1 Capitalism, Coordination, and Economic Change: The French Political Economy since 1985

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Introduction

France is no longer a statist political economy; but what sort of political economy is it? In this chapter I show how the major institutions of the French economy have changed since 1985 and consider the character of the current political economy in light of the key actors in this process of change. Many scholars argue that the limits of statism were abundantly clear after the failure of François Mitterrand's experiment with "Keynesianism in one country" in 1983, but the analysis in this chapter shows that the withdrawal of the state from the economy was only consummated in the 1990s. The period between the mid-1980s and 1990 saw French governments attempt to empower various actors in civil society, especially employers and unions (Howell 1992, Schmidt 1996, Levy 1999). These initial policies, which attempted to develop a coherent model for the post-statist political economy, set in motion a process in which national politicians and bureaucrats exercised ever decreasing influence over the choices of companies and individuals. State signals still matter in the French economy, as they do in all the advanced capitalist countries. The 1990s, though, witnessed the transformation of that economy largely through the uncoordinated action of individual economic actors, in a process made possible by policy choices but neither directed nor fully anticipated by governments. Markets and market power now set expectations in a wide array of fields, while French governments on the left and the right continue to assert their distaste for the market society. This uneasy tension between market reality and state discourse may partially account for the well of public discontent in the contemporary French polity.

The 1990s was a period of turbulent economic change for all the major industrialized economies, one characterized by the growing role of financial markets and the use of information technology across all sectors of the economy. I accordingly embed this discussion of economic change in France in a comparative perspective by drawing on insights from the varieties of capitalism literature, which holds that

This chapter has been improved thanks to the comments of participants in two workshops of the Changing France project, held at the Center for European Studies at Harvard University in May, 2002, and at Sciences-Po in Paris in March, 2003. In addition, Peter Gourevitch, Peter Hall, Michel Lallement, and Eric Verdier made valuable suggestions. The author thanks Ben Ansell, Jane Gingrich, and Jonathan Laurence for their research assistance.

different advanced economies rely on systematically different means of coordinating the expectations of economic actors, especially those of business firms (Hall and Soskice 2001). Firms in all political economies must develop relationships with their employees, their suppliers and collaborators, and with public actors. These economic relationships pose a variety of problems of coordination, and firms in different sorts of political economies rely on different sorts of institutions to overcome these problems of coordination. In liberal market economies (LMEs), firms rely primarily on the familiar institutions of the market economy: arms-lengths contractual relationships among companies, stock market systems of finance, company or individual-level wage bargaining, and an educational system premised on individual investments in general skills. The United Kingdom and the United States are the exemplars of this model. By way of contrast, firms in coordinated market economies (CMEs) rely to a much greater extent than do those in LMEs on mechanisms of non-market coordination: extensive inter-company relational contracting, strategic shareholding that provides patient capital, powerful and autonomous associations of capital and labor that regulate wages and other company policies, and educational systems that create the conditions for shared investment in specific skill-sets. Germany and the rest of northern Europe, along with Japan, approximate to this model.

France has never fit easily into the conceptual dichotomy between CMEs and LMEs, and its institutions circa 2005 continue to elude easy categorization. Yet the analytical strength of the varieties of capitalism approach lies not so much in its typologies as in its focus on problems of coordination and economic change.[1] This approach draws attention to those mechanisms that allow actors to predict how other actors will respond to political, economic, or technical changes. Knowing the likely response of other actors to an exogenous shock to the economy helps actors, in game theoretic terms, understand the game they are playing and to predict the payoffs associated with different courses of action. The functioning of financial, labor, and product markets depends crucially on how the participants in these markets predict what other market participants will do. Their inability to coordinate their expectations

[1] It is for this reason—the micro-foundational logic based on problems of coordination—that I adopt the varieties of capitalism framework to analyze France. Other analytical frameworks, such as that of Bruno Amable (2003) or Vivien Schmidt (2002), offer typologies into which France fits somewhat better than it does in the CME/LME distinction of Hall and Soskice. Yet as the rest of this chapter makes clear, the focus on coordination underscores that France also fits uneasily into the “continental European capitalism” of Amable or, a fortiori, the “state-enhanced” capitalism of Schmidt.

can be costly, since they are then unable to make gains from trade that each would like to make if it knew the likely behavior of other actors

In statist France, firms looked primarily to public institutions for information about how to coordinate their actions. As the mechanisms of state control weakened in the 1980s, economic actors began to look elsewhere for their signals about how other actors were likely to respond to any given change in the environment. In LMEs, these actors look primarily to the markets; in CMEs, such actors look primarily to the associational and network mechanisms of non-market coordination. In the late 1980s, policy-makers had attempted to build up the associations of civil society that allowed for non-market coordination in Germany, but those attempts had met with little success (Levy 1999). Thus, the question confronting economic actors and successive governments during the 1990s was the same: how should they get their information about the likely developments in the economy? By what new rules would they coordinate their expectations about economic change?

The questions are central to the politics of economic change. Yet they are not always central to the way political scientists study economic change, because many political scientists take as axiomatic that institutional change must be ratified by public policy. Legislative arenas and outcomes are of course fundamental to democratic capitalism. However, politics encompasses private negotiations that influence, and are influenced by, the prevailing rules of the game in an economy. Governments are not free to set these rules at will; they emerge from a history of private and public interaction. When effective institutions depend on informal practices rather than formal laws—when the law periodically races to catch up to current practice, rather than dictating that practice—then it may not be in legislatures or elections that the politics of institutional adjustment plays out. This was certainly the case of the radical changes that took place in the French financial system during the 1990s. While French governments made important policies that attempted to shape institutions of industrial relations and education, the incremental changes that we observe in those institutions in the end resulted less from public policy than from the choices of, and negotiations among, private actors.

To sustain these claims this chapter proceeds in the following way. Section one reviews the statist model as it existed circa 1985, focusing on the major sub-systems of the economy emphasized in the varieties of capitalism framework: finance and corporate governance, industrial relations, and vocational education and training.

Section two reviews the major changes in each of these sub-systems after 1990, along with the shifting balance in economic governance among state, market, and civil society entailed by these changes. The final section concludes with a discussion of how we should characterize the current French political economy.

1. The Statist Model

To understand the extent to which the French political economy changed between 1985 and 2005, it is important to know where it started. At least until the early 1980s, the principal elements of the statist model of economic governance worked together in a way that was characteristic neither of LMEs nor of CMEs.[2] This section outlines that model in ideal-typical form by considering three principal sub-systems of the political economy highlighted in the explanatory framework of varieties of capitalism: the system of finance and corporate governance, by which companies raise capital and owners monitor (or not) the performance of managers; the system of industrial relations that organizes relationships between employers and employees, both within firms and across entire sectors of the economy; and the system of education and training, which determines the sorts of skill sets on which employers will be able to draw for their production.[3]

The statist model of political economy that characterized France during so-called *trente glorieuses*—the thirty glorious years of post-war economic expansion—comprised substantial state control in all three of the linchpin institutions of the economy. In the area of corporate governance and finance, French governments exercised substantial influence through three connected mechanisms: a large direct ownership stake in the economy, a policy of indicative planning, and a system of credit allocation. Ownership was the most obvious element of the state's presence in the economy. After the last round of sweeping nationalizations by the Mitterrand

[2] Even at the high-water mark of state control of the economy, statism was more complex than the features briefly highlighted in this summary. The goal of such a cursory description is to identify the essential features of state coordination as a standard against which to assess the evolution of the French economy since the mid-1980s.

[3] The varieties of capitalism framework as elucidated by Hall and Soskice (2001) specifies four main sub-systems of the political economy. The fourth sub-system, inter-company relations, refers to the extent and character of technology transfer among firms and the prevalence of relational vs. arms-length contracting. This sub-system is the most difficult to operationalize and measure in a reliable and comparative way, and so I exclude it from this analysis.

government in 1981, the state owned 13 of the 20 largest companies in the economy and virtually the entire credit sector (Hall 1986: 204). At its high water mark in 1985, public ownership accounted for ten percent of the economy and public sector employment for over ten percent of total employment (Schmidt 2002: 189).

The role of indicative planning was, as Peter Hall has argued, twofold. On the one hand, it performed a function of "economic triage, letting the more inefficient sectors die—in some cases, from exposure to the global market—and strengthening the sectors with apparent competitive potential in manufacturing and agriculture" (Hall 1986: 163). In setting these priorities, economic planners could use both the links they developed with key leaders in industry and their control of the allocation of private bank credit for investment. On the other hand, planning served a clear political function: to legitimize the choices of state planners, and thereby reduce social conflict, "by masking individual loss with the veneer of common interest, by presenting industrial execution as economic euthanasia, and by tying present sacrifice to future gain" (Hall 1986: 163).

The real bite behind the economic plans, which retained its sharpness even after planning declined in the 1970s, was state leverage over the way in which banks allocated their long-term credit. As argued by John Zysman (1983: 130), "the French financial system [was] a credit based system with administered pricing." Through its mechanisms for the allocation of credit, the French treasury—the heart of the French bureaucratic elite—was for much of the postwar period capable of directing a substantial portion of the flows of capital for investment purposes. As access to finance was administered, so corporate governance was tied closely to the state apparatus, as top managers were recruited from the ranks of state bureaucratic elites (Bauer and Bertin-Mourot 1997). Thus, public influence over the managers at the towering heights of the French economy was secured both by controlling many of the available funds for investment and by the fact that most of these managers came out of the state bureaucratic corps in the first place.

In the second core institution of the economy—the system of industrial relations—public officials were the dominant actors in a field of weak employers' associations and even weaker unions.[4] In the early postwar years government had

[4] As discussed in Lallement's chapter in this volume, French employers' associations and unions have low and declining membership numbers. Given the fact that less than ten percent of the working population even belongs to a labor union, the state's legal recognition of their "representative" status is

intervened in industrial relations so as to promote economic growth, with little attempt to involve organized labor in the implementation of this growth strategy. As the economy modernized, though, and especially after the crisis of 1968, the government moved increasingly to incorporate organized labor into a pattern of collective bargaining, if only to prevent labor strife from destabilizing the republic or retarding economic growth (Howell 1992). Even the attempt to construct a system based on collective negotiations among unions and employers still led fundamentally to a system in which the state was the preeminent actor, as reflected in three of the prominent features of the statist institutions of industrial relations. First, given its large ownership stake in the economy, the state was a significant employer, and its negotiations with its employees set standards that influenced private sector negotiations. Second, the minimum wage after 1970 became an increasingly important tool of policy-makers to influence wage levels (Howell 1992: 107-110). The third policy tool of statist regulation was the extension procedure, which allowed the government to extend agreements reached with one union to workers in an entire sector (Traxler et al. 2001: 182-3). Over time, low and falling rates of union density came to be counterbalanced by periodic expansions of the coverage rate, most notably by the socialist government of François Mitterrand; the effective proportion of the workforce covered by bargained agreements grew from 64 percent in 1980 to 94 percent in 1985 (Golden, Lange and Wallerstein 2002). Although these policies frequently aimed to facilitate the development of an independent role for labor unions in collective bargaining, their joint effect was to divorce the actual development of wages from the negotiating and organizational capacities of unions and employers (Levy 1999).

Wage bargaining institutions lie at the core of industrial relations systems in all advanced capitalist economies. The distinctive features of the statist model of wage bargaining in France, in contrast to those in both liberal and coordinated market economies, did *not* induce unions and employers to develop strong firm-level organizations to support their sectoral wage negotiations. French employers and unions have long been highly involved in the joint management of various social policy schemes, as Lallement discusses in his chapter in this volume. Ironically, though, this

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an important part of the very legitimacy of the social partners in a way that would be equally foreign to unions in the United States and in Germany.

involvement in *paritarisme* (joint management bodies) further reduced the incentives for unions to develop their organizational base at the firm-level because of the organizational resources it provided them (Goetschy 1998). Given their weakness and the proclivity for public intervention, "union officials could gain more from episodic political mobilization, designed to attract the attention of the *dirigiste* state, than from patient negotiations in their narrow arena" (Levy 1999: 243). French unions, historically riven by ideological cleavages, had nothing to gain by developing their ability to promote in-firm discussion with employers, since they could do better by waiting for the inevitable public intervention. Employers' associations, which also knew the likely outcome of any negotiation would be determined by the government, focused on developing their expertise in labor law rather than developing the collective capacities necessary to acquire information from member firms about their in-firm negotiating practices, so as to circulate best practices and coordinate company actions (Culpepper 2003). The statist system of industrial relations thus promoted the development of social organizations whose strengths lay in the law, the street, or the legislature, but not in firms themselves.

The third element of the state-led market economy was its education and skill-provision system. This system emerged in the postwar era from the junction of three imperatives: to produce a meritocratically selected elite to operate the bureaucracy that ran the *dirigiste* economy; to provide for the general education of French citizens; and to furnish the (largely unskilled) labor that was demanded by the modernizing French industry. The first imperative imposed a series of competitive exams that very successfully selected a Cartesian technocratic elite, whose high seminaries were the ENA and Polytechnique and whose Vatican was the French treasury (Suleiman 1978, Ziegler 1997). The mass education system reproduced at a lower level the same set of competitive selection measures to permit mobility through education of the most academically gifted. Those who failed to meet the rigorous demands of academic training in general skills were shunted into a vocational training track that was widely perceived as a track of failure (Comité de Coordination 1996). During the *trente glorieuses*, this group was easily absorbed by French industry, which was predominantly organized along Fordist lines, stressing repetitive assembly line production that made low demands on the skills of line workers (Boyer 1995). French companies tried to compensate for skill weaknesses on the shop-floor by employing a

comparatively high proportion of managers with technical education (Maurice et al. 1986).

The end result of these measures was a skill provision system that was financed by the state and provided by the public school system. From public financing flowed state influence over the educational tracks chosen. By way of contrast, Germany provided for massive private funding of firm-based training through its dual apprenticeship system, as employers paid the costs of in-firm training. Since company participation in German vocational training was voluntary, it was firms themselves that determined the exact composition of the skills certifications taught. In a system such as the American one, which like the French system was overwhelmingly school-based, much of the tertiary education provided was partially privately funded, through parental investment and student loans. In this system, students carried some of the credit risk of their investment in their own human capital, and their choices influenced the available degree programs. In international comparison, then, a notable specificity of the French system of education and training was to concentrate control exclusively in public hands.[5] In education as in industrial relations and finance, the statist model functioned on the basis of clear public signals around which private actors could reliably coordinate their expectations.

2. The Breakdown of the Statist Political Economy

By the year 2000, the French political economy had changed dramatically. The French government and bureaucracy could do no more to direct the course of adjustment in the political economy than governments of the other major industrialized countries. In this section I examine how the principal institutions of the statist political economy broke down between 1985 and 2000.

[5] Even its attempt to provide firm-based training through the training tax—which was never widely successful and always concentrated on training already highly-skilled workers—was adopted in 1971 through a coercive state measure rather than voluntary participation by companies.
Some have argued that the system of continuing training in France allows for its workers to catch up on the skills possessed by their German shopfloor counterparts (e.g., Géhin and Méhaut 1993). Econometric results from a study conducted by researchers at the LEST are eloquent on this point, though, showing that continuing training in France functions essentially as a selection mechanism: in other words, "continuing vocational training would not remedy lacunae in professionalism or increase individual productive capacity, but would do nothing other than demonstrate a skills advantage that is already observed" (Béret et al. 1997: 122-123).

Finance and Corporate Governance

In the areas of corporate governance and finance, the statist model is dead. The rightist government of Jacques Chirac, elected in 1986, privatized 13 large groups, including some of those that had been nationalized by Mitterrand's first government in 1981 (Levy 1999: 65). After a hiatus in privatization between 1988 and 1993, governments of the right and the left became equally avid in their privatization of state assets (Holcblatt 2002). As a result, employment in the public sector was cut in half between 1985 and 2000, when it reached 5 percent (Schmidt 2002). Consistent with practice in other OECD countries, the state's direct control of the economy has been reduced to core areas of public service provision.

Public influence over non-state assets has diminished equally dramatically. Following the privatizations of 1986-1988, the Chirac government had encouraged the reinforcement of existing patterns of corporate cross-shareholding, creating *noyaux durs*—hard-core owners. These companies held each others' shares and thereby provided mutual takeover protection and patient capital, attenuating the short-term bias of liberal market regulation induced by focusing on share price and quarterly reports. There were two principal shareholding networks: one centered around Paribas and Société Générale (SocGen) and one centered around Suez and BNP (Schmidt 1996, Morin 2000). The table below demonstrates that the mutual cross-shareholdings held by companies in these two shareholding groups collapsed by roughly equivalent amounts between 1997 and 1999. These interlocking French shareholdings among large French firms were replaced by the growing weight of foreign (mostly British and American) institutional investors, which as of 2003 owned over 40 percent of the outstanding shares in CAC-40 companies (Goyer 2003: 2; Morin 1998). If France were still a form of state-directed capitalism, we should expect to observe some ability of public officials to shape the course of this ownership transformation.

Table 1: The Breakdown of French Cross-Shareholding

	Average level of mutual cross-shareholdings within the hard cores (as a percentage of shares outstanding)				
	1996	1997	1998	1999	2000
SOCGEN Group	2.83	3.12	2.66	1.92	1.89
% of 1996 level	100%	110%	94%	68%	66%
BNP Group	4.80	4.07	2.99	2.14	2.07
% of 1996 level	100%	85%	63%	45%	43%

Source: SISIFE/Lereps Database, University of Toulouse.
Note: The Socgen Group includes four dyads of mutual shareholding (in which each company holds the other's shares): AGF/Societe Generale, Alcatel/Societe Generale, Vivendi / Societe Generale, and Vivendi/Alcatel. The BNP Group includes five dyads: UAP-AXA/Suez, UAP-AXA/BNP, UAP-AXA/St. Gobain, BNP/St. Gobain, and Suez/St. Gobain.

However, the state levers of control that had worked in the past were no longer available by the mid-1990s, had ministers or bureaucrats wanted to use them. Control over credit allocation was a distant memory, as French firms turned increasingly to equity markets. As demonstrated in the table below, existing French companies used equity markets heavily throughout the 1990s to raise money; in this respect, they acted more like companies in the American liberal market economy than companies in the German coordinated market economy.

Table 2: Equity raised by Listed Companies, as percent of GDP

	1990-1996	1997-1999	Change, T2-T1 (%)
France	86.0	117.7	38
Germany	58.4	55.3	-5
USA	98.3	161.0	64

Note: Share buy-backs excluded.
Source: Van der Elst, p. 12, own calculations

French managers, cut loose from the supervision of state planners, were able to exercise extraordinary autonomy in developing their strategies. French firms use a variety of unequal voting measures to disenfranchise minority shareholders. As Michel Goyer shows in his chapter in this volume, French CEOs used their concentrated authority to dismantle their conglomerate structures and focus increasingly on core competencies—in marked contrast to the behavior of German large corporations. In

other words, following the breakdown of the system of inter-firm cross-shareholding French CEOs behaved more like their counterparts in a liberal market economy than those in a coordinated market economy. By the year 2000, more than 90 percent of French large companies were using stock options to compensate employees, which was a higher rate even than in the British liberal market economy (Trumbull 2004). There is nothing egalitarian about the use of stock options in France: they are limited to the very top layers of management, with less than one percent of the French workforce eligible for them (Goyer 2003). With strong ownership by American and British investment funds and the alignment of management interests closely with (large) shareholder value, French companies are largely unconstrained in their response to market signals in the area of finance.

Government policy played little role in directing the rapid transformation of French financial markets in the 1990s. The unraveling of cross-shareholdings took place as companies in the main shareholding networks responded to each others' decisions about the future costs and benefits of patient capital (Culpepper 2005). The concentration of power in CEOs, long a feature of the French model, now operates in the absence of countervailing channels through which public officials can exercise significant influence on those managers. The changes in the French financial system in the 1990s were engineered by the calculations of individual firms, for whom the cross-shareholding system showed declining attraction. This was a process of change dominated by private companies, not by public actors.[6]

Industrial Relations

In the sphere of industrial relations, firm-level negotiation has vastly increased in importance since 1985. Public policy has not so much driven this change as it has provided the toolkit that companies have used to reorganize production (cf. Hancké 2002). In the early 1980s, wage agreements which covered entire sectors provided the minimum threshold below which wages and other working conditions could not fall. Yet, as argued by Michel Lallement in this volume, a set of legal exemptions first

[6] It is true that these changes of the French system of finance and corporate governance could not have taken place without the deregulation of French financial markets by the Chirac government in 1987 (Schmidt 1996: 140-1). In this narrow sense, public action was a necessary condition for the changes in cross-shareholding that occurred one decade later. However, the adoption of the legal framework for deregulation explains neither the timing of the breakdown of French cross-shareholding arrangements, nor the fact that similar legal deregulation did not lead to the breakdown of patient capital in Italy and Germany during this time (Culpepper 2005).

introduced in the 1980s steadily eroded the primacy of the sectoral level, capped by a 2004 law on social dialogue which reinforced the autonomy of firm-level bargainers in almost every domain save wages (Jobert and Saglio 2004, Souriac 2004). While wage bargaining technically remains a prerogative of the sectoral level, this legal fiction often masks different facts on the ground: a study by the French employment ministry suggests that by the early 1990s firms had become the locus of wage flexibility, with average firm salaries undercutting sectorally specified salaries from 1991 to 1994 (Yakubovich 2002: 8).[7]

The 1990s witnessed a massive acceleration of the scope of firm-level bargaining, especially as a result of negotiations over working time. These negotiations themselves resulted from government policies on working time that aimed to increase social dialogue and employment. In their implementation, however, available evidence suggests they did little to improve either social dialogue or employment (cf. Charpentier et al. 2004). As in the case of reforms in the 1980s, the process of change arrived at this destination at least partly due to weak collective capacities of French unions and employer's associations (Levy 1999). The potential for firm-level negotiations to undermine unions, whose plant strength has always been tenuous, was first exposed widely in the application of the Auroux laws in the 1980s (Howell 1992). The statist industrial relations system had depended on the use of coverage rates to compensate for the anemic organizational capacities of unions. French employers delighted in their ability to use the principle of firm-level exemptions to escape the state-extended system and begin to introduce flexibility of various sorts at the workplace level. Available case study evidence suggests the same one-sided dynamic in the burst of firm-level negotiation mandated by the Aubry (II) Law of 2000 (Charpentier et al. 2004)

Employers in France have their own substantial organizational problems (Bunel 1995, Culpepper 2003). These problems became especially apparent over the course of the 1990s, as firm-level negotiations over working time revealed the inability of either the government or secondary associations to direct the process of economic adjustment. French governments of both the left and right tried to use negotiations over

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[7] In their comparative study of labor relations institutions, Traxler and his colleagues observe that wage agreements at higher levels are frequently less relevant than lower-level (e.g., firm-level) agreements in determining wages paid across the advanced industrial countries: "lower levels cover fewer employees but have more influence on actual wages than do higher levels" (Traxler et al. 2001: 112).

working time to promote employment-friendly, productivity-enhancing negotiations in which workers exchanged the flexibilization of working rules for reductions in the workweek. These negotiations revealed the shortcomings of both policy-makers and organized employers. Policy-makers, far removed from the sorts of plant-level specificities that vary from one place to the next, lacked the information to write legislation that imposed an efficient solution on the entire economy. Employers' associations and unions, long responsive to the incentives of a statist system that prioritized lobbying power and knowledge of labor law over shop-floor organization, were equally poorly equipped to assist their local members. The uncoordinated set of firm-level bargains that emerged as the basis of the new French system of industrial relations is the consequence of the weaknesses of both state and civil society.

To see this dynamic in action, consider the three major working-time reforms of the 1990s: the Robien Law and the two Aubry Laws (I and II).[8] The Robien Law of 1996, passed by the rightist Juppé government, urged firms to negotiate individually with their workers to reduce the workweek, establishing a set of financial incentives to encourage that development. The Aubry (I) Law, passed by the socialist Jospin government in 1998, changed the character of the 35-hour negotiations by using the stick of government authority as well as the carrot of government incentive. The incentives were similar to those of the Robien Law, but the new stick was the stipulation that from the beginning of the year 2000, all firms with more than 20 employees would be compelled to pay employees on the basis of a 35-hour week.

The Robien Law encouraged firms to reduce working time by offering companies the possibility of paying lower social charges if their planned reduction passed a certain threshold and created (or preserved) jobs.[9] More than 80 percent of the accords signed under the Robien law were based on an explicit exchange of flexibility on work organization for reduced working time (DARES 1999: 5). Yet

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[8] The Five-Year Law of 1993 also had created the possibility of negotiating work-time reduction as a way to create extra jobs, but that measure was little used by firms until the introduction of the Robien Law.

[9] Those firms which reduced their working time by 10 percent (going essentially from 39 to 35 hours) got a 40 percent reduction in social charges for the first year of the accord, then a 30 percent reduction for each of the following six years; those reducing working time by 15 percent received corresponding reductions of 50 percent the first year and 40 percent the following years. For those pacts aimed at job creation ('offensive' as opposed to 'defensive' firm agreements), the reduction of charges was tied to new hiring as prescribed by the firm-level agreement (DARES 1999: 10).

sectoral employers' associations, given their limited capacities to coordinate company action and circulate information about best practices, proved unable to assist companies in negotiating these accords. A case study of the Robien accords signed in Alsace demonstrated that company managers regretted not receiving more outside help in designing their accords. With Aubry I, the Jospin government recognized this problem and subsidized the use of outside consultants to help with devising firm level accords. However, the Jospin government's own analysis underlined the difficulties faced by outside consultants in understanding the complex trade-offs in work organization: "the ambition to hold simultaneously to a logic of analysis of the problems of the organization of work and the logic of facilitating social dialogue remains a complex exercise that demands a lot of *savoir faire*" (MES 1999: 35).[10] This is the sort of information that the government hoped secondary associations might provide, but which their weak coordinating capacity left them unfit to deliver.

Unable to rely on private associations to support its initiative, the Jospin government was only able to attract widespread participation in its voluntary measure from state-owned firms. Thus, by January 2000, almost all significant voluntary agreements covered only public sector firms: firms employing 90 percent of the workers in the private sector had not yet signed firm-level agreements by the time of Aubry II, which imposed the arrangements on them (MES 1999). While the management of state-owned companies clearly responded to the government's incentives, managers in the private sector ignored the government's attempts to incite firm-level negotiations. The government's cupboard of strategies to coerce "voluntary" cooperation was bare, and it fell back on its only remaining lever of influence: binding regulation.

Aubry II reminds us that the French government can still legislate social practices that have significant impacts on the economy. However, particularly given the unilateral way in which the reform was implemented by companies, many workers complain that the law has led to a loss of pay or an increase of work-intensity (Charpentier et al. 2004).[11] Moreover, the law was a rallying point for organized employers, who proposed the *refondation sociale* in a variety of areas subject to

[10] This problem was not unique to employers. Trade union members similarly complained that they "had not received much practical assistance from their central association" (DRTEFP 1999: 6).

[11] In the cases examined by Charpentier et al (2004:28), complaints about lower pay are much more likely from blue-collar workers and from women than from white collar workers and men.

government regulation. The animating idea behind this program was to roll back legal regulation so as to widen further the ambit of firm-autonomy (Lallement and Mériaux 2003). Although these are the sort of political preferences associated with organized employers in some liberal market economies, such a fundamental challenge to the system of legal regulation was a radical departure from the past practice of French employers' associations. The law lowering working time thus expanded social rights whose implementation was broadly controlled by companies, and it led employers to push aggressively for the expansion of the autonomy of firm-level negotiation. Far from the government's initial goals of boosting employment and reinvigorating sector-based solutions, the second Aubry law instead accelerated the move to firm-level negotiation in France.

The hallmark of the modern system of French industrial relations is negotiation, rather than either conflict (through strikes) or governmental control (through detailed regulation). It is clear that the market is not the principal mechanism to which economic actors look for their signals of likely outcomes. But neither do they look primarily to the state. Instead, the French model of industrial relations appears increasingly oriented to outcomes that are negotiated and debated at the level of the firm rather than the sector. This trend is likely to continue, and its continuation will highlight the contradictions between the traditional republican commitment to equality and an increasing diversity of situations at the level of the firm.

Education and Training

The French system of education and training reveals clearly how decentralized decisions by uncoordinated economic actors have undermined the mechanisms of statist coordination without being able to replace them. In youth vocational training, regional councils have taken over state competencies while being even less capable than the national state of imposing effective coordination. As a result, their policies are largely ignored by individual companies, who use the vocational system primarily to finance firm-specific training with public subsidies (Culpepper 2003). At the level of elite production, meanwhile, student choice has shifted toward earlier departure from the *grand corps* to lucrative private sector careers. The ENA may now be France's best business school, handsomely underwritten by the government (cf. Bauer and Bertin-Mourot 1997). At both ends of the education system—that is, the aspects in which

France has differed most from the other advanced capitalist countries—state financing no longer equates to state coordination.

The most important reform of the system of education and training in the 1990s was the delegation of the nominal right to coordinate all youth professional training measures to the regional councils in the Five Year Law of 1993 (henceforth the FYL).[12] This law and its enabling legislation were the culmination of a decade during which national governments had repeatedly attempted to draw regional councils and social partners into the governance of education and training institutions. The FYL specified a set of jointly managed institutions within which employers and unions were to discuss the problems besetting local labor markets and to devise solutions for them. The FYL not only attempted to effect a substantial increase in the degree of employer investment in the vocational training system, through the *alternance* contracts (apprenticeship and qualification contracts); it attempted to do so through an institutional mechanism that would invigorate social partnership at a regional level, mobilizing the private information necessary for regional councils to design policy that could respond effectively to the problems of local employers and trainees.

In its goal of increasing firm investment in *alternance* training, the reform failed. French employers continue to invest relatively little in the general skills of their young workers. When they use training measures, they use them almost entirely to invest in specific-skills training (Culpepper 2003). While the reasons for this failure are complex, a central obstacle to achieving the goals of the reform was the inability of employers' associations to provide information about future skill demands. Reports of the prime ministerial body charged with evaluation of the project, the Comité de Coordination (1996: 69), repeatedly underline the "weakness of sophisticated knowledge on the part of sectoral employers' organizations" in limiting the ability of regions to develop appropriate policies to increase human capital investments. Without this knowledge, regional councils had no access to information about the new qualifications that would be demanded, nor how to target the companies most likely to be interested in investing in them. As a result, their policies could not effectively promote firm-level investments in vocational training.

While employers' associations have generally been unsuccessful in developing information about a broad section of company skill needs, large firms themselves have

[12] A decentralization law passed in August, 2004, extended this authority of the regional councils to include vocational training for unemployed adults (David-Aeschlimann 2004).

been somewhat more effective. Large employers are able to internalize the cost of collective action in determining their own skill needs. French employers' associations, whose collective capacities are too weak to develop skill predictions that cover large portions of their membership, cannot play this role on their own. Large companies generally dominate the associations, which provide those companies with institutional representation through which they can influence the skill content of vocational certifications. The large firms thus use their influence in expert committees of the Ministry of Education and in employers' associations to develop degree programs that respond closely to their needs (Hancké 2002: 66-67). They are able to do this because both their skills expertise and their material advantages dwarf those of the state bureaucrats and union officials with whom they draft these revisions. In the state system of degree certification development as in the parallel system of social partner-negotiated certifications (CQPs), empirical research has demonstrated clearly that large employers were the pre-eminent voice during the 1990s (Charraud 1995; Béret et al. 1997: 17-18).

Where the 1993 reform of the FYL did succeed was in devolving the strategic task of setting priorities for youth professional education to the regional level (Lamanthe and Verdier 1999). However, as we have already seen, the legal institutions that were to enable the regions to assume this authority were incorrectly premised on the ability of labor unions and employers' associations to provide regional officials with information on the skill needs of the economy. There is little the regional councils could do to develop a closer articulation between the educational system and the economy without knowing what skills companies needed in the future. Moreover, the fact that large firms effectively controlled much of the certification process—which is still a national prerogative, both for diplomas and non-state certifications—further removed the regional councils from the core area for which they have the authority (but not the informational capacity) to set priorities. Regional councils lacked the tools to persuade the individual actors in training and education—companies and students—that their coordination generated meaningful signals to which those actors should respond. Priority-setting without effective mechanisms to support those priorities is a weak mandate indeed.

In the domain of vocational education and training, the FYL diluted the capacity of public actors to influence private actors. The architecture of the law was to accord the social partners at regional level greater input into the skill provision system.

This was an attempt by the French government to increase the role of civil society in authoritative decision-making. The collective actors of civil society—in this case, employers' associations and trade unions—were unable to play this role. The weakening of the state opened a greater space for the market, as some regions have tried to make the market the axis of their new policies.[13] Thus, in this policy area, the 1990s have seen a decreasing role for the state, and an increasing role both for firms and for market signals more generally.

The vocational education and training system is part of a national system that provides employers with skills. A particularly French element of this system used to be the production of elites for the state bureaucracy, an important employer in the statist system. During the 1990s, this high end of the training and education system saw an important change in the choices of the highest-achieving French students, who appear to respond increasingly to attractions of the private sector. This is not a wider trend among young people in France: a survey of workers 18-40 conducted in 2000 showed that 47 percent of respondents would still prefer to work in the public rather than the private sector (Trumbull 2004), and the number of candidates to the ENA has remained stable since 1985.[14]

However, among the students who not only gain admittance to ENA but who place near the top of their class, there was a marked reduction during the 1990s in the proportion of those whose careers remained rooted in the public sector. A recent study of one the most striking articulations between the state educational system and the economy—the practice of *pantouflage*, whereby elites circulate from the public to the private sector—shows that the 1990s represented a sea-change in the patterns of the top-most elites (Rouban 2002). Luc Rouban has investigated the careers of members of the Inspection générale de finances—arguably the grandest of the *grands corps*—between 1958 and 2000. His results show that, at the very top, the products of state training are increasingly leaving for the private sector, and leaving at an earlier age than in the past. In the heyday of statist French capitalism, *pantouflage* referred to the

[13] Some regions (such as Picardy) have tried to use the tools of government regulation to make the market of training provision more transparent to individuals and to companies. This sort of intervention can permit better functioning of the market among training centers, of course, but it does not attempt to increase firm investment in skills. It looks, in fact, remarkably like a policy of governments in liberal market economies: making markets as transparent as possible in order to avoid inefficiencies of market functioning.

[14] Through its three different entries for examination, the ENA had 1713 candidates in 1985 and 1725 candidates in 2003.

common practice of these elites' moving into high posts in the private sectors *after* their retirement from the inspection. Their state career led to a second, post-retirement career in the private sector. In the three decades between 1958 and 1989, there were only 7 (pre-retirement) resignations from the corps. By contrast, in the single decade between 1990 and 2000, there were 33 such resignations (out of a corps of less than 200 people).[15] "The fact of having entered the Inspection des Finances is tending to become a simple professional stage, a 'transition (*passage*)' in a career that extends well beyond [it]" (Rouban 2002: 107).

The state continues to be the preeminent actor in French education, but only in its general core. What was most unique about the statist model of education and training and most linked to its model of economic governance was its management of what we might call the lowest (vocational training) and highest (training public elites) rungs of the educational ladder. The domination of the vocational training track by the French education ministry in earlier years had minimized the responsiveness of that system either to skills demanded on the labor market or to the demands of organized employers. As long as employers were able to absorb semi- and unskilled workers into their production processes, the educational bureaucracy was able to maintain its control of the system. With the rising importance of vocational training in France (Béret et al. 1997) has come the recognition by government officials that they cannot effectively manage the development of this system from the center. As a result, it has become more subject to the demands of the market and of the specific demands of large firms.

At the other end of the educational spectrum, as long as the prestige and perquisites of civil service were able to attract the brightest young elites into bureaucratic careers, the state-controlled system was able to set the criteria of elite recruitment. Although the data are not definitive, the growing attraction of private sector careers appears to have reduced the capacity of the French statist model to select the best and the brightest. At both ends of the educational system, of course, state financing is still extensive; and in the broad middle—the system of general and

[15] The Inspection des Finances is very small, recruiting on average only five students per year from the finishing ENA class. Thus, 33 early leavers in a decade means that a number equivalent to sixty percent of the total new recruits left for the private sector. A study conducted for the government in 2003 found that graduates of Polytechnique (X), the other summit of the French *grandes écoles*, had even more departures for the private sector than did those from ENA (Thibault de Silguy 2003: 47a). See also Domart (2003).

university education—the state still reigns supreme. Yet there is nothing unique about governments' providing and controlling basic education systems; governments do that in every advanced industrial country. The specificity of the statist model of education and training—controlling curricular development at all levels and ensuring the meritocratic selection of the highest elites to serve the state apparatus—was severely attenuated in the 1990s.

The Role of the State and of the European Union in Economic Change

Each of the three sub-systems of the French political economy experienced dramatic change after 1990. In none of these sub-systems did government policies determine the outcome of these changes. It is difficult to sustain the claim that France remains a "state-enhanced" economy (Schmidt 2002), or one whose economic difficulties stem from the character of state intervention, rather than its extent (Levy 1999: 292). Both these positions depend on the analytic axiom that the French government still *can* determine the course of adjustment of the political economy. Whether policy-makers stand aside (as they did in watching the transformation of the financial system) or attempt actively to intervene (as they did in negotiations over working time), their intervention will not be decisive in dictating the direction of change, though they may affect its pace.

This is a controversial claim, given the central role of the French case in academic discussions of *étatisme*. The most plausible objection is that this account has omitted important regulatory elements of the political economy: notably, monetary policy and social policy. The French government ceded its monetary policy authority to the European Union during the period under examination. Thus, one objection runs, if French policy-makers do indeed have much less control over the economy than they used to, that partly results from the decision of French governments to cede this power to the European Central Bank, not from decentralized private action. Likewise, in the area of social policy the French state continues to be an important actor.[16] Do the respective roles of the EU and of the government in these policy areas vitiate the claims made above about the death of the distinctive features of statism?

French monetary policy is now made by the European Central Bank in Frankfurt. There is, however, little reason to think that French macroeconomic policy

[16] See the chapter by Bruno Palier in this volume.

would be dramatically different if it were still made in Paris. More importantly, there is no reason to think that a different monetary policy would itself impinge on any of the aforementioned institutions of the economy. The restrictiveness that characterizes French macroeconomic policy in 2004 is the continuation of a policy that was decided by the socialist government in 1983, following its famous U-turn and adherence to the *franc fort* policy. This policy enabled the government to restrain inflation and to stabilize the price of the franc, but it had a high cost in terms of unemployment (Blanchard and Muet 1993). This unemployment, in turn, led to a massive infusion of public money to the unemployed. Expressed in the terms of the *régulation* school of French economic analysis, "the use of mass unemployment to regulate prices and profits had to be accompanied by a significant rise in social expenditure…. [In this new regime of accumulation] the maintenance of the welfare state coexists with structurally restrictive macroeconomic policies" (Vidal 2002: 373). Successive French governments used the European monetary arrangements as part of their strategy of lowering inflation and stabilizing the franc, and the culmination of this policy was their adoption of the single European currency in 1999.

Both French macroeconomic policy and French social policy have undergone dramatic shifts since the economic U-turn of 1983. Yet those shifts are analytically distinct from the institutions of the political economy discussed in this chapter. When looking at the core institutions of statism circa 1985, none depended primarily on either of these policies. While social policy and macroeconomic policy are both linked to other elements of the political economy—and particularly to the industrial relations system—the evolution of those institutions, which are little directed by policy decisions, should be analytically divorced from those policy choices that governments can make. When French governments tried to use policy to reform institutions fundamentally, as in the episodes of the 35-hour law and the FYL, their policy goals were thwarted by the responses and capacities of private actors. Although macroeconomic and social policy have important implications for the French economy, we should not assume that policy determines the institutions of the political economy. Instead we should examine what has happened empirically in the major areas of the political economy and attempt to establish the causes for observed changes. None of the causal trails examined in this chapter leads to either macroeconomic or social policy.

3. Is there a French Variety of Capitalism?

In creating the conditions for France to be a competitive economy at the heart of the European Union, French policy-makers have discovered that the widening ambit of markets makes the task of directing economic development exponentially more difficult. As market governance penetrates more aspects of the French economy, many individual actors look to those markets for information about the likely behavior of others. The market is a better source of such information than the state, and individual actors know that. Yet the reach of the free market in France is hobbled by its discursive illegitimacy (Schmidt 2002: 271-287). Thus, there is widespread resistance to accepting the market as the central source of information about mutual expectations. Rather than the emergence of a new French system of coordination for the political economy, the process of change in the 1990s reveals a negotiated *bricolage*: a general move to the firm-level combined with a greater role for the market overlaid on an abiding belief that social negotiation, not market regulation, is the heart of the French economy. This *bricolage* is built on the wreckage of failed projects of coherent transformation attempted by governments in the 1980s (Howell 1992, Levy 1999).

France clearly lacks the infrastructure of strong associations of employers and labor to support a CME-style system of non-market coordination. In coordinated market economies, employers' associations and unions pool the power of weaker individual actors with stronger ones to negotiate the course of economic adjustment. Lacking associations with these strengths, the French political economy has seen the strongest individual employers (large firms) and the strongest individuals (public elites and managers) rely increasingly on their individual market power to improve their own relative position. Their inability to act collectively, however, seems likely to remain a defining feature of the French political economy. And it is here that this analysis diverges from that of Bob Hancké, who asserts that large firms in France have become the "central node of political-economic decision-making, a position previously held by the state" (2002: 30). French large firms have indeed opportunistically used their increase in relative power to redistribute costs to their workers, to their suppliers, and to the government, as Hancké argues. Yet these firms lack the collective capacity to convert their individual positions of power into a consistent means of control over the economy: neither associations nor cross-shareholdings were sufficient to the task in 1985, and both those institutions were much weaker by 2005.

Large firms cannot rely on their decentralized market power alone because, for all its openings to the market, France is emphatically not a liberal market economy, at least as of this writing. Companies increased their autonomy over the course of the 1990s, particularly with respect to the influence of state officials. But they did not push for a move toward a market economy. Instead, their objective is an economy based on firm-level negotiation. No major party espouses the movement of France toward free market liberalism.[17] Even the immodest aim of the MEDEF's *refondation sociale* falls well short of espousing individual-level negotiation. The continued existence of the extension procedure covering more than the 90 percent of the workforce and the robust employment protection that characterize French labor market policy ensure that the market is not the major coordinating mechanism for actors in this economy.

What kind of political economy is France after 2000? It appears on this evidence to be a political economy characterized fundamentally by the uncertainty of expectations of economic actors. This is because there is no organizing principle behind the French economy according to which the principal actors orient their expectations. Employers, whose hand has been most strengthened in the 1990s, are still not free of state control, as the passage of Aubry II reminded them. The government, whose influence has unquestionably weakened in the 1990s, is unable to coerce either employers or even labor unions to follow its lead. In industrial relations, employers and unions have seen their weaknesses highlighted over the course of the decade. Yet any French government ignores the concerns of the unions at its peril, as Alain Juppé learned the hard way in 1995. And organized employers, for all their internal divisions, remained a powerful societal force of opposition against the Jospin government between 1997 and 2002.

It is a truism of economics that markets do not like uncertainty. The varieties of capitalism approach, which puts the firm at the center of its analytical attention, correctly suggests that firms will try to reduce this uncertainty to maximize their efficiency. But politics often creates uncertainty, and the politics of economic change in France has created a system that, at the moment, lacks a coherent way of coordinating expectations among actors. It would be a functionalist fallacy to believe that France will necessarily evolve an optimal set of institutions for coordinating the expectations of economic actors. The varieties of capitalism approach has difficulty

[17] Alain Madelin, the closest thing to a proponent of free market liberalism, was eliminated in the first round of the 2002 presidential elections, receiving less than five percent of the vote.

classifying the French political economy because that approach looks for a self-reinforcing equilibrium to emerge, based on the interests of companies. The interests of companies have been an important influence on the nature of changes in the 1990s, but so too have the pre-existing political commitments to a regulated labor market and to social negotiation.

The political system—and especially political parties—have been almost absent from the changes of the French political economy in the 1990s. Yet this has nevertheless been a process characterized by continuous negotiation. Firms, both as political actors and as social institutions, have played an expanded role in this process of change. Markets, especially the financial markets, have seen their sway over French business, if not French political discourse, increase. The evidence in this chapter suggests that the shape of the French political economy will be determined by negotiations among social actors, more at the firm-level than in parliament. Its evolution will be negotiated and, in the medium-term, somewhat incoherent. But incoherence is sometimes the tribute that economics must pay to politics.