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**Coordination and Restructuring in
Large French Firms**

The Evolution of French Industry in the 1980s

Bob Hancké / Davis Soskice

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Abstract

This paper discusses industrial and economic adjustment in France in the 1980s. It argues that French industry followed a path of adjustment throughout the decade, which was fundamentally different from both the German-Japanese style organised capitalism, and the US-UK type of deregulated capitalism. The analysis attributes this to the structure and integration of the French political, financial and administrative élite. Combining historical institutional analysis and insights from the new economics of organisation, the paper also elaborates elements of a methodological alternative to traditional neo-classical and institutionalist arguments.

Zusammenfassung

Diese Arbeit analysiert den Wirtschaftswandel in Frankreich in den 80er Jahren. Die Autoren argumentieren, daß die Industrie in Frankreich in dieser Dekade einem Anpassungspfad folgte, der sich sowohl von dem organisierten Kapitalismus nach deutsch-japanischem Muster als auch von dem des deregulierten angelsächsischen Kapitalismus grundsätzlich unterscheidet. Die Analyse kommt zu dem Schluß, daß dies auf die Funktion und die Rolle der politischen, ökonomischen und administrativen Eliten in Frankreich zurückzuführen ist. Durch die Verknüpfung von Argumenten des historischen Institutionalismus und der neuen Organisationsökonomie werden in diesem Papier auch Elemente einer methodologischen Alternative zu den traditionellen neoklassischen und institutionalistischen Ansätzen bearbeitet.

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Introduction

France poses a puzzle to many observers. On the one hand, there is the long tradition of scholarship on France which emphasizes the institutional barriers to innovative industry. On the other, there is the strong performance of the French economy in the second half of the 1980s. The question is how to reconcile these two stylised facts: how can French economic performance in the late 1980s, given the structural, cultural and institutional impediments, be explained?

One set of answers suggests that, freed from the state's domination, French firms have finally found a way to reorganize in a way that made them more innovative; in contrast to other European countries, French industry did not have to deal with strong labor unions that constrain their actions. Left on their own, the argument goes, French firms managed to take full advantage of the opportunities offered by the market. A smaller alternative warns for the optimism and suggests that France appears to be doing well, but is really on the wrong track: without the type of social institutions that force and enable companies to seek the high road, French industry will remain stuck in the mass-production model that has characterized it since the 1950s.

This paper, which is above all else programmatic in nature, takes a different line. Two points are central to what follows. The first is that French industry is much more organized than the conventional views suggest: between the state, large firms and their suppliers many channels exist which effectively coordinate their behavior. The second is that the role of the state has changed from an agent who directly intervened in the economy —assuming that this ever was an adequate description for what happened in France— to an information network for industry about the state of the economy which enables industrial reorganization. If both points are correct, then this forces a novel interpretation of the "French model" and perhaps a reconceptualization of some of the categories we use for understanding industrial reorganization.

The paper consists of four sections. The first gives more details on French economic performance and discusses the explanations offered in the literature. This section also provides a first outline of our position. The second section then explores the link between the elite network that we put at the heart of our approach and the general concept of business coordination. In the third section we provide details about how the general framework helps us understand observed changes in

France throughout the 1980s. The fourth sections reiterates the main points and concludes with some general points on problems associated with this new French model.

1. The puzzle of French economic performance

France is, in many regards, still a stranger to political economy. Generally, the country does not figure among the "examples" of a well-adjusted economy, and nowhere are adjustment models found in France also taken seriously as viable ways out of the crisis. Instead, experts on national political economy, both inside and outside France, lament the structural, institutional and cultural obstacles to innovative adjustment that exist.

Yet on most accounts, the French economy, even though it was not as brilliant a success as for example the Japanese economy, has consistently been among the better performers in Western Europe in the 1980s and definitely among those where the turnaround was most dramatic. All conventional indicators demonstrate that French industry did well, if not in its own right, then certainly much better than the lack of attention would suggest (Suleiman 1995).

Macro-economic indicators give a first indication. Table 1 lists for France and its major competitors the average values for the most important macro-economic indicators between 1981 and 1990, and demonstrates that French economic performance is roughly the same as the other G5 countries. These measures, however illustrative they may be, underestimate the underlying changes, since they include the adjustment years in the first half of the 1980s, where most of the measures were, in fact, considerably below what they are today.

Table 1: macro-economic performance of France, averages in percent 1981-90

	France	Germany	UK	Italy	USA	Japan
GNP growth	2.4	2.2	2.7	2.2	2.6	4.1
unemployment	9.3	7.1	9.6	10.7	7.1	2.5
inflation	6.2	2.5	6.0	10.0	4.9	1.9
productivity growth	2.0	1.7	2.0	1.8	0.9	2.9
trade balance	0.0	3.8	-0.7	-1.2	-1.9	2.1

Source: *l'économie française 1995*

Wages are relatively low in France —within the EU economies, France has known the lowest wage growth next to Greece in the 1980s (Taddéi & Coriat 1993: 51-52). Unit labor costs are therefore considerably below the other European G5 countries (, and is second only to the US (a somewhat rosy result for the US, since it is in large part attributable to the relative loss in value of the dollar during the second half of the 1980s).

Exports are another indicator that the French economy weathered the restructuring of the 1980s relatively well. Compared with other G5 countries, French industry performed very well during the 1980s: with the exception of automobiles, the position of France in international trade in chemicals and in the metal industry (the two largest manufacturing industries in OECD-countries) remained stable throughout the 1980s, as did Japan's, while Germany's share, and that of the UK and the US fell considerably (the data, using West-Germany as a base, can be found in Carlin 1994). The chemical sector grew over 40% between 1980 and 1990 as compared to 13% for the other OECD countries and its exports increased from 49.5% of total production in 1985 to over 60% in 1990 (Taddéi & Coriat 1993:85-7). Relative to its position in the mid-1980s, this makes the relative performance of the French chemical industry the best in the G5, with the exception of Japan.

Generally, while being one of the most open large economies in the G5 —only Germany has higher import and export/GNP ratios— France's exports as a proportion of GNP has increased sharply since 1985, to surpass all other G5 countries except for Germany (Taddéi & Coriat 1985:73-75).

Profitability is the last theme in this short review. Aggregate profitability, expressed as the profit share of national income, increased sharply in France between 1979 and 1989, from an already high level in the early 1980s to the highest in the G5 and

in the entire group of OECD countries.¹ Individual case studies tell a similar tale. In 1986 listed in *Fortune* magazine as the top loss-making firm in the world (see Le Figaro 1 Aug 1986), *Renault* is today one of the world's most profitable car companies (Financial Times 29 Mar 95). In 1986, the steel firms *Usinor* and *Sacilor* combined lost FF 4 bill.; three years later, after a merger, they made an operating profit of FF 7.9 bill. (Hart 1992: 109-10). In 1982, *Thomson* posted losses of over FF 2 bill. By 1987, profits totaled almost FF 6 bill. (Hart 1992:129). In short, many of the companies that were written off by most experts in the early 1980s as seemingly bottomless subsidy pits were, by the end of the 1980s, thriving companies.

1.1. Deregulation and liberalisation as the key to success

What explains France's competitiveness in the 1980s? Most views which in one way or another rely on the state's withdrawal as a central explanatory variable, are elegant in their simplicity. French industry became competitive in the 1980s, because it adopted a socio-economic regime based on market regulation instead of the traditional mode of regulation through the state. Exposed to international competition, French firms were forced to leave old inefficient ways and adopt new ones. In this adjustment process, they were not constrained the way their counterparts in other countries were, by strong labor unions. The modernization of the French economy in the 1970s and 1980s was therefore, despite the Left governments, primarily an market-driven process of adjustment (see e.g. Adams 1989; Boyer 1992, the pleas in Crozier 1987 and 1989, and *The Economist* 25 November 1995).

Recent events seem to lend at least some credence to this argument. Finance, for example, was deregulated in 1984, dramatically changing the ownership structure of French industry. This went alongside two large-scale waves of privatisations of the state-owned enterprises. Labor unions are, by all accounts, irrelevant in today's France: not only is unionisation the lowest of all OECD countries, the CGT has, since the collapse of the industrial relations system, lost whatever power it held in

¹Thanks go to Andrew Glyn, who provided us with these figures (see Glyn, „Does Profitability *Really* Matter?“ ms WZB, April 1995. As he points out (see also the Appendix in Armstrong et al., 1991), there are some methodological problems which limit full comparability of profitability figures, but the general trend is confirmed by every other relevant and often strongly correlated indicator: for example investment data and output/capital ratios, where France is always in the top third of the OECD countries.

the large enterprises. International competition, finally, is, with the abolition of price controls and protectionist measures, not any longer a stranger to French enterprises. French firms now compete in international markets on the same footing as their German, English or Italian counterparts.

Yet the liberalisation argument fundamentally misunderstands the adjustment process in French industry. In contrast to what the argument suggests, the more flexible forms of institutional response that appear to exist in France today, did not lead to a US-style deregulated economy —rather the contrary. The combined effect of financial deregulation and privatisations, for example, did not give way to the type of popular capitalism associated with the Anglo-Saxon countries, but to a system of stable, long-term cross-share holdings among large French firms (Bauer 1988 —see below). Similarly, while it is true that the old labor relations system has largely collapsed and the labor unions are, by and large, powerless in contemporary France, workers are not subject to the type of managerial unilateralism found in the UK or the US: the Auroux laws and in their aftermath new participative management techniques created a system that is able to defuse labor problems before they reach the stage where solutions are impossible (Morville 1985; Howell 1992), and large firms have adjusted their training systems and career ladders in an effort to create a considerably more co-operative workforce (Méhaut 1994). All these observations suggest that deregulation and opening the market *per se* is hardly a convincing argument for understanding the gigantic changes in the French economy during the 1990s.

1.2. The *société bloquée* revisited

There is a second interpretation, which denies the long-term viability of the economic results listed above and disagrees fundamentally with the liberalisation argument. It builds on a long and venerable tradition of scholarship on French political economy. The core of this argument is that in the political economy of the 1990s, a series of firm-level reorganisations are necessary, which depend in large measure on the existence of an environment conducive to such changes. Since France lacks both, competitiveness must be elusive.

In order to survive in the turbulent international economy of the years to come, this argument goes, firms have to decentralize their decision-making structures and engage in techniques to enhance workers' skills, participation and commitment in

production. In order to control costs, firms have to concentrate on their core capacities, build long-term relationship with suppliers and organize delivery in just-in-time logistics systems (Appelbaum & Batt 1994; Dertouzos et al.1989; Kern & Schuman 1984; Katz 1985; Piore & Sabel 1984; Womack et al. 1990).

A second, related debate deals with the political economy surrounding these new firms. Even though there is considerably less of a consensus here, one line appears to gain the upper hand: it argues that, by virtue of their institutional development since the interwar years, some countries are better-equipped to adjust to this new economy than others. According to this view, Japan, Sweden and especially Germany are well-placed for this new economy (Dore 1987; Soskice 1990 and 1991; Streeck 1992; Albert 1991; Hart 1992; Thelen 1991; Turner 1991; Kogut 1993).

Viewed from this perspective, France is a troublesome case indeed. None of the virtuous institutional factors are present at either the micro or the macro-level. Factories are organized in such a way that they reduce the capacities of workers to learn on the shop-floor by deviating from highly standardized procedures, managers are authoritarian and insist on hierarchy, labor unions are radical and labor relations are far from peaceful. Moreover, as has been widely documented in the literature, French industry is lost without the guiding hand of the French state (Crozier 1964, 1970; Shonfield 1965; Zysman 1977 & 1983; Berger 1981; Balassa 1981; Taddéi & Coriat 1993; Lane 1989; Gallie 1978; Maurice et al., 1986; Reynaud 1978; Ross 1982; Howell 1992; Hall 1986).

Over the years, as these institutional deficiencies became ever clearer, progressive French elites tried to change this system, but in all important cases, these changes simply failed. In attempts, first, to install some form of peak-bargaining, and, afterwards, to modernize the social organization of the enterprise, governments—Center-Right after May 1968, the Left after 1981—introduced plans for a new system of labor relations (Howell 1992). The New Society plans in the years 1969-1974 and the Auroux Laws were meant to bring to France both neo-corporatism and a German-style institutional mechanism for workers' participation in the firm. Both projects failed, in large part because the social actors entrusted with their implementation -and most of all the labor unions, assuming that they were interested in participating in change at all- were simply too weak and therefore incapable of delivering their part of the deal. In a way, one of the unintended consequences of the state-led model of economic growth in the postwar decades,

and the exclusion of organized labor from this model, now revealed its ugly face for the government: as a result of their exclusion and their "under-development" the unions were too far removed from the type of organizations that Chaban-Delmas, the prime minister associated with the reforms, and his then advisor Jacques Delors, envisioned in the proposals for labor law reform (Howell 1992).

After the advent to power of the PS and the PC in 1981, a second large-scale attempt at industrial relations reform took place. In 1982, the government submitted proposals of law to parliament that would reorganize workers' participation in the firm, grant labor unions new rights and update labor law. The body of the Auroux Laws, as they became known, consisted of four distinct sections, dealing with (1) workers' rights, (2) the representation of workers, (3) collective bargaining and (4) health and safety provisions (Smith 1987). Initially, the reform appeared to have a serious chance for success. The radical unions dropped their provocative rhetoric, the *patronat* appeared ready for a modernization of the plant, and the state vowed to withdraw from labor relations (Gallie 1984).

The actual results, however, were considerably less benign. Since the laws were implemented at the plant and firm level, exactly the place where French unions were weakest, they did not so much strengthen the labor unions, as confront them with a series of new challenges, primarily organizational in nature, that they ended up unable to cope with (Ross 1987), and the result was the final blow to the labor unions: currently they organize less than 10% of the workforce, even less in manufacturing and their influence in the French political economy is, despite over ten years of Left rule, lower than ever (Noblecourt 1990; Rosanvallon 1988).

Partly as a result of the incapacities of labor unions, partly as a result of fundamental misconceptions of the type of industrial change the government wanted to accomplish, the Auroux reforms turned out a mitigated failure. Since they did not really strengthen labor unions in the workplace, the other parts of the legislation which provided for direct forms of workers' participation soon became moot points. Consequently, the reforms -and in their wake other, similar attempts to reorganize the workplace- failed miserably. When all is said and done, French companies still look remarkably like they did in the 1950s and 1960s, the heyday of Taylorist-Fordist mass production (see, among others, Linhart 1991).

All these reforms, in the field of labor relations or in other areas (Levy 1994), were ultimately meant to create an institutional environment that fueled organizational

change and facilitated the adoption of new production techniques and methods of human resource management: increase workers' participation and thus defuse social conflicts, reduce hierarchy in the workplace, increase skills and thus increase the flow of workers' knowledge on the shop-floor, and install more collaborative manufacturing relationships with other local firms and local authorities. Yet they failed, the argument goes, largely because of the inherent weakness of the societal actors and institutions that the reforms were meant to empower. The central state was simply too strong.

1.3. Business coordination: state-finance-industry networks

To a large extent these objections are correct. However, they increasingly appear to describe a world that was, not one that is. Up until 1980, the shorthand characterisation of France as a *stalemate society*, in which all the social actors involved in shaping the political economy are sufficiently strong to block change, but none of them powerful enough to impose their views, and all therefore appealed to the state for new initiatives (Hoffmann 1963; Crozier 1964 and 1970) is, in our view, in large measure accurate. Yet with the corollary of this view, according to which French economic performance in the 1980s and 90s is exaggerated since all the traditional blockages remain, we disagree. We claim that as a result of institutional change, new types of flexible responses became possible for French industry which allow for solutions to the central problems of large companies: their relations with the workforce, with owners (banks and state), and with other companies.

The key to understanding this adjustment path was the existing elite network in the state, finance and industry, which allowed a certain degree of coordinated action. The existence of this network has been documented for a long time, at least since Shonfield's characterisation of the French political economy as a conspiracy of big business and the state (Shonfield 1966: 128; see also Birnbaum 1994; Suleiman 1978; Bourdieu 1989; Bauer & Mourot 1987 and 1995 for excellent analyses of the French elite). The elite network has its basis in the educational system. After a highly competitive *concours*, the best young students are admitted to the *grandes écoles*, where they are prepared for a career in public administration. After another round of tortuous exams, the top of these classes then move into the *grands corps*, where they spend a few years at the highest level of the state apparatus. Through the typically French system of *pantouflage*, these people are parachuted at or near the helm of France's large companies or banks. The career track then typically

takes one of two forms. The first is the circulation between the leadership of banks, industry and the state; the other is the gradual (but nonetheless fast) climb from the sub-top to the top of a company.

Despite its archaic-looking organisation, the most remarkable thing about this system (which we can only describe in very brief terms in this paper) is that it is by no means a system of the past. Several independent assessments (Birnbaum in the 1994 postface to his *Les sommets de l'état* and Bauer & Mourot 1995) conclude that the circulation of elites from the state to finance or industry (and increasingly also back into the state -see Rouban 1994) has actually increased over the last 10 years compared to the previous period. In numbers: 32% of the CEOs of large companies were transferred from the *grands corps* in 1985, 38% in 1993. -in 1985, 55% of the CEOs of large companies were students of three schools -*Polytechnique, ENA or HEC*. In 1993 this number had increased to 60%, an increase almost solely accounted for by the *enarques* (Bauer & Mourot 1995). Instead of losing importance as a result of economic and industrial change, the elite network actually gained in importance throughout the 1980s. (See also Suleiman 1995).

Its relative importance helps to understand why in the 1980s attempts to redesign French institutions passed through this elite network. Because of its inherent elitist centralism, many of these technocratic proposals failed. But that does not mean that they were without consequences. That is precisely what underlies the argument in this paper: many of the changes that we will document are best thought of as the unintended consequences of actions within the state-led elite network.

The most obvious and perhaps clearest example of such unintended consequences are found in labor relations. The CFDT and left wing sections of the PS designed the laws in order to simultaneously secure the position of labor unions in the firm and to modernise social policies. Because of the unions' organisational weaknesses in the firm, the Auroux laws failed *for them*, but they did contribute to a modernisation of French firms. Instead of relying solely on authority to solve problems —thus, in fact fueling ever more grievances which remained unaddressed, and eventually led to social explosions such as May 1968— firms now address many problems much more rapidly than before, have developed career ladders which increase the tenure of a cooperative workforce. This, in turn, allows for substantial skill accumulation and more complex quality control systems by shopfloor workers. It may all still be a far cry from the (idealised) German model, but there is little doubt that things have changed in French firms. Given that it was

initially a union-inspired co-determination scheme, it is almost a textbook example of how unintended consequences matter.

Generalising from this example, what appears to have happened is that gigantic schemes for institutional redesign, while they failed, had sufficient "small" consequences for institutional change to take place. Remarkably, however, the change never presented itself as such. The opposite is true instead: the changes were often observable only as *obstacles to change* and were usually also interpreted as such.

Combining the argument that is based on the elite network with the available data suggests a different interpretation of what happened in the French economy than both the liberal and the narrow track institutionalist argument suggest. As a result of increased international competition and concurrent modernization, French business changed, both in its relationship with the state and in its internal organization, from the atomized amorphous mass of helpless firms —assuming that this ever was an adequate description— to an active network with a relatively high degree of internal coordination. On the shopfloor, and as a corollary to these meso- and macro-level changes, employers found a way to eliminate obstinate labor unions without alienating their workforce. The end result of all this is —indeed— an "erosion of French particularism" (Boyer 1992), but one resulting in *more* organization, not less.

Two propositions follow from this argument. The first is that the state is, —true to the French legacy— still an important economic actor; however, instead of its influence being direct, its current significance appears to reside in its role as a forum for networks of business elites through which general economic information flows and channels for cooperation are forged. In important ways, this view links to "older" revisionist views that see the state as providing information through the Commissariat Général du Plan (Hall 1986). The second central proposition is that French industry is, in contrast to the conventional views, strongly organized, but not necessary in ways that surface through the traditional categories. For the large firms, the information networks around the French state provide the channels for business coordination. An important part of the medium-sized firms is tightly integrated into the economy through a system of links with the larger firms. For the others, the state attempted to construct a functional equivalent in the early 1980s.

In what follows we will present this argument in systematic detail and provide empirical material that underscores these points. We will start with a few general

observations on the approach that we take in this paper, and then proceed to a field-by-field treatment of the areas we identified above.

2. Business coordination in France

In attempting to understand the success of the French economy in the last fifteen years, we start from the "conventional" institutionalist approach to political economy. Its strength, we think, is the strong awareness of the systemic nature of institutions within a national context. Its weakness is its understanding of institutional change. Here we emphasise much more than historical institutionalists do the endogenous nature of institutional change (see Krasner 1984; Steinmo & Thelen 1992 for these methodological points). By themselves, none of the changes in France threw into question the basic integrity and coherence of the French model: they were often simply *ad hoc* solutions to very particular problems that companies or elites had identified and were trying to correct. Combined and accumulated over time, however, small adjustments to new situations and unintended consequences of ill-conceived grand designs did, in fact, lead to a new system. Why these changes appeared coherent nonetheless, was in large part due to the concerted action of the powerful elite network, which was instrumental in the coordination of these different attempts.

A brief analytical interlude on elite coordination will make this point clearer. Using the tools offered by institutional analysis, we attach importance, in analysing advanced economies, to a range of institutions and associated "rules" in fashioning the strategic behaviour of the key micro-agents of capitalist production systems, companies, investors and employees. These institutions notably, the systems of industrial relations, education and training, finance and the governance of relations between companies we see as operating usually at a national level, taking somewhat different forms and with more or less discretion across different sectors, regions, localities, and in relation to types of companies.

Together, these institutions and their associated framework rules —the national framework of incentives and constraints (Soskice 1991)— play an important role in fashioning the strategic behaviour of companies, employees and investors, the three types of actors of capitalist production regimes: the product market and organisational strategies which top management of companies develop; the career strategies of individuals; and the ownership strategies of investors. In thinking about the productive —particularly export— sectors of advanced capitalist economies in

the 1980s and now, it is useful therefore to concentrate attention on these three groups of micro-actors and the broad strategic decisions actors in each group have to make:

Companies, or rather their top management, face increasingly open and competitive world markets, and have to do so with markedly fewer possibilities of state support than in previous decades. The goal of individual top managers is the advancement of their careers and of their current rewards, but we can think loosely of the top management of an exporting company as being concerned to develop profitable product strategies in some range of export (and domestic) markets. To understand more precisely the goals of top managers will require knowledge of the broad incentive structure which is partially imposed on them by the financiers and owners of the company; this will turn out to be central to analysing the French case.

In developing export strategies, and the product development, process innovations, cost containment and so on which go with them, the top management of the company has to develop relational organisational structures to deal with the complex, problematic, and typically on-going relations with its employees, with its financiers and with other companies, in particular, its suppliers.

Employees, whether lower level, skilled, technicians, engineers, sales people, junior and middle management and so on—their strategic decisions concern their education, training, and choice of career and employment, as well as their performance within a company. These will depend upon the incentive structures linking education to training and training to employment; within a particular company, moreover, an employee's actual behaviour will be determined by the (often long-term and implicit) incentives set up by the relational organisational structure of the company. These answer questions such as: what guarantee is there that a training course makes employment in a particular sector or company likely; how does cooperative work impact on future career chances; what guarantee can a company claiming to offer employment security in fact provide?

Financers, including both owners of companies and lenders. Financers have to decide the conditions under which they own shares or lend money to companies. If they “delegate responsibility” to a bank to monitor a company, or if the bank lends a company money or owns shares itself, what guarantees are there that it can

effectively carry out the monitoring; what incentives does top management have to take the right level of risks with financier's money and so on.

In choosing their micro-strategies, "actors" take into account both the framework rules and the strategic choices of other actors: Since the product market and organisational strategies of companies depend upon the career strategies of individuals and upon the ownership strategies of investors, and vice versa, these strategies have in a loose sense to be consistent with each other. One can therefore think, in a idealised way, of an advanced economy being in an "institutional equilibrium", when the strategies of these three groups of micro actors are consistent, and when they reflect in addition the incentives and constraints of their institutional environment. Of course, any real world economy is in perpetual disequilibrium and "messy." Our platonic approach should therefore not be taken too literally; but it is a useful model against which inconsistencies in the actual organisational development of economies show up.

Our adopting an institutionalist explanation of French success since the late 1970s may be misunderstood in two separate ways. The first way in which it might be misunderstood is that it represents a movement of the French system towards some combination of the two "good" and closely related institutional models available, namely the German and the Japanese. Our analysis does not want to treat the institutional system which has developed in France and the associated micro-strategies, as a variant of either the German or the Japanese systems. That does not mean that there are no elements of the behaviour of large French companies which have parallels in the behaviour of (particularly) Japanese companies. We argue below that the French institutional/ organisational solution of the 1980s and 1990s is quite different from that of Germany and that of Japan. (Even more so, is it different from the liberal market economies of the US and the UK.)

The second misunderstanding, particularly in view of the last paragraph, is a more subtle one. It relates to the issue of French exceptionalism. Behind our analysis lies a broader general approach: in order to understand the behaviour of advanced economies in the post-1970s period, the critical explanatory variable of the institutional equilibrium of an economy is the degree and pattern of coordination within the business community. This variable is taken as exogenous for the purposes of the argument. Thus in both Germany and Japan business is highly coordinated, but in very different ways: In Germany, the primary locus of business coordination is within the industry; in Japan it is within the Keiretsu grouping. In

neither economy are individual businesses closely related to other businesses via the government. As is suggested in [Soskice 1994] the institutional equilibria of the two economies have important similarities because in both economies business is highly coordinated and the pattern of coordination is not interpenetrated with government; but also different in ways which can be explained by the difference between industry and group coordination. At the other end of the business coordination spectrum lies the US and the UK, in neither of which is there strong coordination between companies. What the US and the UK share with both Germany and Japan is the absence of close government linkages with individual companies. Again it is argued that a particular institutional equilibrium results.

France is no exception from this general approach. That is to say that the institutional equilibrium which we tentatively point to in France can be explained (we suggest) by the nature of French business coordination. Where France is exceptional is not that the theoretical approach breaks down, but that the nature of French business coordination —while strong— differs radically from both German and Japanese varieties. French business coordination consists of substantial interpenetration of state and large companies; more particularly, it is effected through the career structure of the French elite, moving through senior positions in the public sector and in large financial, commercial and industrial companies in the private sector, communicating with other members of this elite and building and maintaining reputations among the same group. The French institutional equilibrium solution which has been gradually developing through a trial-and-error process since the 1970s is explained by this particular pattern of business coordination of a public-private circulating elite.

Why does business coordination matter in an understanding of developments in OECD countries and therefore also of France? The answer is related to two sets of developments. The first is that labor unions, particularly unions representing semi-skilled employees, have in general become weaker in the post-1970s world, as a result of increased international competition, and slower world growth. This has tilted the general balance toward employers. Second, governments have become less able to rely on Keynesian policies of economic stimulation as a result of financial market developments, and have therefore become more dependent on the exporting capacity of business. Where coordinated business has been necessary for developing solutions to market failure problems which would otherwise have held back exports, coordinated business has been in a strong position in relation to governments.

In the implicit comparative perspective at the basis of this analysis, the French case is thus of great interest. The state is entangled with large companies in a quite different way from other advanced economies. The nature of the elite, circulating between public sector and large companies, defines business coordination of a quite different sort than that in either industry-coordinated or group-coordinated economies. This raises several empirical questions that need to be addressed. The first is: Is it correct to say that this elite permits business coordination? This requires that we define the conditions which extra-market communication between companies would have to take in order for there to be "coordination." Secondly, assuming that the answer to the first question is positive, what institutional equilibria are feasible given the form that business coordination takes in France? The point here is to show the difference between the institutional equilibria feasible under different types of (initial) business coordination. We want, notably, to argue that it rules out the type of institutional equilibria possible in both Germany and Japan, in both of which "power" is in some measure spread within enterprises in exchange for cooperation and consensual decision-making. Instead what is possible is a system in which power within enterprises is more concentrated at the top, and in which decision-making is less consensual, but which nonetheless has considerable flexibility, and may enable companies to be successful in different areas of markets than those in which either business-coordinated or liberal market economies are effective.

2.1 Coordination in France

Does the public-private elite in France provide coordination across major companies? This is an area on which more work needs to be done, and only preliminary points will be made here. The approach to defining coordination, and hence to the conditions for it being in existence, which will be assumed here, stems from game theory. There will be said to be "potential coordination" among a group of players (*read* among "the top managements of large companies") if the group has effective procedures for choosing and if necessary enforcing efficient equilibria in non-zero sum games. These games may involve other players in addition to the group of companies; for instance, the government and /or unions. In that case, the coordination (ie choice and enforcement) of strategies will be confined to the group of companies, though the coordinators will make choices aware of the strategies and responses of the other players. Furthermore, most games of interest involving coordination between companies will involve the coordinators having knowledge of

"inside information" from individual companies if they are to be able to choose efficient solutions.

Thus the criteria for there being a system of *potential coordination* across large companies are: Is there a communication system between the top managements (or key figures in the top managements) of large companies which ensures that there is a capacity for strategic discussion and the development of common strategic positions? Does this permit necessary "inside information" from individual companies to be taken properly into account? Does it ensure that there is widespread understanding among top managements of positions taken? And is there sanctioning capacity in the event that some companies do not accept strategic decisions?

These criteria are doubtless too sharply put: the reality of inter-business communication is always messier than the criteria imply. Moreover there is much work to be done, and much work which has been done to be absorbed, in relation to the various policy developments of the 1980s (Auroux; Bac+2; nationalisations, privatisations and cross-shareholdings; supplier networks and validation; the EU; and so on) and their interrelationship with the public-private elite.

Nonetheless, we may tentatively suggest that: (1) There is a communication system between top managements which engages in strategic discussion, and which produces widespread understanding within top managements of positions taken. This system is different from that in Germany and that in Japan, in that key figures in the public sector play an important role (ref.). (To see the totally different role which is played by the public sector in Japan, see Calder [1994]). Whether this communication system permits necessary transfer of inside information is unclear. There are some signs, eg the development of supplier certification between large companies, that it may do.

There is an effective sanctioning capacity for top managers. The career of members of the elite typically starts off in the public sector and then moves to the private sector even though it is quite possible to come back again to appropriately senior positions. Within both sectors career moves are likely to be between institutions. Thus sanctioning focuses on the individual rather than the institution, ie company. A top manager who fails to perform as expected, for instance by not cooperating or by misusing long-term capital, will find his or her future career affected adversely. Because the sanction is directed against the individual, rather than against the

company or against the management group in the company as a whole, the chief executive in the French system is given more clear-cut responsibility than in the German or Japanese systems. In the latter systems, when problems arise in companies - at least if the companies are thought of ... viable in the long-run, they are seen as problems of the company as a whole or at least of the way in which top management as a whole is working. Hence solutions will be sought by the banks in terms of changing strategies and reeducation rather than changing managers, except, perhaps, in the last resort.²

3. Coordination as an institutional equilibrium

One feasible institutional equilibrium in France is that of deregulated labour, product and financial markets. Indeed, as we have noted, some observers have imputed the success of the French economy in the post-1970s period to a shift towards just such an equilibrium. It is feasible in France, as in Germany or Japan, because in principle the coordinating elite could decide to disband, or the government could adopt strategies to accomplish that. It goes with the underlying assumption we stated above, that it is hardly feasible in advanced economies in a limited period of time, except in most unusual circumstances, to build or to change radically the pattern of business coordination, but quite feasible to destroy it. A consequence of this assumption is that it was not a serious feasible alternative for the French to move toward either a Northern European or a Japanese system of coordination.

The other possible institutional framework is what will most interest us in this paper. Given the nature of the French system of coordination, and assuming it does not implode, what feasible institutional framework exists? The argument involves four elements: (a) the nature of company-financial system linkages; (b) the nature of union involvement in companies, and the operation of the industrial relations system; (c) the training system and the skill structure; and (d) the system governing company relations with suppliers.

²The system of giving clear responsibility to and hence sanctioning chief executives has *prima facie* more in common with the Anglo-American system. But it in fact operates quite differently. This is because, in the UK or US, an individual may be sanctioned by losing their job. But this is unlikely to affect the rest of their career in a French way, because future employers have no interest bearing the cost of sanctioning. Thus, if Y behaves badly in company A and is sacked, the interest of company B in considering Y for a position is only whether it can get Y to work effectively, not to contribute to the public good of sanctioning Y.

3.1. Company-finance links

Under what conditions might investors supply long-term or medium-term capital to companies when it is difficult for the investors to evaluate the assets of the company (typically because of the presence of inside information)?

The Northern European (industry-coordinated) response to this is that the company has many connections with other companies, business associations, employer associations, and so on, which involve in one form or another access to inside information. Hence a bank can in principle monitor a company through the reputation the company has, and more explicitly by asking the companies and associations with which the company interacts. It is moreover in the interests of the company's partners to tell the truth about problems in the company, so long as its partners believe that the bank will use the information to sort out difficulties in the company (which help its partners) rather than close it down (which causes losses for the partner companies). (see Deeg 1992; Griffin 1995; Vitols 1995 for details on Germany).

The Japanese (group-coordinated) response is more complicated, but in essence rests on the main bank of the company receiving a combination of information from group customers of the company, main suppliers, and in certain circumstances the company union, combined with tracking in collaboration with city banks from other groups the performance of the company in competition with other large companies in the industry from other groups.

The French system of coordination can achieve neither of these methods. The Northern European depends upon close coordination within the industry for companies to be engaged in close joint development relationships with other companies, as does the Japanese company on close coordination within the group.

Does this mean that French banks are unprepared to back companies over the medium to long term? A feasible system in France is one which, unable to monitor inside information generated by joint development between companies and decentralisation within companies, adopts a different approach:

- (a) putting much higher weight on the responsibility of the CEO, and being able to do this by sanctions over the CEO's future career;

(b) finding more acceptable company strategies which involve less decentralisation of responsibility within the company, hence less "German type" inside information in which different parts and levels of the company develop their own relations with other companies, and more emphasis on inside information held at the top of the company, and which the bank can discuss with "stable shareholders" of the company;

In turn, we see as part of a feasible equilibrium of large companies, an organisation of company structure and decision-making constrained in important ways. Powerful CEOs; limited autonomy given to other levels within the company, unless the CEO can assign clear responsibility in turn; hence, development of project groups, with a member of top management in *de facto* charge, and reporting to the CEO; absence of strong institutions of consensual decision-making within the company.

The advantage of this type of organisation is that it can move in principle very fast in tightly-coupled product development situations. This may be particularly advantageous in the French coordination context, because of the possibility of linking strategies with other large institutions in public and private sectors. Moreover, by comparison to American companies, with some similar characteristics, it can rely on medium term financial backing. Against these two disadvantages of American companies (ie public-private elite coordination, and medium term finance), American companies have a major advantage: they can organise "promotion tournaments" for managers, allowing the ablest managers to rise to any level. In the French system this is not possible, because top managers should be members of the elite, and access to this is education-dependent.

Three observations on the nature of the financial system in France suggest that the relations between the state and capital in France have changed over the last decade. The first is simply that the credit-based system itself has collapsed in the 1980s. Between 1980 and 1990, French firms went through the single biggest exercise in debt-reduction of all OECD countries. In 1980, French firms were the most indebted firms in the G5. In 1995, French firms had shed all their debt (Taddéi & Coriat 1993), which made them the financially healthiest firm in the G5 countries. Partly, the French state assumed some of the debt, but the debt-reduction was in large measure a corollary of the increased profitability of French firms in the 1980s, which increased the firms' own reserves (see Glyn 1995 for the comparative figures).

As a result of this -the second observation- French governments were able to privatise many of the state-owned firms. First in 1986 and again in the early 1990s, many previously nationalised companies were put on the market and sold off to willing shareholders. Because of the reform of the financial system in 1984, the companies were sold on the stock market and initially this process appeared to lead to large-scale underwriting, resulting in exactly the kind of dispersed popular capitalism the reforms envisioned. After a short while, however, French capital managed to reconstitute itself: large firms and their holding companies bought shares in other large companies, frequently leading to controlling minorities in cross-share holdings. (Bauer 1988; MacLean 1995).

The combined effects of deregulation and privatisation were therefore that French companies were better able to incorporate market signals in the assessment of their operations, but remained secured from the type of short-termism that plague the Anglo-Saxon countries with a formally similar property structure.

Third, and linking this new France to the one discussed by Zysman (1983) and Hall (1986), the bank boards that still approve large loans are made up of the very industrialists that the banks lend to, because they are, in fact, nominated by the state and belong to the same elite network. Why, then, does this system not collapse under careless lending practices by the board members? In order to make sense of why this is so, we have to understand the links between state and industry in France.

As a result of the frequent moves by high-powered administrators between state agencies and industry, and given that business and state elites share an educational and social background in the *Grandes Ecoles*, a network exists where a lot of information —about companies and about people— circulates. Banks, the third party in the triangle, are therefore never totally without information about companies, since industrialists also serve in the Ministry of Finance, on boards of banks, etc. In practice, what happens is that the frequent moves in and out of industry and the state create a *reputational network*, since everyone's track record in these circles is quasi-public. In order to have a career in this network, which covers the state, finance and industry, one has to retain a good reputation. Similarly, the ability to mobilize other members of the network for common projects, which often involve several large companies from different sectors, also depends on the reputation in the network. Given the strategic significance of the network, maintaining a reputation in it is of vital importance: this implies no bad loan advice or major errors as CEO of large companies.

The state thus still plays an important role in the credit system, but in contrast to the conventional view, which emphasizes its strategic organizing capacities, this approach sees the state primarily as a forum for the exchange of information. The final investment decisions are, in fact, made by private investors, albeit —and this is a very important caveat— that what really appears at stake in those decisions are their public reputations.

3.2. Union involvement and industrial relations

Unions or other employee-representative bodies cannot be closely involved in company decision-making. If they were, it would conflict with the necessary autonomy and speed of decision-making. In addition, since such involvement would make sense only if involvement enabled the union to police an agreement, notably exchanging cooperation for employment security. But employment security is difficult for a large French company to guarantee without tying its hands on its ability to move fast.

More fundamentally, the nature of the interpenetration between government and large companies in the French case makes an acceptance of serious employee representation dangerous for companies. For the government has an ability to pressure an individual company (over redundancies, or a plant closure, say) which it does not have in Germany or Japan. Thus a large French company would be wary about accepting any body with sufficient involvement in company decision-making who might at some stage in the foreseeable future act as an ally of a politically-motivated move by the government.

Instead of serious employee representation, French companies have developed in principle attractive medium term career ladders within companies for skilled employee and technician entrants. These entrants, increasingly with Bac+2 (ie DUT or BTS qualifications) are offered the possibility of two or three levels of promotion. Thus the company "individualises" the incentive structure for them so as to reduce the appeal of union representation. At the same time it mixes them sufficiently with lower-level employees that union activity is limited at that level as well.

Restructuring at Renault provides a narrative that illustrates some of these issues. As noted, one of the strategic problems that large firms in France face in an era of increased international competition is how to reorganize the shopfloor in such a way that they are able to link the benefits provided by economies of scale to relatively flexible mass production. In most other European countries, and even in the US, labor unions have often become a partner in this process; in France, labor unions have tremendous problems with shopfloor reorganization (see, among many others, Gallie 1978 and 1983).

The way firms find a way out of this problem is to use the reorganization of the shopfloor and the concurrent skill redistribution as a way to undercut the social basis of the oppositional labor unions. Typically, as a chronicle of Renault's adjustment in the 1980s (see Hancké 1996a for details) suggests, what happens in this process of reorganization is the following. In part in response to large-scale conflicts by semi-skilled workers (O.S.), companies reduce their low-skilled main d'oeuvre through lay-offs, voluntary departures, early retirement schemes, etc. Of those that remain, the company will upgrade the skills, so that they are able to work in teams with job rotation, and save on costs associated with elementary maintenance and quality control. The new highly-skilled jobs are then filled by younger, better-trained technicians with adequate skills. The whole set-up is structured in such a way that engineers retain —as in the old model— a high degree of control over the shopfloor, even though many of the on-going decisions in the factory have been decentralized to line workers.

The (unintended) consequences of these adjustment processes are simply catastrophic for labor unions. Because of the reorganization of skills, the social composition of the workforce changes in such a way that the traditional constituencies change dramatically: the number of low-skilled workers drops dramatically and the newly hired younger workers are, among other reasons because of the career trajectories they are offered, considerably harder to organize by the traditional unions.

There appears to be some agreement among observers that Renault played a pilot role in this new strategy on labor unions and human resources. In 1982, the then CEO of the cosmetics firm *l'Oréal* Bernard Dalle, was commissioned by the French government to write a report on the future of the French automobile industry. Reflecting divisions that existed within the employers association more generally, Dalle outlined two possible strategies with regards to labor unions: integration or

confrontation. Given the particular power configuration in the company, Renault chose the latter of the strategies and thereby projected toward labor in other companies what the result of stubborn resistance might be.

Through a combination of integration or confrontation strategies toward labor and exploiting the wish for more complex tasks which existed in the work force, French companies appeared able to exploit the difference between workers and labor unions that always existed in France to their benefit. As a result, France currently ranks among the low-strike countries, and where new expressions of collective interests of employees and workers emerge, they are frequently couched in non- or even anti-union terms, as the *coordinations* demonstrate.

Yet while this new labor strategy appears to bear at least some fruit for employers, there is concern, among employers and unions as well as other observers, that it may backfire in the long run. The first reason is that tighter integration of the workforce into decision-making processes often relies on the unspoken assumption that with new responsibilities new job titles come. And the problem for management is here that, while things are changing in French large companies, it remains difficult to offer the type of career trajectories that German or Japanese firms are able to offer long-time employees. This is compounded by the second concern about the new strategies: as long as companies emphasize productivity increases without concurrent growth of market share —as, for instance, Renault did— a social policy based on employee involvement immediately also conjures up resistance from the same workers, who may realize that they are, in fact, rationalizing their own job away.

A closer look at the changes with regards to skills, qualification and career patterns demonstrates both the extent of the problems that French firms face and their explorations in finding solutions.

3.3. Training, skills and career incentive structures

The third broad set of problems which a company needs to solve relates to the development of an appropriately skilled workforce. We suggested in the last section how such a workforce might be induced to behave cooperatively. Here we examine how it was possible to produce such skills.

The French education and training system has seen major changes in the last decade and a half. These have, technically, been quantitative more than qualitative, but the overall effect has been a sea-change. The positive aspect of this has consisted of an increase in the proportion of each age cohort completing a *baccalaureat*, going on to some form of higher education, and - of the latter - doing some form of advanced professional education. The negative aspect has been an ever deeper divide between those who have completed a bac and those who have not.

Higher education in France is divided into three major parts: the universities for general academic education, the *écoles supérieures* (including the *grandes écoles*) for a range of higher level diplomas in various technical, teaching and administrative fields, and the 2-year technical and commercial courses - often referred to as bac+2 - leading to a BTS (in a special class, the STS, at *Lycées*) or a DUT (in an *Institut Universitaire Technologique*). The sharpness of change can be seen by contrasting the education of the 1966 age cohort whose members were 18 in 1984, with 1975 cohort. Of the former age group, 30.3% went on to some form of higher education: 15.7% in university, 6.6% in *écoles supérieures*, and 8% in bac+2. Of the group 41% did a *baccalaureat*. The corresponding age cohort 9 years later (aged 18 in 1993) saw 49.5% go onto to higher education - not far short of the American level: 22% went on to university, 8.5% to *écoles supérieures*, and 16% to bac+2. The same data does not exist for earlier periods; but an idea of the explosion of bac+2 can be gained by the increase in the number of students in STSs between 1980 and 1992: from around 70,000 to close to 250,000.

For a period of a decade or so, this is a most remarkable change. More interestingly is the fact that (by 1995) close to 20% of young Frenchmen and women, who would in the 1960s and 1970s have left school at 16 with minimal qualifications, are leaving the educational system at Bac+2 level with relatively advanced technical or commercial qualifications. These qualifications do not represent (as German ones do) deep specialised technological knowledge of particular areas of industry; but they provide reasonable technical skills, stressing more formal education, and above all inculcating a common language and modes of work organisation and communication. Thus these young people emerge with good technical and commercial foundations which companies are aware of, an ability to talk a common organisational language, and well-developed social skills.

Why have young people been prepared to make this investment? The answer is that it became clear as the 1980s progressed that companies were not interested in hiring young people without a good education, whom they could further train. There were two reasons for this company strategy. First, companies wanted to get rid of a large proportion of their semi-skilled and even old-style craft workers; this reflected the need for a smaller manual workforce and one that would be more organisationally flexible. Companies therefore chose those manual employees they wished to keep from the existing workforce on the basis of flexibility and preparedness for retraining. There was no demand for semi-skilled hiring. As far as new hires were concerned, therefore companies looked to as well educated young people as possible with communication skills flexibility and ability to absorb higher-level training.

Thus a virtuous circle developed in which companies demanded bac+2 level entrants; young people had the incentive to stay in education at least to that level; this enabled companies to push further forward more flexible forms of production and work organisation; and so on. To the incentive of the availability of employment was added the possibility which particularly large companies offered of continuous training (formation continue), relative employment security, and the likelihood of career progression within the company. In the event of losing employment in a large company, a bac+2 qualification offered a good possibility of subsequent employment elsewhere; this was because the qualification was well understood and gave some guarantee that its holder would be able to communicate effectively with other such people, as well as have a technical or commercial understanding and set of techniques which the company could use. Of central significance in all this is the ability of the French state to set standards in patterns of communication, methods of self-organisation, approaches to general technical problems and so on.

3.4. Company relations with suppliers

The area where perhaps most has changed, is that of the relations between large firms and their suppliers. As a result of new production processes and methods developed for the design of goods, which rely much more heavily on the input of suppliers into the whole process, these SMEs are considerably more tightly integrated into the operations of the large firms than conventional views of relationships between large and small firms suggest. Especially models of "collaborative manufacturing" (Sabel et al. 1990) —perhaps a somewhat misleading term to describe the process since it suggests that power has disappeared from the

picture (see Harrison 1994)— which gained salience throughout the 1980s and are constructed on a combination of collaborative design of parts in the conception stage and just-in-time delivery in the production stage, have blurred the boundaries of the suppliers and OEM firms (Original Equipment Manufacturers). The hypothesis that will be developed below, is that these highly technical forms of cooperation, which induce such tight links between the firms in question, have furthered other ways of industrial integration as well (see Hancké 1996b for details). Three general areas will be discussed in short where that is the case: the first is the intersection of quality control, training and work organization, the second the problem of long-term finance, and the third how the relationship through which large and small firms exchange information about firm organization and performance is actually structured.

The first area appears best captured by a term which has recently gained a lot of influence in France: the *partenariat* between large and small firms (Gorgeu & Mathieu 1993 present an excellent review of the changes). In short this means that rather than relying solely on contracts as a way to organize the relationship between the suppliers and (in the car industry, for example) the final assembler, the two companies begin to develop a series of ad hoc design functions together, assess quality standards and quality control together and then organize training for workers jointly (Gomel, Gorgeu & Mathieu 1992). If suppliers do not meet the stringent criteria, the large firm helps them reorganize in order to be able to do well. In the car industry this *partenariat* is particularly important, since all suppliers are jointly selected and monitored by the two large French groups Renault and PSA (Gorgeu & Mathieu 1995).

Financing is the second area where operational relationships between suppliers and the large firms are considerably more important. The hypothesis here is that financing capabilities for investments are directly and indirectly linked to their relation with the larger firms. The direct links have to do with the contracts that the suppliers receive: working as a supplier for a large group in France implies a certain amount of security for the investor. Yet perhaps equally important are the informal networks that the suppliers are indirectly a part of because of their relationship with the large firms. In part, these links allow the SMEs to mobilize some of the same resources that the large firms have at their disposal —certainly no small asset in discussions with banks (Cieply 1995).

The third area deals with the nature of the relationship between the small and the large firms. Information flows from the SME to the large firm through a system of recurrent quality audits by the large firms. These are very thorough examinations by the large firms of the suppliers in their delivery chain of every aspect that may have an impact on the operations of the SME and are therefore not restricted to meeting only quality standards. These periodic audits therefore give the large firm a very close look at the internal organization of the suppliers, and thus fit in with how the large and small firms organize quality, training and other activities jointly (Baudry 1994 and 1995).

Yet the real function of the audit—even though the results could be and frequently are used in assisting the supplier— may well be fundamentally different. For in the working relationship between the SME and the large firm, it is an instance when the basic asymmetry in the relationship is re-established. The audit is the moment *par excellence* when the large firm and the SME become, much despite their sometimes very tight links, separate and independent units again. And for the large firm, this is the moment to establish control over the SME.

As a result of these changes in the 1980s, the links between small and large firms fundamentally changed in character. Large firms, after having reduced their activities to their strategic core in order to regain competitiveness, carefully built a network of supplier firms around them, which, in essence, are also really “their” suppliers (see Lorenz 1988 and 1993). In rather authoritarian fashion, the large firm forces the suppliers to upgrade –and will even help them do so through consultancy, joint training or technology transfer. The *quid pro quo* for the supplier in this apparently asymmetrical relationship, is the help in obtaining finance: through the industrial links with the large firm, the SME is indirectly inserted into the reputational network that governs bank-firm relationships at the highest level of the French economy.

4. Conclusion

The argument developed in this paper is that modes of coordination within French business and in its relation to the state may provide an answer to the question of why and how French industry reorganized and performed well in the 1980s, despite

the well-documented cultural, institutional and structural obstacles to modernization. Networks of large firms, organized by the state, and between large and small firms, provide an organizational and ideational framework for coordination of the productive activities of both large and small firms, in terms of production logistics, training, innovation and finance.

The large firms are organized in horizontal networks that emerge out of the recurrent circulation of state elites into business and vice versa, and which are primarily used as channels for the exchange of information and for mobilizing partners in large joint ventures. The currency used in those networks is *reputation*, i.e. top managers, state elites and financial agents are judged on the quality of their advice and decision-making. As a result, the cosy relationships between economic and political elites never truly deteriorate into "featherbedding"-like activities. These high-level networks also provide the background for *grands projets*, which require the mobilization of several of the companies in the large firm networks. Through their links with the large firms, even smaller companies —typically suppliers to the larger companies— are integrated into this type of productive activities. Instead of a collection of relatively weak, atomised firms, small and large, French industry has become a series of concentrically related networks of networks.

For firms where structural integration into the large firm networks was impossible or unlikely because they produced directly for the market, the state attempted to provide a functional equivalent for firm-level coordination of finance, training and innovation through the *plan-filières*; however, this policy turned out to be something of a failure. An important explanation for the problems with this policy is exactly the lack of internal coordination capacities among the SMEs (Ziegler 199X --thesis).

It is important to note that only the large firms have an explicit labor relations problem, since in many of them unions, as the sole intermediary between workers and management, could block the modernization of the shopfloor. A two-fold strategy of confrontation and integration of the workforce gradually changed the social basis of oppositional unions through skill policies, and ended in a de facto demise of the power of labor unions on the shopfloor. In many regards, Renault played a pilot role here, and in that sense, it is evidence of the many sides of the state's changing role —the rapport Dalle on the future of the car industry illustrated that. It is important to note too that the high official in the (socialist) department of labor who oversaw the drafting of the Auroux laws in the early 1980s, later became the personnel director for Renault, where he used the provisions of the law as a way

to circumvent the labor unions in the company. If anything, all these data suggest that there is considerably more organization among employers and economic elites than is usually thought; more research on these new forms of interaction is therefore needed to find out how general they are.

The primary weakness of our treatment of France so far, is that this account is structural and static: it does not explain change as much as it re-interprets the old model and therefore establishes continuity with the existing interpretations of the French system. The next task now is to link this structural account to the reorganization of French industry in the 1980s. More precisely, how did the constituent parts link into one another both to make possible the type of change that we witnessed, and to help explain why French industry performed so strongly in the last 10 years?

We think that all the changes were, in fact, related to each other, and taken individually, that each one of them was the (or “a”) “rational” adjustment to new conditions shaped by previous changes. For the purposes of this paper, we put the beginning at the end of the 1970s, early 1980s, when French policy makers, Left and Right, agreed to link France’s fate to Europe’s, and therefore tried to stabilise the *Franc* by high interest rates, and imposed “hard” instead of the “soft” budget constraints that large firms were used to —if something went wrong in the past, the state bailed out the companies. The state reformed the finance system and privatised the large state-owned firms. This led to the “noyaux durs” of cross shareholdings, which protected the firms against hostile take-overs. By 1986, all the elements were in place for the big changes of the next five to ten years.

The extremely negative debt/equity ratio forced these newly structured French firms to cut costs quickly, and here the major industrial reorganisations have their origins. In response to cash-flow problems, large firms reorganised their relations with suppliers first: they installed JIT-networks, forced suppliers to address quality issues, and integrated them into their production networks. This change only made sense, the large firms discovered soon enough, if they also reorganised their internal operations: they started training their workers, which increased productivity and therefore forced lay-offs. Since major conflicts would strengthen the position of the unions and would most probably not lead to any positive results, this was excluded. Instead, the training programs themselves did the trick: they changed the sociological make-up of the workforce beyond recognition, but without the unions being aware. The end result was that firms were more productive, flexible, and did

not have to fear labour unions, while they were financially stabilised by the cross-shareholdings. Whether this is indeed the end result, or only a transitional period, is hard to say; that it is a new France, is certain.

A balanced assessment of the changes in France during the 1980s cannot ignore a series of problems that are connected to this new model. First and foremost, social exclusion, the main problem on the agenda of policy-makers and observers today, is simultaneously the result of the adjustment path chosen by French industry and is reproduced by it. Since a proper career in the new French firm is tightly linked to the educational level at entry, those who never make it past the first hurdle, the Bac Tec or Bac +2, literally end up in the problem category without any hope for improvement. Regardless of the possible beneficial consequences of the new French model for competitiveness, therefore, the social consequences of the path chosen may be with us for a long time.

A second point refers to the long-term viability of the new French model. Assuming that the changes that we document in this paper are here to stay, the question is raised how the core of this new model will survive changes in France's immediate competitors. The strong performance of French industry is almost entirely a result of competition on low unit labor costs (i.e. of high productivity and low wages). Such a competitive model is, however, dependent upon the policies pursued in the main trading partner countries and competitors. As long as demand is high in the trading partners and relative unit labor costs less favorable—as is currently the case in Germany, France's main trading partner—French industry can easily find markets. Yet the moment, so to speak, that German industry becomes more cost-competitive, probably as a result of the introduction of serious productivity-enhancing organisational models, the competitive gap closes, and it is unclear how French industry deal with that new challenge.

The third problem that we see refers to the relative lack of stable careers in this model. Despite many changes in this regard, some of which we document here, French firms remain fundamentally unable to guarantee a long-term career to the workers. Under stable or shrinking market conditions, competitiveness is inevitably a matter of downsizing. Since French companies compete in market segments where stable long-term growth is most likely excluded, it is impossible for companies to guarantee a fundamental right to life-time employment to their employees the way German and Japanese companies can. Working conditions may have become

considerably better for a large part of the working population, yet even for those the existential insecurity has not disappeared.

Finally, the new relations between finance and industry, through the elite network, creates an entirely different set of monitoring problems. As long as careers remain managed within the elite network comprising industry, the state and the financial world, reputation monitoring may provide the type of security required for "good business." However, with the (impending) privatisation of banks and large firms, an increasingly more important role played by the Paris *Bourse*, and the introduction of Anglo-Saxon type MBA educations, the survival of the elite-organised type of monitoring, which served the cautious form of French capitalism so well for the last five decades, and was the basis for many of the innovations in industrial restructuring in the last decade, is unclear.

In sum, the question is how France, now that it appears to have found a viable alternative to the deregulated model of the Anglo-Saxon world and to the German and Japanese versions of organised capitalism, can stay on this path without falling victim to precisely the types of problems the country tried to avoid. That appears to be the greatest challenge the country is facing. And as of yet, there are few signs that warrant optimism in this regard.

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