Why Is France So French? Culture, Institutions, and Neoliberalism, 1974–1981
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Why Is France So French? Culture, Institutions, and Neoliberalism, 1974–1981[1]

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French capitalism has changed in many ways in the last two decades, but France has not seen the extreme neoliberalism of Britain and the United States. The author first provides evidence that the French pattern is not caused by adherence to cultural traditions of egalitarianism. The author then uses historical and interview data to compare the French case with the American counterexample. The argument is that France has adopted a "pragmatic neoliberalism" because in the postwar period it had adopted a "pragmatic state interventionism" designed not to further goals of social justice, but to turn an agricultural country into an industrial one. Moreover, neoliberalism in the United States required a remarkable degree of extreme political innovation which has not been possible in France.

Whatever criteria we use to measure the size of the state, France has a larger state than Britain, Germany, or the United States: French tax revenues are among the highest in the world, the proportion of the total workforce working for the state is higher than in the other three countries, and the amount the state pays for goods and services is greater as a percentage of GDP. In addition, the size of the welfare state is slightly larger than in Britain and Germany and much larger than in the United

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States (and was much larger than Germany's until the costs of reunification pushed up Germany's social expenditures). And an Organization for Economic Cooperation and Development (OECD) index of state control summarizing public ownership and the state's involvement in industry places France higher than the other three countries (table 1).

At the same time, the French state is no longer as interventionist as it was during most of the postwar period: price controls have been abolished, many industries have been privatized, labor and financial markets have been deregulated, and increasing integration with Europe has forced adherence to a more liberal monetary and exchange rate policy (Schmidt 1996; Gordon and Meunier 2001; Levy 1999*b*). In some cases, such as in privatization, the reason for the higher French levels is that the starting point was higher in France when the "neoliberal revolution" hit. However, in other cases (e.g., taxation and total state consumption), the French state has *grown* in the last few decades, to a much greater extent than in the other countries (figs. 1–2).

Fourcade-Gourinchas and Babb (2002) summarize the contradictory indicators by calling the French changes a "pragmatic" neoliberalism, in contrast to the more radical and ideological changes that have taken place elsewhere (see also Amable and Hancké 2001). The particular nature of this pragmatic neoliberalism is puzzling. If an observer in the 1970s had been told that France was about to undergo several neoliberal changes, she would have predicted that the main change would be reduction in the taxation and the "social costs" that make France one of the most expensive places to run a business. As for the nationalized industries, she would have expected them to remain under state control, because, unlike the nationalized industries in Britain, they had support from across the political spectrum. But 30 years on, it is privatization that has been the most noticeable feature of French neoliberalism, while taxation and social costs remain undiminished. In this article I investigate three policy domains—tax policy, industrial policy, and welfare state policy—to ask why French neoliberalism took the particular shape that it did. These three domains cover the most frequent sites of neoliberal assault on the size of the state and allow a broad analysis of changes in French economic policy over the last three decades. They also include one domain where there has been great change in France (industrial policy), one where there has been almost no change (tax policy), and one where there have been several attempts at change with varying degrees of success (welfare state policy).

France is not the only OECD country to post high measures of state size along many dimensions: Sweden, Finland, and the Benelux countries still have large states, as do less developed countries like Portugal. But because of its economic and geopolitical weight, France has managed to become a symbol of resistance to Anglo-American-style neoliberalism in

TABLE 1
MEASURES OF STATE SIZE

Country	Total Tax Revenue as % GDP (2001)	Public Sector Labor Force as % Total Workforce (1999)	Compensation Costs for the Public Sector as % GDP (1997)	General Government Consumption as % GDP (1998)	Social Expenditure as % GDP (1998)	Index of State Control in Industry
France	45.0	18.3	11.03	23.54	29.52	2.63
Germany	36.9	11.0	8.38	19.01	29.24	1.76
United Kingdom ...	37.3		7.84	18.17	25.59	.55
United States	28.9	13.9		14.47	14.96	.85

SOURCES.—Total Tax Revenue, OECD Revenue Statistics; Public Sector Labor Force, OECD 2002—note that this measure includes defense sector employees, otherwise the U.S. figure would be much lower; Compensation Costs, OECD 2001; Government Consumption, World Bank 1960–99 World Development Indicators; Social Expenditure, OECD Social Expenditure Database; Index of State Control (including public ownership and state involvement in business operations; see also the similar rankings in indices of product market regulation and employment protection legislation), Nicoletti, Scarpetta, and Boylaud (2000).

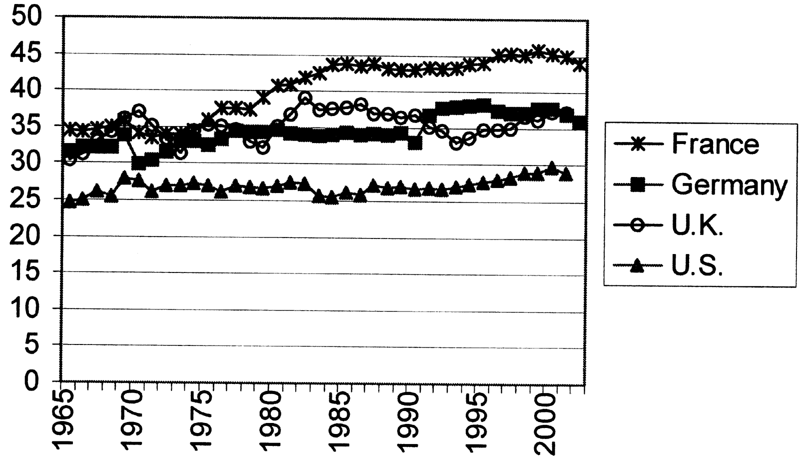

FIG. 1.—Total tax revenue as % GDP (OECD 1965–2002)

popular opinion (see, e.g., Friedman 2000). Moreover, France has always been something of a distinctive case in comparative political economy: when corporatism was the ruling paradigm, France did not fit the corporatist model because of the weakness of its labor unions; now that the "varieties of capitalism" paradigm has taken over the field, France continues to resist incorporation, since it is clearly not anything like the "liberal" economies of the United States or Britain, but also not like the "coordinated" German economy (Hall and Soskice 2001).[2] This characteristic of French political economy, combined with its visible role on the world stage, make France a compelling case in the evolution of contemporary capitalism.

To understand the French changes, two concepts need to be clarified. First, a larger state does not necessarily mean a political economy that is oriented toward issues of social justice. In tax, welfare, and industrial policy, the French state in the immediate postwar period was oriented not toward social goals, but toward economic growth. France's postwar regime might best be characterized as a strong state put at the service of capital, all in the service of nationalism. The French state turned an agricultural and artisanal economy into an economy based on heavy industry like its European neighbors. It was able to do this through a tax structure that is less progressive than in the United States, a welfare state aimed toward social insurance for the middle classes (to cushion the transition to an industrial economy) rather than redistribution, and an in-

[2] But see the discussion of the work of Bob Hancké below.

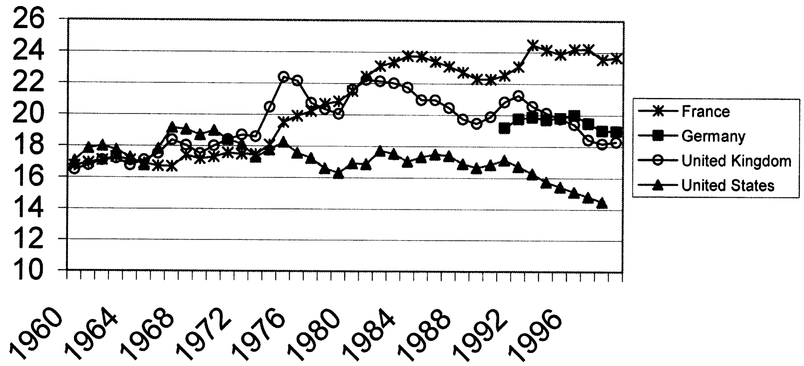

FIG. 2.—General government consumption as % GDP (World Bank 1960–99)

dustrial policy oriented toward economic growth rather than full employment. In other words, the French postwar policy was a "pragmatic state interventionism" quite unlike that of the United States, with its progressive tax structure and antibusiness regulations (cf. Steinmo 1993; Kato 2003; Lindert 2004; Vogel 1986). France remained one of the most inegalitarian countries of the advanced capitalist world for most of the postwar period (see table 2; cf. Cameron 1991; Levy 1999*a*, 1999*b*).[3]

Second, a conceptual distinction is necessary between the state as the site of policy innovation and the state as the means of policy implementation. These have been confused in the recent literature, which takes the wave of French privatizations and other reorganizations as evidence against a "state-centered" argument: "The statist view appears to neglect what characterized French economic and industrial policy most during the 1980s and 1990s, namely the attempts by the state to retreat from direct economic and industrial policy-making" (Hancké 2002, p. 24). But the process of this retreat has been state led, and it is precisely this fact, I will argue in this article, that explains the particular shape of the retreat. That is, although the means of policy implementation have changed such that the state's degree of direct intervention in the economy is much lower, the particular shape of those changes is explained by the effects of previous policies on politics and the effect of the structure of the state on policy innovation—classic "state-centered" variables.

These two conceptual distinctions create a framework for understanding what has happened in France. The orientation toward economic

[3] During the early years this may have been a consequence of the large role of agriculture in the French economy, but by 1975 farmers and agricultural laborers made up only 7.5% of the population (Smith 2004, p. 75).

TABLE 2
Income Inequality Compared among European Countries

	Gini Coefficient		Theil Statistic	
Rank*	1970	1992	1970	1992
1	United Kingdom	Spain	Norway	Norway
2	Sweden	Finland	Finland	Denmark
3	Belgium	Belgium	Denmark	Finland
4	Netherlands	Netherlands	Germany	Netherlands
5	Finland	Italy	Netherlands	Sweden
6	Germany	Germany	United Kingdom	United Kingdom
7	Denmark	United Kingdom	Belgium	Germany
8	Greece	Sweden	Sweden	Belgium
9	Spain	Denmark	Greece	Austria
10	Norway	Norway	France	Greece
11	Portugal	France	Austria	Portugal
12	Italy	Greece	Italy	France
13	France	Portugal		Spain
14				Italy

Source.—Conceição, Ferreira, and Galbraith (1999, p. 18).
* Rank 1 is least unequal, 14 most unequal.

growth (rather than social justice) has remained stable throughout the entire postwar period even as the means to attain growth have changed, and the incentives and resources of state actors (rather than cultural discourses or class interests) have remained the main source of policy innovation.

With these distinctions in mind, this article suggests that France did not witness the same kinds of change as the United States and Britain did for two reasons: First, at the end of the Second World War, France had a much more heavily agricultural economy than the United States, the United Kingdom, and Germany. Therefore, the intensification in state interventionism that followed the war everywhere was implemented in a peculiar manner in France: the difficulties of the development of reliable income tax collection in an agricultural economy, plus the ideological leanings of the postwar governments of the Right, made France miss the great wave of rapidly rising income taxes that swept other countries (where income taxes went up to finance the war, but did not come all the way back down after the war), and so France has remained reliant on indirect sales taxes, which are "invisible" and do not provoke resistance (Wilensky 2002; Cameron 1978; Hibbs and Madsen 1981; Flora and Heidenheimer 1981). And the welfare state in France was developed by the Right and has been based on the principle of social insurance for the middle classes, rather than on redistribution of wealth between classes; this has generated loyalty to the welfare state across classes (Esping-

Andersen 1990, 1996, 1999; Scharpf and Schmidt 2000) and has mitigated the negative effects of social spending on economic growth (Lindert 2004). Tax policy and welfare state policy have thus been resilient because of the way in which they are rooted in electoral interests. Industrial policy, however, has not been similarly rooted in electoral interest and has therefore been more subject to the incentives of politicians, but throughout the postwar period it has been guided by the same goal: to make France competitive with its more industrialized neighbors (Schonfield 1965; Hall 1986; Schmidt 1996). All of these features add up to a resilient political-economic structure.

Second, several elements of the French political structure made it less innovative than others. Until 1981, no president had ever lost an election in Fifth Republic France, and so the intense political competition that led to major innovation in, for example, Margaret Thatcher's Britain was not seen in France. In France, parties still finance political campaigns, so the entrepreneurship seen in the American case—where, for example, a junior congressman, hoping to broaden his national reputation, brought the issue of tax cuts to political attention—is not as extreme. Power is centralized in the French government, so the number of points at which new innovations can enter the agenda is smaller, making tax cuts—like those that entered the agenda in West Germany because of losses in provincial elections—unlikely. Bureaucracies are staffed by cautious and careful technocrats rather than by political appointees, so the haphazard budget making of the Reagan era in the United States, which allowed the large deficits of the 1980s, is not seen in France. Finally, interest groups are excluded from routine decision making, so innovations cannot enter the political agenda as easily as they did with deregulation in the United States (for more on the British, German, and American cases, see Prasad [in press]). Innovation in France, instead, came from three sources: backlash to the policies of previous governments, imitation of other countries, and the technocracy, and all three of these sources produced moderate innovations.[4]

In sum, the argument of this article is that the legacies of state-led industrialization in the postwar period created a resilient political-economic structure that benefits business and the middle classes and increases loyalty to the status quo in France, and the exclusion of interest

[4] I should note at the outset that "innovative" does not necessarily mean "better": innovative governments come up with and implement bad policies as well as good ones. The radical innovations of the American case have resulted in rising inequality and high relative poverty, but also higher GDP per capita and lower unemployment than in France, and in some cases, the opposite of the "innovative state" is "the responsible state." Innovation is a mixed blessing.

groups and the continued strength of parties and other political structures dampen political innovation in France.

I use the French case to critique and modify theories of "path dependence." Path dependence has become a quite popular explanatory tool in the social sciences. The basic idea is that certain identifiable features of complex systems can make reversal of a system decision much more difficult and unlikely than the original choice of the decision had been: for these reasons, practices that may have once been efficient, or that were simply chosen accidentally, can persist long after their inefficiency has become evident. Economists have used this insight to explain, for example, why some countries remain poor. Arthur (1994) notes four particular features that make causation one-way: startup costs, learning costs, coordination costs, and adaptive expectations. Once a particular path is chosen, investments must be made in this path, and if the path is later altered those investments, the startup costs, would be lost; similarly, once a path is chosen individuals begin to learn how to navigate it, and their efforts at learning would be lost and would have to be begun again if the choice were altered. For these reasons, chosen paths tend to persist. Coordination costs occur when the benefits of a technology multiply the more users use it; to switch to a different technology would mean sacrificing those additional benefits. And adaptive expectations are the self-fulfilling predictions individuals make when, aware of coordination costs, they attempt to choose the technology that will attract the most users. Coordination costs and adaptive expectations mean that the first technology out of the gate may gain a lasting advantage, even if it is demonstrably inferior to later competitors. Pierson (2000*b*) builds on Arthur's work and adds the insight that path dependence is much more likely in the social world, because certain features that "correct" path dependence in economics—competitive pressures and learning processes, both of which reduce the persistence of inefficiency—are attenuated outside of the economic sphere (see also Mahoney 2000, 2001; Collier and Collier 1991).

There are two problems with applying this model of path dependence to policy making. First, the basic fact of representative democracy is that those making the decisions on whether or not to adopt policy changes are not the ones bearing the costs of those changes: politicians externalize the costs of change, in that the startup costs, learning costs, and coordination costs are borne by those who must implement the policy and those who are the subjects of the policy, rather than by those who are deciding upon the policy. Politicians' own cost-benefit calculations are based on criteria that are partially independent of the question of the costs of adopting the new policy. Thus, the path-dependence framework needs to be reformulated if it is to be useful to the study of policy making in representative democracies. Second, the model of the social world that underlies the theory is one in which innovations arise randomly, but are blocked from implementation because of the costs of change. However, another way in which decisions made at prior moments can alter what happens at later moments far removed in time is that prior decisions can change the likelihood that other paths will be discovered or developed. That is, there can be systematic difference in policy innovation. Prior decisions can influence the rate of innovation itself or the kind of innovations produced. We know from the sociology of organizations that several factors can increase the rate of innovative activity within organizations, including decentralized authority structures, specialization and functional differentiation of units, slack resources, and internal and external communication (Damanpour 1991). If at a certain point one rather than another of these organizational factors is adopted, it can set the organization on different paths with respect to the degree of innovation generated and therefore with respect to the potential alternative paths available for cost comparisons with the path chosen. In this conceptualization, causation is also one-way, because innovations, once invented, cannot be uninvented. This is a conception of path dependence that is much more broadly applicable to explanations of social phenomena.

I suggest in this article that there are political analogues to the factors that increase innovation in economic organizations. In particular, weak parties, tight informal linkages with interest groups, a tradition of amateurs in politics, and decentralized state structures combined to increase political innovation in the United States; conversly, less intense political competition, strong parties, weak interest groups, professional bureaucracies, and a centralized state combined to dampen political innovation in France in the postwar period. In the United States, increased innovation led to a dynamic in which politicians rapidly discovered a set of neoliberal policies that would appeal to the increasingly prosperous majority. Political innovation in France during this period came from the bureaucracy, from imitation of other countries, and from backlash to previous policies, and thus remained moderate; neoliberal politicians found themselves unable to discover a neoliberalism that would appeal to the majority.

Thus, I argue that a better framework for understanding how political paths persist (and when they change) is found by looking at what policies do for and to the incentives of state actors, and how previous policies structure innovation. I suggest that adversarial policies do several things to influence the consequent path of policy development: they define categories of opposed combatants, structure information flows to reinforce these categories, and strengthen the coalitions that struggled to get them passed. In addition, prior conditions can determine the way in which policy innovation occurs.

WHAT HAS CHANGED?

The history of neoliberalism in post-oil-crisis France is a history of stops and starts. Since 1973 the question of the proper limits of state intervention in the market has moved increasingly, but very slowly, to the center of the French political stage. Between 1976 and 1981, a government that might be called "proto-neoliberal" ruled France: President Valéry Giscard d'Estaing and Prime Minister Raymond Barre had indicated preferences for reducing state intervention, and they accomplished important free-market objectives like the end of price control; in 1979 members of Margaret Thatcher's administration were said to admire Barre's economic policies (*The Guardian* 1979*b*). But in comparison to the neoliberalism of Reagan and Thatcher, the aims were modest, and the results even more so—tax revenues and government spending increased during this period, and privatization was briefly mentioned, but never attempted. The second neoliberal moment came in 1986–88. After devastating electoral defeats in 1981, the Right roared back to win the 1986 legislative elections decisively, so that Mitterrand became the first Fifth Republic president to have a prime minister not of his own party. Seeing both the failure of Mitterrand's attempt at "socialism in one country," and also the successes of Reagan and Thatcher, the Gaullists had adopted a neoliberal platform: when he took office in 1986, Prime Minister Chirac announced that he wanted to reduce taxes from the 45% of GDP at which they currently stood, to 35%; to reduce spending 1% every year; and to privatize a total of 61 companies (Levy 1999*a*, p. 63). The tax cuts the government passed did not come anywhere close to this goal, but they did halt the path of rising tax revenue France had been on since the oil crisis. Corporate taxes and individual taxes were cut, and the tax structure was made more regressive, displaced "from business toward households, from the richest households toward those more poor, from already flourishing enterprises toward those not profitable, and from passive revenue (from capital) toward active revenue (from labor)" (Théret 1991, p. 345). In spending cuts, Chirac never went as far as Reagan (who proposed spending cuts to Congress before backing down in the face of opposition), or even West Germany's Kohl (who started out on an overhaul of the health system intended to reduce costs, but saw the plan picked apart by his own party): spending cuts were taken off the agenda, probably because of fear of their unpopularity, and never again mentioned. Although privatizations did not go as far as the prime minister had announced before the stock market crash of 1987 called a halt to them, 13 state-owned companies were privatized.[5]

[5] Later, Mitterrand was unable to finance and was forced to sell parts of four more major companies.

After the signing of the Maastricht Treaty, a new dynamic is evident: both parties have decided that at least some neoliberal reforms are necessary, both to try to meet the budgetary criteria of the EU's Growth and Stability Pact and to try to bring unemployment down (although Levy argues that the Left attempts to twist these reforms to the advantage of its traditional constituencies [2001]).[6] The main question has been whether or not the government can outmaneuver the trade unions: in 1993–95, Prime Minister Balladur (under President Mitterrand) managed to make the tax structure more regressive, introduce health care and private sector pension reforms, and start a second wave of privatization. Ironically, Chirac won the 1995 election partly by appealing to popular unhappiness with this neoliberal program—and then turned around and continued and even intensified it; his prime minister Alain Juppé attempted (unsuccessfully) to reform private sector pensions and health care, unleashing the greatest wave of general strikes in France since 1968. Juppé did manage to make the tax structure more regressive and continue with privatizations; at the end of these several rounds of privatization, 80% of the banking sector and 50% of the insurance sector had been privatized, and 12.6% of the total workforce had been moved from the public sector to the private sector. Between 1997 and 2002, Gaullist president Chirac "cohabited" with Socialist prime minister Lionel Jospin. Jospin represents the Left's acquiescence in the 1990s to privatization, which continued and even intensified under his term, with the privatization, most noticeably, of France Telecom, Credit Lyonnais, the insurance company CNP, and shares in Air France which attracted millions of investors; but Jospin did manage to shift the tax burden upward slightly and to extend health insurance. Since 2002, Chirac has again had a Gaullist prime minister, Raffarin, who in 2003 implemented an important pension reform—which may have been responsible for the clear defeat the Right suffered at both the regional and European elections in 2004 (Vail 1999, 2004; Michel 2002; Levy 2001; Natali and Rhodes 2004; Schludi 2003).

This slow, three-decade-long process of liberalization is in sharp contrast to the American pattern. In the United States, the administration of president Ronald Reagan passed a quick burst of legislation in the early 1980s—broad tax cuts, deregulation of industry, and cuts in government programs. These policies seemed so significant at the time and were passed in such quick succession that many observers called the episode the "Reagan revolution." In tax policy in particular, 1981 was the year of the "Big Budget Bang": "Fiscal policy in all the years since . . . was dominated by efforts to deal with the consequences of" the 1981 tax cut and the

[6] The constraint of the EU's Growth and Stability Pact may be decreasingly important given both France and Germany's inability to meet it.

deficits it produced (Stein 1996, p. 266). Although Reagan's successors raised taxes, even bringing the budget into surplus, the debt produced in the aftermath of the 1981 tax cut was never substantially reduced, and the George W. Bush administration has again increased it; approximately 12% of the American budget currently goes toward interest on debt.

The contrasting French and American patterns present an interesting theoretical anomaly, given the absence of checks and balances in the French case and the proliferation of them in the American: federal states are thought to be less able to steer through great changes, because a multiplicity of veto points—sites in the decision-making process where actors can block change—makes it difficult to pass legislation that hurts anyone. Centralized states, on the other hand, are thought to be able to oversee great change, because those who would resist such change do not have access to any institutional means of blocking it (see Tsebelis [1995, 1999, 2002] for a recent restatement of the veto points thesis; see also Hall [1983] for a discussion of why the French state should be expected in general to be innovative). But in these cases, the fragmented U.S. state saw rapid and extensive change, while the centralized French state has seen slow and moderate change. Obviously one counterinstance does not disprove the veto points theory. But, as Paige (1999) writes, the historical investigation of theoretical anomalies—cases that do not fit the pattern predicted by a theory—can be a fruitful method of conducting historical research that is informed by the attempt to learn from history and that in turn sharpens our theoretical understanding: anomalies show us that there is something else going on which we need to understand. Accumulation of anomalous findings may lead to modification of the theory or to development of a broader theory that incorporates the earlier findings.

To ask why the neoliberal reforms were so slow requires us to examine the instances of failure as well as those of success—the moments when neoliberalism did not take root and did not speed up as it did in other cases. In the periodization given above, in the current neoliberal moment, the main sources of resistance have been the public sector trade unions, who in late 1995 brought the Juppé plan to a halt through general strikes, and the electorate, who have consistently voted against politicians promoting free-market reform. Neither of these has been enough to halt the movement toward reform, but they have been enough to slow it down. In the second period, 1986–88, the stock market crash brought the privatization period to a halt. In both of these periods, analysts have also suggested that neoliberalism has been weak because it has been implemented by the Gaullists, and, like Christian Democratic parties in southern Europe, the Gaullists have not (until very recently) been enamored of the free market. Rather, starting with de Gaulle himself, Gaullist economic policy was turned to the aim of establishing French preeminence, with the state taking an active role in nurturing the economy. "For loyal Gaullists, *dirigisme* [the preference for state coordination of market outcomes] was not simply an economic program: it constituted a core component of their identity, the translation into the economic arena of General de Gaulle's belief that only a strong, activist, modernizing state could restore France to greatness. Chirac and Balladur had both been forged in this ethos" (Levy 1999*a*, p. 66). Levy suggests that this explains both the moderate degree of reforms and the strangely statist *way* in which some of them have been conducted—for example, in the fact that in French privatizations, the state chose who could purchase controlling shares in the newly privatized companies and dictated the price, rewarding its political allies, and, in an attempt to keep out foreign investors, rigged the sales so that these favored investors were sheltered from attempts at takeover by others.

But there is a way to "control for" the effect of party ideology, because there is a period in recent French history when a party much more receptive to an American-style neoliberalism was at the helm: that first proto-neoliberal moment of Giscard, from 1974 to 1981, when, for the first and only time in recent history, France elected as its president a politician receptive to free-market ideas.[7] Chirac's neoliberalism might be expected to be limited, given his roots in dirigisme, but Giscard had made his name, and a political niche for his party, by advocating a reduced role for the state. His party represented a new "centrist" and less dirigiste right-wing alternative to the Gaullist party. In *Démocratie Française* Giscard wrote:

> If we want the individual to become master of his own destiny and free to take an increasing number of decisions, here is what should *not* be done: increase the powers or the dimensions of an already multi-tentacled administration; nationalize enterprises which do not perform a public service—to do so would be either to deliver them to the technocracy, or to "étatize" them and have them be directed by a small number of bureaucrats of the central administration not responsible to anyone; planify the economy, which would be the same as to give a few men the power to decide for several millions; suppress initiative and competition. [What should be done is] deepen liberties: not only the fundamental political liberties, but also the new liberties of everyday life, such as educational freedom, free medical choice, freedom of information; conserve the market economy, the only manner of assuring the responsibility of directors and managers, and the

[7] Giscard's own term for it was "advanced liberalism"—in the European sense of the word liberal, i.e., what American scholars call neoliberal with a focus on social reforms such as legalization of abortion.

> efficacity of the enterprise; decentralize boldly in enterprise, and towards local life. ([1976] 1979, pp. 16–17)

Prime Minister Barre was even more firmly committed to this direction. In 1977 he described the liberalism he wanted to implement this way: "Not laisser-faire, laisser-passer, of course. But leaving behind this neomercantilism in which we find ouselves, with the goal of establishing in this country relations between the state, citizens, groups which are not fixed by the regulation of the state but by a sense of responsibility" (*La Vie Française* 1977). In 1980 he was defining his goals as "to assure firms the freedom to make their own decisions of production, employment, and investment, of salaries and of prices in the framework of a politics of strict control of the monetary mass, of a politics of progressive reduction of aid from the state and an active politics of competition" (*Le Figaro* 1980*a*). This list of Giscard's and Barre's concerns—concentration of power, the market as the preserver of individual freedoms, individual responsibility—would not be out of place coming from the pen of an American or British politician of the period. It is similar to the writings coming from the Right in both the United States and the United Kingdom in the 1970s—a sort of proto-neoliberalism making general arguments against state intervention (see Fourgnaud 2001; Frears 1981; Giroud 1979; Giscard d'Estaing [1976] 1979, 1984, 1988).

As Théret notes, "Neoliberalism is not a coherent doctrine furnishing a formal system of rules of action . . . but rather a 'global referent' . . . which should be seen as an ensemble of practical receipts and of common representations of a certain number of concrete political actors" (1991, p. 343). He summarizes this "global referent" as consisting of three main principles: "that market exchange is the most optimal method of production; that a structural distribution of revenues favorable to entrepreneurs is necessary for economic growth; and the strengthening of the state passes through its disengagement from the economy" (p. 359). This is a set of general principles against state intervention, rather than specific policies of *what kinds of* state intervention to attack. These general principles drove both Reagan and Thatcher, but were only turned into specific policies through the vagaries of the processes of policy formation. For example, Reagan was a late convert to the idea of broad middle-class tax cuts, and when she was education minister, Thatcher presided over an expansion of the education budget. However, their *rhetoric* was antistate and in much the same general terms as the elements quoted here from Giscard. It is teleological to assume from the outcomes of the Reagan and Thatcher administrations their preferences in the 1970s: the historical record shows that in the 1970s the Republicans were still the party of fiscal responsibility (it was the Keynesian Democrat Kennedy who had lowered taxes and created a deficit), and there was only weak support for Thatcherism in the Conservative Party when Thatcher took office. The most radical elements of the Reagan and Thatcher agendas developed *after* both actors took office and snowballed as a result of subsequent events (for a more detailed defense of this interpretation of the Reagan and Thatcher episodes see Prasad [in press]).

The Giscard period, then, presents us with a moment when a politician receptive to free-market aims presided over a centralized state apparatus. Moreover, because of France's unique dual executive system, Giscard's government held power longer than any other government of the Right in the post-oil-crisis period, and he had five full years with a prime minister of his own party—a record unequalled by the Gaullists even today.[8] Although he never had a majority in the Parliament, the French Constitution gives the president several ways to outmaneuver Parliament, and, at the limit, to bypass Parliament altogether;[9] Giscard and Barre made use of these powers an unprecendented number of times—but never to implement sharp tax cuts, like Reagan, or major privatizations, like Thatcher, or cuts in social spending. Giscard reigned on the eve of Reaganism and Thatcherism, but oversaw very different outcomes.[10] Given this, it is remarkable that the Giscard period has received so little scholarly attention, as it seems to present an important counterexample to the Reagan and Thatcher episodes. This article aims to remedy that gap by providing a comparative historical study of neoliberalism under Giscard, to ask both how neoliberalism arose in his administration, and why it did not become more extensive. Because the Giscard period has been so little studied, part of the goal is to illuminate the main elements of the episode for future researchers, as well as to make a case that closer examination of this historical period is worthwhile. The claim is not that this period is more crucial than later periods, but that examining what happened during the one moment when a non-Gaullist party of the Right was in power can give insights into the variables *other than* party ideology that are at work in contemporary French political economy. The case study that follows is built from a range of primary and secondary sources, including economic dissertations written at the Sorbonne during 1974–81, interviews

[8] A constitutional amendment synchronizing presidential and legislative elections ensures that starting in 2002, five-year governments with cohesive executives will be the rule rather than the exception.

[9] For example, by drawing on constitutional article 49.3, the "guillotine," which cuts off debate on a bill and considers the bill passed unless a motion of no confidence is introduced within a specific period of time (Huber 1992).

[10] And at a moment when the global economic context was broadly similar to that which Reagan and Thatcher faced—in the inflationary environment caused by the oil crisis, but before the explosion in levels of foreign direct investment and "capital flight."

with 19 of Giscard's ministers (including the prime minister, Raymond Barre; see app. table A1), and the newspaper collections of the Institut d'Études Politiques.

CLASS, CULTURE, AND THE STATE

In recent years, class and cultural explanations of policy making have seen a resurgence. These are the theories that come immediately to mind when searching for explanations of French political economy, but neither is convincing when the case is considered in international perspective. First, the French unions in the postwar period have been fragmented and excluded from routine decision-making authority. As figures 3 and 4 show, a lower proportion of the workforce is unionized in France than in Britain, Germany, or even the United States, and France had fewer working days lost per 1,000 employees in this period than Britain and the United States. Moreover, the French labor movement has been characterized by lack of ties between left parties and the trade union movement, meaning that the ability of the unions to affect policy is limited to extreme instances when they can mobilize thousands of demonstrators (Howell 1992). Although in recent years the public sector unions have been able to resist or amend reform by striking, leading some analysts to argue that "labor still matters" (Béland 2001; Palier 2000*a*; Levy 1999*a*, 1999*b*), the much larger private sector, where unionization rates are as low as 5%, has been unable to resist reform. Related to this is the question of how and whether the strength of labor translates into policy: in postwar France the Left was split between the Communists and Socialists, a split which kept both parties excluded from power.

If the working class is weak, a new trend in the scholarship associated with the "varieties of capitalism" perspective argues that business interests are at the heart of policy making. A look at the work of Bob Hancké (2001, 2002), who has been instrumental in applying this approach to the French case, shows both the insights it yields and its limits. Hancké studies the response of the French political economy to the profitability crisis of the early 1980s. He argues that all of the attempts of the state—through the reform of labor relations, through the Auroux laws on workplace decentralization, and through financial reform—failed. He then shows how large firms turned varying aspects of each of these state-implemented reforms to their own ends, but could only do so by keeping the state at arm's length. Hancké's work is an elegant and entirely convincing explanation of industrial adjustment in the 1980s, but it falters when it tries to generalize from this case to the French political economy as a whole. Other features of French neoliberalism—e.g., privatizations, abolition of

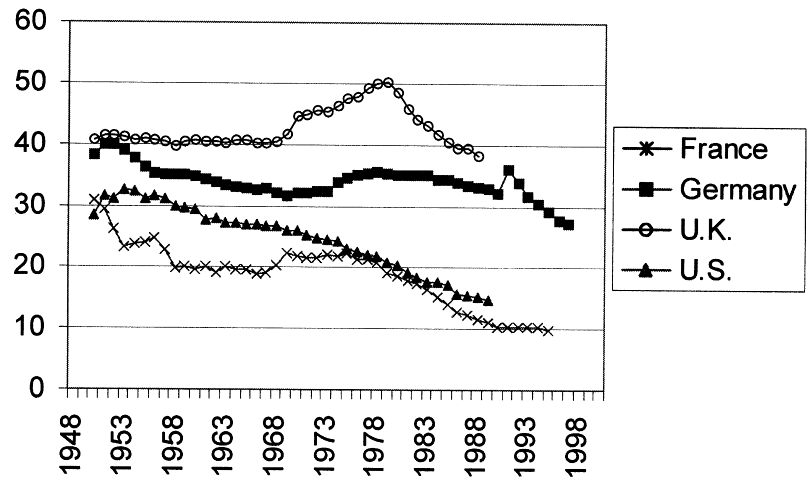

FIG. 3.—Net union density (Golden, Lange, and Wallerstein 2002)

price control, and financial deregulation—were all initiated by the state: privatization began as a tactical political response to Mitterrand's nationalizations, abolition of price controls was undertaken by Prime Minister Barre in the face of business opposition (both discussed further below), and financial deregulation was (in Hancké's own term) the "brainchild" of a senior minister. If the "firm-centered" explanation cannot be generalized to other aspects of industrial policy, much less can it be generalized to other policy domains: French firms are not unified on the question of whether to oppose expensive social policy and the high taxation that it requires (see Mares [2001, 2003] for discussions of why firms have historically supported social policy and high taxes). And as we will see below, Giscard's neoliberalism, although it did not move in an Anglo-American direction, was more hurtful to industry than helpful to it—rather than creating an environment that would nurture firms, Giscard withdrew state support from them. Thus the situation is rather that French firms have tried to make the best of the policies given them by the state. In particular, when faced with high social costs, firms have responded by investing more heavily in technology, leading to a rise in productivity. This was not a coherent program of the state, but an example of French firms turning state policies to their own advantage. In French political economy, the state imposes, and the firm disposes.

In recent years we have also witnessed a resurgence of cultural arguments in the social sciences, and the cultural explanation for the French pattern is common in both popular as well as scholarly accounts. Defining the independent variable to include "world views, cultures, societal scripts,

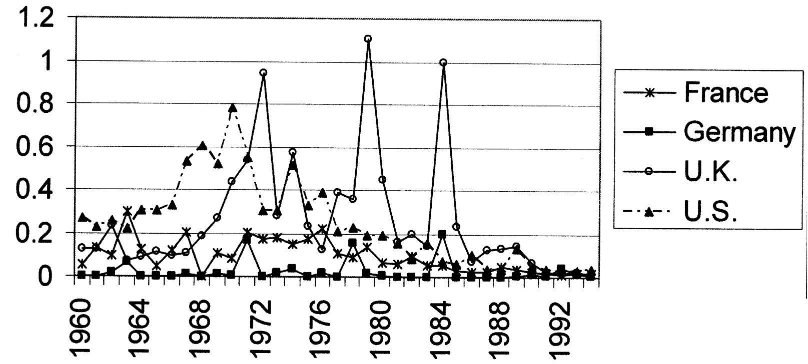

FIG. 4.—Working days lost per 1,000 workers (Huber, Ragin, and Stephens 1997, from data proved in International Labour Organization 2002).

norms, models, and causal beliefs" (Bleich 2002, p. 1063), proponents of the cultural turn make the reasonable claim that actors' cognitive processes influence their actions. This is intended as a corrective to structural theories in which human agents seem to follow blindly the dictates of material incentives. Talking about national culture in particular, Frank Dobbin argues that "national traditions influence policy-making by contributing to collective understandings of social order and instrumental rationality. History has produced distinct ideas about order and rationality in different nations, and modern industrial policies are organized around those ideas" (1994, p. 2). In the French case, a cultural tradition such as "the Jacobin obsession with equality, universalism, and national unity . . . negates particularism based on locality, corporate membership, and birth, thereby weakening the probability of people drawing boundaries on the basis of ascribed characteristics" (Lamont 1992, p. 137). The "Jacobin" tradition identifies the state as the defender of the general interest, in opposition to the particular interests advanced by interest groups (Schmidt 1999); this tradition is said to underpin policies of state intervention in industry that aim for "equality, universalism, and national unity," and makes the competitive, individualistic, and antistate rhetoric of neoliberalism unpalatable, particularly in the domain of welfare state policy, because "the welfare state constitutes a kind of common meeting ground or lowest common denominator that symbolizes republican unity and a collective commitment to providing a strong safety net, values to which the Left has historically assigned priority; state responsibility for promoting the common good, a value that the Left and Gaullism championed; and Christian solidarity" (Kesselman 2002, p. 181).

There are many advantages to cultural explanations, not least the way in which they demand a detailed engagement with historical context, challenge the dominant social scientific trend of assuming a universal human nature, and attempt to produce explanations "from the inside," beginning with actors' understandings of their situations. To some degree, cultural explanations have been accepted as one tool in the arsenal of social scientific explanations. But there is considerable evidence against the proposition that a "national culture" sustained the French pattern of a weak adoption of neoliberal measures in the Giscard period.

First, neoliberalism was an important minority position in 1970s France. Although a statist ideology was clearly dominant in the 1970s, neoliberal economics had made considerable headway in France, as elsewhere in the world. Kesler (1985) writes that the École Nationale d'Administration (ENA), which feeds the Grands Corps of the French state, had already been "conquered" by neoliberal thought in the 1970s, even if this teaching was not hegemonic. Instruction was overseen by the "brilliant leader of fundamentalist neo-liberalism . . . Professor Jean-Jacques Rosa [who] considered western economies sick because of their bulimic states, and considered the Welfare State to have failed" (Kesler 1985, p. 374). "The high bureaucrats issued from the ENA or from the École Polytechnique believe that there is a limit to the state's intervention and to the tax burden. The state can't do everything, it has already done too much, it should stop. They believe that France has lived for twenty years a social democratic experience and that it should from now on bend to the constraints of international competition" (Kesler 1985, p. 395). Indeed, Kesler writes that after the Socialist victory of 1981, it was the ENA that was the "protector" in France of neoliberal ideas.

A similar situation was occurring at the Institut d'Études Politiques (Sciences Po), from which almost the whole of France's leadership class emerges. There, economics was taught under the auspices of Jacques Rueff, one of the most ardent postwar defenders of the market. Rueff is known as one of the few leading economists to resist the increasingly interventionist direction of the postwar French state; he was the architect of a liberalization effort under de Gaulle, and he is responsible for analyses such as the following: "If you aid the unemployed, you make durable a condition which would have been only temporary had you not intervened. . . . You have falsified the mechanisms . . . and you have done more bad than good" (Rueff quoted in Hatzfeld 1971, p. 55). Along with economists and social scientists Jean Fourastié, Jean-Marie Benoist, Lionel Stoleru, Jean-Pierre Fourcade, Jean-Jacques Rosa, André Fourcans, and several others, Rueff constituted a group, dubbed the "new economists," who carried the neoliberal flame in France in the postwar period (see, e.g., Fourastié 1978; Fourcade 1979; Fourçans 1978; Rosa and Aftalion 1977; Stoleru 1974; Madelin 1997).

In the 1970s antistatist arguments had also received a renewed boost from an unexpected quarter: following the publication in French of Alexander Solzhenitsyn's *Gulag Archipelago* a new strain of anti-Marxist argument emerged among the French intelligentsia: "At some point between 1973 and 1978 marxism, and the study of its theoretical implications and resonances, lost its stranglehold upon the intellectual imagination in France, a grip it had exercised unbroken for a generation. In the space of less than a decade it became fashionable to be not just non-marxist, but anti-marxist. The French discovered Popper, Hayek, and, with embarrassment at the oversight, their own Raymond Aron" (Judt 1986, p. 170). This was reflected in public opinion, which came to view the Soviet system increasingly negatively over the course of the 1970s (*Le Figaro* 1980*b*). Thus in the mid- to late 1970s, at just the time that France had elected into office a politician favorable to reducing state intervention, French political culture was rediscovering for its own reasons a rejection of collectivism.

I do not argue here that neoliberalism was dominant, but that it was an important minority position, with exponents in the highest reaches of the French state. To develop an objective measure of how popular neoliberal ideas were among academics in the 1970s under the government of Giscard, particularly when he had chosen as his prime minister the economist Raymond Barre, I examined and coded all doctoral theses ("Doctorats d'État") defended between 1976 and 1981 in economics at the Sorbonne (Paris 1), following the methodology of Babb's (2001) work on Mexico. The total population consists of 152 theses, ranging across all subdisciplines in economics. Paris 1 was chosen because it is reputed to be *less* neoliberal than the other leading producers of academic work on economic subjects, ENA, Sciences Po, and the École Polytechnique (Kesler 1985), and thus provides a tough test of the thesis that neoliberal ideas were already "thinkable" by the late 1970s. (Although the École des Hautes Études en Sciences Sociales was also a possible candidate for the analysis, too few dissertations were produced there during this period to make such an analysis meaningful.)

I read the introduction and conclusion of all of the dissertations, as well as any pages that, according to the table of contents, dealt with the issue of neoliberalism. The specific issue was defined as the question of whether state intervention in the form of high taxes, high welfare spending, nationalization of firms, or tariff barriers prevents economic growth, and of whether monetarist policies are preferable to Keynesian policies. This is a slightly broader selection of issues than the specific policies considered in this article (tax policy, welfare state policy, and industrial policy), but, as argued above, the early stages of neoliberalism should be measured in general terms, because a general adherence to the "global referent" of neoliberalism precedes their translation into specific policies.

I coded the dissertations first as to whether they mentioned any of these issues at all. This provides a first glimpse into whether the issue of state interventionism was on the agenda, which, indeed, it was (fig. 5): 35.5% of the dissertations mentioned one of these issues, either in the introduction or conclusion, or in a section important enough to be labeled in the table of contents (I did not include in this count several dissertations that simply mentioned the *word* "neolibérale" or "neoclassique"; the specific theme of less state intervention had to be mentioned). The most heated debate during this period was around the question of free trade: a substantial number of dissertations praised the virtues of low tariff barriers, while an equally large number condemned free trade for leading to the "underdevelopment" of the periphery.

Second, I coded the evaluation of neoliberal tenets that the theses gave. Of the group that mentioned neoliberal tenets, 24.1% did not attempt to give a normative evaluation of them at all: this group largely consisted of dissertations that in the United States would be written in departments of history rather than departments of economics, in that their intent was historical and descriptive rather than evaluative—e.g., a dissertation on the history of antipoverty policy in the United States between 1964 and 1974 which refrained from evaluating the *effect* of these policies on the economy. Because the intent of this project is to examine how neoliberal tenets were evaluated, I exclude this group from the calculations below.

Of the group that mentioned and evaluated neoliberal tenets, a large number (17.1%) gave mixed evaluations, as might be expected in academic work at this level. The largest group—though not quite the majority—of the theses that mentioned and evaluated neoliberal tenets evaluated them negatively: 46.3%. The largest subgroup of these examined the question of underdevelopment, particularly in the countries formerly colonized by France, and among these theses, world-systems theory was by far the strongest intellectual influence in the late 1970s. And, of dissertations that mentioned and evaluated neoliberal tenets, 36.6% evaluated them positively (fig. 6).

What these numbers show is that in the late 1970s in Paris, at an institution not reputed to be particularly favorable to neoliberal ideas, such ideas were mentioned regularly, and they were evaluated favorably quite often. The tendency is clearly antineoliberal: almost one-half of the dissertations that mentioned such ideas evaluated them negatively. But over one-third of the dissertations that mentioned such ideas evaluated them positively, suggesting that even at the educational institution *least* in favor of the free market, neoliberalism was a significant minority presence among economists in the late 1970s.

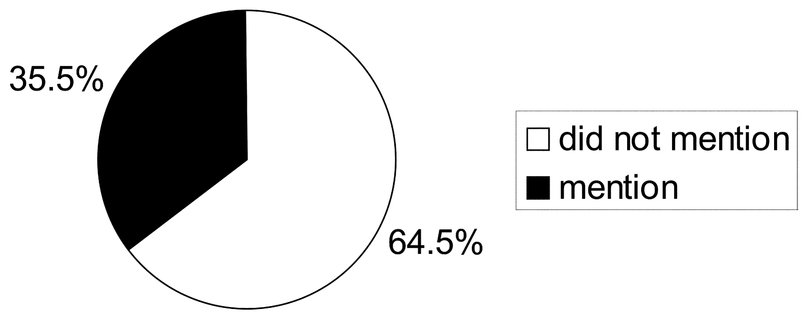

FIG. 5.—Neoliberalism mentioned in doctoral theses, Sorbonne, 1976–81 (source as explained in text).

Finally, opinion polls suggest that the French embrace of the state and of egalitarianism during this period was ambivalent, as seen in responses to questions on taxation, nationalization, egalitarianism, and trust in government. On taxes, the vast majority of respondents favored a tax on "great fortunes": Gallup found 86% in favor of a tax on fortunes greater than two million francs, and 69% in favor of a tax on fortunes greater than one million francs in 1977. On the other hand, 68% of French respondents in 1970, and 55% in 1974, found taxes "excessive or unbearable" (Gallup 1976). On nationalization, views were mixed: 30% of respondents thought nationalized enterprises were rather less efficient than private enterprises in 1977, with 26% responding the reverse, but 36% believed the nationalization of banks and large enterprises would play a positive role in the resolution of the economic crisis, with only 20% anticipating a negative role (Gallup 1976).

Although support for the welfare state has always remained high (Schmidt 1999, 2001, 2002; *La Croix* 1979), this does not extend to support for egalitarianism. Although repeated surveys on this measure are not available for this period, in 1978 SOFRES posed a set of questions on egalitarianism to those who identified themselves as on the left of the political spectrum. One question asked respondents to place themselves on a scale from one to six, with one representing the position "It is necessary to conserve a large measure of inequality of revenues, to foster imitation" (presumably imitation of the supposed work habits of the wealthy), and six, the position "It is necessary to give the same revenue to everyone, whatever their context or aptitudes." Those identifying themselves as on the "extreme left" were the most egalitarian (83% placed themselves at levels 4 to 6, the egalitarian half of the spectrum), but those who identified with the Communists, Socialists, Left Radicals, and ecologists showed considerably more mixed responses: respectively, 54%, 45%,

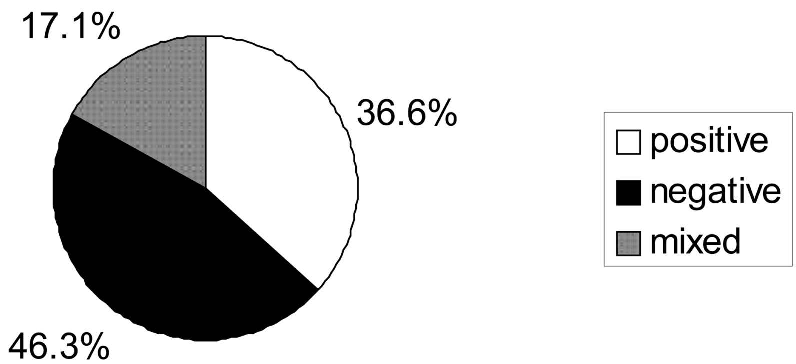

FIG. 6.—Evaluations of neoliberal claims as percentage of theses that mentioned issue (source as explained in text).

43%, and 40% at levels 4 to 6 (SOFRES 1978, p. 60). In other words, the majority of Socialists, Left Radicals, and ecologists fall in the more *in*egalitarian half of the scale.

Trust in government is actually *lower* in France than in other countries for the time period examined here. Scholars of France have often noted this distrust: Crozier wrote of it as long ago as 1964. Ambler (1975) reports the results of a survey conducted in the mid- to late 1970s which showed that the French give trustful responses less often than respondents in other countries: when asked "Speaking generally, what are the things about this country that you are most proud of as a Frenchman?" only 29% spontaneously reported pride in the political system; this compares with 85% in the United States, 46% in the United Kingdom, and 7% in Germany (the latter three taken from Almond and Verba [1963]). Ambler concludes that these findings show "the significance of political alienation in France, as well as the instrumental nature of loyalties to the Fifth Republic" (1975, p. 40). Levels of trust in authorities are similar in the United States and France (53% vs. 47%) but belief in the efficacy of elections varies: to the question "How much do you feel that having elections makes the people who govern (the government) pay attention to what the people think?" 24% of French respondents but only 8% of American respondents said "not at all" or "not very much," while 66% of French respondents but 90% of American respondents said "some" or "a good deal."

I conclude from these various sources of evidence first that collectivist or statist culture may have been dominant, but was certainly not hegemonic in France in the 1970s: a minority culture of questioning state intervention was developing among the elite as well as among professional economists, and the public was ambivalent about high taxes, nationalization, egalitarianism, and the efficacy of the state—often evidencing what psychologists call attitudinal inconsistency (Plous 1993), the tendency to express contradictory responses about preferences depending on which aspect of a phenomenon is salient in a question (e.g., preference for a large welfare state, but discomfort with the taxes that finance that welfare state), making it difficult to predict behavior from expressed attitudes. Perhaps more important, even if a culture of egalitarianism existed, it did not prevent France from being, for most of the postwar period, one of the most inegalitarian countries of the developed world, or from taxing capital more lightly than its peers, as will be discussed in more detail below.

Although this section has only presented empirical evidence from one time period, there are several theoretical reasons why the "national culture" explanation is unsatisfactory. As is clear from the evidence above, the national culture argument ignores the presence of contradictory cultural trends, conflict and struggle, and often vital subcultures. The national culture argument also ignores the presence of cultural diffusion across national boundaries, an increasingly important phenomenon (Simmons, Garrett, and Dobbin 2003). Third, it ignores the fact that cultural concepts are malleable and can usually be interpreted in multiple ways; because of this multiplicity of interpretation it is not possible to read policy off culture. And finally, the national culture arguments run against the grain of recent research in cognitive psychology. Summarizing this psychological research, DiMaggio (1997) asks whether culture is best conceived of as a "latent variable"—that is, a "tight network of a few abstract central themes and their more concrete entailments, all instantiated to various degrees in a range of symbols, rituals, and practices"—or a cultural toolkit, "a pastiche of mediated representations, a repertoire of techniques, or a toolkit of strategies" and concludes:

> Research in cognitive psychology strongly supports the toolkit over the latent-variable view and suggests that the typical toolkit is very large indeed. . . . This work has several important implications for students of culture. First, it refutes the notion that people acquire a culture by imbibing it (and no other) through socialization. . . . Third, the research explains the capacity of individuals to participate in multiple cultural traditions, even when those traditions contain inconsistent elements. Fourth, it establishes the capacity of people to maintain distinctive and inconsistent action frames, which can be invoked in response to particular contextual cues. . . . Recent cognitive research . . . at the very least, places the burden of proof on those who depict culture as strongly constraining behavior or who would argue that people experience culture as highly integrated, that cultural meanings are strongly thematized, that culture is binding, and that

> cultural information acquired through experience is more powerful than that acquired through other means. (DiMaggio 1997, pp. 267–68)

The "national culture" explanations, with their talk of "distinct ideas about order and rationality" pervading entire territorial units, are at odds with this research. There are indeed aggregate differences in the way populations respond to specific questions, but both attitudinal inconsistency and the ability of actors to participate in and invoke multiple cultures depending on contextual cues means we cannot extrapolate from this fact to policy making.

If class and culture do not explain the Giscard case, the next sections argue that two institutional variables do: (1) the structure of previous policies, and (2) whether politicians' route to power generates or dampens innovation.

PRAGMATIC VERSUS IDEOLOGICAL STATE INTERVENTION

In contrast to the popular picture of France as having "never really been won over to capitalism" (Fernand Braudel quoted in Jefferys 2003, p. 356), France in the postwar period had tax and industrial policies that were in many respects more procapitalist than those of the United States. Moreover, although spending on the welfare state was much higher in France, the French welfare state redistributes within rather than among classes, and there are elements of it that are actually reverse redistributive. These add up to a "pragmatic state intervention," in contrast to the American pattern of weaker but more ideologically motivated and adversarial state intervention.

Tax Policy

The 1981 tax cut in the United States was rooted in the anti-property-tax social movement in California, which brought the general issue of taxation to public attention, and catalyzed by Reagan's wish to ward off the political rivalry of Jack Kemp, who had been making political capital out of the issue of income tax cuts (Aldrich and Niemi 1996; Himmelstein 1990; Rudder 1983; Strahan 1990; Weaver 1988; Prasad, in press).[11]

Such a movement was unlikely in France because French tax policies

[11] In addition, recent changes in U.S. government had led to a greater number and variety of political innovations reaching the political agenda because of "policy entrepreneurs" attempting to seek out and mobilize issues that would be potentially popular with the public, and the federal "multiactor" structure of the U.S. government inflated the size of the tax cut because every politician needed to be individually convinced to vote for it with an attachment of tax cuts for her own district.

taxed income, capital, and property much less than did American tax policies (figs. 7, 8, 9, 10). As many scholars have pointed out, France, like the other large welfare states of Europe, has a regressive tax structure (taking proportionately more taxes from the lower portions of the income distribution; see Steinmo 1993; Kato 2003; Lindert 2004) based on payroll and sales taxes. While property taxes hit those with property, and income taxes are structured so that those with higher incomes pay higher percentages, sales taxes are regressive because the same absolute amount is paid on an item regardless of income or wealth (which means lower-income workers pay a higher percentage of their income on the tax), and payroll taxes are regressive because

> first, only wages are taxed, whereas earnings from capital or real estate, which accrue overwhelmingly to the wealthy, escape imposition. Second, social security contributions are deductible, and since tax rates are progressive, the size of the deduction increases with income. For example, those in the top income bracket, with a marginal tax rate of 56 percent, pay only 44 percent of their social security charges. Third, many social security programs do not tax earnings above a certain ceiling ($2,300 per month in 1997). Not surprisingly, in the early 1990s, it was estimated that a minimum-wage worker contributed 13.6 percent of his or her salary to the social security system, whereas a manager earning $60,000 per year paid only 7.5 percent. (Levy 1999*b*, p. 250)

Throughout the course of the Fifth Republic, France has had a regressive tax structure. Since de Gaulle, the tax regime has attempted continuously to lower taxes on corporations. When international competition—inaugurated by the Treaty of Rome, the globalization of exchange, and the end of empire—hit France, de Gaulle's response was to attempt to create a hospitable environment for industry: "All taxes, without exception—taxes on business volume ["chiffre d'affaires"], indirect taxes, registration taxes, direct taxes—were concerned to reduce the fiscal burden weighing on enterprise, or indeed to suppress it altogether" (Nizet 1991, p. 267; see also Bertoni 1995). Table 3 shows that while the American tax structure taxes capital, the French tax structure taxes labor and consumption.

The key political implication of progressive versus regressive taxation is that progressive and regressive taxes structure the flow of information quite differently (Wilensky 2002): progressive taxes give to the taxpayer very precise information about how much she is paying, and no information at all on what is being purchased with the tax revenues. Sales and payroll taxes, on the other hand, work the other way: sales taxes are collected invisibly, and payroll taxes are targeted to spending. In both

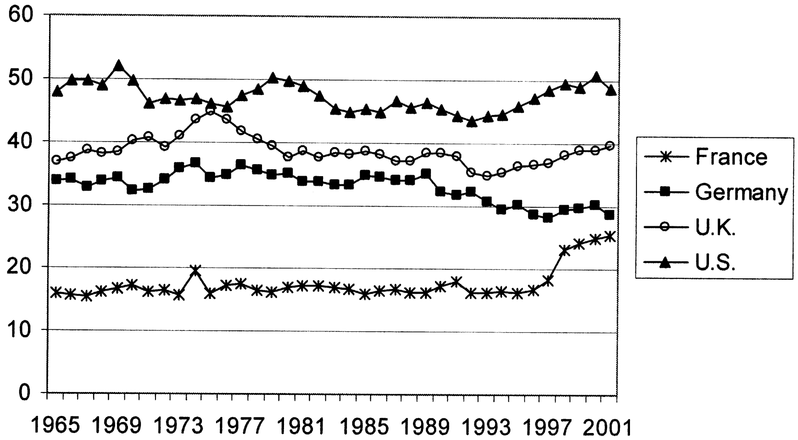

FIG. 7.—Distribution of revenue sources: income, profits, and capital gains taxes as % total tax revenue (OECD 1965–2002).

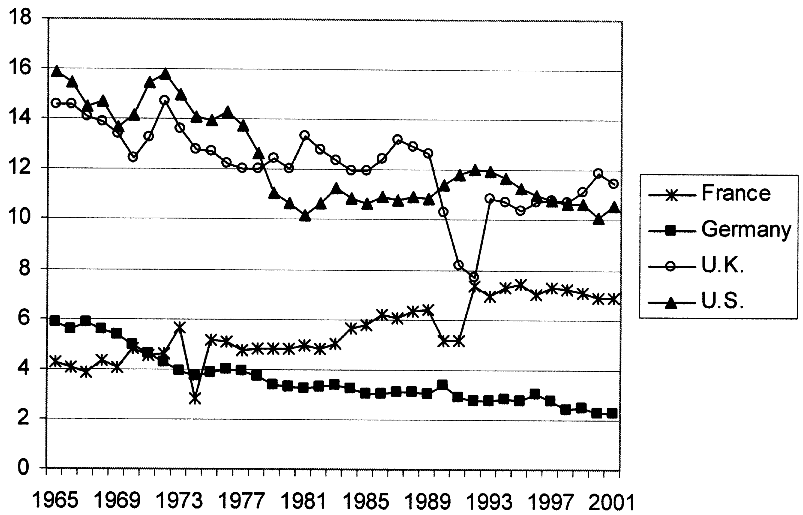

FIG. 8.—Property tax as % total tax revenue (OECD 1965–2002)

cases, the manner of tax collection structures the flow of information to French and American taxpayers in opposite ways.

In France in the postwar period indirect taxes such as sales taxes (particularly the value-added tax) consistently generated approximately 60% of total tax receipts. Indirect taxes are "invisible" because taxpayers do not have a very precise sense of how much of the price of a product is

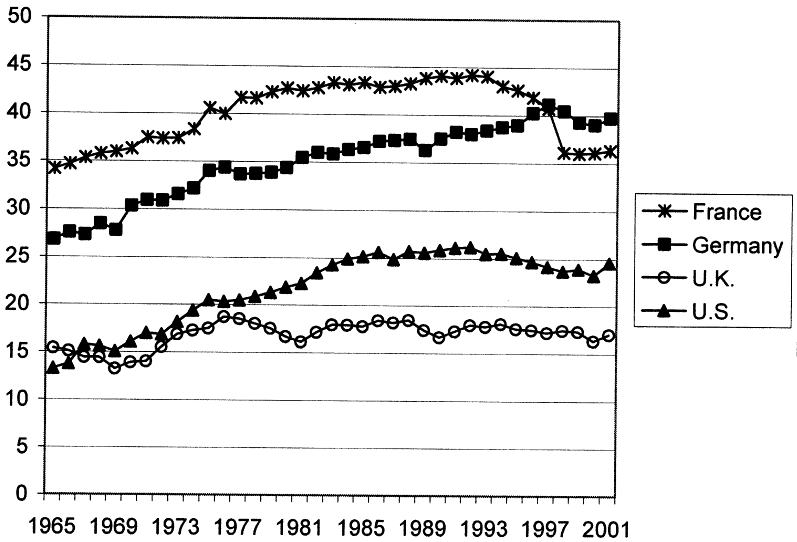

FIG. 9.—Social security contributions as % total tax revenue (OECD 1965–2002)

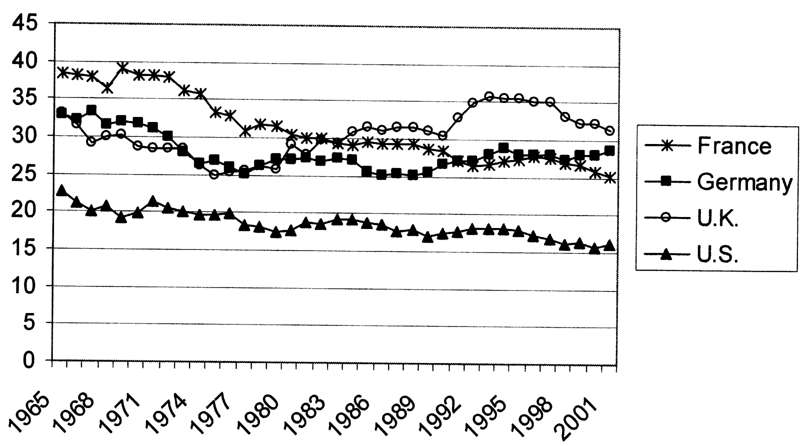

FIG. 10.—Taxes on goods and services as % total tax revenue (OECD 1965–2002)

going toward taxes, particularly value-added tax. The tax is collected in small amounts over many exchanges over a long period of time, and consumers often assimilate it into the cost of living (Wilensky 2002). Moreover, welfare spending in France is paid for by targeted payroll taxes; these structure information in such a way that the welfare services that workers receive are made visible and linked precisely to the taxes that

TABLE 3

Average Effective Tax Rates on Capital, Labor, and Consumption

Country	Capital			Labor			Consumption		
	1965–75	1975–85	1985–94	1965–75	1975–85	1985–94	1965–75	1975–85	1985–94
France	.17	.25	.25	.29	.37	.43	.19	.18	.17
Germany	.21	.29	.26	.29	.35	.37	.14	.13	.15
United Kingdom	.50	.60	.52	.24	.25	.21	.12	.13	.14
United States	.42	.42	.40	.17	.21	.23	.06	.05	.05

Source.—Genschel 2002, p. 250.

they pay (see fig. 11): "People think that they have 'bought' their own social benefits through the social contribution they have paid. In France, each *branche* (health, old age, unemployment insurance, family benefits) has its own contribution which appears on every French employee's pay slip. The link between payment and entitlement is very visible. When you pay health insurance contribution, for instance, you 'buy' your right to health care; . . . social contribution is perceived as a 'deferred wage' which will come back when the insured person will be sick, unemployed or aged" (Palier 2000*a*, p. 121). This is, of course, the reason analysts often give for why Social Security is so popular in the United States; it extends to other domains of social policy in France.

Thus Wilensky (2002, p. 391) notes: "It is not the level of taxes that creates tax-welfare backlash but the type of taxes—property taxes and income taxes with their visibility and perceived pain. Conversely, consumption taxes and social-security payroll taxes keep things cool." While in the United States highly visible property and income taxes take money from taxpayers at infrequent intervals, such that they know precisely how much they are paying but do not know precisely what they are getting for it, France's reliance on invisible consumption taxes and targeted payroll taxes dampens antitax sentiment (see also Kato 2003; Lindert 2004). In short, French tax structures were less conducive to reform because of the kinds of taxes that make up the French tax regime and the ways in which they are collected; consequently there was no "sales tax revolt" to parallel the property tax revolt of the United States, and because cutting payroll taxes would have required cutting welfare spending in an extremely transparent manner, politicians did not sense any political capital to be made as American politicians did with income tax cuts.

Industrial Policy

In industrial policy in the United States, neoliberalism involved deregulation of industry, particularly reductions in health and environmental protections. "Regulation" in the United States is two distinct things: "economic regulation" is the regulation of one particular industry in the interest of preventing any one company from gaining a monopoly in that industry; "social regulation," on the other hand, is regulation that extends to *all* industries, such as environmental and worker safety legislation, in the interest of preventing others from the "externalities" of market production in general. The cause of "deregulation" was brought onto the policy agenda by social movements, particularly the consumers' movement led by Ralph Nader, which pushed for economic deregulation in the interest of lower prices for consumers. But the deregulation idea was taken over by the Ford and Reagan administrations, who turned it into a direction the

BULLETIN de SALAIRE

N° MATRICULE	N° SECURITE SOCIALE	DATE ENTREE
		30.05.97

STATUT	SALAIRE MINIMUM
EMPLOYES	

QUALIFICATION	
COMMIS DE CUISINE	

CONVENTION COLLECTIVE	POSITION
HOTELS, CAFES, RESTAURANTS	

SECTION	DATE DE SORTIE	PERIODE DE REFERENCE	PERIODE DE PAIE DU	PERIODE DE PAIE AU	DATE DE PAIE
		DECEMBRE	01.12.98	31.12.98	31.12.98

	RUBRIQUES	BASE OU NOMBRE	PART PATRONALE TAUX OU PRIX	PART PATRONALE MONTANT	TAUX OU PRIX	A DEDUIRE	A PAYER
1060	Salaire mensuel	9.860,79			186,330		9.860,79
1400	Taux horaire				52,920		
3130	Nourriture prise	46,00			18,390		845,94
3989	** TOTAL BRUT **						10.706,73
3998	*********TOTAL BRUT EURO						1.647,18
4020	CSG non imposable	10.171,39			5,100	518,74-	
4060	Assurance maladie	10.706,73	14,400	1.541,77	0,850	91,01-	
4070	Assurance V.V. FNAL	10.706,73	8,300	888,65	6,550	701,29-	
4080	FNAL + 9	10.706,73	0,400	42,83			
4090	Accident du travail	10.706,73	2,280	244,11			
4130	URSSAF Transport	10.706,73	2,500	267,67			
4260	Allocations familiales	10.706,73	5,400	578,16			
4790	ASSEDIC TrA	10.706,73	3,970	425,05	2,210	236,61-	
4800	ASSEDIC Struct. Fin. TrA	10.706,73	1,160	124,19	0,800	85,65-	
4830	FNGS	10.706,73	0,250	26,76			
5050	ret circo sal total	10.706,73	3,438	368,10	3,437	367,99-	
5890	R.D.S. et C.S.G.imposabl	10.171,39			2,900	294,97-	
5989	** TOTAL COTISATIONS **					2.296,26-	
5999	NET IMPOSABLE	8.705,44					8.705,44
6530	Transport 2 zones	271,00			0,500		135,50
7130	Nourriture prise	46,00			18,390	845,94-	
8200	Remise 1,28 Hotellerie	46,00	1,280	58,88-			
9700	Taxe d'apprentissage	10.706,73	0,500	53,53			
9710	Aide à la construction	10.706,73	0,450	48,18			
9720	Formation continue	10.706,73	1,500	160,60			
9730	Médecine du travail	10.706,73	0,400	42,82			
9835	** NET IMPOS. Francs **			1,00			8.705,44
9836	*********NET IMPOS. EURO			1,00			1.339,29
9837	** NET A PAYER Francs **			1,00			7.700,03
9838	********NET A PAYER EURO			1,00			1.184,61

MODE DE PAIEMENT		NET A DEVOIR	NET A PAYER

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CONGES PAYES EN COURS	CONGES PAYES ACQUIS ANCIEN SOLDE	COMPLEMENT	PRIS	NOUVEAU SOLDE			REPOS COMPENSATEUR ANCIEN SOLDE	ACQUIS	PRIS	NOUVEAU SOLDE

	PLAFOND S.S. HEURES PAYEES	BASE C.S.G. BASE R.D.S.	BRUT IMPOSABLE BRUT COTISABLE	COTISATIONS SALARIALES COTISATIONS PATRONALES	NET IMPOSABLE	NON IMPOSABLES AVANTAGES EN NATURE	COÛT SALARIAL
MOIS							
CUMUL							

IMPACTS - CCMX Ref D960105

FIG. 11.—Pay stub of a French worker, showing taxes targeted to specific government programs.

original proponents did not favor, "social" deregulation; although there is no evidence of quid pro quo, it is undeniable that business lobbies had by this point been complaining of social regulations for a decade, and there is some evidence that in the Ford administration the popularity of economic deregulation was cynically used as a cover for the policy of social deregulation (see Prasad, in press).

Like French tax policy—and unlike American social regulation—French industrial policy throughout the postwar period has been favorable to business. France has been the European state most associated with state-led industrial growth, and this is responsible for its socialist image. Directly after the Second World War key industries were nationalized and the Planning Commission was founded with the intention of directing economic growth. But many observers have pointed out that the nature of this state intervention was to turn France into a world-class *capitalist* economy (Hall 1986; Schmidt 1996; Zysman 1983). Neither the nationalized industries nor the Planning Commission were focused on social justice; rather, intervention was aimed at reducing the role of agriculture in the French economy and increasing the role of industry, with the goal of improving aggregate economic growth compared to its much more heavily industrialized neighbors.

The plans were largely oriented toward economic growth: of the nine postwar plans, only two—the seventh and ninth, introduced long past the heyday of planning—concentrated on attaining full employment. The first four plans, which laid the foundations for the postwar period, concentrated on ways to stimulate economic growth. Social goals were a minor component of the fifth plan of 1965, but that was overshadowed by a new attention to international competitiveness, which the sixth and eighth plans also took as their main theme (Hall 1986). Thus, the plans only began to address social goals when the era of planning was coming to an end, and seven of the nine postwar plans were "market" oriented, that is, explicitly advocated the generation of a favorable climate for industry. Planning was abandoned not because the state became less socialist—the plans were never very socialist to begin with—but because the increasing integration of the French economy into the world made economic prediction nearly impossible, and the attempt to control the direction of the French economy through domestic policies unfeasible.

Nationalization, too, was not used in the interest of full employment or egalitarian redistribution of incomes. An early observer noted that with a few exceptions, "nationalization has replaced a fluctuating and uncertain income [for the former owners of the nationalized enterprises] by a guaranteed and constant income in a reasonably fair way. . . . Nationalization, therefore, has failed to make a substantial contribution to the socialist objective of achieving a more equalitarian distribution of income" (Sturmthal 1953, p. 48). Nationalization at once provided direct access to key state sectors and prevented "capital flight"; during the postwar period the French state controlled about half of the capital being invested in French industry and could provide a continuous stream of capital even during economic downturns. But this prevention of capital flight was not used as a means of leverage with which to institute worker friendly policies or income redistribution; rather, it was used to transform the French economic structure from one dominated by rural and artisanal production into one dominated by heavy industry and big business: "Nationalized industries—the banks, the transport industry, the energy industry—would serve as the spearheads in the postwar economic battle. They would help to 'relaunch' France as a great economic power" (Smith 2004, p. 71). President de Gaulle's strategy was to create firms large enough to compete on a European, and worldwide, scale—"national champions." Although measuring productivity in the nationalized industries across countries is difficult, it seems that French nationalized industries were more productive than British nationalized industries throughout the postwar period, except for the decade of 1958 to 1968 (see Pryke 1971, 1981). Estrin and Pérotin (1987, 1991) suggest that this is because productivity depends not on ownership so much as on how the firm is managed, and discuss various mechanisms that ensured that French nationalized firms were consistently managed with the goal of productivity, unlike British nationalized firms. Kuisel (1981) writes:

> The [French] nationalized companies [in the 1950s] were expansionist in their own operations and in their effect on the French economy. Electricité de France (EDF) and the state railways led the way in applying econometric techniques. The uniform purchasing procedures of state firms fostered the standardization of equipment supply. In a few instances, a public enterprise, such as Renault, served as a model for private firms and sharpened competition. The directors of the nationalized companies successfully pressed for higher productivity, new technology, and more investment. The result was a large expansion of capacity (e.g., EDF) and rising productivity (e.g., coal mines and railways). The example of public enterprise contributed to leading private industry toward a pattern of high investment and a decisive break with prewar behavior. An economist surveying the machine tool industry of Renault, the Caravelle jet, and EDF's high-voltage power grid, concluded that "much of the stimulus for technological change came from nationalized industry." (Kuisel 1981, p. 266; see Prasad [in press] for a more detailed comparison of nationalization in France vs. nationalization in Britain; see also Adams 1989; on comparative productivity figures in specific industries, see O'Mahony and Vecchi [2001] for evidence that the nationalized French electricity industry was more productive than the nationalized British electricity industry; see U.S. Congress, Office of Technology Assessment [1980] for evidence that nationalized French iron and steel in-

dustries were more productive than British ones; Frost [1991] presents an excellent case study of the failure of workplace democracy at EDF.)

Thus, unlike the social regulations found in the United States, which generated hostility from capital, French industrial policy has in general aimed to help large capitalist firms in the interest of nationalism. These policies both reflected the Right's role as part of the coalition that implemented nationalization and ensured that the Right would be committed to nationalization throughout the postwar years—until, as will be discussed below, Mitterrand upset this political equilibrium with further nationalization.

Welfare State Policy

In the domain of social policy in the United States, the Reagan administration originally intended to cut all manner of spending. The main focus was middle-class entitlements, particularly Social Security, the largest social spending expenditure. However, Congress would not hear of touching Social Security because of the political costs of cutting a popular universal program. Meanwhile, although there was not much financial savings to be gotten out of antipoverty policies, there was a tremendous amount of political capital to be made from attacking them. Because the beneficiaries of antipoverty policies were disproportionately black, an attack on antipoverty policies could mobilize racial resentment particularly from working-class whites; in this sense, cutting antipoverty policies was an extension of the Republicans' "Southern strategy" that could be generalized all over the country (Prasad, in press).

These dynamics were not possible in France: as many scholars of the welfare state have pointed out (see, e.g., Korpi and Palme 1998), welfare state policy in France does not separate and stigmatize; thus, it is not a source of political capital. This is not because of lack of racism in France; plenty of racism exists, and politicians do not hesitate to make political capital out of it, as is evident from recent immigration policy. Rather, the same political mobilization against welfare state policies has been difficult because, as Esping-Andersen (1990) notes, the French welfare state is a middle-class welfare state, redistributing risk within classes rather than between them.

Moreover, much of the French welfare state is actually *reverse redistributive*, benefiting the upper portion of the income distribution proportionately more. The largest portions of the high social spending for which France is known goes to old-age pensions and health and education spending, all of which benefit middle classes to a greater extent than the poor. The wealthiest 15% of retirees receive 1/3 of all pension disbursements, the next wealthiest 25% receive another 1/3, and the bottom 60% receive 1/3 (Smith 2004, p. 165). This is because pensions are linked to earned income, as are unemployment benefits and sickness pay (Ambler 1991, p. 12). Moreover, because the wealthy tend to live longer, they take greater advantage of universal health care, and the middle and upper classes are also more likely to take advantage of spending on higher education. Together, the top of the income distribution actually received more than the bottom over the period 1950–75, making the welfare system reverse redistributive (tables 4 and 5). As Cameron explains: "High levels of social spending, if distributed in a proportional manner throughout the society rather than concentrated among the poorest households, and if unaccompanied by significantly higher levels of [progressive] income taxation, will do little to mitigate the inequalities endemic in any capitalist economy" (Cameron 1991, p. 90; see also Levy 1999*a*, 1999*b*; Smith 2004).

Because the welfare state benefits the majority and particularly benefits the powerful, there is little room for neoliberal ideologists to appeal to the majority middle classes for a scaling back of hugely popular welfare services. This is also true in terms of *costs*. As discussed above, the French welfare state is financed through the *cotisations sociales*, payroll taxes pegged to welfare spending; because these taxes are precisely indentified with the programs they pay for, they are difficult to cut. But these taxes are at least partly coming at the expense of the creation of new jobs, particularly for the less skilled.[12] This means that French welfare state

[12] That is, for any individual firm payroll taxes must by definition come from a combination of employer profits, wages, firm growth, and higher prices; since wages in France are as high or higher than in other comparable countries, the taxes may at least partly be coming at the expense of the growth of the firm and thus at the expense of potential employees. In particular, French firms can avoid hiring expensive unskilled labor by investing in capital-intensive technology, so the French unemployment rate among the unskilled is much higher than among skilled workers who are less easily replaced by technology. Henry Sneessens (1994) has made this argument most forcefully; investigating the causes for the much higher rate of unemployment among the unskilled, he writes: "Given the composition of the active population, one finds that a substantial reduction (20% or more) of the relative cost of unskilled labor would be necessary to eliminate the gap between the unemployment rates of skilled and unskilled workers and to create the conditions for a return to full employment" (p. 29). That is, the cotisations sociales add to the cost of work and thus make it less likely that employers will hire new workers, particularly when such workers do not possess skills that are absolutely necessary (on this much-discussed issue see also Sneessens [1993], Cohen and Michel [1987], Fourçans [1980], Malinvaud [1998], Hamermesh [1996], Dormont and Pauchet [1997], Dormont [1997], Drèze [1997], and Economie et Prévision [1994]), leading to the French state's "dual" character—highly beneficial for those in the system, but very difficult to break into for those not in it, notably immigrants, the young, and unskilled workers. As Edmond Malinvaud sums up the mainstream—though far from consensus—position: "We are not so far from reality when we claim that all modes of financing . . . make employment pay the cost of social protection"

TABLE 4
After-Tax Household Income as Percentage of National Wealth, by Decile

Country	First Decile (Poorest 10%)	Second Decile (Second-Poorest 10%)	Ninth Decile (Second-Richest 10%)	Tenth Decile (Richest 10%)
France (1970)	1.4	2.8	16.6	30.5
West Germany (1973)	2.8	3.7	15.7	30.6
United Kingdom (1973)	2.4	3.7	15.4	23.9
United States (1972)	1.7	3.2	16.0	26.1

Source.—Smith 2004, p. 135.

policies benefit a sheltered core of the population, at the expense of an excluded minority (see Smith [2004] for more on this argument). The political implication of a welfare state system that redistributes within rather than between classes, and that is even reverse redistributive, is that "welfare" is not identified with weak populations. As Walter Korpi (1980; Korpi and Palme 1998) and others have spent several decades demonstrating, this makes the French welfare state highly resilient.

In sum, the dominant tendency in tax policy, industrial policy, and welfare state policy was neither egalitarianism nor anticapitalist state intervention. The book explaining when and why France acquired such a durable reputation as an anticapitalist state, despite the evidence, remains to be written.

INNOVATION IN FRANCE

The preceding section explained the ways in which previous policies made the French postwar economic structure resilient and prevented a neoliberal reform of the kind seen in the United States. But although he did not institute a neoliberalism of the kind and intensity seen elsewhere, Giscard did introduce several measures in this direction—neoliberalism "à la française" (Michel Poniatowski, interview, June 1, 2001). These included an attempt to end subsidies to lame-duck industries, the end of price control, the beginning of the process that would result in the Euro, and efforts to control health care costs (interviews, Fernand Icart, June 10, 2001; Pierre Lelong, June 8, 2001; René Monory, July 18, 2001; Poni-

(1998, p. 70). In recent years the French state has taken steps to address both unemployment and the linkage of welfare with employment; most notably, the cotisations sociales have been reduced for unskilled workers and their employers in the hopes that the reduction of the cost of unskilled work will lead to the creation of new unskilled jobs, and the Revenu Minimum d'Insertion, employment benefits inaugurated under Mitterrand, help to dismantle the dual character of the French welfare state.

TABLE 5
TRANSFER PAYMENTS RECEIVED, 1950–75

Percentage	Britain	France
Received by top 20% of income distribution	7.2%	24%
Received by bottom 20% of income distribution	47.3%	18%

SOURCE.—Smith 2004, p. 128.

atowski, June 1, 2001; Jean Sérisé, June 20, 2001; Simone Veil, June 26, 2001). In particular, even if the comparison of the policy structures explains why French neoliberalism did not take the shape that American neoliberalism did, we still have to explain a curious element of French neoliberalism under Giscard: its *punitive* character.

Neoliberalism for Giscard meant above all three things (Wright 1984): making French industry more competitive by opening it to external competition, ending subsidies to lame-duck industries, and encouraging firms to make their own decisions: "Nationalised industries were forced to adopt a more 'realistic' economic pricing policy; price controls in the private sector were dramatically abolished or considerably eased; . . . certain restrictions on capital investment abroad were lifted; and private shareholders were given (albeit limited) access to state industries, banks and insurance companies" (Wright 1984, p. 18). These measures had the intended effects—they "rationalized" industry, driving unprofitable firms off the market—but because the world economic climate had turned difficult in the late 1970s, the workers who lost their jobs when these unprofitable firms closed down did not find new jobs, driving unemployment to record heights. The political unpopularity of this position (see, e.g., *Le Figaro* 1978; *Le Matin* 1979) soon led to pressure to continue the tradition of subsidizing key industries, especially steel, shipbuilding, and textiles, to which Giscard bowed. Many Gaullists criticized the policy to such an extent that by 1979 rumors were circulating that the prime minister would resign; he did not do so, but the punitive policies could not withstand the criticism (*The Guardian* 1979*a*). Moreover, for reasons of defense as well as international symbolism Giscard invested heavily in high-tech industries such as aerospace and nuclear power. These two policies—politically generated continuation of subsidies plus symbolically important investment in certain industries—combined to increase the size of the state: "By the end of Giscard d'Estaing's presidency one worker in four was employed by the state administration, in local authorities, the public service industries (for example, electricity industry), or the public enterprises (such as Air France, Renault and Seita)" (Wright 1984, pp. 18–19).

Where Giscard was successful was in making the environment "more competitive" for French companies that could not exert pressure for subsidies: "One of the most direct and far-reaching consequences of Giscardian industrial policies is the radical rationalisation which took place. A number of well-known companies disappeared in mergers (often as an alternative to liquidation) (for instance, Boussac and Kléber-Colombes) and many of the big industrial groups moved out of some of their traditional (and often loss-making) activities into new ones. . . . The costs of this belated and accelerated rationalisation were high. The number of bankruptcies rose dramatically, increasing 70 per cent over the seven years of the Giscardian presidency" (Green 1984, pp. 147–48). These changes were furthered by the forced confrontation of French industry with international firms and resulted in the ending of uncompetitive firms. But as Green notes, these changes were not popular with the French. The immediate result of this rapid rationalization was increasing unemployment: "It could be argued that rather than constituting a failure, the attempt to encourage industrial adjustment . . . was too successful. More specifically, the consequences of Giscardian industrial policy (in the shape of the disappearance, at too rapid a rate, of sectors, firms and jobs), proved to be electorally unacceptable. In other words, what mattered to the French electorate was not so much inflation (which they had learned to live with) as unemployment. This suggests that Giscard d'Estaing's main error was in giving the control of inflation priority over all other policy objectives" (Green 1984, p. 152). When confronted with external competition, French firms that had been used to counting on state aid, but could not exert pressure on the state for aid to continue, folded. Note the curious role that "globalization" plays in this story: the usual argument is that globalization hinders state actors who want to pass leftist, redistributive policies by forcing states to attract capital with low taxes, harsh antilabor laws, and minimal welfare payments. But under Giscard, globalization forced the abandonment of neoliberal policies because external competition led to increased folding of firms (as Rodrik [1997] and Garrett [1998] predict). By contrast, American neoliberalism in industrial policy included attempts to *make* firms more competitive across the board by lowering the costs of regulatory compliance—a populist neoliberalism. By 1980, 56% of French business leaders were calling Raymond Barre's policies a failure (*Quotidien de Paris* 1980).

This punitive neoliberalism was also a new innovation in France—but where did it come from? To explain the particular shape of French neoliberalism, this section develops the second point of my critique of theories of path dependence: the path dependence model assumes that innovations arise randomly, and that the key moment to analyze is the moment of implementation, at which point these innovations will be blocked because of the costs of reversal. But one key difference in analyzing change across societies is that innovation itself is systematically structured: social structures may determine the rate of innovations and the kind of innovations that are brought onto the agenda. This is clear from a comparison of the sources of innovation in the two countries.

In the U.S. case, the weakening of party structures in the 1960s increasingly forced candidates to turn away from dependence on parties and to oversee their own campaigns. For most of the century, the mass party was the medium through which politicians acquired and used power; starting in the 1970s parties no longer were financially strong enough to continue in this role, and so politicians increasingly began turning to social sources of support to be able to build their own personal campaign machines and conduct their campaigns themselves. In this system, candidates are "in business for themselves" (Davidson 1981, p. 131; see also Aldrich and Niemi 1996). Many politicians became "policy entrepreneurs" because one technique for ensuring visibility in voters' eyes is immediate engagement with substantive issues. For example, politicians elected to Congress in the mid-1970s were significantly more likely to become immediately involved in substantive issues than their predecessors. Thus, the weakening of party structures created a generation of legislators who actively sought out issues on which to make their name, such as junior congressman Jack Kemp, whose championing of the issue of income tax cuts brought the issue to national prominence. The quest for political office became a stable source of political innovation (Prasad, in press).

Another source of innovations was the decentralized nature of the polity. It has become scholarly orthodoxy that decentralization of power hinders policy change. Immergut (1992) introduced the idea that veto points—sites in the policy-making process where minorities can block change—can lead to policy stability, and Tsebelis (1995, 1999, 2002) has attempted to turn the idea into a basis for the reorganization of comparative politics. But in the study of organizations, it is orthodoxy that decentralized systems lead to rapid innovation. Stark (1999) writes: "In relentlessly changing organizations where, in extreme cases, there is uncertainty even about what product the firm will be producing in the near future, the strategy horizon of the firm is unpredictable and its fitness landscape is rugged. To cope with these uncertainties, instead of concentrating its resources for strategic planning among a narrow set of senior executives or delegating that function to a specialized department, firms may undergo a radical decentralization in which virtually every unit becomes engaged in innovation" (p. 159). Decentralized organizations have several advantages that lead to greater innovation: for example, greater numbers of workers are involved in innovative activities, including those closest to and most knowledgeable of the production process. Damanpour (1991) examined studies conducted between 1960 and 1988 on organizational innovation and reports a routine finding of a negative correlation between centralization and innovation. Decentralization brings a larger range of actors into contact with the production or policy-making process, increasing the rate of innovations, although the decentralized nature of the organization may make implementing those innovations difficult (for a similar theory of the effect of veto points on policy innovation, see Martin 2005).

With its entrepreneurial politicians and its decentralized innovation, the American case fits the model of politics described by William Riker: "New alternatives, new issues, are like new products. Each one is sponsored as a test of the voting market, in the hope that the new alternative will render new issues salient, old issue irrelevant, and, above all, will be preferred by a majority to what went before. This is the art of politics: to find some alternative that beats the current winner" (Riker 1982, p. 209).

But, just as economic markets are socially constructed, so are political markets: Riker's description does not fit French politics in the postwar period very well. There, politics are reminiscent not of a market, but of a bureaucracy, with many of the classical features of bureaucracies identified by Weber. Most important among these are entry based on competitive exams (instead of on loyalty, popularity, or ideological similarity as in the American system) and a centralized hierarchy (strong parties [see Wilson 1987] and with the legislature firmly subordinate to the executive in this period). Instead of becoming "entrepreneurial politicians," the path to success for a French politician is through the formalized system of schools of administration (Sciences Po, ENA) followed by civil service; parties still finance political campaigns, so there is no need for individual politicians to seek new issues on which to make their name, and centralization of power means fewer points at which innovations can enter the political agenda. This combination of characteristics leads to a distinctive pattern of policy innovation: reliance on experts leads to policy innovations that are tightly coupled to innovations in the academic world, as well as to a methodical process of search for the most successful practices, and hierarchy leads to political innovations at the level of the national party rather than at the level of the local individual politician. Although there is innovation at the level of the party, no president had ever lost an election in Fifth Republic France before Giscard, so the parties of the Right had not set up an apparatus for policy rethinking of the kind seen in, for example, British parties when they are out of power.

Technocracy.—The most prominent source of innovations in France, cited by the majority of my interviewees, is innovations that arise from the academy, or, more narrowly, the technocracy that funnels students through particular elite schools and into government office. The French executive is staffed to a great degree by graduates of the École Nationale d'Administration, entrance to which, and exit from which, are governed by competitive exams. Dogan (1979) found that this path of "mandarin ascent" was the predominant means into ministerial office for the Giscard ministers. A characteristic of innovations that arise from the academy is that they are constrained by the evolution of academic expertise; this explains both the punitive nature of some of the innovations—they were born autonomously of what would be politically popular—as well as their moderate degree—they were constrained by the rationalist ethos of the technocracy (see Fourcade-Gourinchas and Babb [2002] for a similar argument about the influence of the French technocracy). Note that it would be misleading to argue that because French state actors are more enamored of academic expertise than American state actors, there must be a national cultural difference at work; the United States has plenty of academically trained professionals, but the difference is that they do not control the state.

Imitation.—A second result of staffing the state with trained professionals, rather than through mechanisms of loyalty or ideology, is that policy innovation is fed to a greater degree by a search for the most successful practices among neighboring states. For example, in discussing the origins of her attempt to control health costs, Simone Veil, Giscard's minister of health, social security, and the family, said:[13]

> It was in 1974 that, when I arrived at the ministry . . . I began to say that medicine has a cost, "health is priceless but medicine has a cost" ["la santé n'a pas de prix mais . . . la médecine a un coût"] and that one could not avoid being interested in costs. [In response to the question, "What were the influences on the development of your thinking in this domain?"] At the very beginning of my ministry, I made a very interesting voyage to Canada. They did very interesting things, very experimental. . . . Then, I kept up with the evolutions in the other European countries, those that had the same standard of living, for example Germany, the English system. . . . We were all agreed on the fact that the population didn't realize, that our other colleagues . . . said that we managed badly, "You spend too much." (Interview, June 26, 2001)

Raymond Barre invoked similar experiences during his tenure as vice president of the Commission of the European Communities in Brussels, and a secretary of state recounted an episode where he disguised himself as part of a team of OECD experts to inspect Germany's vocational

[13] Interviews were conducted in French. The translation is my own.

training system (Barre, interview, June 28, 2001; Jacques Legendre, interview, June 20, 2001).

Backlash.—A third source of innovation becomes evident when we examine why Giscard did *not* move to privatize, although Chirac, only a few years later, did. The postwar nationalizations had been undertaken by a very wide political spectrum, including de Gaulle himself, and the Gaullist party remained within this understanding of nationalization in the interest of modernization. But when Mitterrand nationalized further, he broke this implicit coalition; in reaction, the Gaullists rethought their views on nationalized industry. Thus privatizations were initiated for tactical reasons, "intended for the short-term political benefit of those backing the policy" (Feigenbaum and Henig 1994, p. 196; Feigenbaum, Henig, and Hamnett 1999). Feigenbaum and Henig point out that profit and loss statements show that state-run enterprises were increasingly profitable in France, casting doubt on the economic arguments for privatization. The Gaullists seized on privatization as a political response to the socialists' nationalizations: "Since 1983 the socialists had slowly deregulated the economy, reduced taxes, and liberalized capital markets. While they had deregulated for pragmatic reasons, largely because they had no other ideas after the failure of the 1981 economic program, this left the conservatives with little to call their own. Thus they blamed France's problems on the public sector, especially on the nationalizations of the socialists" (p. 197). Because the Socialists had already made a significant political U-turn and moved toward the center, they forced the Gaullists even further to the right. Therefore the privatizations did not stop with returning the industries that Mitterrand had nationalized to the private sector; once privatization was on the agenda, the Gaullists went on to an extremely broad privatization program, because Mitterrand's economic difficulties had caused a rethinking within the Gaullist party of the idea of nationalized industry as a whole. One wonders if large tax cuts and cuts in social spending would also have arrived on the agenda in 1986 if Mitterrand had significantly raised taxes or social spending in 1981.

In sum, we see a very different picture of policy innovation in France; in the United States innovation was generated by candidates engaged in intense political competition and intensified because parties cannot fund candidates; in addition, tight informal linkages, a tradition of amateurs in politics, and decentralized state structures combined to bring new ideas into the American polity. In France, the process of policy innovation during this period was more moderate, constrained by the bureaucratic features of the French state, particularly entrance based on competitive exams and hierarchy.

CONCLUSION: INNOVATION AND THE AUTONOMOUS STATE

Putting these observations together, we can explain why the Giscard period—when all of the signs seemed to be in favor of a neoliberal direction—did not see promarket reform of the Anglo-American kind. French resistance to the free market cannot be explained by an appeal to French national culture: French cultural traditions, like the cultural traditions of all complex societies, are flexible enough to include the possibility of free-market measures. But despite this, and despite the autonomy of the state, the weakness of labor, the economic crisis which had opened a space for new solutions to be tried, and the president's stated intentions to reduce state intervention, France did not see the kinds of changes in the late 1970s that the United Kingdom and United States would see just a few years later.

Rather, the source of the different fates of the United States and France is found in the ways in which the postwar political economy mobilized support or opposition, and in the structures that lead to innovation in each country. First, the legacies of state-led industrialization in the postwar period—turning an agricultural country into an industrial power—created a political-economic structure that generates popularity from both business and the public, a "pragmatic state interventionism." The state has been concerned in the postwar period to keep direct taxes on business low, and French planning was largely used in the interests of industry. The one exception to the probusiness nature of the state is in the welfare state taxes, the cotisations sociales, but because of the universal nature of the welfare state, as well as the specific manner of tax collection—with taxes visibly targeted to benefits—the welfare state generates loyalty from the majority of citizens. And the largest portion of state revenue comes from "invisible" indirect taxes, which do not generate political protest.

The neoliberal innovations that did arrive on the agenda arose mainly from the technocracy and from imitation of other countries—which meant they were autonomous from popular will and explains the punitive nature of Giscard's industrial policy—and, later, from backlash to the policies of Mitterrand. Because nationalization was a main element of Mitterrand's policies, privatization became the leitmotif of the Gaullists afterward. These innovations were constrained by the evolution of economic expertise.

What is not visible is the kind of intensely innovative, populist, and entrepreneurial process—not at all constrained by economic expertise—seen in the American case. Evident in the histories of neoliberalism under both Thatcher and Reagan is a remarkable degree of improvisation, with events moving in unpredictable fashion, and earlier events opening horizons of possibility that had not been envisioned, so that the neoliberal impulse becomes more clearly defined and exaggerated as time passes. In the United States, this dynamism was catalyzed by a set of structures—weak parties, decentralized state structures, permeable bureaucracies—that made politics more like a competitive market by bringing in a wider range of actors into the policy-making process. This allowed politicians to discover a way to make free-market policies appeal to the majority. The absence of similar dynamism made it difficult for French policy makers to find a way to entrench neoliberal policies in public opinion, and the punitive neoliberalism they came up with through their technocratic means of innovation withered at the next election.

This observation allows us to resolve the anomaly of rapid change occurring in the fragmented American state, rather than the centralized French state. While fragmentation and decentralization of power is an obstacle to rapid implementation of policy, it aids policy innovation. Centralized states see less innovation and different kinds of innovation: innovation comes from close familiarity with the evolution of academic expertise and from imitation of other states. In addition, in strong party systems, political innovation happens at the level of the party rather than the level of the individual politician.

This investigation of neoliberalism in France also gives us some tools with which to understand the current round of attempts at neoliberal reform. The "national culture" interpretation of French policy making would predict that change is impossible in France; the "class" interpretations, for example, the varieties of capitalism argument, would predict that change will happen if the large exporting firms want it. In contrast, I suggest here that change will happen in France if and when it allows either party to present itself as a contrast to the unsuccessful policies of the other, can be modeled on successful changes in other countries, or generates consensus among experts. These are the conditions under which the autonomous state has historically been moved to action.

APPENDIX A

TABLE A1
INTERVIEWS

Name of Interviewee	Position under Giscard
Raymond Barre	Prime minister
Michel Durafour	Minister of labor
Jean François-Poncet	Minister of foreign affairs
Robert Galley	Minister of voluntary services ("ministre de la cooperation")
Fernand Icart	Minister of public works and town and country planning

TABLE A1 (*Continued*)

Name of Interviewee	Position under Giscard
Jacques Legendre	Secretary of state for the minister of labor
Pierre Lelong	Secretary of state in posts and telecommunications
Maurice Ligot	Secretary of state for the prime minister, public services
Pierre Mehaignerie	Minister of agriculture
René Monory	Minister of industry, commerce, and the artisanat, and minister of the economy
Jacques Pelletier	Secretary of state for the minister of education
Monique Pelletier	Secretary of state for the guardian of the seals, and minister delegate of the prime minister in charge of the condition of women
Maurice Plantier	Secretary of state for veterans
Michel Poniatowski	Minister of state, minister of the interior
Christiane Scrivener	Secretary of state for minister of economy and finance (consumption)
Jean Sérisé	Secretary to Giscard
Olivier Stirn	Secretary of state of departments and territories
Pierre-Christian Taittinger	Secretary of state for minister of foreign affairs
Simone Veil	Minister of health, social security, and the family

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