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Introduction by Arnold C. Harberger

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France 1950–1985: Policy and Growth

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PREFACE

This study of the French economy, by Jean-Jacques Rosa, is part of a special series of country studies that Arnold Harberger is editing in the Center's Country Studies series. This new series follows a 1983 conference in Mexico City and subsequent publication of *World Economic Growth: Case Studies of Developed and Developing Nations*, which he edited for the Institute for Contemporary Studies, with which ICEG continues to be affiliated. The earlier book featured twelve country studies, of five developed and seven developing countries. Other studies in this twelve-part series will look at Argentina, Bolivia, Burma, India, the Ivory Coast, Spain, Turkey, and other countries; and they will provide the basis for a second conference and ultimately a second volume of *World Economic Growth*.

In addition to this special series, the Center is this year publishing a number of other country studies, including a revised edition of *Models of Development: A Comparative Study of Economic Growth in South Korea and Taiwan*, edited by Lawrence Lau, and a study of the economic liberalization in the Peoples' Republic of China.

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ARNOLD C. HARBERGER

Introduction

France's economic history since the Second World War has been a story of several decades of notable (if not spectacular) success, followed by a period in which the forces of growth seemed to weaken. As the country faced the second half of the 1980s, signs of rejuvenation were present, but elements of rigidity and resistance to change also were evident. The big question was whether the future would be dominated by forces working for a flexible structure capable of continued adaptation to a changing world economy, or whether signs pointing to a growing economic "sclerosis" would be ratified by future developments.

France has been a somewhat better-than-average performer among the countries listed by the World Bank as industrial market economies. Her growth rate of per capita GNP averaged 3 percent per year over the period 1965–84, compared with 2.4 percent for the overall group. Her average inflation rate of 8 percent was only slightly higher than the average 6.5 percent per annum.

This relatively bright picture becomes somewhat muted when one examines separate periods within that time frame. Thus, GNP per capita grew at 4.3 percent per year in 1950–65, 3.9 percent per year in 1965–75, and only 1.8 percent per year in 1975–85. Over the same three spans, the rate of price inflation grew from 4.9 percent in the first period to 6.6 percent in the second and to 10 percent per year in the third.

Jean-Jacques Rosa traces this history perceptively. He notes that France shared with Japan and most other European countries the institutional shock of the Second World War. The postwar boom of these countries is explained partially by the fact that old institutional rigidities and entrenched interest groups were dislodged. Flexibility and adaptation to a changing economic environment became new watchwords. In France, the economic picture was brightened further by a stable monetary policy, at least until the mid-1970s.

Rosa attributes the declining fortunes of the French economy to "Eurosclerosis," an accumulation of rigidities and resistances to adaptation, an experience shared by several Western European countries. Policies favoring already entrenched labor groups imposed the burden of added unemployment on the young and the unskilled. Most industries in France were connected with the highly centralized banking system, which was controlled by a bureaucracy tied together by an "old boys" network of corporate managers. Rigidities in the industrial structure were exacerbated by widespread state ownership.

France passed through a watershed with the Mitterrand government's shift in policy from an ideological socialist stance in 1981 and 1982 to a more moderate, pragmatic, even traditional posture since 1983. This shift was, of course, enhanced by the right-wing victory in the elections of March 1986, leading to promises of liberalization, deregulation, and privatization in many segments of the French economy. Rosa welcomes this change, but he also expresses skepticism. He is certain that the entrenched interest groups formed by the existing (and rigid) structure of the economy will not yield their positions willingly or lightly. The question is whether the forces favoring flexibility, modernization, and change will prove strong enough to dislodge them.

JEAN-JACQUES ROSA

French Policy and Growth

The French economic system ranks as one of the most centralized among industrialized countries and is in many respects similar to the Japanese system. The French growth rate, mediocre between the two world wars, has been high since 1945, despite (or perhaps because of) pervasive government intervention in the economy.

In part, the developments of the last fifteen years have discredited traditional corporatist economic policies and induced wider swings in policy design. Beginning in the mid-1970s with the first oil shock, successive governments experimented, on the one hand, with more market-oriented policies—for instance, those of Raymond Barre between 1976 and 1981 and of Jacques Chirac from spring 1986 until the present. On the other hand, there were increasingly *dirigiste* and statist strategies—as in the case of the Pierre Mauroy government between 1981 and 1983. The Laurent Fabius government from 1983 to 1986 was a rather ambiguous mix of *dirigisme* and partial liberalization of financial markets where, nevertheless, the state still retained ownership of more than 95 percent of the financial sector.

At the same time, such a specific political and economic system did not seem to perform very differently from other, more market-oriented, industrialized economies. French postwar economic performance, although remarkable, was not significantly different from that of Germany, Italy, or Japan. And the troubled period since 1973 still has not produced substantial distinction: the French economic performance in times of crises has been average by European standards. The present problems of investment sluggishness, a historically high rate of unemployment, and stagnating overall employment are shared by all European countries and have been dubbed "Eurosclerosis" by some analysts.[1]

Meanwhile, the policy debate took a new turn during the 1970s and by the early 1980s. Global demand policy went out of fashion as the necessity of supply-side considerations and neoclassical interpretations of macroeconomics gained prominence. A strong resurgence of economic liberalism (in the European sense of basic faith in the market mechanism and efficiency) paved the way for new reflections on the virtues of deregulation and privatization. The intellectual climate and political debate were changed radically in only ten years.

But in that respect too, France has not been exceptional. That mutation can be understood as a result of the increased openness of the French economy and society. As a consequence, an evaluation of growth policies should at the very least try to disentangle the influence of domestic policies from those of international economic conditions or basic national trends.

This paper begins with a discussion of the secular growth performance of the French economy since the beginning of the century. It then cites the causes of postwar growth and describes traditional economic policies as well as their reversal in early 1980s. Finally, it presents the current policy dilemmas of French government, in macro as well as micro terms.

In this paper, the approach to government policy will not be exclusively normative—concerned with what a government *ought* to do according to considerations of economic efficiency. Rather, it also discuss the more positive, public choice approach, which deals with what a government *can* do when confronted with both economic contingencies and the interplay of political forces.

I. French Growth in the Twentieth Century

Overtaken by England and Germany in the nineteenth century race for economic power, France managed to stay in the leading group of countries undergoing a rapid industrialization process, despite a prolonged slowdown during the years 1866–1896. The retardation of growth during this episode explains in large part the image—perhaps the dominant view between the wars—of France as a stagnant economy of small firms and shopkeepers.[2]

This traditional picture does not fit the twentieth century data particularly well, as shown by secular growth figures in Table 1. But the average performance of the French economy, compared to that of other high-growth, developed countries, yields two exceptions. One, covering the Great Depression years and the Second World War (1929–1950), was a time of economic underachievement. In this period, France ranked last among the leading industrial economies. The other exception appears during the period from the early 1960s to the early 1970s, when France's economic growth ranked second only to Japan's.

Overall, these data give some support to the interpretation of postwar growth as an exceptional phenomenon; growth rates since the first oil shock have returned more to secular norms or trends. The economic "miracle" of the 1960s probably is due to the increased openness and intensification of international trade starting in the early 1950s, in complete contrast with the fragmentation and protectionism of the 1930s. According to Abramovitz, the high growth of the 1960s and early 1970s also is due to other industrial countries, which had accumulated a significant technological lag during the 1930s and 1940s, "catching up" to U.S. rates of growth.[3] (See Table 1.)

Accordingly, an explanation of French postwar growth should make a distinction between three components: (a) a general international trend due to *Pax Americana* and free trade after the war, (b) a general and international trend of other countries catching up to the United States after falling behind between 1920 and 1945, and (c) a catching up from a specific French lag accumulated in the 1930s and 1940s.

Some evidence of a the laggard position assumed by other industrial countries vis-à-vis the U.S. economy, after each of the two

Table 1
Secular Growth, 1900–1986

	Japan	FRG	Italy	France	UK	USA
1900, 1925–29[a]	1.6	0.7	1.6	1.5	0.5	1.5
1925–29, 1950–54[b]	1.4	1.2	1.3	1.0	1.1	1.3
1950–54, 1963–67[c]	8.4	5.0	4.8	3.7	2.5	1.9
1963–67, 1974[d]	10.35	4.52	5.44	5.7	3.0	2.58
1974, 1986[e]	3.72	2.28	1.68	1.86	1.35	1.79

Sources: For [a, b, c] see Simon Kuznets, *Economic Growth of Nations* (Cambridge: Harvard University Press, 1972); for notes [d, e] see Les Notes Bleues, No. 251, "Les comptes previsionnels de la Nation pour 1985 et principales hypotheses economiques pour 1986," Table 3, 1985, and OCDE, 1985.

world wars, is apparent in Abramovitz's data, here reproduced as Table 2.

That thesis implies that France's economic performance, as well as that of other developed countries, should converge in the future to approximate that of the U.S. economy since the war. In other words, the goals of growth policy probably should be revised downward when two phenomena are present—when there is no further prospect of catching up and when the liberal international regime is less secure, due to a protectionist revival and the relative decline of American power as measured by the share of U.S. GNP in world GNP. As Great Britain had been a century earlier, after the war the United States was committed firmly to free trade, indeed, to imposing a liberal economic order on the world. In present circumstances where they cannot—or will not—impose a free trade regime on their allies and partners, the international open economy is in jeopardy.

II. The Role of Policy in Postwar Growth

The above stylized facts and analysis lead us to a striking conclusion regarding the role of policy in French economic growth. Contrary to the view frequently held among bureaucrats and politicians, there is no convincing evidence that the original institution of indicative planning created after the war played a significant

Table 2
Comparative Levels of Productivity, 1870–1979
Means and Relative Variance of the Relatives of 15 Countries Compared with the USA
(US GDP per Manhour = 100)[1]

	(1) Mean	(2) Relative Variance[2]
1870	77 (66)	.51 (.51)
1890	68 (68)	.48 (.48)
1913	61	.33
1929	57	.29
1938	61	.22
1950	46	.36
1960	52	.29
1973	69	.14
1979	75	.15

[1]1870 and 1890. Figures in parentheses are based on relatives with UK = 100

[2]Standard deviation ÷ mean

Source: Moses Abramovitz, "Catching Up and Falling Behind," paper presented to the Economic History Association, New York, September 20, 1985.

role in fostering economic performance. At the very best, its usefulness came from avoiding major policy errors in managing the economy, but it could well be that a similar result would have occurred without a planning authority. Thus, we find ourselves in agreement with the earlier skeptical views of Carre, Dubois, and Malinvaud.[4]

But this conclusion also should be true in the opposite direction: the French politico-bureaucratic system did not prove to be too serious a hindrance to the forces of economic growth. Indeed, France's performance has been equal to or better than that of freer market economies, such as those in Germany or even Italy, while it fell short of that of more "corporatist," if not statist, countries such as Japan. This evidence suggests that economic performance can be divorced from the structure of political systems or (as an alternative but weaker hypothesis) that fundamentally similar growth policies can be implemented by dissimilar systems of governance.

Some recent work has been directed at estimating separately the impact of various factors on economic growth, including the analysis of different policy variables. Such research is especially relevant for an assessment of growth policy because it provides for the first time an overall coherent framework including theoretically warranted causal factors of economic growth. An example of this work is a study by Kormendi and Meguire, which covers forty-seven countries developed and underdeveloped, located on various continents, during the period 1950–1977.[5] The basic model is derived from neoclassical growth theory in which GNP growth is linked to the accumulation of capital, labor supply, and technical progress.

If the world economy is conceived in such a model as a homogeneous space where factor mobility and diffusion of techniques prevail, the sources of growth differentials can be found only in the initial levels of income per capita and in different rates of population growth.

On this firm and now standard theoretical basis the authors of that study add some current theories of policy influences on growth. First, they address monetarist theory, as developed by Robert Barro and according to which increased variability in money creation should reduce the average growth rate of the economy.[6] Indeed, money supply variability is supposed to distort price signals and induce erroneous allocations of resources. Second, they incorporate the theory of Fischer Black, which derives directly from modern financial economics and posits a trade-off between stability of growth and the average rate of growth.[7] According to this theory, increased variability should, on average, increase the pace of economic growth, just as increased risk in investment yields on average a higher return. A third theory, that of public finance theorists and, recently, the so-called "supply-siders", suggests that higher taxes distort individual incentives and lead to reduced growth through misallocation of resources.[8] A number of authors now emphasize the disincentive effect of inflation on economic growth. And last but not least, many economists think of foreign trade as a "handmaiden of growth."

All these theories lend themselves to empirical testing on the common ground of the two growth-theory "causes," demographic expansion and catching up from an initially low GNP per capita.

Let us review briefly the main determinants of economic growth as tested by Kormendi and Meguire. We shall then analyze the consequences of those policies on growth, especially in the case of France.

Initial (1950) per capita income. If one thinks of the world economy as a single unit, within which production possibilities are developed by the "state of the arts," an initially low income reveals either an under-accumulation of capital, or a suboptimal supply of labor, or a lag of techniques behind the frontier of technology. Movement toward the equilibrium combination of factors should entail higher than normal growth, until the "world" income per capita prevails.

Average demographic growth. According to the same theory, this aspect should increase one for one GNP growth, at least in the case of a stable structure of the active population.

Growth variability. As measured by the standard deviation of growth rates in the period under consideration, growth variability should contribute to an above average growth rate.

Money growth variability. According to monetarists and new classical economists, this determinant should reduce the growth rate of the economy through false price signals and erroneous private decisions.

The average rate of money creation. According to some, it could either increase the rate of growth of the economy (as a factor facilitating production) or exercise no influence whatsoever (money being a simple "veil").

A higher average inflation rate. It should reduce the growth rate by blurring perceptions of relative prices and diverting the energies of economic agents toward "inflation-defensive" activities.

A higher ratio of exports in GNP. It should also contribute to accelerated growth, mainly through increased productivity resulting from specialization.

Higher taxes. They should slow economic growth. As a proxy of higher taxes, the authors use the rate of growth of the ratio of public spending to GNP.

France's growth performance is strictly average relative to the other forty-six countries in the Kormendi-Meguire study. The study interprets this as the outcome of opposite influences: on the one hand, monetary growth was more stable than average (explaining 1.0 percent more growth than average) and inflation was moderate (explaining another 0.3 percent excess growth). On the other hand, factors such as high initial per capita income, slow population growth, and a very unstable rate of GNP growth helped to depress French growth.

Overall, the positive effects of a conservative monetary policy seem to have been offset by a rather inefficient stabilization policy. On the first point, France did nearly as well as the United States, while on the second, her macroeconomic policy has been as ill-conceived as Great Britain's.

However interesting, the tests of Kormendi and Meguire did omit an influential theory of economic growth (or more precisely a theory of non-growth)—that of Mancur Olson, expounded in *The Rise and Decline of Nations*.[9] According to Olson, economic growth (implicitly supposed to be spontaneous and unbridled) is choked down progressively through time by the development of various interest groups, which generate a condition of "institutional sclerosis." But the development of private interest groups takes time, and national traumas such as revolution, war, or civil strife operate to impede pressure-group formation and development. Thus, countries such as France, Germany, and Japan, whose social structures were at least partially destroyed by World War II and its aftermath, should be less prone to this sclerosis.

It seems especially appropriate that a test of the Olson hypothesis should be included in this assessment of French growth policy. A convenient measure of institutional sclerosis has been constructed by Kwang Choi for eighteen countries, including thirteen European countries plus Canada, the United States, Australia, and New Zealand.[10]

According to this index, the less sclerotic countries are Austria, Finland, France, Germany, Ireland, Italy, and Japan (all having been battlefields and occupied by foreign armies during the war, with the sole exception of Ireland). On the contrary, the United States appears to be especially sclerotic. It should be noted that the hypothesis of a "European sclerosis" does not seem to be warranted by the data.

This index was used in our own modified version of the Kormendi-Megaire test for eighteen developed countries (OECD), along with initial income per capita, the rate of growth of populations, and a measure of the variability of monetary policy, to explain the rate of growth of GNP during 1950–77. Results are presented in Table 3. In that framework, a U.S. growth rate that was 0.8 percent below average is explained by a higher initial per capita income ("costing" a net effect of −1.7 percent in growth) and by a higher level of institutional sclerosis ("costing" a net effect of −0.61 percent in growth).

France, on the other hand, did extremely well compared to other highly developed countries, with a rate of growth of some 0.6 percent above average. Only Japan (3.7 percent excess growth), Germany (0.9 percent), and Italy (0.7 percent) did better.

France's performance is explained by three factors:

1) A below average initial per capita income, giving a net positive effect on growth of 0.26 percent;

2) A quite stable monetary policy, giving an additional 0.36 percent on growth;

3) A below average index of institutional sclerosis, boosting growth by 0.23 percent.

In conclusion, it appears that growth policy and the political system are not really indispensable to an explanation of the economic evolution of France during the last thirty years. France matched the growth of the average of developed and underdeveloped countries. It did, nevertheless, slightly better than other highly developed countries. This relatively better performance is explained primarily by an initially lagging economy and lower institutional sclerosis due to the circumstances of the Second World War.

Against this background we should now examine the performance of the economy during the very different period beginning with the oil crises of the early 1970s.

Table 3

Causes of Growth
18 Countries, 1950–1977
(Percent)

	Italy	Japan	Netherlands	New Zealand	Norway	Sweden	Switzerland	UK	USA
Growth rate differentials to average (to be explained)	0.7	3.7	0.4	−0.9	0	−0.9	−0.9	−1.7	−0.8
Effect of initial per capita income	0.91	1.39	0.16	−0.49	0.07	−0.67	−0.58	−0.11	−1.7
Effect of population growth	−0.38	0.21	0.35	1.1	−0.24	−0.53	0.21	−0.82	0.65
Effect of money growth instability	0.15	−0.21	0.02	−0.56	0.45	−0.07	0.06	0.06	0.47
Effect of institutinal sclerosis	0.23	0.86	−0.23	0.03	−0.06	−0.12	−0.21	−0.97	−0.61
Unexplained residual	−0.2	1.45	0.1	−0.82	−0.22	0.49	−0.38	+0.14	0.39

	Australia	Austria	Belgium	Canada	Denmark	Finland	France	FRG	Ireland
Growth rate differentials to average (to be explained)	0.1	0.3	−0.4	0.5	−0.7	0	0.6	0.9	−1.0
Effect of initial per capita income	−0.67	0.7	−0.11	−0.76	−0.39	0.44	0.26	0.54	1.0
Effect of population growth	1.7	−1.0	−0.68	1.47	−0.38	−0.53	−0.09	−0.24	−1.0
Effect of money growth instability	−0.43	−0.2	0.39	−0.13	−0.13	−0.50	0.36	0.13	0.15
Effect of institutinal sclerosis	−0.2	0.49	−0.2	−0.27	−0.08	0.13	0.23	0.17	0.51
Unexplained residual	−0.31	0.31	0.2	0.19	0.28	0.16	−0.16	0.3	−1.60

Source: Author's calculations.

III. Recent Economic Policy

French economic policy of the early 1980s is especially interesting because of contrasting sub-periods when right-wing and left-wing majorities alternately held power. For the first time under the Fifth republic, a socialist-communist coalition came to power with the election of Francois Mitterrand to the presidency in 1981. For the first time also, with the defeat of leftist parties in the legislative election of 1986, the president and the majority in the Assembly belong to opposite sides. Thus, this period has been one of sharp reversals in economic policy, an unprecedented phenomenon in recent French economic history, except for the abortive attempt by Prime Minister Jacques Chirac in 1974 – 1976 to set a course of stimulative policies, to be followed shortly by Raymond Barre's more sedate strategy.

Some economists think that party politics do make a difference with respect to policy choices. The recent French experience, however, points up the ambiguities of such a clear cut political demarcation. After briefly attempting a "radical break" with "capitalism" and conservative fiscal policy, the socialist government went back to rather "Barrist" macro policy and even pro-market and liberalizing financial policy in 1983. Overall, the 1981 – 1986 episode could be thought of as a collective crash course in economics, producing a new level of understanding of the forces constraining macroeconomic policy in a medium-sized open economy.

We shall first review the evidence of macroeconomic outcomes during the period, making comparisons to the main industrialized economies and the German economy. In a second section, we shall asess the two reversals of global demand policies, occurring respectively in 1981 and 1983. In a third section, some evidence on the supply-side posture of the left-wing and right-wing governments will be analyzed. This section will also deal with industrial policy and the problems of nationalization and privatization. A concluding section will summarize what has been learned during this changing period.

1. Macroeconomic outcomes: Is there a French lag? The late 1970s and early 1980s have not been that good for the French economy, compared to the performance of the preceding decade, as well as that of other industrial countries. Table 4 sums up the evolution of the seven main industrialized countries, with special emphasis on Germany, the principal partner and competitor of France in Europe.

Overall growth, which was above average by the mid-1960s to mid-1970s, fell below average during the early 1980s. The same was true of gross fixed investment. At the same time unemployment jumped from below average to above average, while the rates of rise of consumer prices and of unit labor costs stayed above average as usual.

2. Demand-side management and policy reversal. The data clearly show the course of macroeconomic policy. The second oil shock brought a sharp increase in consumer prices, a decrease in real GNP growth, and a jump in unit labor costs. At the same time the government tightened monetary and fiscal policies, producing a sharp deceleration in capital formation. These factors probably contributed substantially to the right-wing defeat in the May, 1981 general presidential and legislative election, the first such defeat suffered by the right-wing coalition under the Fifth republic.

Once in power, the socialist president and government eased monetary policy somewhat, while adopting a stimulative fiscal stance. As a consequence, France enjoyed a spurt of growth (in contrast to other industrial countries) during 1982. This came, however, at the cost of high consumer price inflation at a time when disinflation was gaining momentum in other countries.

Ultimately, such a policy proved incompatible with a fixed parity of the French franc within the European Monetary System (EMS), and the government had to change course by 1983. GNP growth then stabilized at a low pace: investment plummeted; unemployment soared; and labor costs decelerated rapidly, followed by consumer prices. Macroeconomic policy, on the demand side, was back to its pre-1981 "Barrist" stance.

3. Supply-side and industrial policy. The failure of the socialist "dash for growth" policy generally has been attributed to a mistaken forecast of international economic developments in

1982 and 1983.[11] It could equally well be explained by a lag in reaction to events. That was already the case with the first oil shock in 1973–74, which was long considered of minor importance by French politicians and general public alike. It is equally obvious that the adjustment of the French economy in the early 1980s took place later and was more protracted than those in other industrial countries. This is especially true regarding factor use, as the series on fixed investment and employment growth show. Unemployment in France also rose, in contrast with the experience of the other countries, in 1984 and 1985.

But the recognition and implementation lags in policy do not tell the whole story. Contrary to what happened in the U.S. under the Reagan administration, the stimulative fiscal package did not include a positive supply-side component. It was in fact a disincentive supply-side policy—an anti-market, anti-capitalist, anti-savings policy—that was chosen.

After long years spent in opposition with no need to confront reality, the socialists came to power with strong ideological motivation to "break away" from capitalism and the market economy. Apart from the nationalization program, that meant a policy of income redistribution and increase of fringe benefits as well as of market wages. While the measures taken in reaction to the first oil shock took the form of tax reductions and incentives to investment, the 1981–82 measures involved increasing taxes and limiting the scope of investment incentives that had been introduced by the preceding government.[12] Higher taxes were designed to finance an extensive social program.

In addition to higher social charges, enterprises had to bear the burden of redistributive measures taken outside the budget, including a 25 percent increase in the minimum wage, the addition of a fifth week of paid vacation, the reduction of the working hours from forty to thirty-nine hours a week with full compensation, and provisions for early retirement.

Moreover, new labor legislation was designed to strengthen the power of the work force in business decisions at both shop and enterprise levels.

Another policy that should be considered on the supply side is the far-reaching nationalization program of 1982. For our present purpose let us just mention that the intended policy effects—the

Table 4

Macroeconomic Outcomes and Policy
(France and main industrial countries)

	Average growth rate 1968–1977	1978	1979	1980	1981	1982	1983	1984	1985
Real GNP									
Seven indust. ctrys.	3.5	4.2	3.3	1.2	1.4	−0.4	2.6	4.7	2.8
Germany	3.7	3.3	4.0	1.5	0.0	−1.0	1.5	3.0	2.4
France	4.5	3.8	3.3	1.1	0.5	1.8	0.7	1.6	1.1
Gross fixed investment									
Seven I.C.	3.6	5.6	4.0	−1.8	−0.4	−4.4	2.9	9.0	5.2
Germany	2.3	4.7	7.2	2.8	−4.8	−5.3	3.2	0.8	−0.3
France	4.0	1.5	3.7	3.2	−1.1	0.7	−2.3	−2.0	−0.5
Employment growth									
Seven I.C.	1.4	2.3	1.9	0.7	0.2	−0.8	0.4	2.0	1.4
Germany	0.5	1.1	1.8	1.5	−0.6	−1.9	−1.7	0.0	0.8
France	1.0	0.4	0.0	0.1	−0.6	0.1	−0.5	−1.0	−0.3
Unemployment rates									
Seven I.C.	3.7	5.2	5.1	5.8	6.7	8.2	8.7	8.3	8.2
Germany	1.9	3.8	3.3	3.4	4.9	6.8	8.2	8.1	8.2
France	3.3	5.5	6.2	6.6	7.7	8.4	8.6	10.1	10.8

-15-

Rate of rise of consumer prices									
Seven I.C.	7.2	7.2	9.0	11.8	9.9	7.3	4.9	4.7	4.1
Germany	4.5	2.7	4.1	5.4	6.3	5.3	3.3	2.4	2.2
France	8.0	9.1	10.8	13.6	13.4	11.8	9.6	7.4	5.8
Rate of rise of unit labor cost									
Seven I.C.	6.6	5.7	6.6	10.0	7.7	7.2	1.2	−1.1	2.0
Germany	5.6	3.7	2.0	7.4	4.7	4.0	−1.0	−0.8	−0.6
France	7.6	7.2	9.3	12.3	12.0	11.0	7.6	1.9	1.5
Fiscal impulses of central governments									
Seven I.C.		0.5	−0.4	−0.1	−0.2	0.0	0.8	0.3	0.4
Germany		0.1	0.0	−0.7	−0.8	−1.3	−0.1	0.5	−0.5
France		0.9	0.1	−0.8	1.1	0.0	0.1	−0.1	−0.[illegible]
Monetary aggregates, broad money									
Seven I.C.		11.2	10.6	9.5	10.0	9.4	10.5	7.7	8.9
Germany		10.6	8.9	5.3	6.4	6.5	6.6	3.9	4.9
France		13.2	13.0	10.8	11.4	11.5	9.1	8.0	7.9

(Source: IMF, *World Economic Outlook*, April 1986.)

stimulation of economic growth—did not result, not an unexpected outcome for professional economists but rather a surprise for the socialist government and its bureaucrats. From an industrial policy viewpoint, defenders of the program would argue that it facilitated the restructuring of considerable parts of French industry, notably state-subsidized lame ducks. That conclusion is debatable in general and obviously not true of the financial sector, even though it is characterized by more than 95 percent public ownership. This sector experienced no restructuring whatsoever, even though it is widely recognized that banks are grossly overstaffed. The most visible effect of nationalization was to provide jobs to top-level bureaucrats with left-wing sympathies and socialist politicians. Moreover, it probably increased the dominance of big state-owned business groups with special links to the major state-owned banks and the bureaucracy. In other words, it increased the monopoly power of the bureaucratic caste.

Quite obviously, this set of policy moves did nothing to reinforce incentives in the shrinking private sector of the economy; on the contrary, it left private managers of small and medium-sized enterprises rather dispirited.

Overall, the policies of the socialist government, at least in the early phase, proved to be a blend of Keynesian deficits and supply-side disincentives. This combination, as well as bad timing in relation to the course of international economic activity, was ultimately responsible for the failure.

4. **What has been learned.** The post-1983 policy is quite another story. A U-turn in macroeconomic policy was engineered first through a change of the Minister of Economy and Finance, and then with the nomination of a new prime minister. The government went back to an "austerity" program following conservative deflationary lines. A lid was put on budget deficits at a maximum of 3 percent of GNP. At the same time, state-owned firms were ordered to cut spending and try to return to the black by election time 1986. And an imaginative program of financial liberalization and reform was launched, even though in a piecemeal way. More incentives were granted to financial savings, a new "second" capital market was created, new financial instruments were introduced, and some easing of international financial

transactions was authorized. However tentative, these measures constituted a significant first step in the direction of introducing more competition and flexibility in the state-owned and state-controlled financial system.

The right-wing government of Jacques Chirac did not bring many changes to that macroeconomic and financial policy except by increasing financial openness, repealing some fiscal disincentives (the tax on private wealth, and punitive income tax rates), suppressing the archaic price control system, and eliminating exchange controls for current transactions.

The main divergence from previous policy involved the promise to privatize state-owned enterprises, including those nationalized before 1981 (notably Renault and big public banks). A public law passed during the summer of 1986 explicitly formulated the main lines and timing of the privatization process.

As of late 1986, one can observe a kind of convergence and consensus on macroeconomic and financial policy. Contrary to common belief prior to 1981, it is now widely understood that unemployment cannot be cured by increasing real wages, nationalizing ailing firms, and further distorting an already inefficient an uncompetitive financial system. It is now accepted that firms should earn profits, that savings should be encouraged or at least not be discriminated against, and that managers should be free to adapt their work force to the needs of production and competition.

Indeed, the current concern is that the present policy (as well as earlier socialist policy) is too concentrated on balancing the budget at a time when the economy is still slack. In spite of growing unemployment and declining price inflation, the government apparently is unwilling to cut taxes without an equivalent cut in spending. This reluctance may be dangerous in what aptly could be described as a mild but real economic depression. True, the openness of the French economy (more than 35 percent of GNP is exported and imported) creates a problem for any stimulative fiscal policy. But a mix of supply-side incentives plus European coordination of expansionary budget policies could well prove to be the answer.

But such a coordination involves great difficulties, difficulties of the same order as effective privatization of the economy. Chief among these differences is the need for agreement from the bureaucracy to renounce a part of its present overwhelming power.

IV. Present Problems of the French Political Economy

As evidenced above, macroeconomic policy did not play a decisive role in French postwar growth. If anything, that role was slightly negative. An average performer until the 1970s the French economy is still so in the 1980s.

Nevertheless, many things did change, both in the national and the international economy. World markets began to bear more heavily on the course of national growth with the progressive increase in international trade that this trend, which, as Lindbeck perceptively noted, makes national policymaking more like regional policy, with states competing, for example, to attract geographically mobile foreign investment.[13] Moreover, the inclusion of the French franc in the EMS further constrains domestic monetary policy. It is doubtful if it still has any significant leeway, relative to German monetary policy.

If macroeconomic policy is constrained more severely, as well as being relatively ineffective, what of microeconomic policy, the preferred and more reliable instrument of economists, as Harberger reminds us.[14] Undoubtedly, France can improve the efficiency of resource allocation. Since the economics profession is of rather recent origin here, starting really in the early 1960s with university programs specialized for the first time in economics, the voice of economists criticizing wasteful interventions and regulations is only now beginning to be heard.

But it could be argued that the role of economic advising is smaller in a highly developed country than in underdeveloped ones. After all, as Barro points out, with reasonably efficient markets we should expect that the general marginal product of economists should be roughly equal to their earnings.[15] In this light, even if we analyzed the efforts of the entire economics profession, it would be surprising to find policy advice that would improve the country's growth rate by as much as one percentage point per year. And even if such improvement could be made, it surely would entail the social cost of persuading political leaders and pressure groups to renounce policies that are socially antiproductive but (to them) privately profitable.

These considerations inevitably lead us to turn to the political market and its special hallmark: rent-seeking behavior. I would like to argue in this section that rent-seeking (or mercantilist) behavior has floundered in France for at least the past thirty years, with the result that Olsonian redistributive coalitions abound. Empirical evidence does not authorize us to attribute a large part of the reduced growth of the 1970s and 1980s to increasing institutional sclerosis. But it could be hypothesized that at present interest groups stand fully in the way of growth rates above the average "American" rate of 2 percent. Some engines of accelerated growth have run full course during these thirty years and now are exhausted.

It follows that a resumption of higher growth requires a serious improvement in the microeconomic efficiency of some markets—most notably labor markets, both for unskilled and highly skilled individuals. The market for unskilled labor in France is trammeled by unions—which exclude young workers from productive employment, by minimum wages and other regulations, and by welfare state institutions in general. The market for managers is marked by the coalition in which higher level bureaucrats graduated from some monopoly schools join union politicians to keep an ownership right over a major share of French firms. This last problem is, of course, linked to the question of state ownership, nationalization, and privatization.

Ekelund and Tollison recently demonstrated that France's (and more generally, other countries') mercantilist trade policies were and still are founded on the political equilibrium of domestic pressure groups.[16] I would argue inversely that the opening of foreign trade and the slowing down of growth bring increased pressure on the corporatist-mercantilist equilibrium established during thirty years of high growth and prosperity. Integration in international markets and in the European Economic Community increases the competition facing French firms and tends to destroy previous rents. This makes it plausible that the advice of economists might be followed—at an already reduced cost.

According to Ekelund and Tollison, the mercantilist strategy was not a simple policy mistake. Neither was it simply a foreign exchange policy. It basically came as a necessary complement to protectionist policies whose true function was the granting of rents to domestic interest groups.

Mercantilism meant regulation of domestic activities. These rent-granting regulations could not have been enforced without some control of international trade. Since rent-granting policies reduce the efficiency and competitiveness of the domestic sector, export subsidies and import protection are needed both to guard against external payments disequilibrium and to maintain the rents against the encroachment of foreign competitors in domestic markets.

In this framework, mercantilist policy is explained by the political dominance of some interest groups. If and when the rents are eroded by foreign competition—as should be the case in an open economy—these groups lose both motivation and the political power to defend their monopoly rights effectively. Also, technical change will make some rent-seeking impossible to defend. Satellite transmission of television signals, for example, will reduce drastically the monopoly power of domestic television networks and producers.

Other factors such as the development of supernational law and jurisdictions will further weaken political rents. This is a notable consequence of increased competition under the European Economic Community, and of its anti-trust laws. Recently, the European law has been used by entrepreneurs trying to introduce more competition in the retail business. It also limited the spoliation of stockowners by the State in the nationalization process of 1982.

There is increasing evidence that disequilibrium prices prevail in the European labor market, with a "wage gap" determining an excess supply of labor and often taking the form of a queue of unemployed waiting for the rents provided by "official" wage-employment. Trade unions do benefit from political rents, which make them less attentive to members' interests or membership numbers.[17] Moreover, nationally segmented labor markets reduce mobility and competition, while stricter immigration policies protect the entrenched interests of high-salaried employed workers. There is also significant evidence, at least in France, of disemployment effects of regulated minimum wages, while labor rents continued to accrue to employed workers.[18,19]

The present course of policy is toward a very slow and gradual recognition of these facts. The increasing number of young unemployed people and the increasing burden that unemployment compensation places upon public finances and taxpayers will explain this change in the attitude of politicians and the general public. For the moment several roundabout dispositions seek to promote tax exemptions for the employment of the young and unskilled, while a part of the adjustment burden is transferred to immigrant workers pressured to leave the country. Some politicians and union leaders now also urge the young unemployed to accept "small jobs" (i.e., employment outside the corporate sector). But a final solution will have to be found in the relaxation of regulated wages and in the reform of the welfare state expenditures and taxes. Since this will spell the end of many bureaucratic-political rents, the fight will be long and protracted.[20]

At the other end of the labor market another important debate is going on. The French political, social, and financial system is still basically that described by Ekelund and Tollison for seventeenth century France. The French equivalent of Wall Street is not the Paris Bourse, but "rue de Rivoli," the seat of Finance Ministry, aptly and symbolically situated in the Louvre Palace. An extremely centralized and state-controlled financial system (the more so since the 1982 nationalization of the remaining private financial firms) is for every practical purpose in the hands of the government.[21] This system gives the Minister of Finance and the State-controlled banking system a decisive say in the nomination of corporate managers. Access to credit and recourse to the "old-boys network" (which gives rise to favorable firm-specific regulations) are crucial to a firm's success in the market place. Through this mechanism, higher-level bureaucrats from the Ministry of Finance (all of them former graduates of the same monopoly school, the Ecole Nationale d'Administration (ENA), maintain a real controlling interest in nearly all the large firms of the country.[22] They collectively are, in a way, the sole governing board for both public and private corporations.

This system, of course, would be ruined by an international takeover of a significant part of the French corporate capital. The choice of managers would then rest with some shareholders in Tokyo, Los Angeles, Dusseldorf, or London. And the market for managers would have to open up to foreign competition. That would spell the end of many interdependent rents: that of former students of ENA, that of higher level bureaucrats of the Finance Ministry, that of present managers of public and private firms, and that of bankers and politicians. Understandably, this is a policy choice strongly rejected and resisted by these people. The nationalizations of 1982, as well as the "silent nationalization process" presided over by conservative governments during the 1960s and 1970s, probably are explained in part by a deliberate domestic resistance to internationalization of the French corporate capital.

The new trend toward privatization is due partly to a growing recognition of the costs of such a policy course, as well as to increasing external opportunities. The managerial rents currently are being eroded. Significantly, the new rightist government elected in 1986 has resisted the intrusion of foreign capital in corporations to be privatized. An upper limit to the share of foreign ownership first set at 15 percent of a firm's total capital, was recently (and very modestly) revised to 20 percent. In a similar vein, the liberalization of exchange controls was rather tentative, not going as far as granting total freedom to financial capital movements.

Given these problems and trends, a crucial test of the possibility of improved efficiency for the French economy will be the way in which the present government handles the deregulation of labor markets and the privatization process. A nationalistic-mercantilist stance will evidence the resistance power of those who enjoy political rents. A more open attitude would reveal a real change in the French political-economic system. It would change in many ways the productivity and general efficiency of the corporate sector, obviously a key to France's future growth performance in a more competitive world.

Thus, it is useful to recall that growth policy is now, as in the past, as much a political as an economic problem. But increased economic competition linked to less favorable economic growth prospects directs considerable pressure toward the reduction of political rents.

NOTES

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22. See, for instance, Ezra Suleiman, *Elites in French Society: The Politics of Survival* (Princeton: Princeton University Press, 1978).