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VARIETIES OF CAPITALISM: A DISTINCT FRENCH MODEL?

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The literature on political economy has over the years divided into two reasonably distinct areas of concern: international and comparative political economy. International political economy tends to concern itself with global trends—in terms of global flows of investment and trade—and with global actors and industries—including multinational corporations, international regulatory regimes and bodies—and the spillovers—migration flows, poverty trends, and most recently inequality. Comparative political economy, instead, tends to be more nationally focused, although it also considers the effects of global dynamics on national capitalism. Its main concerns have been questions related to the scope and limits of different kinds of capitalism, and the interrelationships of business, labor, and government. France is naturally considered in both contexts, as one of the biggest economies in the world with many of its multinationals global players, and as having a distinct kind of capitalism. In this chapter, we focus on French capitalism in the comparative political economy literature over time, mainly because this is the literature that gives us a better picture of the development of the French political economy over time—both as a political economic entity and as a subject of political economic study. But we also put it into the context of the global political economy and even more importantly the European Union's political economy.

The study of the EU political economy sits in between international and comparative political economy, and was for a long time left on its own. International political economists long tended to treat the EU as little more than an advanced trade organization while comparative political economists considered it as yet another pressure from the outside, but little more. This was a mistake in both literatures. We cannot understand the changing nature of European countries' varieties of capitalism without considering how European integration was very much a product of European states' deliberate actions to reform their own economies in light of globalization, and that Europeanization has itself then served to transform European political economies. And in the political economic history of the EU, France has played a major transformative role even as the EU has served to transform France.

Scholars of comparative political economy have long treated French capitalism as exceptional. But whereas this had positive connotations in the postwar era, when all touted France as the exemplary model of state-led or *dirigiste* capitalism, by the 1970s scholars no longer saw France's model as exemplary while beginning in the 1990s most no longer saw it as any model at all. First, convergence toward a single neo-liberal model came to dominate scholarly views, with the US and the UK touted as best adapted to globalization, although critics countered that capitalist diversity continued. Then, beginning in the early 2000s, the mainstream switched to a binary view of capitalist divergence between 'liberal market economies' and 'coordinated market economies,' although critics here too countered that greater diversity existed, citing three, four, or more varieties of capitalism. In both mainstream approaches, France largely disappeared, treated first as aberrant because not converging on neo-liberalism, then as an anomaly or, at best, a 'mixed market economy' with perverse interaction effects.

Beyond disagreement over substantive theories about how many varieties of capitalism there are, scholars have also split over methodological theories and their consequences for explaining change (or continuity). While proponents of binary divergence made their case through an equilibrium-focused combination of rational choice and historical institutionalism, opponents raised questions about the static and functionalist presuppositions of such an approach along with its empirical applicability. In light of such criticism, whereas some comparative political economists posited further hybridization and incremental change within rationalist and/or historical institutionalist frameworks, others pushed for more agent-centered accounts focused on cultural frames, historical legacies, ideas, and discourse using sociological and discursive institutionalist frameworks.

Today, although the methodological splits remain, scholars seem to have come to agreement that capitalism is substantively more diverse than the VOC dualism, with varieties largely tracking regional differences, complicated by policies, political institutions, and politics, and developing over time, mainly in response to neo-liberal ideas and the pressures of both globalization and Europeanization. The questions now focus on how to explain the transformations in all capitalisms, in particular in light of the economic crisis beginning in 2007/2008 and of the resilience of neo-liberal ideas, and to assess the extent to which one can still identify clear varieties as opposed to multiple forms of hybridization.

As for France, most scholars now appear to have come round to seeing the country again as part of a distinctive variety of capitalism, albeit one totally transformed by comparison to the postwar role. Differences continue to exist here too with regard to methodological approach, in particular the greater attention to the importance of culture, ideas, and discourse in institutional and historical context. But the main question for all French political economists is how to explain France's on-going crisis. This may very well be related not just to the country's economic problems but also to the changing role of the state, as one government after the next instituted neo-liberal policies without admitting it. For the French public, the old ideas about the state may very well remain a 'state of mind' even as the 'state in action' has been transformed.

Varieties of Capitalism

The ‘varieties of capitalism’ literature dates back at least to the 1960s, when three models—liberalism, corporatism, and statism—were used to explain capitalist diversity in the postwar era. These held steady in the literature until the 1990s, when they were replaced by a neo-liberal model of convergence, which was itself displaced in the following decade by a model of binary divergence, in which liberalism and corporatism had morphed into ‘liberal market economies’ and ‘coordinated market economies,’ leaving statism out in the cold. Whereas critics of neo-liberal convergence in the 1990s insisted on continued national diversity, critics of binary divergence in the 2000s argued that national diversity made for more varieties, including one based on statism.

From Three to Two Varieties of Capitalism?

The contemporary literature on the varieties of capitalism has its origins in the 1960s, when Andrew Shonfield in *Modern Capitalism* (1965) divided European capitalism into three varieties, including France’s ‘statism,’ Britain’s ‘liberalism,’ and Germany’s ‘corporatism.’ This division of national political economies into three ideal-types held over the next two decades, reflected in Peter Katzenstein’s (1978) *Between Power and Plenty* and in John Zysman’s *Governments, Markets and Growth* (1983), which more specifically divided financial systems into three ideal-typical models of finance: the capital-market based model (US and UK), the credit-based model with government-administered prices (France and Japan), and the credit-based model with private financial institution-administered prices (Germany).

By the 1990s, however, both corporatism and statism as explanatory categories were dropped, leaving only ‘liberalism.’ Scholars in international political economy in particular had come to agree that, like it or not, capitalism was converging on a single neo-liberal model in which the retreat of the state and the decline of labor in favor of unfettered markets—engineered via liberalization, deregulation, and privatization—spelled the end of any other models (e.g., Cerny 1994; Strange 1996). Scholars in comparative political economy argued, in contrast, that despite general economic trends and neo-liberal reform initiatives, differences among national varieties of capitalism remained (e.g., Berger and Dore, 1996; Boyer and Drache 1996). They challenged arguments insisting on the radical decline of the nation-state and the rise of “stateless” business (Schmidt, 1995) by highlighting instead the continuing diversity in firms’ levels of exposure to the financial markets, in the bases of firm ownership and control, in the operation of industrial sectors, in the nature of inter-firm relations, in the organization of labor-management relations, in the patterns of production and innovation, in the rules and financing of welfare provision, and in the role of the state in the economy (e.g., Hollingsworth, Schmitter, and Streeck 1994; Crouch and Streeck 1997; Scharpf and Schmidt 2000).

In the early 2000s, the firm-centered approach to the varieties of capitalism (VOC) pioneered by Hall and Soskice (2001) took comparative political economy by storm. It divided capitalism into two main ideal-types: Liberal Market Economies (LMEs),

consisting ideal-typically of the US and the UK as well as other Anglophone countries, and Coordinated Market Economies (CMEs), including Germany, many smaller countries in Continental Europe, Scandinavia, and Japan. These two varieties were differentiated mainly in terms of how firms coordinate with their environment, with coordination either market managed (LMEs) or non-market managed (CMEs). This approach, by combining historical institutionalist attention to path-dependent institutional rules and regularities and rational choice institutionalist concern with interest-based logics of coordination, produced an equilibrium model that predicted that instead of convergence to one neoliberal model, there would be persistent binary divergence into two ideal-typical varieties of capitalism. As for other advanced industrialized countries that fell outside the scope of the two varieties, they were put into the category of ‘mixed market economies’ (MMEs) and mainly treated as anomalies or, worse, as plagued by intra-system contradictions, misfits, and perverse spillovers (Hall and Gingrich 2004; Molina and Rhodes 2007).

VOC posited that in LMEs the market coordinates interactions among socioeconomic actors. Firms depend upon the financial markets for capital, and therefore focus on short-term profits, while inter-firm relations tend to be competitive and contractual. Management-labor relations tend to be market reliant, with radically decentralized labor markets and low levels of job protections leading to bifurcated wage structures between highly paid, highly skilled workers and low-paid, low skilled workers (Hall and Soskice, 2001). The “liberal” state, if considered at all, plays at most a supportive role in creating a positive regulatory environment, acting as an agent of market preservation by locating decision-making power in companies while limiting the power of organized labor (King and Wood, 1999). The resulting system is posited as highly responsive to changing market conditions with a comparative advantage in areas where radical innovation is the key to market dominance, such as biotechnology, the new economy, and high-end financial services, and in low-end services and low-tech industries, in which workers’ low wages, low skills, and minimal vocational training makes for competition on the basis of price rather than quality.

For CMEs, VOC presented socioeconomic actors as engaging in non-market coordination. Here, firms tend to be less exposed to financial market pressures because of the more long-term investment view of providers of finance and of the higher concentration of share-ownership through strategic investors, which also helps protect against takeover. Moreover, inter-firm relations tend to be network-based, with close, mutually reinforcing relations with suppliers, subcontractors, and customers, while labor-management relations tend to be trust-based and cooperative, ensuring that corporate governance tends to be more driven by “stakeholder” values rather than “shareholder” ones. This is reinforced by an employment system with highly skilled, highly paid labor with high levels of employment protection and long-term employment (Hall and Soskice, 2001). The state, finally, again if considered, plays an understated “enabling” role by facilitating collaborative inter-firm relations and cooperative labor management relations. The resulting system, although slower to respond to changing market conditions, has a comparative advantage in sectors such as high-precision engineering and high-value-added manufacturing, which depend upon a more stable long-term investment

environment where highly paid, technically skilled workers ensure the incremental innovation necessary to the production of high-value-added, high-quality products.

Although this binary division of capitalism has been highly seductive because of its parsimony, and has since generated a veritable cottage industry of scholarship, it has been the subject of numerous critiques. The most pervasive criticisms are that a binary division into ideal-types tends to be too reductive, overly functionalist, and highly static because equilibrium-focused, making for too much path-dependence and an inability to account for institutional change—particularly in light of the very real disaggregating forces coming from globalization pressures and neoliberal policies (see Crouch, 2005; Schmidt, 2002, Ch. 3; and Hancké et al., 2007). Scholars have also been concerned that VOC has been unable to deal adequately with country cases that do not fit well into either ideal-type or, more damning yet, that it does not even apply to the countries that it purports to describe.

How Many Varieties of Capitalism are there?

Some comparative political economists from the very beginning argued that the binary approach to VOC pushed to the margins a number of countries with equally distinctive patterns, but in which the state has traditionally played a larger role in the economy. This is why scholars have argued that there are at least three varieties of capitalism (e.g., Coates, 2002; Schmidt, 2002, 2009), differentiable along lines of development from the original three postwar models (as identified by Shonfield, 1965), in which liberalism, corporatism, and statism have given way not just to “liberal market economies” and “coordinated market economies” but also to “state-influenced market economies” (SME) (Schmidt, 2009).

This third variety of capitalism includes all countries in which the state plays and has played a much more active role than in the ideal-typical LME or CME. In the postwar period, SMEs encompass state-influenced models such as France’s “state-led capitalism” (Schmidt, 2002, Ch. 3, 4) and the “developmental state” for South Korea and Taiwan or even Japan (Weiss, 1998; Woo-Cumings, 1999). Today, SMEs include France’s “state-enhanced capitalism” or Italy’s “state-hindered capitalism” (Schmidt, 2002, Ch. 3), also termed “public neo-capitalism” (Barca 2010) and “dysfunctional state capitalism” (Della Sala, 2004); and Spain’s “state-influenced mixed market economy” (Royo, 2008), which has also been described as an MME (Molina and Rhodes 2007) that comes very close to the definition of an SME. This focus on the state in SMEs and its contrast with the different ways in which the state works in LMEs and CMEs also builds on the recent theoretical literature on the continuing importance of the state (e.g., Weiss 2003; Levy et al., 2006; Leibfried and Zürn 2005; Schmidt 2009).

But are there really *only* three varieties of capitalism? Other scholars have argued for even more varieties of capitalism, once one considers additional variables and geographical regions. Thus, some have argued that there are four varieties of capitalism, with Asian countries constituting another category (Boyer, 2004; Whitley, 2005). Yet others see five models of capitalism, adding welfare regimes to the mix of empirical variables (Amable, 2003), leading again to geographical differentiation. Still others see

even more varieties, including regional and local (Crouch et al., 2001). Very recently, for Europe alone, adding to the two or three varieties of VOC has come a fourth clearly identified variety, the dependent market economies (DMEs) of Central and Eastern Europe (in particular the Visegrád countries of Poland, Czech Republic, Slovakia, and Hungary). These are defined as largely driven by outside forces, primarily capital through foreign direct investment (FDI) (Nölke and Vliegenthart, 2009; Bohle and Greskovits 2012; Ornstein 2013), although one might also want to add the regulation coming from global as much as European sources (Schmidt 2013). That said, Central and Eastern Europe has alternatively been differentiated into a range of models, depending upon the kind of FDI and/or the kind and degree of reform, with Slovenia classified as a pure CME, following the example of Austria, while the Baltics, with Estonia's flat tax and Latvia's hard line austerity, are often seen as LMEs (Drahokoupil and Myant 2010; Bohle and Greskovits 2012; Ornstein 2012).

Most recently for Europe, yet another four-fold variety of capitalism reorganizes the mix by bringing in political orientation on top of other institutional factors. This leads to a differentiation in terms of four dynamic models, including the 'equality-oriented capitalism' of polities like Sweden and Denmark, the 'competitiveness-oriented capitalism' of polities like the UK and the US, the 'status-oriented capitalism' of polities like German, France, and the Netherlands, and the 'capture-oriented capitalism' of polities like Italy and Spain (Beramendi et al., 2015)

But does considering capitalism in terms of varieties, whether one, two, or more, really explain the realities of capitalism and the many adjustments over time in national varieties under the pressures of globalization and Europeanization? Critics of VOC have questioned whether the characteristics described for its two ideal-types actually square with reality at any one time let alone over time, while even proponents of VOC in a second wave of scholarship have sought to grapple with how to explain change (and continuity) in the many varieties of capitalism. This has led to further methodological differentiation among scholars between those who stayed within rationalist and/or historical institutionalist frameworks focused on interests and institutional rules and those who preferred sociological and/or discursive institutionalist frameworks concerned with cultural frames, ideas, and discourse. A further division involved whether and/or how to add other factors beyond political economic institutions, including policy, polity (political institutions), and politics—whether based on interests or ideas and discourse. By today, scholars on all sides of the methodological divide now focus on how to explain the major transformations and hybridization of all varieties of capitalism in the midst of the economic crisis that began in 2007/2008, as they grapple with the effects of Europeanization and globalization as well as the resilience of neo-liberalism.

Explaining Variation and Change over Time in the 'Varieties of Capitalism'

From the very outset, critics of VOC questioned the empirical applicability of the ideal-typical dualism of LME and CME. Take, for example, the differentiation of varieties of capitalism in terms of radical innovation as a defining characteristic of LMEs versus incremental innovation for CMEs. Scholars have found this problematic both theoretically and empirically. Theoretically, problems stem from the identification of

innovation with sectors, which leads one to assume that even incremental changes such as updating a software package in the high-tech industry would be considered radical whereas a major engineering innovation in the automobile industry would necessarily be incremental (Crouch 2005). Empirically, moreover, it turns out that the data do not support the assumptions about the radical nature of innovation in an LME such as the UK or the incremental nature of innovation in Germany's CME. A statistical study of innovation across a number of years, rather than in VOC's narrower sampling of years (mainly 1993-1994), yielded very different—and mixed—results for both models using the case of the UK and Germany (Taylor 2004). Other complications for the ideal-typical CME comes from its decreasing applicability to labor relations in Continental European countries, given the increasing dualization of the labor market between 'outsiders' with low pay, low skills, and little protection in an increasingly large services industry and the protected 'insiders' in the shrinking high value-added manufacturing industry which has been the model for CMEs (Emmeneger et al., 2012; Palier and Thelen 2012). This also speaks to the larger problem of defining capitalism on the basis of high value added manufacturing, which occupies a shrinking part of the overall economy, even if it is most often cited as the reason for CMEs' economic success through export-led growth.

Problems for VOC's empirical applicability also stem from the rationalist attribution to actors of fixed preferences for their own variety of capitalism, which fails to deal with agents' changing ideas about their interests. For example, at the very basis of CME's definition is the assumption that employer preferences for cooperative collective bargaining limits the potential impact of neo-liberal ideas in favor of labor market deregulation (e.g., Hall and Soskice 2001; Thelen 2014: 23, 30; Hassel 2014: 77). This flies in the face of evidence that employers' preferences have in fact increasingly shifted toward (neo)liberalization, as is clear from a study which shows that employers' associations pushed hard for liberalization in the 2000s, and moderated their demands subsequent to the economic crisis not only because the LME model had been somewhat discredited but also because they had already gained far-reaching concessions from employees (Kinderman 2014). Similar assumptions about political elites' interest in maintaining the Scandinavian model of the CME intact also fail to explain government policies, in particular since the crisis. In the case of Denmark, for example, political elites on the left as much as the right, under the influence of neo-liberal ideas coming from the EU and other international organizations, picked 'facts' that made the case for austerity and structural reforms related to labor and unemployment benefits. By ignoring the concrete economic evidence that painted a more positive picture, they instituted pro-cyclical policies that may actually have undermined the distinctive roots of Denmark's competitive strength (Kristensen 2015).

Scholars who engage with the VOC tradition have responded in various ways to these problems of empirical applicability in what could be seen as the second wave of VOC. Some have attempted to counter the functionalist bias of the approach by positing open rather than closed systems, with multilayered reference frames and relatively autonomous components (Becker, 2009), different patterns of interdependence in different subsystems (Deeg, 2006), or differing systemic patterns of consolidation or specialization (Fioretos,

2011). Hall (2007, p. 80) himself has redefined VOC as “institutional ecologies built up gradually over time.”

Other scholars have sought to inject more dynamism into the explanation by positing incremental change in the institutional components of loosely connected, historically evolving varieties of capitalism (leaving open however many there might be). These change at different rates in different ways through different processes, whether through layering on of new elements, conversion through reinterpretation, drift, or even exhaustion (Streeck and Thelen, 2005). Such second wave scholars have also sought to reintroduce agents of change to make up for their absence, by identifying different categories of actors, from ‘insurrectionaries’ through to ‘parasites’ (Mahoney and Thelen 2009). Notably, in all such approaches, the binary nature of VOC is challenged, as open systems or incremental evolution create hybrids, or point to the disaggregation of both varieties of capitalism. Many recent studies focus on hybridization of CMEs in particular, including of Sweden and Germany (e.g., Jackson and Schnyder 2013), or have gone back to considering nationally specific varieties of capitalism that follow evolutionary trajectories of change (Steinmo, 2010).

Many of these alternative analyses of the varieties of capitalism use the same historical and rational-choice institutionalist explanatory frameworks of the binary VOC approach, with a split between those innovating on the historical institutionalist side through incremental (e.g., Streeck and Thelen, 2005) or evolutionary approaches (Steinmo, 2010), and those on the rationalist plus historical institutionalist side through “modified historical institutionalism” (Fioretos, 2011). Increasing numbers of scholars, however, have instead moved to sociological and discursive institutionalist frameworks by emphasizing sociological institutionalist concerns with the role of cultural norms and societal mechanisms (Fligstein, 2001; Campbell, 2004) or discursive institutionalist considerations of the role of the substantive content of ideas and the discursive processes of interaction that enable agents to reconceptualize interests, reshape institutions, and reframe culture (Schmidt, 2002, Ch.s 5 and 6, 2008, 2009; Blyth, 2002; Campbell and Pederson, 2001; Hay, 2006).

The Importance of Policy, Polity, and Politics

Many scholars have also gone beyond the categorization of capitalism solely along the line of political economic institutions to show that policies, polities (i.e., political institutions), and politics matter. And when these are taken into consideration, the division of the varieties of capitalism into one, two, three, or more political economic types tends to break down even further.

The actual policies of countries do not always fit what the VOC literature might predict. LMEs’ ‘liberal’ states may be more interventionist than expected, as in the UK with its “steering state” (Moran, 2003), or Ireland with its institutionalization of social pacts in the late 1980s. CMEs’ ‘enabling’ states may institute policies that diminish coordinative ability, as in German capital gains tax reform in the early 2000s, which reduced structural incentives for business-bank networks. And SMEs’ ‘influencing’ states may actually promote more non-state coordination between business and labor, as in the social pacts of

Southern European countries. Moreover, although one can certainly argue that all countries have moved along a continuum from *faire* ('do') to *laissez-faire* ('let do') as a result of neoliberal reforms, policy change even in the most liberal of LMEs has not produced *laissez faire* but rather a state of *faire faire* ('have do'), by having market actors perform functions that the state generally did in the past, while even the most interventionist of SMEs has on occasion gone from *faire* ('do') not only to *faire faire* ('have do') but also to *faire avec* ('do with'), the corporatist pattern typical of CMEs (Schmidt, 2009). In a LME like the US, for example, deregulation meant *faire faire*, as the federal government specified the guidelines that corporate actors would have to follow in carrying out their programs or the courts would have to follow in resolving disputes about those guidelines (Dobbin, 2002). In SMEs like Italy and Spain, labor market reform was successfully engaged in the 1990s through *faire avec*, via social pacts (Royo, 2008; Della Sala, 2004). Subsequent to the Eurozone crisis, however, social pacts have largely died, as in Ireland (Regan 2012), or have lost their meaning when all labor unions can do is accept massive reductions in wages and loss of job protections (Armingeon and Baccaro 2013)

Differences in political institutions help explain why policies may differ even among countries clustered within a single variety of capitalism. This depends in large part on where countries sit on a continuum between "simple" polities, in which governing activity is channeled through a single authority (via unitary states, majoritarian representation systems, or statist policymaking processes), and compound polities, in which governing activity is dispersed through multiple authorities (via federal or regionalized states, proportional representation systems, or corporatist or pluralist policymaking—Schmidt, 2009). For example, despite both being classified as LMEs in the VOC literature, the compound US has consistently been less able to impose radical reform than the simple UK, largely because of its institutional complexity. This was most in evidence in the 1980s, with British Prime Minister Margaret Thatcher's much more radical reforms by comparison with those of American President Ronald Reagan, despite similar electoral programs (Steinmo, 1994; King and Wood, 1999). In the 1990s, moreover, it was not only the unitary nature of the British state that enabled Prime Minister Tony Blair to impose, for example, his "New Deal" for youth employment, by contrast with President Bill Clinton's failure to negotiate more ambitious federal training and employment programs. It was also the organization of US industry, given the strength of the vehemently opposed small business lobby, which was better organized in Washington than the pro-reform large-scale employers, which lacked a single peak association (Martin, 2000), let alone privileged access to government policymaking in coordination with unions, as in Germany. This also points to the fact that pluralist versus corporatist arrangements are as much a factor of differentiation for compound polities like the US and Germany as federal arrangements.

Politics also matters, in particular when explaining institutional change. For some VOC scholars, politics is exclusively a question of rationalist interests, and plays itself out in the interest-driven competition among political coalitions of the policy or political arena. These rationalist studies generate predictions, for example, about corporate governance policy and regulation on the basis of differing combinations of alliances among economic

interest groups consisting of owners, managers, and workers (Gourevitch and Shinn, 2005), or about the distributional effects of socioeconomic policies produced by political coalitions formed under different formal electoral systems acting as incentive structures: more inegalitarian in majoritarian systems, less inegalitarian in proportional ones (Iversen and Soskice, 2006). But although this rationalist political coalition literature is a step forward by comparison with the more equilibrium-focused or path-dependent apolitical studies of earlier VOC, it still has difficulties explaining how new political coalitions are constructed and changed, let alone how the institutions in which they operate were created and reformed.

Other scholars take up the challenge of explaining institutional change by examining politics through the lens of the ideas and discourse that help alter perceptions of interests, build political coalitions, persuade policymakers of the need to construct new programs via a “coordinative” policy discourse, and convince publics of the necessity and appropriateness of such programs through a “communicative” political discourse. (Schmidt 2002, Ch. 5 and 6, 2008, 2009; Blyth 2002; Campbell 2004; Hay 2006). Such politics may explain change through the foundational economic ideas that may change at moments of “great transformation”—as in the “dis-embedding” of liberalism in the US and Sweden beginning in the 1970s (Blyth, 2002). They may explain change through the appearance of a new ideational “paradigm,” as in the case of Thatcher’s switch to monetarism in the UK (Hall, 1993). They may also explain change through political leaders’ communicative discourse about the economic imperatives of globalization, whether in efforts to legitimate neoliberal policies in individual countries, such as the UK (Hay and Rosamond, 2002; Hay and Smith 2013) or in the EU more generally during the economic crisis (Blyth 2013; Schmidt and Thatcher 2013).

The focus on ideas and discourse may additionally help explain institutional continuities as well as misperceptions of reality. In the US, for example, scholars point to how what people take for reality may really be ideology, including taking the US for a liberal market economy when in some sectors at least it is actually a lot more coordinated and state influenced. Block (2008) makes this case with regard to the technological policy arena in the US, which he argues is managed not by the market but by a “developmental network state,” which has provided massive amounts of financing and coordination support to business technology initiatives from the 1980s forward. This reality, however, has been “hidden in plain view,” because it contradicts the market fundamentalist political ideology that pervades Republican partisan politics, in which the communicative discourse presents the government as the problem, not the solution, at the same time that the discourse has served business interests by enabling them to resist being taxed on its profits.

For the European Union during the sovereign debt crisis beginning in 2010 as well, the problems involve not only economics and market pressures but also mistaken ideas about the causes of the crisis and how to respond. These include the (mis)framing of the crisis as one of public debt, which was inappropriately generalized from the case of Greece (DeGrauwe and Ji 2012; Blyth 2013); the (mis)diagnosis of the problem as behavioral—resulting from member-states’ failure to follow the rules of the Stability and Growth

Pact—rather than as structural—resulting from the way in which the euro led to increasing divergence in member-state economies rather than convergence (Enderlein et al. 2012; Scharpf 2012); the lack of adequate solutions, such as Eurobonds, fiscal union, and/or macroeconomic stabilizers (e.g., a Europe-wide unemployment fund) (Schelkle 2014; Claessens et al. 2012; Enderlein et al., 2013); and the chosen remedies, centered on pro-cyclical policies of ‘sound’ money, budgetary austerity, and ‘structural reform,’ instead of counter-cyclical policies that could have generated growth through macroeconomic stimulus, industrial investment, and socioeconomic support (Scharpf 2012, 2013; Enderlein et al., 2013). All of this suggests problems with the underlying ideas for crisis solution that combined an *ordo*-liberal philosophy focused on the need to impose austerity in order to ensure stable money and sound finance via rules-based governance with a *neo*-liberal philosophy focused on ‘structural reform’ of labor markets and welfare states as the answer to problems of growth (Blyth 2013; Gamble 2013; Schmidt and Thatcher 2013).

France’s Variety of Capitalism in Perspective

So where is France in the perspective of the varieties of capitalism? Having been at the center of the postwar model, it disappeared almost entirely from view—condemned because it failed to meet the neo-liberal convergence ideals of the 1990s and in the 2000s because it fell between the two ideal-typical varieties of capitalism. Being left out of the mainstream scholarship, however, did not stop critics of that mainstream, including scholars of France and scholars in France, from continuing to generate innovative scholarship on the topic that fed into the mainstream over time, helping to transform it.

The Rise and Fall of France’s Distinctive *Dirigiste* Model of Capitalism

In the postwar period, France’s *dirigiste*, or interventionist, state ensured its pride of place as a distinctive model for state-led economic development when Shonfield (1965) admiringly described France’s ‘statism’ in contrast to Britain’s ‘liberalism’ and Germany’s ‘corporatism.’ It promoted economic growth by acting *in loco mercatis* where it deemed necessary, by taking the place of the markets through nationalized industries, by orienting the markets through planning and industrial policies, or by replacing the markets with regard to wage coordinating mechanisms, (Schmidt 2002, Ch. 3; see also Hayward 1973; Kuisel 1981). But while public communication touted the *dirigiste* French state’s strong centralized coordination, scholars showed it to be deeply fragmented in practice, ensuring frequent capture by business interests (Hayward 1973, pp. 180-7, 213-26; Schmidt 1996; Clift 2009), and a pattern of business-government relations characterized by accommodation and co-optation, with only occasional confrontation (see Schmidt 1996).

But that was prior to the crisis beginning in the 1970s. This is when the *dirigiste* model could no longer deliver either in terms of macroeconomic steering or industrial policy. The turn to monetarism appeared increasingly inevitable in an environment of rising real interest rates, the growing costs of public debt, and the creation of the European Monetary System (EMS) in 1979 (Loriaux 1991; Howarth 2001). The need to restructure industry was also increasingly apparent, as the country’s ‘national champions’ had in

many cases become ‘lame ducks’ (Berger 1981; Cohen and Bauer 1985). Moreover, industrial relations, already dismal given highly adversarial management-labor relations and large numbers of days lost to strikes, was only getting worse. But unlike in Italy, where the state was generally unsuccessful in imposing agreements, the interventionist state in France organized wage bargaining and even imposed wage settlements when business and labor were unable to reach agreement (Howell 1992). That said, French state-led bargains were never as successful, or as cost-effective, as in Germany’s corporatist coordinated bargaining between labor and management. And in order to keep labor quiet while helping business grow, the *dirigiste* state continued to expand the welfare state even more than before (Palier 2002).

Things changed dramatically beginning in the 1980s. 1981 represented the last gasp of the postwar model, with a short period of heightened *dirigisme* under the newly elected Socialist government characterized by renewed neo-Keynesian expansionary macroeconomic policy along with massive nationalization and industrial restructuring plus a more generous welfare state. By 1983, however, faced with double-digit inflation and having to exit the European Monetary System, President Mitterrand set the new liberalizing direction of policy with the great U-turn to monetarist budgetary austerity, which was followed under successive governments of the right and left by the liberalization of the markets, privatization of public enterprises, deregulation of business, decentralization of labor markets, and rationalization of the welfare state. But rather than a neo-liberal discourse to legitimate these policies, leaders on the right as much as the left spoke of ‘modernization,’ and the benefits of using Europeanization as a shield against globalization (Schmidt 1996, 2002, 2013).

In the European Union, moreover, although French governments could claim leadership in the 1980s, as a principal architect (with Germany) of the Single Market and the Single Currency, by the mid 1990s, the country found itself increasingly forced to follow. This is when the EU sought to deepen integration by deregulation in the network industries, i.e., telecommunications, electricity, and energy sectors, which encroached on areas closer to the normative ideals of the state-influenced model, and the State’s cherished postwar role as the sole provider of the *services publics* (Thatcher 1999; Eising and Jabko 2001).

In the 1990s, scholars of France took note of how the French state engineered its ‘*dirigiste*’ end to *dirigisme* (Schmidt 1996), with its transition to a ‘post-*dirigiste* state’ (Levy 1999). Moreover, scholars in France, even before, had been charting changes in the state and its action. This was particularly the case of the *référentiel*’ school of public policy, which was concerned with explaining the transformation of the ‘state in action’ through policy actors’ ‘frames of reference’ (Jobert and Muller 1987) in different policy sectors (Muller 1985), and later also focused in more closely on the neo-liberal turn (Jobert and Théret 1994). In a different tradition, French political economists of the ‘regulation’ school such as Robert Boyer, Alain Lipietz, Michel Aglietta and others beginning in the 1970s examined capitalist economies and processes of capitalist accumulation and regulation not only in terms of government policy and regulation of the economy but also as a function of social and institutional systems (Boyer and Saillard

2002). They also contributed to the international and comparative political economy debates in the 1990s on capitalist diversity (e.g., Boyer and Drache 1996) and in the 2000s on the many varieties of capitalism, beyond dualist ideal types (Boyer 2004; Amable 2003). Notably, a French businessman, Michel Albert (whose career began as a high-flying civil servant, graduate of Sciences Po and the ENA), anticipated the VOC debate when he described the quandary for France in *Capitalism against Capitalism* (Albert 1993) because it remained between the Rhineland capitalism of Germany and the liberal capitalism of the UK.

But while for scholars of France and in France, how to explain France's transformation became the primary question, for scholars of capitalism more generally, it largely spelled the demise of France as a model to be discussed. By the 1990s, France essentially disappears from the IPE literature, in particular for those who bemoaned the convergence to neo-liberalism and the seeming demise of the nation-state—including by a former scholar of France (i.e., Cerny 1994). Moreover, the same thing happened in the early 2000s, when France was given no place in the binary division of capitalist varieties, again by a former scholar of France (Hall 1986). The country was ignored, cast as an outlier, or lumped together with Italy and Spain in 'mixed market economies' (MMEs), notable for their contradictions, misfits, and perverse spillovers (as mentioned above). France has also been seen to converge on liberal market economies (Culpepper 2005; Hall 2006).

France as a Distinctive Variety of Capitalism?

There has, however, always been a counter-current to such views, both in comparative political economy, as discussed earlier, and the French-focused literature. From the very beginning, many of the critics of VOC, not surprisingly perhaps, were themselves scholars of France or scholars in France. These scholars have elaborated more extensive responses to the Varieties of Capitalism dualism, in particular to demonstrate that France continues to have a place in the pantheon of distinctive 'capitalisms,' whether as part of three varieties of capitalism, four, or more.

France has been described as having moved from 'state-led' capitalism in the postwar period to 'state-enhanced' capitalism (Schmidt 2002) today. As such, it has also been seen to constitute a third variety of capitalism, as a 'state-influenced market economy' (SME) that has much in common with Southern European countries like Italy, Spain, and Portugal as well as developmental states like South Korea, Taiwan, and even Japan (Schmidt 2002, 2009). France has similarly been discussed as a distinctive kind of 'entrepreneurial state,' similar to that of S. Korea or Japan (Thiberghien 2007). Members of the 'regulation school,' moreover, have identified France as a distinctive model within more varieties of capitalism, as 'state-driven' capitalism,' the third of four varieties (Boyer's 2004, ch. 2); or one of five varieties, paired with Germany in an empirical typology developed inductively (Amable 2003). Moreover, by the late 2000s, a second wave VOC scholar also identified France as having its own model of 'centralized market economy' (Fioretos 2011).

By the mid to late 2000s, the second wave of VOC scholars seemed to have accepted the arguments of VOC's 'French' critics, and highlighted the continued existence of

alternative models of capitalism, including one in which the state plays a crucial role (see Deeg and Jackson 2007). By this time, moreover, the lines between comparative VOC and French scholars had become more fuzzy, as French scholars began including insights from the second wave into their own work on France and simultaneously also influenced that second wave (e.g., Palier 2005, 2012). Scholars of and in France had tended to be more concerned with how to explain change than the mainstream literature, for the very good reason that France had been undergoing major transformation all along. This— together with the influence of the *référentiel* school—may help explain why political economists concerned with France have also been more open to theorizing change (and continuity) in terms of ideas and discourse in institutional and historical context (e.g., Schmidt 2002; O’Sullivan 2007; Clift 2009).

But what, then, makes France distinctive in its variety of capitalism? The distinctiveness can be best illustrated by contrasting France as a ‘state-influenced’ market economy (SME) with Britain as a liberal market economy (LME) and Germany as a coordinated market economy (CME) in terms of the nature and interrelationships of business, labor, and most notably the state. We leave aside for the moment the criticisms of VOC discussed earlier, and provide a stylized comparison of the three as distinct capitalisms, following the lines of VOC’s original analysis.

In an LME like Britain, the state is ‘liberal’ because it takes an arms’ length approach to business and labor, limiting its role to setting rules and settling conflicts, often leaving the administration of the rules to self-regulating bodies or to regulatory agencies, and generally acting as an agent of market preservation. Here, adjustment is driven by the financial markets and led by autonomous firms acting on their own, with comparatively little input—whether positive or negative—from the state or labor. In a CME like Germany, the state is ‘enabling’ because it takes action not just to arbitrate among economic actors but rather to facilitate their activities, often leaving the rules to be jointly administered by them, while acting as a co-equal (or bystander) with management and unions in labor regulation and wage bargaining, and generally acting to protect the production system’s non-market coordinating institutions. Adjustment here is led by firms and jointly negotiated cooperatively between business, labor, and the state (Hall and Soskice 2001; Wood 2001—see discussion in Schmidt 2009). In an SME like France, by contrast, the state is ‘influencing’ because it tends to intervene where it sees fit. State action may play an ‘enhancing’ or a ‘hindering’ role for business and labor activity depending upon whether public intervention has a positive or negative impact on economic actors’ interactions and productive capabilities. Although adjustment is firm-led in those domains where business now exercises autonomy—in business strategy, investment, production, and wage-bargaining—it is state-driven in those domains where neither business nor labor can exercise leadership—in labor rules, pension systems, and the like—or where the state sees a need to reshape the general economic environment to promote competitiveness (Schmidt 1996, 2002, and discussion in 2009; see also Levy 1999).

State-influence market economies like that of France, in brief, have a more influential state and a more state-driven or hierarchical logic of interaction between firms, labor, and

the state than in financial-market-driven, liberal market economies like that of Britain or the non-market managed, coordinated market economies like that of Germany (Schmidt, 2002, Ch's 3 and 4, 2009). In SMEs, although the state now also seeks to create and preserve market institutions, much as in liberal market economies, this does not stop it from continuing to intervene strategically where it sees the need, mainly to protect business or labor from the worst effects of the markets—whether this means bailing out firms in difficulty, “moralizing” highly decentralized labor markets to protect workers, as in France (Howell 2009), or engineering corporatist agreements in wage-bargaining and pension reform, as in Italy and Spain (Molina and Rhodes 2007).

Firms, however, are nonetheless much more autonomous than in the past, as business has been privatized and deregulated, and as it has increasingly turned to the financial markets for capital. But this has not therefore made the financial markets the drivers of corporate strategy. CEOs remain much more autonomous than in both LMEs, because their more concentrated family- or share-ownership reduces takeover risks, or in CMEs, because they are less constrained by boards of directors, networked relationships, or employees. They even remain more autonomous than CEOs in SMEs of the past, because of the retreat of the state. All of this, added to an employment system that sits somewhere between CMEs and LMEs in terms of worker pay, job protections, skills, training, and wage-bargaining systems, makes SMEs better than CMEs but behind LMEs on their purported radical innovation, and better than LMEs but behind CMEs on their purported incremental innovation (see discussion in Schmidt 2009).

Policy, Polity, and Politics in France's SME

Defining France as a distinctive variety of capitalism helps identify its differences from the two preferred varieties in the Varieties of Capitalism literature, and returns it to its rightful place as a distinctive model of political economy. But this exercise also leaves itself open to the same problems as VOC more generally, that its description of a distinctive French VOC using a combination of historical and rational choice institutionalist analysis makes it overly deterministic and static. Moreover, it risks overdetermining a particular role for the state in a manner similar to our earlier discussion of the problems of LMEs and CME in terms of policy, polity, and politics.

With regard to state action in the policy realm, just as the liberal state of LMEs may appear more interventionist than VOC theory allows, and the enabling state of CMEs destructive of the very relationships it is purported to enable, so the interventionist state of SMEs may choose not to intervene. For example, it may step back from direct intervention in labor market relations to allow the social partners to coordinate their interactions in a manner similar to CMEs, as *faire avec*. This was the case of the 35 hour work week in France, in which the state under a Socialist government in the late 1990s and early 2000s set the general framework within which business and labor were to negotiate the particulars of the policy for their workplaces, then left them free to do so, which led to a massive shift in work rules, largely to the benefit of business.

Similarly, moreover, differences in political institutional arrangements between simple and compound polities generally help explain differences among SMEs in their capacity

to reform, just as it did above for LMEs and CMEs. Interestingly, however, despite the fact that France's SME is a simple polity with a strong state able to impose by contrast with the compound polities of Italy and Spain, where reform needs to be negotiated, we are not always able to predict outcomes of reform projects. In France, while the centralization of political power, together with the fragmentation of economic actors, enabled governments between the mid 1980s and the mid 2000s to impose privatization, liberalization and deregulation of business as well as to radically decentralize wage-bargaining, as noted above, it did little to facilitate pension reform. Right-wing governments failed time and again to impose public pension rationalization in the face of massive protests while Socialist governments didn't even try (Schmidt 2002a, 2006; Levy et al. 2006). This said, incremental reforms did proceed through negotiation with the social partners (Palier 2006). By contrast, despite the compound nature of the Italian and Spanish SMEs—riven by territorial cleavages, public-private cleavages related to the history of nationalized enterprises, cleavages across industrial sectors and between bigger and smaller firms, not to mention the greater organization and political strength of labor than in France—both countries were able to negotiate significant labor market and pension reforms successfully, although Italy had greater problems doing so than Spain (see Molina and Rhodes 2007; Ferrera and Gualmini 2004; Locke and Baccaro 1999).

Politics naturally also matters for SMEs as much as for LMEs and CMEs, in particular in terms of the ideas and discursive interactions of political elites, business and labor leaders, social movements, and the public more generally that helps explain the dynamics of change. For France in particular, some scholars have identified the 'ideational legacies' that shape the ways in which actors defined and remade markets (Clift 2009) and have been engaged in 'acting out change' against a background of national traditions of economic thought, shaped by state traditions, and decades of lived economic practice (O'Sullivan 2007). Others have explained change through French policymakers' actions that, absent any overarching set of ideas, nonetheless produced an incremental layering of policy upon policy that, over time, constituted the equivalent of a paradigm shift in welfare provision (Palier, 2005). Yet others have also noted France's resistance to neo-liberal ideas, at least in the discourse, as governing elites liberalized less as a matter of neo-liberal ideological conviction (arguably with the exception of the brief mid-1980s interlude under Prime Minister Jacques Chirac) than of pragmatic necessity in response to international economic pressures and European political constraints (Schmidt 2002, 2012; Gualmini and Schmidt 2013; Vail 2010). As part of this, French elites of right and left along with the media consistently articulated an anti-globalization discourse (Meunier and Gordon 2001), while the French public was consistently the most negative in comparative surveys of all Europeans when it came to globalization and its impact on growth, employment, jobs, and their own lives (see, e.g., Eurobarometer 2003--Flash EB no. 151b). It is notable that in the Presidential elections of 2007, both presidential contenders made clear in their campaigns that globalization was a problem, with Segolène Royale's communicative discourse promising to 'protect' the French 'against globalization' while Nicolas Sarkozy's discourse pledged to 'protect' the French 'in globalization' (Schmidt 2007).

The problem for France is that it has engaged in major reform efforts without having succeeded in legitimating them sufficiently or satisfactorily through a communicative discourse with the French public. The best illustration of this is successive French governments' difficulties in reforming labor markets and the welfare state. For the 1993 reform of private pensions, the Balladur government was able to reform not only because of the inability of private sector workers to organize effective protests but also because the government engaged in a coordinative discourse with the social partners, proposing reforms that balanced positive and negative benefits (Palier 2006). By contrast, the 1995 attempt by Prime Minister Alain Juppé to impose reform of public pensions and of the 'special regime' of the railroad workers was met by major protest, as the highly unionized public sector, supported by the sympathetic public, paralyzed France for over three weeks. Here, the problem was not only entrenched interests but also that Juppé engaged in almost no legitimizing discourse at all, whether communication to the public or coordination with the social partners (Schmidt 2007). It was to be another eight years before governments broached public sector pension reform—which finally worked when the Raffarin government in 2003 engaged in an extensive coordinative discourse again balancing positive and negative benefits (Palier 2006). And it was to be twelve years before the special regimes were reformed. President Sarkozy's success with the 2007 reform initiative on the special pension regimes can be explained in large part by his ability to reframe the issue in a communicative discourse that resonated with the concept of equality central to the French republican tradition, arguing that equality of treatment demanded that railroad workers retire like everyone else after 40 years of employment (rather than at age fifty for railroad conductors) (Schmidt 2009). But this was a relatively minor reform, compared to the need to transform the labor markets in ways that would help reduce France's high levels of unemployment along with the increasing dualization of the workforce that left so many workers (especially the young and minorities) on temporary and part-time contracts with few or no benefits. This had to wait until President Hollande, whose communicative discourse has failed to legitimate the on-going efforts of his Prime Minister, and whose popularity ratings have consistently been lower than of any previous President of the Republic.

France's Distinct Model of Capitalism Today

France's political ideas and its discursive interactions, combined with France's ideational legacies and economic practices help explain why the country could have gone through a long period of liberalization and retreat of the state—at critical junctures and incrementally—but not converge on the liberal model of LME let alone CME. It is not just that the postwar French SME distinguished itself from postwar LMEs and CMEs by its very different stewardship of the economy through institutions of planning, industrial policy, and public enterprise, or that these constituted historical institutional legacies that left their traces even as the state liberalized from the 1980s on. It is that the national traditions of economic thought that influence countries' ideas of how to make and remake the markets—even in the face of a seemingly common set of neo-liberal ideas—are also very different.

In the postwar period, such deep philosophical ideas or evolving worldviews of France's policy economy were most clearly seen in the contrasts between France's *dirigiste* ideas

about the ‘state-led’ market economy and the UK’s neo-liberal ideas about the ‘free market’ economy or Germany’s ordo-liberal ideas about the ‘social market’ economy (Clift 2012b; see also Schmidt 2002, Ch. 4). But even in the liberalizing period beginning in the 1980s, France continued to differ, despite the fact that non-liberal technocratic elites were replaced by moderately neo-liberal political elites who pragmatically adopted and adapted neo-liberal ideas to their own uses while employing a discourse of ‘modernization’ (Schmidt 1996; Thiberghien 2007; Gualmini and Schmidt 2013). In making markets, the French were less focused on the level playing field prized by the British and Germans, more at ease with dominant market positions for their firms, and more open to state intervention to promote such market dominance, including the presence of elitist oligarchic networks spanning the public and private sectors (Clift 2012a). With regard to labor, moreover, the French sought to reshape labor markets in two seemingly contradictory ways, via the greater labor market flexibility typical of LMEs and the greater *concertation* between workers and management of CMEs, and not really succeeding in either while ensuring a continuing involvement of the state (Howell 2009).

The result of all these liberalizing reforms is that France has transformed its political economy even as it retains its distinctiveness. As the state reduced the scope of its interventions, it has moved from a post-war *dirigiste* style of economic management to post-*dirigisme* (Levy 1999; see also Cole 2008; Clift 2009; Howell 2009). Business has become autonomous while the French state no longer has the means to influence the direction of the French corporate economy directly or systematically (O’Sullivan 2007, p. 432; see also Schmidt 2002, 2003). Nonetheless, the French state continues to intercede where it considers the interests of the national economy and/or the polity to be at stake. Moreover, the deep interpenetration of public and private political economic elites, grounded in informal networks based on corporate elites’ state-related education and experience (Suleiman 1974; Bourdieu 1989), makes for a different kind of market competition among big firms than in LMEs or CMEs (Massoc and Jabko 2010). In industrial relations as well, the state has engineered its own retreat. But here, the essential paradox is that even as the state has given up on organizing management-labor relations, its involvement is even more necessary for purposes of coordination, to make up for the weakness of business organizations and the near disappearance of labor unions (Howell 2009). In the welfare arena, by contrast, the state became increasingly active as the ‘social anesthesia state’ (Levy 2008), constructed in order to ensure acceptance of its reforms in other areas—and has had great difficulty reversing this.

Notably, the European Union has also been a major force behind France’s liberalizing transformation at the same time that it has no doubt held in check some of the country’s most egregious forms of ‘economic patriotism’ (Clift and Woll 2009). France has in effect weathered the different phases of neo-liberal reform without giving up on a central role for the state, as it went from the conservative ‘roll-back’ of the state to free up the markets beginning in the 1980s to the social-democratic ‘roll-out’ of the state to make markets freer beginning in the late 1990s, and then on to the ‘ramp-up’ of the state, first nationally-pushed neo-Keynesian stimulus in the first phases of the economic crisis, then

EU and German-led ordo-liberal austerity with the sovereign debt crisis (Schmidt and Woll 2013).

The Research Agenda Ahead

So where does France now fit comparatively in terms of its form of capitalism? As we have seen, for a time the country disappeared from mainstream scholarly interest almost completely—cast as an outlier both for those who saw convergence along US or UK lines to a single neo-liberal model as well as those who saw a binary split between ‘liberal market economies’ like the US and the UK and ‘coordinated market economies’ like Germany. But as we have also seen, a number of comparative political economists in addition to French scholars continued to see France as part of a distinctive variety of capitalism that followed on from the statism of the past. Within the terms of VOC, what distinguishes France’s market economy from the UK’s financial market-driven model and Germany’s managed market model is the hierarchical nature of both its state and its firm and labor relations. But in order to be able to explain the transformation of France’s capitalist model from the postwar period to today, in addition to political economic institutions, we need to taken into account the policies, the political institutions, and the politics not only of strategic interests but also of ideas and discursive interactions between French elites and citizens.

The French State as a ‘State of Mind’ more than the ‘State in Action’?

France has changed dramatically since the early days of its postwar state-led capitalism. France’s approach to economic management has been transformed, most of its economic policies replaced, and its cradle-to-grave social security system under siege. And yet, for all this, the French state has been durable—but arguably more as a state of mind rather than the state in action.

No other Western country, to my knowledge, has such an idealized view of the state *qua* state, disconnected from what it does. It remains, for the French, largely as Georges Burdeau (1970, p. 14) described it, as an idea that, unlike a concept that systematizes a number of facts about reality, is itself “all the reality that it expresses because this reality resides entirely in the spirit of the men who conceive it.” That said, France has been experiencing an increasing disconnection between peoples’ ideas of the State—about the central role of the state to provide a certain kind of economic and social policy—and what the state actually does or can do. I would argue that ‘*la crise*,’ a topic the French have discussed non-stop since the 1970s—let alone during the current economic crisis—has not only been economic. It has also been about the politics of ideas and discourse, in the sense that the public has not become reconciled to the kinds of policies that the state has implemented, in part because political elites have themselves not been telling the truth about them. Ever since the great U-turn in macroeconomic policy, the left as well as the right have had a discourse about how neither the various neo-liberal economic reforms nor France’s membership in the European Union would affect *solidarité sociale*, despite that fact that everyone knew that it would, and it did (Schmidt 2002). The crisis of French politics is evidenced by the constant turnover in legislatures since the 1980s, including even two term Presidents with the defeat of Sarkozy in 2012, by growing

public dissatisfaction with those governing, and by the rise of the extreme right (Amable et al., 2012).

What this means is that France's postwar state ideal lives on in peoples' minds, as the most legitimate way of governing the political economy and therefore the measure of what any government actually does, which necessarily falls short. No wonder the French public always complains, and nothing is ever enough. France's old state is missing in action, but no new idea of the state and its action has replaced it (Schmidt 2012).

The French public needs to become reconciled with the changes in the nature of the state and its action, and they need to begin to understand and accept its limits within the context of continuing Europeanization and globalization. But for this, French political elites themselves need to begin to communicate about these changes to the French public truthfully in ways that help reconcile them to the fact that the French state is no longer what it was. Until French leaders also come up with a new idea of the state and its action, France itself is likely to flounder, losing its long privileged place in Europe both economically and politically, even as the French public continues to lose its love of Europe, which it increasingly tends to blame for the changes in France.

The big questions for the future research agenda are mainly about France in Europe and the world. The study of France can no longer be exclusively concerned with France, even when considering the country as a distinct kind of capitalism. Globalization and Europeanization are now present within French capitalism. This is clear from the ways in which, for example, different sectors of industry have been evolving. The organization, strategies, and competitiveness of French multinationals are understandable only in the context of the global and European political economy. The evolution of French financial markets can be explained only in the context of the internationalization and Europeanization of finance. Moreover, the ways in which international financial markets perceive French competitiveness have a tremendous impact not just on foreign investment but also on the costs of the country's ability to refinance its debt—in particular if and when the ratings agencies downgrade French debt. And this in turn affects perceptions of France's continued need to reform its labor markets and welfare state not only by the markets but also, and especially, by the EU.

The Challenges of European Integration

European integration has arguably represented the greatest element of change in France's political economic trajectory. From a leader building the EU, in particular as political leader of the Franco-German couple in the 1980s and 1990s, France has increasingly become a follower, in particular during the Eurozone crisis. Germany's bargaining power in the Eurozone crisis, as the strongest economically, has also translated into political dominance. German ideas of the 'stability culture' have been embedded in the rules of Eurozone governance (Howarth and Rommerskirchen 2013b) and its ordo-liberal ideas in the 'Brussels-Frankfurt consensus on austerity and structural reform' (Jones 2015). These have been reinforced in 'pact' after 'pack,' from the original Stability and Growth Pact to the ever more restrictive rules and stringent numbers of the legislative packages and treaties, including the Six-Pack, the Two-Pack, and the Fiscal Compact. As

the ‘reluctant hegemon’ (Bulmer and Paterson 2014), Germany has led through its delays and refusals, by demurring on the bail-out of Greece until it was almost too late—ignoring French pleas; by refusing any overall solutions to the crisis that would have entailed fiscal solidarity, such as the creation of mutualized debt via ‘Eurobonds;’ and by imposing its own agenda of ‘governing by the rules and ruling by the numbers’ on the entire Eurozone, including France (Schmidt 2015).

As a result, the French did finally get the ‘*gouvernement économique*’ that they had pushed for ever since the Maastricht Treaty of 1992, but it contained German rather than French ideas about how to govern the economy (Jabko 2015). While the French had argued for ‘solidarity’ in view of the crisis, the Germans insisted on ‘stability,’ and stability won out. President Sarkozy, who had promoted a neo-Keynesian stimulus in 2008-2009, switched in May 2010 to Chancellor Merkel’s agenda following the Greek bailout, and to Merkel’s discourse as he slowly abandoned ‘solidarity’ in favor of ‘stability’ over the course of the next two years (Crespy and Schmidt 2013). Sarkozy himself turned out to have been perfectly willing to agree to a *quid pro quo* in which a rescue plan would be accompanied by an austerity program, including the ‘golden rule’ of balanced budgets. This was more in line with the preferences of his own center-right constituency, while it served to embarrass the opposition Socialists. But once the Socialists came to power, President Hollande also towed the line—insisting that France needed to regain economic credibility before it could be credible in pushing for any change in rules. The irony, of course, is that in following such policies, France cannot gain the credibility it would need to push for changes in the rules. This is because the rules haven’t work for France, which has had to ask for derogation after derogation of the deficit rules. But those rules have also not worked for the Eurozone as a whole, as evidenced by the European economy’s slow growth, with threats of deflation. Eurozone austerity hawks who claimed that this alone could produce growth through ‘expansionary contraction’ seem to have forgotten the very basic neo-Keynesian lesson—that tightening one’s belt in a recession can only make matters worse (Blyth 2013).

The problem for the Eurozone economy begins with the very structure of the Euro, which has produced increased divergence among member-states’ economies rather than the expected convergence. The Eurozone is a non-optimal currency area that appears to work well for the export-led, surplus-producing model of growth and competitiveness of member-states in Northern Europe, but not for member-states in the periphery, mainly in Southern Europe (Scharpf 2012, 2014; Hall 2012). These countries have traditionally flourished via a domestic-spending, deficit-producing model of growth that requires periodic currency devaluation to right the balance and demands, therefore, control of its own currency. Without the ability to devalue because of the euro or to run deficits because of the stability rules, Southern European member-states may have no alternative but to enter into a never-ending downward spiral of wage repression accompanied in the end by the suppression of social and political democracy (Scharpf 2013, 2014).

France is not a Southern European country, yet, even if it has a family resemblance as an SME. But France’s economic woes, its continued deficits, along with a state deprived of its traditional tools to influence the economy, make the country more likely to move

south rather than north, assuming that its economy continues to lose speed and that nothing is done to change the rules of the Eurozone. The state's difficulties negotiating reform with French labor only adds to the country's problems, as does the political instability that comes with citizens' increasing disillusionment with mainstream party politics on both the right and the left, and with the EU. We should not forget that the greatest interest in the EP elections came from the political extremes, whose voters turned out in much greater numbers than those of mainstream parties, helping to make Marine Le Pen's Euroskeptic National Front the party with the largest number of votes in France.

The one ray of hope is that the Eurozone's rules-based numbers-focused governance has been softening. EU institutional actors since 2012 have been slowly but surely reinterpreting the rules 'by stealth,' that is, by increasing the flexibility in their interpretations of the rules without admitting this in their discourse (Schmidt 2015). Although claiming harsh austerity while practicing flexibility is problematic with regard to political legitimacy, it at least ensures better results. France itself has been the beneficiary of successive derogations in the rules related to the excessive deficit procedure, and was twice given two-year delays to meet the targets. Moreover, by late 2014, EU institutional actors had abandoned the push for austerity altogether in the face of the dangers of deflation, and instead focused on 'structural reform,' by this time defined more loosely as any of a wide range of reforms that promote growth. French leaders have been using the EU's pressure here to legitimate their own push for rather modest reforms of the labor markets, among other things.

Conclusion

For scholars of France, the major challenge is to be able to complete a research agenda that combines the insights about France's continued 'exceptionalism' and why it retains its own distinct model of capitalism with the recognition that it operates in an increasingly globalized and Europeanized political economy. As a result, France's national divergences can be only one aspect of scholars' research agenda. The other is to elaborate how France has become a global player, how its different sectors of industry are integrating into a larger European market and globalized economy, how its labor markets and welfare states are modernizing in ways that can be compared as well as contrasted with those of other member-states, and how its politics has become increasingly enmeshed with that of the European Union.

Notably, this kind of agenda should not just be for scholars of France. Scholars of political economy more generally need to move beyond the increasingly false dichotomy between international political economy and comparative political economy in order to see the increasingly intricate interrelationships between the two. They also need to continue to add to their considerations of national political economies the role of policy, polity, and politics. The study of political economy has already been enriched by a greater pluralism in neo-institutionalist explanations of political economic realities. The next challenge is to bring these back together again—with the study of rationalist incentive structures, historical path dependencies, sociological cultural frames, and ideational and discursive dynamics each informing in its different way research on the

increasing complexities of capitalism within and beyond country borders, in a globalized and Europeanized context.

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