1 Three Legacies of *Dirigisme*

The Contested Politics of Economic Liberalization in France

Neoliberalism is the defining economic doctrine of our time. Consigned to the margins of academia and policymaking during the postwar boom period, when Keynesian economics, planning, and the mixed economy held sway (Shonfield 1965), neoliberal ideas were carried into the mainstream by academics like Milton Friedman and economists at the University of Chicago (Burgin 2012; Caldwell 2011; Horn and Mirowski 2009; Overtveldt 2009) as well as by public choice theorists, who recast regulation as capture and public servants as rent seekers (Buchanan et al. 1980; Stigler 1971). In the 1980s, neoliberal ideas entered the policymaking sphere in the UK and the USA under Margaret Thatcher and Ronald Reagan respectively (Campbell and Pedersen 2001; Hall 1992; Hay 2001; King and Wood 1999). These ideas then spread in the wake of the apparent economic success of the Reagan–Thatcher reforms and the difficulties encountered by the various mixed, planned, and coordinated economies of Western Europe and East Asia.

The European Union (EU) provided a further boost to neoliberalism among the advanced European economies. Starting in the 1980s, the European Commission became increasingly aggressive in enforcing antitrust policy, challenging mergers, and clamping down on government aid to businesses, even those owned by the state (Buch-Hansen and Wigger 2010; Jabko 2005). The Commission also spearheaded the expansion of competition in previously sheltered utilities and public services, including railroads, air transportation, gas, electricity, telecommunications, and postal services. Having liberalized public services, the Commission shifted its attention in the 2000s to promoting competition in private services, most notably through the infamous Bolkestein Directive of 2005 that raised the specter of low-wage workers from Eastern Europe displacing the high-wage workers of Western Europe (Crespy 2015; McLauchlin 2005).[1] Other advances in European integration, such as the Single Market Act of 1986, which worked to remove all nontariff barriers to trade by 1992, and the European Monetary Union (EMU), which strives to limit government budget deficits, likewise pushed in a neoliberal direction (De la Porte and Heins 2016; Scharpf 2013; Streeck 1995).

The end of the Cold War bolstered the cause of neoliberalism by discrediting the Communist alternative to neoliberal capitalism and reducing the need to offer protections and benefits to the working class in order to woo it away from communism (Fukuyama 1992; Keating and McCrone 2015). In addition, under the prodding of the USA, international institutions like the International Monetary Fund (IMF), World Bank, and General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) increasingly aligned themselves with the neoliberal "Washington consensus" (Stiglitz 2007, 2010; Williamson 1990). Even crises of neoliberal capitalism, most notably the financial meltdown of 2008 and subsequent Great Recession, did little to diminish the influence of neoliberalism (Crouch 2011; Schmidt and Thatcher 2013).

Countries have varied greatly in their enthusiasm for neoliberalism, however. Among the affluent democracies, the USA and the UK were early and far-ranging adopters of neoliberalism. At the other end of the spectrum, France, the subject of this book, stands out for its contestation of economic liberalization.[2] To an extent unparalleled among the leading affluent democracies, economic liberalization is contested in France in a quadruple sense. First, liberalization is contested in the streets, provoking protests, demonstrations, and strikes on a regular basis. To take just one example, French governments have launched seven different pension reforms in the past three decades – in 1993, 1995, 2002, 2007, 2010, 2013, and 2019. Some pension reforms have succeeded, and some have failed, but all have triggered large-scale protests and, in several cases, strikes that shut down the country. The same holds true of just about every significant liberalizing reform in France, whether of social protection, labor markets, or corporate governance and restructuring.

Second, economic liberalization is contested within governing circles. French politicians, including those on the right, display a deep ambivalence toward economic liberalization, concerned that it might erode state power or social order. They also display an enduring attraction to statist and nationalist policies, especially in times of crisis. France stands out, then, for a two-level contestation of economic liberalization – by popular protestors, but also by political leaders from left to right.

Third, economic liberalization is contested in the sense of making relatively limited inroads in France. The French political landscape is littered with liberalizing initiatives, whether to cut public spending or ease labor market regulations, which were defeated by strikes and demonstrations. Such episodes are more than anecdotal. As discussed later in this chapter, France ranks as the least liberal of Europe's advanced political economies along a variety of indicators of fiscal policy, labor market flexibility, and competition in product markets.

Fourth, the contestation of economic liberalization has, on more than a few occasions, spilled over to a contestation of the government itself. French governments have seen their entire agenda or even their capacity to govern derailed by popular opposition to liberalizing initiatives. Alain Juppé's 1995 Social Security reform was the paradigmatic case, triggering the biggest protest and strike movement since May 1968. Not only was Juppé forced to abandon much of his plan, but when he sought to move on to other liberalizing reforms, protestors continued to block his initiatives. Effectively unable to govern, Juppé convinced President Jacques Chirac to call early legislative elections in the hope of winning a mandate for liberalizing reform. French voters had other ideas, however, ousting the right in favor of a Socialist-led coalition.

Much the same story of failed liberalizing initiatives and damaged political prospects could be told of Juppé's conservative predecessor, Edouard Balladur, the prime minister from 1993 to 1995, and Dominique de Villepin, who served from 2005 to 2007. As Chapters 2 and 3 describe, Prime Ministers Balladur and de Villepin both had presidential aspirations, but their political careers were derailed by protests against their liberalizing initiatives. In 1995, after two years of repeated retreats in the face of contestation, Balladur failed to make it beyond the first round of the presidential election. As for de Villepin, he was so politically damaged by an unsuccessful effort in 2006 to loosen job protections for youths that he abandoned the idea of running for president altogether.[3]

The current French president, Emmanuel Macron, has discovered, much to his chagrin, that the contestation of liberalizing reforms, and the governments that propose them, is not just a thing of the past. Early in his first term as president, Macron managed to enact liberalizing reforms in fiscal policy, labor market regulation, and the operation of the public French railroad company. However, in late 2018, Macron's government was rocked by the so-called yellow vest protestors, who sought to reverse many of Macron's liberalizing reforms and compel the president to step down. Although Macron survived the yellow vests' demands for his resignation, he was forced to make a number of expensive concessions. He also emerged politically wounded, with his popularity in the doldrums. Once again, contestation not only defeated specific liberalizing initiatives, but also weakened the leader who proposed them.

Of course, opposition to economic liberalization is not unique to France. Indeed, as the literatures on national models of capitalism and worlds of welfare capitalism demonstrate, some countries have openly rejected the neoliberal model associated with the USA and UK while faring quite well economically. The economies of these countries deviate in important ways from neoliberal principles, in particular through extensive regulation, high wages, and heavy taxes, but these countries possess countervailing strengths that allow them to thrive in international competition. The Germanic Christian Democratic or "coordinated market economy" (CME) competes on the basis of continuous upgrading in manufacturing made possible by highly skilled workers, collaborative industrial relations, and supportive financial and technological institutions (Deeg 1999; Hall and Soskice 2001; Soskice 1999; Streeck 1991; Streeck and Yamamura 2005). The Nordic Social Democratic countries succeed on the basis of public or social investment in childcare, lifelong learning, and technology (Huo and Stephens 2015; Morel et al. 2012; Ornston 2012; Pontusson 2010). Because CME and Social Democratic countries display tremendous economic vitality, political leaders have little reason to discard their economic and social systems in favor of the liberal model.

The same cannot be said for France, however. It has been a very long time since anyone described France as an economic model. As related later in this chapter, the French economy has been mired in slow growth and high unemployment for decades, and its citizens express deep unhappiness with the economy along with pessimism about the future. Thus, France is a case of contested economic liberalization, despite a highly problematic economic and social system. In addition, as discussed later in this chapter, all of the countries held up as alternatives to the neoliberal model have gone through significant episodes of economic liberalization and score higher on most indices of economic liberalism than France. Even compared with the countries held up as alternatives to the neoliberal model, France stands out for its resistance to liberalizing reform.

Admittedly, France is not the only country where liberalizing reforms have been contested. Paul Pierson offers perhaps the most compelling explanation of why liberalizing initiatives may trigger protests that force governments to retreat. Pierson's "new politics of the welfare state" focuses on the obstacles to cutbacks or "retrenchment" of social welfare programs (Pierson 1994, 1996, 2001a). Pierson shows that the existence of massive welfare state policies has changed the political terrain on which reformers operate. In particular, it has created powerful constituencies, whether the recipients of social policies (the elderly, the sick, the unemployed) or the providers of social policies (physicians, nurses, childcare and elderly care workers), who stand ready to mobilize against proposed cuts. In addition, because much welfare reform imposes concentrated, immediate costs in return for diffuse and uncertain benefits, defenders of social programs have stronger incentives to organize and mobilize than advocates of retrenchment. As a result, even in countries where liberal parties are or were strong, like the USA under Reagan and the UK under Thatcher, interest groups and protestors have often been able to block retrenchment efforts.

Pierson's insights contribute centrally to the analysis in this book. That said, French welfare state reform stands out, even by Piersonian standards, for the high level of contestation it provokes and the frequency with which liberalizing initiatives are defeated. In addition, the contestation and resistance to economic liberalization in France extends beyond welfare retrenchment to such areas as industrial relations, economic restructuring, privatization, and corporate control. Finally, at times, French contestation goes beyond specific liberalizing reforms, challenging the legitimacy of the government itself.

This book explains why economic liberalization is so contested in France. While scholars and pundits tend to blame either French leaders or a deep-seated French aversion to the market, this book offers a historical and structural explanation, centering on the legacies of France's postwar economic model. In the postwar period, alone in Europe, France pursued prosperity through a so-called *dirigiste* or statist approach, and the legacies of this statist model – specifically the policy, party-political, and institutional legacies – have fueled the contestation of economic liberalization long after the model itself was dismantled. Although grounded in the unique features of French history, this analysis also points to sources of contestation of economic liberalization that may be present in other countries, suggesting possibilities for extending the argument beyond France.

The rest of this introductory chapter is divided into five sections. Section 1.1 briefly describes the main features of the *dirigiste* model, the achievements and limitations of this model, and France's turn away from the model in the 1980s. Section 1.2 demonstrates that economic liberalization has made less headway in France than in the leading European political economies. Section 1.3 shows that this limited liberalization is not the byproduct of a well-functioning alternative economic model. Section 1.4 presents and critiques three explanations of the French outcome, centered on economic culture, political leadership, and the character of the welfare regime respectively. Finally, Section 1.5 presents the argument and plan of the book.

1.1 The *Dirigiste* Model

Before analyzing the contestation of economic liberalization in France, it is important to understand the postwar *dirigiste* model that has contributed centrally to this contestation. France's postwar economic model concentrated power in the hands of enlightened technocrats, who were charged with steering the direction of economic reconstruction and modernization (Bauchet 1986; Birnbaum 1977, 1978; Bloch-Lainé 1982; Bloch-Lainé and Bouvier 1986; Cohen 1977; Hall 1986; Massé 1965; Rousso 1986; Shonfield 1965; Zysman 1983). The technocrats charted a series of five-year plans prioritizing sectors for development. Later, they launched high-tech industrial projects designed to catapult France to a position of global leadership in cutting-edge industries like aviation, computers, telecommunications, and nuclear energy (Cohen 1992; Cohen and Bauer 1985; Zysman 1977).

French authorities deployed a variety of policy instruments to induce companies to go along with their ambitions, including subsidies, protection from foreign competition, low-interest loans, lucrative government contracts, and free technology developed in public laboratories. They also displayed no hesitation in picking winners, specifically by favoring business over labor, emerging sectors over declining industries, and giant so-called national champions over small- and medium-sized enterprises (SMEs). This *dirigiste* system operated in a top-down, exclusionary manner, sometimes described as a conspiracy between big business and the high-level civil service (Shonfield 1965), which largely ignored the demands and concerns of small business, shopkeepers, and ordinary workers (Levy 1999b).

For three decades after the war, a period that the French refer to as the Trente Glorieuses (Fourastié 1979), or Thirty Glorious Years, France's statist model delivered excellent economic results. There were failures of course, industrial policies that never quite got off the ground, like the Plan Calcul to develop a computer industry, or that yielded technical marvels that were completely unviable from a commercial standpoint, like the Concorde supersonic airplane (Cohen and Bauer 1985; Zysman 1977, 1978). Still, voluntarist initiatives produced many successes as well, from civilian nuclear power to high-speed trains (Trains à Grande Vitesse, TGV), and within a generation, France was transformed from a sleepy, backwards agrarian economy to an advanced industrial society.

Not everyone was satisfied with the *dirigiste* model, however. In May 1968, a series of protests by students and workers, weary of top-down governance and economic exclusion, brought France to the brink of revolution (Berstein 2006; Hoffmann 1978). The specter of revolution, along with the subsequent mobilization of other groups, such as farmers and shopkeepers, placed state authorities on the defensive. In response, *dirigiste* policy shifted from promoting economic modernization to protecting jobs at all costs (Berger 1981; Cohen 1989; Levy 1999b). The statist model grew increasingly dysfunctional, pouring vast amounts of money into uncompetitive companies to prevent them from making layoffs.

In 1983, these growing dysfunctions, along with the pressures of international competition and European integration, led a Socialist government headed by François Mitterrand to make a dramatic U-turn from its voluntarist approach and begin winding down the practices and institutions associated with the *dirigiste* model (Hall 1986, 1990; Levy 1999b; Schmidt 1996). This process would continue under Mitterrand's successors on both the left and the right, and today, little remains of the postwar industrial policy model.

French authorities did not just roll back the *dirigiste* state, however. Fearful of popular protest, Mitterrand and his successors put in place what I have called the "social anesthesia state," that is, a variety of generous social and labor market programs to compensate and demobilize the victims and potential opponents of the break with the *dirigiste* model (Levy 2005a, 2005b, 2008; Levy et al. 2006). In a process that Mark Vail describes as "socialized marketization" (Vail 2010), France would move sharply toward the market, in the sense of putting an end to voluntarist industrial policy, but would simultaneously expand state spending on social protection. Indeed, French social and total government spending as a percentage of GDP rose to the highest level in the Organisation for Economic Co-operation and Development (OECD), surpassing even the Scandinavian countries (OECD 2019c, 2021d).

As Chapter 2 elaborates in greater detail, the reforms of the 1980s and 1990s rolled back the key policies and institutions associated with the *dirigiste* model, from credit rationing, to price controls, to sectoral industrial policy. These liberalizing reforms were arguably as far-reaching as anything seen in Europe at the time. Since then, however, French economic and social reform has slowed or, in some instances, reversed.

1.2 Limited Liberalization

In the early 1990s, as the agenda in France shifted from dismantling *dirigiste* industrial policy to forging new economic strategies and scaling back social spending and labor market regulations (Aghion et al. 2014; Cohen and Buigues 2014), popular resistance stiffened. Reform efforts – from the Juppé Social Security Plan of 1995, to changes in the pension system, to labor market legislation – generated large protests, and governments often responded by abandoning their initiatives. Certainly, governments have introduced important liberalizing reforms, and market forces play a significantly greater role in France's political economy today than four decades ago. Still, France consistently ranks among the least liberal of the advanced European economies along a variety of indicators of fiscal management, labor market flexibility, and competition in product markets.

This section compares France to Europe's leading political economies, in particular Denmark, Germany, the Netherlands, and Sweden. Countries like the UK and Ireland are excluded because they belong to the liberal model of welfare capitalism and would, therefore, be expected to have more liberal economic and social policies than France. The Southern European countries are excluded for the opposite reason: marked by late development, relatively recent transitions to democracy, and corrupt, patronage politics, they would be expected to have less liberal economic and social policies than France (although they, in fact, score roughly the same on indices of economic liberalization).[4] By contrast, Denmark, Germany, the Netherlands, and Sweden have much in common with France. They are advanced economies, with a commitment to quality public services and robust social protection. Moreover, French authorities tend to identify with these countries, especially Germany, seeing them as a yardstick for measuring France's performance. Yet compared with this group, France scores lower across an array of measures of economic liberalization.

Fiscal policy offers perhaps the most striking example of France's distinctive record on economic liberalization. A liberal fiscal stance would entail low levels of public spending, particularly social spending, limited taxation, balanced budgets, and little public debt. Yet looking at the data, even before the COVID-19 crisis, which sent French public spending and government deficits skyrocketing, France stood out for its illiberal fiscal policy.[5] As Figure 1.1 shows, French public spending totaled 55.4 percent of GDP in 2019, the highest figure in the OECD. While spending levels may fluctuate from year to year with shifts in the business cycle, French public spending has been above 50 percent of GDP every year since 1989.

Of course, not all public spending is created equal. Spending that contributes to business productivity, such as infrastructure, education, and research and development (R&D), is less objectionable from a liberal standpoint than spending on the welfare state. Social spending elicits liberal criticism because it not only requires high taxes, but is also claimed to foster idleness and dependency by giving recipients an alternative to

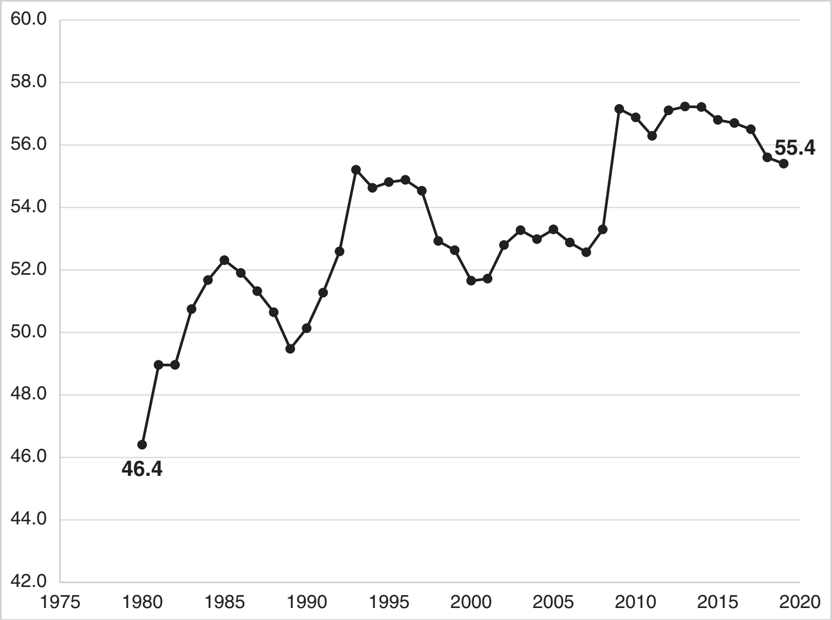

Figure 1.1 French public expenditure as a percentage of GDP, 1980–2019
Source: INSEE (2021c)

paid employment (Fulmer 2010; Murray 1984; Tanner 2008). Although it is true that historically, France has invested heavily in infrastructure, education, and R&D, what stands out over the past few decades is the dramatic progression of social spending.

In 1981, as Figure 1.2 relates, France was a relatively low social spender at 15.6 percent of GDP, compared with Denmark (20.1 percent), Germany (22.4 percent), the Netherlands (23.9 percent), and Sweden (25.6 percent). Even the UK spent more (18.1 percent). In subsequent years, however, France's welfare state grew rapidly – to the point that in 1999 France surpassed Sweden as the country with the most expensive welfare state in the OECD. In 2009, French social spending topped 30 percent of GDP, where it has remained ever since; no other OECD country has reached this level in over a quarter-century (since Sweden in 1996). Between 1981 and 2018, French social expenditures doubled to 31.2 percent of GDP, making France the most expensive welfare state in the world by more than 3 percent of GDP over second-place Denmark (28.0 percent). Germany, which spent 5.8 percent of GDP more than France on social programs in

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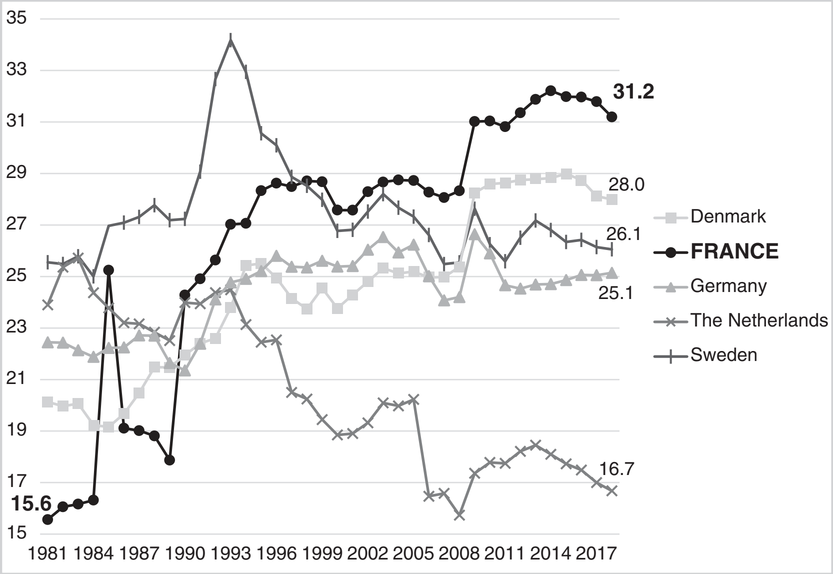

Figure 1.2 Social spending as a percentage of GDP, 1981–2018
Source: OECD (2019c)

1981, spent 7.1 percent of GDP less in 2018, for a massive relative shift of 12.9 percent of GDP.

High levels of government spending, social or otherwise, do not necessarily mean big budget deficits. Historically, the Nordic countries combined large welfare states with high levels of taxation to pay for them (Huber and Stephens 1998, 2001; Steinmo 1993; Stephens 1996; Stephens et al. 1999). They ran budget surpluses, not deficits, and returned to surpluses following a steep recession in the early 1990s. The same cannot be said of France, however. France has high taxes, to be sure. As Figure 1.3 shows, in 2017, France passed Denmark to become the OECD's most heavily taxed country, with public revenues equal to 46.2 percent of GDP.

Yet as Figure 1.4 demonstrates, all this taxation has not produced balanced budgets. Indeed, the last time that France ran a budget surplus was in 1974, that is, before the current president, Emmanuel Macron, was even born! Nor have the strictures of the EMU put an end to French budget deficits. Between 2002 and 2016, France ran a deficit below the EMU-authorized ceiling of 3 percent of GDP just twice, in 2006 and 2007. France has been an "unrepentant sinner," in the choice words of Ben Clift,