

## THE RETURN OF THE STATE?

### FRENCH ECONOMIC POLICY UNDER NICOLAS SARKOZY

by  
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Abstract: France would seem to be a prime candidate for a vigorous state response to the economic crisis. The country has a long tradition of *dirigiste* or state-led economic development and its President, Nicolas Sarkozy has been an outspoken critic of *laissez-faire* capitalism and proponent of more robust regulation. Following the 2008 financial meltdown, the Sarkozy administration announced a series of statist initiatives, ranging from fiscal stimulus, to industrial policy, to financial and economic regulation. Yet this paper will show that the reality of France's response to the crisis has fallen well short of the statist rhetoric. The government has committed few additional resources, displayed little inclination to steer business strategies, and balked at issuing regulations in the absence of pan-European coordination. This paper argues that Sarkozy's neo-statist initiatives have been largely checked by the legacies of shifts in French economic policy a quarter-century ago. In particular, the break with the *dirigiste* model in 1983 has deprived French authorities of many of the institutions and instruments associated with state-led development, while the massive expansion of social and labor market programs that eased the movement away from *dirigisme* has left the government without the fiscal capacity to launch expensive new promotional policies. The broader lesson is that a country's response to crisis is shaped by long-term structural factors, not just short-term political calculations, and that even when neo-liberalism is widely believed to have failed, a statist response must be forged, not simply presumed.

## THE RETURN OF THE STATE? FRENCH ECONOMIC POLICY UNDER NICOLAS SARKOZY

France has long stood for a *dirigiste* or statist approach to economic development.<sup>1</sup> Over the past few decades, French policy-makers have been denounced on a regular basis by economists and international organizations for failing to control government spending and move in a neo-liberal direction with sufficient vigor. But in 2008, the neo-liberal model experienced its worst crisis since the 1930s, and among the affluent democracies, those countries like the US and UK that had most closely approximate the neo-liberal model seemed to suffer the greatest fall. Thus, pundits and politicians in France have voiced more than a little *schadenfreude*.

Beyond a chance to gloat, the financial meltdown would seem to offer a golden opportunity for a revival of the kinds of *dirigiste* policies that France has long embraced. The crisis has rehabilitated state intervention in the economy. Governments everywhere are intervening in all manner of ways: bailing out banks and auto companies, providing macroeconomic stimulus, pondering new forms of regulation of financial markets and executive compensation.

French President, Nicolas Sarkozy has been at the forefront of this return of the state. Sarkozy has been active in denouncing the excesses of *laissez-faire* capitalism and calling for new regulations of financial institutions and executive pay. He has also launched a series of industrial policy initiatives. To many observers, Sarkozy incarnates the renewed demand for a statist approach to economic policy.

This paper suggests, however, that there is a Potemkin village quality to Sarkozy's statist turn. The reality of French economic policy has often fallen well short of the statist rhetoric. Moreover, there is considerable evidence that Sarkozy is now moving in a neo-liberal direction.

Why has the neo-*dirigiste* dog not barked (or, at least, not barked more loudly)? This paper argues that the pressures and temptations to revive statist policy have run up against the legacies of shifts in French economic and social policy over the past quarter-century. Three constraints on statist initiatives stand out. The first relates to institutional capacity: many of the key agencies and instruments of industrial policy were dismantled in the 1980s and early 1990s, and globalization has further narrowed regulatory options. The second constraint concerns fiscal capacity: because the process of moving away from statist economic policy was accompanied by a massive and expensive expansion of social measures to pacify and demobilize the victims of economic restructuring, French authorities lack the financial resources to launch costly industrial policy programs. The third constraint stems from electoral considerations: Nicolas Sarkozy was elected President in 2007 on a pledge to wind down and rationalize the bloated French state, so neo-*dirigiste* initiatives are at odds with both his campaign promises and the priorities of his supporters.

The following presentation is organized into six sections. Section 1 situates the argument in this paper within the literature on Sarkozy's economic policy. Section 2

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describes French economic and social policy prior to Sarkozy and the main challenges that he confronted when he became President in 2007. Section 3 explains why Sarkozy initially opted for a neo-liberal economic orientation and describes the characteristic policies in this vein. Section 4 analyzes Sarkozy's turn toward neo-statism, both the reasons and the emblematic initiatives attesting to a "return of the state." Section 5 points to the limitations of this statist resurgence. Finally, Section 6 considers the dynamics of French policy going forward as well as the broader theoretical implications of the findings in this paper.

### **Section 1 – Understanding Sarkozy's Economic Policy**

Nicolas Sarkozy was elected President in 2007 on a pledge to make a radical break with the past (or "rupture," as he termed it). Many equated this shift with a movement toward neo-liberalism. Indeed, the initial reading of Sarkozy was dominated by comparisons to Margaret Thatcher, especially in the British press (Heffer 2007; Kalelsky 2007). Like Thatcher in 1979, Sarkozy took power against a backdrop of economic decline. Like Thatcher, he emphasized market reform – the reduction of state spending, tax cuts, and labor market flexibility – as the path to national renewal. And like Thatcher, Sarkozy appeared willing to take on powerful economic interests – public-sector employees in his case, as opposed to trade unions for Thatcher – who had defeated previous government reform efforts. Indeed, when French public employees and transport workers went on strike in November 2007 to protest the government's pension reform, numerous articles in the British press labeled the confrontation as Sarkozy's "Thatcher moment," comparing it to the Iron Lady's showdown with the coal miners in 1984-1985 (Economist 2007; Schofield 2007; Times 2007; Samuel 2008).

Not everyone accepted this reading of Sarkozy. French observers tended to note the differences between Sarkozy and Thatcher (Cohen 2007; Dumait 2007; Thiérot 2007). The French President was more willing to negotiate and cut deals to avoid confrontation, even if this tack required making some concessions. Sarkozy was also less ideologically committed to free-market principles than Thatcher. He was a friend of business, rather than a free-market ideologue. Already, in his capacity as Minister of Finance in 2004-2005, he had displayed a willingness to meddle, orchestrating bailouts and mergers to protect strategic French companies.

Critics of Sarkozy raised a further objection to the comparison to Thatcher, arguing that his reforms were more spin than substance (Cahuc and Zylberberg 2009; Szarka 2009). Sarkozy was constantly announcing new reforms, a strategy that one leading scholar of French economic policy described as "carpet-bombing" (Cohen 2008), but many of these initiatives were either largely symbolic or were never fully implemented. Moreover, Sarkozy's tendency to strike deals in order to undercut opposition was claimed to have emptied many of his most significant liberalizing reforms of substance, in some cases, to the point of actually increasing spending or decreasing competition (Cahuc and Zylberberg 2009; Webber 2009). The notion of a substantial gap between rhetoric and reality was crystallized in a jibe by the former head of the Socialist

party, François Hollande, who accused Sarkozy of engaging in a *coup d'éclat permanent* (permanent splashy, but hollow gestures).<sup>2</sup>

With the financial meltdown of 2008, a new image of Sarkozy emerged. Sarkozy's response to the crisis struck many observers as a revival of the old Gaullist, *dirigiste* state (Askolovitch 2010; Economist 2010; Economist 2010). The government bailed out the banking and auto industries; it also created a sovereign wealth fund and other industrial policy instruments. Moreover, Sarkozy himself has issued a series of ringing denunciations of free-market capitalism, calling for a "return of the state" and a wave of new regulations. A 2010 book by Steven Hill, which argues for the superiority of European regulated and social capitalism over US capitalism, opens with a depiction of Sarkozy as the most pro-American President in memory, but also as the most forceful critic of the American financial system and advocate of increased state regulation of global capitalism (Hill 2010: ix-x). *The Economist* magazine offers a less nuanced portrayal. In its edition of 7-13 August 2010, emblazoned with a cover reading, "Leviathan Inc.: The State Goes Back Into Business," France is presented as exhibit A of "a renewed trend of industrial intervention by governments in rich countries" (p. 68). French industrial policy is also described as "the most defensive and politically driven of any country" (p. 70).

Anglo-American observers are not alone in suggesting that Sarkozy has returned to France's statist roots. A number of French scholars depict Sarkozy's economic policy in a similar light (Aghion and Cage 2010; Askolovitch 2010; Chevallier 2010). French accounts tend to place less emphasis on Sarkozy's personality than on structural factors: the French state is intervening widely because the economic context demands it. In this spirit, Philippe Aghion and Julia Cage contend that 2008 crisis has relegitimated state intervention across an array of functions:

If there is one positive consequence of the crisis, it is to have legitimated the role of the State in economic growth. An intelligent State, a regulating State in times of crisis, but also an essential actor in other times, as a catalyst of knowledge and innovation, a vector of sustainable growth, and a guarantor of the social contract (Aghion and Cage 2010: 59).<sup>3</sup>

Luc Ferry, a French philosopher and former Minister of Education, offers perhaps the strongest statement of the structuralist view, of the notion that structural economic imperatives are driving the revival of the French state. According to Ferry, the 2008 financial meltdown engendered an economic policy U-turn much like that of the

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<sup>2</sup> The phrase *coup d'éclat permanent* is a play on words. Hollande was alluding to a book by former French President, François Mitterrand entitled, *Le coup d'état permanent* (the permanent coup d'état). Mitterrand's book criticized the authoritarian character of the Fifth Republic under Charles de Gaulle, suggesting that it was the equivalent of a permanent military regime or *coup d'état*. Hollande's play on words, then, combines a critique of the alleged showy, but empty character of Sarkozy's reforms (*coup d'éclat*) with the suggestion that Sarkozy is governing in an authoritarian manner (*coup d'état*).

<sup>3</sup> All translations from the French are the author's.

Mitterrand administration in 1983, albeit in reverse. In 1983, a leftist government elected on an agenda of ultra-voluntarist industrial policy veered in a sharply liberal direction under the pressure of international and economic constraints. Twenty-five years later, in 2008, Ferry contends that a rightist government elected on an agenda of neo-liberal reform has moved in a neo-*dirigiste* direction under the pressure of the international financial meltdown and accompanying recession:

The crisis has come along and invalidated all the themes of the 2007 [presidential] campaign, the first campaign of an unabashed right finally at ease with itself. The campaign was liberal, deregulatory, and pro-American. We were going to sweep away the old world, finish with the long, Chiraquian slumber and the “French social model”! And then the crisis came. Like the left in 1983, the right makes a 180-degree turn. President Sarkozy takes on the mantle of protector, regulator, almost anti-capitalist... (Askolovitch 2010)

While appealing in their simplicity and symmetry, arguments that economic circumstances have driven a revival of *dirigiste* policy-making or even a 1983 in reverse exaggerate the extent of Sarkozy’s neo-statist turn. This paper will show that French practice has fallen well short of the statist rhetoric. Part of the reason is Sarkozy’s penchant for spin. More fundamentally, though, the revival of state intervention is not simply a matter of tinkering with policy. It requires considerable state capacities and a commitment to channeling significant resources to new interventionist projects. Such efforts have not been forthcoming in the France of Sarkozy. The reason, this paper argues, is that the context for French economic policy is very different from that of the *dirigiste* heyday more than a quarter-century ago.

In 1983, for a variety of economic and political reasons, French authorities began moving away from the statist or *dirigiste* model. More than twenty-five years later, this shift has constrained the possibilities for a return of the state in three ways. First, the break with *dirigisme* led to the elimination of many of the key instruments and institutions of state-led economic development. These include: a large swathe of companies owned by the state; rationed and state-administered lending; price, capital, and credit controls; substantial industrial policy budgets; and an agency with a vocation to engage in sectoral economic planning. Consequently, Sarkozy’s administration finds itself lacking both the vision and policy tools necessary for effective industrial policy.

A second constraint on statist initiatives concerns fiscal resources. In moving away from *dirigisme* in the 1980s and 1990s, French authorities committed a vast amount of money to restructure industry and especially to take care of and demobilize those dislocated by economic restructuring. This movement from a *dirigiste* state to what I call a “social anesthesia state” took public spending to unprecedented heights, leaving little fiscal capacity to fund industrial policy (Levy, Miura et al. 2006; Levy 2008).

The third constraint on a revival of statist industrial policy stems from Sarkozy’s positioning on the reform of the social anesthesia state. If the expansion of state spending to facilitate de-*dirigisation* was understandable and probably necessary for political reasons, over the years, it has come to be seen as an economic liability, hamstringing

French competitiveness and job creation. Nicolas Sarkozy structured much of his 2007 presidential campaign around a pledge to prune and reform the bloated social anesthesia state. Moreover, this liberalizing agenda appeals to his core constituents on the right. Consequently, the revival of state intervention is at odds with both the agenda on which Sarkozy was elected and the preferences of most of his supporters.

To understand France's response to the 2008 meltdown under Sarkozy, then, it is necessary to situate the government's actions in the *longue durée*. Sarkozy is not operating with a clean slate. Rather, he is constrained by the legacies of past policy choices and his own campaign promises. The next two sections present the constraints under which Sarkozy is operating, first describing the movement from the *dirigiste* state to the social anesthesia state, then analyzing the forces behind and content of Sarkozy's initial liberalizing orientation.

## **Section 2 – The Social Anesthesia State and Its Limits**

The agenda of economic liberalization that Sarkozy brought to the *Elysée* in 2007 can be best understood as a response to the evolution of French economic policy and the state over the previous quarter century. Beginning in 1983, the *dirigiste* state, which sought to steer the economy through a variety of interventionist mechanisms, was essentially dismantled. The alternative was not a neo-liberal state, however. Rather, in order to make the dismantling of *dirigisme* socially and politically acceptable, French authorities constructed what I call the “social anesthesia state,” a series of generous labor market and social policies designed to dull the pain of economic restructuring and demobilize potential victims and opponents of economic liberalization (Levy, Miura et al. 2006; Levy 2008). The social anesthesia state enabled French firms to reorganize on a more market-rational basis, but also generated problems of its own, most notably, high levels of state spending and reduced labor force participation. For candidate Sarkozy in 2007, the central challenge confronting the French economy was to prune and reform the social anesthesia state. This section describes the emergence of France's social anesthesia state, its role in economic restructuring, and the growing limits and dysfunctions that fueled Sarkozy's critique.

France has long embodied the possibilities for state-led or *dirigiste* economic development (Shonfield 1965; Cohen 1977; Katzenstein 1978; Zysman 1983; Hall 1986). For decades, French planners aggressively manipulated an array of policy instruments – from trade protection, to subsidies, to cheap credit, to exemption from price controls – in an effort to accelerate the pace of economic modernization. French authorities channeled resources to privileged groups, favoring investment over consumption, industry over agriculture, and big business over small. They also “picked winners,” both specific sectors, such as coal and steel in the reconstruction era and nuclear power and telecommunications in the 1970s, and specific firms, the so-called “national champions,” multinational corporations anointed as France's standard-bearers in the battle for global economic leadership. When “national champions” did not exist, French planners constructed them through a series of state-sponsored mergers; when “national champions” lacked capital, the planners financed them through cheap capital and guaranteed state markets; and when “national champions” were deficient in technology, state-run labs performed research for them, transferring cutting-edge solutions in

computers, nuclear power, high-speed trains, and digital telecommunications switches (Cohen and Bauer 1985; Cohen 1992).

Beginning in 1983, French policy took a new direction. Confronted with double-digit inflation, rising trade and budget deficits, stagnant investment, and a currency crisis that threatened to push the French franc below the minimum exchange rate allowed by the European Monetary System (EMS), Socialist President, François Mitterrand opted to reverse his government's voluntarist tack. A leftist administration that had been elected just two years earlier on a campaign to intensify *dirigisme* began instead to dismantle *dirigisme*.

The 1983 U-turn touched off a range of reforms that struck at the core of the *dirigiste* model (Hall 1990; Levy 1999; Levy 2000). Among the most important changes were: the winding down of industrial policy; the privatization of virtually the entire public sector; the shift from a reflationary macroeconomic stance to tight monetary policy prioritizing the fight against inflation; the lifting of price controls and capital controls; the ending of credit rationing; the de-indexing of wages and easing of restrictions on lay-offs, part-time employment, and fixed-term contracts. These reforms left no *dirigiste* stone unturned. Looking across the wealthy democracies, one would be hard-pressed to find any country that shifted so far away from its postwar economic strategy as the France of François Mitterrand and Jacques Chirac. Certainly, compared to other statist political economies, such as Japan and Korea, France moved earlier and more aggressively against its postwar policy model (Levy, Miura et al. 2006).

The rollback of the *dirigiste* state was not the whole story, however. The construction of the social anesthesia state played a critical role in this move away from *dirigisme*. In a logic first articulated by Karl Polanyi, the extension of market forces was softened, made politically acceptable through the expansion of social protections for those most affected by liberalization (Polanyi 1944). On the one hand, beginning in 1983, state authorities made a market, imposing liberalization from above. Austerity, privatization, deregulation, and labor market flexibility all heightened the vulnerability of French workers. On the other hand, successive governments, especially those on the left, expanded social and labor market provisions, so as to cushion the blow to the working class and, equally important, to undercut the possibilities for union mobilization (Daley 1996; Levy 1999). This social anesthesia strategy centered initially on two sets of policies.

The first was the creation of some fifteen "conversion poles" in geographic areas that were especially hard-hit by the industrial restructuring launched in 1983. The government made no effort to hide the link between industrial restructuring and strategies of territorial and worker compensation: the creation of the conversion poles was announced the same day as retrenchment plans in the coal, steel, and shipbuilding sectors. The conversion poles received sizable subsidies to help clean up unsightly abandoned factories, retrain workers, modernize infrastructure, and support new technologies and emerging high-tech start-ups. From the perspective of displaced workers, the biggest advantage of the conversion pole program was the possibility of retiring on full pension as early as age 50 (as opposed to age 55 or 60 under normal conditions).

This points to a second dimension of the state's social anesthesia strategy -- a huge expansion of the possibilities for early retirement, not just in the conversion poles, but in every troubled industrial agglomeration. The expansion of early retirement to

accommodate and humanize restructuring began under the Giscard presidency. Between 1974 and 1980, the number of early retirees more than tripled from 59,000 to 190,400 (DARES 1996: 100). The left tripled the figure again to over 700,000 workers in 1984. Beyond salving the left's guilty conscience, the widespread recourse to early retirement served a more strategic purpose - demobilizing France's working class and undercutting trade union capacity to mount resistance to industrial restructuring. The vast majority of French workers were more than willing to quit smelly, physically taxing, alienating jobs, to receive 90 percent of their previous wages without having to report to work. In such a context, France's already anemic trade unions were completely incapable of mobilizing their members to fight industrial restructuring. The effects of early retirement on the French labor market cannot be overestimated. Today, fewer than one worker in three is still employed at age 60, and France's labor force participation rate for men aged 55 to 64 is under 40 percent, among the lowest figures in Western Europe (Scharpf and Schmidt 2000: 350).

Social anesthesia policies were deployed not only to facilitate the movement away from *dirigisme*, but also to palliate the perceived limits or failings of economic liberalization, in particular, the persistence of mass unemployment. In 1988, the Socialist government of Michel Rocard government established a national social safety net or guaranteed income, the *revenu minimum d'insertion* (RMI). The RMI provides a monthly allowance, ranging from €455 for a single individual to €955 for a family of four (plus €182 for each additional child), on a means-tested basis to citizens and long-term residents over the age of twenty-five. The RMI replaced a patchwork of local and targeted social assistance programs that had left large segments of the population uncovered, notably the long-term unemployed and persons suffering from psychological problems, alcoholism, and/or chemical dependency. Of particular importance, the RMI often functions as a basic income support for adults who have exhausted or failed to qualify for unemployment insurance. The creation of the *couverture maladie universelle* (CMU) in 2000 by another Socialist government, that of Lionel Jospin, has likewise helped alleviate the effects of mass unemployment. The CMU not only extended basic insurance to the 200,000 French citizens (0.3 percent of the population) who lacked such coverage, but perhaps even more significantly, offered supplementary health insurance to the 15 percent of the population not covered by employers and facing sizable co-payments for medical procedures.

Governments of left and right alike have also multiplied labor market policies to limit the suffering of those who are unable to secure stable employment. The right has tended to focus on subsidies and tax breaks for private employers who agree to hire hard-to-place employees (youths, the unskilled, older workers) at the bottom of the wage spectrum. Such programs cost €17 billion in 2005. The left has favored training programs as well as public internships. The Jospin government's *programme emplois jeunes* (PEJ), for example, provided five-year positions in the public sector to some 350,000 young people at a cost of €5.3 billion. The left also presented its 35-hour workweek reform as a way of creating (or sharing) jobs, although this analysis was hotly contested by economists, employers, and the parties of the right.

Looking at labor market policy globally, Figure 1 reveals that the number of French workers enrolled in some kind of public labor market program expanded two-and-one-half-fold during the 15 years following the Socialists' U-turn -- rising from slightly



under 1.2 million in 1984, at the height of industrial restructuring, to nearly 3 million in 1999 (DARES 1996; DARES December 2000). This total is in addition to the 2 to 3 million French workers who are formally unemployed. Aggregate spending on labor market policy showed a similar increase, expanding from slightly over 2 percent of GDP in the mid 1980s to 4.67 percent of GDP in 2003 (INSEE 2005). Today, France spends as much as on labor market intervention as Sweden, the Mecca of active labor market policy. The growth of the welfare state has been equally dramatic. Social spending in France rose from 21.3 percent of GDP in 1980 to 26.5 percent in 1990 to 29.5 percent in 1998 (OECD 2002), giving France the biggest welfare state outside Scandinavia.

France's break with *dirigisme* in the 1980s provided a dual impetus to the social anesthesia state. The promise of liberalization induced authorities to commit vast resources to the transition process, to the alleviation of social pain and political resistance, in the expectation that a more flexible labor market would quickly generate enough jobs make such costly transitional measures unnecessary (or, at least, much less necessary). The disappointments of liberalization, the continuing high levels of unemployment not only made it impossible to wind down supposedly transitional early retirement measures, but also drove new spending in the form of employment promotion and social assistance programs. In short, "*de-dirigisation*" and the expansion of the social anesthesia state were two sides of the same (very expensive) coin (Vail 2010).

The social anesthesia strategy brought real benefits to the French economy. Whereas the *dirigiste* state sought to steer the market, the social anesthesia state underwrote market-led, privately determined adjustment strategies. By protecting French workers from the worst effects of job loss, the state allowed employers to reorganize their companies, closing unprofitable factories and downsizing plants as necessary. In the 1980s, French industry rationalized, returned to profitability, and drew down its heavy debt. France's balance of trade shifted into surplus, as French firms met European and global competition with great success. Today, French productivity, measured as output per worker, is second only to that of the United States, while France is the world leader in output per hour worked (Editorial Staff 2005).

The social anesthesia strategy, as the label suggests, offered social as well as economic benefits. French companies were able to reorganize, much like their American or British counterparts, but worker living standards were protected. In other words, the costs of industrial adjustment were socialized to the collectivity, rather than concentrated on those who lost their jobs. French authorities have also been attentive to new social needs, establishing programs like the RMI and CMU to address emerging gaps in the social insurance system. In short, the social anesthesia state moved France toward the market, while offering relatively humane treatment to the victims of industrial restructuring and economic liberalization.

If the social anesthesia strategy facilitated *de-dirigisation* and industrial restructuring, it also generated problems of its own. For starters, the social anesthesia state is very expensive. From a fiscal standpoint, the multiplication of social anesthesia measures has more than offset the savings from *de-dirigisation*. Despite the winding down of expensive industrial policy measures, state spending has increased since the early 1980s, approaching 55 percent of GDP. While one can certainly sympathize with the effort to protect the poor and vulnerable, the cost of these programs has pushed the French state to the limits of its taxing capacity.

The high cost of the social anesthesia state has also compromised public investment, a historic strength of the *dirigiste* model. In the past, French authorities invested heavily in public infrastructure and supported industrial development through lucrative government contracts. The result was an impressive array of programs and facilities -- highways, high-speed trains, nuclear energy, urban transportation, advanced telecommunication, public R&D -- that enhanced the business climate. More recently, this public investment vocation has been largely crowded out by social anesthesia spending. Indeed, in some cases, the government has actually withdrawn resources from the public sector.

French authorities have shortchanged public investment in a number of areas. Government spending on R&D declined from 1.26 percent of GDP in 1992 to 1.03 percent in 2002, at a time when the US, Scandinavia, China, and India were intensifying their investments in the knowledge economy (Ministry of Industry 2004). In 2001, the government set a very high price (initially, almost €5 billion) for third-generation mobile telephone licenses (UMTS), slowing the roll-out of a critical new technology in order to raise revenues to improve the country's fiscal position and offset future pension obligations (Cohen and Mougeot 2001). Most recently, after creating a special fund to reinvest the proceeds from toll roads into future highway development, the Chirac government opted to privatize the toll roads to generate funds to reduce the 2006 budget deficit. In all of these instances, public investment took a back seat to social anesthesia.

A second problem of the social anesthesia state concerns the labor market. The social anesthesia state is largely passive; it pays people not to work. If this represents an improvement over bailing out uncompetitive companies in order to prevent lay-offs, one can imagine better uses for the money. Social democratic regimes like that of Sweden, for example, spend as much or even more than France on social programs, but the social democratic approach is centered around the so-called "work line," the notion that every adult should be employed (Titmuss 1987; Esping-Andersen 1990; Huber and Stephens 2001). As a result, passive measures tend to be limited, with much of the spending concentrated on "activating" policies that facilitate employment, such as education and training, relocation assistance, and low-cost public childcare. Under the "active" or "social investment" model, there is an economic pay-off beyond simply keeping displaced workers from protesting and blocking lay-offs. France's social anesthesia strategy offers few such benefits, few if any gains in human capital and employment.

Related to its passive orientation and high cost, the social anesthesia state is widely blamed for pushing up unemployment. Despite the proliferation of early-retirement and make-work programs, the official unemployment rate has remained in the range of 7 to 12 percent for two decades. France's minimum wage is quite generous (€1344 per month), and social security charges can add as much as 40 per cent to the wage bill. Critics charge that this combination of high statutory wages and payroll taxes is pricing French workers out of the labor market. One reason why French productivity is so high is that the country has not been able to generate many low-wage, low-productivity jobs. Moreover, fairly generous benefits can discourage job search by offering a reasonably attractive alternative to paid employment, particularly part-time jobs.

The third problem of the social anesthesia strategy is that the anesthetic appears to be wearing off. Social anesthesia is a far cry from social integration. A minimum

income of €455 per month may be acceptable as a stopgap, but not as a way of life. In the long run, the RMI is no substitute for social integration through a steady job, for upward social mobility. Many of the supposed beneficiaries of social anesthesia policies harbor great bitterness toward a government that offers them meager allowances and a succession of dead-end internships and substandard part-time or temporary jobs. This dissatisfaction probably cost Lionel Jospin the Presidency in 2002, as leftist voters flocked to three different Trotskyite parties, preventing Jospin from qualifying for the run-off election with President Chirac. This dissatisfaction has also helped fuel the rise of the xenophobic, racist National Front of Jean-Marie Le Pen, which has become the number one party among both blue-collar workers and the unemployed. Perhaps most dramatically, resentment against social exclusion and limited job opportunities fanned the flames of the November 2005 upheaval in the French suburbs, which was spearheaded by marginalized, unemployed youths in the immigrant community.

Contrary to the dominant depictions, French economic policy changed dramatically in the years after 1983 (see also Vail 2010). The dysfunctional *dirigiste* apparatus was dismantled, while social anesthesia programs were established to protect and demobilize the victims of market-driven restructuring. The problem is not that France failed to change, but rather that the social anesthesia solutions to the challenge of *de-dirigisation* generated dysfunctions of their own. These dysfunctions, in turn, laid the foundations for the Sarkozy administration's liberal economic orientation.

### **Section 3 – Reforming the Social Anesthesia State**

Nicolas Sarkozy brought a clear liberalizing agenda to the *Elysée* in 2007. Part of the reason, as described above, was dissatisfaction with the social anesthesia state. Whatever its economic and political benefits in meeting the challenge of *de-dirigisation*, France's social anesthesia state was now imposing significant costs. Although the French generally refer fondly to their "social model" or "system of social protection," which they contrast to the heartless, lean-and-mean American model (Smith 2004), Sarkozy countered that a system that generated mass unemployment could in no way be viewed as a "social model." Sarkozy hammered away at the failings of the social anesthesia state: "Today, there are three certainties: the [French social] system is not financially sustainable, it discourages employment ... finally, it does not provide equality of opportunity" (*Libération*, 18 September 2007). In Sarkozy's view, the social anesthesia state produces "more injustice than justice .... We must change it."

Sarkozy did not just denounce the failings of France's social system; he also ran for President on a pledge to overhaul it. Already in 2004, while serving as Minister of the Economy, Sarkozy had tasked Michel Camdessus, a former head of the IMF known for his neo-liberal orientation, to head a commission to identify solutions for renewing French economic growth. The Camdessus report proposed to "jumpstart" the French economy through a series of mostly neo-liberal reforms: cutting public spending by one percent of GDP every year, bringing tax rates down to the level of France's European competitors, eliminating the distinction between highly protected permanent workers and unprotected temporary workers, reducing the costs and uncertainties encountered by firms making lay-offs, limiting increases in the minimum wage, introducing flexibility into the 35-hour workweek, and allowing employees to "work more to earn more" through generous tax treatment of overtime hours (Camdessus 2004). Sarkozy referred to

the Camdessus report as his “bedside reading” or “bible,” and most of its proposals made it into his 15-point presidential program (Sarkozy 2007). In addition, the phrase “work more to earn more” became a staple of Sarkozy’s campaign speeches.

Sarkozy’s presidential campaign meant that for the first time in a generation, a French President could claim a democratic mandate for far-reaching market reform. In the past, French leaders from Mitterrand to Chirac to Jospin, had secured election on promises to expand state intervention to heal France’s economic and social woes, then backtracked toward a more orthodox economic agenda shortly after assuming office. Because they lacked a mandate for market reform, indeed were seen as having betrayed their campaign promises, Mitterrand, Chirac, and Jospin could move only incrementally at best and often by “stealth” (Gordon and Meunier 2001). Sarkozy, by contrast, campaigned against the status quo and the French social model. Although he generally avoided the “L word” (liberalism), Sarkozy promised a “rupture” if elected, with an emphasis on such neo-liberal measures as lowering the tax burden, expanding labor market flexibility, and rewarding work (“more pay for more work”).

Electoral and clientelist considerations reinforced the government’s neo-liberal orientation. In the long term, Sarkozy certainly hoped that the pruning and reform of the social anesthesia state, by strengthening the French economy and encouraging employment, would benefit all citizens. Even if the economic results fell short of these hopes, however, the immediate effect of the reforms was to largely reward friends and punish enemies. Government spending cuts would impose costs on civil servants and the recipients of social services, who generally vote for the left, while tax cuts would rebound largely to the advantage of high-income conservative supporters. Thus, economic diagnosis, presidential campaigning, and electoral calculations combined to push the Sarkozy administration toward an overhaul of the social anesthesia state.

The government’s liberalizing agenda contained three main components: tax cuts, reductions in state spending, and measures to increase labor market flexibility. Of course, the three components were interrelated. In order to contain France’s already sizable budget deficits, any tax cuts would have to be offset by reductions in government spending of at least equal size. Similarly, part of the strategy for encouraging labor market participation was to increase the returns to paid employment by reducing the taxes of those who were working (tax cuts) and the social transfer payments of those who were not (spending cuts). More fundamentally, though, the three components of the government’s agenda all reflected an effort to curtail and reform the social anesthesia state: to lighten the tax burden, scale back public spending, and make labor markets less “passive” and more employment friendly.

### 1) Tax Cuts

The Sarkozy administration’s first major initiative was in the area of tax relief. In the summer of 2007, Parliament enacted the Law in Favor of Labor, Employment, and Purchasing power (*Loi pour le Travail, l’Emploi, et le Pouvoir d’Achat* or TEPA), a package of cuts totaling roughly EUR 15 billion per year (Greciano 2008; Monnier 2009). The TEPA was often referred to by the government as the “fiscal shock” or “growth shock” because it was supposed to give a kick-start to economic growth. The evocation of “labor, employment, and purchasing power” stemmed mainly from the provision of the law exempting overtime hours from income and payroll taxes, at a cost

of approximately EUR 6 billion per year. This tax break allows employees to retain a greater share of their overtime earnings, thereby honoring Sarkozy's campaign pledge to encourage the French to "work more to earn more."<sup>4</sup>

Despite the law's labeling, the rest of the TEPA tax breaks do little to reward work. One provision provides for the deductibility of 20 percent of home mortgage interest for the first five years of the loan (up to a maximum of EUR 8,500 per year for a family of four); another reduces inheritance and wealth taxes. The most controversial provision in the TEPA involves the so-called "fiscal shield," a ceiling on the total direct tax liability of any individual. The Chirac government had established the fiscal shield in 2006, setting it at 60 percent of earnings. Arguing that, "one should not take from someone more than half of what he earns," Sarkozy reduced the figure to 50 percent (*Libération*, 31 March 2010). The TEPA also incorporated various social security charges (CSG, CRDS) into the fiscal shield. Far from rewarding work, the "fiscal shield" delivers the vast proportion of its benefits to France's most affluent citizens, whose wealth and income derive largely from real estate and stock holdings. According to a report by a Member of Parliament from Sarkozy's UMP party, in 2008, the top 1,000 beneficiaries received 74 percent of the savings from the fiscal shield, an average of EUR 337,241 per household (Carrez 2009). This figure represented an increase of 85 percent over the previous year, thanks to the TEPA.

## 2) Reductions in Public Spending

Given that France was already battling with the European Commission over its excessive budget deficits when Sarkozy came to office, tax cuts like the TEPA needed to be accompanied by austerity measures on the spending side. Sarkozy pledged that the government would finally get serious about living within its means. His Prime Minister, François Fillon railed against past fiscal irresponsibility and declared that it was time for France to turn over a new leaf:

I am at the head of a State that is in a situation of financial bankruptcy. I am at the head of a State that has run chronic deficits for the last fifteen years. I am at the head of a State that has not balanced a budget in twenty-five years. This can't continue (*Libération*, 22 September 2007).

As a symbol of its commitment to shrinking the state, the Sarkozy administration instituted a policy of not replacing one retiring civil servant out of two. The clear message was that the French state contains considerable pockets of inefficiency and should be able to do more with less. This attrition policy eliminated nearly 100,000 positions in the civil service from 2007 to 2009, with about 40,000 job reductions in the national education system. The Ministry of the Interior (police) and Ministry of Defense

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<sup>4</sup> Critics of the tax cut countered that it would mainly encourage employers to substitute overtime hours for new hires, with little or no net gain in hours worked. Another concern was that employers and workers would collude to defraud the tax and social security system by shifting payments from bonuses and other kinds of payments that are taxed to overtime hours that are tax-free.

were also hard hit, and in 2009, employment in public hospitals shrank for the first time ever (*Libération*, 21 January 2010).

Another important austerity measure was the reform of the so-called “special pension regimes” (*régimes spéciaux*) that had enabled certain categories of public employees (mainly transportation and energy workers) to retire as early as age 50 (Howell 2008). The special pension regimes symbolized much of what Sarkozy found objectionable about the social anesthesia state: they were expensive; they paid people not to work; and they provided what seemed like disproportionate benefits to a privileged group of public employees (although these workers countered that generous pensions were compensation for wages that were often lower than in the private sector). Moreover, public transportation workers had repeatedly derailed government reforms, like the 1995 Juppé Plan, through crippling strikes and protests. The fall 2007 reform of the *régimes spéciaux*, which essentially aligned the requirements for receiving a full pension on those of other public sector workers, did trigger strikes and transportation shutdowns, but Sarkozy was able to avoid the plight of Juppé. Unlike his predecessor, Sarkozy could claim a democratic mandate for the changes that he was proposing. He also displayed greater political skill. Sarkozy made a point of meeting repeatedly with the unions, stating that he was open to negotiating the terms of the reform, and extending a small degree of compensation to workers who lost their early retirement benefits (in the form of higher wages and a more generous reference wage for the calculation of pensions). Perhaps for these reasons, in contrast to 1995, public opinion polls in 2007 leaned toward the government over the strikers, and the reform went through largely on the administration’s terms.

### 3) Labor Market Activation

In addition to seeking to shrink the social anesthesia state through a combination of spending and tax cuts, the Sarkozy administration dedicated considerable effort to making the French welfare system more “active,” that is, more favorable to employment. This “activation” effort had several strands. One was to rein in opportunities for early exit from the labor market. The reform of the *régimes spéciaux* raised the effective retirement age by five to ten years among the affected workers, and the government clamped down on other programs that subsidized early retirement. Along with these sticks, the administration tendered carrots to older French employees, such as relaxed rules on combining employment and pension income and a more generous calculation of pension benefits earned for those who remain employed beyond the age of 60 (OECD 2009: 53-55).

A second strand of the government’s activation strategy was to curb regulations that were said to impede job creation. France’s very high minimum wage (SMIC), at over EUR 1300 per month, is widely believed to discourage hiring among young and unskilled workers (Minc 1994). The government has, therefore, refused to continue the tradition of providing a “nudge” (*coup de pouce*) to the SMIC beyond the legally mandated adjustment for inflation (OECD 2009). The government also sought to make it easier for employers to undertake lay-offs, arguing that this facility would encourage greater hiring in the first place. In particular, a 2008 reform allowed employers to terminate permanent job contracts (*contrats à durée déterminée*, CDD) by mutual agreement with employees (with employees gaining access to better social benefits in

return). The government enacted another deregulatory law in summer 2009, seeking to expand employment in the retail sector by allowing stores in urban and tourist zones to remain open on Sundays (Greciano 2010). In many cases, the stores were also exempted from having to provide bonus pay for Sunday work.

Of course, the administration's biggest regulatory bogey has been the Jospin government's 35-hour workweek. Sarkozy has blamed the 35-hour workweek for everything from "killing French industry" (*Libération*, 4 March 2010) to causing mass unemployment:

Why is there so much more unemployment in our country?  
Because we chose to share jobs rather than pursue growth ...  
[This] choice of the 35-hour workweek has revealed itself to be a catastrophe (*Libération*, 1 February 2010).

Yet the government has stopped short of repealing the 35-hour workweek. The right is wary of a potential backlash among employees, who have become attached to the system (and often made important concessions in negotiations with employers to establish the 35-hour workweek). Instead of a frontal assault, the Sarkozy administration, following the lead of the Chirac administration, has proceeded incrementally, gradually emptying the 35-hour workweek of much of its substance (Howell 2009; OECD 2009). Although the formal law remains in place, legislative changes introduced in 2003, 2005, and 2007 have effectively made it possible for employers to increase the workweek to 39 hours by simply paying a 10 percent wage premium on the extra hours and negotiating the changes with workplace representatives. Moreover, under the TEPA law, employers receive reductions on their taxes and social security charges for the extra hours.

A third strand of the government's activation strategy was to increase the pressure on the unemployed to take jobs. A law in early 2008 merged the unemployment benefits service (UNEDIC) with the job placement agency (ANPE) into a so-called "Employment Pole" (*Pôle Emploi*). Aside from providing a one-stop shop for job seekers, the creation of the Employment Pole sent the message that the unemployed could no longer passively receive their checks (UNEDIC), but were expected to actively search for work (ANPE). More concretely, the August 2008 Law on the Rights and Duties of Job Seekers established the requirement that all job seekers devise individualized "employment plans" in cooperation with their advisors at the Employment Pole (OECD 2009: 48-49). These employment plans are then to be used to determine appropriate job opportunities, and if an unemployed person turns down more than two "reasonable offers of employment," unemployment benefits are suspended for two months initially, with the sanctions rising for successive refusals. Job seekers are also expected to moderate their expectations for the pay and geographic location of acceptable jobs if they remain unemployed for a prolonged period. The 2008 reform did contain one advantage for the unemployed, which is the possibility of becoming eligible for benefits after four months on the job, rather than six months previously.

The fourth and final strand of the government's efforts to expand labor market flexibility was to increase the financial returns to taking jobs and working longer hours. The TEPA law, as noted above, increased the take-home pay of workers putting in overtime hours by exempting these earnings from taxes and social security charges. The

overhaul of the RMI operated in a similar spirit (Greciano 2010). In 2009, the RMI was replaced by the revealingly named “Active Solidarity Income” (*Revenu de Solidarité Active*, RSA). Aside from more sustained assistance with job search, the main change introduced under the RSA was to allow recipients to combine government benefits with earnings from employment, so that there would always be a significant advantage to working, even in a part-time, minimum-wage position. The RSA also made subsidies available to offset the costs associated with working, such as transportation and childcare.

The early fiscal, welfare, and labor market policies of the Sarkozy administration were hardly an exercise in Thatcherism. The government proceeded cautiously, negotiating compromises with the social partners wherever possible (albeit often threatening to legislate should an agreement not be reached). Moreover, Sarkozy was willing to offer carrots as well as sticks, increasing the take-home pay of the unemployed who took jobs or the already employed who worked longer hours. Still, the direction of French reform was clear. Each change chipped away at the social anesthesia state, reducing social spending and taxes, while expanding labor market flexibility. The problem for Sarkozy is that this move in a neo-liberal direction took place at precisely the moment when the neo-liberal model experienced its greatest crisis since the 1930s. The 2008 financial meltdown induced Sarkozy to take up a different kind of economic agenda, one more closely associated with France’s old *dirigiste* ways.

#### **Section 4 – Sarkozy’s Statist Response to the Crisis**

Sarkozy responded to the 2008 meltdown by tacking in a sharply neo-*dirigiste* direction. There were several reasons for this move. First, the severity of the economic crisis meant that no actor other than the state possessed the means to respond quickly to avert disaster. In France, as in other countries, financial institutions teetered on the verge of collapse and lending dried up, necessitating some kind of bank rescue and recapitalization. The economy sank into recession, making it imperative to launch a stimulus package. And the spread of plant closings and unemployment compelled the government to step in to alleviate the suffering of those who were poor and jobless through no fault of their own. Faced with a historic crisis of capitalism, even liberal regimes like the United States and United Kingdom intervened on a massive scale.

Sarkozy’s statist turn was driven by more than economic imperatives. It also fit well with his personality and governing style. Despite the relatively neo-liberal orientation of the government’s initial policy, Sarkozy is no neo-liberal dogmatist. Already, as Minister of the Economy in 2004-2005, he had displayed a willingness to engage in *dirigiste* practices. Sarkozy orchestrated the bailout of the high-speed train manufacturer, Alstom and helped arrange a merger between two French pharmaceutical companies, Sanofi and Aventis that was designed to prevent a takeover of the latter by a Swiss company, Novartis. Both of these moves prioritized the defense of French companies and national control over principles of free competition.

Sarkozy is first and foremost an activist, rather than a neo-liberal. As President, he has been compared to the energizer bunny and earned such nicknames as “omnipresident” and “hyperpresident” for his perpetual activism (Foucault 2007). More than any President under the Fifth Republic, Sarkozy has insisted on being front and center in the public eye, making all decisions big and small, and launching new initiatives on an almost daily basis. If at the outset of his Presidency, being an activist meant being



a neo-liberal, in response to the financial crisis, Sarkozy seemed to jump at the opportunity to be an activist by becoming a neo-statist.

Sarkozy's statist turn also dovetailed with his electoral strategy of *ouverture* or opening to the left. Following his election as President, Sarkozy appointed a number of leaders from the other side of the political spectrum and left-leaning associational groups to positions within his government (Szarka 2009).<sup>5</sup> Sarkozy maintained that he was simply trying to get the best people for the job. This claim may have been true, but there was a clear political calculus behind the initiative. The raid on leftist leaders disoriented and demoralized the opposition Socialist party, which gave the appearance of a sinking ship abandoned by its crew. The party divided over the issue of participation in the Sarkozy administration, with some Socialist calling for punishment or even for the exclusion of figures who "collaborated" with Sarkozy. In response, several participants either took a leave of absence from the Socialist Party and its governing body or quit the party altogether.

Another important political benefit of *ouverture* was to blur the boundaries between left and right. Sarkozy sought to advance the notion that he was governing on behalf of all French citizens, not just supporters of the right. He was also receptive to all good ideas, without regard to their political origins. Thus, even if the center of gravity of Sarkozy's initial policy was clearly neo-liberal, he enacted several reforms that spoke to a concern for the working class and the disadvantaged, traditional constituents of the left. The transformation of the RMI into the RSA, which boosted the earnings of those moving from welfare to work, and the de-taxing of overtime hours, which boosted worker pay packages, were emblematic of this effort to occupy some of the policy space of the left.

The crisis of neo-liberal capitalism provided Sarkozy with an opportunity to take the strategy of *ouverture* a step further. If the French had mostly reconciled themselves to the market since 1983, they had never embraced the market. This ambivalence was especially pronounced among supporters of the left. Consequently, a neo-statist response to the financial meltdown could potentially allow Sarkozy to steal both the left's policy agenda, that of taming and humanizing capitalism, and many of its voters. In short, Sarkozy's statist turn was driven by the economic pressures stemming from the financial meltdown, for sure, but also by political calculations – in particular, by the desire to project an activist image and to divide and demoralize the left. This statist turn encompassed four main elements: 1) a return to Keynesian demand management; 2) a

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<sup>5</sup> These figures included: Bernard Kouchner, a co-founder of Doctors without Borders and a leader in the Socialist Party, who became Minister of Foreign and European Affairs; Jean-Marie Boeckel, a Socialist Senator and Mayor of Mulhouse, selected to be State Secretary for Cooperation and Francophone Relations; Jean-Pierre Jouyet, a former Jospin Cabinet Director, who was chosen to serve as State Secretary for European Affairs; Eric Besson, who had been Ségolène Royal's economic advisor until breaking with her just prior to the presidential election, named State Secretary in Charge of Forecasting and the Evaluation of Public Policy; Martin Hirsch, the head of the Emmaüs France organization that works to help the homeless and poor, who was named High Commissioner of Solidarity; and Fadela Amara, founder of the feminist group, "Neither Whores nor Submissives," who became State Secretary for Urban Policy.

loosening of social spending; 3) the revival of industrial policy; 4) a commitment to more effective regulation.

### 1) A Return to Keynesian Demand Management

On the fiscal front, France's budget deficit reached 7.5 percent of GDP in 2009 and is slated to top 8 percent in 2010. Part of the reason has been the operation of automatic stabilizers from the country's massive welfare state. In addition, following a Keynesian logic, the government launched a EUR 26 billion stimulus package in December 2008, which emphasized investment in public infrastructure and aid to small business (OECD 2009). Sarkozy has also primed the pump through tax cuts. He initially announced a one-year holiday for local business taxes (*taxe professionnelle*), then decided to eliminate the tax altogether as of 2010. The elimination of the *taxe professionnelle* will save French businesses EUR 12.3 billion in 2010, according to the government, before dropping to around EUR 6.3 billion in subsequent years, as partial replacement taxes deemed less dissuasive to investment kick in (Ministry of the Economy 2010).

### 2) A Loosening of Social Spending

Although Sarkozy's Keynesian policy has emphasized support for investment as opposed to consumption, a second shift in the wake of the financial meltdown has been a greater receptiveness to social spending. The government's position that the social anesthesia state was discouraging employment, while perhaps reasonable during a period of growth, became less tenable as the recession multiplied the number of people who are poor and unable to find jobs through no fault of their own. Sarkozy acknowledged as much, declaring early in October 2008: "We'll get out of this crisis. I won't leave anyone by the side of road. We will protect everyone" (*Libération*, 29 October 2008).

In this spirit, the government has launched a series of social initiatives. Initial measures included an increase in the benefit rate for part-time workers who lose their jobs (60 percent of previous wages instead of 50 percent) and the creation of an additional 100,000 subsidized employment opportunities (OECD 2009). The December 2008 fiscal stimulus plan added a EUR 200 bonus for the 3.8 million recipients of the RMA. Following a "social summit" with the unions in January 2009, Sarkozy announced a EUR 1.3 billion package of measures for the "victims of the crisis in a spirit of responsibility and social justice" (*Libération*, 18 January 2009). This package included more generous unemployment benefits, funds for retraining and job placement, a EUR 150 bonus for low-income families, and a EUR 200 subsidy to help offset the costs of care for children, the handicapped, or elderly relatives. Finally, in April 2009, Sarkozy put forward a EUR 1.3 billion "youth employment plan" to encourage employers to hire and train unemployed youths under the age of 26.

### 3) The Revival of Industrial Policy

A third dimension of Sarkozy's response to the financial crisis has been a revival of voluntarist industrial policy. Not all such initiatives have been unique to France, of course. As one French scholar has noted, "The return of industrial policy is not a Franco-French phenomenon, but can be observed in almost all the industrialized countries" (Chevallier 2010: 5). Sarkozy, like other leaders, was forced to rescue the banking

sector. There were two punctual interventions to save banks on the verge of failure. In October 2008, the French government joined with the Belgian and Luxembourg governments to rescue Dexia, the leading lender to local authorities in France and Belgium, at a cost of EUR 6.8 billion (EUR 3 billion from France). The government also orchestrated a merger and injected EUR 5 billion into two French banks, the Caisse d'Épargne and Banque Populaire that had been brought to their knees by exposure to the US subprime market and the collapse of Lehman Brothers.

On a grander scale, in October 2008, Sarkozy announced a massive EUR 360 billion rescue package for the banking industry as a whole (OECD 2009). The package included EUR 40 billion in fresh capital to bolster the solvency of France's leading banks and EUR 320 billion in loan guarantees to improve liquidity and lending. Still, in comparative perspective, this rescue package is not terribly distinctive or large. Germany committed EUR 480 billion and the United Kingdom EUR 382 billion to their respective financial institutions (*Libération*, 9 February 2009).

The Sarkozy administration also intervened to help the French auto industry (Greciano 2010). In early 2009, Sarkozy provided EUR 7.8 billion in subsidized loans to the main domestic manufacturers (Renault, Peugeot, Citroën, Renault Trucks) along with their subcontractors. The government provided further support to the industry through a French version of "cash for clunkers" programs seen in the US and Germany, tendering rebates of up to EUR 1000 for the replacement of cars older than ten years with new, fuel-efficient models. Once again, though, France was not alone in deeming the auto industry "too big to fail." The US likewise supported domestic auto manufacturers through a combination of capital injections and incentives for new car purchases.

Where Sarkozy's industrial policy appears more distinctive is in going beyond the rescue of those too big to fail. Sarkozy has launched several initiatives that evoke a traditional French *dirigiste* approach not seen since the early 1980s. In November 2008, he announced the creation of the Strategic Investment Fund (*Fonds Stratégique d'Investissement*, FSI), modeled on the sovereign wealth funds of several foreign countries (Greciano 2010). The FSI was given EUR 20 billion in capital to invest in companies that are critical to the competitiveness of the French economy based on their potential for growth, technological mastery, savoir-faire, export potential, or brand value. In a neo-mercantilist tilt, Sarkozy also entrusted the FSI with protecting "companies that may become the prey of [foreign] predators."

The FSI was supplemented by the "grand national loan" (*grand emprunt national*) one year later. Sarkozy commissioned a study by two former Prime Ministers, one on the right (Alain Juppé) and one on the left (Michel Rocard), to identify priority measures for promoting French industry (Greciano 2010). Based on Juppé and Rocard's recommendations, Sarkozy launched a state loan campaign in November 2009 that will raise EUR 35 billion. Of that EUR 35 billion, EUR 11 billion are intended to help five to ten institutions of higher education reach world class level, EUR 8 billion will promote technology transfer from research to industry, EUR 6.5 billion will support industrial SMEs, EUR 5 billion will fund sustainable development initiatives, and EUR 4.5 billion will encourage France's transition to a digital economy (*Le Monde*, 14 December 2009).

Most recently, beginning in November 2009, the government convened a series of meetings, the Estates General of Industry (*Etats généraux de l'industrie*), to analyze the problems of French industry. At the conclusion of the Estates General in March 2010,

Sarkozy announced over EUR 1 billion in new aid, declaring “France must keep its factories; France must keep its instruments of production” (*Libération*, 4 March 2010). Sarkozy also spelled out a series of specific targets in the purest 1970s industrial policy style. These targets included: increasing industrial production by 25 percent in five years; boosting France’s share of European industry by 2 percent by 2015; sustaining employment in industry at current levels; returning to a trade surplus in manufactured goods (excluding energy) by 2015 (French Presidency 2010).

Along with ambitious industrial policy initiatives like the Strategic Investment Fund, National Loan, and Estates General of Industry, Sarkozy has periodically responded to pleas and protests with pledges to save individual factories on the verge of closing (Mittal steel, Caterpillar tractors, etc.). Sarkozy has also impinged on managerial decision-making in ways that harken back to an earlier era. For example, in return for low-interest state loans, French auto manufacturers were required to pledge not to make any lay-offs for one year and to close no plants in France for the duration of the loans. This concession did not stop Sarkozy from voicing outrage that French automakers purchase only one-third of their components from French suppliers and vowing to eventually boost the figure to two-thirds. Nor has Sarkozy been shy about placing loyalists in positions of economic influence. As part of the state-supported rescue and merger of Banque Populaire and Caisse d’Epargne, Sarkozy named his main economic policy advisor, François Pérol as CEO of the new entity. Pérol is not only a Sarkozy loyalist, but also a figure closely associated with statist industrial policy.

#### 4) A Commitment to More Effective Regulation

Sarkozy’s more interventionist approach to industry speaks to the fourth dimension of his response to the financial meltdown – a commitment to robust regulation. Sarkozy has railed against the *laissez-faire* excesses of the neo-liberal age. In his first public speech following the outbreak of the crisis, he announced: “*Laissez-faire* is over. The market that is always right is over” (*Libération*, 26 September 2008). Sarkozy denounced unchecked speculation by financial institutions, the excessive pay of executive and traders, and the provision of golden parachutes to CEOs who ruined their companies. Instead, what is needed is “a new balance between the State and the market.” Sarkozy called for no less than a “refounding of capitalism,” starting with a global summit “to go back to square one with the global financial and monetary system, just like we did at Bretton Woods after World War II.”

Sarkozy has been a forceful advocate of coordinated regulation across Europe and the G20. Among the measures he supports are: supervision of financial rating agencies; more effective book-keeping rules; the regulation of hedge funds; tight controls on stock options, bonuses, and pay for executives and traders; the blacklisting of tax havens; and a tax on financial transactions to discourage speculation. To signal his seriousness of purpose, in the run-up to the London G20 summit in April 2009, Sarkozy threatened to leave early or refuse to sign the final communiqué unless meaningful reforms were introduced: “If the hoped-for results are not there, I will not sign the communiqué. The crisis is too serious to allow ourselves a summit for nothing” (*Libération*, 2 April 2009).

Back home, Sarkozy’s energies have focused on executive bonuses. As in many countries, French leaders and citizens were shocked when traders and executives from financial institutions that had been rescued by the state started paying themselves

enormous bonuses. The Sarkozy government's response was not long in coming. Sarkozy declared, "There cannot be efforts by those at the bottom and absolutely no effort by those at the top. We must put an end to practices that have justly aroused the indignation of the French" (*Libération*, 15 January 2009). Sarkozy's Minister of the Economy warned the banks that had received a first tranche of government aid and that were scheduled to receive a second EUR 10.5 billion infusion that they would "have to find another ATM" if their executives did not renounce their bonuses (*Libération*, 19 January 2009).

In short order, the government established the operating principle that bonuses would not be allowed in companies receiving state support. Sarkozy suggested that executives in companies undertaking lay-offs should also forego their bonuses and that he was prepared to legislate on the matter if necessary, but no such legislation has yet been enacted. The administration did institute a one-time 50 percent tax on bonuses above EUR 27,500 paid by banks in 2009, an initiative that was coordinated with the British government.

## **Section 5 - The Limits of Sarkozy's Statism**

The 2008 financial meltdown prompted a number of shifts in the Sarkozy administration's economic policy. Budget deficits have grown to levels not seen since World War II; new social programs have been launched; *dirigiste* industrial policy seems to have made a return; and Sarkozy has become perhaps the leading exponent of a break with *laissez-faire* capitalism, of the establishment of a comprehensive regulatory framework. Changes such as these have fueled the widespread impression that France has returned to its old *dirigiste* ways. Such an impression rests on a grossly exaggerated view of the changes that have occurred in French policy since 2008, however. More fundamentally, it ignores the powerful constraints -- many the result of past French policy choices -- that have severely circumscribed the possibilities for a revival of state direction of the economy. Neo-*dirigiste* initiatives have been greatly limited by a combination of intellectual, fiscal and geopolitical constraints.

### **1) Intellectual Constraints**

The first constraint is intellectual or conceptual. The Sarkozy administration lacks a coherent strategy or vision for French industry. Under the *dirigiste* model, French planners pursued a "national champions" strategy based on scale economies, technologies transferred from state research labs, and subsidies and guaranteed markets to encourage investment and innovation (Cohen and Bauer 1985; Cohen 1992). This strategy may have been wise or may have been foolish, but it was unquestionably a strategy.

The Sarkozy administration, by contrast, has no real strategy for the companies that it has been helping. The bank bailouts initially came with no strings attached other than an obligation to increase lending in 2009, which the banks promptly ignored (Massoc and Jabko 2011 forthcoming). It was only in the wake of the bonus scandals that the government began intervening more closely in the banks' affairs, and here, the motivation was social (to curb abusive bonus practices), rather than economic.

Much the same can be said of the aid to the automobile industry. The government did not pursue any kind of economic vision. It did not seek to accelerate the pace of investment or development of new car models. It did not condition aid on the

introduction of greener hybrid or electric cars. Instead, as with the banks, the government's concerns were social – to prevent factory closings and lay-offs. Far from a voluntarist industrial policy, the rescue of the bank and auto industries seems reminiscent of the worst failings of the tail-end of the *dirigiste* era, when the promotion of innovation and the industries of the future gave way to bail-outs of lame ducks for the sake of putting out social brushfires and preserving jobs (Berger 1981; Cohen 1989; Levy 1999).

## 2) Fiscal Constraints

A second limitation on the return to state activism has been fiscal. The government lacks the financial resources to pursue an ambitious economic agenda. Even before the recession, France's budget deficit exceeded EMU Stability Pact rules (3.4 percent of GDP in 2008, as opposed to a legal ceiling of 3.0 percent of GDP and a Euro-zone average of 1.5 percent of GDP). So, too, did government debt, which is now approaching 80 percent of GDP, some 20 percent of GDP above the level authorized by the Stability Pact (Greciano 2010). Consequently, the Sarkozy administration has been extremely reluctant to establish new spending commitments. Although France's budget deficit increased to 7.5 percent of GDP in 2009, this surge occurred almost exclusively through the operation of automatic stabilizers, as opposed to government fine-tuning. The US deficit actually increased more during this period, rising from 3.2 percent of GDP in 2008 to 9.9 percent of GDP in 2010, despite the fact that the US welfare state is much smaller.

The Sarkozy administration's inability or unwillingness to spend fresh money has sharply constrained new economic initiatives. Many of Sarkozy's signature initiatives have been built on the cheap, often relying heavily on the reallocation of funds from existing programs. The December 2008 "stimulus package," for example, was claimed to total EUR 26 billion or 1.3 percent of GDP. Even if taken at face value, this stimulus package would have still been considerably smaller than those of many other countries, including the US and UK. However, the amount of new money committed by the government was far less than the stated value. Most of the actions involved bringing forward to 2009 expenditures that were previously to be spread out over two to three years (accelerated investments in public infrastructure projects, early repayment of money owed to private contractors). When these adjustments are taken into account, the commitment of new funds to the stimulus package was not EUR 26 billion, but rather EUR 4-6 billion.

The main industrial policy initiatives have likewise been constructed with an eye to limiting the government's financial obligations. The first EUR 10.5 capital infusion for French banks came, not from the state, but rather from the state's allied financial institution, the Caisse des Dépôts et Consignations (CDC). The CDC receives cheap capital primarily in the form of tax-exempt funds collected by savings banks and the post office. In return, it performs various public missions, most notably funding the construction of social housing and acting as a long-term investor in many of France's most prominent companies (including about one-half of the CAC 40, or the forty leading enterprises listed on the Paris bourse).

The government tapped the CDC not only for the first round of bank recapitalizations, but also for one-half the costs of the Strategic Investment Fund (FSI). The FSI, which is tasked with supporting strategic French enterprises, received a total of

EUR 20 billion. The government provided only EUR 10 billion of that that EUR 20 billion, with the CDC providing the other EUR 10 billion. Moreover, just EUR 3 billion of the government's share represented fresh spending; the other EUR 7 billion came from the state's transfer of its minority share-holdings in a number of privatized companies (including Air France and Renault). In effect, the creation of the FSI did not add much to the French state's industrial policy arsenal, since it involved little new money and since the CDC, which put up much of the money, already performed the vocation for which the FSI was established (providing long-term or stable capital to strategic French firms). Perhaps for this reason, the CDC was given a 51 percent majority share and operational control over the FSI.

The EUR 35 billion "Grand National Loan" has also involved a limited financial commitment by the government. For starters, as the name indicates, the program relies on long-term borrowing, rather than direct outlays. Moreover, EUR 13 billion of the EUR 35 billion will come from the repayment of loans by French banks, rather than new borrowing. On the spending side, EUR 19 billion of the EUR 35 billion is being committed to higher education at a time when the government has been cutting educational spending and employment from year to year. French spending on higher education is ranked among the lowest in the OECD (1.9 percent of GDP, as opposed to 3.5 percent of GDP in the USA), and the figure has been falling since 1995 (*Libération*, 15 December 2009). Thus, to some extent, the "big loan" will wind up replacing funding cuts in the government's regular budgets. Sarkozy's plan to revive French manufacturing is even more tight-fisted. Despite the ambitious objectives (increasing industrial production by 25 percent in five years, etc.), the administration committed barely EUR 1 billion to the enterprise.

The area where Sarkozy has been most reluctant to spend new money has been social policy. The government argues, not without reason, that France's generous welfare state has automatically increased social spending significantly in response to the recession. More controversially, the administration contends that France's principal economic problems are on the supply side, not the demand side, so that aid to the consumers and the disadvantaged would benefit Japanese and German exporters, rather than French business (*Libération*, 31 January 2009). The government's December 2008 stimulus plan clearly reflected this bias against social spending. Declaring that, "our response to the crisis is investment," Sarkozy committed over EUR 25 billion of the EUR 26 billion stimulus plan to infrastructure spending and aid to business, with less than EUR 1 billion devoted to a one-time, EUR 200 bonus for recipients of the RSA minimum income.

The government's emphasis on investment at the expense of consumption triggered loud denunciations on the left, and in January 2009, the unions put 2 million protestors into the streets. In response, Sarkozy convened a "social summit" with the social partners, at the conclusion of which he announced new benefits for the unemployed and low-income families. This package of benefits totaled only EUR 1.3 billion, however, or 5 percent of the original fiscal stimulus package. Two months later, Sarkozy committed another EUR 1.3 billion to a Youth Employment Plan. Most of the money in this plan took the form of subsidies to employers for hiring or training unemployed people under the age of 26, rather than direct aid to those youths. In short, as reluctant as the government has been to spend money in general, it has been especially

reluctant to spend that money on consumption and the poor, as opposed to business investment. New social spending has been a defensive response to criticism and protest, not a deliberate government initiative; it has been partially directed to business; and it has been kept to the absolute lowest level possible.

### 3) Geopolitical Constraints

The third check on the Sarkozy administration's interventionist temptation has come from the international arena. Globalization has greatly complicated the task of pursuing *dirigiste* strategies. Indeed, one of the reasons why the original French *dirigiste* model ran into trouble in the 1980s is that while the planners were able to induce industry to boost output, they were less able to stimulate the production of high-quality, low-cost goods that could meet the demands of increasingly open and competitive markets (Hall 1990; Levy 1999). *Dirigisme* was far better suited to the hothouse environment of postwar protected markets than to an increasingly globalizing economy. This uncertainty about how to respond to global competition may be part of the reason why the Sarkozy administration has not really articulated an industrial policy vision, an understanding of the kinds of corporate strategies that the government's programs are supposed to promote.

The international constraint is felt perhaps most keenly with regard to Sarkozy's regulatory agenda. Sarkozy regularly issues hellfire-and-brimstone denunciations of *laissez-faire*, arguing that nothing short of a "refounding" and "moralizing" of capitalism can save capitalism. He is constantly calling for new financial regulations, new restrictions on bonuses and executive pay, new crackdowns on tax havens, new taxes on financial institutions. Yet little has changed, even in France. Aside from the one-time tax on bank bonuses, Sarkozy has enacted no comprehensive regulations. The only French companies that have been subjected to new rules are those that have received state aid (and only so long as they continue to receive state aid).

In a world of globalization, effective regulation of corporate behavior, especially on sensitive issues of pay, is widely believed to require a degree of international coordination. Otherwise, the leading regulatory runs the risk of seeing business flee to less demanding foreign pastures. Just as Keynesianism in one country led French capital to flow to more competitive trading partners in the early 1980s, a unilateral regulation on executive pay or bonuses today runs the risk of sending financial and other business employment offshore. Sarkozy is, therefore, largely unwilling to go it alone. Sarkozy has been working to rally support within Europe or across the G20, but he clearly feels that the French state lacks the effective capacity to pursue re-regulation in one country.

The 2008 financial meltdown has certainly changed Sarkozy's economic policy. To an agenda of neo-liberal reform has been added a series of neo-statist initiatives and aspirations. Neo-statism has not supplanted neo-liberalism, however. The government's early liberalizing reforms remain largely in place and, in some cases, have been extended (the elimination of the local business tax, the non-replacement of one-half of retiring civil servants, the easing of restrictions on Sunday work, etc.). Moreover, the neo-statist agenda has run up against a series of checks and constraints, including: uncertainty among French elites as to just what a voluntarist industrial policy should entail; the fiscal limits of the cash-strapped French state; the government's ambivalence about social spending; and the need for international coordination to make proposed new regulations



effective. Finally, there are signs of a new inflection in Sarkozy's policy, of a return to the kinds of liberalizing reforms that characterized the pre-crisis period.

### **Section 6 – Sarkozy's Policy Going Forward: A Return to Economic Liberalization?**

Nicolas Sarkozy's effort to blend neo-statism and economic liberalism has not gone over well with the French electorate. Several opinion polls at the end of March 2010 gave him an approval rating in the 30 percent range, the lowest that it has ever been (*Libération*, 29 March 2010). Disapproval of Sarkozy's economic policies has also reached record levels, with over 70 percent of respondents holding a negative view (*Libération*, 31 March 2010). Of course, it is very difficult for any leader to have popular economic policies amidst the worst economic disaster since the 1930s. Still, Sarkozy's blending of disparate elements seems to have antagonized voters on both sides of the political spectrum. Those on the left tend to dismiss his neo-statist initiatives as hollow gestures and window dressing designed to mask his true neo-liberal colors. At the same time, erstwhile supporters on the right are confused and disoriented by these very same neo-statist initiatives, wondering why a President of the right seems to be going to such great lengths to please voters on the left.

Sarkozy's party suffered a crushing defeat in the March 2010 regional elections. The mainstream right recorded its lowest share of the vote in the history of the Fifth Republic, and the left swept 21 out of 22 regions in metropolitan France. At first, Sarkozy tried to dismiss the election outcome as a purely local affair or an inevitable response to hard economic times. Under pressure from unhappy UMP Members of Parliament, however, he publicly acknowledged that the voters were dissatisfied and that a new approach was needed.

Sarkozy's response has been to recommit to "the fundamentals of 2007," to the principles that secured his election as President. In other words, Sarkozy has decided to play to his base, as opposed to extending the *ouverture* to the left. Indeed, one of Sarkozy's first moves was to shuffle his cabinet, allowing Martin Hirsch, the architect of the RSA and a symbol of *ouverture* to leave, while incorporating representatives of rival groups within his conservative camp. This movement was described by pundits as an *ouverture à droite* or "opening to the right," in contrast to the earlier opening to the left (*Le Monde*, 23 March 2010). Subsequent cabinet reshuffles have excluded other symbols of the opening to the left, including Foreign Minister, Bernard Kouchner and Secretary of State for Urban Policy, Fadela Amara.

Sarkozy's return to the fundamentals of 2007 has involved more than economic policy. In particular, he has multiplied law-and-order and anti-immigrant initiatives to placate conservative supporters and prevent a loss of voters to the far-right, xenophobic National Front. Law-and-order initiatives include: calling for the expansion of minimum sentencing requirements; appointing high-ranking police officials as Prefects in two departments where there has been significant urban violence (Seine-Saint-Denis and Isère); establishing police bureaus in 53 at-risk schools; and promising to create special boarding schools or boot camps for "young people who terrorize the other students" (*Libération*, 4 April 2010). Anti-immigrant measures include: a law banning the wearing of *burqas* or *niqabs* (Islamic garb that covers the face and body) in all public places; a proposal to rescind the French citizenship of naturalized immigrants who are guilty of endangering the life of a police officer or other public official, of practicing

polygamy, or of engaging in female circumcision; and a massive crackdown on illegal Roma encampments, with some 100 camps dismantled and 850 Roma deported in August 2010 alone. Both the burqa ban and retraction of French citizenship from naturalized immigrants are widely believed to be unconstitutional, but such measures are quite popular with the voters, especially on the right.<sup>6</sup>

The return to the fundamentals of 2007 has refashioned Sarkozy's economic policy as well. The government's principal economic initiatives speak to a revival of Sarkozy's original neo-liberal economic agenda. Almost immediately after the regional elections, Sarkozy announced that his top priority was pension reform. Despite earlier reforms, the French pension system remains in deficit, and the problem is only slated to get worse as the population ages. Still, from an economic perspective, it is not immediately obvious why addressing the pension imbalance would be the top priority for the government, especially since the necessary austerity measures would work at cross-purposes with a Keynesian response to the ongoing recession. From the perspective of reassuring the conservative faithful, though, the focus on pension reform made perfect sense. The government signaled a renewed commitment to curtailing the social anesthesia state, especially programs like pensions that pay people not to work. The character of the pension reform was also designed to appeal to conservatives: the bulk of the reduction in the pension deficit comes, not from increased payroll taxes paid by employers or generalized tax increases, but rather from raising the retirement age by two years and increasing the payroll taxes of civil servants to the same rate as private-sector employees (from 7.85 percent to 10.55 percent of wages). Despite massive protests in fall 2010 numbering in the millions of demonstrators along with occupations of oil refineries that temporarily paralyzed the nation, Sarkozy stood his ground and rammed through the pension reform. The reform was of limited economic value, eliminating at most 40 percent of the projected deficit in the pension system, but it sent a clear political message – Sarkozy was returning to his original agenda of paring the social anesthesia state.

Following the Greek debt crisis, amidst growing concerns about the sustainability of high levels of government deficits and pressure from the European Commission, the Sarkozy administration announced a more general austerity program. The government pledged to reduce the deficit from around 8 percent of GDP in 2010 to 6 percent in 2011, 4.6 percent in 2012, and 3 percent in 2013. To reach this target will require savings on the order of EUR 100 billion. As with the pension reform, Sarkozy is emphasizing cuts in public spending, instead of tax increases. Among the spending cuts announced thus far: a three-year freeze on state spending (in nominal terms, unadjusted for inflation); a three-year freeze on transfers to local governments; a 10 percent reduction in the

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<sup>6</sup> A poll of 1003 French people over the age of eighteen conducted by IFOP between 3 and 5 August 2010 yielded the following results: 80 percent (94 percent among voters on the right) support the retraction of French citizenship from naturalized immigrants who engaged in polygamy or female circumcision; 79 percent (94 percent among voters on the right) back the dismantling of illegal Roma encampments; and 80 percent (93 percent among voters on the right) favor a minimum sentence of 30 years in prison without the possibility of parole for killers of police officers IFOP (2010). Les jugements sur les mesures de lutte contre l'insécurité. Paris. August 2010.

operational budget of all government ministries; the phasing out of most of the measures associated with the stimulus package; the non-replacement of one-half of all retiring civil servants; and sharp reductions in employment subsidies and social benefits, notably housing allowances.

Sarkozy's neo-liberal turn appears to be eclipsing his environmental policy. Immediately after the regional elections, Sarkozy announced that he was scrapping a so-called "carbon tax" designed to discourage pollution. The carbon tax had been a symbol of Sarkozy's *ouverture* policy. The tax was the product of negotiations with (often left-leaning) environmental groups, and the legislation was based on a report prepared by former Socialist Prime Minister, Michel Rocard. More fundamentally, the carbon tax represented an effort by Sarkozy to show that the left does not possess a monopoly on ecology, that ecology could be an agenda of the right.

Despite all manner of exemptions for industry and agriculture and promised compensation for households to insure that there would be no net increase in taxation, conservative supporters hated the carbon tax. They saw it as a burden on business and were skeptical that the government would fully compensate households for the costs (a skepticism shared by many on the left). Although Sarkozy had insisted repeatedly that he would enact some kind of carbon tax (the initial version had been struck down by the Constitutional Court for treating citizens unequally), he backed down after the regional elections.<sup>7</sup> Several subsequent decisions have reaffirmed this prioritizing of economic and electoral concerns over environmental concerns. In May 2010, Sarkozy postponed the implementation of a tax on large trucks (over 3.5 metric tons), and there is widespread suspicion that the tax will never see the light of day. In July, when the ministries were given their budget forecasts for the next three years, the Ministry of Ecology took the biggest hit.

A common theme of all of Sarkozy's recent economic measures has been a dogged resistance to tax increases. The "carbon tax" was discarded, despite provisions to compensate households for the measure, because it was seen as creating a new tax. Similarly, the pension reform and the austerity budget were long on spending cuts and short on tax hikes. Despite tremendous budgetary pressures, the only tax increases that Sarkozy has countenanced have entailed rolling back certain loopholes or tax deductions (mostly on employment subsidies, but also including the partial deduction of home mortgage interest that was part of the 2007 TEPA reform). The administration has argued, somewhat implausibly, that the elimination of loopholes does not constitute a tax increase, since taxpayers can choose whether or not to exploit a loophole. Still, the government has been able to largely avoid generalized or highly visible tax increases.<sup>8</sup> Whatever the economic merits of this approach, it has allowed Sarkozy to preserve the fiscal shield (limiting total direct taxation to 50 percent of earnings), which he views as *the* defining reform of his administration and a symbol of his commitment to reining in

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<sup>7</sup> Officially, Sarkozy did not abandon the tax, but rather delayed it until it could be implemented across the EU, so as to avoid conferring an advantage on countries that do not tax pollution.

<sup>8</sup> The one exception was an increase in the top income tax bracket from 40 percent to 41 percent as part of the pension reform, a measure that was expected to raise only EUR 230 million in 2010 (*Les Echos*, 18 June 2010).

French taxation. Indeed, Sarkozy has drawn a line in the sand, declaring that he will not abandon the fiscal shield under any circumstances.

It is too soon to tell how Sarkozy's recent neo-liberal turn will play out. Obstacles abound. The economy remains in crisis, fueling demands for relief; the social situation is literally "explosive," with plant closings leading desperate workers to threaten to blow up their factories if they do not receive better severance packages; and some pundits and politicians question the wisdom of responding to an electoral victory of the left by tacking to the right. Sarkozy's law-and-order and anti-immigrant initiatives have also prompted tremendous criticism. A future policy reversal is by no means impossible, especially given the impetuous, unpredictable nature of the President. Still, it is clear that the neo-statist project, whatever its appeal as a response to the 2008 meltdown, is not about to marginalize economic liberalism anytime soon. Indeed, the relevant question may be whether it is Sarkozy's neo-statist turn, rather than his initial neo-liberal orientation, that will ultimately prove to have been a historical blip.

The evolution of French economic policy under Nicolas Sarkozy points to several lessons for understanding how states respond to economic crises like the 2008 financial meltdown. *The first is that the response to crisis is shaped by long-term structural factors, not just short-term political decisions.* Historical-institutionalist scholars, operating from a "punctuated equilibrium" perspective, often distinguish between periods of normal politics or stasis, when little change occurs, and periods of crisis or "critical junctures," when fundamental shifts are more likely (Piore and Sabel 1984; Katznelson 2003; Capoccia and Keleman 2007). It is only a slight exaggeration to say that the prevailing view is that in periods of normal politics, nothing is possible, while in periods of crisis, everything is possible. This perspective has been criticized for understating incremental change during periods of normal politics that may cumulate to far-reaching transformation (Thelen 2004; Streeck and Thelen 2005; Mahoney and Thelen 2010). Recent French economic policy points to a complementary critique: the punctuated equilibrium perspective overstates the possibilities for far-reaching transformation during periods of crisis. Everything is not possible during critical junctures. Sarkozy was not able to shift French policy on a dime. On the contrary, Sarkozy's neo-statist thrust ran up against long-standing developments in French economic policy, most notably the dismantling of most of the tools of statist industrial policy in the 1980s and early 1990s and the massive accompanying expansion of social and labor market programs that left little room for new public spending. Thus, even at a moment of crisis, French economic policy displayed a strong path-dependent character. The legacies of the movement from the *dirigiste* state to the social anesthesia state in the mid-1980s essentially trumped Sarkozy's neo-*dirigiste* aspirations a quarter-century later.

*The second lesson of the French experience is that state responses to crisis cannot be read off simplistic notions of "national models" or "national policy styles."* Part of the reason is that these images may be dated or inexact. In the wake of the far-ranging changes in French economic policy since the early 1980s, it is by no means evident that France should still be considered an archetype of statist or *dirigiste* economic policy (Vail 2010). Moreover, images such as "statist France" are at best ideal-types; the reality for any given situation is invariably more complex. In the case of the response to the financial meltdown, it is clear that "liberal" Britain and arguably the US as well responded in a more aggressive and interventionist fashion than "statist" France. The

Anglo-American fiscal stimulus packages were larger; more strings were attached to rescue packages for banks and industry; and regulatory reform has gone further. Perhaps, this unexpected outcome reflects the greater severity of the crisis and sense of urgency in the US and UK; perhaps, there is a latent capacity for state action among liberal political economies that has not been fully appreciated in the past (Levy 2006). In any case, the inescapable conclusion is that to understand how states respond to crisis, we must move beyond cartoonish and often outdated “national models.”

*The third lesson of the French experience is that the “return of the state” does not flow automatically from the crisis of neo-liberal capitalism. A statist response to crisis must be forged, not simply presumed.* The Great Depression triggered a variety of responses, and many countries, most notably Britain, continued to essentially hew to their pre-1929 orientation (Gourevitch 1986; Hall 1989). The prospect of renewed state intervention is no less controversial today. Critics contend that whatever the current problems of the economy, the state will only make matters worse. There are also powerful interests, such as the financial sector and other business groups, which have no desire to be subjected to additional regulation or taxation. Overcoming this resistance is no mean feat (Levy 2006). It requires a vision of what the state needs to do, along with the fiscal and institutional capacity to pursue this vision. Such elements have been sorely lacking from the French context, and the return of the state has stalled. Thus, even in a country with a long tradition of state intervention in the economy and a relatively positive view of the state, a coherent, statist response to the crisis of neo-liberal capitalism is anything but inevitable.

FIGURE 1 - NUMBER OF FRENCH WORKERS  
IN PUBLIC LABOR MARKET PROGRAMS



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