Original Article

The return of the state? France's response to the financial and economic crisis

Jonah D. Levy
Department of Political Science, University of California Berkeley, 210 Barrows Hall, #1950, Berkeley CA 94720-1950, USA.
E-mail: jlevy@berkeley.edu

Abstract The 2008 financial meltdown prompted an apparent revival of the *dirigiste* or statist economic model in France, a country with a long tradition of state-led development. French President, Nicolas Sarkozy denounced *laissez-faire* capitalism, which he blamed for the crisis, and launched a series of industrial policy initiatives. Yet the reality of French actions fell well short of the statist rhetoric, with the government committing few financial resources to its signature industrial policy programs and displaying little capacity to steer business strategies. This article argues that France's neostatist turn was largely checked by the legacies of shifts in French economic policy a quarter-century earlier. Specifically, the break with the *dirigiste* model in 1983 deprived French authorities of many of the institutions and instruments associated with state-led development, while the massive expansion of social and labor market programs that eased the movement away from *dirigisme* left the government without the fiscal capacity to launch expensive new promotional policies. The broader lesson is that a country's response to crisis is shaped by long-term structural factors, not just short-term political calculations, and that there are important institutional and fiscal prerequisites for statist revival, even when neoliberalism is widely believed to have failed.
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Introduction

The 2008 financial meltdown was an economic calamity, but in those countries that were ambivalent about the prevailing neoliberal model, it also offered an opportunity, a chance to put forward an alternative economic model. France was most definitely such a country. Throughout the post-war boom period, French elites had pursued a statist or *dirigiste* approach to economic development, marked by economic

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planning, ambitious industrial policy, extensive support for 'national champions', and fiscal stimulus coupled with periodic 'aggressive devaluations' designed to give French firms a price advantage in international competition (Shonfield, 1965; Hall, 1986; Cohen, 1992). In the early 1980s, however, a leftist government elected on a pledge to take *dirigiste* policy to new heights was compelled by a combination of international and domestic forces to reverse course and implement far-reaching liberalizing reforms (Hall, 1986, 1990; Schmidt, 1996; Levy, 1999).

The 2008 financial meltdown seemed to herald a new dawn for French statism. The neoliberal model experienced its worst crisis since the 1930s, and among the affluent democracies, those countries like the United States and the United Kingdom that most closely approximated the neoliberal model appeared to suffer the greatest fall. The crisis also opened the door to massive state intervention in the economy. Governments everywhere bailed out banks and auto companies, stimulated aggregate demand, and pondered new forms of regulation of financial markets and executive compensation. Thus, the context appeared ripe for the kinds of voluntarist statist policies that the French had long held dear.

Nicolas Sarkozy, France's President from 2007 to 2012, eagerly donned the statist mantle. Although hailing from the Right of the political spectrum and initially inclined toward neoliberal reform, Sarkozy (2008) issued a series of ringing denunciations of free-market capitalism, calling for a 'new balance between state and market'.[1] In this spirit, the government not only bailed out the banking and auto industries, but also proffered a stimulus package centered on pro-business measures, established a sovereign wealth fund to support French companies, and created an 'investments in the future' program to bolster France's position in advanced technologies. To many observers, France and its leader incarnated the renewed demand for a statist approach to economic policy.

The reality of France's response to the 2008 financial meltdown has fallen well short of the statist rhetoric, however. The Sarkozy administration committed few additional financial resources to fiscal stimulus and industrial policy, while displaying little capacity to steer business strategies. Moreover, as early as 2010, the government began backtracking toward a more orthodox neoliberal orientation. The initial policies of Sarkozy's Socialist successor as President, François Hollande, have likewise failed to live up to the statist promises of the 2012 election campaign, suggesting that the limits of statist revival stem from more than partisanship or personalities.

Why has the neo-*dirigiste* dog not barked (or, at least, not barked more loudly)? This article argues that efforts to revive statist policy in the wake of the 2008 financial meltdown ran up against the legacies of shifts in French economic and social policy made decades earlier. In particular, the break with the *dirigiste* model in 1983 deprived French authorities of many of the institutions and instruments associated with state-led development. At the same time, the massive expansion of social and labor market programs that had accompanied the movement away from *dirigisme* crowded out the fiscal resources necessary for expensive new promotional policies.

To understand France's response to the 2008 meltdown, then, it is necessary to situate the government's actions in the *longue durée*, in the legacies of policy choices made a quarter-century earlier.

The rest of this analysis of France's response to the 2008 crisis is organized into five sections. The next section situates the argument in this article within the literature on the French statism and the global economy. The section after that presents some of the emblematic initiatives attesting to a return of the French state. The following section shows that these initiatives were far less ambitious than they appeared and explains how they were impeded by the legacies of earlier economic and social policy decisions. The penultimate section suggests that the same constraints that checked President Sarkozy have largely prevented his Socialist successor, François Hollande from honoring the very modest statist promises of the 2012 presidential campaign. The final section offers some concluding thoughts about the French case and its implications.

French Statism and the Global Economy

Three main lines of thinking dominate discussions of France's relationship to the global economy. The first contends that globalization has triumphed over French statism. International and European constraints no longer permit the kinds of market-directing or market-resisting policies associated with the French *dirigiste* model. Globalization, in the form of intensified competition and capital mobility, compels countries to pursue orthodox economic policies, on pain of being sanctioned by internationally mobile investors (Cable, 1995; Friedman, 1999; Strange, 2000). Indeed, the experience of France in the early 1980s, when the leftist government of François Mitterrand rushed headlong into an ultra-voluntarist strategy only to be compelled to reverse course and implement market reforms 2 years later, is often portrayed as the clearest illustration of the loss of economic sovereignty in the face of globalization:

> The global economy relentlessly passes judgment on governments and societies …. Consider the lessons learned by a representative middle-ranking nation such as France. Following attempts to reflate in the early 1980s, despite worldwide recession, the Socialist government in France accepted it could no longer go it alone. It subsequently embraced a form of economic liberalism as assiduously as did the rightist opposition. (Horsman and Marshall, 1994, p. xii)

From the globalization perspective, the fact that France's 2008 neo-*dirigiste* turn did not go far is unsurprising, since international constraints leave little room for state activism. This interpretation exaggerates the constraints of globalization, however. The constraints of Maastricht and EMU did not prevent French public spending from trending upward in the decades following Mitterrand's U-turn, rising from 49.9 per cent of GDP in 1982 to 53.3 per cent of GDP in 2008, on the eve of the

recession (OECD, 2013). Nor did WTO and EU competition rules prevent the French government from orchestrating massive bailouts of ailing enterprises in the 1990s and early 2000s, including the Renault car manufacturer, Bull computers, Thomson electronics and the Crédit-Lyonnais bank. The rescue of Crédit-Lyonnais, at a cost of €14.7 billion, remains the most expensive in French history, exceeding that of any company saved since 2008 (Cassel, 2013). In addition, other traditionally statist political economies, most notably South Korea, have continued to intervene in support of critical industries such as consumer electronics and automobiles (Gereffi and Sturgeon, 2013; Larson and Park, 2014). The activism of France and other countries suggests that if the French statist response to the 2008 crisis failed to meet expectations, this failure cannot be blamed on the constraints of globalization. Rather, the limitations of France's response must be located in specifically French factors.

A second account of French economic policy emphasizes a shift in the mindset of French elites. International pressures may not be as constraining as the globalization school suggests, but French elites believe in these constraints. This argument is often put forward by French academics, especially those of a leftist or voluntarist bent, who criticize elites for having succumbed to *la pensée unique*, loosely translated as economic orthodoxy or the Washington consensus (Forrester, 1996; Montbrial, 2000; Chevènement, 2011). These critics believe that there is room for voluntarist policies, but that French leaders, an unusually cohesive cadre trained at the same elite academies and operating in the same closed policy circles, are incapable of thinking outside the box. Politicians may denounce *la pensée unique* in their election campaigns to try to win votes, but they do not believe what they are saying, and once in power, quickly return to the orthodox fold, usually blaming EU constraints for their failure to honor their campaign promises. The classic case is that of Jacques Chirac, who was elected President in 1995 on a pledge to revive social spending in order to heal France's 'social fracture', only to announce an austerity plan 6 months later, which he claimed was necessary for France to qualify for European Monetary Union.

To critics of la *pensée unique*, Sarkozy's apparent statist turn in 2008 was just another cynical exercise in the manner of Chirac. Sarkozy was not serious about statist revival. Rather, like Chirac in 1995, he was pretending to embrace statism to appeal to the electorate, while having no intention of following through. This reading is bolstered by the nature of Sarkozy's personality and governing style. Sarkozy was known for constantly announcing new reforms, a strategy that one leading scholar of French economic policy described as 'carpet-bombing' (Cohen, 2008b). These reforms tended to be long on spin and short on substance, however (Cahuc and Zylberberg, 2009; Szarka, 2009), as many initiatives were either largely symbolic or never fully implemented.

Without denying Sarkozy's cynicism and inconstancy, the French President was no prisoner of *la pensée unique*. A friend of business more than of free markets, Sarkozy was anything but a neoliberal ideologue. Even before becoming President, as Minister of the Economy in 2004–2005, Sarkozy orchestrated the bailout of the

high-speed train manufacturer, Alstom and helped arrange a merger between two French pharmaceutical companies, Sanofi and Aventis that was designed to prevent a takeover of the latter by a Swiss company, Novartis. Both of these moves prioritized the defense of French companies and national control over principles of free competition.

The Alstom rescue figured prominently in Sarkozy's understanding of how to respond to the 2008 crisis (Cohen, 2008a; Chevallier, 2010). Alstom had been a fundamentally sound company, with highly successful products, most notably high-speed trains and components for the nuclear power industry. The company had fallen victim to predatory shareholders and some ill-advised acquisitions (Cohen, 2004). Given a little state support to get through a rough patch, Alstom quickly returned to health. Indeed, the state even turned a profit on its investment in Alstom.

In Sarkozy's mind, the France of 2008 contained a number of potential Alstoms – companies that were experiencing short-term financial difficulties because of the crisis, rather than their own competitive weaknesses (interviews by author with Élie Cohen, Research Director, Institute of Political Studies, Paris, 24 March 2011; Philippe Marini, UMP Senator, 30 March 2011; Emmanuel Moulin, Economic Adviser to the President, 11 April 2011). If the government did nothing, many of these companies would either go bankrupt or be acquired by foreign rivals and (Anglo-American) asset-stripping speculators. Yet because they were fundamentally sound, these companies could be saved at low cost. In short, Sarkozy's record as Minister of the Economy not only belied the notion that he was a free-market ideologue, but also provided a template for a highly interventionist strategy in response to the 2008 crisis, a strategy that Sarkozy genuinely believed could succeed. Thus, the limitations of the French response cannot be attributed to an unwillingness to challenge economic orthodoxy.

A third interpretation of French economic policy suggests that France never truly broke with the statist model. The move toward the market was reluctant, hidden, and half-hearted. In the wake of the 1983 U-turn, French elites spoke of a 'pause' in voluntarist reforms, rather than a reversal and conducted 'liberalization by stealth', instead of acknowledging and justifying what they were doing (Gordon and Meunier, 2001). Neoliberal critics charged that this move to the market was never fully completed, either. French authorities continued to increase state spending as voters and protestors refused to accept any cuts to their cherished social programs (Smith, 2004; Pedder, 2012), and the authorities also rescued ailing enterprises in defiance of EU prohibitions. All the while, French policymakers were denounced on a regular basis for failing to reduce budget deficits or implement neoliberal changes with sufficient vigor (Minc, 1994; Bavarez, 2003; Camdessus, 2004). Even before the economic crisis, in the waning days of the Chirac administration, the government launched a series of initiatives under the banner of 'economic patriotism' designed to revive flagging French industry (Cohen, 2004; Beffa, 2005; Clift, 2013). These initiatives – including regional technology poles, success-conditional loans for

innovative projects, a bank dedicated to small business lending, and protections against foreign takeovers for 11 'strategic sectors' (including gambling!) – attested to the enduring appeal of the *dirigiste* model.

According to the neo-statist interpretation, the 2008 crisis offered a perfect economic justification for unleashing the long-suppressed statist aspirations of French elites. The crisis made bank rescues, aid to the auto industry, and macroeconomic stimulus the order of the day, and no country seemed to embrace these 'necessities' more enthusiastically than France. A cover of *The Economist* magazine announced, *Leviathan Inc.: The State Goes Back Into Business*, and inside, France was presented as the leading example of 'a renewed trend of industrial intervention by governments in rich countries' (*Economist*, 2010, p. 68).

French accounts tended to place less emphasis on the interventionist proclivities of the nation's leaders than on structural imperatives: the French state was intervening widely because the economic context demanded it (Aghion and Cage, 2010; Chevallier, 2010). Some analysts such as philosopher and former Minister of Education, Luc Ferry went so far as to claim that the 2008 financial meltdown had engendered an economic policy U-turn much like that of 1983, albeit in reverse. Instead of a voluntarist Left being forced to accept the market, a neoliberal Right was being forced to embrace the state:

> The crisis has come along and invalidated all the themes of the 2007 [presidential] campaign, the first campaign of an unabashed Right finally at ease with its values. The campaign was neo-liberal, deregulatory, and pro-American. We were going to sweep away the old world, finish with the … "French social model"! And then the crisis came. Like the Left in 1983, the Right made a 180-degree turn. President Sarkozy has taken on the mantle of protector, regulator, almost anti-capitalist … (Luc Ferry in Askolovitch, 2010)

Although appealing in its simplicity and symmetry, the argument that economic circumstances drove a revival of *dirigiste* policymaking or even a 1983 in reverse exaggerates the extent of France's neo-statist turn. French practice has fallen well short of the lofty statist rhetoric. State authorities have committed few additional financial resources to macroeconomic stimulus or industrial policy and left business strategy largely in the hands of business. In short, the notion that France has revived or reinvented a new statist model confuses the desires of French authorities with the reality.

Explaining France's response to the 2008 financial crisis requires moving beyond simplistic images of oppressive globalization and eternal French statism that have dominated the debate. Globalization has certainly changed the economic policy-making environment, but it still allows for many kinds of state intervention. Indeed, this article contends that the main constraints on France's neo-*dirigiste* aspirations have been internal and historical, rather than external. At the same time, these constraints have been genuine. They are not the product of elite brainwashing or an inability to think beyond *la pensée unique*.

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The central claim of this article is that the French response to the 2008 crisis was profoundly shaped by policy decisions made decades earlier. President Sarkozy may have wished to revive state direction of the economy, but the France of 2008 was in a very different position from the France of 1983. The French state had lost leverage in part because of growing international and European constraints, but mainly because of internal developments, in particular, the dismantling of industrial policy instruments and the dramatic expansion of social spending that accompanied this shift in the mid 1980s. It would be the legacies of these policies – more than the constraints of globalization, the hegemony of la *pensée unique*, or the quirks of Sarkozy's personality – that would check France's statist revival.

France's Statist Response to the 2008 Crisis

Sarkozy was one of the first global leaders to realize the gravity of the 2008 financial crisis. Despite conservative leanings, Sarkozy (2008) almost immediately proclaimed the end of *laissez-faire* capitalism and called for the refounding of a new economic order marked by a more activist state. Sarkozy's statist turn encompassed two main elements: (i) a return to Keynesian demand management; (ii) the revival of industrial policy.

A return to Keynesian demand management

On the fiscal front, France's budget deficit more than doubled to 7.1 per cent of GDP in 2009. Part of the reason was the operation of automatic stabilizers from the country's massive welfare state. In addition, following a Keynesian logic, the government launched a €26 billion stimulus package in December 2008. Sarkozy also primed the pump through tax cuts. He initially announced a 1-year holiday for local business taxes (*taxe professionnelle*), then decided to eliminate the tax altogether as of 2010.

The stimulus package and tax cuts were heavily skewed toward business (OECD, 2009). The government argued, not without reason, that France's generous welfare state was automatically increasing social spending in response to the recession. More controversially, the administration contended that France's principal economic problems were on the supply side, not the demand side, so that aid to the consumers and the disadvantaged would benefit Japanese and German exporters, rather than French enterprises.

The government's December 2008 stimulus plan clearly reflected this orientation. Declaring that, 'our response to the crisis is investment', Sarkozy committed over €24 billion of the €26 billion stimulus plan to infrastructure spending and aid to business. Less than €2 billion went to social measures, most notably improved unemployment benefits (€500 million) and a one-time, €200 bonus for the 3.8 million recipients of means-tested income support (€760 million).

The government's emphasis on investment at the expense of consumption triggered denunciations on the Left, and in January 2009, French trade unions put 2 million protestors into the streets. In response, Sarkozy convened a 'social summit' with employers and unions, at the conclusion of which he announced a €1.3 billion package of new benefits for the unemployed and low-income families. Two months later, Sarkozy committed another €1.3 billion to a 'youth employment plan' designed to encourage employers to hire and train unemployed youths under the age of 26. Even with these initiatives, the stimulus package remained tilted toward business, and it should be noted that the youth employment plan, while aiming to secure jobs for young people, operated by providing subsidies to employers.

The revival of industrial policy

The second dimension of Sarkozy's response to the financial crisis was the revival of voluntarist industrial policy. Not all such initiatives were unique to France, of course. Sarkozy, like other leaders, was forced to rescue the banking sector. In October 2008, the French government joined with the Belgian and Luxembourg governments to bail out Dexia, the leading lender to local authorities in France and Belgium, at a cost of €6.8 billion (€3 billion from France). The government also orchestrated a merger and injected €5 billion into two French banks, the Caisse d'Epargne and Banque Populaire that had been brought to their knees by exposure to the US subprime market and the collapse of Lehman Brothers.

On a grander scale, in October 2008, Sarkozy announced a massive €360 billion rescue package for the banking industry as a whole (OECD, 2009). The package included €40 billion in fresh capital to bolster the solvency of France's leading banks and €320 billion in loan guarantees to improve liquidity and lending. Still, in comparative perspective, this rescue package was not terribly distinctive or large. Between 2008 and 2010, French aid to the banking sector amounted to 2 per cent of financial institution assets as compared with 3.1 per cent in the United Kingdom and 3.8 per cent in Germany (European Commission, 2011, p. 11).

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

Where Sarkozy's industrial policy appeared more distinctive was in going beyond the rescue of banks and firms deemed too big to fail. Sarkozy launched several initiatives that evoked a traditional French *dirigiste* approach not seen since the early 1980s. In November 2008, he announced the creation of the Strategic Investment Fund (FSI) (*Fonds Stratégique d'Investissement*, FSI), modeled on the sovereign wealth funds of several foreign countries (Charillon *et al*, 2010). The FSI was given €20 billion in capital to invest in companies that are critical to the competitiveness of the French economy based on their potential for growth, technological mastery, savoir-faire, export potential, or brand value. In a neo-mercantilist tilt, Sarkozy also entrusted the FSI with protecting 'companies that may become the prey of [foreign] predators' (*Le Monde*, 25 October 2008). The profitable experience of Alstom was clearly on Sarkozy's mind, as the President remarked: 'We will borrow – liabilities – and on the basis of this borrowing accumulate assets in the form of shares and stakes in companies. And once the markets recover, we will repay the loans, pocketing a nice little bonus in the process' (*L'Express*, 23 October 2008).

The FSI was supplemented by the 'Grand National Loan' (*Grand Emprunt National*) 1 year later. Sarkozy commissioned a study by two former Prime Ministers, one on the Right (Alain Juppé) and one on the Left (Michel Rocard), to identify priority measures for promoting France's position in advanced technologies (Charillon *et al*, 2010). On the basis of Juppé and Rocard's recommendations, Sarkozy launched a state loan campaign in November 2009 to raise €35 billion. At that time, the program was renamed, 'Investments in the Future' (*Investissements d'Avenir*), emphasizing how the money was being spent, as opposed to how it was being raised. Of the €35 billion in the Investments in the Future program, €11.0 billion was allocated to help a select few institutions of higher education reach world-class level, €7.9 billion to promote biotech research and technology transfer to industry, €6.5 billion to support industrial small- and medium-sized enterprises, €5.1 billion to fund sustainable development initiatives and €4.5 billion to encourage France's transition to a digital economy (Prime Minister's Office, 2014).

In November 2009, the government convened a series of meetings, the Estates General of Industry (*Etats généraux de l'industrie*), to analyze the problems of French manufacturing. At the conclusion of the Estates General in March 2010, Sarkozy announced over €1 billion in new aid, declaring 'France must keep its factories; France must keep its instruments of production' (*Libération*, 4 March 2010). The government also spelled out a series of specific targets in the purest 1970s industrial policy style: increasing industrial production by 25 per cent in 5 years; boosting France's share of European industry by 2 per cent by 2015; sustaining employment in industry at current levels; and returning to a trade surplus in manufactured goods (excluding energy) by 2015 (President's Office, 2010).

Along with ambitious industrial policy initiatives like the Strategic Investment Fund, Investments in the Future, and Estates General of Industry, Sarkozy periodically responded to pleas and protests with pledges to save individual factories

on the verge of closing (Mittal steel, Caterpillar tractors and so on). Sarkozy also impinged on managerial decision making in ways that harkened back to an earlier era. For example, in return for low-interest state loans, French auto manufacturers were required to pledge to not make any lay-offs for one year or to close any factories in France for the duration of the loans. This concession did not stop Sarkozy from voicing outrage that French automakers purchased only one-third of their components from French suppliers and vowing to boost that figure to two-thirds.

The Limits of France's Statist Renewal

The Sarkozy administration's response to the financial meltdown fueled a widespread impression that France had returned to its old *dirigiste* ways (Aghion and Cage, 2010; Askolovitch, 2010; Chevallier, 2010; *Economist*, 2010). Such an impression rested on an exaggerated view of the changes in French policy since 2008, however. More fundamentally, it ignored the powerful constraints – many the result of past French policy choices – that severely circumscribed the possibilities for a revival of state direction of the economy. Neo-*dirigiste* initiatives were limited by a combination of institutional and fiscal constraints.

Institutional constraints

The first constraint was institutional. The break with the *dirigiste* model, however halting and reluctant, resulted in the dismantling of many of the instruments and institutions central to state-led economic development. In particular, the Sarkozy administration found itself lacking both the institutional *thinking* capacity to devise new industrial promotion strategies and the institutional *implementation* capacity to translate voluntarist initiatives into practice.

The French state had been stripped of much of its institutional thinking capacity in the years since the 1983 U-turn. The agency responsible for forging long-term economic strategies, the General Planning Commissariat (CGP), had been abolished. The Ministry of Industry, while still in existence, had been largely emptied of its substance and subordinated to the Ministry of Finance. Consequently, in 2008, there was no intellectual infrastructure ruminating on the best ways for the state to promote French industry.

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

The Sarkozy administration, by contrast, had no real strategy for the companies that it was helping. The bank bailouts initially came with no strings attached other than an obligation to increase lending in 2009, which the banks promptly ignored (Massoc and Jabko, 2012). It was only when managers began paying themselves large bonuses that the government began intervening more closely in the banks' affairs, and here, the motivation was social (to curb abusive bonus practices), rather than economic. Moreover, the government's response, a 50 per cent tax imposed on bonuses above €27 500 for 2 years, was a British initiative that French authorities simply copied.

Aid to the automobile industry was similarly unstrategic. The government did not pursue any kind of economic vision. It did not seek to accelerate the pace of investment or development of new car models. It did not condition aid on the introduction of greener hybrid or electric cars. Instead, as with the banks, the government's concerns were social – to prevent factory closings and lay-offs. Far from a voluntarist industrial policy, the rescue of the bank and auto industries seemed reminiscent of the worst failings of the tail end of the *dirigiste* era, when the promotion of innovation and the industries of the future gave way to bailouts of lame ducks for the sake of putting out social brushfires and preserving jobs (Berger, 1981; Cohen, 1989; Levy, 1999).

The absence of a clear strategy was not confined to bailouts at moments of severe crisis, when there was little time to reflect; it also characterized the government's signature industrial policy initiatives. For example, France's sovereign wealth fund, the FSI, operates under a confusing and seemingly contradictory 'double mandate' (interview by author with Bertrand Finet, Executive Director, FSI, 1 April 2011). According to the Strategic Investment Fund's (2011, 2013) oft-stated mantra, found in every annual report and official publication, the French sovereign wealth fund is charged with acting as a 'savvy investor' that is simultaneously 'attentive to the collective interest' (*un investisseur avisé soucieux de l'intérêt collectif*). This double mandate literally papers over a fundamental disagreement as to the FSI's mission.

Those of a voluntarist bent portray the FSI as a flexible instrument of industrial policy. It was created at a time of depressed stock market valuations to prevent undervalued French companies from being bought up on the cheap by 'foreign predators', who were suspected of wanting to dismantle the companies and sell them off piecemeal for a quick profit. Once the economy recovered, the FSI persisted as a vehicle for taking long term, minority stakes in promising or strategic companies that, for whatever reasons, were unable to attract private investment. Henri Guaino, often depicted as the architect of Sarkozy's statist turn, contends that behind the language of a 'sovereign wealth fund', the FSI offers a new way for the state to pick winners:

> In the past, we would create a bureaucracy, establish some rules, and say that any company that meets the criteria can receive government aid. The creation of a sovereign fund reflects a more strategic approach. Here the state makes choices. It is a discretionary intervention. Companies are not automatically eligible just because they meet the criteria. Rather, the state makes hard

> choices. (Interview by author with Henri Guaino, Special Adviser to the President, 13 April 2011)

The state does not make the FSI's investment decisions, however. The FSI's Investment Committee makes these decisions, and the Investment Committee is headed and controlled by an A-list of French business figures. The FSI's business representatives make no secret of their skepticism about industrial policy and see their mandate as preventing political intervention and ensuring an 'irreproachable, professional' management of FSI investment decisions (interviews by author with Patricia Barbizet, Board Member and President of the Investment Committee, FSI, and Vice President of the PPR Group, 11 April 2011; Denis Kessler, Board Member, FSI, and CEO of SCOR as well as former Vice-Chair of the French Employer Association, 12 April 2011). Moreover, the FSI is expected to earn a profit, limiting its capacity or willingness to undertake industrial policy missions on the government's behalf. With no clear mandate, then, the FSI's mission seems to be very much in the eye of the beholder.

Thinking capacity was not the only deficiency of the French state in 2008. *Dirigiste* rollback had also eliminated much of the state's implementation capacity, that is, the mechanisms for putting any kind of economic strategy into practice. For starters, the state no longer owned large swathes of the economy. In the early 1980s, France's massive public sector included 13 of the 20 largest companies in the country along with almost the entire banking industry (Stoffaës, 1984). Nationalized enterprises accounted for 60 per cent of the annual investment in the industrial and energy sectors of the French economy (Hall, 1986, p. 204). By 2008, virtually all of the nationalized companies had been privatized, with state holdings reduced to minority positions in a few utilities and weapons producers. Consequently, the government could no longer simply direct an array of state-owned enterprises to follow its industrial policy objectives.

The state's influence over the private sector had also been curtailed. During the heyday of the *dirigiste* model, state authorities mobilized a panoply of selective incentives to shape the behavior of private enterprises. These instruments included: protection from foreign competition; lucrative public contracts; exemption from price controls; low-interest or even negative real-interest loans; direct subsidies; and the transfer at essentially no cost of cutting-edge technologies developed in public research laboratories (Zysman, 1983; Cohen and Bauer, 1985; Hall, 1986; Cohen, 1992).

By 2008, the state's arsenal for directing private enterprises was a shadow of its former self. Some instruments had been sacrificed on the altar of European integration. Membership in the European Union precluded protectionist trade policy, while EU competition policy pressured France to open public procurement to foreign companies. Competition policy also made it difficult to construct national champions through mergers or to fund them through subsidies and capital grants. In a pinch, when strategic enterprises teetered on the edge of bankruptcy, French authorities could usually wrangle a one-time authorization from the Commission to provide

financial support, but they could not fund national champions as a normal instrument of industrial policy.

Other industrial policy instruments had been dismantled at French initiative. Price controls were lifted in 1986, and financial market deregulation around the same time put an end to state control of interest rates and lending decisions. Public research had also been scaled back. Government spending on R&D declined from 1.26 per cent of GDP in 1992 to 1.03 per cent in 2002, at a time when the United States, Scandinavia, China and India were intensifying their investments in the knowledge economy (Ministry of Industry, 2004). Thus, when Sarkozy affirmed ambitious objectives like boosting the domestic content of French automobiles from one-third to two-thirds or increasing industrial production by 25 per cent in five years, his government lacked not only a vision for achieving these objectives, but also the policy levers to elicit the cooperation of French companies and underwrite some of the costs.

Fiscal constraints

The revival of state activism was hamstrung by fiscal constraints as well as institutional constraints. In moving away from the *dirigiste model* in the 1980s and 1990s, French authorities had dramatically expanded social and labor market programs, to cushion the blow to industrial workers and other groups made vulnerable by market reform. Notable initiatives included a slew of early retirement programs that pensioned off excess workers in declining industries as early as age 50 and the establishment of a national guaranteed minimum income that came to operate as a backstop for citizens who exhausted or failed to qualify for unemployment benefits. These initiatives were motivated by more than social concerns. They also reflected a 'social anesthesia' logic (Levy *et al,* 2006; Levy, 2008); that is, they sought to permit French firms to reorganize on a more market-rational basis by demobilizing the potential victims and opponents of economic liberalization. With French workers more than willing to leave dirty and oppressive factory jobs for a pension that essentially preserved their incomes, the unions found it all but impossible to organize strikes and protests against industrial restructuring.

The shift from the *dirigiste* state to the social anesthesia state allowed French companies to reorganize and return to profitability, while shielding employees from the worst consequences, but it also took public spending to unprecedented heights. Even before the financial crisis, France's welfare state absorbed over 30 per cent of GDP, making it the largest in the OECD by some measures (OECD, 2011b), and total public expenditures exceeded 50 per cent of GDP. The mammoth social anesthesia state deprived the Sarkozy administration of the fiscal resources needed to fund its ambitious industrial policy initiatives.

Already, on the eve of the recession, France's budget deficit exceeded EMU Stability Pact rules (3.4 per cent of GDP in 2008, as opposed to a legal ceiling of

3.0 per cent of GDP and a Euro-zone average of 1.5 per cent of GDP). So, too, did government debt, which was approaching 70 per cent of GDP, well above the 60 per cent figure authorized by the Stability Pact (Charillon *et al*, 2010). Consequently, the Sarkozy administration was extremely reluctant to establish new spending commitments. Although France's budget deficit increased to 7.1 per cent of GDP in 2009, this surge occurred almost exclusively through the operation of automatic stabilizers, as opposed to government fine-tuning. The United States deficit actually increased more during this period, rising from 3.2 per cent of GDP in 2008 to 9.0 per cent of GDP in 2010, despite the fact that the US welfare state is much smaller.

The government's inability or unwillingness to spend fresh money sharply constrained new economic initiatives. Many of Sarkozy's signature initiatives were built on the cheap, often relying heavily on the reallocation of funds from existing programs. The December 2008 'stimulus package,' for example, was claimed to total €26 billion or 1.3 per cent of GDP. Even if taken at face value, this stimulus package would have still been several times smaller than those of many other countries, including the United States, at 4.8 per cent of GDP, and Germany, at 3.4 per cent of GDP [(Horton and Ivanova, 2009); see also (Cameron, 2012; Schelkle, 2012)]. However, the amount of new money committed by the government was far less than the stated value. Much of the spending involved bringing forward to 2009 expenditures that were previously to be spread out over 2 to 3 years (accelerated investments in public infrastructure projects, early repayment of money owed to private contractors). Taking this acceleration of spending into account, total outlays turn out to be less than 60 per cent of the announced figure (OECD, 2011a).

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

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

The government's financial reliance on the CDC explains some of the confusion about the FSI's mission. According to a high-placed official, the CDC, 'feared that the state would turn us into its instrument, would force us to make bad investments' (Interview by author with former high-level CDC official, 15 April 2011). The FSI's independent Investment Committee, with its strong business representation, and the clause requiring the FSI to behave as a 'savvy investor' were concessions to the CDC. As another high-level CDC figure noted, 'We had to protect the FSI from the state' (Interview by author with high-level CDC official, 12 April 2011). In short, because French authorities lacked the financial means to pay the FSI piper, the government was compelled to allow the CDC and its business allies to call much of the tune, limiting the state's capacity to deploy the FSI as an instrument of industrial policy.

The state's fiscal bind also shaped the €35 billion Investments in the Future program. The program was launched precisely because government authorities feared that they would be unable to preserve public investment in an economic downturn (Interview by author with Emmanuel Moulin, Economic Adviser to the President, 11 April 2011). In particular, as Henri Guaino observed, public investment needed to be safeguarded against the growing demands of the social anesthesia state:

> We needed to de-budgetize investment. Social spending was crowding out investment. If we left investment in the budget, it would become the adjustment variable crowded out by other priorities (Interview by author with Henri Guaino, Special Adviser to the President, 13 April 2011).

Guaino wanted Investments in the Future to be a €100 billion initiative, but after toying with the idea, Sarkozy cut the figure to €35 billion (Duval, 2009; Poncins, 2009). In another sign of the government's limited fiscal resources, the 'Grand National Loan,' as the program was originally called, was financed through long-term borrowing, rather than direct outlays. Moreover, there was less new spending than the €35 billion figure suggested. Some €19 billion of the €35 billion was committed to higher education at a time when the government was reducing educational spending and employment from year to year. In practice, according to a Parliamentary report, Investments in the Future often wound up replacing funding cuts in the government's regular budgets (Claeys *et al*, 2011). Sarkozy's plan to revive French manufacturing was even more tight-fisted. Despite the ambitious objectives (increasing industrial production by 25 per cent in 5 years and so on), the administration committed a paltry €1 billion to the undertaking.

The Limits of Statist Revival from Sarkozy to Hollande

Sarkozy's anemic statist turn did little or nothing to jumpstart the French economy. It also backfired electorally, failing to win over Left-leaning voters, while angering many of Sarkozy's conservative supporters, who did not understand why a President

of the Right seemed to be pursuing a statist economic strategy of the Left. In spring 2010 regional elections, the mainstream Right recorded its lowest share of the vote in the history of the Fifth Republic, and the Left won control of 21 out of 22 regions. This disastrous performance prompted Sarkozy to largely abandon his statist economic orientation, instead returning to the so-called ‘fundamentals of 2007’, that is, to hardline conservative positions that were widely credited with having secured his election as President. The fundamentals of 2007 included tough law-and-order and anti-immigrant policies that seemed to take a page from the far-Right, xenophobic National Front, such as a ban on the wearing of *burqas* or *niqabs* in public places and mass expulsions of Roma immigrants.

The return to the fundamentals of 2007 also refashioned Sarkozy’s economic policy, pushing it back to a more conventional conservative stance that emphasized deficit reduction. The Greek sovereign debt crisis, concerns about the sustainability of high levels of government debt and deficits, and pressures from the European Commission reinforced this orthodox orientation. The Sarkozy administration implemented a succession of austerity budgets aiming to reduce the deficit from 8 per cent of GDP in 2010 to 3 per cent in 2013, along with a hotly contested pension reform that raised the retirement age from 60 to 62. By the end of his presidency, Sarkozy was no longer embracing voluntarist industrial policy and the return of the state, but rather championing his ability to save France from financial ruin, from becoming the next Greece, by putting the country’s fiscal house in order.

Although it may be tempting to blame France’s truncated statist revival on the mercurial character of former President Sarkozy, the obstacles to statist revival went well beyond his personality. The neo-statist turn also ran up against a series of checks and constraints stemming from economic policy decisions in the 1980s. Chief among these checks and constraints were: uncertainty among French elites as to just what a voluntarist industrial policy should entail; a lack of instruments and institutions to give state initiatives teeth; and the fiscal limits of the cash-strapped French state.

Perhaps the clearest evidence that the truncated revival of statism stemmed from more than personalities is that the statist ambitions of Sarkozy’s Socialist successor, François Hollande, who was elected President in May 2012, seem to be similarly constrained. In his presidential campaign, Hollande contended that by reversing the tax breaks conceded to affluent individuals and corporations by governments of the Right over the preceding 10 years, he would be able to simultaneously achieve three goals: (i) ramping up industrial policy; (ii) increasing public investment; (iii) reducing France’s budget deficit, in line with promises to the European Commission, from 4.5 per cent of GDP in 2012 to 3 per cent in 2013 and 0 in 2017 (Hollande, 2012). Once in office, however, Hollande fell short on all three counts.

Hollande called for a revival of industrial policy, and one of his first acts as President was to establish a new ‘Ministry of Industrial Renewal’. To fill the position, Hollande appointed Arnaud Montebourg, a well-known critic of globalization and advocate of voluntarist industrial policy. In practice, though, much of

Montebourg's work was defensive in nature, responding to company announcements of plant closings and mass lay-offs (PSA at Aulnay-sous-Bois, ArcelorMittal at Florange, Rio Tinto at Saint-Jean-de-Maurienne, Petroplus at Petit-Couronne and so on) by trying to find new investors or, at a minimum, improve the compensation package of employees who lose their jobs. The government has been willing to put small amounts of money into rescue packages, but these sums have generally been too modest to lure outside investors. In any case, such initiatives have centered squarely on the social mission of preserving the industrial jobs of the past or bettering the compensation of laid-off workers, as opposed to the economic mission of creating the high-tech or service jobs of the future.

The plight of one of Sarkozy's signature initiatives, the Investments in the Future program, attests to the scaled-down commitment of the Hollande government to industrial policy. The Investments in the Future program was slated to exhaust its funding around 2015–2016. In July 2013, Hollande decided to renew the program through 2025, but at a greatly reduced funding level. Instead of €6 billion per year, the Hollande version of Investments in the Future will spend only €1.2 billion per year (Gallois, 2013). But the story does not end here.

In September 2013, the administration announced with great fanfare that on the basis of a study by McKinsey and consultations with French industrialists, it was launching 34 'industrial reconquest plans' (Davesne, 2014; Ministry of Productive Recovery, 2014). The technological goals of these plans can only be described as exceedingly ambitious: a car that gets 125 miles per gallon, the TGV of the future, an electric airplane, a driverless automobile and so on. The economic objectives are no less ambitious: creating 480 000 manufacturing jobs and €45.5 billion of value-added on French soil in 10 years. Yet in a familiar tale, the government is committing a paltry €3.5 to the 34 industrial reconquest plans and, adding insult to injury, the money will come from the Investments in the Future program. On paper, the government may be getting two voluntarist industrial policy initiatives for the price of one, but such financial shell games do not increase overall spending. The reality is that the French state lacks the fiscal means of its industrial policy ambitions.

Along with renewed industrial policy, Hollande promised a revival of public investment. Specifically, he pledged to establish 150 000 subsidized jobs, mostly in the public sector, for at-risk youths, to make 60 000 new hires in education, and to construct 150 000 social housing units annually (Hollande, 2012). These objectives were exceedingly modest. The previous government of the Left, the government of Lionel Jospin, created 350 000 public and non-profit jobs between 1997 and 2002, and these jobs ran for 5 years, rather than the 1–3 years in the case of Hollande's program. Moreover, the 60 000 new hires in education will not suffice to replace the staffing reductions under the Sarkozy government. Hollande also announced that total public sector employment would remain stable, meaning that most other ministries would be required to reduce staffing to offset the hires in education (Ministry of the Economy and Finance, 2012).

As modest as the government's public investment objectives may have been, they have been scaled back or abandoned. For example, instead of building 150 000 public housing units per year, as originally promised, the government now aims to raise the annual figure to 150 000 units by 2017. Even if this revised promise is kept (a big if), the number of social housing units constructed will still have been lower than promised in the years 2013–2016. Once again, the government lacks the financial means of its ambitions.

Hollande's administration has also fallen short on its pledge to eliminate France's budget deficit. It turned out that the €29 billion in new taxes on the affluent and corporations were insufficient to meet the government's deficit targets, leading to a succession of austerity budgets. Hollande was forced to introduce a first €8.7 billion austerity package in July 2012, then add €10 billion in spending cuts to the 2013 budget (Ministry of the Economy and Finance, 2012). Despite these efforts, France missed its deficit targets in both 2012 and 2013, and the government has conceded that it will be unable to balance the budget by 2017, as it had promised the European Commission.

In January 2014, following a wave of anti-tax protests, Hollande pledged that future deficit reduction would take place exclusively through some €50 billion in spending cuts. The President also tendered tax cuts to employers who make new hires. In April 2014, Hollande appointed a new Prime Minister, Manuel Valls, with a mandate to implement the budget cuts. Four months later, he allowed Valls to purge the cabinet of all dissenters from the austerity line, most notably Arnaud Montebourg, who had been promoted to Minister of the Economy under Valls. Montebourg was replaced by 36-year-old Emmanuel Macron, a former Rothschild banker, who makes no secret of his neoliberal leanings. These moves have sounded the death knell of Hollande's already anemic statist agenda (Germain, 2015; Ollivier, 2015). With deficit reduction the overriding priority and tax cuts, as opposed to tax increases, the order of the day, it is difficult to see where the government could get the money to fund ambitious industrial policy or public investment initiatives.

The change of leadership in France has not led to a revival of statist economic policy, despite Hollande's campaign promises and the ideological affinity between the Left and neo-statism. Like Sarkozy before him, Hollande is fundamentally constrained by the institutional and fiscal legacies of France's break with *dirigisme* decades ago. Hollande and Sarkozy certainly vary greatly in their leadership styles, but they have operated under the same constraints, and the character of their respective economic policies attests to the salience of these constraints.

Implications of the French Case

France's statist turn was not a victim of globalization. Many countries responded to the 2008 crisis with greater vigor and financial commitment than France. Nor was the

statist turn a victim of *la pensée unique*. President Sarkozy was more than happy to renew with the interventionist methods that had served him so well in the case of Alstom, and Sarkozy's successor, a Socialist, had even less reason to hew to economic orthodoxy. France's statist turn was instead a victim of the country's own recent history, of a series of policy decisions in the 1980s and 1990s that had stripped the state of critical institutional and fiscal capacities.

France's response to the 2008 financial meltdown points to several lessons for understanding how states respond to economic crises. *The first is that even at moments of crisis or critical junctures, national responses are shaped by long-term structural factors, not just short-term political calculations.* Historical-institutionalist scholars, operating from a 'punctuated equilibrium' perspective, often distinguish between periods of normal politics or stasis, when little change occurs, and periods of crisis or 'critical junctures', when fundamental shifts are more likely (Piore and Sabel, 1984; Katznelson, 2003; Capoccia and Keleman, 2007). It is only a slight exaggeration to say that the prevailing view is that in periods of normal politics, nothing is possible, while in periods of crisis, everything is possible. This perspective has been criticized for understating incremental change during periods of normal politics that may cumulate to far-reaching transformation (Thelen, 2004; Streeck and Thelen, 2005; Mahoney and Thelen, 2010).

Recent French economic policy points to a complementary critique: the punctuated equilibrium perspective overstates the possibilities for far-reaching transformation during periods of crisis. Everything is not possible during critical junctures. The Sarkozy administration was not able to shift French policy on a dime. On the contrary, the government's neo-statist thrust ran up against long-standing developments in French economic policy, most notably the dismantling of most of the tools of statist industrial policy in the 1980s and early 1990s and the massive accompanying expansion of social and labor market programs that left little room for new public spending. Thus, even at a moment of crisis, French economic policy displayed a strong path-dependent character. The legacies of the movement from the *dirigiste* state to the social anesthesia state in the mid-1980s essentially trumped President Sarkozy's neo-*dirigiste* aspirations a quarter-century later.

The second lesson of the French experience is that state responses to crisis cannot be simply read off 'national models' or 'national policy styles'. Part of the reason is that images such as 'statist France' are at best ideal types. The reality for any given situation is invariably more complex. Woll (2014) argues, for example, that the character of bank bailouts among the affluent democracies reflected the level of collective organization in the financial sector, as opposed to state 'strength' or 'weakness'.

National models can also change over time. In the wake of the far-ranging reforms since the early 1980s, it is by no means evident that France should still be considered an archetype of statist or *dirigiste* economic policy (Vail, 2010). France retains elements of a *dirigiste* political culture in the sense that state authorities often act

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unilaterally, without consulting societal interests, and citizens expected the state to take the lead role in addressing pressing economic and social problems (Schmidt, 2002, 2009). The capacity of the French state to meet those expectations has diminished, however. In particular, liberalizing reforms have eroded the state's institutional capacities, while the expansion of social protection has degraded the state's fiscal capacities. Consequently, the French state of 2008 was unable to respond in the manner of the French state of the 1960s or 1970s.

The third lesson of the French experience is that the 'return of the state' does not follow automatically from the crisis of neoliberal capitalism. Rather, there are important intellectual, institutional and fiscal prerequisites. Scholars of the 2008 crisis have been struck by the continuity or even reinforcement of the dominant neoliberal model. Some attribute the 'strange non-death of neo-liberalism' to the power of large corporations (Crouch, 2011) or financial institutions (Johnson, 2009; Johnson and Kwak, 2011). Others emphasize the plasticity of neoliberal ideas (Schmidt and Thatcher, 2013) or the absence of a new social or political coalition pushing for a radical alternative (Amable *et al*, 2012; Bermeo and Pontusson, 2012).

The French case points to yet another obstacle, this one institutional in nature: the French state was ill equipped to shoulder the weighty responsibilities associated with *dirigiste* revival. French authorities lacked the vision, policy instruments, and financial means to forge an effective, statist response to the 2008 crisis. The *dirigiste* spirit may have been willing, but the statist flesh was weak. Thus, breaking with the neo-liberal paradigm requires more than political will; it also requires state capacity, and such capacity cannot be presumed, even in a country like France with a long tradition of state intervention in the economy and a relatively positive view of the state.

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About the Author

Jonah D. Levy is Associate Professor of Political Science at the University of California Berkeley. He is the author of *Political Representation in the Global Age* (co-edited with Peter Hall, Sophie Meunier, and Wade Jacoby, Cambridge University Press, 2014), *The Oxford Handbook of Transformations of the State* (co-edited with

Stephan Leibfried, Evelyne Huber, Frank Nullmeier, and John Stephens, Oxford University Press, 2015), *Developments in French Politics 3 & 4* (co-edited with Alistair Cole and Patrick Le Galès, Palgrave Macmillan, 2005 & 2008), *The State after Statism* (edited, Harvard University Press, 2006), and *Tocqueville's Revenge* (Harvard University Press,1999). His current research is on national responses to the 2008 financial crisis and progressive approaches to economic liberalization in Europe.

Note

1 All translations from the French are the author's.

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