are particularly resentful of the CETIM and ADEPA preoccupation with the bottom line. They complain that whenever anyone has an idea for an interesting joint project -- such as, in Saint-Etienne, creating a computer-integrated-manufacturing (CIM) platform to demonstrate to local industrialists the possibilities for linking different computer and automation systems within a factory -- the CETIM and ADEPA representatives refuse to go along unless public authorities foot the bill.

If divergent interests separate CETIM and ADEPA from the research labs, common interests pit them against each other. Although nominally specialized in different areas -- mechanics for CETIM, industrial software for ADEPA -- in practice, they often find themselves competing for the same clients. What is more, they are judged by their superiors on the basis of how much business they bring to their respective organizations, not how well they serve the collective interests of the IDP or MDP. Consequently, narrow organizational loyalties tend to take precedence over any solidarities borne of inhabiting the same building.
An ADEPA official in Saint-Etienne complained that whenever CETIM representatives are contacted by a company needing CAD-CAM services, an ADEPA specialty, CETIM brings in experts from Paris headquarters, rather than referring the client to ADEPA. The official contended that of the 1000 companies that ADEPA had visited during the previous year, at most five had resulted from referrals by other MDP organizations. At the same time, he conceded that when he receives a case involving robotics, the forte of CETIM, he tends to try to handle it himself, even though he does not feel very qualified. Such practices seem to be the norm among the different “partners” of the IDP and MDP.

What is more, the illwill and lack of communication spill over into other areas. Even when immediate material interests are not at stake, members of the IDP and MDP rarely think to work with each other. During one of the author’s visits to the Saint-Etienne ADEPA, CETIM was holding a day-long public forum on “robotics and productique.” Eighteen speakers were scheduled, but not one of them belonged to another member organization of the MDP.

IDP and MDP partners differ not only in their interests, but in their resources. In Besançon, for example, two of the four members of the IDP are essentially skeleton organizations. The research “team” from the University of Franche-Comté is composed of one faculty member and a few graduate students; the CETIM organization of one technical-sales representative and a secretary. These phantom crews were invited to join the IDP out of political considerations, rather than technological considerations. Their presence made the center appear more comprehensive on paper, improving the chances for obtaining government subsidies.

The presence of two phantom organizations has created problems, however. This is especially true of CETIM. While the university lab stirs resentment for contributing little or nothing to the collective good, for being an absentee colleague, CETIM is seen by its partners as a source of harm. This reflects the fact that CETIM is not only understaffed
(and thus has little to offer its partners in technical terms), but commercially oriented (thus inclined to try to take business away from them).

The single CETIM representative operates essentially as a salesman, a local commercial representative of a national organization. He fields simple questions from Franche-Comté industrialists, but his main purpose is to convince companies with relatively complex problems to make use of better-equipped and heavily-staffed CETIM facilities located in other parts of France (Senlis, Nantes, and Saint-Etienne). In other words, his role is to divert Franche-Comté industrialists from local service-providers, including his partners in the IDP, to CETIM centers in other regions. When the CETIM representative provides services in Besançon, he generally does so by drawing upon external CETIM resources. Training programs in automated assembly, for example, are run by CETIM engineers brought to Besançon for the purpose, even though this is the vocation of one of the CETIM’s nominal partners in the IDP, the engineering school’s Laboratoire Automatique de Besançon (LAB).

The IDP and MDP represent little more than a spatial aggregation of unrelated or even antagonistic elements. Different organizations have come together under one roof because they receive certain advantages: free rent, money to purchase equipment, favorable publicity. They are not inclined by nature to cooperate with their nominal partners because of divergent intellectual, organizational, and financial interests. Nor are they inclined to reach out to local SMEs. Since they can receive the various benefits of membership in the IDP and MDP without undertaking the kinds of missions that these centers are supposed to foster, each organization stays in its own corner, pursuing an independent agenda.

Officials in Besançon and Saint-Etienne are well aware of these problems, and several plausible remedies have been discussed. One would be to attach more strings to aid to the IDP/MDP, to make subsidies available for specific cooperative undertakings, instead of for general operating costs or the purchase of equipment. Alternatively, measures could be taken to strengthen the IDP and MDP as institutions independent of their members.
Currently, the IDP and MDP have virtually no budget, hence no ability to manipulate carrots and sticks in relations with member organizations. If their budgets were boosted, perhaps an IDP or MDP “whole” would emerge above and beyond the constituent parts.

Local authorities have made a few gestures in this direction. In Besançon, for example, a fund has been created to finance “exemplary productique” projects. If a firm has a particularly interesting modernization venture, one that can be used to demonstrate the potential of productique to other regional companies, and if the venture entails the intervention of several organizations from the IDP, then public authorities will underwrite part of the costs. Such initiatives remain entirely marginal, however, involving at most one or two companies per year. By and large, little has changed in the operation of the IDP and MDP.

To understand the inability or unwillingness of local officials to reform the IDP/MDP, we must once again turn to the logic of France’s local institutional context. The system of financements croisés, the financial handmaiden of local institutional proliferation, has dissipated responsibility for the functioning of the IDP/MDP to the point of evaporation. No single sponsoring agency has a significant stake or supervisory role in the IDP/MDP. Consequently, any reform must be defined, negotiated, and financed collectively -- an arduous process, at best.

Intercommunal rivalry also stands in the way of reform. With the multiplication of technology centers across both the Rhône-Alpes and Franche-Comté regions, state and regional officials must juggle competing claims for support among a host of rival municipalities. The prevailing sentiment among these officials is that they have done their bit for Besançon and Saint-Etienne. To extend yet another benefit to these cities by boosting the budgets of the IDP and MDP, so that they could organize joint actions, would invite similar demands by other communities.

The real estate bias of municipal authorities presents a further obstacle to reform. As noted earlier, from a municipal perspective, the interest of a technology center lies less
in its ability to provide useful services to industry than as an instrument of real estate policy. The MDP in Saint-Etienne and the IDP in Besançon are useful ornaments, enabling both cities to project a high-tech industrial image, thereby strengthening their ability to attract mobile investors. Whether these ornaments actually function properly is a secondary consideration.

Indeed, both Besançon and Saint-Etienne are focusing their efforts, not on reforming and strengthening existing technology centers, but on developing new organizations with a similar gloss. Besançon is creating the so-called "Technopôle Rhône-Rhin," which will bring together the university, an enlarged engineering school, and an industrial park. Saint-Etienne is transforming the Manufrance site into a glitzy tertiary forum and sponsoring a variety of new agencies to enhance the city's technological image: the Filière Composites et Industrie (FCI) in composite materials, the Institut de l'Image in digital imaging, and, as noted above, a new extension of the technopôle anchored by the CETIM.63

None of the leading sponsors of the MDP/IDP, then, have much of an incentive to try to reorganize these technology centers. State and regional officials, confronted with similar requests from other municipalités, do not want to be seen as favoring Besançon or Saint-Etienne. The municipalités themselves are far more concerned with the image of the IDP/MDP than with the reality, and this image remains adequate to the task of luring potential investors. Finally, for all concerned parties, the system of financements croisés means that as long as the dysfunctions of the MDP and IDP are kept under wraps, these ventures offer a reasonably good cost-benefit ratio. In exchange for a modest investment of public resources, sponsors are able to project an image of activism and commitment to technological renewal.

63 The branch of the CETIM located at the MDP and specialized in productique will remain where it is. The bulk of CETIM personnel, however, is located in a dilapidated downtown building, and this branch will move to the technopôle. In addition, as part of a national program, CETIM officials plan to add some 50 engineers to the Saint-Etienne staff during the next few years. Interviews with André Roche, CETIM Saint-Etienne, 15 October 1992; Daniel Goutte, Director, CETIM Saint-Etienne, 30 October 1992.
Conclusion

If postwar history had done little to prepare French local authorities for the economic missions of the 1980s, the Socialist decentralization reforms provided an opportunity to shuffle the institutional deck. The crafting of decentralization legislation was a moment of contingency, when the powers and proclivities of regional, departmental, and municipal governments lay open to substantial revision. While it may not be possible to "change French society by decree," 64 decrees can certainly change a lot. Under the right circumstances, the Defferre laws might have helped chart a new course for French local authorities, greatly enhancing their capacity to foster an enabling environment for provincial SMEs.

The circumstances in the France of the early-1980s were anything but right, however. Enacted at a time when the Socialists were placing all their industrial policy eggs in the dirigiste basket, the Defferre laws were not conceived of in economic terms. Decentralization offered a means to expand local liberty, democracy, and participation, rather than the GDP. Further shaping the character of the reform, Gaston Defferre was determined to move quickly, by watering down his objectives if necessary. He, therefore, made a number of compromises that were perfectly understandable in the context of a political reform, but that had far-reaching consequences for local economic intervention: avoiding the contentious choice between regional and departmental authorities, putting off local tax reform, preserving the fragmented municipal structure. In short, the Defferre laws did indeed shuffle the institutional deck, but not as thoroughly as the subsequent demands placed upon local authorities would have required.

The resources available to regional, departmental, and municipal authorities have increased only modestly. What is more, the Defferre laws left in place and even reinforced the incentives for local officials to spend these resources in wasteful or self-defeating ways.

The fragmentation of municipal constituencies, along with a heavy dependence upon corporate tax revenues, has led city officials to privilege smokestack-chasing real estate strategies over all else. Some French cities excel at this practice, others are less able, but none are immune.

At best, the municipal real estate obsession amounts to paying companies to do things that they probably would anyway. At worst, it can be extraordinarily wasteful. The summit of such waste (quite literally) was Saint-Etienne’s decision to spend a fortune installing companies on hills -- as opposed to locating them at far lower cost in the neighboring planes -- for the sole purpose of retaining the resulting tax revenues.

No less important than what the real estate bias causes French municipalities to do is what it causes them not to do. As the transformation of the Rhône-Alpes regional productique center into a Saint-Etienne industrial park illustrates, fiscal and real estate considerations tend to undercut the strategic or technological dimensions of local development policy. There is no place in the municipal system for those who conceive of development in non-real estate terms, like Besançon’s Jacques de Sury.

Intercommunal cooperation is another casualty of the battle for mobile investors. Even in the best of circumstances, identifying a set of policies capable of rallying some 40 heterogeneous communities located in proximity to cities like Besançon or Saint-Etienne is a tall order. Such a task becomes nearly impossible in a context of mutual firm-snatching and Boichard-like resentment of free-riding “parasites.” Despite public declarations of goodwill, neighboring communities in France are often within an inch of open conflict, as Saint-Etienne’s “war over water” revealed.

Local rivalries are inter-institutional as well as intercommunal -- a second legacy of the Defferre laws. With no recognized hierarchy or division of labor between regional, departmental, and municipal authorities, decentralization has touched off a proliferation of underfunded, overlapping initiatives, as each administration jockeys to stake a claim to as many policy areas as possible (and is joined in this pursuit by chambers of commerce and
expansion committees). None of the actors on the local development scene has the resources of its ambitions, a contradiction illustrated most clearly in the case of ADED. As a result, local industrialists, the purported target of most of these projects, tend to simply tune out.

Even when local authorities seek to pool their efforts, the combination of a multiplicity of actors and a paucity of resources makes for difficult collaboration, at best. The system of financements croisés represents an administrative nightmare for potential beneficiary organizations (like Ondaine Développement) that solicit even modest local funding. The flipside of this system of collaborative financing is that public control is more apparent than real. In the absence of a clear leader, a clear consensus among sponsoring organizations, or a clear financial stake for any local backer, the Institut de Productique in Besançon and the Maison de la Productique in Saint-Etienne have been left largely to their own devices. Public subsidies have done nothing to alter the disinclination of the constituent organizations to work either with local SMEs or with each other.

For all the changes wrought by the Defferre laws, French local authorities remain poorly positioned to meet the challenges associated with Tocquevillean liberalism. It is not just that they are underfunded. More fundamentally, regional, departmental, and municipal officials confront a variety of incentives to use what little funds they have for wasteful and self-defeating purposes. Inter-institutional rivalries, both "vertical" and "horizontal," sap the ability of local officials to act strategically. In sum, the project of fostering an enabling environment for provincial SMEs is poorly served by the local institutional environment of post-Defferre France.
CHAPTER FIVE - THE DISCRETE CHARM OF THE COLLECTIVE
BOURGEOISIE: EMPLOYER ASSOCIATIONS AND LOCAL ECONOMIC
POLICY

In the last chapter, we saw that despite the changes wrought by the Defferre laws, local authorities in Besançon and Saint-Etienne remain poorly equipped to address the technological, financial, and managerial needs of provincial SMEs. The underdevelopment of French institutions is not confined to the formal political sphere, however. In the informal, para-public realm, a relatively weak set of business associations imposes a further handicap upon local development efforts.

Industry organizations, like local political authorities, occupied a marginal place under the postwar dirigiste system. In contrast to these authorities, business associations were not the object of sweeping reforms designed to enhance their powers. As a result, local policies in the 1980s and 90s, like national policies during the trente glorieuses, have been conducted largely in their absence. In short, while the business of local authorities is increasingly business, this appears to be none of the business of local business [associations].

The relatively limited role of employer associations in local development policies has skewed these policies in two ways. First, the initiatives put forward by the political establishment tend to reflect very different priorities from those of industry. Second, even when the authorities share the concerns of industry, striving to meet the needs of local SMEs, they often prove unable to devise and implement appropriate measures. The French associational context is not fixed in stone, however. There are signs of renewal among industry associations -- interestingly, often with the support of local authorities.
Divergent Logics: Political and Business Strategies for Development

Although economic development has become the overriding priority of local officials and industrialists alike -- a marked contrast to the ambivalence of the trente glorieuses -- political and industrial elites do not share the same conception of how to achieve this objective. The municipalities in France that are cited as models of successful local development strategy, such as Montpellier or Sophia-Antipolis, have all displayed a single-minded commitment to luring external investment. In these cities, the entire array of policy instruments -- infrastructure, culture, environment, sports, communications -- are hitched to the company-prospecting mission. Opera houses, for example, are constructed, not for the joy of the art or to diffuse culture to the populace, but because a provincial city that wishes to induce Parisian managers to relocate, bringing their companies with them, must offer a vibrant cultural life.

Such reasoning is quite familiar to leaders of Saint-Etienne. As early as the 1960s, Mayor Michel Durafour was working to transform the city’s image, cleaning coal-blackened facades, adding parks, and building a sailing pond and an opera house in order to make the city more attractive to cadres. More recently, the Dubanchet administration opened a first-rate modern art museum and is putting the ‘finishing touches on a golf course. Even though the cold and rainy climate of Saint-Etienne offers few opportunities for playing golf and even though Saint-Etienne possesses so little land that the municipality had to clean up a toxic waste dump to create the course (at great expense), such sporting amenities were deemed essential for local development.

Besançon has been less dedicated to the pursuit of mobile investors. Mayor Robert Schwint echoes the traditional Socialist ambivalence toward “giving gifts to the patronat.” Social, cultural, training, and environmental policies tend to be pursued for their own sake, rather than as part of an economic development strategy. Budgetary constraints have further limited the opportunities for new initiatives: following... very tight reelection
campaign in 1983. Schwint froze taxes for three years and then pledged to keep subsequent increases below the rate of inflation.

Schwint's stance has come under fire, however, not only from conservative opponents, but from "young Turks" within his own party. Officials like Bernard Lime, the Commissioner for Cultural Affairs, decry the city's lack of a coherent development strategy.¹ Lime argues that the economy must become the overriding priority, to which all other policies are subordinated. Although a Socialist, he calls for privatizing the municipal water service in order to acquire revenues for economic development measures. Lime's conception of "economic development" is identified strictly with the pursuit of mobile investors. Indeed, when asked to describe his economic program, Lime prefices every item on his agenda -- not only real estate and tax concessions to industry, but also infrastructure projects, sports and cultural programs, and plans to improve worker training, universities, and even grade schools -- with the statement, "In order to attract companies, we must ..."

Local industrialists find little utility in the kinds of measures put forward by political officials. Evelyne Ritaine, in a study of Montpellier, distinguishes between so-called "developmentalist" policies, which are meant to attract new resources to the region, and "productivist" policies that seek to promote the expansion of existing economic resources. According to Ritaine, while industrialists are interested in the latter, the political system generates only the former:

The principal preoccupations among the employer milieux are, in effect, worker training, improving the competitiveness of local companies, and the acquisition of a veritable "managerial culture": the productivist preoccupations of the socio-professionals are very different from the developmentalist concerns of the politicians. The latter have not assumed ... the functions of the socioprofessionals. Rather, they have defined another function ...²

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It is perhaps no coincidence that Ritaine finds almost no instances of employer participation in the formulation of these "developmentalist" policies. Likewise, in Besançon and Saint-Etienne, there is little institutionalized cooperation between local officials and employer organizations. At best, a handful of leading industrialists are brought in, on an individual basis, after the fact, to offer political cover for policies that they did not help devise. What is more, when industrialists do propose "productivist" projects, the response of political authorities is often less than enthusiastic.

In Saint-Etienne, for example, the head of one of the fastest-growing companies in the city, Société Nouvelle Floerger (SNF), an industrial group specialized in water treatment chemicals and equipment, lobbied for years for the creation of a "water pole." The idea behind the water pole was threefold: to gather complementary companies on a single site, facilitating the sharing of clients and technologies; to promote Saint-Etienne's emerging vocation in water treatment products to the outside world; to establish a training program in cooperation with local technical schools, so that SNF could meet its employment needs locally. As long as SNF's project was framed in "productivist" terms, as a means of improving the competitive position of existing local industry, it fell upon deaf ears. Only when the company appealed to the "developmentalist" or real estate logic of the municipality, threatening to relocate to a neighboring town, did the city respond. At this point, the "water pole" was finally launched.

The municipal real estate obsession described in Chapter Four stems in large part from the heavy dependence of municipal authorities upon corporate tax revenues, combined with the fratricidal fragmentation of French communes. It is reinforced, however, by the virtual absence of employer representation from the formulation of local economic policy. There is more than one way to pursue the objective of expanding the wealth of the community. The predominance of "developmentalist" over "productivist" measures reflects the limited influence of industrialists upon municipal strategies.

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3 Interview with René Pich, CEO, Société Nouvelle Floerger (SNF), 4 January 1990.
Industrial Policy without Industrialists: The Case of Microtechnologies

The absence of input from business associations affects more than the objectives of local officials. Even when the authorities adopt a "productivist" strategy, looking to assist existing local enterprise, their ability to do so is hampered by the underdevelopment of institutionalized business partners. Recent efforts by officials in Besançon to promote the "microtechnologies" sector are particularly revealing of the problems posed by industrial policy conducted without industry associations.4

The collapse of the French watch industry in the 1970s and 80s brought lay-offs, plant closings, and an identity crisis to the Franche-Comté region, site of 80% of the country's watch production. This identity crisis was felt especially keenly in the regional capital, Besançon, which had always defined itself in terms of watchmaking. Gradually, however, a new local vocation began to emerge, as a number of companies from the watchmaking profession began to parlay their skills in transforming small metal parts into new market opportunities. Instead of (or in addition to) making components for watches, Franche-Comté companies began producing for the electronics, automobiles, and medical equipment sectors. This industrial savoir-faire came to be known locally as

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“microtechnologies,” in reference to the ability to craft tiny components to sub-micron tolerances.

During the mid-1980s, Franche-Comté Regional President and former French Premier, the late Edgar Faure began initiating discussions with industrialists and policymakers around the theme of microtechnologies. Faure and his advisors sought, on the one hand, to provide public recognition to this emerging area of Franche-Comté industrial prowess, and on the other hand, to devise a way of contributing to the future development of the sector. The first public initiative in 1988 came not from the region, however, but from the Doubs department. The *Agence de Développement Economique du Doubs* (ADED), the economic policy agency of the department, entrusted a consulting company, Euréquip with the task of assessing regional research potential in microtechnologies.

ADED’s leap into the domain of microtechnologies was a reflection of local interinstitutional rivalries. The agency, which was in a particularly activist phase at the time, sought to assert the primacy of the department over the region on key industrial matters, such as microtechnologies. While ADED’s aggressiveness triggered some resentment initially, relations among different local authorities were patched up, and it was agreed to sponsor the Euréquip study jointly. In addition to ADED, the principal public backers included the Franche-Comté region and the local branch of the Ministry of Industry, the *Délégation Régionale à l’Industrie et à la Recherche* (DRIR). Together, these three agencies covered two-thirds of the costs of the study.

In expanding the study’s sponsors, local officials also transformed its mission. Instead of focusing solely on regional technological potential, Euréquip was asked to assess the position of the industry as well, drawing comparisons to producers in other European nations. Thus, the Euréquip project reflected both the initial preoccupation of Edgar Faure’s cabinet -- industrial promotion and renewal -- and ADED’s interest in the

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5 The Franche Comté region counts four departments: Haute-Saône, Territoire de Belfort, Jura, and Doubs. Beançon is located in the Doubs, which is the largest of the four departments.
local technological potential. As a result of this superposition of missions, the cost of the study doubled from 1 million to 2 million francs.

While the Euréquip study had taken on an important industrial dimension, it had not taken on industrialists. The study was coordinated by a twelve-member "piloting committee," composed of officials from the three leading sponsors -- the region, ADED, and DRIR -- and other public backers (such as the city of Besançon). It also included what one local authority termed "the technocrats of technology," leaders of a variety of regional technical institutes involved in microtechnologies: the engineering school (ENSMM), the University of Franche-Comté, the Institut de Productique, a recently-created Institut des Microtechniques, etc. By contrast, not a single employer representative figured among the members.

The reasons for the absence of employer organizations were multiple. For starters, there was no obvious candidate. "Microtechnologies" is not a recognized industry, with a distinct professional representation. Any existing employer associations would have been imperfect by definition: the membership in the watch industry association is too narrow, covering only part of the microtechnologies sector, while that of the chamber of commerce or regional metalworking organization is too broad, including a host of firms with no interest in microtechnologies.

Interinstitutional rivalry further aggravated matters. Although none of the Franche-Comté industry associations was active in the field of microtechnologies, all resented the intervention of public authorities in what they considered to be their privileged domain. Local officials, particularly within ADED, reciprocated this antipathy. They considered the Euréquip study to be their initiative. It had originated as a study of local technology, rather than industry, so they had not thought initially to include business representatives. Even when the project was reoriented toward industrial applications, given that the purpose of the study was to inform public policy, not industry, officials maintained that there was no reason a priori to bring in an employer association. In any case, they had taken the
precaution of inviting a few industrialists on an individual basis, which they felt was more than sufficient to assure the validity of Euréquip’s analysis.

Eventually, industry associations did join the microtechnologies project in mid-course, but their participation was both reluctant and marginal. The employer representatives regularly criticized the high costs of the project, even though they bore a very small proportion of these expenses. They also denigrated the conclusions, arguing that Euréquip was merely revealing what everybody already knew. Not surprisingly, when it came time to move beyond the study to the implementation phase, industry representatives dropped out of the picture.

Local officials had anticipated that the Euréquip study would offer a celebration of Franche-Comté industrial revival and an affirmation of a new economic identity. Instead, the report, issued in mid-1991, presented a somber analysis. Euréquip claimed that in contrast to microtechnology regions in other European countries (Germany, Switzerland, and Italy), Franche-Comté manufacturers are mechanical companies only, that is, their activities do not extend beyond simple metalworking operations. While possessing an undeniable micromechanical know-how, they have not extended and enriched this traditional set of skills through mastery of complementary chemical, computer, or electronics technologies. As a result, Franche-Comté companies remain confined to low-end, simple subcontracting operations. Not only are they unable to manufacture more complex, high value-added subsystems, they are increasingly vulnerable to foreign challenges, as workers in low-wage countries assimilate micromechanical know-how.

Local officials had been determined from the outset that the Euréquip report would not become just another consulting study sitting on shelves gathering dust. They had selected Euréquip largely because the company pledged to work closely with the authorities to translate its recommendations into concrete action. Beyond the analysis of the Franche-Comté industry and research potential, then, Euréquip, together with local authorities, identified three specific projects to promote the microtechnologies sector: 1) the
development of miniaturized automation equipment (for automating certain microtechnology operations); 2) the manufacture of an electronic sensor, measuring automobile acceleration, for the car industry; 3) the improvement of local surface treatment techniques. Each project was assigned to a public agency: miniaturized automation to the Institut de Productique; manufacture of the sensor to ADED and the region; surface treatment to DRIR. No project was attributed to an employer association (at least initially).

The first project, the development of miniaturized automation equipment, was vaguely defined and never got off the ground. Given what we learned in the last chapter about the functioning of the organization in charge, the Institut de Productique, this should come as no surprise. The second project, by contrast, was quite clearly defined. It was also extremely ambitious. As part of the strategy for developing the capacity of Franche-Comté microtechnology companies to integrate complementary technologies, officials proposed to mass produce an electronic sensor, capable of measuring a car’s acceleration, for the automobile industry. Although performed on silicon materials, the techniques needed to manufacture a sensor were seen as analogous to those involved in micromechanics (i.e. the ability to work on a reduced scale and to produce to sub-micron tolerances). Thus, from a technological standpoint, the project seemed within the reach of local metalworking companies.

The sensor project originated, not as a result of strategic analysis of the strengths and potentialities of Franche-Comté producers, but through a fortuitous personal contact. The head of the Institut des Microtechniques laboratory got wind of the possibility from a friend in Lyon, whose company had developed the new sensor. The Lyon company is strictly a contract research enterprise. It develops and licenses technologies, but conducts no manufacturing itself, so it was looking for a partner to commercialize the sensor. Officials in Besançon saw this as a golden opportunity. From a technological perspective.

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6 Surface treatment refers to a variety of processes (galvanizing, anodizing, etc.) used to apply a protective or decorative coat of metal to an object. The Franche-Comté companies described below coat parts by immersing them in a metal- and chemical-rich “bath.”
manufacturing a sensor would enable a Franche-Comté micromechanics company to acquire badly-needed electronics know-how. From a commercial perspective, the Northern part of the Franche-Comté region is home to the PSA auto manufacturer, so the micromechanics firm could tap an enormous local market.

While the sensor idea looked good on paper, putting it into practice was another matter. The venture was both expensive and risky. It required an initial outlay of some 5-6 million francs (roughly $1 million) with no pay-off for at least five years. What is more, PSA was skeptical of the product, although Renault showed some interest. Thus, a considerable commitment of time and money was demanded for a product whose commercial prospects were uncertain at best.

More important than the nature of the product, however, was the character of the Franche-Comté firms being called upon to manufacture it. The vast majority of microtechnology companies are small subcontractors, for whom $1 million might as well be $100 million. They simply do not possess the financial resources for such an undertaking, even if government authorities were willing to underwrite part of the costs. Nor do they possess the production know-how. Whereas manufacturing sensors for the auto industry involves churning out standard commodities, in high volume and at low cost, the traditional strengths of Franche-Comté subcontractors are in small-batch customized products, the proverbial "mouton-à-cinq pattes" (one-of-a-kind item).

Finally, few local companies possess the organizational structure for such a venture. In order to sell directly to Renault or PSA, a supplier must be able to negotiate and co-design products with the auto assembler's R&D department. In other words, the sensor manufacturer would need engineers capable of holding their own with the grandes écoles graduates populating the product development divisions of Renault and PSA. Yet the vast majority of Franche-Comté microtechnology companies do not design their own products, but rather execute orders from detailed blueprints furnished by their clients. R&D divisions are few and far between among these companies. Indeed, the number of
Franch-Comté microtechnology firms that employ even one engineer can be counted on both hands.

Local officials displayed tremendous energy and ingenuity in trying to overcome these obstacles. Since no existing Franche-Comté company appeared capable of handling the sensor project, a new firm was to be created with public backing. To reduce the costs of the project, officials not only offered a variety of subsidies, but brought in a Swiss partner to conduct part of the manufacturing. Much of the expense of manufacturing the sensor stemmed from the need for a "clean room," where operations on silicon could be performed. Rather than trying to convince a Franche-Comté company to build such a facility, officials struck a deal with a Swiss subsidiary of the SMH watch conglomerate that had spare capacity. The Swiss company agreed to manufacture the components, before gradually transferring the production and know-how to a Franche-Comté partner, presumably when the latter became convinced that the commercial prospects of the sensor justified the investment in a clean room.

Despite the best efforts of public officials, the sensor project never came to fruition. The price proposed by the Lyon contract research firm for its sensor technology seemed too high. More important, the Ministry of Industry, which had partially funded the development of this technology in the context of a EUREKA project, learned of the deal and became concerned that the technology would wind up in the hands of a Swiss firm. The Ministry found a large Parisian manufacturer that was willing to take over the venture. While local officials were piqued by the government’s meddling, privately, they expressed relief at being able to withdraw. In the words of one participant, local officials were in over their heads:

At this point, we reached the limits of collective action. Public authorities can identify promising markets. They can perhaps offer a few incentives to move ahead. But it’s not their role to create companies.

Although the automotive venture has been abandoned, local authorities have not given up on the idea of commercializing sensor technologies. Several projects are currently
under consideration, involving specialized, low-volume products that would be more suited to the financial and organizational possibilities of Franche-Comté companies. That said, all the projects being examined, for now at least, are premised upon the creation of new firms, typically spin-offs from university labs. Once again, public officials have identified technologies and potential markets, but are unable to identify Franche-Comté companies to exploit these opportunities.

The one venture resulting from the Euréquip study that does appear to be yielding concrete results concerns local efforts to improve the techniques of surface treatment companies. In many ways, this project constitutes the exception that proves the rule about the importance of a collective voice for employers. The idea for an operation on behalf of the surface treatment industry had been brewing even before the Euréquip study. DRIR/E officials, who are shepherding the venture, have always had extensive dealings with surface treatment companies through their responsibility for enforcing anti-pollution legislation. Surface treaters are notorious polluters, often dumping or failing to properly process the chemical-laden waters ("baths") used in applying coats of metal.

DRIRE engineers felt that the pollution problem was not simply an inevitable by-product of surface treatment activity. In many cases, pollution occurred, not as a result of faulty equipment or malevolent behavior by employers, but because of human error. Given the low wages and Dantesque working conditions prevalent in the industry -- oppressive heat, noxious fumes, and foul odors emanate continuously from the baths -- surface treatment companies tend to attract the least skilled employees, those unable to find jobs elsewhere. The absence of formalized quality control procedures compounds the risk of error. Consequently, it seemed that important gains could be made in preventing pollution

7 The Délégation Régionale à l'Industrie et à la Recherche (DRIR) was renamed Délégation Régionale à l'Industrie et à la Recherche et à l'Environnement (DRIRE) in 1991. At one level, this name change represented a simple recognition of the organization's traditional vocation in enforcing environmental legislation. The change was prompted, however, by the growing clout of the environmental movement in France. It was offered as a concession to then-Minister of Environment and Génération Ecologie leader, Brice Lalonde. The message was that although the DRIR/E seek to promote industry, they will not compromise their commitment to the environment.
through the introduction of more rigorous quality methods, along with a program to upgrade the skills of the workforce.

A national political initiative gave a further push to the Franche-Comté surface treatment venture. In November 1988, Minister of the Interior, Pierre Joxe and Minister of Industry, Roger Fauroux teamed up to bolster the role of France’s sub-prefects (state representatives at the arrondissement level). Some 50 sub-prefects, dubbed (somewhat pompously) “sous-préfets développeurs,” were allocated 400,000 francs each to assist local economic development projects. The initiative joined the Minister of Interior’s preoccupation with finding a new mission for his sub-prefects, who had lost much of their power as a result of decentralization, and the Minister of Industry’s commitment to local development.

In the Franche-Comté region, the DRIRE official responsible for economic affairs convinced several sous-préfets développeurs to fund a consulting study of the strengths and weaknesses of local surface treatment companies. The report, issued by ALGOE consultants in March 1990, sounded the alarm on the plight of the sector. The principal conclusion was that Franche-Comté surface treatment companies are backwards artisans, who have yet to enter the industrial age. Their equipment is antiquated, their procedures poorly defined, and their workers unskilled, uninformed, and unmotivated. What is more, the companies are positioned in banal market segments in danger of disappearing. Consequently, ALGOE recommended a full-scale remedial effort.

The Euréquip study essentially reproduced these conclusions. Indeed, in this area at least, employer criticism that Euréquip was adding nothing to what was already known appears justified. The surface treatment section was far and away the most superficial part of the report. Nonetheless, Euréquip’s validation placed the problems of surface treatment companies squarely upon the local political agenda.

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8 Lettre 101, No. 239, September 1989, pp. 4-5.
The most important actor in moving the surface treatment project forward, however, was not a consulting company or a government agency, but rather the PSA carmaker. In a sense, PSA would act as the collective voice of a sizable share of Franche-Comté surface treatment firms. PSA's intervention was neither disinterested nor even benign, but it did serve to coordinate the actions and priorities of its suppliers.

At the time of the Euréquip study, PSA was pushing to improve the corrosion resistance of its next generation of automobiles. Engineers at PSA wondered whether traditional techniques used by the firm's surface treaters could meet tougher new standards. They, therefore, commissioned a specialized laboratory at the University of Franche-Comté to consider various technical options. PSA put 200,000 francs toward the project, with public authorities contributing 600,000 francs in subsidies. In addition, PSA "invited" eleven suppliers to pay 80,000 francs each, noting that they would benefit from knowing which technologies they needed to master in order to retain PSA's business. Ultimately, a government agency, ANVAR cushioned this "Peugeot tax" by covering one-half of each supplier's contribution.

After considering several technical options, the University of Franche-Comté laboratory advised against adopting a radically new surface treatment technique, recommending that existing methods be adapted. In addition to coating auto parts with zinc followed by a layer of chromate, as they have in the past, surface treaters will be called upon to apply an organic, silicon-based film. This last operation requires far more precision than traditional methods; if not conducted properly, the various parts stick together, ruining the coating. Consequently, the PSA suppliers will need to move away from artisanal techniques and introduce more standardized, formalized methods. They will also have to teach their employees a new and more complex set of procedures. PSA's challenge, then, pushed frightened suppliers into the arms of the Euréquip project.

Although the ALGOE, Euréquip, and Franche-Comté University studies identified a number of possible areas of intervention, Franche-Comté officials were in a difficult
position when it came time to translate these ideas into practice. The authorities faced three basic challenges: 1) assuring that the measures identified by the consulting companies corresponded to the genuine preoccupations of surface treatment firms; 2) designing and implementing programs; 3) mobilizing firms to participate in these programs. An industry association would have been the natural vehicle for these tasks, serving as a bridge between public authorities and private industrial actors, but no such organization existed among Franche-Comté surface treatment companies.

Franche-Comté authorities gave serious consideration to trying to foster a collective employer interlocutor, either from scratch or by reconfiguring some other organization. There is a national surface treatment association in France, the Syndicat des Applicateurs des Traitements de Surface (SATS), but its existence is largely symbolic and few Franche-Comté companies are members. What is more, SATS officials declined to participate in a project that was regional, rather than national, in focus. On the heels of the ALGOE consulting study, one sous-préfet développeur had set up an employer association in the North of the region, but it, too was essentially a paper organization. What is more, if the geographic scope of SATS representation was too broad, that of the new employer association was too narrow, encompassing only a part of the Franche-Comté region. In the end, DRIRE authorities decided to get along without a collective business interlocutor. As one official related, this was most definitely a second-best solution:

If a surface treatment employer organization had existed in the first place, we wouldn't have had to take the measures that we did. It [the employer organization] would have devised its own projects, nicely adapted to the needs of the industry, and then asked us to fund them. Instead, we had to do everything: send out questionnaires, organize meetings, devise and implement programs. This is not our role.

DRIRE officials sought first to identify those proposals suggested by the consulting studies that truly corresponded to the interests of local surface treaters. Without an industry association to act as a sounding board (or to itself make propositions), DRIRE officials went directly to the companies. All 170 Franche-Comté surface treaters were invited to a
public meeting to voice their concerns. As one Franche-Comté official related, however, the response among the 40 or so employers who attended was less than hoped for:

Schneider-Maunoury [the DRIRE official in charge of the project] asked the employers to tell us what they needed, so that we could try to help them. No one answered. There was a long silence in the room, but we were determined not to let them [the employers] off the hook by speaking out first. After what seemed like several minutes, one of them finally stood up and declared, "It's not that easy, what you're asking. All of my competitors are in the room!"

DRIRE officials wisely turned to more private methods for identifying the interests of surface treaters. A questionnaire circulated to the companies proposed several prospective courses of action. One idea, to launch a promotional campaign on behalf of the sector, met with strong opposition. Given the broad image of surface treaters as uncaring polluters, employers felt that the best publicity was no publicity. Two other proposals -- one involving training for the workers who handle the treatment baths; the other focused upon quality control -- elicited enough favorable responses, albeit just barely, to convince DRIRE engineers to organize programs.

Despite the availability of government subsidies and the patent weaknesses of Franche-Comté surface treatment firms, only 10-12 candidates signed up for each program (out of 170 companies present in the region). The absence of an employer organization to serve as a go-between, to urge member firms to take actions to improve their quality and to lend credibility to the government-sponsored project, greatly hampered recruitment efforts. Indeed, the companies that did sign up were not the firms that appeared to be the most likely candidates on the basis of their market position and resources. Rather, the participants consisted of those companies that were exposed to a de facto collective industry actor, in the form of PSA.

Of the 170 Franche-Comté firms that perform surface treatment operations, 110 do so for internal usage only, as part of a broader production process. These companies were not serious candidates for the DRIRE venture. While some could be attracted to a program to institute total quality control throughout the factory, for example, they were not
interested in introducing such changes in just one unit. Thus, the real pool of candidates consisted of some 60 "merchant" surface treatment companies, those who sell surface treatment services to other firms and for whom surface treatment constitutes the sole vocation.

Of these 60 Franche-Comté surface treatment suppliers, 40 operate in the watch and jewelry trade and the other 20 in the automotive sector. The former apply coatings of precious metals for essentially aesthetic purposes; the latter apply zinc to prevent corrosion. The microtechnologies program was aimed at the former group. These companies correspond to the microtechnologies image and vocation: they are current practioners or descendents of the watchmaking craft; they are engaged in the production of high value-added items; and they work with very small parts. The latter, by contrast, labor in the paradigmatic mass production industry, applying cheap materials to coat thousands of standard, low-priced parts, of large and small size alike. Yet in the end, none of the watch or jewelry companies signed up for the DRIRE programs, whereas over one-half the auto suppliers participated.

Experts are in broad agreement that the quality and organizational structures of the watch and jewelry companies are no better than those of the automotive suppliers. What is more, there is always room for improvement, and companies operating in luxury markets should presumably be especially receptive to opportunities to enhance quality. Likewise, given their use of very expensive metals, one would expect these companies to seize upon any and all possibilities to reduce waste. The explanation of the differential participation, then, cannot be reduced to economic factors, or even to the intentions of policymakers (who had targeted the watch and jewelry surface treaters, the group that did not participate). Rather, it lies with PSA.

Despite mediocre quality levels and defective surface-treating processes, the suppliers to the watch and jewelry industries were under no pressure from their clients to change their ways. They displayed little interest in the kinds of programs being proposed
within the microtechnologies project. PSA's suppliers, by contrast, were under severe pressure. As noted earlier, the automaker was raising its anti-corrosion standards, a move that entailed significant logistical, organizational, and personnel changes for the companies that sought to retain its business.

PSA's role was not strictly negative, however. It had involved its suppliers in the University of Franche-Comté study to define the surface treatment processes needed for the next generation of products. Granted, this enabled PSA to offload part of the costs, but it also encouraged the suppliers to think strategically, to gain an understanding of the technological challenges with which they were confronted, and to plan for the future. The study also brought these previously isolated companies together for the first time, laying the groundwork for possible collective action.

Finally, PSA placed the plight of automotive surface treaters on the public agenda. The authorities financed a substantial portion of the 1.7 million-franc University of Franche-Comté study, through direct grants (600,000 francs) and by covering one-half the contribution of the eleven surface treaters (11 x 40,000 francs = 440,000 francs). In this way, officials became aware of the challenge confronting the surface treatment suppliers and of the fact that these companies would probably be unable to meet the challenge without public assistance.

In short, by dint of sheer size, market power, and importance within the Franche-Comté region, PSA served as a de facto collective representative of its surface treaters. Although its motives were far from selfless, PSA assured several of the key functions that officials were hoping to see performed by an employer association: identifying the needs of the firms, suggesting possible areas for collective intervention, and mobilizing individual companies to take part in publicly-sponsored programs. It is no coincidence that of all the initiatives associated with the Franche-Comté microtechnologies project, this was the only one in which existing Franche-Comté companies participated.
Even with this push from PSA, however, DRIRE officials were not out of the woods. While PSA brought its suppliers to water, it did not run the quality control and worker training programs from which they would drink. DRIRE still needed an agent to administer these programs. It was at this point that local employer associations, previously marginal within the microtechnologies project, began to reenter the picture. DRIRE officials turned to the metalworking association, the *Groupe des Industries Métallurgiques et Mécaniques* (GIMM) to design and implement a training program. In collaboration with GIMM, DRIRE officials were able to determine that the greatest need among surface treatment companies is not for high-end training, but rather for remedial programs aimed at the workers who operate the baths. Most of these employees never finished high school, and many are borderline illiterate. While this did not prevent them from performing their job in the past, in order to administer the new coating processes required by PSA, they will need a basic knowledge of different surface treatment procedures as well as the ability to plot results on graphs and perform simple calculations. In the fall of 1992, one-dozen of these bath operators began a 120-hour catch-up course under the aegis of GIMM trainers.

DRIRE officials have had less success in launching their quality control program. Initially, authorities planned to work with the *Institut de Recherche et de Développement de la Qualité* (IRDQ). The problem is that IRDQ is not a local employer association, dedicated to servicing the needs of member firms in the most efficient way possible. Rather, although based in Besançon, it is a national organization, seeking to conduct cutting-edge operations in quality control, operations that can then serve as models for other organizations around the country. IRDQ intervened, for example, in helping to assure the quality of tourism services for the 1992 Albertville Winter Olympic games. Thus, whereas DRIRE officials wanted a broad project, involving as many companies as possible, IRDQ was less interested in administering a collection of routine quality programs among backwards surface treaters than in focusing its efforts upon a single company, in the hope of generating another exemplary project. After much negotiating, it was agreed that IRDQ
would conduct an intensive operation with one of the more advanced surface treatment companies, while professional quality control consultants would be brought in to work with the other firms. Meetings would be held periodically to present the results of the model project conducted by IRDQ to the other companies.

This complex, two-track strategy encountered financial and administrative problems, however. Government subsidies are available to cover up to 50% of the costs of professional consulting services, but because IRDQ is considered to be a research organization, not a consulting company, its services were ineligible. Local officials, therefore, had to come up with another way of paying IRDQ’s bill. By the time they found a solution, the company that was to have been the object of IRDQ intervention had been acquired by another firm, which canceled the deal. Meanwhile, the other surface treaters that had been interested in serving as a pilot project had begun working with private consultants and were unwilling to shift to IRDQ. Further complicating matters, rumors began circulating that IRDQ was in financial trouble and possibly going out of business. As a result, while the intervention of private quality control consultants has gone ahead as scheduled, the future of the IRDQ-led exemplary project remains uncertain.

By all accounts, the results of the Franche-Comté microtechnologies program have proven disappointing. Of the three priority projects, one never got started (automation equipment), another was too ambitious for the capacities of local companies (mass production of an automobile sensor), and the third (aid to surface treaters) has mobilized only a small proportion of the industry, and the most backwards firms at that. Even the modest success of this latter project must be qualified: program implementation is running one year behind schedule, and some themes, such as the exemplary quality operation, may yet be canceled.

The microtechnologies venture has also missed its target audience. Amazingly, given the stated intentions of public officials, none of the projects proposed to date involve Franche-Comté microtechnology companies. The automobile sensor was to have been
manufactured, not by an existing microtechnology enterprise, but by a company created with public backing for the purpose -- and only after an initial trial period during which a Swiss partner would have handled most of the production. Current ideas for customized, low-volume sensors all revolve around start-up companies, notably spin-offs from university labs.

While Franche-Comté firms are participating in the surface treatment project, these participants are not microtechnology companies. The segment of the surface treatment industry that clearly corresponds to the microtechnologies vocation is the suppliers to the watch and jewelry trade, companies that apply fine coats of precious metals to small, high-value-added objects. None of these firms signed onto the Euréquip venture, however. Instead, the participants consist of some of the most backwards elements of the auto industry. The vocation of these firms is virtually the antithesis of microtechnologies: they are mass producers (not batch producers) of standard commodities (not luxury or high-tech items), in all shapes and sizes (as opposed to miniaturized output only). Whatever the merits of assistance to these firms, action on their behalf represents remedial efforts in the auto industry, not a step to promote microtechnologies.

Both the limits and achievements of the microtechnology project point to the crucial role of employer associations. The projects defined by public officials and consulting companies may have looked good on paper, but they did not correspond to the needs and potentialities of existing Franche-Comté microtechnology firms. Because of this dysjunctures between the best intentions of the political milieu and the realities of the industrial milieu, the projects either languished or were taken up only by firms outside the Franche-Comté microtechnology sector.

It was not just the definition of projects that was undermined by the absence of a collective employer interlocutor. Even when public authorities identified a genuine need among Franche-Comté firms (such as quality control) and devised measures to address this need, they still confronted the problem of enlisting the participation of target firms.
Without a representative employer association to serve as a mediator between public initiatives and private interests, to validate the project in the eyes of members, the insular world of Franche-Comté SMEs remained largely impervious to the entreaties of local officials.

The one exception to this pattern of employer indifference, roughly one-dozen automotive surface treaters, was precisely the instance in which a *de facto* collective employer actor could be said to exist. In bringing its suppliers together to define future anti-corrosion techniques and demanding that they implement more demanding procedures, PSA provided the forum, the agenda, and the motivation for collective action. PSA also provided the contacts with public officials, drawing attention to the difficulties of its surface treaters and their need for assistance. While none of PSA’s actions were disinterested -- quite the contrary -- they fulfilled an essential coordinating function.

When officials moved to the implementation phase of their programs, they were again handicapped by the absence of a collective business partner (even in the case of the project orginated by PSA). Public authorities lacked the means to administer quality control or worker training programs themselves. Ideally, they would have liked to hand these responsibilities over to an industry association, but in the area of microtechnologies and the narrower field of surface treatment, no such partner existed. Consequently, they improvised, working with organizations whose interests are broader or tangential to those of the microtechnologies sector (GIMM, IRDQ). Stitching together these ventures has proven awkward and time-consuming. In the case of IRDQ, the operation appears to have unraveled. Most important, as illustrated by the battle to define the content of IRDQ’s intervention, these partners, unlike a representative employer association, must juggle a variety of preoccupations and are, therefore, not necessarily wholly dedicated to servicing the needs of the target companies.

One final dilemma posed by the absence of an employer interlocutor concerns the future of the microtechnologies venture. To date, the project has been carried by public
officials, consulting companies, and PSA. With the missions defined in the Euréquip study drawing to a conclusion, the microtechnologies venture appears to be losing momentum. As one concerned official related, without a collective voice among microtechnology employers pushing for further action, efforts to aid this sector are unlikely to be renewed:

We are in a bit of a bind right now. We have signed sectoral planning contracts in the watch, toy, and eyeglasses industries, but we have nothing like this going in microtechnologies. We thought that the existence of a microtechnologies industry would become self-evident as a result of the Euréquip study. But it didn’t happen. Microtechnologies does not exist as a sector, with its own industry representatives. As a result, we cannot sign a progress contract [i.e. a sectoral planning contract], and there is no institution to coordinate common actions among microtechnology companies.

Reorganizing Interests: French Industry Associations in Transition

While the cleavage between industry associations and local policymakers runs deep, there are signs that this relationship may be evolving. Both Beançon and Saint-Etienne have witnessed considerable organizational effervescence among business groups in recent years. This effervescence has been driven by two processes: public sponsorship of new employer associations, on the one hand, and the renewal of existing associations, on the other.

As described above, one of the great disappointments of the Franche-Comté microtechnologies project was the inability of officials to detect or create an employer association to serve as a partner in promoting the industry. Regional officials have been more successful in other areas, however. The region has signed multi-year sectoral planning contracts with several key local industries, including producers of watches, toys, and eyeglasses. In contrast to the microtechnologies project, each of these planning contracts was negotiated with an industry association.9

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9 This account is drawn from Franche-Comté regional planning documents as well as interviews with Philippe Treillé, Director of Economic Action, Franche-Comté Region, 22 October 1990, 15 and 19 June 1992.
The watch, toy, and eyeglass sectors were targeted by regional officials for several reasons. In each case, the Franche-Comté represents a sizable share of French national output. For all intents and purposes, the regional industry is the national industry, hence a regionally-based approach makes sense. On the downside, these are sectors in which France is not very competitive: imports capture over one-half the domestic market, and Franche-Comté firms are threatened by severe international competition. Thus, if nothing is done, the region is likely to suffer significant economic hardship. Finally, in all three sectors, production in Franche-Comté is organized among a myriad of small producers. Regional officials, therefore, feel that they can make a difference, that they can help address a number of common concerns in the industry that each firm, taken individually, lacks the resources to meet (worker training, export promotion, development of new products or new materials, etc.).

The first sectoral planning contract was signed in 1988 with the watch industry, which has always possessed a strong professional organization. Regional planners found that having such a partner greatly facilitated the process of detecting industry needs, devising and implementing programs, and assuring the participation of member firms. Collaborating with an industry association offered political, as well as technical and economic benefits. As the official in charge of these contracts was quick to point out, such an approach insulates the region against charges of dirigiste behavior:

This is not like Parisian industrial policy, like state sectoral policies of the past. None of our measures are imposed from above. Rather, they are a response to requests from below, from the base.\textsuperscript{11}

Regional officials have been so taken with the advantages of working through an industry association that they have actually helped create such organizations where none existed. The toy industry possessed no collective representative, but there was a non-profit

\textsuperscript{10} The percentage of French production in the Franche-Comté region is 80\% for watches, 50\% for eyeglasses, and 33\% for toys. In the latter two cases, production is more geographically concentrated than the numbers indicate because it spills over from the Jura department, in the South of the Franche-Comté, into the neighboring Ain and Haute-Savoie departments of the Rhône-Alpes region.

\textsuperscript{11} Interview with Philippe Treille, Director of Economic Action, Franche-Comté Region, 15 June 1992.
association in charge of running an industry-sponsored “maison du jouet” to promote the sector in the public eye. Regional officials helped transform this organization into a collective interlocutor. An eyeglass industry association existed, but lay dormant, until revived with regional encouragement. In each instance, the region tendered prospective benefits from a planning contract as the carrot to induce local industrialists to organize.

It is now official regional policy to sign sectoral contracts only in response to requests from a representative employer association. As a result, local artistic artisans recently created a professional organization in order to negotiate a plan for the so-called “métiers de l’art.” Regional authorities have not given up completely on an association for the microtechnologies sector. An embryonic organization, GEDITEC, was created in 1978 as part of an effort to encourage watchmakers to diversify. This organization has done little during its fifteen years of existence and counts only a dozen or so members, but regional officials intend to subsidize it and help it develop a staff, so that it might assume weightier responsibilities in the future. They are also looking at the possibility of organizing auto suppliers, a sector that dwarfs all the other industries involved in the planning contract process to date.

The experience of Franche-Comté authorities is by no means unique. Intercommunal development organizations in the vicinity of Saint-Etienne have likewise sought to promote or even create employer associations to serve as interlocutors in designing policy. Like their Franche-Comté counterparts, they were not drawn initially to this approach. Neither the Pays du Gier, a twenty-three community association to the North of Saint-Etienne, nor the seven-member Ondaine Développement, to the South, worked with local business leaders in devising measures for three-year “Basin Development Contracts” signed with the Rhône-Alpes region in 1990. Subsequently, however, they began to rethink their methods.

The evolution of the Pays du Giers Basin Contract offers a kind of small-scale version of the process and problems encountered in the Franche-Comté microtechnologies
project. The head of the *Pays du Gier*, Serge Malfois, whose expertise is in environmental matters, readily admits that neither he nor other officials involved in devising the contract possessed a sense of how to promote local industry. The Basin Contract, in his words, was a “fishing expedition”: it was driven by no clear strategy, but rather combined a variety of right-sounding proposals. Most of these proposals, such as establishing partnerships with similarly-situated agglomerations in Spain and Germany, were vaguely formulated and never seriously pursued.

Of the three economic projects emphasized by Malfois, two reflected the familiar “developmentalist” orientation characteristic of political elites, pitching to external investors, rather than endogenous enterprises. The so-called “Plastics Operation” sought to identify areas in which local plastics producers were weak and then fill these voids by bringing in outside companies. An “Agro-Foodstuffs Operation” looked to lure a company that might make use of local agricultural output. Both ventures saw economic development as dependent on the ability to land an outside investor -- in contrast to a “productivist “approach that would have sought to assist plastics companies to diversify their offerin or agricultural producers to adapt their output to the needs of the agro-industry. While framed in terms of offering opportunities for local firms, it is by no means clear that the arrival of companies operating in complementary market segments would have generated additional business. Geographical proximity is no guarantee of contracts. In any case, neither the plastics nor the agro-foodstuffs prospecting missions succeeded in bringing in new companies.

The third economic project, promoting local exports, was more “productivist” in orientation. The problem is that Gier officials had not devised any measures for achieving this laudable objective. During the first two years of the Basin Contract, the program lay dormant. It was not until the final year that the *Pays du Gier* hit upon an idea, putting local

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companies in contact with a company specialized in prospecting foreign markets. The company, known as PREMICE, works on a quasi-contingency fee basis, charging a minimal fee to search for foreign clients, while earning most of its revenues from commissions on any resulting sales. Given the minimal up-front cost (reduced further by Pays du Gier subsidies), the program has proven quite popular among cash-strapped local SMEs.

As in the case of the microtechnologies program, the one successful element of the Basin Contract constitutes the exception that proves the rule about the importance of employer associations. The idea of working with PREMICE originated, not with the Pays du Gier, but with a recently-created business association, the Groupement pour l'Innovation, l'Etude, et la Recherche (GIER). GIER had been launched by employers in the Gier Valley to provide a forum for informal discussion and exchanges of clients, but it has since become more involved in local development initiatives, with the blessing of public authorities.

The Pays du Gier has sought to boost the GIER organization and to give it a greater role in defining and implementing public action. Director Malfois noted that in addition to the PREMICE venture, a guide to local worker training programs had been drafted recently at GIER's request. Malfois dutifully recited the concerns of local industrialists, as communicated to him by GIER -- worker training, joint provision of services, ties to universities and technical institutes, the promotion of exports, aid to new firm creation, etc. -- while conceding that few of these had been included in the 1990 Basin Contract. The next Basin Contract will be different, however. This time, Malfois predicted, it will be up to industry to define its agenda: "Me, I have no ideas. I do not want to have any. I want the companies to be the ones with the ideas."

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13 A client pays 20,000 francs to have PREMICE prospect one foreign market for one year. If PREMICE is able to put a deal together, it receives a commission; if not, it refunds one-half the 20,000 francs. From PREMICE's perspective, the real money to be made is through commissions, not 10,000-franc fees.
The experience of *Ondaine Développement*, to the South of Saint-Etienne, parallels that of the *Pays du Gier*.¹⁴ Like their counterparts to the North, the seven communities of the Ondaine Valley signed a Basin Contract with the Rhône-Alpes region. The economic provisions of the contract were drafted with no input from business and have subsequently foundered. Once again, an employer association has emerged with public encouragement, the *Club des Entrepreneurs de l’Ondaine* (CLEO), and the head of *Ondaine Développement* hopes that it will play a greater role in the next Basin Contract.

Like GIER, CLEO has specific grievances about the initial Basin Contract. The head of CLEO complained, for example, that expensive machinery purchased under the contract for local technical schools should have also been made available to industrialists, particularly since the machines operate only a few hours per day in the schools. By and large, though, CLEO’s concerns lay elsewhere. As noted in the previous chapter, the core of the *Ondaine Développement* agenda, the creation of a so-called "*Maison de l’Ondaine*" to coordinate local efforts to attract outside investors and to assist existing enterprises, never saw the light of day. The climate for cooperation was undermined by bitter intercommunal rivalries and the determination of several members to avoid sharing corporate tax revenues. In short, real estate considerations triumphed over the logic of joint economic strategy.

The director of CLEO does not hide his disgust over the sabotaging of the *Maison de l’Ondaine*, denouncing the feuding municipalities in the Valley for devoting their energies to stealing each other’s companies, rather than working together to improve the troubled Ondaine economy. Beyond specific changes in the next Basin Contract, he noted, CLEO will be pressing for a change in the behavior and priorities of local authorities.

From the standpoint of *Ondaine Développement*, then, CLEO offers more than a partner for devising policies adapted to the needs of local industry. The fledgling industry association provides a much-needed political ally in the battle against municipal officials. Together,

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Ondaine Développement and CLEO are hoping to move member municipalities away from divisive and self-defeating "developmentalist" or real estate policies, toward a more collaborative, "productivist" approach, as symbolized by the creation of the Maison de l'Ondaine.

Alongside the efforts of local officials to refashion the institutional landscape by fostering employer associations, a number of existing associations have begun refashioning themselves. Ultimately, this latter set of changes may prove the more significant development, for the established associations possess greater resources and contacts among member firms than the fledgling organizations cobbled together with public support. Whatever its significance, it is certainly a surprising development.

Until recently, few would have looked to employer associations, particularly provincial representatives of SMEs, as potential agents of industrial modernization. Many of these associations were in a deep state of organizational slumber, widely derided as "civil service bureaucracies" (the ultimate insult to a business organization), populated by "kindly grey-haired men," whose best years were behind them. Others possessed, if anything, an even worse image. Guardians of the Malthusian outlook prevalent among the most backwards and anti-labor segments of French small-scale enterprise, this latter group of associations saw its chief mission as limiting "disruptive" wage competition -- by discouraging new companies from coming to the agglomeration and by enforcing a low prevailing wage among local employers.

The surprising renewal of long-dormant or Malthusian employer associations derives from a number of factors. One is the evolution of French business attitudes. Increasingly, employers want more from their associations than aid in holding down wages and combating strikes (which is not to say that they disdain these "services"). As noted above, many are also interested in worker training, new technologies, and the latest management techniques. Both changing generations (the substitution of professional managers for the self-made company founders of the postwar period) and changing market
conditions (the emphasis upon quality and innovation) underlay these attitudinal shifts. Thus, there is considerable internal pressure for employer associations to adopt more modernist missions.

Renewal is also driven by financial calculations. Many associations rely heavily upon so-called "parafiscal taxes," a levy upon member firms or industry sales. During the 1970s and 80s, the yield from this tax diminished along with fortunes of French industry: as Japanese watchmakers displaced French watchmakers, for example, the French watch association lost revenues. In addition, for several years, it was rumored that EC competition policy would put a stop to the practice of parafiscal taxation, although this concern has since been laid to rest. Given the cloud hanging over parafiscal taxation, many employer associations have been looking to develop alternative sources of revenue, principally by selling services to industry. This has led them to reexamine their traditional mode of operation and relationship to member firms. The financial resources of the association are no longer seen as a fixed function of total industry sales or membership. Rather, these resources have become variable, reflecting the organization's ability to detect company needs and provide appropriate services at a reasonable price.

A third, related factor in the transformation of certain employer associations has been the emergence of SMEs as an object of public intervention. Whereas in the past, provincial SMEs were viewed as a declining race, they have become a far more attractive and prestigious target for policymakers. This translates into both a threat and an opportunity for industry associations. The threat is that if they neglect the emerging needs of their SME membership, a host of local rivals stand ready to try to supplant them. The opportunity is that since they already have a foot in the door with these companies, they can potentially become important purveyors of services, thereby both alleviating their budgetary difficulties and establishing their leadership in a prominent local policy area.

Finally, in understanding the renewal of industry associations, one should not ignore the fact that this is a contingent process. Common pressures have not produced a
uniform shift across France: the majority of employer associations continue to function as before. Among those that have shifted in a new direction, the turning point has invariably been the arrival of a new director, who introduced both new objectives and the willingness to shake up the organization in order to achieve them.

One of the first employer organizations to move in a new direction was the metalworking association in Saint-Etienne, the Syndicat Métallurgique Patronal de la Loire (SMPL). Although headquarterd on the Boulevard Karl Marx, the SMPL was not known for its progressive labor stance. On the contrary, the traditional vocation of the organization was to enforce a low prevailing wage among Loire metalworking companies and to provide legal advice and assistance during labor conflicts.

In 1980, a new set of directors was appointed to the SMPL with the objective of giving the organization a more positive vocation. Beyond the "defense of the enterprise" (against worker demands), the SMPL would assist in the development of the enterprise. It would help increase the size of the pie, not just of management's slice. The SMPL has focused upon immaterial or organizational objectives, encouraging employers, particularly among SMEs, to modernize their management methods. It now administers a variety of programs in strategic planning, human resource management, and especially quality control.

Beginning in the mid-1980s, the SMPL took the lead in promoting the diffusion of quality control methods among local SMEs, at a time when such methods had not yet attained widespread acceptance. In recent years, working in partnership with the local DRIRE representative, it has been able to tap government subsidies that cover up to 50% of the costs of the quality programs. These funds have proven extremely helpful in overcoming the traditional reticence of SMEs toward new investments, a reticence that is

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heightened when the proposed investment is in people and organizational structures, as opposed to machines. The SMPL’s contacts among local SMEs have made it an ideal vehicle for the government’s objective of opening SMEs to outside services and ideas. As an employer association, it has been able to push the quality theme with far greater credibility than government technocrats. What is more, it possesses the staff (now numbering over 40 full-time employees) to implement the programs itself. Thus, instead of proposing that a firm make use of quality control program, but then turning over those companies that express an interest to professional consultants, the SMPL stays with the interested parties.

The SMPL’s quality control programs have reached literally dozens of SMEs in the Loire department. Participants are virtually unanimous in praising these programs for causing them to accelerate their efforts to improve quality. What is more, quality programs tend to have valuable organizational spill-over effects, providing a handy vehicle for launching a broader process of "de-Taylorization" (eliminating the rigid division of labor and narrow specialization associated with Taylorism). Once it is conceded that quality begins with the workers on the line, rather than inspectors at the end of the line, it follows logically that responsibilities must be shifted downward from managers and inspectors to workers, and these workers must be trained to exercise their new responsibilities. The quest for quality leads not only to flattened hierarchies, but to improved horizontal communications. In order to manufacture good products on time, the sales department must not promise what production cannot deliver. R&D must design items that are easy to manufacture, etc. Finally, the organizational changes inaugurated by quality control ventures tend to be self-sustaining. Companies that are sensitized to the multiple dimensions of quality -- not only the quality of products, but rapidity of innovation, responsiveness to client demands, punctuality, service, etc. -- and to the variety of human and organizational factors that contribute to quality are never satisfied with their results. Whatever their achievements, sources of "non-quality" are ever-present, and there are
therefore always improvements to be made. Thus, the transformation of company structures touched off by the SMPL often extends well beyond simple quality control methods.

The SMPL has benefited greatly from its quality control programs. It is paid for its services, but has earned more than money. By providing a useful service, the SMPL has earned the respect and trust of a notoriously insular clientele. It has also gained an intimate knowledge of the functioning of local SMEs, of their problems and weaknesses, which it is able to use as a basis for developing further initiatives. Politically, the SMPL has positioned itself as an essential interlocutor for any program directed at local SMEs. While its primary expertise is in quality control measures, it has also been solicited by other local agencies to help implement programs to encourage SMEs to make greater use of productique equipment, composite materials, and computer software.

The SMPL is by no means the only employer association to shift course. Another association that is reorienting its action is the collective research and technology transfer organization for the metalworking industry, the Centre d'Etudes Techniques de l'Industrie Métallurgique (CETIM).16 Traditionally, CETIM has focused upon general-purpose research, conducting studies on various metallurgical questions that are then made available, without charge, to the entire membership. This activity is financed by a parafiscal tax, the reasoning being that a universal tax should underwrite services of interest to all. In addition, CETIM has offered a variety of services to individual companies on a pay-as-you-go basis. These include: testing of materials, testing of measuring instruments, and technical trouble-shooting (assistance, for example, in figuring out why a metal part tends to be brittle and snap and what kind of changes might resolve the problem).

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16 Interviews with Jean-Gabriel Schamelhout, Franche-Comté Regional Delegate, CETIM, 11 October 1990; André Roch, CETIM Saint-Étienne, 15 October 1992; Daniel Goutte, Director of Actions de Proximité, CETIM Saint-Étienne, 30 October 1992.
Until recently, CETIM's research vocation dwarfed its provision of services to companies. Roughly 80% of the organization's budget derived from the parafiscal tax, with only 20% coming from individual clients. In the late-1980s, CETIM leaders debated whether to withdraw entirely from the service provision business, focusing solely upon collective research, or alternatively, to try to strike a closer balance between the two activities. After a protracted battle, they opted for the latter approach. Among the reasons for this choice, officials cited: the uncertainty surrounding the legality and yield of the parafiscal tax; the belief that to be truly useful, CETIM should "get out of the laboratories and into the companies"; the sense that there were real opportunities to help provincial SMEs; the desire to emulate the celebrated German technical centers (Fraunhöfer), which are financed in roughly equal proportions by membership dues and charges for services to individual companies.

As of 1992, CETIM had increased the share of its revenues provided by industrial clients from 20% to 35% of its budget, with a target of 50% in 1995. This more commercial orientation has prompted a number of changes within the organization. On a general level, the word is out that CETIM engineers are to see more companies and drum up business, rather than waiting for clients to come to them. This change applies not only to individuals, but to the organization itself. CETIM is likewise being restructured to facilitate client contact. Roughly one dozen "centers of proximity" are being created around the country (they already exist in Mulhouse and Grenoble), so as to place a variety of modest, but useful services within easy access of provincial SMEs.

CETIM has been organized around three large research centers, located in Senlis (a suburb of Paris), Nantes, and Saint-Etienne. This structure corresponded to CETiM's vocation as a cutting-edge research organization, rather than a provider of all manner of services to SMEs. While industrialists with complex problems may be willing to travel halfway across France to consult with CETIM experts, provincial SMEs will not do so to have the accuracy of their instruments checked. The creation of "centers of proximity"
reflects the recent reorientation in CETIM strategy. The services they offer are relatively simple and targeted at SMEs: measurements of parts, analysis of materials, verification of measuring devices, inspections for quality certifications, etc. Most important, they are easy to reach. Once all of the centers of proximity are in place, few clients should have to travel more than 50 miles.

CETIM is adapting in other ways to make itself more appealing to potential clients. The organization is seeking to develop new specializations that reflect emerging preoccupations within industry. Metalworking generates large quantities of toxic discharges, from the oils used to lubricate machines to the chromate-laden baths of surface treaters. With tightening environmental regulations, many SMEs are confronting complex and expensive obligations that they scarcely understand. CETIM is, therefore, creating consulting services in environmental regulation and the processing of industrial wastes.

CETIM is also expanding its operations, notably in Saint-Etienne. The staff is expected to increase from 100 to 150 over the next three to four years. Saint-Etienne was chosen as the site of expansion over Senlis because CETIM wishes to decentralize away from Paris. It was chosen over Nantes because it is located in a far more dynamic industrial region (Rhône-Alpes, the most heavily industrialized region in France, as opposed to the relatively underdeveloped Pays-de-Loire).

Another collective research organization undergoing a remarkable transformation is the watch industry’s Centre d’Etudes Techniques de l’Industrie Horlogère (CETEHOR).17 Founded shortly after the War, CETEHOR developed and transferred a variety of cutting-edge technologies to the French watch industry, including watch springs, shock-absorption

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17 Interviews with Louis Gavignet, retired industrial design teacher, who worked on quartz prototypes for CETEHOR during 1970s, 8 October 1990; Michel Froelicher, Technical Director, CETEHOR, 22 October 1990 and 10 June 1992; Jourdain, Quality Control Director, CETEHOR, 31 October and 13 November 1990; Jean-Jacques Gagnepain, President of Board of Directors, CETEHOR, Research Director in Engineering Sciences, CNRS, and Director of Institut des Microtechniques, 8 November 1990; Michel Dalin, Director, CPDH and General Director, CETEHOR, 8 November 1990; the late Paul George, Director of R&D at Lip from 1961 to 1972 and Director of the CETEHOR, from 1972 to 1982, 8 November 1990; Michel Joliveau, Technology and Conservation of Energy, Franche-Comté Region, 3 June 1992; Jean Guenot, Research Director, CETEHOR, 5 June 1992; Jean-Claude Toutain, ADEI, 9 June 1992.
systems, and unbreakable power supplies. The failure of the French industry to catch the quartz revolution cannot be laid at CETEHOR's doorstep, as in this instance, too, the organization had developed the necessary technology.

In the 1980s, by contrast, CETEHOR stagnated. Caught up in the battles tearing apart the French watch industry, the organization was paralyzed. Beyond petty personal conflicts, industrialists were divided over the basic mission of CETEHOR. The watch profession wanted the research lab to remain firmly wedded to its traditional vocation, developing new technologies that could be applied to the manufacture of timepieces. Others, however, were calling for CETEHOR to broaden its scope, to branch into "microtechnologies," so as to assist watchmakers in a desperately-needed diversification. An external audit conducted in 1982 urged CETEHOR to begin working in microtechnologies, but this change was resisted by the director in place (with the backing of the watch profession).

The 1980s were largely a lost decade for CETEHOR. The decline of the French watch industry eroded CETEHOR's customer base for industrial services, yet the organization was prevented from developing new services in microtechnologies. As a result, CETEHOR's financial resources shrank. Equipment was not replaced, nor were researchers. Indeed, the staff was reduced from 60 to 40, with those remaining not necessarily the most dynamic elements.

By the mid-1980s, amidst rumors of corruption and questions over whether the CETEHOR served any useful purpose, there was talk of closing the lab. A number of officials associated with CETEHOR, including at least one former director, argued that the parafiscal tax on watch sales that financed the organization was simply a waste of money. "We were this far from being wiped off the map," notes the current Director, Michel Froelicher. With the government threatening to cut off the parafiscal tax, the stalemate within CETEHOR was finally broken. In 1989, the CETEHOR Administrative Council (i.e. Board of Directors) fired the Director, a watch industrialist staunchly opposed to
actions outside the industry, and brought in an entirely new management team. The President of the Administrative Council, the Director, and the Technical (i.e. operational) Director were replaced, and the personnel was substantially overhauled: in the next four years, a dozen researchers were retired or fired, yet staff grew by 50% (twenty people) due to new hires.

CETEHOR’s leadership has pursued two basic objectives. The first is managerial, to make CETEHOR more responsive to the needs of member firms. Director Froelicher insists that CETEHOR must demonstrate to industrialists that they are getting something in return for their parasfiscal taxes. Part of this effort is simply one of communication. Prior to Froelicher’s arrival, CETEHOR had never reported on its activities; now, an annual presentation is made to the profession. Froelicher also holds regular meetings with industrialists, pitching CETEHOR research projects that he believes are ripe for commercialization. Leaving nothing to chance, he recently hired a Director of Communications.

Beyond improved communications, CETEHOR is striving to tighten its links to industry. Like CETIM, it is boosting the sale of services, so as to reduce dependence upon parasfiscal taxes, which currently account for over 70% of CETEHOR’s budget. In following the market, CETEHOR has expanded its routine testing facilities for inspecting the accuracy of watches, the quality of metal applications, resistance to corrosion and water, and the accuracy of tools and measuring instruments used in manufacturing. These facilities may not represent the technological cutting-edge, but like CETIM’s “centers of proximity,” their services are in great demand among local SMEs.

CETEHOR is seeking to lead the market as well as follow it, hiring researchers in emerging microtechnologies applications -- micro-electronics, chemical processing, and micro-motors -- that are seen as the growth markets of the future. In addition, for the first time in its history, CETEHOR now employs full-time sales representatives to drum up business. Taken together, the various measures appear to be bearing fruit. In 1991, a
recession year, CETEHOR’s sales of services rose over 50%, albeit from a relatively modest figure of 3 million francs.

The second objective of the new CETEHOR management concerns the organization’s basic identity. CETEHOR is pursuing a delicate balancing act between diversifying into microtechnologies and remaining faithful to its duties toward the watch industry. The new President of the Administrative Council, Jean-Jacques Gagnepain has been the architect of CETEHOR’s repositioning. A top researcher himself, Gagnepain’s interest in oscillators (materials that emit a periodic signal) led him initially into time-keeping applications, but he then moved gradually toward microtechnologies. Thus, his personal trajectory parallels the evolution that he would like to impart to CETEHOR.

In addition to his CETEHOR responsibilities, Gagnepain is Director of the Institute of Microtechnologies in Besançon (an association of university and engineering school laboratories) and, more important, Director of Research in Engineering Sciences for the national government research organization, the Centre National de la Recherche Scientifique (CNRS). This cumul des mandats enables Gagnepain to steer public research contracts toward CETEHOR. It also puts him in a position to coordinate the programs of CETEHOR and the Institute of Microtechnologies.

Gagnepain is trying to position CETEHOR as a kind of link between the world of research and the world of industry. The Institute of Microtechnologies conducts basic research in the field. Ideally, CETEHOR would select a few promising technologies from this pool of research, advance them along, building prototypes and demonstrating their potential commercial applications, then turn them over to local industrialists. This vision was recently articulated in two publications commissioned by Gagnepain, a “Green Book” and “White Book” on microtechnologies. The Green Book describes microtechnologies research programs around the world, with special attention to the likely areas of future

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research, the technologies for the year 2000 and beyond. The White Book relates existing achievements in the field, focusing upon the technologies that CETEHOR could transfer to local industry for immediate or near-term application.

On the basis of the White Book’s recommendations, CETEHOR has targeted two basic technologies for development: miniaturized piezoelectric motors (with a diameter of 5 millimeters, as opposed to 30-40 millimeters among existing production models) and chemical processes for transforming silicon and quartz. Both technologies lend themselves to a variety of microtechnologies applications. Motors of reduced size and energy consumption could be utilized in all manner of miniature products, including lucrative medical implants. The chemical engineering project ties into the effort, described earlier, to encourage France-Comté firms to enter the market for sensors. CETEHOR is essentially trying to narrow the gap between the aspirations of policymakers and the potentialities of local industry. One important obstacle was the absence of a “clean room” in Franche-Comté, obliging officials to seek a Swiss partner. Today, CETEHOR has a clean room, in which it is (among other things) developing prototypes of sensors.

Beyond scientific and commercial considerations, the technologies selected by CETEHOR hold the advantage of being “dual-use,” in the sense of having applications in watchmaking as well as microtechnologies. CETEHOR officials are keenly aware of the need to keep the watchmaking profession happy. Despite the changes since 1989, watchmakers still constitute a majority on the Council of Administration. It is, therefore, no coincidence that piezoelectric motors, quartz, and silicon are all found in watches.

CETEHOR officials have taken other actions to protect themselves against charges of abandoning the watch industry. Some of their projects are directed exclusively at the watchmakers. For reasons of health, manufacturers will soon no longer be allowed to use nickel in watches, so CETEHOR is conducting experiments to devise substitute materials. In addition, as noted earlier, CETEHOR is expanding its services to verify the quality and accuracy of watches, as well as of the tools used to manufacture them. More generally, the
basic message of CETEHOR management is that by running the organization aggressively and efficiently, it is possible to improve the quality of services offered to both microtechnologies and watch companies.

While recent developments among a certain number of employer associations in Besançon and Saint-Etienne hold promise, there are also ample grounds for caution. One cannot but be struck by the many "holes" in the associational fabric of French employers. Time and again, local authorities have been obliged to create a business interlocutor virtually from scratch (CLEO, GIER, and the representatives of the Franche-Comté eyeglass, toy, and artisan sectors). For these jerry-rigged associations, the organizational road to travel remains long indeed. Lacking either a staff or a stable source of funding, they exist primarily in the eye of local sponsors, as a source of ideas or political legitimacy. By contrast, their ability to coordinate actions among member firms remains to be demonstrated.

The renewal of existing employer associations is likewise at an embryonic stage. For every SMPL or CETEHOR, one finds innumerable organizations whose vocation is a mystery even to their own members. Nor is reactionary, anti-labor behavior a thing of the past. In Besançon, it is an open secret that when recently-implanted American and Swiss companies sought to attract workers by offering wages significantly higher than the local mean, they were politely, but firmly called to order by the metalworking employer association.

Change remains fragmentary on the public as well as the private side. Municipal authorities, who possess the greatest resources of any subnational institution, tend to be far more interested in "developmentalist" measures to lure outside investors than in the kinds of "productivist" actions that appeal to local employers. Even among officials who do pursue productivist policies, their first instinct is rarely to work with employer groups. In some cases, this is their second or third instinct, but again, such "learning" is far from the
norm, and it runs up against the divisive logic of interinstitutional rivalries. In an increasingly crowded local development policy community, employer associations are as likely to be shunned as dangerous rivals as to be embraced as useful partners (an attitude much in evidence in the microtechnologies project).

Integrating employer associations into local policymaking is a matter of resources as well as mentalities. In the extreme (if not infrequent) case in which associations have been created ex nihilo, employer groups possess no resources other than those provided by their public benefactors. Yet this extreme is far closer to the French mean than one might imagine. Even long-established employer associations are notoriously resource-poor, with little capacity to solicit dues from their members. It is perhaps no coincidence that the three instances of renewal described in this chapter all involved organizations with unusual access to financial resources: CETIM and CETEHOR benefit from a state-sanctioned parafiscal tax, and the SMPL was able to fund a large part of its quality control program through government subsidies. Whether these experiences are generalizable to less favorably endowed employer associations therefore remains uncertain. What is more, even the good fortune of CETIM, CETEHOR, and SMPL must be qualified: none of these employer associations mobilizes more than a few million dollars annually.

For all these qualifications and reservations, it would be foolish to dismiss organizational developments among French employers out of hand. The experiments are of recent vintage, and one may anticipate a certain amount of learning among both public and business officials. More important, while the creation or renewal of employer associations constitutes a halting, minority movement, it is one that is likely to amplify in the future. Whatever the peculiar circumstances of this or that French locality, a variety of national trends -- changing competitive concerns among SMEs, a flurry of post-Defferre local activism, the financial squeeze on many employer groups, the craving of frustrated public officials for a business interlocutor -- should continue to provide fertile ground for organizational and policy experimentation.
Institutional Plasticity in the Political and Organizational Arenas

The underdevelopment of employer associations has weighed heavily upon local economic strategies in Besançon and Saint-Etienne, affecting the conception, substance, and implementation of policy. By and large, the conception of economic policy is technocratic: local civil servants and elected officials devise strategies with little or no input from the representatives of industry. The substance is “developmentalist,” as opposed to “productivist” (particularly at the municipal level): it privileges the importation of new economic resources over the cultivation of existing local enterprise. Finally, the implementation of policy, to the extent that it is imbued with a productivist mission, is defective: even well-intentioned initiatives tend to flounder, for lack of a collective employer interlocutor to adapt the measures to industry needs and mobilize participants.

In a sense, a vibrant tissue of employer associations is another piece of the Tocquevillean liberal puzzle that France does not possess. Like local political institutions, employer groups, particularly the representatives of provincial SMEs, occupied a marginal position under the postwar dirigiste system. They, too are burdened by historical legacies. What is more, whereas local political authorities received an institutional push in the 1980s from the Defferre decentralization laws, employer associations have been left largely to their own devices.

The absence of a reforming impetus toward employer associations has not been wholly negative. With new resources and opportunities, the Defferre laws also brought constraints, obligations, and a host of rivals to local authorities. Employer associations, by contrast, operate outside this web of constraints. Thus, when inclined toward reform, they have been able to reposition themselves and define new missions in very short order. The downside is that few associations have been so inclined and fewer still possess the resources to act upon such inclinations. It appears that “taking the state out” does not
suffice to “bring employer associations back in.” Some form of additional positive action is probably necessary.

Perhaps this positive action will come, not as a result of Defferre-style state-sponsored reform, but through a series of intermittent and tenous alliances between local political and industrial elites. From modest acorns, GIÉR, CLEO, and the signatories of the Franche-Comté planning contracts may develop into mighty oaks. Maybe SMPL, CETIM, and CETEHOR have hit upon a winning formula, a judicious mixture of public and private, of government subsidies and private contracts, of political missions and market services. As noted earlier, however, few organizations have been able to operationalize this formula, and even the success stories remain of extremely modest dimension -- fragile saplings, rather than mighty oaks.

A parallel, but even less encouraging tale could be told concerning a collective actor that would have been at the heart of any discussion of French politics only a decade ago -- labor organizations. In the case of French trade unions, the gap between the political world and the associational world is, if anything, more pronounced. One searches in vain for any hint of efforts to incorporate labor into economic policymaking, even among Left-leaning localities like Besançon.

At one level, the exclusion of labor organizations is easier to fathom than that of employer organizations: whereas business shares the preoccupation of local authorities with economic development (even if there is considerable divergence as to the means), labor’s concern for the economy is balanced against a social and, at times, political agenda. Yet even from a purely technocratic perspective, this exclusionary mode of policymaking gives ground for pause. Historically, the French economy has paid a high price for failing to incorporate the concerns of labor. It is a veritable truism that France’s postwar growth strategy, based upon cheap, unskilled labor, delayed the shift of industry into more secure high-value-added market niches. Today, French managers continue to grapple with the difficult task of “de-Taylorizing” production systems made rigid by mind-numbing division
of labor and hierarchy. As discussed in Chapter Two, the philosophy propounded by Antoine Riboud and reproduced in official documents of the Left and Right alike recognizes labor as an essential partner in technical modernization and efforts to improve productivity. One can only wonder why labor’s input would not also be of use in defining an economic strategy for the entire community. Nonetheless, labor associations are an even less coveted piece of the Tocquevillian puzzle among local officials than their employer counterparts.

In short, the institutions of “local civil society” have proven no more able to blossom in post-dirigiste France than formal local political institutions. Unions are in full retreat, their passing un lamented by even their erstwhile allies on the Left. Business values may have triumphed, but business associations are another matter. Occasional glimmers of life notwithstanding, these organizations remain singularly weak and resource-poor.

The limits of French institutional reform, then, are compounded by the limits of organizational renewal. Local economic policy is hamstrung, on the one hand, by the timidities and contradictions of the Defferre laws, and on the other, by the absence of viable social partners to inform, correct, and help implement public initiatives. In short, France’s local landscape remains singularly bereft of the kinds of institutional and organizational resources needed to nourish the Tocquevillian liberal project.
PART THREE - BRINGING THE STATE BACK IN

Following the wrenching break with dirigisme in 1983-84, authorities in France have been experimenting with new forms of economic intervention that offer a privileged role to local and societal actors. This strategy of "Tocquevillean liberalism" -- liberal in its opposition to statist industrial policy, yet Tocquevillean in its emphasis upon the virtues of local and collective action -- is predicated upon the plasticity of French institutions. Despite 40 years of more of dirigiste policymaking, local authorities and voluntary associations previously relegated to a marginal position are presumed to be capable of "bouncing back" to tackle weighty new responsibilities.

Evidence from the case of decentralization suggests that there has been very limited "bounce" in French associational and local life. Part of the problem is historical: under the postwar system, local officials had neither the inclination, the knowledge of industry, nor the resources to intervene effectively. Consequently, the Tocquevillean liberal project entailed a revolution in both mindsets and capacities. While local mentalities have shifted tremendously during the past decade, the Defferre decentralization laws -- political in inspiration and consensual in execution -- failed to generate a commensurate shift in institutional resources. French local authorities remain weak, underfunded, and most important, embedded in an institutional system that multiplies the incentives for shortsighted and self-defeating competition. Finally, despite the rhetoric of "participation" surrounding the decentralization reforms, France's local political and administrative elites remain aloof from the economic agents whose interests they purport to serve. The lack of "bounce" in the associations of civil society has engendered a technocratic style of local policymaking, largely incapable of servicing the needs or enlisting the collaboration of provincial enterprise (less still, of labor).

If French officials have been frustrated in their efforts to promote new forms of economic intervention outside the state, there has been considerable renewal and innovation
within the state. Chapter Six describes this process in the local arena, where state agencies have carved out a number of policy niches: coordinating diffuse initiatives, providing relief to hard-hit agglomerations, and intervening in areas neglected by local authorities (notably the provision of services to industry). This renewed state intervention has been driven by motivations both noble and not-so-noble, by a combination of transparent ambition, a desire to manipulate and extract resources from local actors, and a genuine concern about the deficiencies of local policies. While the state has returned to the local arena, it will be suggested -- in contrast to the cultural-statist literature -- that dirigisme is much less in evidence. Recent state intervention tends to differ in important ways from its pre-1983 incarnation, to be more sensitive to the preferences of local partners, more market-conforming, and much reduced in scale.

Chapter Seven demonstrates that, far from being limited to local development, the pattern of blocked institutional innovation combined with renewed, if modified state action has been repeated across a range of policy settings. Reforms in industrial relations, financial regulation, and European industrial promotion all reveal the same basic characteristics and dysfunctions as the local experiment. In each instance, state officials sought to build upon institutions disdained previously; they conducted change in a halting and ambiguous manner; and when the institutions in question faltered, they intervened in new ways. This across-the-board frustration of the Tocquevillean liberal project has stemmed from a combination of adverse historical legacies and political choices at critical moments of institutional openness.
CHAPTER SIX - PARIS IN THE PROVINCES: THE NEW STATE INTERVENTION

The limitations of local economic development policy have opened the door to a variety of new forms of state intervention. To simplify somewhat, Paris has returned to the provinces under three different guises: 1) as a coordinator of local actions and resources; 2) as a firefighter, tackling crises that lie beyond the meager means of provincial authorities; 3) as a substitute, undertaking development activities that have been neglected or ignored by local officials. The exact mixture of motivations of Parisian actors -- the balance between dirigiste pretensions, a desire to manipulate and extract resources from subnational actors, and a genuine concern for local development -- remains unclear. What is indisputable is that the French state remains a prominent actor in the provinces.

What is also indisputable is that the French state has become a very different actor from the dirigiste entity of the Lip and Manufrance affairs. The Defferre decentralization laws and the Socialists' turn toward the market have revolutionized the conditions of state intervention in the provinces. Financially, state agencies are operating with greatly reduced resources, compelling them to pick and choose their targets and to seek accompanying local funding where possible. While the state's impecuniosity is often a source of frustration for local officials (especially when it leads to raids on local treasuries), it also provides them with a certain amount of leverage.

Politically, the legitimacy of state intervention has become questionable in a system that ascribes the lead role to the market, on the one hand, and to newly-empowered regional, departmental, and municipal officials, on the other. State agencies are, therefore, treading more gingerly in their relations with local officials, backing down when contested and sugar-coating their intervention through a combination of consultation, contractualization, and bribery. They are also modifying their behavior toward local industrialists, channeling resources to SMEs, as opposed to large enterprises, and focusing
upon market-reinforcing measures that leave the balance of initiative in private hands. The presence of Paris in the provinces, then, although clearly influential, operates with different resources, in pursuit of different priorities, via different instruments, and in a different relationship to provincial elites than the dirigiste methods of yesteryear.

The State as Coordinator

It should come as no surprise that Parisian authorities have been tempted to try to impose some order and rationality upon the proliferation of cross-cutting, underfunded local initiatives described in Chapter Four. However, it would also be naive to attribute such behavior to purely altruistic motives. While the dysfunctions of local authorities have invited state intervention, so, too have their resources.

State officials have deployed both financial carrots and juridical sticks in their dealings with local authorities. The leading example of the juridical tack is the Loi sur l'Administration Territoriale de la République ("Law Concerning the Territorial Administration of the Republic"), or ATR law. Often described as a "second wind for decentralization," the ATR law offered a direct response to one of the key dysfunctions of decentralization -- the fierce battles between neighboring communities, driven by the pursuit of corporate tax revenues. While the central objective of the legislation is to foster intercommunial cooperation, the ATR law also harbored controversial dirigiste undertones. As a result, the proposed legislation was debated and revised over a period of almost four years, receiving the attention of three successive Ministers of the Interior, before it was finally enacted into law in 1992.

Two elements in particular lent a dirigiste tenor to the ATR bill. The first was a call for deconcentration as logical complement to decentralization. Although claimed as an affirmation of the principle of subsidiarity, deconcentration implies that decisions should be

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1 This account is drawn from Pouvoirs locaux, No. 6, October 1990; Dossier d'information, Loi d'orientation relative à l'administration territoriale de la république; Pierre Bodineau and Michel Verpeaux, Histoire de la décentralisation, "Que sais-je" series, No. 2741, (Paris: PUF, 1993), pp. 118-22; interview with Jean-Pierre Worms, former Socialisti deputy active on matters of decentralization, 27 October 1992.
made at the lowest possible level ... within the state. This represents a uniquely Jacobin reading of the notion of subsidiarity (or decentralization, for that matter): rather than transferring powers and resources from the state to local officials, so that the latter might better manage their affairs, deconcentration entails transferring the state itself from Paris to the provinces, in the hope that it might become more accessible to local authorities. Nonetheless, since the ATR law offered little more than a declaration of principles, unaccompanied by any concrete measures to reinforce state agencies in the provinces, this provision did not stir up too much local opposition.

The same cannot be said of a second dirigiste feature of the legislation, an effort to reinforce the role of the prefect, the representative of Paris in the provinces. Part of the prefect's powers were to come from other areas of the state: through the deconcentration of certain responsibilities to the regional level and through enhanced control over provincial branches of state agencies. What raised the hackles of local officials was not these deconcentration provisions, but the proposed role for the prefect in organizing the central objective of the ATR law, the promotion of intercommunal cooperation.

In its original incarnation, the ATR law sought to make the prefect the orchestrator of intercommunal cooperation, cajoling recalcitrant municipalities through a combination of financial incentives and juridical threats. An independent, disinterested party, bearer of the general interest, above the petty fray of intercommunal conflict, the prefect was presented as ideally suited to the task of coordinating cooperation. Yet the government could have opted just as easily to attribute this responsibility to regional authorities, who are also above the fray of intercommunal conflict. In the eyes of many local officials, then, the reform smacked of a Parisian power grab. Under the guise of addressing a genuine problem, it seemed to be auguring a reversal of decentralization by strengthening the hand of the prefect.

Local authorities balked at not only the agent of cooperation, but also the terms of cooperation. Under the provisions of the ATR bill, it would be possible to institute
intercommunal cooperation via a two-thirds majority vote, as opposed to requiring the unanimous support of all participating municipalities. A so-called "community of communes" could be created upon the request of either one-half the municipalities representing two-thirds of the population or two-thirds of the municipalities representing one-half the population. No less frightening to local elites, communities of communes would be empowered to enforce some kind of sharing or redistribution of local corporate tax revenues.

Over time, under fierce local opposition and denunciations of resurgent dirigisme, the most constraining and controversial features of the ATR bill were eviscerated. Large municipalities (those constituting more than one-quarter of the population) obtained the guarantee that they could not be forced to join a community of communes against their will. The prefect's role shifted from that of an "architect" or "orchestrator" of cooperation, wielding financial and juridical instruments to compel reluctant municipalities to work together, to that of a "notary," ratifying agreements reached independently by others. Most important, loopholes were added making it possible to sidestep the most substantive forms of cooperation.

The ATR law allows for two forms of intercommunal cooperation, a "community of communes" and a "community of cities." The latter can be created only in agglomerations of more than 20,000 inhabitants, but there is no obligation for populous agglomerations to select this method. Such freedom of choice is important, since a community of cities constitutes a far more juridically constraining structure than a community of communes. The central difference concerns the highly sensitive matter of industrial real estate operations: whereas communities of cities are required to share corporate tax revenues, this is optional for communities of communes (which must muster a three-quarters majority to do so); similarly, whereas the former must pool all policies related to economic development, the latter need only share those responsibilities "affecting the community in its entirety" (which is read to exclude industrial real estate operations).
Although it is too early to pronounce definitive judgment on the effects of the ATR law, preliminary accounts do not give grounds for optimism. As of yet, no community of cities has been created. Even highly-urbanized areas like Rennes and the suburbs of Toulouse have opted for the less-constraining formula of a community of communes. According to the French Association of Mayors: 1) far fewer communities of communes have been launched than the government expected (seven as of November 1992, whereas the government anticipated 100 by the end of 1992); 2) most of these communities constitute simply juridical transformations of pre-existing arrangements, without any change in their responsibilities; 3) several communities were created so as to undercut pressure for more substantive agreements or in the hope of receiving promised government subsidies or tax breaks, but with no serious plans for cooperation.

In contrast to their experience with juridical measures like the ATR law, state officials have enjoyed considerable success in coordinating the actions of local authorities through financial incentives, notably a series of matching-fund arrangements. Ironically, these matching-fund procedures are at least as constraining and dirigiste as anything contained within the various drafts of the ATR legislation. What is more, whereas the ATR bill sought to remedy a widely-recognized dysfunction of French local government, most matching-fund arrangements cannot be said to correspond to any such disinterested vocation. Rather, more often than not, they have been utilized by state authorities to impress local resources into the service of Parisian priorities.

State-region multiyear planning contracts offer one of the most effective devices for steering the actions of local authorities. This was not their original intention, however. When created in 1982 by Minister of Planning and Regional Development, Michel Rocard, they were inspired by Second Left concerns for participation and the democratization of

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economic life. Prior to the 1980s, regional development programs had been drafted by
Parisian technocrats, with only token local input. Now, in the wake of the Defferre
legislation, France's regions would become full partners in their development, and national
plans would be adapted to the unique needs and circumstances of each region.

In theory, state-region planning contracts would reflect balanced negotiations
between national and regional officials. The former would not simply impose their will on
the latter. Rather, both sides would draft preliminary plans and then negotiate a mutually
satisfactory agreement. State officials could reorient regional priorities, but regional
officials could also reorient state priorities. Through a process of dialogue, the "ascending
logic" of regional officials would be harmonized with the "descending logic" of state
technocrats. The final program would then be financed in roughly equal proportions by
national and local authorities.

In practice, the relationship has been less balanced. The resources commanded by
regional authorities (some 50 billion francs) pale in comparison to those mobilized by
Parisian officials (1.2 trillion francs). As a result, the matching-fund principle enables state
planners to direct a significant share of regional funds toward national priorities with what
is for Paris a very small financial commitment. Multi-year planning contracts tie up
roughly one-third of Franche-Comté and Rhônes-Alpes expenditures, but are scarcely
noticed by their national interlocuters. What is more, the logic of the planning contracts
has trickled further down the governmental chain, to the level of departments and
municipalities. In other words, state-region contracts are harnessing the resources of not
just one subnational authority, but three. Of course, local authorities at any level could
refuse to fall in line with state priorities, but they would lose valuable matching funds.

Regional officials complain that it is all but impossible to place their concerns on the
bargaining table. The Prime Minister defines three or four government priorities, which
tightly circumscribe negotiations. Franche-Comté authorities wished to boost spending on
cultural and sporting programs, for example, but were told that this was not a state priority.
While such a refusal may be understandable in light of the economic orientation of the planning contracts, the response was no different when regional officials requested resources for apprenticeship programs. Whatever the technical or economic merits of apprenticeships, since they were not among the designated objects of negotiation, no money was available. From a regional perspective, then, the "ascending" dimension of the planning process is largely illusory. In the words of one frustrated official, "The planning contract is a system of co-financing, a means for the government to manage its tight budget, not a reflection concerning the objectives of local development."  

Given the superior leverage and relatively intransigent position of national authorities, state-region planning contracts tend to display considerable uniformity across regions. In every instance, the vast share of resources are devoted to the same programs: education (30%), transportation and roads (17%), and worker training (13%). Yves Mény argues that state-region planning contracts have succeeded the prefect's tutelle as the principal means for national authorities to direct local spending:

The abolition of traditional prefectural control (which, when it had been exercised, could hardly be anything but over-detailed and formal), has been accompanied by the strengthening of a control which is both more generalized (a contract), and more centralist (it is effected by the higher echelons of the central ministries).  

Some of the most expensive items in the planning contracts are programs over which the regions have little or no control. For example, the Defferre reforms transferred responsibility for construction of high schools to the regions, but left Paris in charge of maintenance and most important, curriculum and personnel decisions. Thus, regions run

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4 Interview with Gérard Berthéas, Director of Planning, Franche-Comté Region, 5 June 1992. Translation the author's. An observer of French regional policy concurs: "The criticism has been made, not without reason, that through these [planning] contracts, the State has projected its conception of aménagement onto the regions more than the latter have elaborated their own objectives. Thus, the presentation of one of these kinds of [planning] documents in 1989 states with naive candor: 'DATAR and the Ministry of Equipment established the precise needs of the regions.'" Jean Labasse, L'Europe des régions, (Paris: Flammarion, 1991), p. 305. Translation the author's.


6 Mény, Economic policy, op. cit., p. 195.
the risk of spending scarce resources to build high schools, only to have the state refuse to maintain the facilities or to staff them with teachers.

Even on the narrower issue of high school construction, the extent of regional control is questionable. France's long-neglected high schools are badly overcrowded and in a decrepit state. Adding to the crunch, in 1985, Minister of Education, Jean-Pierre Chevènement announced the goal of raising the percentage of students passing the bacalauréat exam to 80%, meaning that French high schools would have to accommodate an additional 30,000 pupils. Consequently, regional authorities had little choice but to step up the pace of high school construction. Although according to the decentralization texts, the missions and resources transferred from the state to local authorities are supposed to balance, state payments covered only 56% of the costs of high school construction during the 1986-92 period. In a sense, then, the regions have been forced to pick up the tab for both past state irresponsibility (the poor condition and shortage of high schools), and future state ambitions (the 80% bac success rate).

Observers of US politics will recognize this relationship as a variant of “New Federalism”: the transfer of key policy responsibilities from national to local actors without a commensurate transfer of resources. Nor are high schools the only area in which this has occurred. France's departmental authorities, saddled with grossly underfunded social programs, were compelled to make a number of painful cuts that Paris had lacked the political courage to implement. According to a Ministry of Finance study, between 1982 and 1986, decentralization enabled state authorities to reduce spending by 0.5% annually. These same responsibilities provoked a 1.5% annual increase in local expenditures, however.

Local officials have contributed not only to projects over which they have little control, but even to projects over which they have no legal jurisdiction. Universities and

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7 Le Monde, 5 March 1992, pp. 1, 8.
8 Cited in OCDE, France 1991/92, op. cit., p. 126.
highways did not figure in the decentralization texts. By law, they constitute a state responsibility, not a regional responsibility. Nonetheless, state authorities have made them a central feature of the planning contracts. Of the 862 million francs committed by the Franche-Comté region to the 1989-93 planning contract, for example, 275 million francs went to highways and 70 million to universities.\(^9\) Departments and municipalities within the Franche-Comté matched this amount, for a total of almost 700 million francs spent on programs outside the jurisdiction of local authorities. Highway construction was far and away the fastest-growing item in the contract, with expenditures more than tripling between the 1984-88 and 1989-93 agreements. While the amount spent upon universities remained relatively modest, it, too, is slated for expansion.

Once again, the regions are being solicited to pay for both past state neglect and future ambitions. French universities are even more overcrowded and dilapidated than high schools. Between 1987 and 1992, the number of university students increased from 980,000 to 1.2 million, and demographic trends along with the 80% bac target point to sustained growth for at least a decade.\(^10\) In 1989, the Ministry of Education finally moved to address the burgeoning crisis, launching the "University 2000" program of renovation and expansion. State authorities committed 16 billion francs to the project over a five-year period, then began scouring the provinces in search of matching funds. By playing the regions against each other, they were able to raise an equivalent amount from local sources (in equal proportions from the regions, on the one hand, and the departments and municipalities, on the other).\(^11\) While 3.2 billion francs annually will hardly be noticed in a state budget of 1.2 trillion francs (or even a Ministry of Education budget approaching 300 billion francs), for regions with a budget of under 50 billion francs, their annual contribution of 1.6 billion francs represents a good deal more than a drop of the bucket.

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\(^10\) \textit{Le Monde}, 5 March 1992, pp. 1, 8.

As if state matching-fund arrangements did not impose enough constraints on local budgets, EC programs have largely duplicated the provisions of state-region planning contracts. This is no coincidence. In nations with a federal structure of government, the European Fund for Regional Development (EFRD) operates primarily through negotiations between the EC Commission and individual regions. In France, however, the national development agency, the Délégation à l'Aménagement du Territoire et à l’Action Régionale (DATAR) has managed to position itself as the obligatory point of passage between the EC Commission and French regions. This has given DATAR considerable influence over both the allocation of EC moneys across different regions and the nature of the programs supported. Agency officials make no secret of their view of EC funds as little more than an instrument of national policies:

The regional policies of Brussels are larger and larger, and the EC is becoming a major partner in matters of regional development. *Its financial contribution constitutes a powerful support to national policies...*\(^\text{12}\)

The experience of Saint-Etienne, a major recipient of ERFD aid to depressed industrial agglomerations, bears out this vision. The measures supported by ERFD have tended to reproduce national initiatives operating via the state-region planning contract and the state-sponsored conversion pole program of aid to distressed industrial cities (described in greater detail below): road construction, renovation of decrepit industrial sites, worker training, aid to SMEs. Since EC regional programs, like national planning contracts, require local authorities to put up matching funds, ERFD offers an additional instrument for Parisian officials to channel local spending. Ironically, then, EC regional actions appear to have reinforced the control of French national authorities over local officials.

While financial bullying by state authorities constitutes a considerable source of frustration for local officials, two qualifications are in order. First, not all such bullying is motivated by neo-\textit{dirigiste} power grabs or designs on local resources. State authorities

have also used their leverage for such laudable objectives as encouraging local officials to cooperate with each other or to engage in long-term planning. The Loire prefecture, for example, in an effort to support the Pays du Giers and Ondaine Développement organizations, has apprised municipalities in the Ondaine and Gier Valleys that their applications for ERFD funds will be looked upon more favorably if submitted collectively, through their representative organizations, than on an individual basis.

Saint-Etienne has also come in for pressure to collaborate with its neighbors. Mayor Dubanchet's sudden interest in forging an urban district in 1990, as described in Chapter Four, was anything but fortuitous. Just before Dubanchet launched his initiative, he had journeyed to Paris to present a request to the Minister of Equipment for new highways and railroad links between Saint-Etienne and Lyon. There, Ministry officials told Dubanchet that his application would not even be considered unless co-signed by Saint-Etienne's neighbors. Officials also insisted that Saint-Etienne integrate its requests into a coherent long-term development project, rather than simply submitting a request for goodies. Although the urban district project did not come to fruition, Mayor Dubanchet has (reluctantly) revived the long-dormant planning process for the agglomeration, the so-called schéma directeur d'agglomération urbaine (SDAU).

State arm-twisting in the service of cooperation has not been limited to municipal authorities. The EC's STRIDE program, which supports technological renewal in troubled industrial agglomerations, is administered in France by a national agency specialized in technology transfer, the Agence Nationale pour la Valorisation de la Recherche (ANVAR). When the first appeal for proposals was launched in 1991, eleven Saint-

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14 This account is drawn from local press accounts and from interviews with Marc Camier, President, Filière Composite et Industrie in Saint-Etienne, 9 October 1992; Guy Veyrand, General Delegate, ADIL and Commissioner for Industrialization, DATAR, 13 and 19 October 1992; Bernard Lagé, Director, Institut de l'Image in Saint-Etienne, 14 and 15 October 1992; Mr. Victoire, Saint-Etienne Chamber of Commerce, 30 October 1992.
Etienne agencies responded (presenting nine proposals in all). Most of the agencies had devised their projects independently, without consulting the others, and there was considerable overlap. Rather than simply processing the applications, ANVAR, DRIRE, and DATAR officials organized a series of meetings with the agencies to encourage them to harmonize their projects and eliminate wasteful duplication. Such give-and-take did not come easily. In the words of one state representative: "We had to beat them into submission."

The club that state authorities wielded was ANVAR's power to determine which projects from around the country would be funded. Officials made it clear that the chances for selection would be greatly improved if the organizations presented a coherent project, with distinct, complementary roles for each organization. While this would require a number of agencies to trim the sails on their proposals, the net result would be more money for all. Ultimately, the local organizations fell in line, and in early-1992, eight out of nine were selected for the STRIDE program (whereas nationally, only 106 of 378 projects were chosen). State officials are now crossing their fingers that the spirit of cooperation, instilled with such difficulty during the proposal phase, will carry over to the execution of the projects.

A second qualification to the somewhat predatory image conveyed by the matching-fund process is that local authorities are not entirely without leverage in this process. The premise of a contract, after all, is that it is entered into freely by both parties. Given the disproportion between state and local resources, some may be freer than others. Still, even when state authorities have cynically manipulated the contractualization process to extract local resources, the level of local commitment suggests that there is more to the story than state pressure.

15 Among the nine agencies were: the chamber of commerce, CETIM, the Ecole des Mines, the textile industry association, several highschools, and a worker training organization. Two technology transfer organizations were created thanks to the STRIDE monies -- the Institut de l'Image, specializing in digital imager, and the Filière Composite et Industrie in composite materials.
In the case of the "University 2000" program, for example, state officials originally hoped to raise 7 billion francs, but the local contribution ultimately totaled 16 billion francs. One must ask why local authorities were willing to spend so much. Part of the explanation lies with the nature of the commodity: provincial universities are highly valued both as an engine of economic development and a magnet to keep young, educated people from moving away. They are also in short supply.

Part of the explanation lies with the concessions that local authorities were able to extract. In return for their heightened financial contributions, they have been able to redirect the University 2000 program in significant ways. Whereas the original state plan emphasized the renovation and expansion of existing universities, local pressures multiplied the number of new campuses (including one in the northern Franche-Comté city of Belfort). Likewise, far more of the highly popular technical universities, the instituts universitaires techniques (IUTs), are slated for construction than under initial state projections. Thus, what started as a raid on local treasuries has evolved into a more complex bargaining process, in which it is not always clear who is directing whom.

Perhaps the most important part of the explanation lies with a broader political battle: regional authorities are looking to gain control of the substance of education, not just the buildings in which it is conducted. By demonstrating their competence and putting their money on the table, they are opening a breach in the state's monopoly of education, paving the way for further demands. Already, some regions have been authorized to hire personnel (at the newly-created Belfort University, for example). What is more, French legislators are considering proposals involving a broader transfer of resources and responsibilities to the local level (in higher education and particularly worker training).

Should such seismic changes move forward, contractualization may one day appear, not as

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16 Le Monde, Campus Supplement Section, 12 May 1992, pp. 10-12.
17 The UDF has been the leading advocate of greater decentralization of education. Charles Millon, President of both the UDF parliamentary group in the National Assembly and of the Rhône-Alpes region, submitted a bill in April 1993 to decentralize worker training. While the provisions are currently under negotiation and the RPR is somewhat less enthusiastic than its coalition partner, some kind of phased transfer of power (and resources) appears likely. Le Monde, 17 June 1993, p. 15.
an ingenious tool for tapping local resources, but as a kind of Faustian bargain, under which state officials, in exchange for a few pieces of silver, lost control over the soul of public policy, the education of France's youths.

If there is a lesson to be drawn from the comparative experiences of state efforts to coordinate local actions, it is that it is more effective to show the velvet glove of contractualization between pseudo-equal partners than the clenched fist of juridical fiat. Given the disproportion between the resources of the negotiators, the matching-fund approach is often no less dirigiste than the ATR legislation. Nonetheless, it is less overt about its dirigisme, preserving the sense that local officials are free to choose the kinds of collaboration they undertake with Paris.

While the matching-fund process has enabled state authorities to constrain and siphon resources from local administrations, it testifies as much to the weakness of the French state as to its strength. Contractualization is a two-way street, albeit a street in which the flow of power is heavier in one direction than the other. From a state perspective, navigating this street is not without risks. In the short term, state authorities must make at least modest allowances for local demands -- creating an extra university here, building a road there. In the long term, as the case of education suggests, they may be eroding the basis of their very sovereignty.

Another important lesson suggested by the plight of the juridical and contractualization approaches is that the bitter pill of state intervention is easier to swallow if wrapped in money, rather than rules. Indeed, sometimes such intervention is requested specifically by local authorities. This is particularly true when the state intervenes, not as a coordinator of local actors, redirecting their priorities, but as a firefighter, responding to their pleas for help.
The State as Firefighter

The French state has a long history as regional firefighter. The creation of *aménagement du territoire* policies in the 1950s and 60s was driven by a social vocation to assist backwards or declining regions, so that France would not be divided into a hyperdeveloped Paris surrounded by a provincial "desert." This social impetus translated to a campaign of geographic redistribution: development in Paris was capped, while a variety of incentives were offered to firms willing to locate in backwards areas, such as Brittany, or regions struck by the decline of traditional industries, such as Saint-Etienne.

In the 1970s, with the onset of the economic crisis, the social vocation shifted from planting new Fordist seeds in the provincial desert to trying to keep the bloom on the fading flora already present. As described by Elie Cohen, firefighting activities expanded to the point of transforming the developmentalist French state into little more than a "stretcher-bearer state." In Besançon and Saint-Etienne, the plight of Manufrance, Lip, and Creusot-Loire testified to this evolution.

Given the prominent role of state policies in shaping provincial economic destinies, governments could not easily dissociate themselves from unfortunate outcomes. Consequently, even when state officials began to write off firms or sectors (an ever more frequent experience in the 1980s), this did not spell the end of their firefighting action. Rather, like a wealthy spouse abandoning a bad marriage, they resorted to bribery to assuage their guilt and soothe their partner's anger. Offers of assistance were tendered simultaneously and in conjunction with announcements involving thousands of lay-offs, in the hope that the former would undercut resistance to the latter.

In Saint-Etienne, this tactic has a long history. As described in Chapter Three, the arrival on the scene of state development agencies in 1967 was a direct consequence of the

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18 Gravier, *op. cit.*
government's decision to begin closing the publicly-owned coal mines. To help repair the
damage to the Saint-Etienne economy and assist displaced miners in finding other work,
the government installed a local branch of DATAR (known as ADIRS, later renamed
ADIL). It also ordered the Coal Board to create what was one of the first sociétés de
reconversion (reconversion companies) in France to assist in redeveloping the Saint-
Etienne basin.

Slightly less than twenty years later, history (or the state) essentially repeated itself.
On the one hand, a series of government actions inflicted massive economic hardship upon
Saint-Etienne. The last coal mine was closed in 1983. The following year, after a
prolonged period of government intervention and acrimonious negotiations, Creusot-Loire
was allowed to slip into bankruptcy, at a cost of over 7000 local jobs. Finally, in 1985-86,
the ambitious Machine-Tool Plan, which had pledged to revive a vital Saint-Etienne
industry, was abandoned, triggering a wave of local bankruptcies. These decisions helped
send the Saint-Etienne unemployment rate rising toward 15%. On the other hand, since the
government had been directly involved in each of these industrial disasters, it felt obliged to
help repair the damage. As in the 1960s, DATAR and reconversion companies figured
prominently among the panoply of state instruments. Saint-Etienne was also classified as
one of fifteen French pôles de conversion (conversion poles).

The conversion poles constituted an integral part of the national government's
strategy of industrial restructuring, a lubricant to ease the transition from the voluntarist
industrial policy of the early Socialist years to a more market-oriented strategy. A kind of
territorial pay-off, they were designed to undercut resistance to the government's turn
toward the market in the places that were likely to feel the impact the most. The Socialists
made no secret of the linkage between industrial policy considerations and the conversion

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20 ADIRS stands for Agence de Développement Industriel de la Région Stéphanoise, ADIL for Agence de
Développement Industriel de la Loire.
21 ADIL, Les pôles de conversion et le redéploiement des vieilles régions industrielles, unpublished
document, 1989. Interviews with Guy Veyrand, General Delegate, ADIL and Commissioner for
poles. Indeed, the creation of the conversion poles and the decision to shift from a policy of industrial expansion to one of "modernization" and "restructuring" were announced jointly, following a February 1984 cabinet meeting.22

The agglomerations chosen as conversion poles were essentially those that would be most affected by the accelerated pace of industrial modernization (particularly, centers of steel, coal, shipbuilding production). Of course, the criteria of selection were not purely economic. Special consideration was given to cities with Left-wing mayors and traditions of significant worker unrest. By contrast, the relatively quiescent agglomeration of Sochaux-Montbéliard, home of Peugeot, was not included, despite being hit by over 20,000 Peugeot lay-offs. Saint-Etienne, a center-Right municipality, was also excluded from the initial list, but was quickly added to the program as compensation for the Creusot-Loire debacle.

The conversion poles were aimed at two sets of actors who might resist the government's industrial restructuring strategy. The first was workers. By lowering the retirement age in the conversion zones to 55 years (and in some industries 50) and offering two-year training periods (congés de conversions), during which workers could draw their full salary, the government minimized the number of employees who would suffer outright lay-offs. As a further social gesture, the government also pledged to tender subsidies, including funds for early retirement, only to companies that negotiated "social plans" with the unions.

The second potential obstacle targeted by the conversion poles was local authorities. The government was no longer willing to throw good money after bad bailing out provincial lame ducks, such as Lip, Manufrance, or Creusot-Loire. Local officials would have to accept the inevitable closing of inefficient units. In compensation, though, Paris

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would provide significant resources to help hard-hit agglomerations redevelop on a sounder economic basis.

In the case of Saint-Etienne, these programs totaled some 700 million francs over a three-year period. The conversion pole program was administered by the Loire department prefect, assisted by local representatives from DATAR (ADIL) and the Ministry of Industry (DRIRE). Approximately 200 million francs went to job creation measures, mostly direct subsidies to investors (via the DATAR’s *prime à l’aménagement du territoire*). Another 200 million was spent on roads, and a further 200 million directed to the renovation of housing and decrepit industrial sites. Most of the road and renovation projects involved matching funds from local authorities. The remaining 100 million francs was spread across various initiatives in favor of worker training, technological development, and aid to SMEs. If these programs sound familiar, it is, no doubt, because they were essentially identical to the activities financed by the state-region planning contracts and EC regional funds.

The reconversion companies represented a kind of replication of the conversion pole exchange on an individual-firm basis. On the one hand, state actors, in this case nationalized enterprises, withdrew from the region, closing plants or at least scaling back employment dramatically. On the other hand, as partial compensation for this strategic retrenchment and to undercut potential resistance, the nationalized firms created “reconversion companies.” The mission of these reconversion companies was to help displaced workers find jobs and to support the development of local enterprises.

The parallel in the reasoning behind the conversion poles and the reconversion companies was no coincidence. The latter, like the former, were a state initiative. Government officials required nationalized enterprises effecting large-scale lay-offs to create reconversion companies. What is more, the government usually covered at least half

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the operating costs (often, as in Saint-Etienne, funded partially by conversion pole moneys). 24

Two reconversion companies have been active in Saint-Etienne: SOFIREM, on behalf of the Coal Board, and SODICEM, working for the steel industry. 25 SOFIREM traces its origins to the mid-1960s, whereas SODICEM was launched in 1982. Both offer financial incentives for any kind of local employment creation. While these companies see their primary clientele as expanding SMEs, they do not rule out assistance to large firms. Indeed, since the amount of aid is correlated with the number of jobs created, large employers tend to absorb a disproportionate share of available funds.

Both reconversion companies offer a range of financial inducements, but each has a preferred instrument. 26 SODICEM focuses on low-interest, long-term loans, typically at 5% or less, with a two-year grace period before repayment. SOFIREM acts as a not-too-demanding venture capitalist, taking up to a 32% stake in companies, a stake which it pledges to hold until asked to sell by the employer. The amount of loans or equity investments varies from case to case. On average, the figure translates to roughly 30,000 francs per job created. SODICEM and SOFIREM often work together, as well as with DATAR, making it possible for savvy employers to combine several kinds of aid.

The loan and equity programs correspond to a local development vocation. They represent the steel and coal industry’s efforts to give something back to the community, to

24 Interestingly, the practice has not been confined to firms subsidized by the government. A number of private multinationals have created reconversion companies, and firms privatized under the Chirac administration maintained these instruments. What is more, even when state subsidies have been withdrawn, public enterprises have generally thought it worthwhile to continue using reconversion companies to undercut resistance to lay-offs. For an analysis of reconversion company activities, with particular attention to Saint-Gobain, see Marie-Françoise Ravcyre, Jeux de Mirroirs: L’aide de Saint Gobain Développement aux PME, Document GLYSI, No. 2/88; Une nouvelle implication de groupes industriels au niveau local? L’exemple de Saint Gobain, 3/1988.
make reparations for the loss caused by their retrenchment. All forms of company development in the Saint-Etienne agglomeration are eligible for support, whatever the sector and whoever is hired.

The other dimension of the coal and steel industries’ actions is organized on behalf of their own employees, as opposed to the community in general. Both SODICEM and SOFiREM offer hefty subsidies to companies willing to hire ex-miners or unemployed steelworkers. Finding jobs for these displaced workers has proven extremely difficult, not only due to the economic context, but because most of the workers possess few skills. For this reason, SODICEM and SOFiREM subsidies are quite generous, generally on the order of 50,000 francs per employee. SODICEM will also finance up to three months of training, cover the worker's wages during a three-month trial period, and if the new job pays less than the old job, make up the difference for as long as five years.

Like the conversion poles, then, the reconversion societies have targeted their actions at the two potential opponents of industrial restructuring: local officials and employees. Success is not measured by profitability. Reconversion company officials point to the “number of jobs created” through reconversion company assistance (local politicians are not the only ones to be seduced by this pseudo-statistic), but this represents a secondary consideration. The key measure of success is not how many jobs are created by the reconversion companies, but how many are eliminated by their corporate sponsors. Whatever other claims they may make, reconversion company officials inevitably return to their contribution to industrial restructuring -- thanks to their actions, they assert, Usinor or the Coal Board has been able to lay off X number of employees with nary a peep from the unions or local government officials. This is how they justify their existence. Thus, the reconversion companies, like the conversion poles, represent a kind of political hush money.

The 1983-84 period marked a turning point in the French state's firefighting vocation. Whereas in the past, successive governments could not foreswear responsibility
for the difficulties of places like Saint-Etienne because national policies had done much to create these problems, this linkage became more disputable with the move away from dirigisme. State responsibility was also diminished by the Defferre decentralization laws, which gave local authorities greater control over their economic destinies. In this context, the massive intervention of the mid-1980s may represent a kind of one-time adjustment, to ease the pain of the difficult transition from ambitious industrial policies to a more market-oriented strategy. Once this shift had been completed, the grounds for support to ailing agglomerations in post-dirigiste post-Defferre France became much weaker.

If 1983-84 marked a turning point for the firefighting state, it did not mark the end point. The forces for Parisian intervention have not disappeared entirely. Given the wrenching industrial restructuring that has taken place during the past decade and the unfortunate tendency for industrial decline to strike some regions with particular severity, there is all too much demand for state assistance. What is more, this demand is rising with the current recession. The state’s “national solidarity” vocation is also driven by the fact that despite the Defferre reforms, local officials in France possess far fewer resources than their counterparts in other countries. Thus, they lack the means to pull themselves up by their collective bootstraps.

The national commitment to troubled agglomerations, while less pronounced than in its dirigiste heyday, continues in various forms today. Several recent initiatives attest to Paris’s ongoing vocation as firefighter. The first parliamentary debate held by the Balladur government in April 1993 concerned the so-called “politique de la ville,” or measures to assist the depressed high-crime zones inside and especially ringing many French cities. Whereas in the 1970s, state authorities feared the wrath of displaced workers, today, their attentions are also focused upon the smoldering, blighted urban landscape.

The city policy was inaugurated under the Rocard government, primarily in the form of contrats de villes (city contracts). Signed on an experimental basis with roughly

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one-dozen hard-hit French agglomerations, the city contracts were then integrated into the XIth Plan (1989-93) and extended to some 165 agglomerations encompassing 400 neighborhoods. The agreements combine many familiar elements of state intervention, such as contractualization and an effort to promote intercommunal cooperation (through agreements with agglomerations, rather than individual municipalities). The main idea, though, is less to promote a new set of relations between national and local authorities than to inject state funds to calm social tensions.

The Balladur government has committed itself to continue a second firefighting implement pioneered by the Socialists, even though the Right roundly denounced the initiative at the time.28 In November 1991, Michel Rocard’s successor as Prime Minister, Edith Cresson announced the transfer of some twenty-five agencies, including the Ecole Nationale d’Administration, from Paris to various provincial cities. This policy of "administrative delocalizations" constituted a response to the growing pleas for help from troubled provincial agglomerations. Decentralization notwithstanding, as communities around France began to feel the squeeze of the recession, all eyes turned to Paris.

The most striking illustration of this reflex was provided by Roger Quilliot, the mayor of Clermont-Ferrand, an industrial city not far from Saint-Etienne. Clermont-Ferrand is home to the Michelin tire company, which was registering massive losses as a result of weak demand in the automotive market. In the summer of 1991, Michelin announced that it was laying off 5000 workers in Clermont-Ferrand. Overwhelmed by the crisis, Quilliot, a national political figure and former Socialist cabinet member, announced that if the government did not assist his municipality, he would resign his post as mayor.

Cresson and Quilliot represented a perfect meeting of the minds. The voluntarist Prime Minister and the desperate local official were in complete agreement that Paris should play the role of firefighter. Quilliot’s pay-off was an agricultural research center employing 300 people, the Centre national du Machinisme Agricole, du Génie Rural, des Eaux, et des

Forets (CEMAGREF). The choice of the heavily-industrialized Clermont-Ferrand as the new home for CEMAGREF was justified (barely) in terms of the agricultural vocation of the Auvergne region, in which Clermont-Ferrand is located. With the delocalization decisions, Cresson projected an image of political will and energy, while Quilliot could tell his constituents that his efforts had brought a new employer to help relieve the distress provoked by Michelin’s lay-offs.

Despite legal challenges to the delocalizations and fierce resistance from employees who have no desire to relocate to places like Clermont-Ferrand, the policy has been reaffirmed by Cresson’s successors on both the Left and the Right.29 Indeed, the Balladur government extended the list of administrations to be delocalized. Government officials have likewise padded the rationale for the policy, arguing that it will help decongest Paris and bring state services closer to the people. That said, the principal attraction lies elsewhere.

The policy of administrative delocalizations offers the one sure-fire way of bringing new jobs to the provinces. Although the state can no longer implant factories in depressed or backwards regions, as it did in the 1960s and early-70s, it can at least implant a part of itself. Self-cannibalization holds the further advantage of requiring little financial outlay. In the 1990s, state officials have proven unable or unwilling to revive expensive firefighting programs along the lines of the conversion poles. They are searching for cheap solutions. Thus, while attesting to the imagination and initiative of French leaders, the policy of administrative delocalization is also a painful reminder of the limitations of state resources.

Saint-Etienne is not on the list to receive a delocalized agency, but the city continues to be the object of a variety of firefighting measures. Some of these measures are purely symbolic. In 1992, for example, with Saint-Etienne’s industry plunging into recession, the government appointed a special sub-prefect for economic development, just as it had in

29 Libération, 26 May 1993, p. 9; 8 June 1993, p. 8; Le Monde, 27 May 1993, pp. 1, 16.
1984. However, whereas in the earlier instance, the sub-prefect was entrusted with responsibility for the 700-million-franc conversion pole project, the new sub-prefect has been allocated no special resources.

Less publicized than the administrative delocalizations, another reform by the Cresson government -- the creation of an unsecured state loan for companies in difficulty -- is having a significant impact in Saint-Etienne.\(^{30}\) The loan is administered by the Comité Départemental de Financement Industriel (CODEFI), the state "infirmary" for ailing provincial SMEs.\(^{31}\) CODEFI's basic mission is to convince reluctant bankers or investors to commit additional resources to near-bankrupt companies that are deemed salvageable. Invariably, some kind of public contribution of funds is required to bait private investors. During the late-1970s and early-80s, this contribution came from a variety of regional and national subsidy programs: the national prime à l'aménagement du territoire (PAT) and the regional prime régional à la création d'entreprise (PRCE) and prime régional à l'emploi (PRE). In theory, the PAT, PRCE, and PRE were designed for dynamic expanding companies, in proportion to the number of jobs created, but under the desperate circumstances of the early-1980s, they were extended to wobbly firms, on the basis of the number of "jobs saved."

In recent years, both regional subsidies have been eliminated, and the PAT program has been reformed to exclude companies in financial difficulty. Consequently, CODEFI has lacked an instrument to lure private investors into rescue operations. The agency is authorized to tender state loans to companies with collateral, but this simply created a Catch-22 situation: if a firm possessed collateral, then it could secure a private loan and did not need CODEFI; if it lacked collateral, then CODEFI could not help. Consequently, by the late-1980s, in places like Saint-Etienne, CODEFI had lapsed into obsolescence.

\(^{30}\) This account is drawn from interviews with two CODEFI members: Christian Pellegrin, Trésorier Payeur Général, Loire Department, 6 October 1992; Jean-Michel Jamot, Banque de France, Loire Department, 8 October 1997.

\(^{31}\) Larger firms are referred to the regional Comité Régional de Restructuration Industrielle (CORRI). The biggest, most politicized cases are dealt with at the national level by the successor to CIASI, the Comité Interministériel de Restructuration Industrielle (CIRI).
Indeed, most CODEFIs had long since ceased to hold the monthly meetings mandated by their statutes.

In 1992, Cresson broke the Catch-22 dilemma by creating a system of unsecured "participatory state loans." During the first two years of the loan, the company pays interest only (and at a highly attractive rate of 4.5%). The principal is then repaid over the next five to eight years, at a somewhat less subsidized rate. Most important, the loan requires no collateral. With this new tool, CODEFI officials have found a replacement for the state and regional subsidies of a decade ago. Although not a perfect substitute, since a firm's balance sheet benefits less from a loan than a subsidy, this has not stopped the Loire CODEFI from putting together ten rescue operations during the participatory loan's first year of existence (as opposed to none in the previous year). Still, the real issue, one that can only be revealed in time, will be the industrial implications of the new program: whether CODEFI's firefighting operations will prove able to salvage burning provincial SMEs, or whether, as was so often the case in the early-80s, the conflagration will simply consume state moneys along with their recipients.

Another potentially significant instrument available to the firefighting state in Saint-Etienne is the flow of resources from EC regional programs.\(^{32}\) Of the 1.5 billion francs spent on reconversion programs in the Loire during the 1980s, \(^{32}\) Of the 1.5 billion francs spent on reconversion programs in the Loire during the 1980s, \(\approx 0\%\) issued from Paris and \(\approx 35\%\) from Brussels (with the remaining \(\approx 25\%\) from local authorities).\(^{33}\) As noted above, DATAR has tended to view EC programs as an adjunct to national initiatives, and the program content funded by the two sources has been essentially identical. Here, too, however, there are signs of change.


Regional authorities in France are taking a more pro-active stance in managing their relations with the Commission. Saint-Etienne lost 20% of its anticipated benefits from the 1986-89 European Regional Development Fund (ERFD) program due to poor information.\textsuperscript{34} Local authorities were unaware that the concluding date for the program had been advanced by six months and, therefore, failed to spend the money in time. Part of the problem stemmed from the byzantine bureaucratic procedures of the Commission. However, local officials believe that DATAR has deliberately kept them in the dark, so as to avoid sharing power. According to Jean-Claude Charvin, Vice-President in charge of Economic Affairs for the Loire department, the EC Commission serves as a handy scapegoat for neo-\textit{dirigiste} practices:

State administrators claim that they do not have enough advance warning to consult with local elected officials, but this is just an excuse. They could tell us what is in the pipes, so that we could put together applications just in case. It is all part of the low-intensity warfare between the state and local governments. State administrators are not happy about their loss of power with decentralization, so they try to freeze us out of the operation of the European programs.\textsuperscript{35}

Saint-Etienne’s experience in the following ERFD program, running from 1989 to 1991, lends credence to Charvin’s suspicions. In the initial Commission projections, the agglomeration was slated to receive 4.4% of the aid provided to French regions. Ultimately, Saint-Etienne was allocated only 3.4%. DATAR officials informed local authorities that the Commission had determined other French regions to be in greater need of assistance. Saint-Etienne’s economy was showing signs of recovery, and the city is located in the second most prosperous French region, Rhône-Alpes. Consequently, the Commission elected to redirect some of the funds destined for Saint-Etienne toward the steel belt in the North of France and the Lorraine, where not just individual cities, but whole regions are in crisis. While this was indeed the reasoning behind the reduction of

\textsuperscript{34} To be precise, it is not Saint-Etienne that has participated in the European regional programs, but rather the Southern part of the Loire department. In practice, this amounts to Saint-Etienne and the surrounding agglomeration (notably the Ondaine and Gier Valleys).

\textsuperscript{35} Interview with Jean-Claude Charvin, Vice-President, Responsible for Economic Affairs, General Council of the Loire Department, 18 January 1991. Translation the author’s.
Saint-Etienne's share, *the determination was made, not by the Commission, but by DATAR*. The Commission merely endorsed a redistribution initiated by Parisian technocrats.

Twice burned, Loire officials have become considerably more cautious. They scheduled the overwhelming share of 1992-93 ERFD expenditures for the first year, so as to avoid a repetition of the "cost underrun" that reduced their benefits by 20% in 1986-89. They have also established close contacts with the Commission, so as to keep abreast of developments independently of DATAR. Rather than entrusting their fate to DATAR, they are hiring lawyers to inform them of EC projects and lobbyists to try to shape these projects to their benefit. While Saint-Etienne officials may have more grievances than most, their behavior is characteristic of local authorities throughout France.

DATAR's position is also being challenged from above. Prior to 1988, EC regional policy consisted in simply funding national programs. With the reform of the structural funds, however, the EC articulated an autonomous agenda, its so-called "five objectives." In other words, DATAR can no longer take the European money and run, but must harmonize its programs with EC objectives. While there is considerable overlap between the two, it is now the Commission, rather than DATAR, that is setting the agenda. What is more, in light of the doubling of resources and heightened political visibility of regional policy, Commission officials are eager to assert their leadership. Thus, although EC resources continue to offer an important stream of revenues to the firefighting state, DATAR confronts aspiring firefighters both above and below, who believe that it is now their turn to hold the hose.

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36 DATAR officials confirmed this account.
37 Labasse, *op. cit.*
38 The five objectives of EC regional policy are: 1) the development of backwards regions; 2) the reconversion of mature industrial regions; 3) the reduction of long-term unemployment; 4) the insertion of youths into professional career trajectories; 5) the adaptation of agricultural structures (5a) and the development of rural zones (5b).
The place of industrial firefighters, like their political counterparts, is changing in Saint-Etienne. Having laid off the last Saint-
"tiennes miner in 1983, the Coal Board is looking to close SOFIREM. Local officials have fought the move, noting that the negative legacy of the coal industry continues in the form of unemployed workers, polluted waters, and pitted landscapes. SOFIREM's activities have declined nonetheless.

With or without the reconversion companies, nationalized enterprises have become much less willing to make gestures toward the community as a result of the Socialists' turn toward the market. Prior to 1983, these enterprises performed a certain number of "social duties," including assisting troubled agglomerations, as a kind of *quid pro quo* for the various subsidies and tax breaks that they received from the government. Today, that compact has been broken. Having been deprived of government largesse and ordered to earn profits by whatever means necessary, it is only natural that public enterprises display a diminished sense of social obligation.

As related in Chapter Three, one of the key contributions made by the Coal Board to Saint-Etienne development was the sale of prime undeveloped land at low cost to new investors. In recent years, however, the coal and steel industries have struck a tougher bargaining position. Legally, the land and factories in Saint-Etienne are owned, not by SODICEM or SOFIREM, but by Usinor and the Coal Board. The industrial operation and the reconversion company constitute two juridically independent entities, and the latter have little or no influence over the former.

This has produced some rather odd arrangements. Saint-Etienne wished to build a high-tech industrial park (*technopôle*) on the site of a former Creusot-Loire factory that had been acquired by Usinor. Usinor was demanding a very high price, however. Even when the city raised its bid and a team of independent engineers assessed the land at a lesser value, Usinor would not budge from its initial figure. With negotiations going nowhere and temperatures rising, SODICEM intervened to break the deadlock. It did so, not by inducing its nominal partner, Usinor to reduce the price, but rather by offering the
municipality 8 million francs toward the purchase. In other words, one branch of Usinor gave the city of Saint-Etienne money to buy land from another branch of Usinor!\footnote{This anecdote was related by Guy Veyrand, General Delegate, ADIL and Commissioner for Industrialization, DATAR, 4 January 1991. SODICEM Director, Pierre Jacquier, confirmed it, 23 January 1991.}

Not all trends point to a disengagement of nationalized enterprises. SODICEM has actually been expanding its operations, both in good times and in bad. This is because, like many sectors that underwent substantial downsizing during the 1980s, the steel industry had developed a so-called "age pyramid problem."

During the crisis of the 1980s, the French steel industry relied heavily upon early retirements to reduce the workforce. Simultaneously, a hiring freeze was imposed throughout the company. As a result, entering the 1990s, Usinor's workforce was composed almost entirely of people between the ages of 30 and 49. With the prospect of more than one-half the workforce over the age of 50 by the year 2000, the only way to rebalance the age pyramid was to induce a significant number of middle-aged employees to leave their jobs voluntarily (roughly 1000 per year), so that younger workers could be hired in their place. This would also permit Usinor to plug worker skill gaps.

Rather than winding down with the end of the worst period of lay-offs, SODICEM was given a new mission -- to support local companies capable of offering job opportunities that would appeal to Usinor's own employees. From "reconversion à chaud," a desperate scrambling to place workers during periods of severe economic crisis, SODICEM's vocation became "reconversion à froid," the long-term strategic cultivation of local economic development, so as to permit a gradual adjustment of Usinor's labor force. SODICEM's staff grew in line with these heightened responsibilities, tripling in just a few years.

The return of hard times in the early-1990s has pushed SODICEM back toward its traditional vocation. After registering profits of over 10 billion francs in 1989-90, Usinor plunged into the red. With no end in sight to the global steel glut, "reconversion à chaud"
is again the matter of the hour. Usinor is no longer looking to rebalance the age pyramid, but to reduce its workforce by any means possible (from 60,000 to 52,000 in less than three years). Under the terms of an agreement signed with the unions in 1990, no worker can be laid off unless proposed at least two comparably-paying jobs. Consequently, SODICEM's services are in greater demand than ever.

Like its efforts to coordinate the actions of local authorities, the French state's firefighting activities attest both to the enduring fact of state intervention and to the changing character of that intervention. Despite decentralization and liberalization, the forces for Parisian intervention have by no means disappeared. When provincial economies are ablaze, local authorities still holler for Parisian firefighters. While dirigiste firefighters like Edith Cresson may relish the opportunity to respond to the call, even the Right feels obliged to make a gesture. This is why, for all the criticisms of Cresson's delocalization program, the program has been expanded, rather than repealed.

That said, the firefighting vocation has slipped down the list of priorities of a rather cash-strapped state. The recent round of initiatives offers a pale imitation of the instruments mobilized in an earlier era. Whereas in 1984, Saint-Etienne received a subprefect with a 700-million-franc program, in 1992, it received only the subprefect. Indeed, it is no coincidence that the two most important firefighting measures -- EC regional funds and administrative delocalizations -- present essentially no costs to the French state. As in the case of road or university construction, state officials lack the resources of their ambition.

State ambitions are not confined to easing the pain of industrial decline, however. A number of agencies are looking to the opposite end of the industrial lifecycle, to the promotion of emerging SMEs. In so doing, they are neither responding to local appeals nor coordinating local policies. Rather, they are acting in an autonomous capacity, as a substitute for non-existent or ineffective local programs.
The State as Substitute

In recent years, several state agencies have attempted with varying degrees of success to insert themselves at the local level as privileged purveyors of aid to SMEs. For second-tier Parisian ministries, such as the Ministry of Industry, the local arena presents the opportunity to exercise leadership in a policy sphere, aid to SMEs, that has taken on heightened political salience. What is more, despite limited resources, the Ministry's intervention can make a difference -- a far cry from the situation in Paris.

Such aspirations are not always welcomed by local authorities, to say the least. In Saint-Etienne, when the regional branch of DATAR (ADIL) initiated programs in support of SMEs, it touched off a firestorm of local opposition.41 Along with the fall-out from the Defferre laws, the move almost cost ADIL its organizational life.

Nominally, ADIL is a non-profit organization, operating in association with local partners, and presided by a local industrialist. In fact, as related in Chapter Three, ADIL's predecessor, ADIRS was created in 1967 at the initiative of the Pompidou government and in the face of considerable local hostility. Whatever its statute, ADIRS acted as a state organization, responsible for "importing growth" to a troubled region by tapping the national DATAR network for outside investors.

In the 1980s, the Defferre laws provoked a rethinking of ADIL's role at all levels of government: among rival local agencies, notably the expansion committee; in Parisian ministries; and even within the Saint-Etienne agency itself. A number of local authorities felt that the very nature of decentralization meant that there was no longer any place in Saint-Etienne for an organization like ADIL. The purpose of the Defferre reform was to

transfer certain responsibilities from state to local authorities. Consequently, ADIL should fold up its tent and leave local development policy to the locals.

The strongest proponent of this view has been the Director of the Loire department expansion committee (CE), Emile Jacquemet. Expansion committee officials have been extremely critical of ADIRS/ADIL since the creation of the agency in 1967. They have called repeatedly for ADIRS to be either eliminated or merged into the CE. With decentralization, this appeal assumed greater logical and political validity. Jacquemet regularly denounces ADIL as an affront to the spirit of the Defferre laws, “an artifice of the state, which seeks to take from the department the responsibilities that rightfully belong to it with decentralization.”

National authorities have also been rethinking the role of organizations like ADIL. The Chirac administration contemplated eliminating DATAR altogether as part of a neo-liberal campaign of administrative reform. The challenge to DATAR derived not only from neo-liberal principles, but also from the effects of decentralization. Many national officials, reasoning along the lines of Jacquemet, wondered why it was necessary to have a Parisian regional development agency when local authorities were now empowered to handle these responsibilities. While DATAR was spared administrative extinction, its budget was slashed, and the agency was reorganized on a more market-oriented basis. Regional branches, like ADIL, would no longer be financed essentially by Paris. They would have to earn their keep, at least partially. If they were providing a service to their communities, the government maintained, then local officials should be willing to pay for this service. If local authorities were unwilling to contribute, then this was a sign that the service was of limited value and should be halted.

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42 Interview with Emile Jacquemet, Director, Loire Expansion Committee, 5 December 1990. Translation the author’s.
The Chirac administration’s decision compelled ADIL to turn to local authorities for support. Whereas Paris had underwritten 70% of ADIL’s budget in the mid-1980s, with the balance provided by industry (and nothing by local government authorities), today, the agency’s budget is financed in three roughly equal parts by the state, local government, and local business. This shift in ADIL’s mode of financing also fueled a rethinking of the organization’s local development activities.

In the mid-1980s, ADIL reoriented its strategy: instead of seeking to “import” development, via new investments, it would cultivate “endogenous resources” already present in Saint-Etienne. This strategy seemed better adapted to a depressed economic context that was offering few opportunities to lure mobile investors. Political conditions were also judged propitious. With local elites focused upon real estate operations, there was a genuine need for well-targeted aid to existing enterprises. ADIL’s new mode of financing militated further for the endogenous approach. No longer simply an arm of Paris, wielding Parisian resources, on behalf of Parisian missions, ADIL was becoming a part of the local politico-administrative landscape, drawing increased funding from local business and political organizations. ADIL officials saw local development activities as entirely consistent with their emerging identity as a local organization. What is more, they read the financial support of local elites as an endorsement of these new initiatives.

The decisive factor in ADIL’s shift was the appointment in 1985 of a new President, Philippe Courbon. Courbon was in many ways the Jacques de Sury of Saint-Etienne. Like his Besançon counterpart, he issued from the world of industry, rather than politics or administration. This gave him a novel perspective on economic development issues, but at the same time left him poorly attuned to the imperatives of local political maneuvering.

Courbon’s ideas for reviving Saint-Etienne industry derived essentially from his experience as head of a highly successful engineering company. A model entrepreneur, he had transformed a small family business (also named Courbon) into a leader in the field of
computer-controlled production systems. The company grew through the regular addition of complementary vocations to its core activity. Initially, Courbon branched from repairing electric motors to providing electric controls for machining operations. The firm then rode the computer wave of the late-1970s and 1980s to become a designer and assembler of full-scale, automated assembly and production systems. From ten employees in the 1950s, its workforce has risen steadily to over 250 today.

As President of ADIL, Philippe Courbon hoped to generalize his company's trajectory to the entire agglomeration: "I believed that my experience in diversifying, in opening the company to new technologies, could be shared with other firms in the Loire." Like de Sury, Courbon was highly skeptical of subsidies designed to lure external investors, preferring measures on behalf of enterprises already located in the agglomeration. A strategy of endogenous development meant helping local firms become aware of and make use of their potential for growth, just as Courbon's company had done.

Whereas de Sury's ideas never saw the light of day, Courbon was able to launch several initiatives. His principal undertaking was the so-called "vibrant/dynamic forces operation" (opération forces vives), centered around roughly 100 successful local firms and 50 technical and educational agencies. At the most basic level, the operation sought to demonstrate that the moribund image of the department was greatly exaggerated, that the Loire contained a variety of first-rate firms. Beyond morale-boosting, Courbon hoped to mobilize these companies, to induce them to innovate and expand more aggressively, to replicate his own firm's recipe for success. He saw dynamic SMEs as offering the potential to relay declining corporate giants as the engines of local development.

The forces vives program provided a forum for leading local companies to share experiences, with the idea that the achievements of some would serve as models for all. Companies might also discover possibilities for technological cooperation or even strike partnerships. They could also make contacts with local research and technology

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44 Interview with Philippe Courbon, CEO Courbon, Former President of ADIL, 5 December 1990. Translation the author's.
organizations. In the same spirit of promoting exchange, ADIL issued a monthly publication, the *Letter of Opportunities*, detailing firms looking for partners, investors, or takeover targets.

ADIL did not confine its activity to verbal exhortations. The agency began offering small subsidies to firms willing to undertake risky diversification, particularly if the project involved the use of new technologies or composite materials. ADIL also helped organize and finance innovations involving collaboration with university and technical laboratories.

By the mid-1980s, then, two diametrically opposed visions of ADIL’s role had emerged. On one side, rival economic development organizations at the local level along with neo-liberal officials in the Chirac administration maintained that decentralization had eliminated DATAR/ADIL’s *raison-d’être*. Local authorities were now capable of taking their economic destinies in hand. On the other side, officials like Courbon argued that ADIL needed to recast its role, to forego fruitless firm-chasing operations in favor of measures on behalf of existing local enterprise.

Ultimately, neither vision would prevail. Courbon’s project was derailed by many of the same factors that undermined de Sury in Besançon. Once again, political style was part of the problem. An ADIL official contends that Courbon attempted to transpose his mode of behavior as CEO to a situation that required far greater political finesse:

Courbon thought that he could run ADIL, run a local economic development program, like a company. He did not understand that ADIL is at the intersection of three different universes: the national political universe, the local political universe, and the universe of private industry. An ADIL director must placate, cater to, these different groups, who each operate according to a distinct logic.⁴⁵

Rather than proceeding in a consensual manner, Courbon behaved in the way that had proven so successful in running his company: he took boid unilateral action and let the competition do the adjusting. Like de Sury, he underestimated the importance of consensus building, of taking small steps and enlisting the support of other actors. That

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⁴⁵ Interview with Guy Veylard, General Delegate, ADIL and Commissioner for Industrialization, DATAR, 4 January 1991. Translation the author’s.
said, the problem was more than a matter of one individual’s diplomatic skills. Like de Sury, Courbon lacked the power to shift his agency’s spending priorities from smokestack-chasing to endogenous development measures. DATAR funds were provided almost exclusively in the form of subsidies to mobile investors (the *prime à l’aménagement du territoire*), leaving ADIL with scant resources for Courbon’s *forces vives* operation. Courbon complained that Saint-Etienne industrialists were deaf to his pleas to accelerate their innovation projects, but had he possessed a few more carrots to nudge these projects along, his audience might have been more receptive.

Courbon lacked not only money, but legitimacy. He had assumed that since local officials were undertaking little more than symbolic actions to promote endogenous development, no one would care if ADIL entered this area. In fact, ADIL’s move was met with howls of protest from the chamber of commerce, expansion committee, and other local actors. ADIL was widely seen as overstepping its bounds, as encroaching on other agencies’ turf. Even though local elites are virtually unanimous in decrying the performance of these other administrations, the prevailing view was that it was not for ADIL to act in their place.

Had ADIL been just another local agency fishing in a rival’s waters, its strategy might not have provoked such an uproar. In the minds of local officials, ADIL was not a local agency, however, whatever its sources of funding, but rather a representative of the central state. Consequently, they were resistant to any hint of expansion. Indeed, several local sponsors threatened to withdraw their funding if ADIL did not curtail its endogenous development activities.

In a sense, ADIL suffered the worst of both worlds. Identified with the forces of Parisian technocracy and *dirigisme*, the agency confronted considerable suspicion among local elites. Saint-Etienne officials were determined to deny ADIL the opportunity to reposition itself and carve out new vocations, an opportunity routinely available to other local development organizations. At the same time, ADIL lacked the kind of resources
possessed by a typical Parisian administration and was, therefore, unable to override this local opposition. When local officials threatened to cut off its funding, ADIL had no choice but to back down.

While the expansionist ADIL agenda was defeated, the effort to eliminate the agency fared no better. Most local officials appreciated ADIL’s traditional vocation, its efforts to bring new investors to Saint-Etienne. They recognized that no other local organization could match ADIL’s Parisian connections -- its access to potential investors through the DATAR network and its ability to marshal state subsidies. In short, the desire to tap Parisian resources outweighed fears of a resurgent, neo-dirigiste ADIL.

Following the phase of effervescent experimentation and political conflict under Courbon, a deal was cut. Peace was restored on the basis of the old division of labor. ADIL abandoned its pretensions to spearhead endogenous economic development and, in return, was confirmed as the lead agency in prospecting for outside investment, particularly foreign investment. Its operating budget was secured, with local administrations and enterprises now covering roughly two-thirds of ADIL’s financial needs.

The deal was cemented by personnel changes at ADIL. Philippe Courbon stepped down and was replaced by a far less forceful President. In practice, the agency is now run, not by the President, but by the General Delegate, Guy Veyrad, a dedicated, sober professional, widely respected in local circles, who defines ADIL’s role in more traditional and modest terms.

Veyrad believes that ADIL should focus on what it does best -- attracting foreign investors. This is where its comparative advantage lies; no other local agency can match ADIL’s DATAR connections. What is more, Veyrad has moved to strengthen this advantage by cultivating ties to Italian companies. With over a dozen implants in recent years, the Loire department trails only Paris as the destination of choice for Italian industrialists.
Veyrard is not opposed to endogenous development initiatives, but has far less faith than Courbon in their transformative capacities. More important, given the realities of local politics and the limits of ADIL’s resources, he believes that such actions should be left to other local agencies -- or better yet, to local industrialists. ADIL can lend a hand in support of programs initiated by others, but it should not seek to encroach on their turf. Rather, by doing its job well and keeping its nose clean, ADIL can render itself invaluable to local elites, thereby assuring the agency’s political and financial future.

Not all actors are reconciled to ADIL’s reassertion of its traditional vocation. The Director of the expansion committee still calls for ADIL’s elimination, but his voice appears to be weakening. The CE’s chief sponsor, the Loire department, has begun funding ADIL. Even within the CE, opposition to ADIL is eroding. After the Director delivered a tirade against ADIL and left the room, an assistant in charge of helping firms settle or expand within the Loire department related that he always refers investors to ADIL in order to improve their chances of receiving DATAR subsidies.

Ten years after the passage of the Defferre laws, ADIL has come full circle. Although the logic of decentralization might have dictated stepping aside, the agency’s Parisian resources assured it a continued existence. These resources did not assure ADIL a multi-faceted existence, however. Dependent upon local sponsors as well as DATAR supervisors, ADIL has made itself welcome in Saint-Etienne by making itself modest.

While ADIL’s incursion into the realm of endogenous development policy has been checked, it is not the only state agency to have entertained such ambitions. Indeed, the defensive action of local officials can be compared to that of the little Dutch boy placing his finger in the dike: they have plugged one leak, but others are springing up all around. A variety of agencies, mostly associated with the Ministry of Industry and organized on a provincial (or deconcentrated) basis, have created a floor where ADIL’s actions represented but a trickle. Chief among these agencies are the Agence de Développement de la Productique Appliquée (ADEPA), the Agence Nationale pour la Valorisation de la
Recherche (ANVAR), and the Délégation Régionale à l’Industrie et à la Recherche et à l’Environnement (DRIRE).46

Although all three agencies have ties to the Ministry of Industry, they are not the tightly-honed executors of a clearly-defined dirigiste agenda. On the contrary, they constitute a somewhat motley collection of organizational hybrids, who have arrived at their respective missions along varied, haphazard paths, and who collaborate on some occasions, but are often in conflict with each other. In other words, they offer an image of French industrial policy in its messiest and least Cartesian form.

The three agencies are organized according to three different juridical statutes. The DRIRE constitute an organic part of the Ministry of Industry, the Ministry’s administrative branches in the provinces. ANVAR is a public agency, like the DRIRE, but not a formal component of a ministry. Its status is the rather vague and elastic juridical form known as a “Public Establishment of an Industrial and Commercial Character” (EPIC). ADEPA is a simple non-profit agency (organized under the 1901 legislation), with no formal ties to the public sector.

Financially and politically, the three agencies are bound in different ways to the Ministry of Industry. The DRIRE are direct subordinates, taking orders from the Ministry, which establishes the agencies’ budgets and policy priorities. ANVAR operates under a double tutelle, reporting jointly to the Ministry of Industry and the Ministry of Research. Like the DRIRE, it is funded almost entirely by public moneys.

ADEPA is the most distant from the Ministry of Industry, not only in juridical terms, but financially. ADEPA receives a fee for administering certain government programs as well as an operational subsidy from the Ministry of Industry, but earns a substantial part of its budget through the sale of software and consulting services to industry. State contributions have totaled as much as 75% of ADEPA’s budget (1985) and as little as 35% (late-1970s). In 1991, the figure was 47%, with a goal of 30% in 1994.

The three agencies have arrived at their present activities in support of SMEs and local economic development through unique, twisted historical trajectories. ANVAR originated in the late-1960s as an agency to transfer research results from university and technical labs to Parisian multinationals. In 1979, with Giscard seeking to make a gesture toward SMEs, ANVAR was reorganized on a regional basis and its aid targeted on SMEs.

This tilt toward SMEs was attenuated when Laurent Fabius became Minister of Industry in 1984. As a powerful figure within the Socialist party, Fabius was able to obtain a line of financing for his ministry independent of the Ministry of Finance. This pool of resources (CODEVI) was raised from private savers, lured by tax breaks and favorable interest rates. The Ministry then used part of the CODEVI money to promote technical modernization by French firms. The program, known as the Industrial Fund for Modernization (FIM) offered long-term, low-interest loans to companies investing in new plant and equipment and was administered by ANVAR. Although the idea was to favor provincial SMEs, in fact, large firms absorbed roughly one-half of FIM resources.

When Jacques Chirac became Prime Minister, he put an end to both CODEVI and FIM. ANVAR, like DATAR, was subject to a wholesale review. Although it, too, survived, its budget was reduced substantially. In order to get the most out of these limited means, government officials ordered ANVAR to focus exclusively on SMEs. Even when ANVAR’s budget rose again in the final year of the Chirac government and under the second Mitterrand Presidency, this orientation toward SMEs remained unchanged.

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47 Interview with Christian Sauvaine, National Director, ADEPA, Montrouge, 8 January 1992.
In contrast to ANVAR, ADEPA has been geared toward SMEs virtually since its creation in 1968. The ways in which it has sought to assist SMEs have varied over time, however, reflecting shifting industrial policy considerations. ADEPA originated in part as an offshoot of the Plan Calcul to forge a French computer industry free of US domination. The agency’s first mission involved adapting a French industrial software program to small-scale users, the goal being to not only diffuse computer technologies to SMEs, but also to keep these companies from adopting the US standard.

ADEPA received a further push from another ill-fated dirigiste initiative, the Machine-Tool Plans of the late-Giscard and early-Mitterrand years. ADEPA was entrusted once again with the somewhat contradictory objectives of promoting technical modernization by French SMEs, on the one hand, and the consumption of often-inferior French products and technology as the means to this modernization, on the other. ADEPA administered a Ministry of Industry program that subsidized the purchase by SMEs of advanced numerically-controlled machine-tools. In theory, the MECA (Machines et Equipements de Conception Avancée) subsidy was available whatever the machine purchased, but applications were far more likely to be approved if the equipment involved was French.

ADEPA’s conflict of interest dissipated with the collapse of the French machine-tool industry in 1985-86. The agency was able to return to its traditional vocation of advising SMEs in their technical modernization, free of the obligation to peddle French machines. What is more, it was still able to mobilize a few carrots. The MECA program continued beyond the end of the Machine-Tool Plan, albeit at a somewhat reduced level. In addition, in 1988, the Ministry of Industry entrusted ADEPA with a program to encourage SMEs to invest in industrial software (LOGIC). For a few years at least, then, government programs gave ADEPA an entry point with employers who were considering modernizing either hardware or software.
ADEPA's privileged position has been weakened in the last two or three years as a result of the growing role of the Ministry of Industry's own regional branches, the DRIRE. Unlike ANVAR and ADEPA, the DRIRE do not have a history of involvement in national industrial policy and aid to SMEs. Traditionally, the contact between the DRIRE and industry has been confined to strictly technical, regulatory tasks: enforcement of plant health and safety legislation, motor vehicle inspections, verification of coal mines and nuclear plants, etc. In the past few years, however, the economic mission of the DRIRE has been beefed up considerably.

The DRIRE have enjoyed the favor of the Ministry of Industry for several reasons. In contrast to ANVAR or ADEPA, their loyalty and identity are unambiguous. When ADEPA administers an aid program on behalf of the Ministry, employers tend to come away with the impression that ADEPA, not the Ministry, is the source of the aid. With the DRIRE, such misunderstandings are less likely.

The DRIRE are well-suited for their new missions. Because of their technical inspection vocation, they employ a number of engineers with excellent access to and knowledge of local industry. They also benefit from high-caliber leadership. In each region, the Economic Development Division is headed by a top graduate of Ecole Polytechnique, who simultaneously occupies a comparable position at the regional prefecture. Thus, the DRIRE combine all the elements for an effective industrial policy agency: extensive contacts with industry, a technically sophisticated staff, an organic link to the regional prefecture, and best-and-brightest leadership.

During the past four years, virtually all new Ministry of Industry initiatives on behalf of SMEs have been entrusted to the DRIRE. These include: the Programme

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48 This system is not without drawbacks, however. While top Polytechnique graduates -- those at the head of their class, who were then able to enter the Corps des Mines, Corps des Ponts-et-Chaussées, or Corps des Télécoms -- are appointed to the provinces for their initial civil service position, this is a temporary posting. After two to three years, they are usually promoted to the Ministry of Industry in Paris. Compounding the problem, these high-flying "X-Mines," "X-Ponts," and "X-Télécoms," as they are designated ("X" being the nickname for Polytechnique), are in short supply. The Besançon position, for example, remained vacant for over a year following the departure of a dynamic X-Mines. As a result, many of the initiatives that he had carefully cultivated stagnated or fell apart.
d'Utilisation des Composants Electroniques (PUCE) and the Programme d'Utilisation des Matériaux Avancés (PUMA) to promote the use of semiconductors and composite materials respectively in new products; the Fonds Régional d'Aide au Conseil (FRAC) to encourage use of consulting companies; measures to induce SMEs to hire more engineers and managers; LOGIC-Intégration to boost consumption of industrial software linking (or "integrating") different computerized productic operations. The latter program is the follow-on to the ADEPA-administered LOGIC program.

As the case of LOGIC indicates, the development of the DRIR's economic mission has been fueled to a considerable extent at ADEPA's expense. The Ministry of Industry has given ADEPA no new programs to replace the lapsed MECA and LOGIC initiatives, preferring to cultivate its own regional branches. In the ongoing redistribution of responsibilities, it is unclear that ADEPA will be able to preserve an important role in assistance to SMEs. ANVAR is protected from encroachments by the DRIRE thanks to the joint tutelle of the Ministry of Industry and Ministry of Research. Any effort by the former to strip ANVAR's powers or resources would arouse the ire of the latter. ADEPA, by contrast, has no political sponsor outside the Ministry of Industry. Consequently, it is more vulnerable.

For all the conflicts and uncertainty surrounding the missions of ADEPA, ANVAR, and the DRIRE, taken together, these agencies have intervened in relatively coherent fashion over the past six to eight years, hewing to a few basic principles. The starting point for their action has been to try to bolster SMEs, rather than large industrial enterprises. The various measures proffered by the three agencies have been devised with the idea of addressing traditional weaknesses or problems confronted by SMEs: a lack of capital or access to bank loans; an underdeveloped management structure; a limited awareness of new process and product technologies. While ANVAR has at times assisted larger companies, all three agencies now restrict their programs to companies falling beneath a certain size threshold and not belonging to a broader conglomerate. Typically,
the threshold is 500 employees or annual sales of 50 million francs, although ANVAR aids companies with as many as 2000 employees.

The priority accorded SMEs reflects not only the financial constraints imposed by austerity budgets, but a tactical judgment. Officials at ADEPA, ANVAR, and the DRIRE believe that large firms and conglomerates possess the financial and managerial resources to think strategically, that they do not need government programs to assist them in these tasks. Offering large companies subsidies would have little incitative impact; it would merely reduce the costs of actions that the companies would take in any case. By contrast, many SMEs lack the resources or know-how to act strategically. Consequently, small, well-targeted subsidies are seen as having the potential to promote significant shifts in company behavior.

All three agencies associate a focus on SMEs with a "deconcentrated" or federated organizational structure. In the words of the Delegate for SMEs in the Rocard government, "An SME is not something you deal with in Paris. You deal with it on the ground floor, in the provinces." \(^{49}\) Busy provincial employers are not prepared to travel to Paris for a day in order to learn what civil servants would like them to do. Representatives of ADEPA, ANVAR, and the DRIRE must take the initiative, an initiative that is greatly facilitated by geographic proximity. Given the sheer number of SMEs to be contacted -- each local agency undertakes anywhere from 500 to 1000 plant visits annually -- operating from Paris would be impracticable.

A deconcentrated structure offers the further benefit of making it possible to respond more rapidly and flexibly to the needs of provincial firms. The deconcentration of the three agencies has been driven by the desire to not only reach out to SMEs, but to address industrialists' complaints about slow, bureaucratic state procedures. All three agencies are shifting decisionmaking authority downward, from Paris to the provinces. Regional ANVAR branches, for example, may grant loans of up to 2.5 million francs

\(^{49}\) Interview with Marcel Gérente, Director of Regional Action and Technology and General Delegate for SMEs, Ministry of Industry, Paris, 27 December 1990. Translation the author's.
without consulting Paris, while DRIRE representatives are permitted to launch small programs entirely on their own initiative. As a result, provincial employers confront interlocutors who can propose and process aid packages reasonably quickly.

ADEPA, ANVAR, and DRIRE not only share a common organizational structure and target clientele; they also pursue similar objectives. The guiding principle for all three agencies is to induce SMEs to "make leaps," to accelerate the pace of change, particularly technological change. Each organization focuses upon a different dimension of technological change. ADEPA's vocation has been to encourage the modernization of process technologies, offering subsidies for the introduction of numerically-controlled machine tools, complex assembly systems, and industrial software (MECA, LOGIC). The DRIRE have sought to promote advances in product technologies, underwriting the introduction of composite materials or electronics to make new products (PUMA, PUCE). ANVAR has also supported product innovation, but its projects tend to be more ambitious and risky than those funded by the DRIRE.

While the process technology programs have given rise to a battle between the DRIRE and ADEPA (notably, over who will control LOGIC-Intégration), the division of labor for product technology programs has proven more stable and satisfactory. The DRIRE handle relatively modest projects, involving small government subsidies. A typical DRIRE client might be an auto supplier seeking to replace a metal element with a plastic element or a mechanical control mechanism with an electronic mechanism. If the application is approved, the candidate receives a subsidy on the order of 250,000 francs.

ANVAR, by contrast, funds bigger technological leaps and with significantly greater resources. A typical ANVAR client might be looking to develop a wholly new product, often requiring technologies outside the firm's traditional vocation. For example, one ANVAR project involved a Besançon company that, in using lasers to cut watch parts, had improved upon the standard laser design and wished to manufacture its own machines. For this kind of investment, ANVAR proposes zero-interest loans of up to 15 million
francs (but usually around 2 million francs). The loans are repayable only in case of
commercial success, over a three-to-five-year period, beginning with the initial sales of the
new product. Thus, although DRIRE and ANVAR do occasionally overlap and although
the difference between modest and high-risk innovations is not always clear, the basic
vocation of the two agencies remains relatively distinct.

Because the technology programs seek to encourage SMEs to make leaps, they
must be recast and redefined periodically to keep them on the technological cutting edge.
Some have been terminated. The MECA program, which encouraged SMEs to acquire
numerically-controlled machine-tools, lost its raison-d’être when NC became the industry
standard. It was phased out in 1991.

LOGIC, as we have seen, has been reoriented and rebaptized LOGIC-Intégration.
The program’s goal of promoting the use of industrial software by SMEs has been
achieved. Industrial software is widely diffused throughout French industry, in big firms
and in small. To continue LOGIC in its current form would mean funding SMEs to
purchase software that they would acquire in any case. Consequently, to restore the
incitative dimension in the face of the banalization of industrial software, the technological
challenge has been raised. LOGIC-Intégration subsidies will be available, therefore, only
to companies who propose to use computer software to link different production functions.

Not all the leaps that ADEPA, ANVAR, and the DRIRE seek to promote are
 technological. Several programs aim to refashion company structures and management
practices. The idea is to help SMEs “grow up” in managerial terms, to move beyond the
traditional paternalistic, one-person mode of management. Firms in which the employer
serves as a kind of jack-of-all-managerial trades -- responsible for marketing, product
development, quality control, etc. -- are offered significant financial inducements to hire
additional management and engineering personnel. Typically, the government will pay half
a new hire’s salary for one year, up to 150,000 francs.
Even if the employer balks at such a commitment, there are other means for boosting the company’s strategic thinking capacity. Many programs encourage SMEs to make use of consulting services. Typically, the firms receive a free one-day audit assessing their general competitive position, problems, and prospects for development. If they decide to undertake broader changes under the guidance of a consulting company, the government will cover up to one-half the costs.

The incitative character of the DRIRE, ADEPA, and ANVAR programs means that the agencies are willing to take a loss, even in the cases in which there is a pretense of repayment by the beneficiary firm. ANVAR officials declare, for example, that their goal is to lose roughly 50% in real terms on their success-conditional loans, which means that only 60% of their ventures need succeed. The reason for this modest objective is that ANVAR focuses upon risky innovations, in which both banks and industrialists are reluctant to invest. If ANVAR were turning a profit, then presumably, its functions could be performed by private actors. Losing money is a sign that ANVAR is pushing SMEs where markets fear to tread.

While the deconcentrated agencies are not looking to turn a profit, they are not geared toward bailing out lame ducks either. Their clients represent a relatively healthy subsection of the population of French SMEs. This marks a sharp contrast with state policy in the 1970s and early-80s, when the lion’s share of resources were channeled to companies like Lip and Manufrance.

Two factors tend to concentrate aid from DRIRE, ADEPA, and ANVAR on dynamic SMEs. The first is that the agencies deliberately screen out financially wobbly candidates. Applicants must submit their financial statements for the previous three to five years. They must also demonstrate the capacity to finance a significant proportion of proposed investments from their own funds or through bank loans.
The second factor derives from the very nature of the agencies' programs, from their incitative orientation. All the programs seek to promote aggressive, forward-oriented behavior: expansion, technical modernization, new hires, and innovation. These incentives appeal, by definition, to ambitious entrepreneurs, who are willing to take risks, invest their own money, and open their companies to new ideas and practices.

Although the intervention of ADEPA, ANVAR, and DRIRE appears far less Cartesian than the traditional modes of French industrial policy, the elegant voluntarist schemes headed by high-flying Parisian technocrats, this motley assortment of peculiar organizational structures associated with the Ministry of Industry has been able to pursue a relatively coherent course of action. The three agencies have targeted SMEs, rather than industrial giants, focusing resources on companies with a project and a will to change, rather than conservative lame ducks. In order to service provincial SMEs more rapidly and flexibly, they have beefed up their regional organizations and expanded local agents' decisionmaking capacity. Finally, they have sought to push SMEs ahead of market forces, to accelerate the pace of innovation. As technological frontiers have shifted, programs have been recast to preserve their cutting-edge, incitative character.

This new strategy is all but impossible to locate along a liberal-dirigiste continuum. On the one hand, it attests to the recent liberalization of French economic policymaking: state authorities are no longer picking winners and forcing firms to merge; they are merely trying to create a more supportive environment for private managers. What is more, many of the tools of intervention operate through private consultants, rather than state technocrats. On the other hand, the underlying assumption behind the policies toward SMEs is that the heads of small firms do not understand their own interests and that the state must encourage (and, in the process, become quite involved in) such desirable practices as: investment in risky innovation; improvements in quality control methods; the introduction of new materials into products; modernization of plant and equipment; use of sophisticated software; hiring of managers and engineers. Nor is coercion entirely absent.
from the relationship. While state officials are not telling private managers what to do, they are paying 20-50% of the costs for them to do certain things. Thus, it could be argued that at no point in French history has the state meddled in so many firms and in so many prerogatives of management as under today's ostensibly post-dirigiste regime.

Whatever the implications for theories of the French state, the actions of the deconcentrated agencies have demonstrated an undeniable appeal among provincial industrialists. According to the Franche-Comté DRIRE, in 1989, 700 regional companies participated and received funds from the programs run by the three agencies. Anecdotal evidence from interviews with managers in 70 Besançon and Saint-Etienne companies points to the same conclusion. Whereas Besançon and Saint-Etienne entrepreneurs are oblivious to the vast majority of initiatives put forward by local authorities, many of these same entrepreneurs have made repeated use of ADEPA, ANVAR, and DRIRE programs.

From a political perspective, ADEPA, ANVAR, and the DRIRE have succeeded where ADIL failed: they have been able to carve out a niche assisting provincial SMEs without provoking significant opposition among local authorities. No local official in Besançon or Saint-Etienne has called for the elimination of the deconcentrated state agencies. No one has denounced the Ministry of Industry for undermining the cause of decentralization. Indeed, the Ministry has even been able to induce local authorities to co-finance certain SME programs, although not without a fair amount of local grumbling. Part of the budget for ANVAR and DRIRE programs (success-conditional loans, subsidies for consulting services, aid for hiring managers and engineers) is funded through state-region planning contracts. In Saint-Etienne, additional resources are channeled via the European Regional Funds (and matching local contributions).

The ability of ADEPA, ANVAR, and DRIRE to avoid the plight of ADIL reflects several factors. No doubt, these agencies have acted with greater political skill than ADIL

50 Unpublished Franche-Comté DRIRE documents.
President Courbon. Instead of launching frontal attacks on local rivals and announcing their intention to assume a lead role in development policy, they have adopted a low profile. The DRIRE, in particular, have sought to avoid conveying the appearance of *dirigisme*. Many of their initiatives are co-financed and administered in partnership with other local agencies. Even when DRIRE officials launch a program independently, they have been willing to take on partners who expressed an interest, sharing the credit as well as responsibility.

The deconcentrated agencies have been in a stronger financial position than ADIL. Their resources may represent peanuts by Parisian ministerial standards, but these resources are more than adequate to give the agencies substantial leverage at the local level. All three agencies have built an impressive pool of industrial clients, who would likely object to any local efforts to evince them from the provinces. ADIL's Courbon, by contrast, was unable to lure Saint-Etienne industrialists into his programs, a reflection of ADIL's limited funds for endogenous development programs. As a result, Courbon lacked industry supporters to defend his agency against challenges from rival local authorities.

Superior resources, thanks to Parisian backers, have enabled the deconcentrated agencies to make themselves useful to local officials. In this sense, one can see a parallel with ADIL's role in the prospection business. Saint-Etienne officials resisted appeals to eliminate ADIL because the agency's ties to DATAR, to the Parisian administration's subsidies and leads on potential investors, made it an invaluable ally in the battle for mobile investors. Likewise, the relatively comfortable budgets of ADEPA, ANVAR, and the DRIRE have permitted these agencies to perform development tasks for which local authorities are ill-suited. Whatever their feelings about *dirigisme*, local officials are disinclined to attack agencies that are contributing to the community's economic well-being.

State resources have strengthened not only the capacity of the deconcentrated agencies, but also their autonomy vis-à-vis local officials. In contrast to ADIL, the deconcentrated agencies do not depend upon local contributions to cover their operating
expenses. Of course, the DRIRE and ANVAR have engaged in the familiar game of using matching-fund contracts to pry loose local resources, but this has served merely to supplement their budgets. They do not need this money in order to function. Consequently, they have been less susceptible to financial blackmail by local elites than ADIL.

**Conclusion: Post-Dirigiste State Intervention**

The limitations of local development policy have provided ample grounds for renewed Parisian intervention: to coordinate wasteful and conflicting local policies, to address problems that transcend local resources, and to service industry needs where local authorities fear (or do not care) to tread. State action is motivated by more than disinterested concern, however. The local arena also harbors financial resources for unscrupulous ministries and political resources for aspiring empire-builders.

While state intervention is alive and well in the provinces, the combination of economic liberalization and decentralization has radically redefined the conditions under which it takes place. For starters, Paris is poorer. The French state is no longer wealthy enough to intervene across-the-board -- in sunrise and sunset industries, among SMEs and national champions, for social reasons and economic reasons. State authorities are being forced to make hard choices. They are trying to channel resources to promising SMEs through deconcentrated agencies, but this means slighting the social or firefighting vocation -- a particularly painful strategy in light of the current economic downturn and one that may prove difficult to sustain.

While Paris is poorer, the provinces are richer. So, too is the authority above Paris, the European Community. Neither of these facts has gone unnoticed by state agencies. Indeed, some of the most egregious forms of neo-dirigiste behavior -- the state-region planning contracts and DATAR's manipulation of EC regional programs -- represent
a kind of backhanded compliment, a statement that the resources of local and EC authorities have grown too significant to ignore.

Partly because of this changing financial relationship, Paris has become less heavy-handed in its relations with local authorities. It is negotiating and signing contracts, rather than issuing orders. In the post-Defferre provincial landscape, Paris often lacks the legitimacy to issue orders, as the experience of the ATR reform revealed. In any case, contractualization is less offensive to local sensitivities. Even if the premise of mutual respect and compromise is often belied by the practice of hard bargaining between two unequally-endowed contractors, it is framed in more appealing terms. What is more, local officials are well-remunerated for their acceptance of state direction (through matching funds), and they do possess some leverage to reorient state priorities.

A further source of change is the blurring of the boundary between “state” actors and “local” actors. The identity of an organization like ADIL, which receives funding from both state and local sources, is anybody’s guess. With multiple funding comes multiple allegiances. Even when financial arrangements remain unambiguous, provincial branches are receiving greater autonomy vis-à-vis Paris as a result of the movement to “deconcentrate” state services. What is more, agencies such as DRIRE, ADEPA, and ANVAR are entering into alliances with local organizations. Thus, the ties that bind run increasingly in a horizontal as well as a vertical direction.

Paris’s relations with local industry are likewise evolving. Gone are the days when state technocrats merged, rescued, and reorganized whole sectors of provincial enterprise, not to mention individual firms, without so much as setting foot outside Paris. Once again, fiscal constraints are no stranger to this shift. Paris lacks the means of its earlier lofty ambitions. However, its ambitions (or at least strategies) have also changed. Whereas state intervention in the 1970s and early-80s privileged the defense of lame ducks, it has since tilted toward the promotion of dynamic SMEs.
Paris’s methods of intervention display no less striking transformation. Instead of imposing technocratic schemes, DRIRE, ADEPA, and ANVAR are underwriting projects devised by private entrepreneurs, often operating through consulting companies. Instead of targeting sectors, they are assisting expanding industrial enterprises, whatever the activity. Instead of resisting market signals, they are trying to accelerate adjustment by encouraging firms to modernize their equipment, products, technology, and management structures. In short, across a range of areas, Paris is intervening, but in a supportive rather than a directive capacity, as an adjunct of market forces, rather than an alternative.

From the perspective of the provinces, a poorer but more concertational and market-oriented Paris offers both advantages and disadvantages. On the downside, Paris no longer has much money for provincial problems, and indeed, state agencies are not above trying to get their hands on local resources. Tight budgets have taken the greatest toll on the state's firefighting vocation. Although in theory, all are agreed that it is better to direct scarce public resources toward the industries of the future than those of yesteryear, the reality is quite painful in places like Saint-Etienne.

On the positive side, state intervention has probably become more productive. The moneys that were injected into Lip and Manufrance, long after these companies had ceased to be competitive, are lost and gone forever. By contrast, a sprinkling of subsidies to accelerate the development and modernization of provincial SMEs will bear fruit for decades to come.

The benefits of the new state intervention are also political. Although dirigiste excesses are not entirely a thing of the past and although superior resources confer superior power on state officials, the tenor of the relationship between Paris and the periphery has shifted. Instead of agents of the general will, struggling to impose ready-made solutions against the corporatiste reflexes of Malthusian local elites, state officials tend to portray
themselves as partners in development, cultivating and supporting promising local initiatives. In post-\textit{dirigiste} France, this may be the greatest change of all.
CHAPTER SEVEN - AFTER ETATISME: DILEMMAS OF
INSTITUTIONAL REFORM IN POST-DIRIGISTE FRANCE

The French experiment with local economic policy, as described in Chapters Three
to Six, can be broken into five broad phases. The first phase, the postwar period, was
characterized by the dominance of the dirigiste state. For much of this period, local
authorities lacked the inclination to assist provincial enterprise; throughout, they lacked the
means. State officials justified their dirigiste actions in terms of the Malthusian or
clochemerlesque attitudes of local elites. At the same time, however, the very operation of
the dirigiste system tended to reinforce local irresponsibility. Economic development was
seen as a matter for DATAR, the prefect, and concerned ministries, not for provincial
authorities. This was not just an abstract doctrine, but an object of continued state
vigilance, as the 1976 Poniatowski circular, reaffirming the prohibition on local aid to
industry, revealed. When zealous officials like Besançon’s Albert-Maxime Kohler sought
to mount new instruments of economic intervention, they were frustrated by a combination
of state prohibitions and local insistence that salvation could come only through national
change. Thus, to the extent that provincial officials were concerned about the economic
well-being of the community, they tended to look to Paris, not to their own meager
resources, for solutions -- an attitude much in evidence in the Lip and Manufrance affairs.

The Defferre decentralization laws marked the second phase in the French local
development experiment. The newly-elected Socialist government conducted a broad
institutional reform designed to free local authorities from the stifling nutelle of Paris and
enhance participation and democracy. At a time when the Socialists were emphasizing the
virtues of national, voluntarist industrial policy measures, decentralization was not
conceived of in economic terms. Rather, it held essentially political interest, as a
concession to Second Left ideas and to their leader, Michel Rocard, and as an effort to
democratize and open up French society.
With the crisis of *dirigisme*, however, decentralization began to take on a new meaning, and France's local development experiment entered a third phase. State officials, casting about for alternatives to discredited *dirigiste* strategies, took notice of the latent economic potential within France's subnational institutions. So, too, did local officials, desperate to alleviate the impact of the growing industrial crisis. Under this confluence of circumstances, the institutional fragments bequeathed by the Defferre laws and the misty "soixante-huitarde" ideas of the Second Left were redirected along more technocratic lines. Whatever their merits as a forum for participation and *autogestion*, local institutions came to be valued increasingly as the most effective agents of provincial economic development, notably of aid to SMEs.

The problem, as the local experiment entered its fourth phase, was that France's local institutions were poorly configured for their new mission. Because of the logic of phase one (the postwar *dirigiste* period), they lacked the experience of economic intervention. Indeed, in places like Besançon, where Socialists balk at "giving gifts to capitalists," the hold of postwar attitudes continued to obstruct economic action. Because of the logic of phase two (the moment of institutional reform), local authorities lacked the institutional capacity for effective intervention. A variety of dysfunctions -- a dispersion of underfunded efforts, self-defeating competition, and an obsession with industrial real estate operations -- attest to the legacy of a reform conceived of for political, rather than economic purposes.

The disappointments of local development measures have inaugurated a fifth phase in the French experiment, that of renewed state intervention. This intervention stems from more than disinterested concern; state officials are also drawn by the political and financial resources available at the local level. Still, it is the weaknesses of local action that have defined the opportunities for state action. Paris has intervened to coordinate conflicting and overlapping local initiatives, to tackle social problems that lie beyond the limits of local resources, and to provide services where local offerings are deficient (notably aid to
SMEs). It has done so, however, in a wholly different manner from its earlier dirigiste incarnation. State authorities are negotiating contracts with local authorities, rather than issuing orders; they are implementing policies flexibly via "deconcentrated" agencies, instead of imposing a single prescription uniformly throughout the Republic; finally, they are targeting emerging SMEs and striving to accelerate or accommodate market-driven change, as opposed to preserving politically-sensitive lame ducks from inescapable pressures for adjustment.

As noted in Chapter Two, the experiment with local economic development constituted but one of several efforts by French authorities to find relays for state intervention. The Tocquevillian liberal approach is also apparent in industrial relations, financial regulation, and it could be argued, European industrial policy. One might wonder, then, whether the experiment with local economic policy has unfolded in an unusual way, or whether it is broadly characteristic of the possibilities and constraints associated with post-dirigiste reform. Stated in generic terms, the trajectory of the local reform has been as follows:

1. State dominance prior to the 1980s.
2. Institutional reform, often for reasons having little to do with economic policymaking.
3. In the wake of the crisis of dirigisme, a redirection of the institutions toward economic objectives.
4. The appearance of dysfunctions stemming from the incapacity of these institutions to handle their new responsibilities (itself due in large part to the legacy of phases 1 and 2).
5. Renewed, albeit modified state intervention, to try to remedy or compensate for some of the phase 4 dysfunctions.

No two policy contexts are exactly alike. Every policy reform unfolds according to a distinct set of pressures and resources -- political, economic, institutional, and
ideological. Furthermore, when speaking of such broad processes as decentralization or local development, the subject is actually a constellation of reforms, each with its own dynamic. Nonetheless, as this chapter will describe, what is striking about the trajectory of France's experiment with local development policy is not its uniqueness, but rather the clear parallels with other efforts to foster relays to the *dirigiste* state, from industrial relations, to financial regulation, to European industrial policy.

This chapter tells the same institutional tale, the tale of frustrated post-*dirigiste* reform leading to renewed state intervention, across three different settings. Whether in industrial relations, financial regulation, or European industrial policy, the same basic evolution can be observed as in the case of local development. In each instance, the 1980s brought the retreat of the French state from an area of heavy prior regulation. As the state withdrew, officials looked to other institutions to provide a more appropriate and flexible form of coordination. These hopes were disappointed, however, for a variety of reasons, not the least of which was that, having emerged in a context of *dirigiste* policymaking, these institutions tended to lack experience and to be poorly configured for their new responsibilities. With intermediary associations unable to occupy a salient position in France's political economy, state authorities have felt compelled to re-intervene: providing key collective goods, limiting social dislocation, resisting (at least in the short term) certain politically unacceptable outcomes.

We call this pattern of frustrated institution-building combined with renewed state intervention the "statist two-step": state authorities retreat from an area of heavy prior regulation, turn to alternative institutions (local authorities, labor and employer organizations, banks, and European institutions) to relay their intervention in a more flexible, market-conforming manner, then step back in when these relays prove deficient. It is the story of the local development experiment described in Chapters Three to Six, but also of the Tocquevillean liberal project more broadly. Time and again, the economic strategies embraced by French officials have been predicated upon the existence of vibrant
institutions outside the central state; yet it is precisely these institutions whose weakness had been essential to the functioning of the postwar dirigiste system. Thus, the reform efforts of the past decade have run afoul of dirigisme's legacy, of the limited capacity of historically weak institutions. Officials have found it far easier to alter the objectives and instruments of state intervention than to empower non-state institutions to intervene in the state's place.

Industrial Relations

Industrial relations reform has moved along essentially the same trajectory in France as center-periphery relations. Prior to the 1980s, the tale of industrial relations, like that of local development policy, was one of state dominance. The terms of industrial relations were regulated, not by France's social partners, but by the central state. Like center-periphery relations, this state-dominated system entered into crisis in the early-1980s, and the government began scaling back state intervention. At the same time, officials looked to collective actors who had occupied a marginal position under the dirigiste system -- in this case, French employer and union organizations -- to substitute a more flexible, market-conforming mode of regulation for the actions of the retreating French state. Once again, a Second Left reform -- in this instance, the Auroux laws -- was redirected toward economic purposes. Yet once again, due to a combination of adverse historical legacies and the contradictions of the reform itself, the Tocquevillean liberal project would falter, setting the stage for renewed state intervention.

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Traditionally, France's system of industrial relations has been defined by the actions of the state. As in the case of center-periphery relations, state dominance had as its justification the incapacity of societal actors. French employers denied the very legitimacy of union organizations, while France's weak, divided, and heavily politicized unions lacked either the organizational muscle or the political will to force recalcitrant employers to the bargaining table. In the absence of collective bargaining, regulation could come only from the central state.

For much of the postwar period, state authorities were not particularly eager to regulate the industrial relations system. Pursuing a Fordist modernization strategy underpinned by cheap and abundant labor, they regarded the stalemated collective bargaining context (not to mention numerous violations of the French labor code) with not-so-benign neglect. The events of May 1968 provoked a dramatic shift in state strategy, however. In industrial relations, as in provincial economic affairs, state authorities would become both more active and more socially oriented.

Ironically, the emergence of a state-regulated system of industrial relations originated with the efforts of modernist Prime Minister, Jacques Chaban-Delmas to depoliticize labor issues, to promote collective bargaining so that the state would no longer be held responsible for the accumulated grievances of the working class (as it had been in 1968). The problem, for Chaban-Delmas, was that France's social partners showed little inclination to bargain. The post-1968 period marked the height of union politicization and commitment to revolutionary objectives, extending even to the traditionally amenable CFDT. Ideological bidding attendant to union pluralism aggravated matters. To the extent that unions like the CFDT were willing to negotiate an agreement with employers, they risked severe criticism from the Communist CGT for "selling out" worker interests. French employers were likewise ambivalent toward Chaban-Delmas's "politique contractuelle." While progressive elements favored negotiations as a means of defusing the tensions that had provoked May '68, others favored a law-and-order approach, exemplified
by the figure who would succeed Chaban-Delmas as Prime Minister in 1972, Pierre Messmer.

When collective bargaining stalled, Chaban-Delmas reacted in a very different manner from earlier governments. Fearing a renewal of labor unrest, he essentially began to legislate reform. Thus, France's new system of industrial relations was not so much negotiated by the peak representatives of labor and capital as imposed by the state. This imposition operated via three basic mechanisms.

The first mechanism was the use of sharp hikes in the minimum wage to exert upward pressure on French salary levels. Whereas previously, the minimum wage had been merely adjusted for inflation and lagged well behind average wage growth, beginning in 1969, increases integrated productivity gains and advances in GNP, not to mention periodic efforts by the government to compress the wage spectrum. In line with this new set of priorities, the minimum wage was renamed: instead of a guaranteed minimum wage (SMIG - Salaire Minimum Interprofessionnel Garanti), it became a growth-based minimum wage (SMIC - Salaire Minimum Interprofessionnel de Croissance). The extent to which state directives came to supercede collective wage negotiations is revealed by the fact that by the 1980s, the vast majority of industrial branch agreements provided for minimum salaries below the SMIC.

A second mechanism of state labor market regulation was the so-called "extension procedure." Inaugurated in 1950, the extension procedure allowed the Ministry of Labor to "extend" agreements reached in one company throughout a region, an industry, or even the economy as a whole. It had been used sparingly during its first twenty years, primarily to ratify sweeping, basic changes, such as the institution of a third week of paid vacation. Under Chaban-Delmas, restrictions upon the procedure were eased, and the government began aggressively extending the benefits negotiated in labor strongholds (notably progressive public sector enterprises like Renault) to the rest of the French economy.
The third mechanism was a series of national agreements (conventions) formally negotiated by France's union and employer associations, but in fact largely drafted and imposed by the government. Once signed by the social partners, these "agreements" were then enacted into law. The conventions covered a wide range of areas, including: training, maternity leave, job security, early retirement, unemployment benefits, and working conditions. They were supplemented by two very important social protections instituted during the initial Giscard period: one providing unemployment benefits equal to 90% of previous wages for up to one year; the other requiring the approval by a Ministry of Labor inspector of lay-offs conducted for economic reasons (the administrative authorization for lay-offs).

Howell maintains that through these various forms of intervention, the French state essentially substituted for a weakly-organized labor movement. The substitution was less than perfect, however. Reflecting state imposition, rather than some kind of modus vivendi between labor and capital, the new protections did not buy social peace. Indeed, if anything, French industrial relations became more conflictual during the turbulent 1970s. What is more, France's state-centered system of industrial relations was characterized by extreme rigidity. Universal in application, state rules afforded little possibility of adaptation to local circumstances.

In industrial relations, as in local development policy, the Socialists' accession to power brought sweeping institutional change. Once again, the institutional project, in this case the Auroux laws, was inspired by Second Left ideals of participation, democracy, and autogestion. The Auroux laws sought to create a "new citizenship" in the workplace. Workers would obtain the right of free speech through the institution of "expression groups" in companies with over 200 employees. They would receive the right of information through the broad extension of the range of issues over which employers would be required to consult with plant-level works councils (organization of production, working hours, hiring and firing, working conditions, introduction of new technologies,
major financial decisions, etc.). They would gain the right of association through heightened protections for trade union delegates. Most important, they would conquer the right of autogestion, that is, participation and control of key workplace issues, thanks to a variety of provisions mandating branch-level or firm-level bargaining. In line with this autogestionnaire orientation, the Auroux laws privileged the locus of bargaining closest to the workers, that of the firm.

Like the Defferre laws, the Auroux laws were not particularly geared toward economic objectives. Some Socialists, notably Minister of Finance, Jacques Delors, who had been the architect of Chaban-Delmas’s "politique contractuelle," pointed to the possibilities that would be created for adapting wages and working conditions to the specific needs and conditions of the sector or the firm. This was not the mainstream position, however. Indeed, initial Socialist measures went against such flexibility.

As Howell observes, the report setting the stage for the legislation, which was issued in September 1981 by Minister of Labor, Jean Auroux called for measures to “re-unify the work collectivity” by clamping down on the recourse to part-time or temporary workers. Ordinances issued in early-1982 codified this restriction. In a similar spirit, after encouraging France’s social partners to negotiate the terms of passage from a 40-hour to a 39-hour workweek -- specifically, the extent to which a reduction in hours worked would be accompanied by a reduction in pay -- the government imposed another blanket restriction. Undercutting collective agreements that had already been signed, President Mitterrand himself announced that the 39-hour week would be instituted by legislative means and that wages would be preserved in their entirety.

In their initial phase, then, the Auroux laws, like the Defferre laws, represented little more than a sideshow, a sop to the Second Left, rather than an integral part of the Socialists’ economic strategy. For one thing, they were viewed more as a political reform than an economic reform, even by their own supporters. For another, as the experience of
the 39-hour week revealed, the devolution of powers to local or societal actors fit poorly
with a dirigiste economic strategy premised upon aggressive and coherent state leadership.

The crisis of dirigisme marked a turning point for industrial relations reform, just as
it did for decentralization. Once again, the latent economic potential within a misty Second
Left reform dovetailed with government efforts to craft alternatives to excessively rigid and
centralized state intervention. As considerations of democracy, participation, and control
receded into the background, the Auroux laws were redirected toward economic objectives.
On the immediate horizon, bargaining at the collective and especially the firm level became
the privileged vehicle for introducing more “flexibility” into state-regulated labor practices.
Over time, particularly beginning with the Rocard government in 1988, officials looked to
concertation, both within the firm and through a variety of labor market institutions, as a
socially and economically optimal means of modernizing French industry.

As noted earlier, flexibility was not near and dear to the Socialists when they took
office in 1981. Indeed, their initial inclination was to legislate further restrictions upon
flexibility, tightening the national safeguards that protected their working-class
constituents. Jobs would be created, not by flexibilizing labor markets, but through
Keynesian demand stimulus and the “reconquest of domestic markets.” When this dirigiste
strategy reached its limits, however, the Socialists shifted toward a more firm-centered
approach, emphasizing the restoration of private profitability.

The new firm-centered approach led the Socialists toward a far more sanguine view
of flexibility. To be precise, the government was led to this view by a resurgent French
employer association, the CNPF that made the flexibilization of labor markets its central
campaign. CNPF leader, Yvon Gattaz pledged that if the government would lift some of
the more onerous labor market restrictions -- on temporary hires, working hours, pay
packages, and especially lay-offs -- the resulting flexibility would enable French employers
to immediately create some 300,000 to 500,000 jobs.
While seduced by Gattaz's proposals, the Socialists were not looking to simply deregulate France's labor markets, according to Howell. In the words of Laurent Fabius, the government hoped to find "the equilibrium point between the legitimate protection of the rights of workers and the necessary flexibility for the functioning of the economy and the firms."² This equilibrium could not be legislated from above; nor would it result from the unimpeded play of the market. Rather, Fabius voiced the hope that rigid state statutes could be relayed by a variety of more flexible agreements hammered out between workers and employers: "the law must not freeze everything, but must leave plenty of space for the social partners."³ In short, the Socialists saw the introduction of flexibility as a concertational process, the product of give-and-take, mutual accommodation by the representatives of labor and capital. The Auroux laws formed an essential part of this vision because much of the bargaining on flexibility was to take place at the firm level, which had been the privileged target of the legislation.

Although negotiations over flexibility occupied much of the remainder of the legislature, this has not spelled the limits of Socialist interest in industrial relations reform. Particularly under the second Mitterrand administration, the government has sought to entrust France's social partners with a broader set of responsibilities, involving training, apprenticeships, and labor market forecasting. These policies are seen as providing the framework for a more desirable kind of firm strategy, one that harmonizes social and economic objectives.

The "Mitterrand II" agenda is not unrelated to the issue of flexibility.⁴ In a sense, the government began looking to France's social partners to take on greater responsibility for fostering the "right kind" of flexibility ("internal" rather than "external").⁵ In this

² Cited in Howell, "Dilemmas," op. cit., p. 82.
³ Ibid.
⁴ Daley, All Worked up, op. cit., offers a comprehensive analysis of recent French labor market policies.
⁵ The government's strategy is inspired by the writings and the practice of Antoine Riboud, CEO of the BSN food group. For a presentation of this vision, see Riboud, op. cit.; Cahiers Français, Planifier, op. cit., pp. 48-51 and 55-66. Other works informing the government's approach include: Bernard Brunhes, "Labour Flexibility in Enterprises: A Comparison of Firms in Four European Countries," in OECD, Labour Market Flexibility: Trends in Enterprises, (Paris: OECD, 1989), pp. 1-36; Robert Boyer (ed.), The
conception, instead of unloading employees in every downturn, employers would assure them the necessary training to become "polyvalent," that is, capable of occupying various tasks in line with changing markets. Instead of firing unskilled workers and hiring skilled workers in their place, firms would forecast future skill requirements and train their own workers to meet them (a practice known as "la gestion prévisionnelle de l'emploi," the anticipatory management of employment).

A similar fusing of social and economic objectives underpins the theme of "la modernisation sociale" or "la modernisation négociée" (social or negotiated modernization). The workforce, from this perspective, is not simply a cost to be contained, but a resource to be cultivated. Part of that cultivation rests upon investments in training and a commitment to job security, but it is impossible to harvest the fruits of these investments absent sustained, high-trust communications between managers and workers. Thus, a climate of negotiations and respect for the workers are elements, not simply of social policy, but of economic policy.

This social-concertationalist vision affords a central place to France's social partners. They must negotiate the terms of economic modernization, forecasting future technical and skill requirements and taking the necessary actions to meet them. Much of this mission rests upon firm-level bargaining, but it also entails greater involvement in public policies, such as apprenticeships and worker training.

Like local development policy, France's industrial relations experiments (in both their Mitterrand I and Mitterrand II variants) have disappointed the hopes of reformers. Once again, the institutional relays for state intervention have proven incapable of shouldering their weighty new responsibilities. The central institutional actor in the Socialist strategy, France's unions, have lacked the clout to impose collective agreements in

the place of state edicts. Consequently, the state's withdrawal from the labor market has translated essentially into full-fledged deregulation.

As with the local development experiment, the legacy of dirigiste politics is no stranger to this tale of institutional incapacity. The weakness of French unions is an overdetermined phenomenon, and the harsh economic circumstances of the past decade boded ill for any initiative in which they were slated to play a prominent role. Still, whatever the context, the pull of the dirigiste state had placed France's unions in a uniquely poor position to respond to the challenge of flexibility.

French unions are not simply weak; they are weak in particular ways. Specifically, they have tended to channel their limited "power resources" toward shaping the national political arena, while largely neglecting firm-level bargaining. As Anthony Daley argues, this strategy made considerable sense in an era in which state officials manipulated the principal levers of the economy. Like local officials in Besançon or Saint-Etienne, union officials could gain far more from episodic political mobilization, designed to attract the attention of the dirigiste state, than from patient negotiations in their narrow arena.

Another vulnerability of French unions, their highly ideological character, likewise becomes more understandable in light of the state's role in regulating industrial relations. Obviously, division has its costs. Nonetheless, these costs were attenuated, if not eliminated altogether, under the dirigiste system. According to a time-honored French expression: "The CGT mobilizes, the CFDT negotiates, and FO signs." All are covered by the agreement, however, and in the 1970s, if the agreement were progressive and the political conditions propitious, Ministry of Labor officials would then "extend" it more broadly. Consequently, warring French unions had little incentive to overcome their differences and work together.

As in the case of decentralization, institutional reform designed primarily for political purposes did little to overcome historic weaknesses in the economic arena.

6 Daley, Labor and Industrial Change, op. cit..
Indeed, if anything, as Howell argues, the Auroux laws made it more difficult for French unions to assume their new responsibilities. The legislation privileged bargaining at the plant level, where French unions were weakest, and operated through an independent institutional actor, the firm-level works council. Both of these features would handicap union efforts to shape the character of labor market flexibility.

Traditionally, France’s system of industrial relations has been structured hierarchically. In other words, an agreement reached at the firm level could not deprive workers of benefits guaranteed by a branch or confederal agreement or by national legislation. The Auroux laws breached this principle, introducing the possibility for firms to opt out, or "derogate" from higher-order compacts. While certain concerns were excluded (notably wages), a variety of restrictions upon flexibility could be lifted through a company-level agreement, just as long as such an agreement was not opposed by organizations representing more than one-half the votes in the previous works council elections. For all practical purposes, then, derogation meant that the introduction of flexibility would be negotiated at the firm level.

Aggravating matters for France’s unions, negotiations at the plant level would take place through an independent institutional actor, the firm-level works council. Ironically, when the Auroux laws were being debated, French employers voiced the fear that the works councils would serve as "Soviets," agitating on behalf of the unions. The employers’ concern was fueled by the fact that the national unions dominate representation on the works councils, due to the so-called "union monopoly" on the first round of voting.\(^7\) Despite the overlap in personnel, however, the interests and actions of the works councils have been very much at odds with those of the national unions. Indeed, French

\(^7\) Only national union organizations are permitted to present candidates to the works councils on the first ballot. If the abstention rate exceeds 50%, then a second ballot is held, which is open to all candidates. Despite this "union monopoly," non-union representation has climbed steadily in recent years. Indeed, the 1989 works council elections saw "non-union" candidates capture the top position for the first time ever. With slightly more than one-quarter of the votes cast, non-union candidates outpolled even the CGT. Dominique Labbé, "Élections aux comités d’entreprise: Le déclin des syndicats?", *Travail et emploi*, No. 53, 3/92, pp. 40-55.
employers would drive a wedge between the two institutions, negotiating with the former, so as to avoid dealing with the latter.

The combination of a weak union movement, a difficult economic context, and the institutional consequences of the Defferre laws has produced a kind of reversal of the experience of the early-1970s. Whereas under Chaban-Delmas, the failure of collective bargaining led to an imposition of state regulations, in the 1980s, an analogous failure led to de facto deregulation. Deregulatory flexibility has been introduced via two different processes. One is the straightforward elimination of state restrictions, such as the administrative authorization for lay-offs, constraints upon part-time or temporary hires, and various forms of wage indexation. The second is more closely linked to the logic of the Auroux laws. Even when state regulations have been left intact or modified only slightly -- notably in the areas of working hours and pay packages -- they have been eroded from below through one-sided firm-level agreements.

The case of worktime flexibility offers an illustration of the latent deregulatory potential within the Auroux laws. The principle of derogation encouraged employers to shift the locus of bargaining from the sectoral or national level to the firm level. Howell reports that between 1982 and 1986, industry agreements on working hours decreased by one-half, while firm-level agreements increased by two-and-one-half times. It was not just the locus of bargaining that shifted, but given the weakness of French unions at the plant level, the terms as well. According to a 1985 study, the vast majority of agreements conceded greater flexibility in scheduling shifts to employers without providing any compensation, either monetary or through reduced hours, to employees. What is more, one-third of the agreements contained illegal derogatory clauses, that is, they introduced more flexibility than allowed by law.

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8 Howell, "Dilemmas, op. cit..
9 A comparison of the introduction of worktime flexibility in France and Germany concludes that the French experience has been tantamount to deregulation, whereas the German case has involved far more negotiation and give-and-take. For example, in return for accepting greater flexibility of working hours, German unions were able to reduce the workweek to 35 hours. The French workweek, by contrast, has
By all accounts, France has developed precisely the kind of flexibility that Socialist leaders had hoped to avoid. In the absence of a powerful labor movement, capable of holding its own in negotiations with French employers, the withdrawal of the state has created a system of Anglo-Saxon system of flexibility, based upon hire-and-fire practices and low wages. French firms have improved their competitive position in recent years, but study after study shows that they have done so by slashing employment and squeezing wages. In 1983, wages represented 77.3% of GDP; by 1992, the figures was only 69%.10 A Banque de France analysis of the 1984-88 period and a 1991 OECD report covering the more recent period both conclude that the improvement of France’s position vis-à-vis its trading partners has resulted essentially from slower wage growth, as opposed to more rapid gains in productivity or value-added.11

The elimination of the administrative authorization for lay-offs has opened the way for considerable firing, but nothing like the 300,000 to 500,000 job creations promised by the CNPF. Socialist Minister of Labor, Martine Aubry regularly voiced the complaint that French companies fire “too much, too quickly, too often.”12 Nor is such dissatisfaction confined to the Left. Even Conservative Prime Minister Edouard Balladur recently criticized French employers for their reluctance to hire, despite a variety of tax cuts and subsidies, as well as for the alacrity with which they resort to lay-offs in hard times.13

When French employers do hire, they focus upon temporary or part-time employees, who receive little or no social benefits and can be dismissed at the first downturn. Instead of long-term labor forecasting, French employers have embraced the contrat à durée déterminée (CDD), offering no guarantees beyond a fixed term of employment. According to the OECD, in 1990, 78% of all new hires under the age of 25

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10 L’Expansion, 15 April/5 May 1993, pp. 108-09.
12 Le Monde, 10 February 1993, pp. 31-34.
13 Libération, 26 May 1993, pp. 10-11; 8 June 1993, pp. 2-5.
were CDDs. Despite legal prohibitions, French employers routinely use the CDD procedure as a kind of trial run, to pre-screen candidates before committing to definitive hires.

While Anglo-Saxon deregulatory flexibility has assumed an increasingly prominent place in France’s political economy, the industrial relations system has experienced far more difficulty generating the kind of German-style or "internal" flexibility valued by officials. Despite the entreaties of the Rocard government and its successors, firm-level bargaining remains largely confined to the introduction of greater flexibility in wages and working hours (90% of all agreements). By contrast, strategic concerns of worker training, job classifications, and employment forecasting continue to occupy a marginal position. In 1991, training and classifications accounted for only 7.7% of all firm-level agreements, down (albeit slightly) from the 1988 figure of 7.8%.

Apprenticeships have likewise failed to elicit a commitment from France’s social partners. French firms spend only 2.5 billion francs annually on apprenticeships, a far cry from the 70 billion francs allocated by their German counterparts. What is more, the vast majority of apprenticeships are in artisanal trades (butcher shops, bakeries) or craft sectors (woodworking, decorative arts), rather than industry. Nor can the situation be said to be improving. During the 1980s, the number of apprentices actually decreased slightly, from 222,800 in 1980-81 to 220,300 in 1990-91. A 1991 study by the Ministry of Labor indicated that employers continue to regard apprentices as little more than cheap labor, neither training them during the period of apprenticeship nor hiring them at the

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14 OECD, *France 1991/92*, op. cit., p. 127. For workers between the ages of 25 and 49, the figure was still a very high 54%.
18 Ibid.
conclusion.\textsuperscript{19} Analyzing the spectrum of 1990 collective bargaining agreements on apprenticeships, the Ministry dismissed these agreements as a collection of empty phrases:

\begin{quote}
... the dispositions relating to apprenticeships contained in the collective agreements that were studied reveal themselves to be, as a general rule, of rather weak tenor. Despite the deliberate choice to privilege the collective agreements in the sectors that traditionally have recourse to apprenticeships, their content appears unoriginal and of little significance.\textsuperscript{20}
\end{quote}

While the German model of flexibility may be in the hearts of Conservative and Socialist governments, planners, and progressive industrialists like Riboud, it is not embedded in France’s labor market institutions. As in the case of local development policy, the tension between the aspirations of officials and the capacity of France’s institutions has produced pressures for renewed state intervention. Daley describes this dynamic in an analysis of Rocard labor market policies:

\begin{quote}
... the dilemma facing the \textit{rocardien} team is the following. Until social actors change, the conferral of responsibility can be dangerous. \textit{Therefore, the tendency exists to confer and then retract that responsibility.} The business community, for instance, has responded quickly to the tax incentives offered since 1986. Yet, in spite of the pleas from academics that competitiveness depends on upskilling, it shows little interest in training programs themselves, only in subsidized labor.... We should not be surprised that the government has had to tighten up loopholes -- to “moralize” programs.\textsuperscript{21}
\end{quote}

In labor markets, as in local development policy, the French government has returned in three different guises. The first, as noted by Daley, is in a "moralizing" capacity, to limit or correct the worst abuses stemming from deregulation. A 1990 law tightened restrictions upon part-time work, giving the works councils greater powers to veto the use of such contracts and increasing the penalties for misdeeds.\textsuperscript{22} In a similar spirit, recent legislation on economic lay-offs (1989, 1992) provides for greater consultation with works councils and more important, increases the costs to firms of such

\textsuperscript{19} "L'apprentissage dans les conventions collectives," in Ministry of Labor, \textit{Négociation collective, op. cit.}, pp. 361-69.
\textsuperscript{20} \textit{Ibid.}, p. 365. Translation the author's
\textsuperscript{21} Daley, \textit{All Worked up, op. cit.}. Emphasis added.
strategies (boosting the employers' share of unemployment payments and mandating greater expenditures on worker retraining). None of these measures poses a fundamental challenge to flexibility won by French employers in recent years. Indeed, successive Ministers of Labor have made a point of insisting that reforms of lay-off procedures in no way signal a return to the administrative authorization. Rather, the goal is to discourage particularly unsavory practices.

Along with establishing disincentives to Anglo-Saxon flexibility, state officials have sought to encourage German-style flexibility. The Ministry of Labor has been at the forefront of this campaign. Before becoming Ministre of Labor under the Cresson and Bérégovoy governments, Martine Aubry -- who, not coincidentally, is the daughter of Jacques Delors -- headed the Social Commission for the Xth Plan (1989-92), which presented the case for "la gestion prévisionnelle de l'emploi" (anticipatory management of labor needs) and "la modernisation négociée" (negotiated modernization). Aubry's predecessor at the Ministry of Labor, Jean-Pierre Soisson moved aggressively to put these ideas into practice, launching a number of programs structured along the lines of the Ministry of Industry's deconcentrated economic intervention.

Like the Ministry of Industry, the Ministry of Labor has boosted its presence in the provinces. Its programs, too, are administered either through regional branch offices or, more often, through a para-public partner with close ties to the Ministry: the Agence Nationale de l'Amélioration des Conditions de Travail (National Agency for the Improvement of Working Conditions, or ANACT) is a kind of socially-oriented ADEPA. Finally, the Labor Ministry is also tendering subsidies to companies that make use of consultants or undertake certain kinds of investment projects. The difference, however, is that instead of encouraging investment in equipment or technology, the Labor-Ministry-sponsored programs promote investment in workers. A company that is modernizing its plant, for example, may receive funding for "modernizing its social relations" at the same time, that is, for investing in worker training and ergonomic improvements, so that the
workforce is able to both accommodate and contribute to the modernization process. Likewise, public funds are available for companies looking to conduct long-term labor forecasting, to meet the needs of tomorrow by retraining the workers of today. Whatever the project, Ministry support tends to be predicated upon the participation of works councils or unions (i.e. the process must be negotiated, not simply imposed).

Legislative measures have played an important part in the government’s efforts to promote internal flexibility. France’s twenty-year-old worker training legislation was touched up in 1991. While calling upon employer and union organizations, along with regional authorities, to take a more active role in organizing training programs, the principal feature of the bill was coercive, rather than voluntary in nature. Leaving nothing to chance, the law raised the legally-mandated minimum expenditure for training by firms from 1.2% of wages to 1.4% in 1992 and then 1.5% in 1993. It also extended the requirement to firms with fewer than ten employees, albeit at the symbolic level of 0.15%.

Apprenticeships have likewise received the attentions of state authorities in recent years. In November 1991, the Cresson government announced a program to triple the number of French apprentices in a five-year period (from 200,000 to 600,000 annually). While the extra money and organizational changes fostered by Cresson failed to so much as increase apprenticeships, let alone triple them, this has not prevented the new Conservative government from following suit. In June 1993, the Balladur government announced an “effort without precedent” designed to “significantly increase and possibly double” the number of apprentices. The principal element of this effort is a bonus of 5000 to 7000 francs paid to employers for each apprenticeship contract signed. Additional tax breaks are also in the works.

Despite the recent government efforts to cultivate long-term strategic labor market policies, the lion’s share of intervention has been in a very different capacity. Indeed, it

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can be safely said that a third form of state intervention has dwarfed the two discussed thus far. The French state has played a decisive role in shaping French labor markets -- not so much by preventing Anglo-Saxon flexibility, nor by promoting German flexibility, but by limiting the social dislocation resulting from labor market deregulation.

France spends a greater proportion of its GDP on labor market policies (3.3%) than any other OECD nation, including Sweden. At the same time, France devotes the lowest share of these expenditures to active, as opposed to passive measures, that is to programs that seek to increase the productivity of labor (training, insertion into jobs), rather than paying people not to work (unemployment benefits, early retirement). Only 27.6% of French public expenditures are channeled to active labor market programs, and even this figure is overstated, since it includes training programs that are widely regarded as little more than makework to improve the unemployment statistics ("formation parking"). In short, having abandoned restrictions upon hiring and firing, yet unable to generate the kind of commitment to training and labor forecasting needed to substitute internal flexibility for external, state officials are spending massively to limit the resulting social dislocation.

State spending is concentrated most heavily at the two extremes of the career lifecycle. To help alleviate youth unemployment, successive governments have created all manner of programs to place those under twenty-five in some kind of job -- any kind of job -- in the hope that this will lead to a more permanent position. Invariably, these youths are paid less than the minimum wage, under the pretense that they are receiving training or being "inserted" into a professional career trajectory. Private employers are generally exempted from social security charges, and the government often pays part of the sub-SMIC wage bill. The government itself is a large employer of such youths through "public utility works" programs, recently renamed "contracts of employment and solidarity."

27 The 1992 OECD country report offers an excellent overview of French training and labor market policies, from which this account is largely extracted. OCDE, France, 1991-92, op. cit..
The panoply of youth programs are quite expensive, consuming on the order of 10 to 12 billion francs annually, and have yielded meager long-term results. In practice, participants tend to receive little or no training, and very few find permanent employment upon reaching the end of their programs. There have also been abuses, with employers substituting sub-SMIC trainees for regular employees or using programs targeted at unskilled workers to hire skilled high school graduates.

For all the problems and despite the limited long-term benefits, youth placement programs have proven irresistible to governments of the Left and Right alike. When France entered recession in 1991, the Bérégovoy government geared up these programs, hoping to limit the increase in unemployment prior to the 1993 legislative elections. The number of employment-solidarity contracts was raised from 240,000 to 300,000, and small firms were offered an 18-month exemption from social security charges for each unskilled youth hired (with no obligation to provide training). The Right quite properly denounced these measures as little more than a means of disguising France’s worsening unemployment picture, but once in power, it, too felt the need for disguises. After initially hoping to slash public expenditures, so as to contain France’s burgeoning public deficits, the Balladur government reversed course in the face of a deepening recession.28 Far from allowing the employment-solidarity contracts to expire, for example, the government actually added another 50,000 youths to the rolls. In May 1993, Balladur announced an additional 18 billion francs for employment measures, 8 billion for housing and public works construction and 10 billion for a variety of “direct employment subsidies.”

Government spending has been even heavier at the opposite end of the age spectrum. Faced with companies determined to make lay-offs in order to restore their competitiveness, successive governments have accommodated this strategy by making it possible for the most senior employees to be pensioned off in relative comfort. Three sets of instruments have been deployed to facilitate what Daley terms, “job loss without

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28 Libération, 26 May 1993, pp. 10-11.
unemployment.”

The first, which Daley describes in his study of the French steel industry, is a series of so-called “conventions générales de protection sociale” (CGPS) in declining sectors, such as coal and steel. These agreements provide for retirement at age 50, at a cost of roughly 1 million francs per worker, with the state footing the bill. Through this procedure, employment in the steel industry, for example, was reduced from 156,000 in 1965 to 70,000 in 1987 without a single lay-off.

A second early retirement procedure is the *Fonds National à l'Emploi* (FNE). The FNE is geographic, rather than sectoral, in focus, targeting troubled agglomerations like Saint-Etienne. Workers in these agglomerations are eligible for early retirement, but at age 56 instead of 50. Because retirees receive a somewhat less generous pension than under the CGPS, the FNE costs “only” 350,000 francs per worker. That said, the French state still spent some 16 billion francs on this program in 1992. A further difference between the FNE and the CGPS concerns the obligations to the firm using the early retirement provisions. The prefect and local Ministry of Labor agents are authorized to refuse an application for FNE funds if the company fails to propose a reasonable “social plan,” generally with the backing of the works council. In practice, however, confronted with the choice between outright lay-offs and early retirements, state officials have tended to approve virtually even the most skimpy social plans.

A third instrument of early retirement is available in all sectors and all regions. The French unemployment insurance system, UNEDIC provides that any worker over the age of 56 who is laid off for economic reasons is eligible for unemployment benefits until the normal retirement age of 60. These benefits are almost as generous as those provided by

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30 Outin, op. cit.; Daley, *All Worked up*, op. cit..
31 *Le Monde*, 10 February 1993, pp. 31-34.
FNE. While involving little cost to the employer, UNEDIC early retirements absorbed 28 billion francs in state expenditures in 1992.32

The various early retirement programs have provided an effective instrument for French firms to shed employees, at little cost either to themselves or to the workers. During the first semester of 1992, for example, two-thirds of all workers between the ages of 55 and 59 who lost their jobs benefited from FNE or UNEDIC early retirement schemes.33 Workers have welcomed the opportunity to retire early at close to full pension,34 while firms have been glad for the possibility to shed jobs without social confrontation.

The principal drawback to the early retirement system is that it externalizes some very substantial costs to public coffers. In addition, it facilitates the kind of hire-and-fire practices that officials wish to discourage. Instead of retraining currently employed workers to perform new tasks, firms find it easier to retire elderly, unskilled employees and hire young, skilled workers in their place. While public officials, like Martine Aubry, have groused about the "irresponsible" reliance upon early retirement by French firms, no government has moved to restrict the practice. Given the dislocation and protest that would result from unrestricted lay-offs, early retirement has proven the least unpleasant option.

French reliance upon early retirement procedures has been so widespread that it the effects are visible in the demographic statistics. As discussed in the previous chapter, early retirements have skewed the age pyramids of such companies as the Usinor steel manufacturer. What is true of individual companies is true of the French economy more broadly.35 Between the ages of 25 and 55, French labor participation rates are

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32 Ibid.
33 Ibid.
34 A CGT official in the Loire department related that even though the Communist union opposes early retirement schemes, believing that greater efforts should be made to preserve jobs, many of his own CGT militants often ask if there is any way that he might push them higher on the list of proposed retirees! The official added that steel workers who were just under 50 years of age at the time of the introduction of the CGPS were "sick to their stomachs" at the prospect of missing the opportunity to retire. Interview with Pierre Gallon, CGT Loire official, 16 October 1992.
35 The following statistics are from OCDE, France, 1991/92, op. cit., p. 85.
substantially higher than the EC average. From age 50 to 54, for example, the French rate is 74.6%, whereas the EC average is 68.3%. At age 55, however, when FNE and UNEDIC early retirement provisions kick in, a dramatic shift takes place: the French rate drops below the EC average. Between ages 55 and 59, the participation rates are 51.4% and 52.7% respectively, and between 60 and 64, 16.3% and 25.2%. By the age of 60, less than one-third of the French labor force is still employed.

For almost a decade, state officials, looking with envy at Germany and Sweden, have proclaimed the objective of shifting resources from passive to active labor policies. They have been handicapped, however, by France’s system of training and industrial relations. On the one hand, the government has lacked an agent to organize active manpower programs. State programs are widely denounced as unadapted and bureaucratic, yet France’s social partners have offered little in their place. French employers remain focused upon deregulatory flexibility and low wages, while the unions lack the capacity to compel employers to pursue an alternative tack. On the other hand, with the multiplication of lay-offs, the demand for passive measures has been exploding. Powerless to attack the root causes of unemployment, the government is reduced to making it as painless as possible through a combination of pseudo-training for the young and early retirement for the aged.

France has not avoided the costly labor market intervention that characterizes Germany and Sweden. However, this intervention has been passive, not active, paying people not to work, rather than making them more productive. Unable to reproduce the social relays that devise and administer active manpower policies in Germany or Sweden, French officials have fallen back on passive measures. They spend just as much as their Northern European counterparts, but do so to buy social peace, as opposed to enhancing productivity.

France’s experience with industrial relations reform has evolved through essentially the same five phases as local development policy. Industrial relations were heavily
regulated by the state prior to the 1980s (phase 1). In the early-1980s, the newly-elected Socialist government put through an institutional reform (the Auroux laws) inspired by Second Left ideals and turned toward political, more than economic, objectives (phase 2). As *dirigisme* entered into crisis, however, state officials looked to the reformed institutions to assume key economic responsibilities (the introduction of flexibility, measures to increase worker productivity, etc.) that a rigid central state was proving increasingly incapable of performing (phase 3). The problem is that as the state withdrew, France's employers and unions failed to step into the void; the alternative to state regulation was not societal regulation via collective bargaining, but market regulation (phase 4). Consequently, state agencies have been drawn back into the industrial relations arena in a variety of forms (phase 5): to check abuses made possible by deregulation, to prod unions and employers to pursue internal flexibility, and most of all, to limit the social dislocation resulting from the combination of diminished state protections and ineffective or non-existent societal relays.

Financial Institutions\(^{36}\)

France's financial system, like its system of industrial relations, shifted dramatically from state to market regulation during the 1980s. In this instance, liberalization reflected a deliberate strategy, rather than a Second Left reform gone astray. That said, financial deregulation also contained its disappointments. Whereas reformers had hoped that state directives would be relayed by a "softer," more market-oriented form of coordination operating through France's banks, such a partnership has largely failed to materialize. Consequently, state officials have once again felt pressure for renewed intervention.

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The financial system constituted arguably the most important weapon in the *dirigiste* state's industrial policy arsenal. Prior to the Second World War, France had been home to a lively stock market, but in the postwar period, equity markets were eroded by negative real bond yields and competition from cheap state-allocated credit. Consequently, French companies, in contrast to their Anglo-Saxon counterparts, met their external financing needs primarily through bank lending, rather than equity issues.

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<thead>
<tr>
<th>Table 7.0 - Sources of External Financing, 1976 (in percent)</th>
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<td>Financial intermediaries (banks)</td>
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<td>Equity markets (stocks, bonds)</td>
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As the above figures indicate, German companies also relied heavily upon bank lending. What set the two systems apart, however, was that banking in Germany operated largely independently of the state. In France, by contrast, prior to the 1980s, the government fixed the price of credit and because it usually set that price quite low, thereby creating an excess of demand over supply, it was in a position to allocate investment capital among rival claimants (through the mechanism of *encadrement du crédit* or lending quotas). Thus, credit to industry flowed overwhelmingly through state-controlled lending channels.

When the Socialists came to power, their initial approach, as in the case of industrial relations, was to strengthen state controls. Some three-dozen smaller banks that had escaped nationalization in 1936 and 1945 were brought under state ownership, and officials made no secret of their intention to see the banking sector service the needs of the
government's voluntarist industrial policy. Subsidized lending continued to grow, even though some 40% of all French loans were already made at below-market rates.

As in so many areas, though, the Socialists soon backed away from their initial *dirigiste* tack. Indeed, within just a few years, the financial arsenal described by John Zysman would exist no more. A booming stock market would reduce company dependence upon bank lending; fierce competition in financial services would replace lending quotas; and state subsidies as well as state control over the flow of credit would be scaled back dramatically. Financial deregulation was conducted by both the Left and the Right, and unlike the case of industrial relations, deregulation was the clear intention of policymakers.\textsuperscript{37}

The move to deregulate stemmed from a variety of considerations. The neo-liberal model held enormous appeal at a time of booming British and American financial markets. For newly-appointed Finance Minister, Pierre Bérégovoy, deregulation offered a means of projecting a “modernist” image. Indeed, it was Bérégovoy more than any other figure who, despite having advocated withdrawal from the EMS in 1983, would come to symbolize the Socialists’ reconciliation with the market.

French authorities were not only seduced by the Anglo-Saxon model; they were fearful of it. With the growing prominence of the City of London, Paris’s already weak position as a financial center stood to be further eroded. Unless France could offer comparable operating conditions, both capital and the companies in pursuit of it would flock to foreign sites. The emerging trend among French corporations of meeting their external capital needs through Eurobond markets and in the City of London offered a living reminder of this challenge.

Deregulation was also driven by the imperatives of macroeconomic policymaking.\textsuperscript{38} As French authorities began to privilege the fight against inflation over “Keynesianism in one country,” the unwieldy credit rationing system presented a

\textsuperscript{37} For a presentation of France’s financial reforms, see Chapter Two.

\textsuperscript{38} Loriaux, *After Hegemony*, op. cit.; “States and Markets,” op. cit..
formidable obstacle to regaining control over the money supply. A variety of categories of lending were exempted from quotas (housing, energy conservation, exports, etc.). With close to one-half of all loans falling within these exempted categories, it had become all but impossible to forecast the evolution of monetary growth.

A further macroeconomic consideration was the state's need to finance its burgeoning deficit. Since the fight against inflation precluded financing the deficit by printing money, authorities would have to borrow. Deregulation held the promise of both cheaper and deeper capital markets. Indeed, the leading issuer of equity in the wake of deregulation would be, not French industry, but the state.39

Most important, deregulation dovetailed with the shift in the Socialists' microeconomic strategy. France's state-administered system of credit allocation, like so many dirigiste instruments, was coming under heavy criticism. With over 40% of all loans being made at subsidized rates of interest and more than one-half falling within lending categories exempted from the encadrement du crédit, the incitative quality of these measures appeared questionable, to say the least.40 The cost, by contrast, was crystal clear. Interest-rate subsidies constituted an annual burden of 50 billion francs to public coffers.41 In addition, the limited competition in lending, the multitude of protected, quasi-monopolistic niches stemming from the quota system, was estimated to impose a two-percent surcharge in the interest rates paid by French borrowers.42

France's state-administered system of finance was not only costly; increasingly, it seemed to be privileging the wrong kinds of borrowers. For all the talk of promoting industries of the future, when push came to shove, under the recessionary conditions of the

39 From 1981 to 1985, bond issues by the government increased from 29.7 to 113.5 billion francs, whereas issues by firms grew far more slowly, from 33.1 to 77.5 billion francs. Christian Saint-Etienne, Politique financière et entreprises françaises, (Paris: Economica, 1987), pp. 73-75. The Economist notes that in 1988, 77% of outstanding bonds in France were government-issued. "A Survey of Europe's Capital Markets," The Economist, 16 December 1989, p. 200.
41 The cost to the state of interest rate subsidies in 1984 was 51 billion francs. Saint-Etienne, op. cit., p. 135.
42 Cerny, "Little Big Bang," op. cit., p. 182.
late-1970s and early-80s, state-controlled capital flowed overwhelmingly to lame ducks. The steel industry offered the paradigmatic case. Despite high costs, massive operating losses, and a debt approaching total annual sales, steel producers were able to borrow some 14 billion francs during the three years prior to the 1978 bankruptcy and government takeover. What is more, such cheap credit was used, not to facilitate or at least ease the pain of adjustment, but to delay it.

Conversely, despite a political discourse portraying SMEs as the valued agents of economic modernization and job creation, these firms were inevitably shunted to the end of a rather short credit queue. The report of the Finance Committee of the Eighth Plan declared: "Credit restrictions inconvenience only the small borrower, especially the small business, since banks have no desire to upset their principal clients." A government-commissioned study of the financial problems of SMEs sounded a similar note. The Mayoux report portrayed bank centralization and selective credit restrictions as the bane of French SMEs and called for the elimination of the enca drement system.

Financial deregulation was part of the trade-off in the Socialist government's transition to a less statist industrial policy. On the one hand, state authorities scaled back all manner of subsidies and privileged lending circuits. On the other hand, by eliminating the barriers to competition among lending institutions as well as the restrictions upon equity issues, financial deregulation would multiply the options available to industry, thereby improving the conditions under which firms raised capital.

Much of industry's gain was to come from the losses of the French banking sector, which was cast in the villain's role. The broadening of equity markets would enable firms to raise capital from non-bank sources, while greater competition in financial services would compel the cloistered, segmented, inefficient, and overpriced French banking sector to shape up and offer better terms. In short, putting the squeeze on French banks through

43 Zysman, Governments, op. cit., p. 159.
44 Cited in Loriaux, After Hegemony, op. cit., p. 47.
deregulation would provide the principal form of compensation to industry for the withdrawal of state subsidies.

In recent years, this zero-sum vision of bank-industry relations has given way to a more cooperative conception. Instead of adversaries battling over every tenth of a percentage point on loan rates, banks and industrial enterprises are seen as potential partners in development. Close ties to industry could provide banks with a stable market not only for loans, but for a variety of high-margin business services, such as equity issues or mergers and acquisitions. Such a partnership would likewise offer many benefits to industry: investment capital in hard economic times, when arm's-length investors tend to shy away; protection from hostile takeovers and pressures to maximize short-term profits (particularly if the financial partner holds an equity stake); technical guidance in the increasingly complex world of financial and business services.

The shift from an adversarial to a positive-sum vision of bank-industry relations has been propelled by three factors. The first has been the multiplication of bank-industry cross-holdings as a result of political machinations by both the Left and the Right. The Chirac government fired the opening salvo, creating privileged controlling blocks of shares (noyaux durs) as a way of placing privatized companies in reliable hands. The Socialists then performed manipulations of their own, introducing publicly-held banks and insurance companies into the capital of industrial enterprises as a way of boosting the capital of the latter without admitting private investors (and thereby violating President Mitterrand's 1988 campaign pledge to conduct neither nationalizations nor privatizations). The net result is that, as in Germany or Japan, French financial institutes hold important stakes in many of the leading industrial firms.45

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45 The following is a partial listing of industrial holdings by leading French financial institutions. The Banque Nationale de Paris (BNP) holds shares in Péchiney (10.0%), Accor (2.2%), Saint Gobain (4.2%), Alcatel (3.92%), Valéo (2.3%), Printemps (3.77%), Arnault, (1.59%), Lagardère Groupe (9.4%), Saint Louis (4.36%), Havas (4.0%), and Cerus (2.3%). Crédit Lyonnais has a stake in Rhône-Poulenc (9.4%), Thomson-CSF (14.0%), Usinor (20.0%), Bouygues (10.7%), TF1 (7.3%), Club Med (6.6%), Printemps (3.8%), Arnault (29.5%), and Lagardère Groupe (9.7%). Insurance companies UAP, GAN, and AGF also possess a variety of industrial holdings. What is more, BNP and UAP, on the one hand, and Crédit...
The parallel has not been lost on state officials, and this points to the second factor fueling French interest in bank-industry partnerships -- the attraction of the German model. With the recent machinations among public shareholdings, France, like Germany, has established equity ties between finance and industry. With financial deregulation, France, too possesses “universal banks,” able to offer all manner of services without restriction. With decentralization and the growing importance of SMEs, France’s banking system is likewise becoming more regionally oriented and attentive to the needs of the the provincial Mittelstand. French officials hope that these structural similarities will form the basis for the kind of long-term, cooperative relations that are associated with the German model.

This vision has been placed in the public eye by Michel Albert. His best-selling Capitalisme contre capitalisme denounces the wheeling-and-dealing, hostile takeovers, and short-term profit orientation of Anglo-Saxon capitalism, calling instead for France to embrace the stable, long-term alliances of its “Rhinish” neighbors. Albert’s own company, the AGF insurance firm, has taken equity stakes in a number of industrial enterprises (Rhône-Poulenc, Péchiney, Total, and Pinault) as well as several banks (Paribas, Société Générale, Crédit National, and Crédit Lyonnais). More important, Albert’s appeal reflects, not simply personal sentiments, but an important strain of thinking within French policymaking circles. The study of France’s financial system prepared for the XIth Plan devotes an entire section to German banking practices, while politicians of all political stripes sing the praises of “le partenariat” between finance and industry.

The third factor contributing to official interest in bank-industry partnerships is the limitations of post-dirigiste state action. Here, we see a familiar development: government

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46 Groupe prospective financière, op. cit., pp. 177-99.
47 Roger Fauroux, Minister of Industry in the Rocard government and former head of Saint Gobain, declared: “I am for the German model because finance is really in the service of industry.” Albert, op. cit., p. 277. Translation the author’s. The recently-released Made in France, a study of French industry commissioned by the government, contains such headings as “Relations between Industry and Banking are less a Matter of Credit than of Partnership” and “For a French-style ‘Fin[ance]-Industry.” Dominique Taddéi and Benjamin Coriat, Made in France: L’industrie française dans la compétition mondiale, (Paris: Librairie Générale Française, 1993), pp. 267-78. Translation the author’s.
authorities have scaled back various forms of state intervention in financial markets that were widely denounced as unadapted and dysfunctional. At the same time, however, they balk at full marketization, identifying a need for some kind of lighter, more flexible form of coordination. French industry requires nurturing in hard times and protection from predatory speculators, but these are not functions that the state performs well. Consequently, state officials turned to a previously-neglected, but recently reformed set of institutions -- in this case, France’s banks and insurance companies -- in the hope that they might shoulder new para-public responsibilities.

Once again, such hopes have been disappointed. As with the local development and industrial relations experiments, the key institution, France’s banking sector, is poorly positioned to relay state intervention. *Dirigiste* legacies are part of the reason. State-directed specialization created walls between the deposit-taking and industrial lending functions. In contrast to German universal banks, many of France’s largest financial institutions entered the 1980s with little or no experience in making loans to industrial clients. Even those that did engage in such activities had not necessarily developed close ties to their clients or knowledge of their affairs. Since state authorities set the price of credit at low or negative real rates, creating a surplus of potential borrowers, French banks could pick and choose their clients, limit exposure, and demand substantial guarantees. They were not required to perform the kinds of “late development” functions associated with German banking, such as taking an equity stake in uncertain infant industries and nurturing them over the long term. Rather, such developmentalist or risky vocations were managed by specialized institutions within the so-called “Treasury circuit” controlled by state authorities. In short, under the logic of the *dirigiste* system, banks outside the Treasury circuit were not so much “partners” of industry as casual acquaintances.

The financial reforms of the 1980s did little to bridge the traditional gap between industry and finance. Unlike the Defferre laws or the Auroux laws, financial deregulation was not simply neutral or insufficiently committed to strengthening an institution. Rather,
it was hostile toward that institution. The goal of deregulation was to shift resources from banking to industry, not to empower France’s banks. As with decentralization and industrial relations reform, the mission of institutional coordination emerged subsequently, after the institutional die had been cast. Thus, even though financial deregulation was conceived of with economic objectives in mind -- in contrast to the Defferre and Auroux laws -- the nature of these objectives and the place of French banks in their achievement evolved over time.

The effects of deregulation have been to make France’s banks, if anything, even less suited to para-public responsibilities than previously. France’s banks now move in market circles, not regulatory circles. Having broken up the cozy niches that secured a comfortable living to the banking sector, state authorities cannot easily urge the banks to take on risky or social functions. In any case, France’s banks cannot afford to perform such functions, for deregulation has squeezed their business at both ends. As lenders, they now compete, not only with other banks and financial institutions, but with burgeoning equity markets. As borrowers, deregulation has provided consumers with alternatives to no-interest checking and low-interest savings accounts in the form of newly-legalized certificates of deposit (CDs) and money market funds. Consequently, French banks must pay much higher rates to raise capital. Under the effect of this double deregulatory whammy, the banks’ spread on loans (“intermediation margin”) shrank from 7.3% in 1980 to 4.5% in 1990. Today, France is considered to be a highly-competitive banking environment, offering rather mediocre returns by European standards.

French banks have shown little inclination to forge German-style partnerships with their industrial clients. Rather, bank-industry relations tend to reflect straightforward

50 Ibid.; Groupe prospective financière, op. cit..
51 It bears mentioning that the German banking system is itself in transition. Relations between banks and their industrial clients appear to be growing more distant, due to: 1) a greater degree of self-financing by industry, particularly large corporations; 2) the desire of banks to limit their exposure to industrial risks and to sell off shareholdings. The willingness and capacity of banks to spearhead and underwrite industrial
considerations of market power. In recent years, large profitable multinationals have been able to improve the terms of their borrowing because they are able to wield the threat of replacing loan capital with equity issues (not to mention foreign borrowing). To compensate for the concessions to the national champions, however, French banks tightened the terms available to weaker players, notably households and SMEs. Between 1990 and 1992, even as the prime rate was declining in France, the rate of interest on consumer or small-business loans increased.\textsuperscript{52}

Cross-national comparisons confirm the sentiment that SMEs remain disadvantaged within the French system.\textsuperscript{53} The gap between the interest rate charged to large firms and SMEs ranges from one to three percentage points higher in France than in Germany. What is more, this gap is widest for short-term loans. Given that French SMEs enjoy far less access to long-term lending than their German counterparts,\textsuperscript{54} they are especially heavily penalized by the interest premium on short-term loans.

The weakness of bank-industry ties is evident not only in the terms of credit, but in the availability of credit. Scrambling to maintain profitability amidst the challenges of deregulation, French banks have tended to shy away or tighten the terms toward precisely the kinds of high-risk clients that government officials would like to promote. Loss-making national champions or high-tech SMEs may be of strategic significance to state officials, but they are rather unattractive to arm's-length, profit-maximizing lenders. Nor

\textsuperscript{53} Groupe prospective financière, \textit{op. cit.}, pp. 10, 43.
\textsuperscript{54} \textit{Cote des fosses}, 31 August 1992, p. 3.
does the multiplication of equity options offer much relief, since such instruments are rarely available to companies in the red.

Few French financial institutions have established the kind of investment bank relationship that might lead them to help support industrial clients in hard times. By and large, French banks know little about their clients’ economic affairs. They have also limited their financial exposure. Consequently, lacking either detailed knowledge or a significant stake in the welfare of their clients, they are inclined to cut their losses at the first sign of difficulty.

The consequences for French bankruptcy rates have been dramatic. The year 1992 saw 60,000 bankruptcies in France, more than double the 25,000 that occurred in 1985, at the worst moment of industrial restructuring.\textsuperscript{55} Observers are in broad agreement that whereas in the earlier period, the overwhelming majority of companies that were going out of business were in terrible shape, the current culling has affected a number of well-run enterprises, with good products and advanced technologies, that simply did not possess the financial reserves (or the backing of creditors) to survive a prolonged downturn.\textsuperscript{56}

The banks’ unwillingness to see industrial clients through the recession is a reflection not only of deregulation, but of a 1985 reform of the French bankruptcy code. This reform was conducted very much in the initial deregulatory spirit of compensating industry for a withdrawal of state largesse by taking away from the banks. On the one hand, the government rolled back CIASI-style programs to rescue firms in difficulty. On the other hand, it passed the Badinter law, which ordered that in all bankruptcy hearings, priority be given to relaunching the company over paying off creditors. Such a reform did not augur well for bank-industry partnerships. Knowing that they stand to recover little from bankruptcy court, French banks have refused to boost their exposure in hard times. According to the \textit{Banque de France} (admittedly, not a disinterested party), roughly once-

\textsuperscript{55} \textit{Le Monde}, 8 April 1993, p. 16.
half the increase in bankruptcies since 1985 can be attributed to the effects of the Badinter law.57

While historical legacies and the institutional logic of deregulation have steered most French banks away from the German investment bank model, there is one notable exception -- that of France’s largest bank, Crédit Lyonnais.58 Following the appointment of Jean-Yves Haberer as CEO in 1988, Crédit Lyonnais openly embraced the goal of becoming the “Deutsche Bank of France” and quadrupled its industrial holdings to 25 billion francs in just two years. As part of the equity cross-holding movement described earlier, Haberer’s bank purchased a large stake in such leading industrial conglomerates as the Thomson-CSF military electronics manufacturer, the Usinor steelmaker, VEV-Prouvost textiles, and the LVMH champagne and luxury products group. At the same time, Crédit Lyonnais touted its emerging vocation as an investment bank to France’s long-slighted SMEs.

While Crédit Lyonnais’ strategy has been exceptional, it seems to be the exception that proves the rule regarding the unsuitability of the French environment for bank-industry partnerships. Crédit Lyonnais has plunged sharply into the red, losing 1.8 billion francs in 1992, a figure that would have been much worse if the bank had not received an unexpected repayment of 3.6 billion francs for Third-World debts that had been written off. More important, the biggest sources of losses for Crédit Lyonnais were precisely those activities associated with its investment bank vocation. Whereas most French banks have suffered primarily due to the plunging real estate market, Crédit Lyonnais lost more than twice as much on bad loans to SMEs (6 billion francs) as on real estate (3 billion francs). Looking to the future, Crédit Lyonnais’ financial position is judged to be much shakier than that of its competitors owing to anticipated losses from ill-fated industrial holdings (notably in the steel, textile, and movie industries).

Crédit Lyonnais' troubles have stemmed from both historical and institutional factors. Like other French deposit banks, Crédit Lyonnais had little experience with industrial clients prior to the 1980s. Haberer tried to replicate the Deutsche Bank's network of industrial ties virtually overnight. While he was able to emulate the most visible sign of his German counterpart, a portfolio of industrial shares and risky loans, he had not replicated the organizational underpinnings. Having only recently entered the industrial loan business, Crédit Lyonnais lacked an intimate knowledge of its clientele, of the workings of industrial enterprises. It was taking the kinds of risks associated with stable, high-trust relationships in a lending context characterized by short-term, arm's-length behavior. What is more, it was doing so within a set of institutional rules that did not privilege long-term industrial partnerships. In the wake of financial deregulation, treasury bills offered higher returns than placements in industrial equity, while the Badinter reform increased the risks associated with loans to industry.

France's banking sector has proven unable and/or unwilling to play the partnership role envisaged by state authorities. The vast majority of lending institutions are reluctant to go beyond an arm's-length relationship with their industrial clients. If the experience of Crédit Lyonnais is any indicator, they have good reason to exercise such caution. The problem is that a financial system governed by short-term market relations does not necessarily make industrial investment, particularly investment by troubled SMEs or teetering multinationals, its top priority. Consequently, in finance as in industrial relations, state authorities are being compelled to step in.

Despite the dramatic liberalization of French economic policymaking, officials have found it extremely difficult to let the sanction of the marketplace operate against prestigious, but troubled national champions. As Minister of Industry, Laurent Fabius may have allowed Creusot-Loire to slip into bankruptcy, but as Prime Minister from 1984 to 1986, he intervened in a variety of politically sensitive dossiers. Fabius compelled public sector

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banks to inject some 20 billion francs in fresh capital into France's teetering steel industry. The government also rescued a technically bankrupt Renault through a combination of capital grants and loan forgiveness.

Such rescue operations were not confined to the public sector. Fabius guaranteed secret loans to two bastions of French private enterprise, PSA and Michelin. Nor were they confined to the sentimental Left. The Renault operation was continued under the Chirac government, which fought a protracted battle with the EC Commission over the legality and terms of the loan forgiveness. Finally, state financial intervention was not simply a one-shot deal, conducted to ease the transition from a dirigiste to a liberal industrial strategy. The return of hard times has brought a renewal of state assistance. In 1990, for example, the Michelin tire company, 40 billion francs in debt and with annual losses exceeding 5 billion francs, once again benefited from a not-so-secret state loan guarantee.

Beyond high-profile national champions dossiers, state efforts to palliate for an insufficiently supportive banking sector extend to SMEs. The report on SMEs of the Industrial Commission of the Xth Plan (the Leclerc report) could just has easily have been entitled, "Problems of SME financing." Reading more like a banking analysis than an industrial analysis, it focuses almost exclusively upon the various handicaps that French SMEs suffer in their quest for investment capital. The planning document also puts forward a mind-numbing list of proposed remedies, from a reform of inheritance and transmission taxes on SMEs, to creating a deduction of interest payments for leveraged buyouts of SMEs, to the stimulation of venture capital and unsecured stock markets targeted at SMEs, to all manner of subsidies for SMEs. A decade after the VIIIth Plan and the Mayoux report maintained that deregulation would break down the barriers to investment capital, the Xth Plan suggests that French SMEs are still having trouble finding financing.

60 "Rapport de la sous-commission 'PME'," Presided by Michel-Edouard Leclerc, in Riboud, Europe technologique, op. cit., pp. 149-204.
Each of the four prime ministers during the second Mitterrand term has put forward some kind of "plan" to boost the financial position of French SMEs. The Rocard government launched a "plan pour muscler les PMI" in September 1990; the Cresson government a "plan global en faveur des PME-PMI" in July 1991; the Bérégovoy government a "plan de soutien aux PME-PMI" in October 1992; and the Balladur government has incorporated a "dimension PME" into its "projet de relance." Typically, these plans have combined tax breaks, exoneration from social security charges for new hires, and low-interest loans. In many cases, the resources already existed in one form or another and were simply repackaged for media effect, but some new wine has also been found for the new bottles.

In addition to these general measures on behalf of SMEs, a variety of state programs (many of which were described in the previous chapter) have emerged to channel capital to SMEs at critical moments in their development. DRIRE and ANVAR underwrite bold expansion projects; CODEFI helps put together rescue packages for firms in trouble; SOFARIS guarantees risky bank loans to SMEs; CODEVI provides subsidized loans for modernization projects. Several of these programs have been expanded during the past year or two as recession-fighting devices. CODEFI was authorized by the Cresson government to tender "participatory state loans" requiring no collateral; CODEVI received an extra 26 billion francs from the Cresson and Bérégovoy governments; and SOFARIS was recently allocated a special "fund to guarantee the strengthening of permanent capital" to secure not only loans for specific investment projects, but long-term capital injections designed to solidify the financial position of developing SMEs.

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62 The aid to SMEs provided by Cresson, for example, was almost entirely negated by a reform that raised the inheritance tax on family firms. Likewise, of the 36 billion francs in low-interest loans pledged to SMEs by Bérégovoy, 26 billion came from a measure established by his predecessors that he merely continued and the other 10 billion from a program that cost the government only 300 million francs (a risk premium to insure 10 billion francs in loans). *Ibid*.

Deregulation has both revolutionized and preserved key features of France's financial system. The revolution has concerned the balance between administered and market-allocated sources of credit. Whereas only a decade ago, control over the price and distribution of credit constituted the essence of the dirigiste state, today, credit is allocated primarily through arm's-length market relations. Despite occasional bail-outs and measures to assist SMEs, state intervention has been relegated to the margins, as a corrective for certain socially or political unpalatable market outcomes (such as the bankruptcy of Renault or Usinor).

France's financial system also harbors an important element of continuity, however. Under the postwar division of labor, French banks focused upon mundane lending operations, while state authorities intervened in strategic arenas, crafting privileged financial circuits for risky clients (emerging industries, firms in difficulty, SMEs, etc.). Almost one decade after deregulation, this division of labor remains intact. French financial institutions, beholden to short-term market pressures and inexperienced in the investment bank vocation, balk at assuming a promotional or tutelary role on behalf of industry (with the notable, but unsuccessful exception of Crédit Lyonnais). To the extent that such a role is performed, then, it remains through the -- significantly diminished -- intervention of the state.

France's experience with financial deregulation broadly parallels the trajectory of local development and industrial relations reform. In all three instances, the starting point entering the 1980s was a system of extensive state regulation (phase 1). The institutional changes of the past decade did not unfold according to quite the same logic, however: whereas the Defferre and Auroux laws originated as a political reform (phase 2) and evolved into an economic reform (phase 3), financial deregulation began as an economic project and gradually took on an institutional component. In a sense, phase 3 preceded phase 2, with deregulation being seen initially as a way of transferring resources from banks to industry, before a more positive conception of the role of banks began to emerge.
The dénouement, however, resembled that of the other reforms. France’s banks, like France’s local government authorities and France’s unions, proved incapable of assuming their weighty new responsibilities. Once again, the alternative to state regulation was not institutionally-coordinated regulation through German-style investment banks, but market regulation (phase 4). As a result, state authorities have come to intervene in a range of areas where banks fear (or do not wish) to tread: underwriting the adjustment of mature industry, promoting infant industries, channeling capital to SMEs at various points in their development (phase 5).

**European Industrial Policy**

While the discussion to this point has focused upon the domestic politics of institutional reform, French authorities have also looked beyond their borders for relays to traditional *dirigiste* intervention. In particular, officials have turned to European institutions to support emerging industries, such as high-definition television (HDTV) and semiconductors. As will be described, the obstacles to these projects extend well beyond the problem of institutional capacity. That said, one can detect the same basic dynamic or dilemma as in the domestic policy reforms. Once again, the key institution in the French strategy lacks the capacity to carry out its new responsibilities, and this incapacity is due in no small part to the legacies of earlier *dirigiste* actions. Consequently, in the absence of European relays, French authorities confront pressures for renewed state intervention.

Historically, France has spearheaded the opposition to the construction of strong, independent European institutions. Long before there was Margaret Thatcher, denouncing Brussels bureaucrats and fighting for the preservation of the nation-state, there was Charles de Gaulle. It was de Gaulle, after all, who in the name of French grandeur and independence, breached the rule of qualified-majority decisionmaking. In 1965, after a protracted French boycott of Community affairs (the “empty chair” policy), France’s
partners were compelled to accept the misleadingly-labeled “Luxembourg compromise,”
enshrining the rule of unanimity for all matters deemed vital by a member state.

French national sensitivities were as prickly in matters of “l'intendance” as in high
politics. Industrial policy, particularly the promotion of national champions, constituted the
privileged domain of the postwar dirigiste French state. In a sense, relations with Europe
offered a mirror image of relations with local authorities: just as state officials balked at
sharing economic responsibilities with institutions below (local authorities), they balked at
sharing responsibilities with institutions above (the European Community).

Far from providing a forum for economic intervention, Europe served as the
rationale for voluntarist national measures. Lionel Stoléru, an advisor to President
Pompidou, whose Impératif industriel informed the government’s economic strategy,
argued that a state-led national champions approach offered the only way for French
industry to avoid marginalization in the wake of European integration. Absent aggressive
intervention at the national level to foster companies of international scale, Stoléru warned,
international competition would reduce France to the status of an “agricultural nation ... like
those underdeveloped countries who trade with industrial countries by sending them
minerals and agricultural products in exchange for manufactured goods!”

Even in the 1970s, as French leaders proclaimed their intention to move away from
a fortress-France mentality, they remained wary of entrusting the destinies of the country’s
national champions to a European forum. Indeed, it was the ostensibly liberal and pro-
European Giscard d’Estaing who struck down the single most promising collaborative
undertaking in European electronics, the so-called “Unidata” venture. The Unidata

65 Ibid., p. 14. Translation the author’s. Stoléru did not ignore the European forum. Indeed, at the end of
the book, he called for a European industrial policy to complement national measures. That said, this
chapter is quite peripheral to Stoléru’s analysis, which focuses almost exclusively on national measures.
What is more, since industrial policy was to be directed as much against France’s European partners as
against outsiders like the US, it is difficult to imagine how it could have been conducted within an EC
framework.
66 The definitive work on the Unidata Affair is by Jean-Michel Quatrepoint. Jean-Michel Quatrepoint,
French Ordinateurs, (Paris: Editions Alain Moreau, 1976). For a more succinct presentation, see Cohen and
project called for the production of a full line of computer products on the basis of an alliance between three European firms: CII (the Thomson-controlled French computer national champion), Siemens, and Philips. CII was the acknowledged technical leader in the sector, Philips had strength in small computers and peripheral equipment, while Siemens was just entering the industry. Although the Unidata project originated with French officials, after several years of hesitation and despite a variety of concessions by Philips and Siemens, in 1974, the newly-elected Giscard government opted instead to ally CII with the American manufacturer, Honeywell. The decision reflected an extremely complex combination of technical, economic, and political factors. Foremost, however, were two sets of national champions considerations.

The first concerned CII itself: French officials feared that the little computermaker would be unable to hold its own against giants, Philips and Siemens. CII's ostensible European allies would simply absorb its technology, then drive it out of the market through superior production techniques and deeper pockets. By contrast, if CII allied with Honeywell, it could use the American firm's technology to reinforce its position in Europe.

The second national champion consideration involved the rival to Philips and Siemens in France, CGE. Like Philips, CGE was beginning to produce computer peripherals. More important, Siemens was CGE's chief competitor across a range of businesses, from electrical equipment, to nuclear facilities, to railroad transportation. Consequently, what was good for Philips and especially for Siemens was bad for French national champion, CGE.67

Giscard's decision, however logical within the framework of domestic French policy, constituted a slap in the face to France's European partners. The French president

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67 CGE's vehement opposition to the Unidata deal also reflected a domestic rivalry. CII parent company, Thomson had been invited by the government recently to produce telecommunications equipment, in violation of the 1969 "Electronics Yalta" agreement between the two companies, recognizing exclusive CGE leadership in this domain. Infuriated at this challenge to its domestic monopoly, CGE set out to sabotage Thomson at every opportunity.
had opted for an American alliance over a European alliance. What is more, he had done so in large part because he feared the enemy from within Europe more than the enemy from without. The Unidata debacle would inflict lasting damage upon European industrial cooperation. In the words of a French critic: "In sinking UNIDATA, Valéry Giscard d'Estaing turned his back on the only serious effort to construct a European industry in a strategic sector."\(^{68}\)

One decade later, the French would sink another fledgling European electronics venture, the effort to create a European alternative to the Japanese VHS standard in VCRs.\(^{69}\) The key culprit in this instance was not the newly-elected Socialist government, which favored the European tack, but the consumer electronics national champion, Thomson. Philips had pioneered a VCR standard (V2000) that was technically superior to VHS, but that had captured only 10% of the European market. Philips was hoping to rally Thomson to V2000, but Thomson had misgivings not only about the standard, but more important, about an alliance with the much-bigger Philips. Just as CGE had feared Siemens more than Honeywell, Thomson feared Philips more than its Japanese partner, JVC.

For a time, it appeared that a deal might be worked out, enabling Thomson to obtain German TV manufacturer, Grundig (a takeover that Philips was in a position to block), thereby achieving comparable scale to Philips, in exchange for supporting V2000. Thomson balked at the deal, however, opting instead to acquire another German manufacturer, AEG-Telefunken and signing a licensing agreement with JVC. The agreement sounded the death knell of V2000. It was only after a series of acquisitions of TV manufacturers over the next five years that Thomson would feel secure enough to enter a partnership with Philips in high-definition television.

As with the various domestic policy reforms, the crisis of dirigisme provoked a rethinking of the place of European institutions in France's political economy. After an

\(^{68}\) Quatrepoint, *op. cit.*, p. 279. Translation the author's.

\(^{69}\) Cohen and Bauer, *op. cit.*, Chapter I; de Boissière and Warusfel, *op. cit.*, pp. 114-17.
initial *dirigiste* period characterized by efforts to "reconquer domestic markets" -- at the expense of European rivals as much as Americans or Japanese -- French industrial strategies took on a European flavor. At one level, the shift represented a kind of symbolic substitution. The imperatives of European solidarity, the EMS had defeated the government's retlationary *dirigiste* strategy. Europe had precluded and supplanted the national economic policy forum -- "L'Etat, c'est l'Europe," in the well-chosen words of *The Economist.*

The shift was more than symbolic, however. It was also rooted in European institutional realities, or at least potentialities. Socialist authorities looked to Europe to drive French industry in a manner that the French state no longer could. Europe would provide the relay to exhausted national *dirigiste* prescriptions. In contrast to traditional French methods, a European Community shaped by the Single Market Act would prevent French multinationals from resting on their protected laurels, compelling them instead to compete with intra-EC rivals.

Europe would be more than a free market, however. As a "community," it would give preference to its own industrialists. The Single Market would combine the invigorating forces of "domestic" competition within Europe with the strategic trade policies of an emerging regional block. Like Japan or an increasingly combative United States, the EC would be able to defend the interests of its producers.

Europe would be more than a free market in a second sense. The creation of the Single Market would be accompanied by a variety of common policies to regulate and improve upon the functioning of the market: social measures to prevent downward pressure on working conditions, joint monetary institutions to balance the objectives of growth and low inflation, a sharp increase in regional development programs to permit

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disadvantaged areas to catch up to the industrial heartland. In the industrial arena, liberalization would proceed in tandem with promotional policies designed to give European firms a leg-up on the global competition. Thus, the plight of European industry would not be left to the harsh winds of international market forces.

In the French vision of an industrial Europe, institutions created for primarily political purpose were once again lent a more economic cast. In this instance, the key institution was EUREKA (and to a lesser degree ESPRIT).72 EUREKA had been launched by Mitterrand in response to US President Reagan’s proposal to open Strategic Defense Initiative (“Star Wars”) research programs to European companies. Seeking to undercut US “hegemony” and “militarism,” Mitterrand called for a European civilian alternative to Star Wars. By funding collaborative industrial research, ESPRIT and EUREKA would allow European firms to preserve their independence from the American military-industrial complex.

While EUREKA received its initial push from Mitterrand’s geopolitical grandstanding, it also fed into an emerging French conception of how to promote successful European multinational enterprise. This conception, which might be termed the “Airbus or Ariane model,” saw European industrial policy as offering a superior alternative to the discredited national champions strategy. The problem was not government intervention per se, as the success of Airbus planes and Ariane satellite launchers demonstrated. Rather, a different kind of intervention was needed from standard French recipes.

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72 Created in 1983, ESPRIT (European Strategic Programme for Research in Information Technologies) is an EC-administered program that funds collaborative "pre-competitive research," associating companies, universities, and research institutes from at least two member countries. EUREKA (European Research Coordination Agency), which took shape in 1985, also funds inter-firm collaboration, but differs in two important ways from ESPRIT. First, the ventures are closer to the market, often extending to production activities. Second, EUREKA operates outside the EC forum. It is open to non-EC European nations, and each project is funded by the participants (firms and member-states), rather than EC institutions (although the EC has begun making contributions to some projects).
Airbus and Ariane were distinguished from French national champions strategies by three basic features. First, they involved several European firms, rather than a single French champion. They therefore provided both the competitive spur to action lacking from the quasi-monopolistic French context and the savings from cooperation that reduced the costs of innovation to a tolerable level. Second, Airbus and Ariane brought together several government authorities, as opposed to being directed by a single state, and were guided by an independent marketing structure (GIE Airbus Industrie and Arianespace respectively). As a result, the dirigiste impulses of French officials tended to be redirected in more market-conforming fashion. Third, and somewhat related to the second point, the projects began at the low end of the market, producing simple products on the basis of existing technologies, before gradually moving toward more complex offerings. Put somewhat simplistically, the moral of the Airbus paradigm might be: left to the market, there would be no airplane; left to the French state, the outcome is a white elephant, Concorde; left to a European multinational consortium, the result is a commercial success, Airbus.

French officials hoped to generalize the Ariane/Airbus experience. Increasingly, Europe was seen as the optimal forum for the promotion of large-scale enterprise. From a technical or economic perspective, the same kinds of scale arguments that had been marshaled in the 1960s and 70s on behalf of national champions reemerged to justify European champions: the need for large markets (i.e. European) to amortize R&D and investment expenditures; the existence of economies of scale in standard commodities, such as DRAM semiconductors; the capacity of giant enterprises to match investments and withstand the predatory dumping practices of foreign (i.e. American or Japanese) multinationals.

From a political perspective, the European forum also had much to offer. Even in Stoléru's day, French officials worried that the key instruments of industrial policy were being transferred from the national to the European level. With the creation of a unified market, national authorities were increasingly powerless to control the flow of imports; this had become an EC matter, including in such highly-sensitive matters as Japanese automobile imports. Anti-trust policy had also come under European direction. Whereas national industrial policy measures tended to run afoul of the Commission's competition policy, the often-substantial "research subsidies" channeled to industry through EUREKA and ESPRIT programs were specifically exempted from such restrictions.

EUREKA's flexible mode of financing held further advantage from the French perspective. Because the programs are funded and operated by participant firms (and their governments), rather than by the EC, they do not require the unanimous support of all EC member states. Instead, EUREKA represents a kind of "variable geometry Europe," permitting interested firms/states to move ahead without waiting for the others.\textsuperscript{74} What is more, because there are no fixed rules for allocating financial responsibilities, French authorities could aspire to a \textit{primus inter pares} role by making a disproportionate contribution. Indeed, this has been the case for both Airbus and Ariane, in which France holds a 40% and 60% stake respectively.\textsuperscript{75}

The EUREKA projects that have mobilized the greatest resources in the past decade involve the semiconductor and emerging high-definition television (HDTV) industries. The JESSI program (Joint European Submicron Silicon) built upon the so-called "megaproject" between Philips and Siemens, but French authorities were eager to enter the venture.

Despite (or because of) a series of "semiconductor plans," dating back to the 1960s, France

\textsuperscript{74} As Eric le Boucher, electronics industry journalist for \textit{Le Monde}, observed, this flexibility is essential for the HDTV project: "The HDTV dossier does not militate for a Europe of twelve, but for a two-speed Europe. In order to promote an industrial initiative, it is best not to wait for an impossible unanimity. Let the countries who wish to advance do so, too bad for the others ..." Eric le Boucher, "La France en majesté," in \textit{Politique industrielle}, special edition on HDTV, No. 22, Spring 1991, pp. 42-46.

\textsuperscript{75} Muller, \textit{op. cit.}; Chabbert, \textit{op. cit.}. The name of the European rocket launcher, a thinly-veiled allusion to the French national emblem, "Marianne," attests to the Euro-project's French leadership. Equally indicative, Chabbert's chapter on Ariane is entitled, "Ariane -- ou l'Europe hexagonale."
has never been able to forge a dynamic producer. The sole French player in the field, Thomson merged its operations with the Italian state leader, SGS in 1987. SGS-Thomson produces specialty chips, but is incapable of manufacturing the basic DRAM memories that are considered the building blocks of the industry. French officials hoped that through participation in JESSI, SGS-Thomson could boost market share rapidly and rejoin the technological cutting-edge.

If French industry played tag-along in the semiconductor project, it assumed the leadership in high-definition television.\(^{76}\) For French authorities, HDTV represented the last opportunity to retain a presence in the electronics industry in the face of fierce Japanese and Southeast Asian competition. Having lost the battle in audio equipment, fax machines, and VCRs, French industry would make a stand in HDTV. HDTV is considered strategic for several reasons\(^{77}\): the size of the television and VCR market itself, estimated at $330 billion by the year 2010; the role of this market in stimulating the development of a variety of key associated technologies, such as liquid crystal displays and semiconductors; the linkages to other consumer and defense electronics activities; even considerations of cultural independence.\(^{78}\) As a report commissioned by Parliament indicated, from the French perspective, HDTV is not simply about television sets, but about the preservation of the basic attributes of nationhood:

For Europe, the independence of its electronics industry is the strategic key to its fundamental liberties ... the freedom of a State or a community of

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\(^{77}\) Fornir and Pelchat, *op. cit.*

\(^{78}\) French officials raised the prospect of “American programs broadcast on Japanese HDTV sets” as a symbol of cultural subjugation to foreign powers. A report to French parliament on the implications of HDTV did not exactly mince words: “…economic and technological vassalage, which would see us reduced to the role of subcontractors, dependent upon Japanese semiconductors and professional equipment, would lead, sooner or later, to cultural vassalage.” *Ibid.*, pp. 42-43. Translation the author’s. According to Elie Cohen, this cultural menace was a central factor in President Mitterrand’s interest in the HDTV project. Cohen, *Colbertisme, op. cit.*
States is a measure of its equipment and of its exports in advanced, competitive electronics systems.  

Thomson is once again the main French industrial participant, but its consumer electronics division is more credible than its semiconductor manufacturer. Beginning in the late-1970s, a series of acquisitions of color television producers (Nordmende, Saba, Dual, AEG-Telefunken, Thorn-EMI, and especially RCA) lifted Thomson Consumer Electronics (TCE) to the number four position globally, behind Matsushita, Sony, and Philips. TCE’s strength in the TV segment is also a vulnerability, however. Whereas its principal competitors occupy a variety of consumer electronics markets (stereos, fax machines, VCRs, etc.), Thomson depends upon TV sets for over one-half its consumer electronics sales. TCE’s plight is therefore closely tied to the success of the HDTV project.

In European industrial policy, as in so many areas, French hopes to find relays for responsibilities exercised previously by the central state have been disappointed. The difficulties of the HDTV and semiconductor projects have multiple origins. It would be absurdly reductionist to lay all the frustrations of the French electronics industry at the feet of the European Community. Beyond institutional capacity, the viability of these industrial projects rests first and foremost on industrial capacity, on the ability of French and European manufacturers to compete with their Japanese rivals.

Even from a political-institutional perspective, the nature of the European policy experiment is somewhat different from the various domestic political reforms described in this chapter. State authorities are not withdrawing completely from industrial policy, but trying to pursue national objectives in a new European forum. In addition to transferring responsibilities from the state to a new set of institutions, they are looking to shape the policies of these nascent institutions. Thus, part of their frustrations stem from political disagreements about the merits of industrial policy, as opposed to the limitations of European institutional capacity.

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With all these qualifications, however, it is clear that the underdevelopment of European industrial policy capacities has contributed greatly to French difficulties. What is more, the sources of this underdevelopment are much like those plaguing domestic policy reforms. Once again, efforts to forge an alternative to traditional dirigiste methods are weighed down by a combination of historical legacies and timid recent reforms. Without entering into an exhaustive account of the HDTV or JESSI projects, we can identify three characteristic dysfunctions of the Euro-industrial policies.

The first problem plaguing the Euro-industrial projects, notably JESSI, has been a lack of commitment and solidarity on the part France’s industrial partners. From the beginning, Siemens and Philips have been unenthusiastic about SGS-Thomson’s participation in JESSI. The project originated as a bilateral agreement, the so-called “mega-project” between Philips and Siemens, before being “Europeanized” only because EUREKA subsidies became available.

French officials hoped that JESSI would bring about a rapprochement with Philips and Siemens, laying the groundwork for a future merger, but SGS-Thomson’s partners had other ideas in mind. Siemens consistently rebuffed French advances, not only for some kind of fusion, but even for technological cooperation. Adding insult to injury, in the middle of 1991, Siemens announced that it would co-produce the next generation of DRAM chips with IBM, a venture that was later extended to Toshiba. The news from Philips was no better. Wracked by losses, the Dutch company, the largest manufacturer of semiconductors in Europe, withdrew from JESSI.

The difficulties of JESSI issued from multiple sources, but there were clear links to France’s earlier actions. While French authorities lamented the “arrogant attitude” of their European partners, Siemens and Philips remembered the Unidata affair, and Philips was still smarting from the VCR debacle. From their perspective, the French could not be trusted. Nor was SGS-Thomson particularly good at semiconductor manufacturing
(notwithstanding two decades of dirigiste semiconductor plans). Consequently, Siemens and Philips felt little reason to spare their French partner the cold shoulder.

In a similar spirit, if Philips and Siemens displayed insufficient commitment to a European solution in semiconductors -- the former, by withdrawing from the industry; the latter, by allying with IBM -- this, too was a practice pioneered by the French. CII had sold out European computer cooperation for an alliance with the American, Honeywell, while Thomson enshrined Japanese hegemony in the European VCR industry (at Philips' expense) through its deal with JVC. Indeed, part of the reason (albeit not the entire reason) why Philips and Siemens found themselves reduced to choosing between market exit and extra-European alliances is that the French had undercut all previous attempts to build a serious intra-European alliance within the electronics industry. In the failure of JESSI, then, the dirigiste chickens had come home to roost.

A second characteristic difficulty of Euro-projects like JESSI and HDTV is the limited scope of the industrial policy arsenal. The French are paying the price for having checked the development of European institutions and undercut the most promising efforts to foster a common European policy in electronics. As in the case of domestic reforms, the changes to European institutions during the 1980s have not sufficed to empower them for weighty new economic missions. ESPRIT and EUREKA, whatever their merits, do not provide the kind of leverage needed to promote key European industries.

Whereas the traditional French "grands projets"or Japanese industrial strategies have tended to be multidimensional -- associating protection from foreign competition, lucrative public procurement arrangements, privileged funding circuits, etc. -- the European industrial projects are able to mobilize research subsidies and little else. Subsidies for purposes other than research run afoul of EC competition policy. Indeed, the contradictions between EC competition policy and technology policy have been a major source of frustration for French authorities. At the same time that EUREKA has encouraged Philips and Thomson to invest billions of dollars in a highly risky technology
and an uphill industrial clash with the Japanese, Sir Leon Brittan has challenged the French government’s efforts to underwrite part of these costs. In particular, a promised 1.8-billion franc capital infusion was blocked by the Commission throughout 1991, depriving loss-making TCE of funding desperately needed to sustain its HDTV investments.

The EC industrial policy arsenal remains rather thread-bare. Guaranteed public markets, designed to provide a lucrative proving ground for initial forays into new technologies, are coming under pressure from the same liberal logic that has blocked aid to TCE. So, too is protection of “infant industries.” It is not just liberal ideology that is checking French initiatives, however, but another legacy of Gaullist dirigisme, the rule of unanimity. This represents the third basic obstacle to European industrial policy. Twenty-five years after the Luxembourg compromise, French authorities are finding that many of the industrial policy measures that they put forward, while commanding a strong majority within the Community, cannot go forward due to the opposition of a small minority or even a single country.

This problem has plagued one of the key instruments in the HDTV battle, the manipulation of broadcasting standards. The creation of a distinct European standard, the MAC-packets family of broadcasting, originated in the mid-1980s from protectionist or infant-industry considerations: to prevent the Japanese from imposing their MUSE standard, to delay the adoption of a standard while European companies sought to catch up in HDTV, and to raise the costs to Japanese companies wishing to sell to European markets.80 Under the aegis of the EUREKA program and thanks to several years of furious investment, European manufacturers were able to demonstrate the viability both of their television equipment and of the MAC broadcasting standard.

By the late-1980s, the stage seemed set for the adoption of MAC by the Community. The Commission had outlined the process in a Memorandum of

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Understanding, and approval by the Council of Ministers was expected to be little more than a formality. Instead, the British, joined by several small member states with no TV manufacturing capacity (Luxembourg, Ireland, etc.) were able to block the process. Over time, opposition grew among broadcasters, who felt that they were being insufficiently compensated (through a 500 million ECU EC fund) for the extra costs associated with converting to MAC. Then, with the fall of the Berlin Wall, the German government, which had been a strong backer of MAC, distanced itself from the standard, fearing that residents of the former German Democratic Republic would not be able to afford the new TV equipment required to receive MAC broadcasts.

With the defection of a principal ally, the French had little choice but to accept a watered-down agreement, making adoption of MAC optional, rather than mandatory. While it could be argued that the MAC venture had achieved its principal objective -- delaying the adoption of a standard of any kind until the Europeans were in a position to compete -- and while there were certainly strong technical grounds for rejecting MAC, this was small consolation to European TV manufacturers like Thomson and Philips, who had invested heavily in MAC technology. From their perspective, the Luxembourg compromise had compromised the centerpiece of their HDTV strategy.

Given the rule of unanimity for major European initiatives along with the systematic opposition of the British to anything remotely smacking of government intervention, a consensus has not sufficed to make European industrial policy. This is true of specific

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81 The MAC standard was criticized on two counts. First, it involved a two-phase transition from the existing color television standard to HDTV: initially to an enhanced broadcast through D2-MAC, then to full HDTV in 1995, through HD-MAC. Opponents argued that consumers would not purchase D2-MAC televisions knowing that the system would be superceded and that it was unreasonable to compel broadcasters to invest in expensive equipment for an intermediary standard. The second objection was that in the wake of American breakthroughs making it possible to create an all-digital broadcasting system, the hybrid analogue/digital HD-MAC no longer offered the best possible image. It was better to delay the introduction of HDTV a few years, when the superior all-digital technology would become available. For a discussion of the merits of different HDTV standards, see Kevin Brau, *High Definition Television: In Focus*, Crédit Suisse - First Boston, July 1991; Joseph Farrell and Carl Shapiro, *Standard Setting in High Definition Television*, Paper presented to the Brookings Institute's Microeconomics Conference, December 1991; Alan Cawson, *Sectoral Governance and Innovation: Private Interest Government and the EUREKA HDTV Project*, Paper presented to the ESRC Conference on Government-Industry Relations, Exeter, UK, 20-22 May 1992.
measures, like the adoption of MAC, but also of broader policy orientations. An ironic illustration is provided by the Maastricht conference of December 1991. Although associated in the public eye with the creation of an all-powerful Brussels bureaucracy, Maastricht marked a sharp setback for French industrial policy ambitions. French officials lobbied furiously to inscribe a substantive commitment in the Treaty to cultivating European industry, as part of the agenda for the creation of common European policies. Although many of France’s partners were sympathetic to the idea, in the face of fierce British resistance, the French were able to obtain little more than vague declarations.

The confluence of European setbacks at the end of 1991 -- the defection of Siemens and Philips from JESSI, the defeat of the MAC broadcasting standard, the Commission’s blockage of capital increases to Thomson, the empty Maastricht commitment to industrial policy -- fueled a sense of frustration or even betrayal among French officials. Europe was not giving France what they had bargained for; it was a one-track, not a two-track process. While the creation of the Single Market proceeded apace, the promised accompanying common policies remained embryonic. Rather than a Europe of producers, armed to do battle with the Americans and Japanese, the French found themselves in a Europe of consumers, in which it is more important to buy TV sets at the lowest price them to buy them from European manufacturers. These various disappointments, when added to a Prime Minister with an itchy dirigiste trigger finger, opened the door to renewed state intervention.

In December 1991, on the heels of the Maastricht and MAC setbacks, Prime Minister Edith Cresson announced the merger of Thomson and the French atomic energy national champion, CEA-Industrie. Cresson invoked the technological complementarities between the two firms (they collaborate on semiconductors notably), and also pointed to foreign conglomerates such as Siemens and Toshiba that successfully balanced electronics and nuclear activities. This was essentially window-dressing, however. Cresson’s initiative stemmed in large part from the limitations and frustration of Europe.
One set of frustrations was over the Commission's opposition to capital grants and subsidies to Thomson. Indeed, the driving force behind the merger was financial, rather than industrial. In fusing the cash-rich CEA-Industrie (with over 20 billion francs in reserves) and the strapped Thomson, Cresson hoped to provide the latter with the means to invest and sustain losses in the highly-competitive semiconductor and consumer electronics businesses. It is questionable whether the French state possessed the resources to finance these investments through budgetary allocations, but in any case, Commission vigilance precluded such an approach. The strategy of merger-cum-subsidization provided a way of evading Commission restrictions. In the words of a government official involved in the project: "We finally dispose of structures that permit us to circulate cash-flows freely without fearing sanctions from Brussels."\(^{82}\)

In broader terms, the fusion was a response to the fact that European alliances and European programs were not providing sufficient leverage for French firms to compete in emerging global industries. Jean-Claude Hirel, whose report on CEA-Industrie formed the basis for the government's strategy, noted that state-directed fusion was not the government's first choice. All would have preferred a European approach to meet the Japanese challenge, but this option was not available. With the logic of the market spelling certain decline and with the European option unavailable, Hirel contended that the statist tack represented the lesser of two evils:

In order to fend it off [the establishment of a monopoly in the semiconductor and electronics industry by non-European companies], the European solution would have certainly been best. But Siemens and Philips showed that they had other alliance strategies or other preoccupations. Does this mean that we should have given up? The government, with the Thomson-CEA-Industrie operation, chose to continue.\(^{83}\)

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Subsequent to the announcement of the fusion, Cresson's project would be modified in significant ways. CEA-Industrie and Thomson were over 10 billion francs apart in their assessment of the value of TCE, and for all its wealth, the nuclear company was concerned about its ability to refloat both the semiconductor and the consumer electronics businesses. Consequently, the merger was scaled back to include only SGS Thomson. What is more, although CEA-Industrie became the main shareholder in SGS-Thomson, it is also joined by another cash-rich public actor with an interest in semiconductors, France Télécom.

While SGS-Thomson has been relaunched on a sounder financial basis, TCE’s plight remains uncertain. A new Director, Alain Prestat was appointed in early-1992, with a mission to clean house. Prestat speaks often of the “Renault model,” evoking the turnaround of a loss-making, public sector basket case through a combination of harsh cuts, investments in new products, and substantial government aid and loan forgiveness (12 billion francs in the case of Renault). The government, for its part, is reserving judgment while Prestat tries to reorganize the company. Should Prestat prove successful, then some kind of rescue operation/fusion will probably be organized. The most likely white knight is the fabulously profitable France Télécom, whose leaders have always regarded TCE management with contempt -- at least until the appointment of Prestat who, they are quick to point out, is not just a Polytechnique graduate, but an ingénieur des télécoms, that is, one of their own kind.

The “Renault model” is being talked about not only in the context of TCE, but also with regard to the ailing Bull computer company. While denouncing Bull’s performance on an almost daily basis, Balladur officials are not ruling out the possibility of government assistance. Rather, they are insisting that new aid will be conditioned upon the execution

84 Beyond financial considerations, limiting the merger to semiconductors also made sense from a technological standpoint. This was the area in which the synergies between CEA-Industrie and SGS-Thomson were the most apparent. Hirel’s initial proposal to Cresson did not extend to Thomson’s consumer electronics division. *La Tribune de l’Expansion*, 11 September 1992; *Le Monde*, 11, September 1992.

of a serious restructuring plan, offering genuine prospects for securing the company's long-term viability.

The Renault model offers yet another illustration of the familiar dynamic of disappointed institutional innovation leading to renewed state intervention. French officials are no longer counting on Europe to do much for Bull or TCE. Nor do they wish to accede to a market logic that would spell almost certain demise (although they might accept such an outcome if Bull and TCE fail to devise viable restructuring plans). Instead, governments of both Left and Right are falling back on state assistance -- through subsidies and loan forgiveness, or else, should Commission opposition prove insurmountable, marriages between cash-rich and cash-poor state enterprises -- with the hope that it will be conducted in a more rigorous manner than in the late-1970s and early-80s. In short, in between an underdeveloped Europe and an (at times) unpalatable market, i.e., Renault model offers the prescription for post-dirigiste state intervention.

To attribute the difficulties of European industrial policy essentially to French actions would be absurdly reductionist. It would also grossly overstate the leverage of French authorities in European affairs. This is the principal contrast between the European experiment and the domestic reforms. Whereas French authorities wrote the rules of reform for local, union, and financial institutions during the 1980s, they were but one of several actors holding the pen at the European level. What is more, whereas the difficulties of domestic reforms can be explained primarily in terms of political, historical, and institutional logics, many of the most important limitations of European industrial policy stem from global economic factors that have nothing to do with issues of institutional capacity.

Without trying to fit square pegs into round holes, however, it is possible to identify significant parallels between the difficulties of the domestic and European policy experiments -- parallels that go a long way toward explaining the trajectory of the European reform process. In both sets of cases, France's postwar dirigiste state showed little
inclination to share economic power with other actors (phase 1). De Gaulle fought the
collection of Europe on the level of principle, as exemplified by the Luxembourg
compromise, but his ostensibly pro-European successors were no more supportive on
concrete issues of industrial policy, such as the effort to build the Unidata consortium.
When push came to shove, the interests and fears of national champions took precedence
over European solidarities.

The 1980s brought institutional reform in the European arena, as in the domestic
arena, with the creation of ESPRIT and EUREKA (phase 2). Once again, the reform was
motivated by political considerations, by the desire to provide an alternative to Star Wars,
but quickly evolved into an essentially economic instrument (phase 3). It is important to
mark a distinction between the domestic and European cases, however. In the former
instance, it was conceivable that state authorities might have substantially overcome an
adverse historical legacy through well-crafted reforms. Phase 2 might have negated the
effects of phase 1, hence the fact that these reforms were envisaged for primarily political
purposes takes on tremendous significance. By contrast, French authorities lacked the
leverage to substantially overhaul European institutions. Here, they were more the
prisoners of history (phase 1), of the Luxembourg compromise and the Unidata debacle,
than of a missed opportunity to shuffle the institutional deck (phase 2).

While the causes of institutional incapacity may have been somewhat different, the
consequences were distressingly similar. European institutions, like domestic institutions,
lacked the capacity to shoulder significant industrial policy responsibilities (phase 4).
Much like France's local authorities, they were underfunded, divided (between the
Competition, Technology, and Industrial Policy Directorates as well as between different
member states), and unable to manipulate the policy tools needed to carry out their missions
effectively. With the alternative to national industrial policy turning out to be, not European
industrial policy, but no industrial policy, French authorities felt pressured to revive
national measures, at least in politically sensitive areas like automobiles, semiconductors,
and HDTV (phase 5). Once again, though, state intervention has evolved. The idea, embodied in the so-called "Renault model," is to intervene in a more selective and sensible manner, to help only those companies that are prepared to help themselves.

**Conclusion: The Statist Two-Step**

Economic policy reforms in France during the past decade -- from local development, to industrial relations, to financial deregulation, to European industrial policy -- have revealed the same basic dilemma: *French authorities have found it far easier to take the state out of the economy than to put other actors in.* Institutional underdevelopment outside the state has frustrated efforts to cultivate new forms of economic intervention. The result, if not always the five-phase trajectory characteristic of the local development and industrial relations experiments, is a kind of statist two-step. The dynamic of the statist two-step is represented schematically below.
THE STATIST TWO-STEP

Dirigiste France

Actual Evolution
(Step 1)

Desired Evolution

German Model

Low Degree of Societal Coordination

High Degree of Societal Coordination

France after deregulation and limited institutional reform

France after renewed state intervention

(Step 2)
In each instance, state agencies have stepped away from an area of heavy prior regulation, hoping that a new institutional or organizational partner would provide more nimble intervention. For a variety of historical and institutional reasons, however, such intervention has not been forthcoming. Consequently, pressing problems and institutional dysfunctions have led state authorities to step back in. The statist two-step is not symmetrical: the step back in has tended to be lighter, more consensual, and more market-conforming than the state’s earlier initiatives. It has also rarely been the dance of choice for officials, but rather a second-best solution marking the failure of their search for a viable institutional partner.

The statist two-step rests upon the three familiar components of the historical-institutionalist paradigm: historical legacies, institutional logics, and political choices. Historically, it was the nature of _dirigisme_ to concentrate power in the central state, typically at the expense of local and societal actors. Yet it has been the nature of post-_dirigiste_ reforms to rely upon these previously excluded actors to relay state intervention. After decades of _dirigiste_ politics, France was a land poor in Tocquevillian resources, with the key actors in state reform projects ill-prepared for their new economic missions. Local government authorities lacked the knowledge, experience, and resources needed to assist provincial enterprise; unions were more accustomed to bargaining with the government than with employers; banks had occupied cozy, protected market niches, leaving strategic or risky financial activities to specialized state institutions; and France’s European partners had been the target of French strategies as much as the instrument.

French authorities were not simply prisoners of history, however. While it is true that the primary actors and institutions in the post-_dirigiste_ strategy faced a steep uphill climb to move into their new roles, even steep hills can be climbed. In the French case, however, institutional reform projects rarely aspired to scale economic heights. Three of the four reforms discussed in this chapter were launched for reasons having little or nothing to do with economic intervention. The Defferre laws and the Auroux laws stemmed from
misty Second Left ideals of participation and democracy, while EUREKA originated in high politics, in President Mitterrand’s campaign against Star Wars. As for the fourth reform, financial deregulation, although conducted for economic reasons, the role of the central actor in the project shifted dramatically, with France’s banks evolving from parasites of industry to potential partners.

The obstacles to the various economic policy experiments, then, have been more than historical. Crafted with other ideas in mind, institutional reform did not necessarily optimize the capacity of the institutions in question to handle their new economic responsibilities. Indeed, in some instances, reform made matters worse. Local authorities were saddled with a system of taxation and division of economic responsibilities that invited mindless competition rather than cooperation, the stealing of firms as opposed to their promotion. French unions were compelled to bargain over the terms of flexibility at the firm level, where they were weakest and where they confronted an emerging rival in the form of the works council. The banking establishment was squeezed by competitive pressures as both borrower of capital and lender, leaving little slack for the kinds of para-public partnerships advocated by public authorities. Finally, the creation of EUREKA and ESPRIT, while enhancing European industrial policy capacity, was not coordinated with the reform of other European policy instruments -- notably, anti-trust, trade, and standard-setting policies -- needed to give such initiatives real teeth.

Political choices have also shaped the trajectory of post-dirigiste policy experiments, notably at two key moments. The first was the moment of institutional reform. The Socialists came to power in 1981 believing that the dirigiste state held the solution to France’s industrial problems. Consequently, they were little concerned with the economic potentialities of various alternative institutions. While there was institutional reform aplenty in the early Socialist years, this reform was designed to extend liberty, democracy, and participation, not extra-state economic coordination. By the time that
dirigisme entered into crisis and pieces of the Tocquevillean liberal project began to emerge, the institutional die had been cast, and cast in a distinctly political hue.

The second key political moment was the point of state reintervention. If historical and institutional factors undermined efforts to relay the state, political choices have brought the state back in. By and large, the government’s response to the dysfunctions or limitations of institutional reforms has been less to push the reform process a step further, in order to empower institutions to manage their responsibilities more effectively, than to reintervene to try to bring about the desired outcome through state action. This choice reflects more than 200 years of French ambivalence toward local and intermediary institutions or the enduring dirigiste proclivities of leaders like Edith Cresson. Renewed state action holds three basic political advantages over efforts to reform non-state institutions.

The first is predictability. State intervention offers a direct response to a problem, whereas the consequences of institutional reform are uncertain, indirect, and visible only over time. The past decade is littered with institutional reforms that have evolved in totally unanticipated ways. The Auroux laws, for example, were expected to strengthen France’s unions, but ultimately hastened their decline. Faced with a pressing social or economic problem, then, state officials have every reason to be skeptical of the palliating effects of institutional reform. Renewed state intervention, by contrast, goes directly to the problem. Whereas strengthening the powers of municipal officials may or may not foster job creation, no such uncertainty surrounds the delocalization of state agencies. In a similar vein, whereas further bank reform may or may not lead to improved borrowing conditions for French SMEs, creating a privileged state lending pool, like CODEVI or ANVAR, offers a fail-safe source of cheap credit.

Direct state intervention tends to be more acceptable politically as well as more predictable. Many non-state actors have a strong stake in resisting institutional reform. Wealthy municipalities balked at the intercommunal coordination and resource-sharing
attendant to the early versions of the Law on the Territorial Administration of the Republic (ATR Law); employers have no desire for more powerful unions, capable of standing in the way of deregulatory flexibility; banks do not wish to be saddled with a risky or costly tutelary role for industry; France’s EC partners are lukewarm, at best, toward European industrial policy. From a political perspective, the path of least resistance is to place state band-aids upon the most urgent problems, rather than to tackle them at their institutional roots--to pension off aging workers, for example, instead of trying to reconstruct French industrial relations in a way that might promote “internal” flexibility. In some instances, such as the ATR law and European industrial policy, the French government attempted to reform institutions, but was checked by the concerned parties. In other instances, the government simply chose not to fight the battle.

This points to a third factor militating for direct state intervention, which can be seen as a variant of the so-called “deregulation-reregulation paradox.”\(^{86}\) It is widely acknowledged that deregulatory movements create pressures for some kind of reregulation--to rewrite and enforce the new rules of the game and to correct some of the unanticipated dysfunctions stemming from the initial deregulation. In other words, in order to enshrine the reign of the market, state authorities must be prepared to intervene extensively.\(^ {87}\)

An analogous paradox has shaped recent French economic policy experiments. Just as it is not enough to take the state out in order to create a free market, it is not enough to disempower the state in the economic policymaking arena to empower alternative actors. The dilemma is that in order to provide local and societal institutions with the means to truly manage their economic affairs, state officials would have to behave in a dirigiste manner, recasting the institutional context and making periodic adjustments in light of emerging difficulties. Yet the very spirit of post-dirigiste reform, the deep hostility to state

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\(^{87}\) The classic formulation of this argument is Karl Polanyi, The Great Transformation, (Boston: Beacon Press, 1944).
leadership, precludes this kind of aggressive intervention. Even the relatively timid provisions of the ATR law, for example, raised fierce objections from those who saw the bill as a harbinger of resurgent dirigisme. Ironically, then, state officials may appear less dirigiste for intervening directly in economic matters that are the nominal responsibility of other actors -- providing services to SMEs, creating priority lending channels for industry, etc. -- than for making a sincere effort to create a context in which the actors themselves would become more responsible. Taken together, three sets of political advantages -- predictability, acceptability, and avoiding the appearance of dirigisme -- combine to bring the state back in, completing the statist two-step.

The statist two-step harbors elements of both continuity and change, success and failure. French civil society displays considerable continuity with the earlier dirigiste era. Despite a variety of reforms during the past decade, non-state organizations and institutions have developed little capacity to structure the productive environment of industry in the ways officials had hoped. The effort to move toward a more institutionally-coordinated political economy has been frustrated across a range of areas, from local development, to industrial relations, to bank-industry ties, to the European Community.

At the same time, the French state has changed significantly. A decade ago, France’s political economy was mired in a web of dirigiste practices. Today, this dirigiste apparatus has been largely dismantled. Considering that such liberalization had eluded the Giscard administration and that it was implemented during a period of deep recession, with little economic growth to cushion the dislocation, this was no mean feat. The French state’s first step was a giant one indeed.

The French state’s smaller second step is not without virtues, either. Granted, this step attests to the failure of the various institution-building projects: if local authorities, union and employer associations, banks, or EC institutions were able to shoulder their new responsibilities, then the place of the French state might have remained more circumscribed. Renewed state intervention is the price paid for the incapacity of local,
organizational, and European institutions. What is more, this intervention carries real
risks. If French employers can fire workers without protest, thanks to comfortable state-
sponsored early retirement schemes, then why should they worry about "internal"
flexibility or modernisation négociée? The danger is that the return of the state will
reinforce societal incapacity by diminishing accountability and alleviating pressures to find
long-term, structural solutions to institutional problems.

While renewed state intervention is the step-child of failed institution-building and
could conceivably reinforce this blockage, at the same time, it attests to the innovative
capacities of state authorities. The French state has not gone full circle: the step back in is
a smaller step. Post-dirigiste state intervention is also more respectful of productive
considerations. The DRIRE, ANVAR, and ADEPA programs support the expansion of
dynamic SMEs; so, too do the various "SME plans" put forward by successive
governments during the past decade. Even when the state has been drawn into social
missions, the character of intervention is more market-conforming. For all the problems
associated with early retirements, they are designed to accompany industrial restructuring,
not to prevent it -- a sharp contrast to the CIASI-sponsored bail-outs of a decade ago.
Likewise, if the political symbolism of a Bull or Thomson makes some kind of government
aid inescapable, the "Renault model" offers a formula for assuring that that aid will be
utilized, not simply to save jobs until the next election, but to place the recipient upon a
sounder competitive footing.

A light-sleeping Rip Van Winkle, awakening from a mere ten-year catnap, would
not recognize the French state, its diminished place in the nation’s political economy, but
also its more market-rational forms of intervention. By contrast, the very limited role of
actors outside the state -- local authorities, social partners, banks, and the EC -- would
appear quite familiar. For all the official emphasis on new agents of economic intervention,
the most salient forms of coordination appear to be emanating from a very child institution.
CONCLUSION - WHEN STRENGTH BECOMES WEAKNESS: TOCQUEVILLE'S REVENGE

Traditionally, the French state has been depicted as "strong," thanks to a combination of autonomy and capacity to direct a "weak" civil society. Yet over the past two decades, this image of strength has been challenged by a series of puzzling developments: the French state stumbled repeatedly in efforts to cultivate priority industries, from machine-tools, to computers, to steel; a Socialist government committed to taking dirigisme to new heights launched an unprecedented wave of liberalization; a state with all manner of policy instruments at its disposal proved incapable of shifting even a small portion of this power to other institutions and actors.

The limits of French state action have not escaped the attention of observers. Still, these revisionist interpretations tend to operate within the strong-state/weak-society paradigm. They argue that the French state lacks key elements of strength -- autonomy from societal actors, capacity to make them hue to state will -- not that these elements fail to confer strength. Thus, it is suggested that the state is less strong than commonly believed because officials engage in relations of mutual complicity and accommodation with the agents whom they purportedly direct (i.e. their autonomy is compromised) or because firms receive government subsidies without respecting the accompanying obligations (i.e. capacity is suspect).¹

This dissertation has challenged the image of the strong French state at a more fundamental level. It has not disputed the facts of the "strong state" literature as much as their interpretation. It has argued that the very elements that made for state strength in the postwar period -- the ability of a cohesive elite to selectively manipulate all manner of

¹ The former claim is a central theme of the literature of Michel Crozier's Centre de Sociologie des Organisations (C.SO). See, for example, Pierre Gémion, Pouvoir périphérique, op. cit.. The latter is argued most forcefully by Elie Cohen. Cohen and Bauer, op. cit.; Cohen, Etat branlardier, op. cit.. See also Harvey B., "France's oil policy: the limits of mercantilism," in Cohen and Gourevitch, op. cit., pp. 114-31.
powers, unchecked by resistance from societal or local actors -- ultimately proved to be a source of weakness. In so doing, the dissertation has sought to recast our understanding of the French state and of state capacity more generally.

While the specific interpretation of this dissertation is novel, it is rooted in an age-old reading of French society, that of Alexis de Tocqueville. Tocqueville’s central insight, based upon his observations of the young United States and his own country, was that in an increasingly egalitarian mass society, liberty and prosperity could be preserved only insofar as individuals developed a talent for association. Voluntary associationalism and pragmatic bargaining stood as the principal ramparts against the twin dangers of the leviathan, on the one hand, and anarchic anomie, on the other.

France’s postwar development strategy was predicated upon a fundamentally different set of assumptions. Rather than ramparts of liberty and prosperity, interest groups were seen as the agents of illegitimate, corporatiste parasitism. The role of the central state was precisely to quash or at least transcend these self-serving bearers of partial wills, so as to more effectively pursue the general will. The phrase “Tocqueville’s Revenge” refers to the price French officials would pay for their anti-Tocquevillian, state-centered development strategy.

This dissertation has presented a thrice-told tale of Tocqueville’s Revenge, of the nefarious consequences of institutional underdevelopment outside the central state. Chapter Two told the tale with respect to the decline of dirigisme. In the 1970s and 80s, the weakness of societal and local actors proved to be, not an asset for state officials, but a hindrance. The same autonomy that allowed officials to pursue far-sighted developmentalist strategies allowed them to ignore warning signs that the postwar dirigiste strategy, emphasizing the virtues of mass production and economies of scale, was diminishing in effectiveness. Even when officials sought to shift the course of economic policy, the dirigiste system contained considerable internal inertia: longstanding clients of dirigiste policymaking (national champions) successfully resisted efforts to redirect
resources toward new priority areas (SMEs). Aggravating matters, given the tremendous concentration of power and resources in Paris, state authorities found it difficult to resist the growing demands for relief from the various perceived "losers" of economic modernization: farmers, shopkeepers, small businesses, and workers.

When added to the post-May 1968 concern for the stability of the Fifth Republic and a tight electoral context, the institutional logic of France's policymaking system caused *dirigisme* to lose its developmentalist focus. Increasingly, lame ducks swallowed the resources destined for emerging, dynamic sectors. What is more, these resources were utilized, not to promote or accompany adjustment, but to block it. By the mid-1980s, the system had reached a crisis point, and a Socialist government elected on a pledge to revive *dirigisme* began to dismantle it.

If institutional underdevelopment contributed to the demise of the *dirigiste* system, its consequences did not end there. In the wake of the collapse of *dirigisme*, French authorities turned to previously neglected actors and institutions outside the central state to assume key economic coordinating functions. This strategy -- dubbed "Tocquevillean liberalism" in the dissertation, owing to its mixture of liberal opposition to state intervention and Tocquevillean faith in the salutary effects of societal and local action -- emerged as a reconfiguration of traditional French anti-statist currents, notably Catholic associationalism and the Second Left, blended with and validated by reference to the German model.

The dissertation focused upon the most promising strand of Tocquevillean liberalism, efforts to deploy newly-empowered local authorities as the agents of assistance to provincial SMEs. The failure of this "local Tocquevillean" project, related in Chapters Three to Six, constituted the second tale of Tocqueville's Revenge. Two industrial agglomerations, with substantial concentrations of SMEs and a reputation for successful local intervention, were studied: Besançon, a Left-leaning municipality and locus of French watchmaking and microtechnologies, and Saint-Etienne, a center-Right municipality, populated by suppliers to the steel, mechanical engineering, auto, armaments,
and cycle industries. On the basis of archival work and some 250 interviews with local political and industrial in Besançon and Sai:. Etienne, three basic obstacles to the local Tocquevillean project were identified.

The first obstacle, described in Chapter Three, was historical. During the *trente glorieuses*, the economic well-being of provincial industry had been a matter for Parisian technocrats, not local officials. Local elites had more pressing priorities than the promotion of industry, and state officials discouraged any such intervention, particularly aid to private-sector firms. This meeting of Colbert and Malthus peaked, but was by no means confined to the ill-fated Lip and Manufrance affairs. Given that state authorities had essentially monopolized economic policymaking throughout the postwar period, provincial officials entered the 1980s with neither the experience, the know-how, the contacts with local business, nor the resources to provide effective assistance to provincial SMEs.

The second obstacle to the local Tocquevillean project, presented in Chapter Four, was institutional. Although a well-conceived reform might have attenuated the legacy of *dirigisme*, enhancing the capacity of provincial authorities to provide an enabling environment to SMEs, the Defferre reforms were not motivated by such an objective. Undertaken at a time when the Socialist government was wholly wedded to *dirigiste* economic measures, decentralization was conceived of in essentially political terms. The government sought to appease the Second Left, to democratize French society, and to expand spheres of liberty and participation. Economic considerations were largely an afterthought. As a result, the Defferre laws left in place or aggravated several features of the local institutional landscape that may have seemed harmless in the context of a political reform, but that had grave implications for an economic reform: the absence of a clear division of labor between regional, departmental, and municipal authorities; a fragmentation of municipal constituencies (with more municipalities in France than in all the nations of Western Europe combined); and a divisive system of local taxation. Taken together, these features of the post-Defferre local landscape have fueled wasteful duplication and self-
defeating competition. Instead of pooling their limited resources for the common good, local authorities are drawn toward empty symbolic gestures and mutual firm-snatching via industrial real estate operations.

The third obstacle to the local Tocquevillian project, examined in Chapter Five, was organizational. The weakness of non-state institutions extends beyond the formal political realm, to the representatives of business and labor. As a result, provincial branches of employer and labor organizations remain outside the local economic policymaking nexus. By and large, their preferences have been neither solicited nor respected by political elites. This cleavage between formal political institutions and organized interests has distorted both the content and execution of policy. Local development initiatives privilege the courting of external investors, whereas producer organizations are more interested in policies to promote the development of existing enterprise (training, technology transfer, etc.). What is more, on those rare occasions when actions have been launched with an eye to assisting local industry, because they have been formulated and implemented without the collaboration of business associations, they have tended to miss the mark, failing to correctly identify the needs of local SMEs or to enlist their participation. The case of the Franche-Comté microtechnologies project was exemplary in this respect.

As related in Chapter Six, the limitations of local measures have led to renewed state intervention in a variety of capacities: as a coordinator of warring local actors; as a firefighter, tackling problems that transcend limited local resources; as a substitute, acting in areas where local officials are absent or ineffective. This renewed state intervention is driven by motives both noble and not-so-noble, by a combination of neo-dirigiste aspirations, transparent efforts to manipulate local resources, and a genuine concern for the dysfunctions of local economic action. While Paris has returned to the provinces, it is not the same Paris as in the dirigiste era. State intervention today tends to operate in partnership with local authorities, rather than through unilateral fiat; to be administered flexibly by “decentralized” state agencies, not imposed uniformly by Paris; and to strive
to accelerate the development of SMEs, as opposed to stemming the decline of large lame ducks.

Chapter Seven looked beyond the local experiment, to the plight of Tocquevillian liberalism more broadly. It told the third tale of Tocqueville's Revenge, of the frustrations borne of institutional underdevelopment outside the central state. This chapter demonstrated that the same basic problem observed in the local experiment has plagued all manner of French efforts to find relays to the dirigiste state, from industrial relations, to financial deregulation, to European industrial policy. In each instance, the legacy of dirigiste policymaking left non-state institutions poorly prepared for their weighty new responsibilities. In each instance, historical legacies were corrected little, if at all, by the half-hearted reforms of the 1980s. As a result, in each instance, the institutions in question stumbled in their new missions. In response, state officials opted to intervene directly, to palliate the most pressing dysfunctions arising from the limits of reform, rather than to undertake another round of reform in the hope of attacking the problem at its institutional roots. Once again, though, post-dirigiste state intervention differs in fundamental ways from the pre-1963 period: it is less directive, more market-oriented, more consensual and much reduced in its resources. The "statist two-step" -- blocked institutional reform, leading to renewed, albeit modified state intervention -- has constituted the defining feature of post-dirigiste institutional experimentation in France.

In seeking to explain why the task of institution-building has proven so difficult in the French context, this dissertation has sought to navigate between the analytical scylla of voluntarism and the chariody of predestination. History imposed a heavy handicap upon would-be institutional reformers. As recently as the early-1980s, local officials were enjoined from intervening in the affairs of private industry; industrial relations were micro-managed by the Ministry of Labor; the financing of risky investments was a matter for the Treasury Circuit, rather than commercial bankers; and Europe was the target, not the agent, of French industrial policy. In short, no one would have expected institutions outside the
central state to be capable of handling anything but the lightest of responsibilities. To transform these marginal players into the spearheads of post-dirigiste intervention represented a truly daunting challenge.

Nonetheless, French officials have not been simply the prisoners of their past. There have been moments of contingency, "critical conjunctures," when the institutional rules of the game were open to substantial revision. The initial Socialist years in power presented such an occasion. Conceivably, the Mauroy government could have given a substantial push to non-state institutions. This critical conjuncture coincided with the peak moment of dirigiste policymaking, however. Consequently, post-dirigiste economic intervention was the furthest object from the reformers' minds.

Arguably, government responses to emerging dysfunctions from these reforms constituted a second critical conjuncture. Given the road that non-state institutions would need to travel, it is reasonable to expect that state officials would have to intervene periodically, correcting dysfunctions and adapting the capacities of these institutions as they took on greater responsibilities. Ironically, such intervention to empower non-state institutions was precluded by the post-1983 taboo against "dirigiste" action of any kind. Only a strong state could have erected a strong civil society, and by the mid-1980s, the French state was no longer strong.

Thus, if the task of institution-building has proven far more challenging than reformers anticipated, the issue cannot be reduced to one of simple predestination. History imposed constraints, but on various occasions, opportunities arose to loosen these historical ties that bound non-state institutions. The limitations of institutional reform in France are rooted, then, not only in the insights of Tocqueville, but in the politics of reformist roads not taken.
Tocqueville’s Revenge: Implications for French Industry

The economic policy reforms of the past decade have taken unexpected and frequently disappointing turns. Decentralization has yielded meager economic results; industrial relations have gravitated toward deregulatory flexibility, rather than the strategic cultivation of human resources; banks and their industrial clients remain casual acquaintances, as opposed to partners; and hopes for salvation from above are giving way to resentment against a neo-liberal Europe of “consumers.” Alongside these frustrated efforts to promote new forms of intervention, state authorities have found themselves drawn back into the economic policy arena in a variety of capacities: to coordinate or redirect the efforts of emerging institutional actors; to put out social brushfires; to resist the most politically unpalatable industrial outcomes; and to intervene where others are unable or unwilling to tread. Recent state intervention differs from traditional dirigiste methods -- in terms of resources, objectives, and modes of execution -- and most likely for the better.

New models are rarely the product of grand institutional design. The creation of the Toyota kanban/just-in-time system, for example, is a story of continuous improvisation that transformed weaknesses (a shortage of capital, a shortage of space, a limited domestic market) into strengths (the ability to operate with little or no inventory, to shift rapidly between products, to cooperate with suppliers, etc.). Closer to home, the origins of France’s celebrated planning process evoke a similar story. Conceived of initially in Socialist, rather than productivist, terms, planning evolved in a wholly unanticipated direction due to a variety of contingent, local circumstances: the institutional legacy of Vichy corporatism; the breakdown of the Resistance-era coalition; the ability of the Planning Commissariat to forge an alliance with the Ministry of Finance.

If history serves as a guide, then, one must look beyond the frustrations of policymakers before venturing any conclusions about the implications of failed policy.

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experiments. Neither the Toyota kanban system nor French planning emerged as originally intended. Judged according to such a standard, they, too would represent "failure."

Clearly, the failure of a specific reform project does not preclude surrendipitous forms of adjustment, either political or economic. Of course, it does not guarantee them, either.

Whether France's post-dirigiste political economy, characterized by diminished and more market-rational state intervention, constitutes maladjustment or a model is a subject of intense public debate among French elites.\textsuperscript{4} The current economic situation lends itself to both optimistic and pessimistic readings. These readings are shaped, not only by the ambiguous nature of contemporary economic "facts," but by the analytical lenses through which these facts are observed. If we return to the frameworks presented in Chapter One, the regulation school, on the one hand, and the statist and liberal visions, on the other, suggest radically divergent understandings of France's present plight. The following section outlines these understandings, sharpening the contrast, so as to stake out the polar extremes of interpretation.

The regulation school tends toward a pessimistic vision of France's political economy.\textsuperscript{5} Emphasizing the need for institutional coordination of capitalist economies, this approach necessarily attributes grave economic consequences to the failure of an institution-building project. From the regulation perspective, French authorities sought to cultivate local and intermediary institutions for a reason: such institutions are uniquely qualified to perform certain kinds of tasks. Absent these institutions, certain desirable competitive strategies are foreclosed to French firms.

The regulation school's pessimism about France has as its obverse admiration for the social democratic/German model.\textsuperscript{6} Between market and state, a variety of powerful

\textsuperscript{4} For the latest quasi-official, self-conscious reflection on France's post-dirigiste political economy, see Taddéi and Coriat, \textit{op. cit.}.

\textsuperscript{5} See, for example, Danièle Leborgne and Alain Lipietz, "Flexibilité offensive, flexibilité défensive: Deux stratégies sociales dans la production des nouveaux espaces économiques," in Benko and Lipietz, \textit{op. cit.}, pp. 347-77; Boyer, "Vers l'Erosion du Particularisme Français?", \textit{op. cit.}.

\textsuperscript{6} On the German/social democratic model, see Albert, \textit{op. cit.;} Soskice, \textit{op. cit.}; Wolfgang Streeck, "On the Institutional Conditions of Diversified Quality Production," in Egon Matzner and Wolfgang Streeck (eds.), \textit{Beyond Keynesianism}, (Worcester: Edward Elgar, 1991), pp. 21-61; "The Uncertainties of
German institutions are seen as providing a combination of checks against deregulated, sweat-labor strategies and incentives for high-value-added, innovation-and-quality-based competitive strategies. On the constraint side, strong unions, restrictive work rules, and centralized wage bargaining preclude a low-wage, hire-and-fire approach ("external" labor flexibility). In addition, legally-mandated codetermination procedures limit the possibility for German managers to impose rigid, hierarchical workplace relations.

At the same time, Germany’s institutions provide all manner of resources for companies seeking to compete by cultivating the strengths of their workers, rather than exploiting their weaknesses. Chambers of Commerce, unions, and Länder authorities organize training programs and apprenticeships to endow workers with the skills needed for "internal" flexibility. Business and union associations, in cooperation with local technology institutes (notably the celebrated Fraunhöffer), and with the support of government authorities, monitor the latest technological developments, conduct joint research and specialized consulting, transfer technology to SMEs, and administer public programs to help modernize the Mittelstand. The "Big Three" investment banks have supported the long-term development of heavy industry, taking equity stakes in industrial firms, coordinating cartels, providing investment capital in hard times, and sheltering firms from hostile takeovers. More recently, decentralized banks have begun to perform a crucial "intermediary" function on behalf of SMEs, steering them through the maze of public subsidies and services, conducting market surveys, and assisting in export efforts.7

Seen through Germanic lenses, France’s institutional context is not simply different, but inferior. As described throughout this dissertation, French intermediary actors -- banks, employer and labor organizations, and local authorities -- have fallen well

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7 On the changing character of bank-industry relations in Germany, see Deeg, op. cit.
short of the German ideal. Their institutional roots are shallow, and they have proven unable to provide essential public goods and coordinating services to industry.

The only institution with any leverage over France's political economy is the state, and from a regulationist perspective, the post-dirigiste state in no way constitutes a functional equivalent to German societal coordination. The French state has rolled back restrictions upon sweated labor strategies, on the one hand, while generating few of the supports for a high-value-added approach, on the other. It is notoriously incompetent at worker training; it has gotten out of the business of providing financial shelter for emerging industry; and it lacks the capacity to monitor technological developments and transfer them to SMEs. As a result, the retreat of the dirigiste state has left French industry vulnerable, isolated, and lacking either the positive or the negative incentives to opt for diversified quality production over sweated-labor strategies.

Those inclined toward a pessimistic assessment can certainly find support in recent French economic statistics. Economic growth in 1993 will be negative; investment has plummeted; corporate bankruptcies are running at more than twice the level of the crisis of the mid-1980s; unemployment has topped 11% and is rising fast. Even French macroeconomic policy, once a source of pride, has begun to falter. The public sector borrowing requirement has ballooned to over 400 billion francs, or 6% of GDP, and French authorities were recently compelled to decouple the franc from the Deutschemark.

To pessimistic observers, these macroeconomic alarm bells are merely the tip of the iceberg, the visible evidence that something is fundamentally amiss in France's political economy. The regulation approach, owing in part to its Marxist origins, emphasizes the dysfunctions of France's system of industrial relations. France has fallen into a low-wage, deregulatory trap. Instead of shifting into high-skill, high-value-added production, industry restored its competitiveness on the backs of its workers by rolling back employee gains registered in the post-1968 period. Between 1983 and 1992, the share of GDP going
to French workers dropped from 77.3% to 69.0%. French labor has also lost out on the employment front. Despite a plethora of sham training programs for youths and early retirement schemes for the aged and despite the fact that France is the only OECD country whose labor force participation rate has decreased since 1974, unemployment has risen almost without interruption.\(^9\)

While French employers have been able to defer badly-needed adjustment by squeezing labor, regulationists tend to see this as a kind of one-time windfall. In the long run, a wealthy country like France cannot hope to compete with the Koreas, Thailand, or Chinas of the world on the basis of low wages. The current culling of French industry suggests that the "long run" was not very long at all. In the absence of supportive labor market institutions, French industry has failed to shift into more secure, high-value-added niches, yet it is less and less able to compete in price-sensitive market segments.

A second microeconomic indicator that gives grounds for concern to regulation theorists is the performance of France's small- and medium-sized enterprises (SMEs). Whereas multidivisional corporations integrate the full complement of strategic management functions -- R&D, technology monitoring, corporate planning, worker training, quality control, etc. -- SMEs lack the means to perform these functions internally. They also tend to be more dependent upon external sources of financing. Consequently, they offer an excellent barometer of the capacity of France's post-dirigiste system to provide a supportive environment for industry.

If, in the 1970s and early-80s, state authorities discovered the virtues of French SMEs -- the ability to create jobs, to respond "flexibly" to shifts in international markets, to avoid the social conflict plaguing large Fordist plants -- in the late-1980s, they discovered their weaknesses. Many of the biggest setbacks suffered by French industry occurred in sectors organized around SMEs: machine-tools, watches, toys, apparel, etc.\(^10\)

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\(^8\) *Expansion*, 15 April/5 May 1993, pp. 108-09.
supplier chains, composed overwhelmingly of SMEs, also display tremendous vulnerability (whether in the automotive, electronics, or textile industries). Evidence gathered in the course of this dissertation reinforces the impression that French SMEs are handicapped relative to foreign counterparts in institutionally-coordinated contexts.

The microtechnologies industry, composed overwhelmingly of SMEs, is concentrated in both the Franche-Comté region (Besançon) and across the border in the Swiss Jura. This industry originated in both instances from watchmaking, and labor and capital flow freely between the regions. Alongside these historical and sectoral similarities, the two contexts display significant institutional differences. As described in Chapter Five, Franche-Comté authorities have proven largely incapable of providing usable services to microtechnology SMEs. In the Swiss Jura, by contrast, a dense web of local institutions conducts cutting-edge research, monitors and diffuses technology to regional firms, and trains workers for the sector.

If this institutional difference were ancillary to other competitive considerations, then we would expect Swiss and French firms operating in the same sector to display similar patterns of adjustment. What we find, however, is that the competitive strategies of microtechnologies companies on opposite sides of the border are as different as night and day. Whereas "microtechnologies" for Franche-Comté companies means the transformation of small pieces of metal (i.e. watchmaking operations transposed to a different product), Jura firms have integrated complementary chemical-machining,

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12 Chief among these institutions are: the Institut de Microtechnique at the University of Neuchâtel, the Centre suisse d’électronique et de microtechnique (CSEM), and the Fondation suisse pour la recherche en microtechnique (FSRM). Institut des Microtechniques de Franche-Comté and Centre Technique de l’Industrie Horlogère, *Recherches en Microtechniques: Réalités et Perspectives*, (Besançon: Collection du Livre Vert, 1992), pp. 399-404; Florian Nemeti, Marc Pfister, and Adrea Siviero, *Les microtechniques et les services associés: Quel espace de production et de coopération pour la Suisse?*, National Research Program No. 28, Neuchâtel, Switzerland, March 1992.
computer, and electronics technologies. Whereas the former companies are mostly low-end subcontractors, making simple metal parts, the latter gravitate toward high-value-added, complex subassemblies.

Labor strategies also show a sharp distinction. Swiss firms pay wages that are close to double the French level, yet are more profitable thanks to a wide gap in productivity. While high wages have drawn thousands of Franche-Comté workers into Jura industry, a survey of guest workers revealed that lucrative pay packages are by no means the only motive behind their mobility. Respondents also pointed to greater opportunities for training, promotion, and even job security. Given that, as guest workers, they presumably constituted the most expendable, least privileged, and least protected element of the Swiss labor force, this represents striking evidence of enduring cross-border differences in the use of labor.

From the perspective of the regulation approach, then, France’s post-dirigiste political economy is vulnerable in precisely those areas that require some degree of institutional coordination. In the social democratic/German model, both industrial relations and the plight of small-scale industry are enveloped in a supportive network of intermediary institutions. In France, by contrast, the failure of the Tocquevillean liberal project has left a damaging void between market and state. Thus, the tale of Tocqueville’s Revenge, of the consequences of the underdevelopment of collective life outside the central state, is not simply political and institutional, but economic.

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If the insights of the regulation school and the purported lessons of the German experience point toward a pessimistic analysis of France’s political economy, this is not the only possible reading. Both the liberal and statist interpretations place far less emphasis on the role of intermediary associations than the regulation approach: the former because it is skeptical of the positive contribution of any institution; the latter because it sees the state as the key institutional actor. From a liberal or statist standpoint, then, the failure of the Tocquevillean liberal project need not be a source of concern about the French economy. Rather, much depends upon the actions of the central state: its willingness to forego counterproductive intervention, according to liberal analysis; its ability to remedy emerging sources of market failure, in the statist view. The dramatic shift in state action during the past decade away from voluntarist initiatives toward more market-conforming forms of intervention, gives both liberal and statist theorists reason for optimism.

Recent upbeat depictions of France’s political economy tend to blend elements of the liberal and statist interpretations. Liberal analysis emphasizes the elimination of a variety of dysfunctional dirigiste practices. French firms have been freed of statist restrictions upon hiring and firing; they are able to maximize profits, unimpeded by price controls; and they can raise capital on the merits of their competitive position, as opposed to political connections. Wasteful state spending on ill-advised voluntarist industrial policy objectives has been scaled back, making room for steep cuts in corporate taxes (from 50% to 34%). All of this has taken place against a backdrop of prudent fiscal and monetary policies and low inflation. With the dirigiste dragon slain, the “right to manage” reestablished, and the obstacles to corporate profitability lifted, liberal analyses portray French industry as in a strong position to meet the challenges of the future.

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The statist interpretation echoes this sanguine assessment, but attributes a more positive role to government intervention. Some of this intervention can be accommodated within liberal theories of public goods: even The Economist marvels at French investment in infrastructure (roads, high-speed trains, digital telecommunication systems) and education. Other forms of state intervention go further, however.

The French state has not simply gotten out of the way; it is actively assisting the process of industrial adjustment. Massive, state-financed, early retirement programs have permitted employers to renew their labor force: eliminating aging, high-wage, unskilled workers and replacing them with a smaller cohort of younger, more skilled and motivated employees. Had French employers been compelled to fire workers outright, instead of pensioning them off, such rapid adjustment would have been politically and socially impossible. France's mode of labor market adaptation may not correspond to the German, social democratic ideal, but the net result is that French industry now employs a more skilled and motivated workforce than just a few years ago.

The French state has assisted industrial adjustment in other ways as well. Although the Socialist nationalizations did not unfold according to plan, with the public sector unable and unwilling to serve as the spearhead for voluntarist industrial policy, once the government learned the error of its ways, its intervention proved a boon to these companies. The combination of generous capital injections, a state-sponsored process of asset-swapping that transformed helter-skelter holding companies into specialized industrial operators, and the possibility for firms to slash the workforce without political protest laid the basis for dramatic recovery. Corporations like the Usinor steelmaker or the Renault auto manufacturer that were once technically bankrupt and completely uncompetitive are now among the most productive (and in the case of Renault profitable) in the world.

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17 For statist analysis of recent French developments, see the works of Vivien Schmidt.
19 Schmidt, "An End to French Exceptionalism?", op. cit..
The Right’s privatizations have likewise yielded unanticipated benefits. The creation of golden share arrangements (*noyaux durs*), designed initially to reward political allies of Jacques Chirac’s RPR, has since been discovered to offer a useful shield against corporate raiders. Governments of both Left and Right have stitched together a web of equity ties among France’s largest industrial and financial enterprises. As a result, French industrial managers, like their counterparts across the Rhine and in contrast to Anglo-Saxon managers, are able to plan the long-term development of their enterprise without the constant pressure to maximize quarterly returns.

The plight of France’s public sector enterprise suggests that the system’s traditional strength in collusive accommodation between big business and the state remains alive and well, but revised for the competitive conditions of an open, *post-airigiste* market economy. French authorities have provided the resources to support industrial restructuring, while backing away from the heavy-handed intervention of the past. At the same time, officials remain available to assist national champions in a pinch, provided that these firms are truly committed to the painful measures needed to restore profitability (the so-called “Renault model”). Finally and perhaps most important, the existence of an elite coterie at the helm of France’s political economy facilitates the diffusion of new management practices: just as France is often claimed to have been the best student of American-style Fordism in the postwar period, Japanese ideas about just-in-time and new supplier relations are being rapidly disseminated within elite circles.

Although big business remains at the center of state preoccupations, recent state actions have also benefited France’s long-neglected SMEs. Statist theorists would take issue with the regulationist suggestion that because the liberal Tocquevillean project failed, France’s SMEs are weak and isolated. As described in Chapter Six, ADEPA, ANVAR, and DRIRE provide valuable supports to SMEs seeking to accelerate the modernization of

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their equipment, products, and management structures. Once again, these state-sponsored programs may not offer an exact replica of German measures to assist the Mittelstand, but they perform roughly analogous functions.

Just like the pessimists, those who see France, not as an inferior version of the German model, but as a viable alternative, achieving similar ends by different means, find support in current economic statistics. France’s rate of inflation has held in the 2-3% range, below German levels, for close to five years -- a development that would have been unimaginable just one decade ago. Recently, French interests rates also dropped below German levels. Despite repeated interest rate cuts (totaling five points in 1993 alone), the French franc has resisted the pressures of international speculators more successfully than most other European currencies.

Even before the recent decline in interest rates, French industry already appeared to be reaping the benefits of “competitive deflation” and the dismantling of dirigisme. Prior to the recession, corporate profits attained levels not seen since the early-1970s, enabling French firms to reduce their debt loads, while rebuilding plant and equipment. France’s longstanding trade deficit has disappeared, and there are indications that industrial output has become more specialized and less price dependent. The share of exports to OECD nations rose from 69.7% in 1983 to 80.2% in 1990. What is more, France’s balance of trade with Italy, Britain, Spain, and Portugal has been unaffected by the de facto devaluation of these nations’ currencies in September 1992 (suggesting relatively price inelastic demand for French exports).

The strongest reason for optimism about France’s political economy may be a negative one: the difficulties experienced by other European economies. Social democracy in Sweden has given way to policy priorities that look remarkably like those of post-dirigiste France: competitive deflation, tax cuts, and various forms of deregulation. Italy’s conglomerates and industrial districts of flexible SMEs, long immune (or perhaps

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benefiting from) the political mess in Rome, now appear incredibly fragile, as the nani pulite chickens come home to roost.

Last but not least, even the vaunted German model is beginning to tremble. As bad as the economic situation may be in France, the figures on inflation, interest rates, budget deficits, and economic growth are all worse in Germany. Of course, many of Germany's difficulties stem from the extraordinary costs of reunification. Still, Germany is a high-cost producer -- the direct consequence of the premium wages, generous welfare state, and short working hours that make the German model so attractive. With German firms finding themselves increasingly priced out of international markets, industrialists are calling for reductions in domestic operating costs and delocalizing production to low-wage sites. France's inability to emulate the German model, then, may turn out to be a blessing in disguise.

Determining whether France's post-dirigiste industrial glass is half-empty or half-full lies well beyond the scope of this dissertation. In these turbulent times, when yesterday's model is today's crisis, venturing such conclusions is hazardous, at best. What one might suggest, however, is that France's political economy is configured to perform certain tasks better than others. French industry has become much more closely attuned to international market signals and able to redeploy external resources rapidly. It also retains strength in sectors involving close collusion between big business and the state. Conversely, the French system is less able to provide collective goods -- worker training, technology, managerial assistance to SMEs -- on a decentralized, variegated basis.

In a sense, then, any judgment about the plight of France's political economy is a statement as to what matters for industrial competitiveness in the late-twentieth century. If one believes, following the regulation school, that high-wage economies are viable only insofar as firms are embedded in a web of supportive institutions and workers are both highly-trained and highly-motivated, then French industry, for all its recent advances, appears vulnerable. Conversely, if one believes, following the liberal interpretation, that
the key to competitiveness is for firms to respond rapidly to international market signals and that, following the statist interpretation, whatever collective goods may be needed can be provided by the central state, then French industry stands in good stead. At this point, any firm judgment is as much an affirmation of faith as of fact.

**Tocqueville’s Revenge: Implications for Comparative Politics**

This dissertation has sought to cast light upon the broad evolution of France’s political economy during the past two decades: the crisis of *dirigisme*, the emergence of Tocquevillean liberalism, the limitations of this strategy, the forces behind and nature of post-*dirigiste* state intervention, and the implications of all of the above for French industry. The lessons of this evolution are not necessarily confined to France, however. Four conclusions, in particular, suggest research hypotheses for the field of comparative politics and political economy.

The first conclusion is that taking the state out of a nation’s political economy is not synonymous with bringing other institutional actors in. The French case demonstrated time and again the difficulties of reviving institutions that had been relegated to the sidelines under the postwar *dirigiste* system: local authorities, unions, employer organizations, and banks. These institutions did not simply “bounce back” when the heavy hand of state intervention was lifted. Rather, owing to a combination of historical legacies and the timidities and contradictions of recent reforms, they remained incapable of shouldering significant policy responsibilities.

Disempowering the state and empowering civil society are two distinct processes. What is more, there is reason to believe that these processes may, in some sense, be at odds with each other. Just as substituting market regulation for state regulation may entail considerable state intervention to establish, enforce, and refine the market structure (the deregulation-reregulation paradox), transferring policymaking authority from the state to alternative institutions is likely to require massive state intervention. The political and
institutional rules of the game must be substantially rewritten in order for non-state institutions to be able to handle their new responsibilities. Nor is this a one-step process. In many instances, the initial reform generates dysfunctions and limitations necessitating subsequent corrective state action.

This kind of remedial state action on behalf of underdeveloped institutions is all the more imperative in polities like France (or Eastern Europe) that have tended to concentrate power in a central authority. In such polities, societal and local actors have generally enjoyed few opportunities for development. Ironically, however, these are precisely the places where state intervention tends to be resisted most fiercely. With memories of the dark days of state domination still fresh, the argument that only through aggressive state intervention can civil society truly be set free is likely to fall upon deaf ears.

The second conclusion of this dissertation is that the notion of state capacity needs to be extended to incorporate the potential contributions of local and societal institutions. The concept of "strong" states and "weak" states has gained general acceptance as an analytical tool for understanding the ability of government officials to implement certain policies. While this approach is helpful in differentiating between political systems, it is also incomplete. It does not explain why French officials, for all the many policy instruments at their disposal, have proven unable to replicate patterns of economic intervention that have prevailed for years in Germany, a political system with no particular reputation for strategic capacity.

Analysis confined to the structures and resources of the central state presents a partial and misleading image of the capacity of state officials to achieve their objectives. To the notion of state capacity must be added an analogous notion, that of societal capacity, or the potential inherent in societal and local institutions outside the central state for carrying out certain tasks. Although Germany's federal government may be weak, the country is rich in societal capacity. Powerful local and societal institutions -- banks, employer and

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labor organizations, Länder -- present opportunities for regulating the economy that lay beyond the reach of France's vaunted dirigiste state. In short, the ability of government officials to attain certain objectives depends as much upon what is outside the state as what is inside the state.

Adjoining the concept of societal capacity to that of state capacity leads to a more nuanced view of the relationship between state and civil society. Instead of a zero-sum game, in which state strength can be achieved only at the expense of societal weakness, it becomes possible to imagine a positive-sum dynamic. This dissertation described a number of policy areas -- aid to SMEs, worker training, financing of industry -- in which French officials felt that remedies lay outside the purview of the dirigiste state. In order to achieve their objectives, officials sought, not to boost the powers of an already strong state, but to enhance the capacity of societal and local institutions. On some occasions at least, state capacity and societal capacity, far from being mutually antagonistic, are complementary.

The third conclusion of this dissertation is that beyond market and state, societal and local institutions constitute a critical distinguishing feature between varieties of capitalism. The simple dichotomy between state-led and market-led systems fails to capture the full range of capitalist experience. It has not been enough for France to roll back an invasive state and adopt prudent macroeconomic policies to create a political economy like that of Germany. French capitalism continues to be different from German capitalism because France continues to lack German-style organizations to train skilled workers, boost the technology level of SMEs, finance long-term investment, negotiate the terms of technological modernization and "flexibilization" of the workforce, etc.

The notion of societal capacity allows us to enrich our understanding of alternative forms of capitalism. Lacking societal capacity, France did not converge on the German model when officials dismantled the dirigiste state. France remained distinct because its
intermediary institutions continued to play a far less prominent role in regulating the economy. While it can be debated whether France is worse or better off than Germany as a result, there is no disputing that France is different.

This lesson is relevant not only to French authorities, as they search for post-
[dirigiste] models of economic regulation, but also to leaders in the emerging capitalist economies of Eastern Europe. Rolling back a dysfunctional Communist state will not make Poland's economy converge on that of Germany any more than the end of dirigisme did for France. Indeed, it can be safely presumed that Poland has a far greater road to travel than France. How Poland, or any other East European political economy for that matter, will respond to the challenges of exiting from Communism will depend, to no small degree, upon societal capacity, upon the extent to which local and societal institutions prove able to perform valuable coordinating functions.

The fourth and final conclusion of this dissertation is, in a sense, an extrapolation from the first three. It may be that the evolution of different political economies in recent years has been shaped by a certain path dependence. During the past decade, all of the postwar institutional settlements have been called into question. There has been abundant policy experimentation and considerable deregulation. One might wonder, in light of these developments, whether the advanced industrial economies have reached a critical conjuncture, a moment of utter institutional openness, or whether, even in these uncertain times, particular paths are more available to particular countries than others.

The French state has proven itself adept at two forms of institutional innovation. The first, not surprisingly, is the creation of new forms of state intervention. The second, which virtually no one anticipated as recently as 1981, is deregulation. The rapidity with which product, capital, and labor markets were liberalized in France is nothing short of astounding. Still, technically if not politically, this was not such a difficult task. State officials did not need to enlist the support of other actors, since the key instruments of
deregulation were already in state hands. Mostly, it was simply a matter of repealing state restrictions: price controls, capital export controls, lending quotas, the administrative authorization for lay-offs, etc.

By contrast, as this dissertation has described, cultivating intermediary and local institutions has proven maddeningly elusive to French authorities. Thus, not all forms of institutional adjustment are available to the French system. Simplifying outrageously, it might be claimed that France's political economy is a machine with two levers. Pull on the one, and you get more market; pull on the other, and you get more state. Yet what French authorities truly desire is a third lever, one that would give them more local and societal coordination.

German policymakers, the clear object of French envy, are not without frustrations of their own. While Germany excels at the concertational, institutionally-rich adjustment processes that France seems unable to replicate, it is largely unable to pull the levers of market or state. The Social Democrats' efforts to emulate French planning and industrial policy in the late-1960s went nowhere. State authorities did not possess the means of their ambitions.

Even more striking are developments (or non-developments) of the past decade. The same powerful unions, employer associations, and banks that coordinate Germany's political economy have blocked most proposals to shift responsibilities from institutions to markets. Despite a global wave of liberalization, despite longstanding denunciations of the institutional "rigidities" of the German economy, and despite the continuous rule since 1982 of a government sympathetic to deregulatory ideas, recent efforts at liberalization have produced limited change, at most. Indeed, during the 1980s, a far more pronounced move to the market took place under a Socialist government in France than under a Conservative Christian Democratic government in Germany.

In a sense, France has leap-frogged over Germany to become more like the third model of political economy, the market-oriented systems of Britain and the US. Like
Germany, the Anglo-Saxon nations had but one lever to pull. As Shonfield demonstrated, the statist tack was both culturally and institutionally alien to these polities. The possibility of coordination by intermediary institutions is more tantalizing. America, after all, was the land that Tocqueville admired, and Britain’s postwar settlement was rooted in “collectivist” politics. Perhaps, coordination by intermediary institutions was simply a road not taken, the result of strategic choice more than institutional constraint. Alternatively, Britain and the US may have lacked a critical mass of these institutions, or they may not have been organized in a sufficiently coherent manner. For whatever reason, the lever that these countries would pull was marketization.

On the basis of the experiences of these three models of political economy (statist, institutionally-coordinated, and market-driven), it is possible to detect elements of both contingency and path dependence. In none of the cases were all three levers available, but in some cases, there was more than one choice. To summarize:

1. A statist system (France, Japan) can adjust the modes of state intervention (Japan and, to a certain degree, France via the statist two-step) or deregulate (the broad trend in France), but cannot empower other actors to intervene in the state’s place.

2. An institutionally-coordinated system (Germany) can renegotiate the elaborate rules and restrictions regulating relations among institutional actors, but finds it difficult to shift responsibilities to the state or to the market.

3. A market-driven system (US, Britain) can accentuate the role of the market or possibly cobble together some weak forms of institutional coordination, but cannot make use of the state.

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24 Shonfield, op. cit.
The issue of path dependence, like so many others, brings us back to Tocqueville. More than 150 years ago, Tocqueville warned that the state and civil society in France had entered into a dangerous dynamic, in which the overbearing presence of the former reinforced the atomization and apathy of the latter, providing further justification for state activism. Even the great Revolution of 1789 had proven unable to shift France from this statist path.

At first glance, the far less spectacular and certainly less bloody revolution of 1983 would appear to have succeeded where its predecessor failed: the dirigiste state has been slain once and for all. Yet this was only half the battle, in Tocqueville’s mind. In order to preserve both liberty and prosperity, he maintained, France needed to unlock the secret of association: “In democratic countries knowledge of how to combine is the mother of all other forms of knowledge; on its progress depends that of all the others.”26 Ten years after the demise of dirigisme, this secret continues to elude French authorities and to constrain their options. In the frustrations of government officials, in their inability to shift the nation’s political economy to a more institutionally-rich path of development, we see the timelessness of Tocqueville’s warning -- and the bitter harvest of his revenge.

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26 Tocqueville, Democracy, op. cit., p. 517.


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