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THE INFLUENCE OF KEYNES
ON FRENCH ECONOMIC POLICY :
PAST AND PRESENT.

Robert BOYER

C.N.R.S. / CEPREMAP
142, rue du Chevaleret 75013 PARIS (France)

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ABSTRACT

Which component of the message of KEYNES has more specially be influential in France ? Under what channels have Keynesian conceptions dissiminated and why did the Sixties correspond to their heyday ? Is the present disappointment with Keynesian stabilization policies transitory ? Nowadays, is it sufficient to implement again the same Keynesian-reformist programm which had seemed so effective to get out of the Great Depression ? Some key conclusions : more a fundamentalist than a mere Effective Demand Keynesianism ; the leading role of higher civil servants instead of pure Academics ; a new social alliance and pattern of accumulation and not only counter cyclical economic policies. Hence proposals for renewed keynesian theorizing and policy making.

L'INFLUENCE DE KEYNES EN FRANCE : PASSE ET PRESENT.

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RESUME

L'article propose un historique de la diffusion des idées keynésiennes en France du début des années trente à 1983. Il insiste sur les particularités du message de KEYNES en France : au moins autant le fait de hauts fonctionnaires que de professeurs d'économie politique ; une conception notablement plus fondamentaliste que dans les pays anglo-saxons ; une gestion de court terme qui vient couronner un ensemble de transformations structurelles dans les rapports sociaux et les modalités de l'accumulation.

De ce diagnostic découle une interprétation de la perte d'efficacité des politiques keynésiennes...sans que pour autant il faille oublier l'instabilité inhérente à un "laissez-faire" extrémiste. D'où un programme de recherches et un appel à l'innovation intellectuelle et sociale.

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THE INFLUENCE OF KEYNES ON FRENCH ECONOMIC POLICY

by Robert Boyer

The Fundamental Keynesian Reform Program

Keynes brought to economics a new conception regarding the positive roles social and political organizations could play in promoting economic change, i.e., in eliminating crises and stimulating growth. His conception was intended to replace the older order which believed that natural laws governed social and economic activity and that these were not to be tampered with. Governments could only deduce these laws and utilize them.

That Keynesian policies have failed of late to maintain full employment free of distortions and inflation is attributed by anti-Keynesians to policies which violates these laws.¹ Some Keynesians argue differently; they contend that Keynesian policies have failed because governments have not followed Keynes faithfully. Others admit that Keynesian policies have brought forth new problems which could be solved by an innovative use of his analysis. At the present time, public opinion and governments are philosophically closer to the anti-Keynesian position; they believe that inflation, unemployment and deficits stem from Keynesian errors.

Against this backdrop, the French case is interesting because it represents a reformulation of economic policy using some Keynesian inputs. In the period extending from the Second World War into the 1960s, Keynesian policies contributed to French rehabilitation and modernization. Is it possible to evaluate the efficacy of the policies?

The Keynesian revolution cannot be evaluated in the abstract. It is not so much a matter of monitoring a simple application of a scientific theory as watching an ongoing political attempt to govern capital forma-

tion in order to remove the system's instabilities.

It is now recognized that the success of Keynesian policies had within them, their own seeds of destruction e.g., new demands on profits affected adversely investment and productivity, the resolution of distribution inequities fed inflation, diverging inflation rates in OECD countries imperiled the fixed exchange rate system, and there are limitations on national economic policies for a nation increasingly involved in international trade. All of their problems grew to confronted Keynesian policy makers in France during the last ten years.

The departure from Keynesian orthodoxy cannot be attributed solely to the shift of government towards conservatism. The extension of Keynesian policies albeit with a variety of institutional forms after May 1981 by the Mitterand government failed. Inflation persisted. Investment lagged. The nation's external debt rose and this was aggravated by the world economic deflation. Hence the revival of pre-Keynesian concepts is not simply a matter of propaganda or ideology. However debatable are the monetarist, supply side or rational expectations schools they do point to the presence of real macroeconomic problems.

This then is the challenge Keynesians face today: What is needed, rather than nostalgia, is innovation and extension of Keynes' line of analysis to the present crisis.

These are the main themes in this paper.

The first part tries to clarify the nature and significance of Keynesian conceptions concerning the functioning of modern economies and the adequacy of economic policies. The second part describes the original form Keynesianism took after the Second World War with special reference

to the French case. The third part analyzes the limits encountered by traditional stabilization policies since the early seventies. The strategy applied by the Socialist government after May 1981 raises a particularly interesting question, i.e., What are the consequences of a leftist variant of Keynesian expansionary policy? The fourth part focuses on the limits of that strategy. The concluding fifth part stresses the main topics on the Keynesian agenda and the need for new tools and theoretical formulations towards a positive solution of the present crisis.

I. THE MANY WAYS OF BEING KEYNESIAN

Before examining the Keynesian aspects of French economic policy, one must define Keynesian policy. After all, in the period of post-war prosperity almost everybody declared himself or herself to be a follower of Keynes. Were they not significant differences between the successive conceptions of Keynes through his numerous writings, as well as between the General Theory (G.T.) and the various theoretical constructs elaborated by J. Hicks, M. Kalecki, J. Robinson, N. Kaldor or P.A. Samuelson, J. Tobin, R. Clower, A. Leijonhufvud, P. Davidson, H.P. Minsky. It may be useful to distinguish two broad conceptions in Keynes' contributions and hence two approaches of economic policy.

I.1. The Fundamentalist Keynesian (F.K.) Reformist

At the core of the most of Keynes' writings one finds a central theme which is presented as a matter of fact and as a theoretical conclusion, namely, the pure market mechanisms is unable to maintain full employment, and more generally growth and stability. This follows from the accumula-

tion process under modern capitalist conditions. 'At a first level of analysis, a low marginal efficiency of capital, interacting with a moderate propensity to consume - due in particular to unequal income distribution - leads to a deflationary adjustment of production and hence employment. At a second and more profound level, investment activity cannot be maintained steadily at its full employment level in a fully developed monetary economy; business expectations tend to be rather myopic or erratic, so that they stimulate the boom through speculation and aggravate the slump.² For the same reasons, once prevailing, an unemployment state will be stable, since expectations governing investment decisions tend to be self-fulfilling.

Such profound imbalances can only be countered by a vast program of reforms and a complete reformulation of the ends and means of state intervention. The Keynesian reformism (K.R.), which results logically from the fundamentalist view, aims, therefore, at an innovative policy-strategy as an alternative to both laissez-faire and socialist programs. Government should try to create the general legal and institutional framework in which private production decisions and income distribution can be determined more efficiently by private self-interest. Towards this objective, Keynes proposed in his General Theory a series of reforms in three key areas, to wit: first, the use of progressive taxation and social services to increase the propensity to consume, reducing the saving of the rich and augmenting the consumption of the poor; second, centralized control over the monetary system to promote an adequate stimulus to investment decisions; and third, if necessary, a direct influence upon investment through public works or control over private investment. These moves toward less

inequality in income distribution, the euthanasia of the rentier and a comprehensive socialization of investment should be complemented by the dissemination of data relevant for business decisions. This last can be conceived as a kind of socialization in expectations formation or indicative planning.

France adopted many of the central themes identified with fundamentalist Keynesianism for post-war modernization. Nevertheless, it is important to present briefly a more restricted conception of Keynesianism (E.D.K.), since it has been at the heart of the monetarist-Keynesian controversy during the sixties and in subsequent attacks by neo-classical economists.

I.2. A more limited view: Effective Demand Keynesianism and Fine Tuning Policies

Whatever the positions adopted by the different Keynesian schools on the principal questions, there existed a simplified but representative Keynes macromodel. In the limited view, the rejection of Say's Law is manifest from the possibility that planned saving and planned investment need not ever to be equal. During the sixties, this simplified Keynesian model exhibiting the multiplier effects of "autonomous demand" (as presented in the first chapters of H.A. Hansen's A Guide to Keynes and in the IS-LM formulation by J. Hicks) became widely accepted as Keynes' legacy. Moreover, almost every macroeconomic model incorporated this effective demand Keynesianism (E.D.K.) as an essential component.³ French economists accepted this conception, and the first completely formalized macromodel built for the Treasury in the middle of the sixties was clearly

based on the E.D.K. framework.⁴ (Other labels for this line of analysis included A. Leijonhufvud's Income Expenditure Theory, A. Barrere's Circuit Theory, and A. Coddington's Hydraulic Keynesianism.

It is not really surprising that such a precise, but limited formulation of Keynes' complex and multi-faceted ideas led to very definite conceptions regarding economic policy. First, interventions of the State should not be directed towards the sole satisfaction of the traditional objectives such as the stability of purchasing power of the money or the strict balancing of public expenditure and receipts, but must instead aim at the economic objective of maintaining full employment, whatever may be the transitory effects of such policies upon public accounts...and money. Second, fiscal and monetary instruments must be used for demand management, i.e., expansionary policies (extension of public spending, tax cuts, low interest rates...) when effective demand is less than necessary to support full employment; restrictive policies (the same instruments reversed) as soon as excessive demand triggers an inflationary process. Thus business cycles could be reduced in their duration and amplitude. Growth could be stimulated through steady investment and the budget balanced over the course of the cycle. In fact such Fine Turning Policies (F.T.P.) appear as the direct consequence of Effective Demand Keynesianism (E.D.K.), at the very least in the form it took in the sixties.⁵

In an even more limited sense, Keynesianism sometimes was further reduced to the notion that fiscal policy was far more efficient than monetary policy in controlling the level of economic activity, due to the existence of a liquidity trap in money holdings or a very low interest-elasticity of investment. This Hyper-Restricted Keynesianism (H.R.K.),

generally considered in juxtaposition to an equally unsophisticated Monetarism, could define a final, simplistic, conception of Keynesian economic policy, i.e., namely, Mainly Budget Matter (M.B.M.)... This third and rather extreme statement will be considered only incidentally in the present text.

Given these introductory classifying definitions, let me now describe the evolution of Keynesianism in France since the Second World War.

II. FRENCH ECONOMIC POLICIES AFTER 1945: A LONG TRADITION IN AN ORIGINAL FORM OF KEYNESIANISM

During the interwar period, classical theory and traditional conceptions of economic policy predominated. Nevertheless as the crises of the thirties appeared deep and lasting, there was analysis leading alternative policies to laissez-faire. The so-called "purchase power theory" expected increases in wages to stimulate demand and reduce underutilized capacities.⁶ A recurrent proposal during the period of crisis was to promote public works in order to give jobs to the unemployed. In many other countries, one can find during the thirties, economists groping after the same theory as Keynes, without direct reference or knowledge of his various analyses.⁷

In fact, before the Second World War, J.M. Keynes writings - and in particular The General Theory - had not been translated into French. That Keynes was an opponent of German reparations and ostensibly to French interests, moreover, seems to have limited the influence of the British economist on French public opinion. It is generally accepted that the policy pursued by the "Front Populaire" after 1936 owed much more to an

implicit purchasing power theory and to the observation of foreign experiences - the New Deal in the United States and Doctor Schacht's policy in Germany - than to a direct influence by the Cambridge theoretician.⁹ But this short-lived experience was not sufficient to promote a way out of the crisis. A conservative coalition came back to power, benefitting from the financial and social objections to Blum's program. His institutional reforms covering labor-management relations, minimum-wages, the social security system, taxes, and public interventions required a long period before they could stimulate a new economic and social dynamic. The program lacked a sufficiently complete and coherent framework unfortunately. Such a framework, the compatibility of the various components and an adequate statistical apparatus were present after the Second World War. Keynesianism appeared then as a powerful, even if not very apparent means for unifying and clarifying a vast program of social and economic reforms. Let me stress the four features of this complex process of transforming economic policy.

II.1. The Prominent Role of Higher Civil Servants in the Diffusion and Implementation of Keynesianism

Few people in France seem to have read The General Theory or the previous works of Keynes.¹⁰ A French translation was available in 1942, by Jean de Largentaye, an Inspecteur des Finances (a top level official in Treasury). Theorie Generale did not become a bestseller, even though the book reviews were laudatory and favourable. Some of those, who did read it, came to play prominent roles in the reorganization of the Treasury, in the introduction of National Accounts Statistics, and the development of

new forecasting tools. Last but not least, these highly ranked government officials were participating actively in economic policy decisions and trying to influence the politicians' economic thinking. The history of the small group of young economists at the origin of the creation of SEEF, a service of financial and economic studies within Treasury, is testimony to the major impact they had on the financial and economic policies that emerged during the fifties and lasted until the early seventies.

In order to assure its importance in the civil service, the initial group spread its influence by teaching modern methods of public management at E.N.A. (National School for Administration forming top level government officials), making forecasts, writing analyses of the economy and proposals to the Chancellor of the Exchequer and organizing institutions for public discussion of economic matters (Commission des Comptes de la Nation, Commissariat General du Plan...). The bright careers of most of the economists connected with SEEF is suggestive of the latter's influence. Claude Alphan, Simon Nora, Jean Saint-Geours, Jean Cerise, Jean Ripert, Pierre Uri all became in the fifties and sixties key figures of a new generation of top level civil servants, usually labelled "technocrats" - in the appreciative sense of the term. Particular personalities turned out to play major political roles. Pierre Mendes-France, who backed these efforts since their beginning, exerted a lasting influence, even if he remained in power - as President of Conseil - only for a short period.¹¹ Valery Giscard D'Estaing, who became acquainted with National Accounts and macroeconomics early in his career, was successively undersecretary of the Treasury in 1959, then Chancellor of the Exchequer during the sixties, and finally President de la Republique from 1974 to 1981.¹² Michel Rocard,

initially Head of the Division in charge of annual forecasting at the Treasury, is usually held responsible for reconciling the political left with economic assessment and management. Minister for Planning after May 1981, he is now Minister of Agriculture. The common feature of these leaders is to have proposed a new synthesis between traditional political motives and a coherent economic strategy, both for centre-right coalitions and the parties of the left.¹³

So in comparison with other countries, it appears that the dissemination of Keynes' ideas seems to have been mainly a matter for top civil servants and government officials, and to a lesser extent academics.¹⁴ This is not to underestimate the role of pioneers in France like Francois Perroux, Alain Barrere and many others who introduced the newer English theories and particularly the Keynesian paradigm. During a long period - until the end of the Sixties - undergraduate courses presented classical, neo-classical and Keynesian approaches successively, without any clear discussion of their complementarities or antagonisms.¹⁵

This pragmatic orientation of the Keynesian tradition in France explains a second uniqueness.

II.2. More a Fundamentalist than a mere Effective Demand Keynesianism

In fact, the economic situation after the Second World War was quite different from that of the thirties.

The main objective in France was the reconstruction and modernization of the productive sector, in the face of a huge increase in consumer demand. Of crucial importance in that early period was the directed allocation of credit, equipment good and raw materials in order to promote a

more or less balanced growth of the different sectors. The government's basic analytical tool was a rough approximation of input/output matrices.¹⁶ Effective demand management was the complement, not the core, of this strategy. From 1945 to 1954, the recurrent and important question was how to control excess demand and external imbalances, not how to stimulate reluctant investors.¹⁷

This radical change in contexts by comparison with 1929-1939 explains the second uniqueness. The "inflationary gap" between productive capacities and demand was such that the stable price hypothesis, implicit in the most simplified versions of the Keynesian model, was no longer tenable. Thus an "inflation multiplier" (and a price-wage spiral) replaced the "employment multiplier".... However, in this situation of full employment Keynes himself conceded that The General Theory had little new to offer. The inflationary bias of reconstruction, much more acute in France than in other developed countries, was not without consequences. At times, devaluation was a necessary complement to the pursuit of reconstruction and rapid growth.

A third institutional peculiarity points out a real difficulty in applying the standard "effective demand model." The nationalization of the main commercial banks, after 1945 transformed completely the banking system and resulted in state-funding of a large part of investment.¹⁸ It also gave to the Central Bank a prominent role in controlling credit and money creation. Hence, Treasury officials could not rely on models which ignored the monetary sector too explicitly or reduced the financial process to a pure market determination of the interest rate. In France, during this period the quantitative and selective control of credit by the

State constituted an instrument at least as powerful as the public budget. Moreover, an availability of statistics concerning some key financial flows made possible, if not easy, a very detailed modeling of the financial sector. The first attempts at macro-modeling were, especially by comparison to the IS-LM approach, thus quite original.¹⁹ They initiated a "French approach" to monetary policy in which the Keynesian circuit and multiplier effects were linked to credit creation and destruction.²⁰

At this stage, French technocrats were more "fundamentalist" than "effective-demand" oriented. The inherent instability of capital accumulation in a context of sophisticated financial system prone to rapid shifts in expectations, is the core of the most of the private-public interactive analysis associated with "Budgets Economiques."²¹ The idea of growth as a knife edge process, potentially subject to either cumulative depression or explosive inflation, was frequently expressed during the fifties. Consequently, the remedies proposed are far more ambitious than the fine tuning policies based on tax or public spending policies. They aimed at a complete transformation of the institutions inherited from 19th century capitalism, in order to promote mass consumption, a socialization of a large part of investment and managed credit money.

Finally, a last but crucial argument is that France was one of the rare advanced countries to implement a system of indicative planning of the type imagined by J.M. Keynes in his "End of Laissez-Faire." While no one can give a precise enough evaluation of the impact of this complex process, various researchers have suggested a positive role in French dynamism.²² Who remembers today that many foreign social scientists came to France in the sixties to study "the French miracle?" The progressive

decay of planning since then and the present disillusion may lead one to understate the past achievement. Before proceeding, let me point to two additional particulars of Keynes' legacy in France.

II.3. A Fusion of a New Social Alliance, a Modernist Project and Keynesian Reformism

Given then France's seemingly far-reaching conception of Keynesianism one may well wonder if the use of Keynes was nothing but a convenient way to dress-up its old interventionist tradition. Unlike most other advanced societies, a large part of French public opinion has tended to blame its economic problems on the "free market" and to advocate State intervention through law enforcement, detailed regulation, credit controls, subsidies, public spending programs, tax exemption, etc. So, in France the Keynesian-Revolution could easily be viewed as evolutionary rather than revolutionary. This would, however, contradict the widely held belief during the sixties that the then prevailing, uniquely encouraging conditions in OECD countries (rapid growth, quasi-full employment, the disappearance of cumulative depressions and the smoothing of cycles) were mainly - if not exclusively due to countercyclical policies, based on the scientific skills of macroeconomics.

Using what little historical research there is, this writer presents a less one-sided interpretation. After the Second World War, Keynes' analyses and proposals did change economic policy conceptions, but their influence was only a part of a far-reaching technological, economic, social and even political transformations occurring in France.

It is not easy to demarcate cleanly the rapid modernization of the economy from the emergence of Keynesian-Reformism. The parallels between the medium-term strategy expressed in the first plans and the short-term stabilization policies inherent in the Budgets Économiques were clearly established in the statements of politicians, as well as in the analytical works of economists and the ex-post accounts by historians.²³ In fact, after "Liberation," the common objective of the various groups allied in power was to avoid the repetition of the catastrophic interwar period when the diffusion of new technologies and products, scientific management methods and a more modern way of life had been blocked. For them it was necessary to go beyond the basically conservative behavior of most corporate owners. The over-riding of corporate power, after the nationalization of a significant part of the industrial and banking sectors, both political, due to their attitude during the Vichy Regime, and economic, allowed for a new investment strategy. Through direct intervention in key sectors and selective credit allocation, the modernization became the prime objective of the industrialists and government officials. Support for their objective came from the workers and their unions, heretofore reluctant or strongly opposed to Taylorist methods, under the pressures for reconstruction. They were content to confine themselves to bargaining for their share of the productivity gains, but left the methods for obtaining those gains to management.

All these changes resulted in a new pattern of development. A high rate of investment fostered rapid productivity increases which were to sustain a continual growth in real wages and consumption. The buoyant demand coupled with a good profit outlook and low real interest rates, in

turn stimulated new rounds of investment. This powerful engine engendered remarkable growth for 25 to 30 years - unprecedented as regards its rate and its stability. Short-term stabilization policies were used alternately to keep inflation under control and to minimize the amplitude and the duration of recessions. They accompanied a dynamic; they did not create it by themselves. Metaphorically, the accelerator and the brake have no influence on the maximum power of a car's engine, even though they are essential while driving along a winding road. On the other hand, they are not a substitute for a failing engine, as is made clear by the experiences of the U.K. economy during the last 30 years and of almost all the OECD countries since the seventies.

An important factor for the understanding of the success of the modernist Keynesian policies was the wide acceptance in France of a new social-democratic accord. Wage earners shared the objective of modernization under the condition of sharing the "dividend of growth."

On one side, wage determination has been gradually structurally transformed from highly competitive wage-mechanism, with unemployment as a major determinant, to an administered wage-determination system based on past consumer-price increases and expected medium-term productivity gains. The relative insensitivity of wages with respect to moderate disequilibria in the labor markets in the late fifties, confirmed Keynes' conceptions about nominal wages. But far from being a datum inherited from the inter-war period, this development was mainly a consequence of the post-1945 accord.

On the other side, the expansion of the wage earners' proportion of the total population and the political pressures of unions and left-wing

parties led to new forms of socialization of revenue. A very complete social security system was introduced after 1945 with the consequence that transfer-income became a notable part of household income for the first time in history. This also created an automatic stabilizer of considerable importance, one possibly as powerful as discretionary taxes or public expenditure policies.

As a result of these two changes, the majority of workers was able to develop forms of mass consumption, a necessary complement to the mass production techniques made possible by scientific management and new technologies. Thus the circuit of investment-production-employment-consumption was closed in a very growth-dynamic mode. The modernist Keynesian strategy also had major social consequences, i.e., most significantly, the integration of blue-collar workers in society and the rapid growth of white-collar workers in both the private and the public sectors.

So French Keynesianism is much more akin to Keynesian Reformism than to simple Fine Tuning Policies. Additional evidence for this point is found in the radical changes after 1945 in the volume and structure of public expenditures and taxes. After the First World War, we can see that the share of public expenditures of the gross national product remained moderate during the twenties but increased during the thirties despite the efforts of conservative governments to check it. Therefore, a unique aspect of the post-1945 period was the rapid rise of this share to record levels and then its quasi-stability from 1955 to 1974. During the last decade, and once again amidst a deepening crisis, state intervention has expanded significantly. A state's redistribution of almost half of national income in accordance with various institutionalized rules, has

introduced a counterbalance to the pure market mechanisms and may to a large extent explain the new private-public interactive pattern during the last thirty years. The change in the relative weights of different state activities is important too. Beyond the general functions of Justice, Defense, Diplomacy, three major areas are responsible for the surge in public expenditures. Immediately after 1945 there were subsidies to industry. During the whole period, there were steady increases for both education and social transfers. Surveys and econometric studies conclude that these changes managed to increase the marginal propensity to consume, to reduce distributional inequality, and to stabilize investment at least in the nationalized sector. At the same time, the tax system was reformed to stimulate productive efficiency and the reinvestment of profits and speculative gains. The replacement of various excise taxes by a Tax on Value Added (VAT) exemplified this effort of adapting state intervention to a medium-term strategy of development. The discretionary measures of a countercyclical nature, however significant at any particular moment, seem rather secondary by comparison with these longer-term structural reforms implemented by the French modernist-Keynesians.

Two conclusions can be drawn from this historical retrospective.

First, it would be erroneous to reduce the Keynes' legacy in France to that of mere fine-tuning policies. In fact, the group of new higher civil servants, government officials and leading Ministers acted, collectively, as Keynes probably would have. Their objectives were to check the inherent instability of capital accumulation in the pure market system through far-reaching structural reforms and to utilize a pragmatic approach towards fashioning medium- and short-term economic policies.

Second, the impact of the purely economic component of Keynes' policy proposals is not easy to assess since the post-Second World War period was characterized by important and simultaneous transformations in almost every sector of French society. The "dynamism" of the new vintage of industrialists, the willingness of workers to accept technological change and the "American way of life," the use of the power of the State for accepted economic objectives, the emergence of a "modern" elite in politics and civil service, the implementation of "unique" public measures, and the availability of adequate statistical data and forecasting tools, all combined to produce a fundamental renovation of the French economy. France was not alone in achieving this "miracle." It was a common experience throughout Western Europe, with the exception perhaps of the U.K. What is specific to France is the prominent role of the State in promoting and organizing the high level of economic activity. The traditional French interventionism, previously conservative and defensive, became modernist and aggressive. In this context, Keynes' ideas fitted well into the overall emphasis on reconstruction and growth, by providing a theoretical synthesis with which to formulate and legitimize the underlying changes necessary for policy making.

But, as shown by a significant body of historical research, the objectives, the tools and the efficiency of economic policy may depend crucially on the underlying social and economic environment. This is confirmed by the subsequent evolution from general acceptance to some disillusion with Keynesian economics. This is the main focus of the rest of this paper.

II.4. The Mid-Sixties, the Heyday of Keynesian Ideas and Economic Policies

The very ambitious character of the Modernist-Keynesian policies required a long period to produce its expected consequences. As a matter of fact, it took more than a decade to rebuild and modernize French industry, to promote adequate mechanism for wage and price determination, to expand the social transfer system in order to cope with the rapid growth of wage-earners, and to adapt money creation to the decline of direct public financing of investment. Foreign trade and financial flows tended to be more or less in equilibrium, giving French economic policy-makers a relative degree of autonomy.

So it was only after 1958, the year in which there was a series of further modernization reforms, the inception of the Fifth Republic, and de Gaulle's arrival to power, that France's economic and social structure finally began to correspond to the various hypotheses implicit in the narrower Keynesian system. Following the inflationary boom of 1963, a restrictive policy was pursued resulting in lower productive capacity utilization due to only moderate growth of effective demand. But the French economy suffered no longer from structurally insufficient supply or imbalances between various industrial branches. The modernization of industry improved competitiveness and allowed a slight gain in France's world market share. With the then fairly stabilized system of trade and international monetary relations, foreign trade had a stimulating effect on growth and facilitated policy-making.

Once the economy seemed to be on a fast growth path, the main question for the Treasury was to optimize its interventions in search for a

compromise between full employment and inflation. Maybe for the first time in French history, Keynesianism appeared mainly as a restricted application of Effective Demand Keynesianism rather than the application of fine tuning policies. Nevertheless, the double-objective of quasi-full employment and low inflation was difficult to achieve in a country in which recurrent struggles of social groups over income distribution created inflationary pressures, often validated by monetary authorities. As in the United States the Keynesians called for a form of Incomes Policy but the social and political process rapidly blocked attempts in that direction. In any case, traditional instruments were proving sufficient to moderate inflation although at the cost of a reduction in economic growth.

Leaving this problem aside for the moment, the observer must be impressed by the "Keynesian unanimity" which prevailed during the sixties. Did not the every day reality confirm the predictions of the theory?

One cannot overstate the value of the improved statistical apparatus put in places by government. Many surveys and much new data were integrated into the French National Account system. This system provided a complete description of the Keynesian circuit, from production to incomes via monetary and financial flows. The debates on macro-economic policy benefitted from a more accurate statistical base. Even some important sectoral choices or pin-point reforms could be analyzed in terms of their consequences at the macro level. The traditional theory of public choice was thus improved by taking into account variations in capacity utilization. One may get the impression that the Keynesian approach was reforming micro theory!

As a consequence of the availability of rather long economic series and the improvement in computational facilities, macroeconomics modeling entered a new area. In 1966, the joint work of the Statistical Institute and the Forecasting Unit of the Treasury produced France's first fully formalized model. At its core was a A. Hansen-type multiplier of autonomous demand. Nominal wages were exogenous, and the financial sector was not taken into account. This model, even though unpublished, played a significant role because it was used within Treasury to analyze the possible consequences of various measures of economic policy under discussion. Hence, during the sixties economists and civil servants seem to have referred more and more to a restricted Keynesianism, even if the modernist-Keynesian reformist approach was still present in the medium-term strategy expressed by the Commissariat General du Plan.

During the same period, the preparatory work for the Fifth Plan (1966-1970) marked the heyday of indicative planning. Such a close interaction between a series of technical studies and the social and political bargaining process was never reached again.

Even politicians began to incorporate the Keynesian message more and more into their utterances. The necessity of stabilizing measures and the rationale for transitory public deficits were clearly admitted, irrespective of the orientation of political leaders. Take two examples.

The Chancellor of Exchequer during the major part of the sixties was no one else but Valéry Giscard d'Estaing. Although the beginning of his political career had been rather conservative in his orientation, his acquaintance with Keynesian methods and ideas progressively modified his economic policy proposals. By the mid-sixties, public opinion came to

consider him as the symbol of a modernist and well-informed politician. His intellectual and practical references to Keynes were an essential part of his strategy.

Parties of the left incorporated into their programs their own interpretations of the Cambridge economist, e.g., redistributive measures and social reforms could spur growth, given a significant underutilization of capacities. In their opinion, only the timidity and conservative orientation of the parties in power prevented such a program which was favorable both in social and economic terms.

Thus Keynesianism, although oversimplified and subject to different interpretations, provided a new legitimacy to political programs. The success of the New Economics in United States, as embodied in Kennedy's programs, constituted a final argument for its wide spread acceptance.

The sixties were the age of Keynes in the university, too. Following the evolution occurring in the rest of the world and under the pressure of professional economists working for the Treasury, Commissariat General du Plan or the Statistical Institute, universities modernized the programs of their Economics departments. What emerged was a clear distinction between micro and macro-theory. On one side, courses on microeconomics usually presented axiomatic versions of the Walrasian system. On the other, textbooks on macroeconomics included elements of national income accounting, Keynesian short-term models (of A. Hansen's or IS-LM type) and finally some key models in growth theory. For example, A.H. Hansen's Guide to Keynes (1953) was not translated and edited into French until 1967. In the same year, we had the publication of the first version of Lionel Stoleru's book on macro analysis. It proposed a brand new and attractive

survey of the main concepts and methods in macroeconomics. It contributed greatly to the diffusion of an eclectic Keynesian-neoclassical synthesis.

Finally, the evolution up to May 1968 seemed to confirm the validity of Keynesian conceptions. The sharp increase in wages and especially minimum wages - the cornerstone of the "Grenelle Agreements" which ended the huge strike-wave - did not have the catastrophic results feared by business. Given the significant underutilization of capacities and involuntary unemployment Keynesian at that time, consumption increased generating more production, greater productivity and higher levels of employment, in such a manner that the inflationary pressure was more moderate than expected. The second semester of 1968 and 1969 turned to be favorable both for wage-earners (more employment and improved real wages) and firms (recovery of investment and real profits). Nevertheless, due to inflation and external disequilibrium, the government decided to devalue the Franc in 1969. This devaluation exerted a very positive role in restoring the external competitiveness of French industry for three or four years.

In the economic context of 1983, these references sound somewhat strange, since the post-May 1981 policy seems to have had far less favourable consequences. It thus is necessary now to present the evolution of economic policies (conceptions and practices) from 1969 to 1981.

III. THE SEVENTIES: STRUCTURAL AND EXTERNAL LIMITS TO TRADITIONAL KEYNESIAN ECONOMIC POLICIES

During the seventies, Keynesianism in France underwent the same type of crisis as observed in other advance capitalist economies. But its use

and general acceptance were such, that its rejection seems not to have been as brutal or complete as in, for example, the United Kingdom and United States. Nevertheless, various interdependent factors induced more and more doubts concerning the applicability of restrictive Keynesianism and a more critical appraisal of fine tuning policies. The export-growth strategy promoted by the government and the inability of accelerating inflation to contain macroeconomic disequilibria both tended to eliminate two of the key underlying conditions of the Keynesian system. This destabilisation was exacerbated by the spread of the international crisis after 1973 both in trade relations and financial and monetary flows. Let me develop briefly each of these themes.

III.1. The Thrust towards Competitiveness in International Markets and its Consequences

For a large part, key industries in postwar growth exhibited increasing returns to scale, so that the continuous extension of markets became increasingly a pre-requisite for further productivity improvements. At the same time, competition in mass consumption markets was based on product differentiation, so that a country could both export and import the same category of product. These two characteristics are the direct consequences of the post-war pattern of development. Hence, it is not really surprising that almost every O.E.C.D. country, once its home market was fully developed during the sixties, tried to extend past growth by promoting through various measures the exports of the national industry. France was no exception.

The preparation of the 6th Plan, covering the period 1971 to 1975, clearly expressed this new strategy of emphasizing, above all, improved international competitiveness, in order either to limit import penetration or to increase French world market shares. That orientation reflected an alliance between the larger industrial corporations and government officials. The unions were opposed, or at least reluctant, to this development in the French economy, since they feared a rise in unemployment, a restraint upon wages and a loss of autonomy in economic and social policy. Consequently, there occurred a significant shift away from the unanimous support of French economic policies by firms workers.

As far as economic analysis is concerned, the medium-term macro-model, built for the 6th Plan and largely use, was clearly non-Keynesian, and, instead, quite classical. Assuming that the price of internationally traded goods was strictly fixed by foreign competitors - both in the home and world markets - their level of production was determined by the capacities which could be built by firms as a function of their cash-flow and access to credit. In this way, the rate of growth was linked positively to productivity and available credit, and always negatively to wages. This marked a first departure from the restricted Keynesianism for the French closed economy. A second departure was, in the medium-term at least, the assertion that an expansion of public spending would have no effect at all on production. This latter was at odds with the theory that the Keynesian multiplier was never less than 1. The new policies called for tax cuts and subsidies or selective credit for investment provided they benefit companies confronting foreign competition and would have a positive impact on growth.

So the emergence of the "theory of competitive economies," at the end of the sixties may be interpreted as the first challenge addressed to limited Keynesian orthodoxy.

To be sure, the underlying factors previously described and this new orientation of financial and economic policy towards competitiveness in world markets, did increase significantly the part of French national production exported. Simultaneously, however, the share of domestic market gained by foreign producers grew.

This development proved to be rapid and almost without break from 1967 to 1980. In addition, during this period, France's leading exporters had to specialize along very narrow lines of products, at the same time abandoning to others, many product lines. This phenomenon partially explains import penetration. By comparison with other developed countries, France possessed relatively few competitive industries. This feature constituted a second weakness as competition became harsher and harsher in the context of stagnating and even declining markets.

At the end of the seventies, these structural changes had created an economy that was no longer amenable to the application of the traditional Keynesian system. The French national economy was no longer a place where the circuit of production-income-consumption and financial flows could be closed. The thrust towards competitiveness had become a reality and, given a variety of cumulative effects triggered by this process, a necessity, too.

Two other major obstacles emerged which called into question the Keynesian orthodoxy, if not J.M. Keynes' own analyses as well.

III.2. The Breaking Down of the International System and the Shooting Problem of Inflation

This French strategy of export-led growth was undertaken rather late, but a few years before the Bretton-Woods fashioned international monetary system, manifested its weaknesses and entered into crisis. President Nixon's decision in 1971 and the defection from the fixed exchange rates system after 1973, demonstrated the impossibility of the post-war financial institutions to accommodate the two diverging thrusts afoot among O.E.C.D. countries, namely inflation rates and the degrees of competitiveness. Since then, in spite of many international conferences, no coherent system for exchange rate stabilization had emerged. Under these circumstances, the same thrust toward competitiveness could have effects opposite to those obtained during the sixties. Just to take one example, a permanent shift of a currency in a floating exchange rate system may be largely different from a once and for all devaluation supplemented by adequate national policies within stabilized international context.

At first glance, Keynes' responsibility for the failure of International Monetary System is small, since his proposals did not prevail during the Bretton-Woods conference. But some economists attribute to his theoretical work, the world's tendency to permanent inflation. F.A. Hayek claimed a long time ago that it would have to end in a deep depression. In France, J. Fueff warned the politicians very early of the dangers of an international monetary system based upon the dollar and argued in favour of a return to the Gold-Standard which, in his opinion, was the only system with a mechanism governing national money creation.

A Keynesian, of course, can point out the weakness of the pre-Keynesian conceptions of these authors or emphasize their misunderstanding of Keynes' writings. Nevertheless, they raise a real problem within the Keynesian-Reformist program, "Is it possible to manage money (effective demand) in order to prevent both hyper-inflation and cumulative depression in an open system?" Many economists would agree on this central focus, as the Achilles' heel of the Keynes' legacy.

One may find in J.R. Hicks writings a stimulating analysis of the link between Keynesian national policy and the break-down of the international monetary system. In The General Theory and in the real world of advanced economies, a labor standard replaces the old gold standard. Accordingly, monetary policy had to adapt to a level of nominal wage, fixed by the social and institutional characteristics of each country. In the Bretton-Woods system, no built-in mechanism aligned the various national labor standards with the existing exchange rates. As seemed to occur under the Gold Standard System. For two decades the labor market in the United States limited money-wage increases. As long as this was true and American maintained its overwhelming hegemony, the consequences of U.S. monetary policy were positive and stabilizing for the rest of the world.

At the end of the sixties, the creeping crisis in North American manifested itself in declines in profit rates, productivity reductions, an acceleration of inflation, and massive capital outflows. The inflationary boom which took place, put severe strains on the international monetary system, since the dollar was now challenged by the Deutsches Mark and the Yen, the currencies of the two countries, craving industrial competitive-

ness, labor market flexibility and moderate inflation. The break-down of the dollar standard which followed soon led to the general floating of exchange rates, initially presented as the best solution to deal with the financial world crisis. Based on classical liberal principles, would not the free market bring a new international stability and more autonomy in national economic policy choices?

The experience during the period 1973-1983 does not confirm these hopes. Exchange rates were more volatile than ever and their movements made forecasting difficult. Further, short-term international capital flows put major constraints on national monetary policy and reinforced the conflict between internal objectives, e.g., keeping interest rates low to spur investment conflicted with the objective of raising interest rates to induce capital inflows. It is now more and more evident than ever that the adoption of flexible exchange rates within a wrecked Bretton-Woods system did not create a viable mechanism for the world economy.

Paradoxically, this failure of the Laissez-Faire strategy is the best argument in favor of a complete reform of the international monetary system using a Keynesian approach. This approach using international cooperation, would try to create the minimal financial institutions which would allow money creation under regulatory mechanisms. So as to create sufficient stability and allow for reliable expectations French governments have advocated such reform, but without much success. The long tradition of Keynesian Reformism and the intermediate position of France in international relations may explain these recurrent proposals. The pervading classical liberal approach explains their rebuttal and the present stagnation within an international economy in disrepair.

This disruptive influence of the international crisis has played havoc with the Keynesian economic policies in France as in all O.E.C.D. countries. This is not to deny that the French economy had weaknesses of its own making. Crucial among them, was the historical tendency to favor growth at the eventual cost of inflation. This turned out to be a severe handicap during the seventies.

As a matter of fact, the rather complete institutionalization of income and price formation and the tradition of accommodating monetary policies led, to a more rapid inflation in France than in other advanced economies during the 1969-1973 boom. This discrepancy with respect to trade-partners widened during the 1974-1975 recession. The inflation became more severe, the more indexation and the quasi-guaranty of income increases were pushed independently of the economic environment.

In a sense, this stagflation process was the other side of the Keynesian-built-in stabilizer-coin, one which hindered the repetition of cumulative depressions as had happened during the thirties. The slower adjustment of employment and wages, the automatic increases in social transfers, and the countercyclical utilization of public spending were basic to the success of Keynesian Reformism. Finally, the Keynesian legacy manifests itself in the new role of the Central Bank. Contrary to its behavior during the interwar period, Banque de France now acted as a lender of last resort, granting distress credit and validating most of the refinancing of the commercial banks. So in 1974-1975 a massive financial bankruptcy, with devastating consequences was avoided. But the cost of this very positive outcome was an accelerating inflation associated with the most severe recession of the French economy since W.W. II.

This stagflation, without historical precedent illustrates quite well the contradictions which now characterize the economy. On one side, they do prevent repetition of the 1929 debacle. On the other side, their very success generates a new form of structural inflationary crisis, that fine turning can no longer cure.

The economic policies pursued in France from 1973 to 1981 first illustrate the limits of Keynesian solutions. Second, they show how difficult it is to find an alternative to them. While pure neo-classical approach has appeal, it is not a realistic substitute. Let me briefly explain these two points.

III.3. From the Disappointing 1975-1976 Reflation to the sway of more Classical Economic Policies

Act I of the French Keynesian drama began with a renewed statement by government officials of their belief in effectiveness of the fine tuning process. The recession triggered by the so-called "oil-shock" was initially interpreted as resulting from an important but mainly sectoral crisis, limited to energy and related financial problems. Its unwinding could be easily traced by a simple Keynesian model expressed first for the international system and then for each national economy. When it became clear in the beginning of 1975 that industrial production had rapidly declined since mid-1974, Prime Minister Jacques Chirac worked out a comprehensive series of countercyclical measures, in the Keynesian tradition, e.g., there were subsidies to the housing and building sector, an increase in public investment, and a tax cut for private investment to stimulate productive capital. For it was the more depressed component of demand and

the key variable for medium-term growth. One notes that the public deficit accepted by the government had exactly the same magnitude as the deflationary impact of the "oil shock" and that the increase in public spending and the tax reductions were the main tools of the expansionary policy. This approach derived clearly from modified Keynesianism, almost of the "Mainly Budget Matters."

The French economy experienced a fairly rapid recovery indeed during three quarters. But during the summer 1976, the expansion stopped. The moderate increase of the profits was not sufficient to promote a self-sustained growth of investment. Foreign producers had taken a greater share of the internal market, however, for the recovery was stronger in France than elsewhere and sales quite profitable. Imports ballooned, exports slowed. The inflation rate did not increase as increased productivity compensated for the pressures of demand, but its level remained high, so that the international competitiveness of the French industry deteriorated. Accordingly, an external deficit soon appeared. Under the floating exchange rate mechanism, the franc became weaker. The government devalued the franc in mid-1976 which spurred a new round of internal inflation. So there was initiated a vicious circle between inflation and devaluation. Expansionary policies were effectively blocked.

One recognizes in this description, all the limiting factors of a Keynesian reflation in a wide open economy such as France had become in the seventies. First, as a result of international competition, domestic production lagged behind growing internal demand. Second, the low growth of the world economy put strong limitations on national reflationary policies. Third, the rapid inflation persisted in countries where income

and price formation were highly institutionalized. Fourth, a cumulative process combining inflation and devaluation evolved out of a flexible exchange rate system.

Act II begins. This semi-failure was related to Jacques Chirac's resignation and the formation of a new government, with Raymond Barre as Prime Minister in August 1976. There followed a significant reversal of policy objectives and instruments employed. The primary aim was to control inflation in order to stabilize exchange rate and to reduce the external trade deficit. The means used were a reduction in public deficit, a freezing of prices to moderate the money supply and to keep high interest rates.

The move away from previous Keynesian orthodoxy towards a soft monetarism and more classical views was clear enough. The continued reference to a balanced budget and the emphasis upon monetary stabilization coupled with ideas and proposals which were dominant in the interwar period seemed anachronistic after the "Keynesian Revolution."

Similarly, unemployment was seen more and more as the consequence of inflation, so that the top priority for economic policy was to fight against inflation, even at the cost of rising unemployment, although this latter was supposed to be transitory. Consequently, short-term relief was expected from specific measures concerning youth employment, training and retraining dismissed workers, and the early retirement of older employed. More generally, the government aimed at a better functioning of labor market, thanks to the improvement of the information regarding labor supply and demand. These policies were a far cry from the Keynesian orthodoxy according to which full employment can always be reached by the State

insuring an adequate level of effective demand. Significantly, some economists and government officials came to wonder whether the notion of full employment made any sense any longer for advanced economies. At the very moment when official statistics showed unprecedented levels of unemployment, old and young classical liberal economists argued that the government should not worry about unemployment since most of it was of the involuntary type. While this analysis was neither adopted by the majority of economists working for the Treasury (Commissariat General du Plan), nor explicitly put forward by Barre's government, it played some role in the political debate.

Finally, the inflationary pressures and the external financial disequilibrium brought monetary policy to the forefront. After 1976, as in other O.E.C.D. countries, France adopted monetary targets for M2 in order to reduce inflation rates and influence expectations. This shift was reflected in new objectives, too. Previously monetary policy was used to accommodate internal pressures at the cost of recurrent devaluations, after 1976 the objective was to pass onto the national economy the constraints exerted by international markets.

These measures applied from 1976 to 1978 were only partially successful. By mid-1978, the external deficit had been eradicated and the franc defended. But the rate of growth had slowed down and unemployment had risen. Once the price freeze was removed, the same underlying structural causes generated, more or less, the same rate of inflation as previously. Finally the dynamism of private investment was not restored; in industry employment continued to fall and with it productivity. End of Act II.

Opening of Act III. Conscious of these problems, but following the same objectives, the government adopted in mid-1978, a more classical interpretation of the crisis. The reorientation of economic policy strayed even farther from orthodox Keynesianism.

First a new diagnosis of the crisis was adopted by the government. The interest in employment was limited mainly to a concern with the high wage level; it was felt that the lack in investment derived from a too low profit rate. Consequently, economic policy had to favor an income redistribution from wages to profit. This would serve as the basis for an expansion of production capacities, productivity, external competitiveness, and consequent increase in employment. According to a popular formula called in France Aubert's theorem, to wit, "Wage moderation makes today's profit, tomorrow's investment and finally the job of the day after to-morrow."

Consequently, through the use of old and new tools, economic policy aimed to increase profits and, in a longer perspective, to restore market mechanisms and private initiatives. The system of price control, which had prevailed almost without interruption since 1945, was abolished first for industry and later for most of the services. Simultaneously, the average wage was not to increase faster than the consumer prices. This objective was enforced for government employees and served as a basis for the minimum wage policy. It was expected that the depressed labor market would limit wage increases. The objective of profit restoration was pursued too by selective increases of contributions to Social Security.

There is doubt that these measures were consistent with the new interpretation of unemployment; less Keynesian, i.e., due to insufficient

effective demand, more classical, corresponding to the lack of profitability. This was precisely the thesis advanced by various French theoreticians working on the microfoundations of macroeconomics.

In a fixed-price, model "a la Barro-Grossman," Keynesian unemployment was only one of the three possibilities. According to the respective levels of autonomous demand and real wages, it was possible for classical unemployment or of repressed inflation to prevail. Observing developments in France since 1974, an economist and official as influential as E. Malinvaud pointed out the likelihood of a classical component of unemployment. So what was called Disequilibrium or Neo-Keynesian Theory had conclusions quite distinct from those of Effective Demand Keynesianism.

The binding external constraint reinforced the view that full employment was not simply a question of aggregate demand. In France the important deficits in energy and raw materials in the face of a policy of maintaining a high exchange rate, meant that the level of activity which maintained external equilibrium was well below full employment. Hence, after a decade, the theory of competitive economies did become relevant, or at least, it presented a better approximation of the real world than the Keynesian theory of a closed economy.

Understandably, French Planning suffered an equivalent decline. Existing Keynesian methods had difficulty coping with the radical uncertainty generated by the crisis. The sharpening of social and political opposition complicated the search for new social compromises. The problems raised by short-term economic policies were so acute that the formulation of a medium-term strategy was made much more difficult and was given less attention by the government. Moreover, most officials had

doubts about the possibility and the efficacy of previous forms of planning, especially as they inclined towards more laissez-faire. Last but not least, the larger French firms were less interested in the domestic market and domestic social accord than in the conquest of foreign markets and the export of capital. So the decay of the planning institution was one consequence of the crisis of the Modernist-Keynesian Reformism.

Finally, in France as in other countries, the jettisoning of Keynesianism during the seventies was part of a far reaching economic and social process and not merely the outcome of an intellectual debate. The disappointment with Keynesian policies, reduced autonomy of the national economy with respect to a world system in crisis, the breaking off of post-W.W. II compromises, and the shift of political power to the right, go far to explain the renewed interest in more classical views. But "prosperity was not necessarily waiting around the corner."

III.4. The Ambiguous Outcome of Conservative Policies: a Consequence of too much...or too little Keynesianism

The "new economics policy," implemented steadfastly during the least three years, produced some positive results, but at high cost. While "the end of the tunnel" was always within sight, it was never reached. When Valéry Giscard d'Estaing was defeated in the presidential elections of May 1981, no way out of the crisis was at hand.

On one hand, the franc's exchange rate was maintained according to the rule of the European Monetary System. The vicious circle of an accelerating inflation and a consequent devaluation was stopped. The

external exchanges were roughly balanced in 1979, before they deteriorated again after the "second oil shock." The public budget, too, was balanced in 1980, quite an achievement by comparison with other O.E.C.D. countries.

But, on the other hand, almost all others indexes of economic activity exhibited either no improvement or even some deterioration. The underlying trend for inflation did not face below 10%, however, a better record than that of France's main foreign competitors. Thus the policy of nominal wage restraint was more difficult than expected. Finally in 1980, the real wage did not grow, the first time in more than 20 years. Neither the profit nor the financial positions of the firms improved. In fact, the slowing down of growth simultaneously with the deceleration of consumer demand, made more difficult productivity increases. Social transfers and public expenditures proceeded to grow. So the State had to raise taxes and the social contributions paid by firms. In the wake of the surge of interest rates, firms ran into debt. It was this acceleration of interest rates which was the final factor which impeded the restoration of profit share for the non-financial sector.

So the first part of Aubert's theorem, was invalidated - i.e., in an under employed equilibrium, less wages may lead to less profit. It comes as no surprise to find then that the second part of this theorem was not to be satisfied either: investment in the private sector stagnated at pre-1973 levels. Firms faced sluggish consumer demand and uncertain foreign markets, high interest rates, they, therefore, expected low rates of return, as they had observed during the previous years. The investment of the nationalized sector was the only dynamic component but it could not carry the private sector. Finally after 1978, total employment growth

stopped as productivity gains surpassed demand increases. Hence unemployment rose, in spite of various plans in favor of the employment of the young and the retraining and early retirement of older workers. In conclusion, no part of Albert's theorem was fulfilled.

The strategy introduced from 1976 to 1981 was not the success expected, but neither was it a complete failure. Depending upon his own economic persuasion - neo-classical or Keynesian - an economist may consider the new strategy either as a partial success, a strategy that needed more time and determination, or a partial failure, insofar some parts of previous economic policies had been employed.

While prime minister, Raymond Barre himself recognized the hybrid character of his economic policy, as one which combined the classical, the Keynesian, and the monetarist. Each contributed something to the solution of the problems that France faced. This eclectic approach was clearly stated by him, in these words: "This policy draws from the classical school the idea that the control of production costs is the condition for price stability in the long run, for the basic competitiveness of an economy and soundness of its money. It borrows from Keynes the idea that economic equilibrium does not adjust automatically to a level ensuring a full utilization of resources; so that government action on aggregate demand is necessary to secure a given rate of growth.... During the last three years, the French government has steadily sustained economic activity by social expenditures in order to maintain a sufficient level for private consumption, by high public investment and by credit and tax measures in favor of private productive investment. French economic policy takes from the monetary school the idea that medium-term money growth has

to be kept in check within the limits necessary to reach its anti-inflationary objective."

After May 1982, R. Barre admitted that he had underrated the resistance of social groups to the new policies and the sluggishness of structures and of institutions to adjust and that these factors limited the success of his anti-inflationary policy. He suggested, too, that the characteristics of the political process had hindered him in implementing tougher policies, which might have produced better results.

One might counter here with the position that a more classical economic policy would have worsened the short-term problems without necessarily producing any medium-term positive effects. Let me explain why.

First, a severe fall in real wages could have reduced internal consumption and hence capital formation, through an accelerator mechanism, more than it would have stimulated net external balances. This is a likely result since the price elasticities of imports and exports are relatively low and the external market is smaller than the home market. Econometric studies and existing macromodels conclude that the relative price effects upon investment production and employment, are outweighed by the influence of effective demand over the same variables. Do not these results confirm that in the past and even now, the Keynesian circuit may be a closer approximation of reality than the pure competitive model? Consequently, economic policies should not follow the pure classical liberal injunctions.

Second, the first estimations of a model with quantity rationing suggest that in general, Keynesian, classical and frictional employment do coexist, but that their respective shares vary through time. Classical

unemployment seems to have been important during the years 1968, 1974-75, 1977-78 and then to have decreased relatively to Keynesian unemployment. So after 1980, a continuation of wage restraint could have had negative effects upon unemployment since it was perceived by firms as mainly Keynesian.

Third, the resistance of social groups to classical policies is not necessarily to blame. For example, during the 1974-75 recession, the struggles for employment and against wage cuts played a positive role in preventing a cumulative depression as had happened in the thirties. But of course, this defensive behavior, when maintained for long, can deepen the crisis. One may argue that, in England and in the United States tougher conservative policies seem to have reduced the inflation rate. But the costs incurred are impressive both in terms of mass unemployment, the reduction in levels of living, and reduced productivity and competitiveness leading to deindustrialization. More basically, no clear new pattern of development had emerged and the problems of financial instability, reindustrialization, welfare and unemployment remain to be solved. So the present recovery in the United States does not imply necessarily that classical liberal policies have found a way out of the crisis.

Summarizing the seventies, in France as in other countries, the validity of traditional Keynesian conceptions (E.D.K.) and policies (F.T.P.) questioned by the very success of the modernist-Keynesian Reformism. The problems concerning inflation, monetary policy, external imbalances and the break down of the I.M.S., gave many opportunities for a renewal of the neo-classical and monetarist approaches. But in France, contrary to what happened in most other advanced economies, was not totally rejected, but

became a part of a new neo-classical-Keynesian synthesis.

The corresponding economic policies when implemented from 1976 to 1981 turned out to be far from successful. Would another policy, more linked to Keynesian reformism, have achieved better results? In 1981, almost all the politicians of the left and their economists thought the answer was "Yes." End of Act III.

IV. THE FRENCH ECONOMIC POLICY SINCE 1981: A CRUCIAL TEST FOR KEYNESIANISM

The new government founded its action after June 1981 on a two-part diagnosis. It combined a Keynesian analysis of the recession with a more structural interpretation of the present crisis. The deterioration of the economic and social situation during the years 1976-81 was blamed in part on wrong austerity policies, and in part on the limits inherent in the post-war nature of economic development. A two fold program was derived from this analysis comprised Act IV.

A short-term expansionary policy stimulate consumption and in a second phase, investment. The objective (reduced unemployment) and the tools (public expenditure, social benefits, taxation of the wealthiers) were undoubtedly closely inspired by Keynesian ideas. But this program was not considered sufficiently strong to solve the crisis.

A program of far-reaching reforms were instituted to promote a new mode of development. On one side, welfare and fiscal reforms were introduced to reduce inequalities in order to spur on both social justice and economic growth. The similarities with Keynesian Reformism were quite clear. The nationalization of major industrial groups, holding companies,

and the commercial banks derived from the traditional proposals of the Left in France. It aimed at socializing the investment and removing the financial and speculative barriers to the recovery. Even though J.M. Keynes explicitly rejected nationalization, it could be conceived of as a component of the Keynesian Reformist program. Similarly a reform of the planning process aimed at giving it a new effectiveness through democratization, decentralization of the decisions, and the use of new tools, such as planning agreements.

The rest of the reforms were somewhat eclectic. There were bills concerning the rights of wage-earners aimed at reconciling more democracy in the work place with economic efficiency of firms. Similarly, the rapid reduction in the duration of work and the development of a "third sector" between private firms and public organizations, defined far reaching objectives outside of the Keynesian tradition.

This program started with the assumption that a Keynesian expansionary policy would succeed where previous attempts had failed. Next, it foresaw that within a few years, the structural reforms would yield positive effects and so strengthen the recovery. But it took only a short time before the new economic and social policy ran into major difficulties.

IV.1. Keynesianism in one Country: Limits Arising out of a Deepening of the World Crisis

So Act IV of the Keynesian drama seemed destined for a happy end. During the summer 1981, the government proposed a modest increase in the minimum wage and more significant rises for some social benefits to fami-

lies, unemployed workers and retired people. These were plans to expand public employment. Industrial modernization was not neglected since various public funding and tax cuts were supposed to raise investment. Essentially, the 1982 budget was projecting the favorable effects of a policy of Keynesian demand stimulus.

Consumer expenditures were planned to expand so as to stimulate production and investment and hence productivity. A particularly rapid rate of productivity increase would make possible, it was hoped, a simultaneous increase in social benefits and wages, a reduction in the length of the work week and an improvement in the financial position of industrial firms. In many respects, the government's 1982 strategy was rather comparable to the reflationary policies implicit in the Grenelle accords of 1968 or explicit in 1975. But it was more limited as regards the size of the expected expansionary effects.

In fact, both the national and the international economic situations in 1982 were quite different from those of 1968 and 1975.

By the beginning of 1982, the sharp rise in transfer payments and public expenditures had stimulated household demand. But it led only to a reduced increase in production since half of it went to imports. At least three factors explain this accelerated penetration of the home market and simultaneously the first decline in French exports since a quarter of a century.

The first factor was a faster growth in France than in other deeply depressed O.E.C.D. countries. This was responsible for an increased deficit in the French external trade. To make matters worse, the international recovery expected at the end of 1981 failed to materialize. This

fact was largely the consequence of the failure of conservative policies in the United States and elsewhere to provoke a rapid recovery.

The second factor was the limited French recovery. It contributed to perpetuate the inflationary pressures. There were reinforced increases in nominal income and the devaluation in October 1981. The inflation rate therefore remained at its former level, far above that observed in the United States and in most European countries. In these economies, continued recessions induced unions and workers to accept sizeable wage cuts and reinforced price competition between firms which contribute to a significant reduction in inflation. A loss in French competitiveness and an aggravation of the external deficit resulted from France's higher inflation rate.

Finally, the expansion of demand highlighted the weaknesses of the French industry. In fact it had been badly specialized and debilitated by the past over-valuation of the franc under the Barre government. The new equipment and consumer good sectors were weak while the main exporting sectors entered into maturity or decline. So in a period of rapid technological change and acute international competition, more appropriate specialization and more efficient methods of production were needed by French industry in order to benefit from any increase in nominal income. The benign neglect of industrial organization and production by the Keynesian Effective Demand policies was no longer appropriate. These characteristics brought forth a major source of external deficit.

There was no surprise when the external crisis led to a second devaluation of the franc within the European Monetary System (E.M.S.) in June 1982. Yet, other internal objectives were far from being met. The

recovery had exhausted itself as industrial production declined and consumption stagnated. The growth in unemployment had been reduced but not halted. The share of profits had increased very slightly but not enough to induce a self-sustained rise in investment. In short, there was no ongoing cumulative process to extend the initial recovery. Consequently, the public deficit surged more than expected and made urgent the question of its financing.

The expansionary policy of June 1981 had led to much more favorable developments than in most of the other advanced economies but it could not be pursued in the face of the world recession and the crisis in international relations. The failure was evident but not all pervasive.

At this point we have the beginning of Act V. By mid-1982, the Socialist government faced a dilemma. The crisis was quite similar in nature to, but more acute than, that faced by Valéry Giscard d'Estaing in mid-1976. Would Act V repeat Act III? Not exactly, for time had elapsed and the crisis was deeper. Moreover, the relations between government, firms and workers unions were rather different.

This explains why the June 1982 devaluation was accompanied by an unprecedented price and wage freeze of four months and then prolonged by controls during the following year. The key objective was to reduce inflation to 10% in 1982 and 8% in 1983 and to keep nominal wage increases in line with expected inflation rather than past inflation. Once again a Keynesian policy had stumbled over the inflationary bias of income formation in France. The price and wage freeze, however necessary, was a poor substitute for either more flexible mechanisms or to an accepted incomes policy.

A reversal of fiscal policy was initiated with the 1983 budget. It limited the expansion in public expenditures and social transfers and raised taxes and contributions for welfare in order to check the public deficit. Within this restrictive policy, various measures promoted households' savings and firms' investment in research and development. Simultaneously, important funding was devoted to young workers' training and to the reduction of the retirement age. In addition, the State fostered new agreements between firms and unions which linked early retirement or reduction in the duration of work to job creation. A very notable achievement of this policy was to stabilize unemployment while it was climbing sharply in most other countries. But inflation was only slightly contained and consumption stagnated.

The deficit of external trade nevertheless remained. The expectations of financial markets were such that the government had to devalue for the third time in March 1983. After a controversy between various factions in the main party, the authorities decided to maintain France within the European Monetary System and to reduce drastically real income and effective demand. Cancelling out the external deficit as soon as possible and reducing the public deficit were the two main objectives. The outcome of this new plan is the major question dominating the end of 1983 in France.

Even though the government has been reluctant to recognize it publicly, this reversal reveals crudely the problems arising out of a Keynesian expansionary policy in one country. Paradoxically, at a time when international recovery is expected, or at least hoped for, France has had to adopt a very restrictive economic policy, possibly the most severe in its

recent history.

In fact, the Socialist policy has been caught in a succession of vicious circles, i.e., Keynesian Fine Tuning Policies could not longer eliminate them in the context of the global crisis of the post-W.W. II. Is it possible that a more comprehensive program of institutional and structural reforms could have broken these linkages and reduced some of the economic constraints?

IV.2. Is Keynesian Reformism Still a Way Out of Crises

The new government tried to implement its various reforms very quickly, so that they could yield their expected positive effects as soon as possible. Yet three years later, the economic trends and linkages have not been significantly changed.

This apparently disappointing outcome is not really surprising. Since the reforms were far-reaching, they imply basic transformation had to occur in a series of institutions, social relations, individual and collective behaviors. Such a process takes a long time - one or two decades, at least. Let us remember that in the United States the New Deal bore fruit only after the Second World War. This was true also for the Front Populaire and the Liberation of France. The modernist-Keynesian model became a social and economic reality only during the sixties. It is clear that the present project of the French government to promote a new economic milieu is not a matter of establishing new economic interrelationship on the contemporary scene but rather creating a new evolutionary process.

More basically, one may wonder whether these reforms can cope with the original form of the present crisis. Is it still sufficient for the State to intervene according to the Keynesian Reformist tradition? The difficulties encountered in France since 1981 illustrate some key problems. Let us examine five of these.

The nationalization of the larger industrial groups was supposed to free investment decision from short-sighted expectations and to reduce some financial constraints and the profit standard. In fact, two years after the change in industrial ownership, no clear new strategy has emerged, the task is not easy. What should be included in planning agreements? How does one combine the macroeconomic objectives of the State with the minimum degrees of autonomy necessary for innovation and efficient management? Should the criteria and methods of management be different in the public sector from those in the private sector? These questions are still unresolved.

The deepening of the crisis created financial problems for most of the newly nationalized firms. Simultaneously, the budgetary constraints have prevented the State from making massive investments in high technologies. Finally, the old nationalized sector with its large deficits has had to reduce its investment plans. Thus it has become more and more difficult for the public sector to be the engine of growth.

The nationalization of credit has run into similar difficulties. The banking sector has indeed benefitted from the rise in interest rates and the increase of industrial debt. Profits are fairly high. But the puzzling matter is that the bankers have changed neither their methods nor their lending criteria. Particularly risk-averse, they prefer to lend to

wealthy and well-known groups than to newly created and innovative small firms. Thus the banks do not encourage the industrial modernization as much as it is desirable from a national point of view. But then, what should be the new criteria and financial procedures of the banks? How are they to avoid decisions which end up requiring massive refinancing by the Central Bank? Can inflationary pressures be checked by adequate rules enforced by the commercial banks and the Lender of Last Resort? For the time being, few proposals have been forthcoming. At best, a recently proposed law promises only a modest reform of the banking system.

The definition and implementation of an Industrial Policy is another way for socializing investment decisions of firms according to longer term views. The government has set its hope on an aggressive industrial policy in order to modernize the French economy and to reverse the negative evolutions observed since 1973. But the task has proven much harder than expected. First, the crisis has broken most of the past trends and patterns and has increased the uncertainty associated with economic and technological choices. The methods that had worked rather well when during the forties and fifties, the problem for France was to modernize industry according to a known mode of development, are no longer effective in the eighties. All over the world, everyone is groping for new forms of industrial organization but they remain largely unknown, or at least very uncertain. Of course, adequate public intervention may reduce this uncertainty, but it cannot rule it out. In the eighties, adopting an industrial policy is riskier than ever. Second, technological and industrial choices are now made more and more at the international level. Thus each country has less autonomy concerning its domestic industry, especially as

regards the high-technology industries. A third difficulty has impeded the definition of a clear-cut industrial strategy. While the government wants to promote mainly new technologies, it has had to devote more and more funding to old or mature industries. In fact, as the reflation failed to restore a self-sustained growth, the situations of these industries have worsened and have called for more State intervention. Hence, the difficult choice between the socially preferred defensive industrial policy and the economic necessity of a more aggressive strategy.

Similarly, the institutional reforms of the French Planning process have not yet proven sufficient to stop the economic declines which have been observed over the last decade. The ambitious economic policy proposed by the intermediate plan for 1982-83 was difficult to implement and was unable to contribute to the recovery. During the preparation of the 9th Plan, sophisticated technical studies have analyzed the probable effects of various economic strategies. They suggested an original policy mix, e.g., active industrial modernization, a significant reduction in the length of the working life and control of welfare costs could promote a sustained recovery. Nevertheless, two of the traditional objectives of French planning were difficult to achieve.

How does one reduce uncertainty when a large part of it derives from the international crisis? The present uncertainty about possible development in the world economy makes national choice more difficult and riskier than ever. Of course, the ideal would be to reduce uncertainty through international cooperation, but we are a long way away from introducing indicative planning on a world level!

In France, the breaking down of the post-war system has sharpened conflicts between social groups. Previously, everyone used to consider income increases as a matter of fact. This is no longer possible in a stagnating economy. But the rational behavior of each group is to defend its advantages, even though ex-post the outcome may be a deterioration of everybody's situation. During the preparation of the 9th Plan, this process seems to have blocked any search for a new social accord. So a second and essential objective of French planning could not be fulfilled at the very moment when an original compromise between unions, stockholders and the State was needed.

The last challenge to Keynesian Reformism is the problem of the welfare-state. In May 1981, the government thought that a significant reduction in distributional inequalities was both a social objective and a basis for economic recovery. So it decided to extend the welfare-state system assuming economic growth would pay for it. But developments have been worse than expected. For all the reasons which have been analyzed, the recovery was short-lived. It soon became clear that social expenditures had created more demand, but no equivalent increase in production. The situation was different from that of the fifties and sixties. During those periods, the improvement of the welfare-state had been financed by very rapid economic growth, and had fostered industrial modernization. So social security had been an ingredient, not the cause, of the "French miracle."

Consequently, when in 1982 the recovery stopped, increasing public and social deficits had to be financed by taxing the wealthier households and businesses. But the problem was not so simply solved! On one side,

within the French tax system, there was mainly a redistribution of income among wage-earners, i.e., white collared workers and salaried managers bore most of the burden. This raised some problems for the government when it was precisely calling for the cooperation of these groups in order to modernize the French economy. On the other side, firms reacted negatively to tax increase since their profits were unprecedentedly low. Is it possible to stimulate investment and employment if the firms consider themselves overtaxed? The government has become more and more sensitive to this problem. But then how does the government reduce the public debt?

In order to solve this dilemma, reforms of the tax system and of Welfare State have been recurrently announced. But up to now, every proposal has been blocked by a different social group that would have to pay for the reform.

It can be seen that the break-down of growth has led to a fiscal crisis -- a fiscal crisis that seems unamenable to a traditional Keynesian solution. Hence the vicious circles which we have observed for a decade.

Does this crisis in Keynesian economic policy legitimize a return to "Laissez-Faire"? We propose to argue now that, on the contrary, the present difficulties call for a renewal of Keynesian Fundamentalism and Reformism.

V. CONCLUSION: KEYNESIANS HAVE TO PROPOSE ORIGINAL SOLUTIONS TO NEW (AND OLD) PROBLEMS.

So this review of Keynesianism in France clearly shows, first, a fascinating achievement for the new economic policies, then a progressive decline in their effectiveness, and finally an open-economy crisis which

calls for an innovative revival of Keynesian Fundamentalism and Reformism. Let me examine these points briefly.

- 1/ After the second World War, French society underwent a major change. A fusion of a new social alliance, a modernist drive and Keynesian reformism induced unprecedented economic growth. Most politicians and economists adopted the core of Keynes' message, i.e., pure market mechanisms are unable to promote and maintain full employment, growth and stability. Consequently, the State implemented a series of far-reaching reforms in order to oppose this alleged inherent instability of accumulation in a free market economy. Among them, one must cite nationalization, indicative planning, tax reform, welfare measures, control of money, and so forth.
- 2/ The history of Keynesianism in France illustrates three other points. First, the countercyclical use of taxes and public expenditures has been the crowning of the Keynesian-modernist program not the basis of the so-called "French miracle." It is erroneous to define Keynesianism in terms of the effectiveness of fine tuning policies. Second, it took more than a decade to build all the institutions, social behaviors and economic mechanisms which were necessary to promote the process of development associated with Keynesian-modernist policies. Third, as in many other advanced economies, the mid-sixties represented the heyday of Keynesian ideas and economic policies.
- 3/ The very success of this strategy led, during the seventies to structural developments which undermined the stability of post W.W. II growth. Inflationary pressures have become permanent since they are a means for resolving the struggles over income distribution. Managed

money allows the solutions to be validated. This has introduced a major instability in the international monetary system. The internalization of trade and production has destabilized the internal Keynesian circuit. More basically, the joint increases in real wage, profits, social benefits were made possible by productivity gains. So the slowing down of productivity in the United States and then the rupture of the Bretton-Woods system were the key elements of the beginning of the present crisis. Therefore, profitable production has become as important as effective demand and, money matters as the budget matters.

- 4/ There are the underlying factors which, after 1973, may explain the progressive disappointment with Keynesian stabilization policies.

Whatever their political orientations, all French governments were compelled to change their economic strategies. The Keynesian very strong expansionary policy rapidly faltered in 1976 under the pressures of inflation, the external deficit and devaluation. Consequently, subsequent government had to reverse completely the expansionist policy.

More significantly, a new Classical Keynesian synthesis arose to have a growing influence to replace the older deeply rooted Keynesian tradition in France. The same process took place when Francois Mitterand replaced Valery Giscard d'Estaing as President. The quasi-failure of the reflation undertaken by the left-wing government obliged it to change drastically the objectives and means to its short-term economic policy. Few officials and politicians today consider orthodox Keynesianism as an adequate answer to the present crisis. Thus, the doubts about Keynesianism are not a simple matter of political alliance ideology or propaganda. Monetarists, supplysiders and the rational expecta-

tions school however, may have the wrong answers to very real problems.

- 5/ The experience of France since May 1981 illustrates, too, the many difficulties that a left-wing variant of the Keynesian Reformist Program may encounter. First, far-reaching institutional transformations cannot be effective as rapidly as is needed to break the vicious circles related to the structural character of the present crisis. Second, neither nationalizations nor tentative industrial policies has restored the required investment dynamism. The medium and long term views of firms are as blurred as ever and the search for a new social accord between firms, unions and State goes on. It is disappointing since reducing the uncertainty and promoting compromises between social groups has been two of the main functions of the French Planning, that recent reforms should have reinforced. Third, the extension of the Welfare State seems no longer to have massive stimulating economic effects. Hence, to the extent that a zero-sum society prevails, new taxes or Welfare-State reforms necessarily encounter opposition from the social groups that will have to pay for them. In conclusion, the very program which showed the way out of the Great Depression, seems less effective and even inadequate in the present crisis.
- 6/ This is not to say that a return to a free market economy will solve the ongoing social and economic problems. On the contrary, the critique of Laissez-Faire by J.M. Keynes is as relevant as ever. Classical liberal policies have been trying to reduce the public deficit and intervention and, in some cases, to do away with some key institutions which had been introduced by the Keynesian reformists. The outcome has been an unprecedented and massive public deficits. The

cost of disinflation has been frightening. To most economists, the experience is clear enough: by themselves market mechanisms do not lead automatically to full employment. On the contrary, under deregulation, investment and financial decisions are unstable as ever and induce erratic economic happenings. What are needed are some new institutions and adequate public interventions to socialize expectations and to move towards full employment. The failure of flexible exchange rates to promote an alternative to the wrecked Bretton-Woods system is another argument for a Keynesian approach to international monetary reform. What are the international institutions that would lead to global stability of the world economy, while restoring the effectiveness of market mechanisms? The answer is not at hand.

7/ Finally, Keynesians now are facing a major challenge. Will they be able to elaborate an adequate theory of present crisis and then design unique reforms and new economic policies? The General Theory and the New Deal did correspond to a particular structural crisis. The Great Depression derived largely from a structurally insufficient effective demand, when there were high productivity gains and good prospective profits. In the seventies, a sustained effective demand stumbled over sluggish productivity and low profits. Therefore, a stagflationary stop and go has replaced the drastic cumulative deflation of the thirties. This means that Keynesians have to build a theoretical model which will explain these new characteristics. Let us propose some agenda headings for such an examination. First, a better theory of production and technical change seems rather essential, in order to sound out effective demand analysis. Second, the internationalization

of production, trade and finance has to be included in any national model. Third, in order to understand the present inflation and economic instability, a theory of managed money and modern financial markets is fundamental to Keynesians.

Then, unique economic policies and reforms could probably be derived from such a theory. For example, what kind of institutions would best promote technological change which leads to positive economic and social effects? What are the minimum rules of a new international system which would stop beggar-my-neighbor policies and bring some stability and cohesion into a distressed and chaotic world economy? Is there any built-in mechanism or monetary policy which would eradicate the inflationary effects of modern managed money? Of course, the solutions are not likely to be simple, but Keynesians do have some proposals along these lines. They remain to be built into a coherent and simple model.

After all, such a program is not inconsistent with the very pragmatic approach that John Maynard Keynes had been adopting all along his life. Would not the Cambridge economist urge his followers to make path-breaking contributions and not to worship his own past achievement?

"Innovate or decline and perish." This is the key challenge addressed to Keynesians in the eighties.

FOOTNOTES

- (1) Indeed, one can read in the concluding chapter of General Theory : "... If the ideas are correct—an hypothesis on which the author himself must necessarily base what he writes—it would be a mistake, I predict, to dispute their potency over a period of time. (...) The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. (...) I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not indeed, immediately, but after a certain interval ;... Soon or late it is ideas, not vested interests, which are dangerous for good or evil". p. 383-4, 1970, Papermac edition.
- (2) Let us give to significant examples drawn from recent Nobel prize winners' contributions to the Keynes centenary. Sir John HICKS presents the crisis in Keynesian theory as a five-act drama. The adoption of a labour standard, according to KEYNES' views led, during act IV, to wide-spread real economic growth. But the rupture in the american supremacy revealed the inherent fragility of this kind of monetary system, generating after 1973 an accelerating inflation, bound to lead to depression and unemployment. The final statement is clear : "The Keynesian ship had been driven off course". The Economist, June 1983. An analogous statement is expressed, in harsher terms passing from the "sceptical follower" to the opponent of the very first day, Professor F.A. HAYEK : "There can be no doubt that it was in Keynes' name and on the basis of his theoretical work that the modern world has experienced the longest period of general inflation and has now again to pay for it by a widespread and severe depression. Yet it is more than doubtful whether KEYNES himself would have approved of the policies pursued in his name". A little further : "I am fully aware that, in effect, I am claiming that perhaps the most impressive intellectual figure I ever encountered and whose general intellectual superiority I have readily acknowledged, was wholly wrong in the scientific work for which he is chiefly known" (underlined by R.B.). The judgement of Milton FRIEDMAN, if more moderate, is in the same spirit : "KEYNES was truly a remarkable scientist even if, (...), he "shunted the car of economics on to a wrong line" for some decade. In fact, in the Economist enquiry, only P.A. SAMUELSON expressed a positive view on KEYNES' legacy.
- (3) The persistence of unemployment is a central question in KEYNES' analyses, as is shown for example in "The End of Laissez-Faire" (1931). The General Theory proposes an explanation of such a feature and tries to show how, depending on the propensity to consume, the marginal efficiency of capital-schedule and the rate of interest, the involuntary unemployment-equilibrium may be stable (chapter 18).
- (4) This interpretation has been proposed and developed by works of H.P. MINSKY as in his 1975 book, or in his 1983 contribution to KEYNES centenary. Different expressions of the fundamentalist view can be found in G.L.S. SHACKLE, J. ROBINSON, A.S. EICHNER and J. KREGEL, and many others.

- (5) i.e "the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital" G.T. p. 376.
- (6) "The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways. Furthermore, it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment. I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment ; though this need not exclude all manner of compromises and of devices by which public authority will co-operate with private initiative. But beyond this no obvious case is made out for a system of State Socialism which would embrace most of the economic life of the community. It is not the ownership of the instruments of production which it is important for the State to assume". G.T. p. 378.
- (7) In the early Thirties, KEYNES has almost explicitly argued in favour of indicative planning as a way of reducing uncertainty, an aim very similar to the one adopted by the French Planners in the Sixties ("le plan, réducteur d'incertitudes", according to Pierre MASSE formula). KEYNES wrote in "Essays Persuasion" (1931) p. 317 : "Many of the greatest economic evils of our time are the fruits of risk, uncertainty and ignorance. It is because particular individuals, fortunate in situations or abilities, are able to take advantage of uncertainty and ignorance, and also because for the same reason big business is often a lottery, that great inequalities of wealth came about ; and these same factors are also the cause of the unemployment of labour, or the disappointment of efficiency and production. Yet the cure lies outside the operation of the individuals ; it may even be to the interest of individuals to aggravate the disease. I believe that the cure for these things is partly to be sought in the deliberate control of the currency and of credit by a central institution, and partly in the collection and dissemination on a great scale of data relating to the business situation, including the full publicity, by law if necessary, of all business facts which it is useful to know. These measures would involve society in exercising directive intelligence through some appropriate organ of action over many of the intricacies of private business, yet it would leave private initiative and enterprise unhindered.
In their study of French planning S. ESTRIN and P. HOLMES (1983) emphasize this important intellectual connection between KEYNES and the French planners.
- (8) In this respect, L.R. KLEIN (1949) (1954) played an important role in the U.S.. J. TINBERGEN and M. KALECKI were other pioneers in testing macro models, original or of Keynesian inspiration.
- (9) The ZOGOL model build by Ph. HERZOG et G. OLIVE in 1966 was clearly Keynesian in this respect.
- (10) In fact, new theoretical works since 1970 have shown that economic policy must be different if the lack of demand is not the only factor limiting employment. This field of research was very active in France. See for example J.P. BENASSY (1982), E. MALINVAUD (1977) (1980).

- (11) During the Thirties, various issues of *Revue d'Economie Politique* expressed this idea without finding wide acceptance. BLUM's policy in 1936 gave a new vitality to these ideas, as expressed by journalist Louis ROUGIER ("Les mystiques économiques" 1938) or by economist R. MOSSE ("l'expérience BLUM" 1937). For a presentation of these authors see A. SAUVY "Histoire économique de la France 1931-1935" p. 188-191.
- (12) It is striking that large parts of KEYNES' contribution were proposed *independantly* in Poland by M. KALECKI (1933) and (1935) —see G.R. FEIWELL (1975)— or by G. GRÜNIG (1933) in Germany or by the French economists previously quoted (note (10)).
- (13) One is surprised by the similarities of the analyses worked out by X-Crise—comprising Polytechnicians searching for new orientations for economic policies to get out the 1929 crisis—with KEYNES' proposals. Nevertheless, as pointed out by Th. de MONTBRIAL in his postface : *"Although the name of KEYNES is never quoted in the present volume, one lives again the birth of Keynesian economics"*, p. 290.
- (14) This is the opinion generally held, as expressed by A. SAUVY (1967) p. 67, 352.
- (15) This direct influence was not entirely absent. Leon BLUM is said to have been converted to the "new ideas" by Georges BORIS. The notions of "circuit" and full employment seem to have appeared for the first time in a project of law during April 1938 in the second BLUM government, with P. MENDES-FRANCE as undersecretary of Treasury.
- (16) Of course, there are significant exceptions. John NICOLETIS, one of the promoter of X-Crise, presented KEYNES' theses in April or June 1933. Georges BORIS, also a member of this group, is said to have propagated very early the Keynesian message, making in particular Pierre MENDES-FRANCE aware of its relevance before 1939 (see F. FOURQUET (1980), p. 21). Georges BORIS studied Roosevelt's New Deal from the very beginning and with great care (see X-Crise, selected papers, *Economica* (1982), pp. 172-186).
- (17) The close link between the political strategy of strengthening France's position and the adoption of adequate economic policies —of Keynesian, direct or indirect, inspiration— is expressed clearly in most of Pierre MENDES-FRANCE's writings. See for example his joint book with Gabriel ARDANT (1973), or "Choisir", Stock (1974).
- (18) The mastership of modern tools of economic analysis and public management is an essential part of most of the political speeches of V. Giscard d'ESTAING. He expressed neatly Keynesian orientations in the foreword to Jean DENIZET's book, even if he regretted the neglect by post-Keynesians of monetary policy. Considering that during the 1930 crisis *"the real failure is not in the lack of will, but of knowledge"*, he considered *"decisive the contribution by the least genius of the synthesis —Lord KEYNES—..."*.

- (19) For a presentation of some elements in the career of Michel ROCARD see his interview by F. FOURQUET (1980) (specifically pp. 312-319).
- (20) This change affects the economics program of most parties. Many leaders of the Socialist party were trained as professional economists and worked for Treasury or Planning Institute during the Fifties and the Sixties. Jacques DELORS is an outstanding example. They were deeply influenced by a French variant of Keynesian reformism. This diffusion of KEYNES' ideas affects the Communist party analyses too, even more indirectly and to a minor extent. So, Philippe HERZOG worked in SEEF, and Direction de la Prévision in the Sixties. He wrote a thesis on macro-economic forecasts and national accounts (Ph. HERZOG (1968)), and built with Gaston OLIVE the first and fully formalized Keynesian econometric model. He has now important responsibilities concerning the economic program of French Communist party. Nevertheless his recent works are rather critical, if not negative as regards the present effectiveness of Keynesian policies (Ph. HERZOG (1982)).
- (21) This French specificity, rather obvious for the French observers, probably deserves more careful investigation. It may result in a wrong perspective : the internal history of English or American public administrations is less evident to perceive than the collection of Academic Journal to read ! For example A. SWEETZ' paper (1972) and L.H. KEYSERLING reply suggest more similarities than expected within American and French "pragmatic" Keynesianism.
- (22) See for example the famous undergraduate text-book by Raymond BARRE "Economie Politique". Second volume. The Keynesian model is contained there within the neoclassical approach of equilibrium. A critique of the monetary sector of the IS-LM model (p. 181 and subsequent, p. 320), is associated with a positive appraisal of the effective demand principle (pp. 420-447).
- (23) From a theoretical point of view, the predominant model in the late Forties was that of the VON NEUMANN-type, even if it remained implicit in the elaboration of the two first plans (see R. BOYER (1976), pp. 887-892).
- (24) Claude GRUSON (1968), observer and actor of these difficult years, has given a very comprehensive and stimulating analysis of this rupture.
- (25) Just a few figures suffice to illustrate the importance of State control over credit. The nationalized banks controlled nearly 2/3 of total deposits in commercial banks. At the end of the Forties, nearly half of total investment was financed out of public funds. About 2/3 of the nearly created money originated in the wake of the public sector's funding needs. Of course, once reconstruction was achieved, these two last proportions declined notably.
- (26) For example in the model proposed in 1950 by Claude GRUSON, the number of financial and monetary variables exceeded the number of real ones. Propensity to consume and investment decisions depended significantly upon credit and financial assets. See also C. GRUSON's 1949 book.

- (27) This is the main contribution of J. DENIZET's book (1967) and was developed further by authors like Bernard SCHMITT, A. PARGUEZ...
- (28) According to the French law, the Government has to present each year complete macroeconomic forecasts associated with the Budget of the State. This document elaborated by S.E.E.F., which became after 1968 Direction de la Prévision, is called "Budget Economique". It submitted to the Parliament, as an annex to "Loi de Finances".
- (29) The most impressive work on France's post-war growth (J. CARRE, P. DUBOIS, E. MALINVAUD (1972)) was very tentative in exploring the quantitative influence of Planning on the economic renewal which occurred after W.W.II.
- (30) See the various contributions of C.P. KINDLEBERGER (1963), P. MASSE (1965), Cl. GRUSON (1968), F. FOURQUET (1980) or S. ESTRIN and P. HOLMES (1983). Most of these authors concluded that the apparent success of indicative planning in the 1950's and 1960's depended on a specific economic and political climate which no longer prevailed in subsequent years. For more on this crucial point see further below (Section III.3).
- (31) See for example P. MENDES-FRANCE (1974), Cl. GRUSON (1968), J. BOUVIER (1974).
- (32) For a general presentation of the consequences of taylorism in France, see the various contributions by Yves COHEN, Aimée MOUTET, Georges RIBEILL, Antony ROWLEY to appear in : "Le Taylorisme hier et aujourd'hui", La Découverte/Maspéro (1984). The interested reader will find in R. BOYER "Wage Labor, Capital accumulation, and the crisis 1968-1982" in Tocqueville Review Spring-summer 1983, p. 138-140 an analysis of this new social bargaining after W.W.II.
- (33) This new mode of development has been studied by M. AGLIETTA for the U.S. Economy in "Regulation and crisis of Capitalism", Monthly Review Press (1982) and by a research group in CEPREMAP for France (see "Approches de l'inflation : l'exemple français" Mimeographed CORDES-CEPREMAP Déc. 1977). H. BERTRAND has worked out an original macro model according these hypotheses in "Accumulation, régulation, crise : un modèle sectionnel théorique et appliqué" Revue Economique, Vol 34, n° 2, Mars 1983, p. 305-443.
- (34) This is a salient feature of French growth and most other European countries as shown by J.J. CARRE, P. DUBOIS, E. MALINVAUD "La croissance française" Seuil (1972). p. 25-40. So the annual average rate of growth raised from 1.7 % from 1896 to 1929 and 2.1 % from 1929 to 1963, to 4.6 since 1949.
- (35) For an econometric study of wage formation in the French industry see R. BOYER "Wage formation in historical perspective : the French experience" Cambridge Journal of Economics, n° 3 (1979), p. 99-118. However controversial for the supporters of an invariant law for wage formation, this result appears clearly from econometric tests (see table 6 of the above mentioned article).

- (36) This radical change in the role of nominal wage has clearly be recognized by economists. Far from being the result of market mechanisms, wage is now the outcome of a socio-political process, which changes its macro-economic role as stated by J.R. HICKS "Economic foundation of wage policy" Economic Journal, Sept.(1955).
- (37) Ch. ANDRE, R. DELORME have analyzed the consequences of social transfers upon State interventions and expenditures ("L'Etat et l'Economie", Seuil (1983)). Just to give an example the share of indirect wage in G.N.P. was only one percent in 1913, 4.8 % in 1938 , but has continously increased after W.W.II from 13.8 % in 1950 to 27.3 % in the early Eighties.
- (38) This unorthodox point of view derives from various european analyses about the transformations of macro-dynamic after 1945. An author such as A. NEGRI "La classe ouvrière contre l'Etat". Editions Galilée (1978) has stressed the relations between keynesian reformism and a new deal of capitalists with organized labor. Similarly B. CORIAT has shown the consequences of new forms of work organisation upon macro-policy and demand management. See for example "L'atelier et le chronomètre", C. Bourgois, Paris (1979). For a german point of view, B. KUNDIG " Du taylorisme classique à la "flexibilisation" du système productif : l'impact macroéconomique des différents types d'organisation du travail". Critiques de l'Economie Politique, n° 26-27, Janvier-Juin 1984.
- (39) French sociologists now begin to investigate these social transformations. As regards white collars, medium and upper managers L. BOLTANSKI has recently shown the importance of this new social group in "Les cadres. La formation d'un groupe social" les Editions de minuit, Paris (1982).
- (40) This result is the more surprising as most Governments, including the French one, keep trying to reduce the burden of State intervention. Never theless since 1973, the share of public expenditure G.N.P. has permanently raised, as shown in the statistical appendix of Ch. ANDRE, R. DELORME previously quoted. Most of this increase derives from social transfers, following a pattern which is common to almost all european countries (Ch. ANDRE "Les évolutions spécifiques des diverses composantes du salaire indirect à travers la crise", Critiques de l'Economie Politique, n° 26-27, Janvier Juin 1984).
- (41) Just some figures extracted from Ch. ANDRE, R. DELORME, p. 727. In 1948 subsidies to trade and industry represented 23 % of total public expenditure while education and social welfare were around 7 % and 2,5 %. In 1980 the corresponding data are 7.1 % , 21.2 % and 16.5 % , the change being rather continuous.
- (42) Econometric test do show that marginal propensity to consume out of social benefits is nearly equal to one, while the equivalent propensity is lower for direct wage and the income of self employed (for references of the corresponding econometric equations included in macro-models see R. BOYER "La croissance française et les modèles macroéconomiques" Revue Economique 1976). The very stabilizing role of the investment in the nationalized sector has been proven by P. ARTUS P.A. MUET "Politique conjoncturelle et investissement dans les années 70", Observations et Diagnostics Economiques, Juin 1982, n° 1.

- (43) The more recent research works on the period 1944-1958 conclude to the simultaneous role of all these factors. Searching for the reason of French recovery after W.W.II J.P. RIOUX writes "quel fut le facteur déterminant ? Des français qui travaillent plus et mieux ? L'introduction de nouvelles techniques "à l'américaine" ? Les vertus du capitalisme enfin débridées ou celles de la planification heureusement sauvegardées ?...Aucun facteur physique ne peut être privilégié, aucun n'explique seul l'élan. C'est leur conjonction inouïe qui est féconde." "La France de la quatrième république, Tome 2 1952-1958", Seuil (1983) Nouvelle histoire de la France contemporaine, p. 190. This point of view is similar to the conclusions of other authors such as C.P. KINDELBERGER "La renaissance de l'économie française après guerre. In S. HOFFMAN "A la recherche de la France" Seuil, Paris (1963).
- (44) This is a key conclusion of many recent researches about State and economic policy, specially Ch. ANDRE, R. DELORME previously quoted p. 681-689. For the consequences of these hypotheses upon French economic policy since may 1981 see R. DELORME "Compromis institutionnalisés, Etat inséré et crise de l'Etat inséré", Critiques de l'Economie Politique n° 26-27, Janvier-Juin 1984.
- (45) The length of the lag between a major institutional breakthrough and the transformations of economic mechanisms is clearly shown for wage formation for example (R. BOYER (1979) previously quoted). This result applies similarly to other topics, such as public intervention, monetary policy and taxation (see the CEPREMAP-CORDES research report (1977)).
- (46) See chapter IX and X from Cl. GRUSON "Origine et espoirs de la planification française", Dunod (1968). Simultaneously, macroeconomic modeling does incorporate this new characteristic and adopts a keynesian framework (R. BOYER (1976)).
- (47) After all such a chronology seems to characterize other countries such as the U.S.: the influence of keynesian ideas strengthens and is really dominant during the Kennedy area. The statements and writings of W. HELLER, former chairman of C.E.A. are illuminating and do show a high confidence in keynesian theory and macroeconomic tools. Read for example W.V. HELLER Ed. Perspectives on Economic Growth, Vintage book (1968) or J. TOBIN "National economic policy" Yale University Press (1966).
- (48) Significantly enough, in 1963 the Government called for a national conference on income policy, as a reply to the strikes in the mining sector. The aim was to implement a national board to assess wage claims and more generally income formation. Nevertheless the project failed and turned out to a mere investigation center, C.E.R.C. (Centre d'Etudes des Revenus et des Coûts). As many other higher civil servants, P. MASSE, played a prominent role, both at the intellectual level and the administrative one. See P. MASSE "Rapport sur la politique des revenus..." Journal Officiel (1963). and P. MASSE, P. BERNARD "Les dividendes du progrès" Seuil (1969).
- (49) In retrospect, the annual rate of inflation during the Mid-sixties is fairly low with respect to present trends : 2.5 % in 1966 ; 3.6 % in 1967 and roughly the same figure for 1968.

- (50) This is for example the main interest of some research in the early Seventies about the consequences of a keynesian under employment equilibrium upon the traditional microeconomic calculus. See for example H. GUILLAUME, P. ROCHARD "Compatibilité entre approches sectorielle et globale", Statistiques et Etudes Financières 1er trimestre (1973). Or H. GUILLAUME "Prix fictifs et décentralisation des décisions publiques" Thèse Université Paris I (1972).
- (51) This kind of research has been a corner stone in French studies on public choice and their micro-macro-foundations. The tradition initiated by P. MASSE works, is now being pursued by a new generation of mathematical economists. For a recent example see M. CREMIEUX, R. GUESNERIE, J.C. MILLERON "Calcul économique et décisions publiques" Documentation Française, Paris (1979).
- (52) These are the main features of one of the first macroeconometric French model, ZOGOL. For a presentation of this model see INSEE-Direction de la Prévision "Le modèle de projection à court terme ZOGOL I" note ronéotypée Ministère des Finances Mai (1966), or Ph. HERZOG, G. OLIVE "L'élaboration des budgets économiques" Etudes de comptabilité nationale n° 8 (1968).
- (53) The Zenith of French planning is clearly recognized to happen during the second half of the Sixties. Read Cl. GRUSON "La renaissance du Plan", Seuil (1971), F. FOURQUET "Les comptes de la puissances..." (1980) or S. ESTRIN et P. HOLMES "French planning in theory and practice" G. Allen and Unwin (1983).
- (54) Valéry Giscard d'ESTAING was under secretary of Treasury while Antoine PINAY was Chancellor of Exchequer in 1958 when de GAULLE came to power.
- (55) Most of the official statements of V. Giscard D'ESTAING were of keynesian inspiration...at least at the begining of his career at Treasury. As regards his intellectual background see his foreword to J. DENIZET already quoted in note (18).
- (56) This implicit or explicit keynesianism is central both for Socialist and Communist French Parties. For example the late "Programme Commun" was projecting very rapid growth through a massive keynesian expansionary policy. The only blocking factor was supposed to be the conservative ruling classes. One could find this position expressed again in the political project of the Socialist Party for the 1981 Presidential election ("Projet Socialiste pour la France des années 80", Club Socialiste du Livre (1980)).
- (57) This transformation is not really surprising since in the French tradition civil servants and engineers have often been at the fore-front of research in economic theory and public management. Even if their role was not exclusive they contributed to work out and disseminate the keynesian approach. For example the unpublished course of macroeconomics by MALINVAUD in C.E.P.E. (Centre d'Etudes des Programmes Economiques) has been exerting a lasting influence on the teaching of these matters, including in the economic departments of the Universities. Recently E. MALINVAUD issued a new draft corresponding to his teaching at ENSAE "Théorie macroéconomique, Tome 1 et 2", Dunod (1981-1982).
- (58) "L'équilibre et la croissance économique", Dunod first edition in 1967 and various new editions since. An english translation has been available under the title "Economic equilibrium and growth", Vol I, (1975), North Holland.

- (59) The role of increasing returns in post W.W.II growth has been stressed by N. KALDOR "Causes of the slow rate of growth of the United Kingdom" Cambridge University Press (1966). Some recent works have shown the importance of these factors for European and French growth. Read for example R. BOYER, P. PETIT Progrès technique, croissance et emploi..." Revue Economique, Nov.(1981), and specially for France H. BERTRAND, Revue Economique, Mars (1983).
- (60) These orientations are present everywhere in the documents of VIth Plan and specially "Options..." Documentation Française (1970). This is may be the turning point of keynesian ideas in French economic policy. For an historical perspectives in english language see S. ESTRIN et P. HOLMES already quoted note (53).
- (61) At that time, the predictions of the workers-unions appeared quite pessimistic and unlikely. In retrospect their point of view turned out to be rather accurate : import penetration, although export expansion does constraint national policy, while the rate unemployment was steadily climbing since 1967. Read the critical point of view of C.G.T. and C.F.T.C./C.F.D.T. as expressed in the annexes of Vth and VIth Plans.
- (62) The so-called "externally competitive economy model" developed a framework according to which inherited capital and hence production capacities are the only limiting factor of level activity, at least on a medium term basis. See M. AGLIETTA, R. COURBIS "Un outil pour le plan : le modèle FIFI", Economie et Statistique n° 1, Mai (1969). This model has some strong similarities with the Nordic approach (G. EDGREN, F.O. FAXEN, C.E. ODHNER "Wages growth and the distribution of income", Swedish Journal of Economics (1963)).
- (63) This rupture is twofold. First at medium term the multiplier of public expenditure is equal to zero —or even negative—. Second while in E.D.K. an increase in wage can be favourable to the level of activity, this is never the case in the competitive economy model. For more details see R. BOYER (1976) already quoted.
- (64) Let us give some figures extracted from INSEE "Le mouvement économique de la France 1969-1979" Mai 1981. The share of import in G.N.P. represents 11,2 % in 1938, 10,9 in 1952, but decreased to 8,5 in 1959. Since then it climbed to 11,9 in 1967, 16,6 in 1973 and finally 16,2 in 1979. The more recent datas confirm these trends. The equivalent figures for the industrial production are even more significant.
- (65) This point has been pointed out by a recent report by C.E.P.I.I. "L'économie mondiale 1970-1990, la troisième révolution industrielle", Editions Economica, Dec. (1982). For a more specific analysis of the present state of the French industry see MINISTERE DE LA RECHERCHE ET DE L'INDUSTRIE "une politique industrielle pour la France" La Documentation Française (1983).
- (66) Paradoxically enough, this anticipation of reality by a socio-political project would confirm some statements of KEYNES himself about the key role of ideas in history (last chapter of General Theory). One could show how the keynesian revolution was a theory as well as a political project (R. BOYER (1983) "Formes d'organisation implicites à la Théorie Générale" in "KEYNES aujourd'hui : Théories et Politiques", English translation forthcoming, Sharpe).

- (67) He has stated again his strong opposition to the "Keynesian Revolution" in a recent paper published by The Economist June 11, 1983 "The KEYNES centenary - The Austrian critique: *The question of Keynes's role in history is essentially one of how his teaching could succeed once more in opening the floodgates of inflation after it had become generally recognised that the temporary gain in employment achieved by credit expansion had necessarily to be paid for by even more severe unemployment at a later stage. This old truth is now being rediscovered*" p. 45.
- (68) This is a permanent theme of the writings of J. RUEFF from the early Thirties to the Seventies. Read for example "l'Age de l'inflation", Payot, Paris (1963) and in particular "Défense et illustration de l'étalon-or" (text of a lecture given in March 1932) or more recently "Le lancinant problème des balances de paiement" Payot, Paris (1965), American translation Mac Millan, N.Y. (1967) and "Pourquoi la crise ?" Le Monde June 17-18, 1975 ; "La fin de l'ère Keynésienne" Le Monde, February 19-20, 1976.
- (69) Very significantly the under estimation by Keynesians of the inflationary bias of credit money is the common critique addressed by the four authors interviewed by The Economist for the KEYNES centenary. M. FRIEDMAN (June 4, 1983), F.A. HAYEK (June 11, 1983), J. HICKS (June 18, 1983), P.A. SAMUELSON (June 25, 1983).
- (70) The coherence of the analyses of J.R. HICKS through time is striking. Compare for example , the Economic Journal of September 1955 with The Economist interview of June 18, 1983. In both cases, a labour standard can only prevail at the national level and raises serious problems in the international system . For more details see the five acts keynesian drama : the final one is the breakdown of I.M.S. (p. 24).
- (71) This hypothesis is confirmed by most of the historical studies on France : after two or three decades, legal and institutional change in labour market does affect its functioning (R. BOYER "Wage formation in historical perspective..." Cambridge Journal of Economic (1979)). Many international comparisons have been pointing out the role of national characteristics upon wage formation. Among many others : R.J. GORDON "World inflation and monetary accumulation in eight countries", Brookings on Economic Activity n° 2, pp. 409-477 (1977) ; J. SACHS "The changing cyclical behaviour of wages and prices" American Economic Review, March (1980) ; P. ARTUS "Formation conjointe des prix et des salaires dans cinq grands pays industriels..." Annales de l'INSEE n° 49, Janvier-Mars 1983.
- (72) In fact, economic historians have expressed very contrasted views about the efficiency and the role of the Gold Standard System. According to the present interpretation, the dominant place of the British financial system and economy may have been the main stabilizing factor of this system. For some analyses in this direction, see for example R.M. GELPI "Mecanismes de la création monétaire et régulations économiques", Thèse, PARIS IX-DAUPHINE (1983).
- (73) This extreme view was expressed only by a part of the academics in the early Seventies. Facing the evidence of a decade of flexible exchange rates some of them have changed their opinions. Similarly international institutions like I.M.F. or B.P.I. have now a more balanced view on the question. The statement of a global stability of free market adjustments characterize only what could be called 'Laissez-Faire Fundamentalists' as opposed to Keynesian Fundamentalists.

- (74) This opposition between the objectives of national policies and the evolution of the international financial markets is very acute in the French case. As a proof, one may consider the statements of French Ministers of Finance since a decade : their proposals of reforms of I.M.S. are closely related to the search of a national expansion policy. For a recent example read the contribution of J. DELORS in "KEYNES aujourd'hui : Théories et Politique" forthcoming Economica, Paris, Sharpe New York.
- (75) In favour of this proposal, see the various studies of the Institute for International Economics, Washington D.C., in particular those of F. BERGSTERN "Preventing a world economic crisis : what must the United States do now ?" (1982) or J. WILLIAMSON "Financial intermediation beyond the debt crisis" (1984). These views are shared by some bankers such as F. ROHATYN "A plan for stretching out global debt". Business Week, 2/28, p. 15-18, (1983).
- (76) Remember the proposals made by President Giscard d'ESTAING during various international summits or more recently by F. MITTERAND in Versailles in 1982 or Williamsburg in 1983.
- (77) Until very recently —the turning point could be June 82—, all the Governments were preferring more inflation to less employment. For an explanation of this feature see for example R. BOYER, J. MISTRAL "Accumulation, Inflation, Crises" (1983) or the debate between A. LEPAS and R. BOYER about the present economic policy in France, to be published in The Tocqueville Review 1984. Right now, public opinion does not consider the inflation as a major problem by comparison with unemployment, urban security and so on.
- (78) For a general analysis of the consequences of the stabilizing role of inflation, see the model presented in R. BOYER, J. MISTRAL (1983) already quoted p. 53-58. The wage and price model worked out by P. ARTUS (1983) confirms the reasons of the persistent French inflation after 1981, i.e. mainly the quasi-independency of most incomes with respect to real economic situation.
- (79) If one excludes the pre-capitalist times in which bad harvests used to trigger both an increase in agricultural price and hence of the general level of price, and a decline of industrial and of course rural production. For more details see CEPREMAP-CORDES "Approches de l'inflation : l'exemple français", Recherches Economiques et Sociales n° 12 Octobre 1978 or J.P. BENASSY, R. BOYER, R.M. GELPI "Régulation des économies capitalistes et inflation", Revue Economique, Mai (1979).
- (80) The ex ante "oil shocks" had been computed to be around 3.5 % of G.N.P.. It turned out that the 1975 reflation represented almost the same amount, sharply concentrated on the third quarter of 1975. The deficit represented then 11.9 % as shown in Collection de l'INSEE C 49 Tome 1, p. 38 "Rapport sur les comptes de la Nation (1975).
- (81) The references to a position of the type "mainly budget matters" appears clearly from the report of INSEE on 1975. Just to quote "L'outil budgétaire est privilégié car il permet l'action la plus rapide et la plus sûre puisque non subordonnée au comportement des autres agents. L'ampleur du soutien qu'atteste par ailleurs le dépôt de quatre lois de finances rectificatives peut être appréciée par la variation du solde d'exécution de la loi de finance d'un trimestre à l'autre..." C. 49, Tome 1, p. 37. Ironically enough J. CHIRAC Prime Minister during this period, seems to have been more critical of the May 1981 reflation than of his own in 1975 !

- (82) So from 1975 to 1976, G.N.P. at constant prices grew at an annual rate of 5.2, the industrial recovery being even more rapid (8.4 % per year). Nevertheless one must not over-emphasize the influence of discretionary budgetary policy. Of course, they played an evident role but they were stiffened by the built-in stabilizers associated to post W.W.II growth. At this respect a comparison of the two periods 1930-1932 and 1974-1976 is illuminating : the new pattern for employment and wage formation seems to be a discriminatory factor, since the final effect of budgetary deficit is the same (see Annexe table A25 in the book by R. BOYER, J. MISTRAL (1983)).
- (83) The external deficit represented respectively 7.5 Billion Francs in 1973, 34.4 in 1974, 8.2 in 1975, to culminate to 41.8 in 1976, the equilibrium being reached with most difficulties in the early Eighties (INSEE Comptes de la Nation (1978) C 72-73, Tome 2, p. 185).
- (84) The reversal of policy in 1976 is very significant. Compare the presentation of "Plan BARRE" in Comptes de la Nation (1976) Tome 1, p. 29 à 35, C. 52-53, with the corresponding analysis of "CHIRAC reflation" in C. 49 already quoted by note (81).
- (85) So R. BARRE had the following interpretation. Expansionary budgetary policies are bound to fail because in an open economy they induce an external deficit and the speeding up of inflation, both evolutions which are detrimental to growth. Hence : *Le choix effectué au nom de l'emploi est en fait un choix en faveur de l'inflation et de la dévaluation et, le cas échéant, de la protection. Le moment vient toujours où les illusions se dissipent et où une politique de remise en ordre doit être adoptée : ce ne peut être qu'une politique restrictive qui pénalise l'emploi. Une politique inspirée par le souci du plein emploi finit ainsi, plus tôt que tard, par se retourner contre l'emploi.*" R. BARRE "Une politique pour l'avenir", Plon, Paris (1981).
- (86) Just an example. Commissariat Général du Plan is often considered as a propagandist of the Keynesian reformism and a symbol for the commitment of French officials to full employment. Nevertheless a Study Group was appointed at the end of the Seventies to assess the significance of the concept of full employment. For the first time, some economists did challenge this notion and defended a new classical school position.
- (87) This was the position of J. RUEFF or M. ALLAIS, who popularised their views in various issues of academic reviews or diaries such as Le Monde (for example Le Monde 27 Janvier, 19-20 Février (1976)). Simultaneously younger liberal economists expressed the same analysis. Among many others A. FOURCANS, J.J. ROSA "Le mirage du plein emploi", Banque, n° 366, Octobre (1977) p. 1039-1045.
- (88) One may measure the consequences of this political change comparing the reaction of the Government to the two oil shocks of 1973 and 1979. During this second period, a restrictive budgetary and monetary policy reinforced the internal consequences of oil prices increases. See the corresponding Economic Outlook of O.E.C.D. (1980) and (1981).

- (89) For a detailed picture, read various issues of Comptes de la Nation and specially C 72-73 and C 101-102. The absence of any powerful recovery is widely admitted but its reasons are still an open question. For some, only the lack of time and the mildness of BARRE's policy explained this failure (it is the view expressed by R. BARRE himself after 1981 in the book previously cited). For others, the economic policy itself was wrong in its orientations and tools (view of the left parties when they came to power).
- (90) M. ALBERT was Head of Commissariat Général du Plan during this period and most of the studies preliminary to VIIIth Plan adopted this diagnosis. Hence the name given to the statement quoted in the text. In other countries, or even in France, this analysis is attributed to former Chancellor H. SCHMIDT.
- (91) R. BARRE frequently said that the bargaining power of workers union had limited the effectiveness of his policy of wage restraint. The decision to raise the contributions of wage-earners to social security may be interpreted as a way for circumventing union's opposition. Nevertheless in 1980 BARRE's plan did succeed and stopped the rise of real wage..even though the other objectives were not fulfilled.
- (92) Following the path-breaking contributions of R.W. CLOWER, A. LEIJONHUFVUD and R.J. BARRO and H.I. GROSSMAN, a group of mathematical economists have developed fullyfledged theoretical models, linking micro behaviours to the occurrence of various macroeconomic equilibria. The central conclusion is that may prevail either a keynesian under employment, or a classical one or a state of repressed inflation with full-employment, as soon as the system of prices is not walrasian. In particular, see Y. YOUNES "Sur les notions d'équilibre et de déséquilibre utilisées dans les modèles décrivant l'évolution d'une économie capitaliste" Mimeograph CEPREMAP(1970) and J.P. BENASSY "Théorie du déséquilibre et fondements microéconomiques de la macroéconomie" Revue Economique, Septembre (1976), J.M. GRANDMONT "Théorie de l'équilibre temporaire général", Revue Economique, Septembre (1976). The interested reader may find a synthesis of the research in J.P. BENASSY "The Economics of market disequilibrium" Academic Press (1982), and E. MALINVAUD "The theory of unemployment reconsidered" Blackwell Oxford (1979).
- (93) See the book mentioned by note (92) or the article of E. MALINVAUD "Nouveaux développements sur la théorie macroéconomique du chômage" Revue Economique Janvier (1978). Since then, sophisticated econometric works have tested the likelihood of the three regimes (keynesian, classical, inflationary) for the French economy (P. ARTUS, G. LAROQUE, G. MICHEL Estimation of quaterly macro-economic model with quantity rationing". Mimeographed INSEE September (1982)).
- (94) One must stress that the competitive economy model is not the only way to cope with the growing importance of external equilibrium in macroeconomic policy. For example N. KALDOR and economists in Cambridge U.K. have proposed a keynesian model in which, the medium term constraint upon external trade is the limiting factor of the national activity level.
- (95) This decline is now clearly recognized by all the specialists and the politicians themselves. Read F. FOURQUET (1980), C1 GRUSON (1971), S. ESTRIN et P. HOLMES (1983), or DELORS (1982).

- (96) Even if he was not totally sceptical about the usefulness of a form of national planning, President Giscard D'ESTAING have often expressed doubts upon the traditional form of French planning. Read for example the interview and quotations by F. FOURQUET (1980) already cited, p. 291 and following.
- (97) For a statistical analysis of the absence of any reversal of previous trends in the early eighties, see among many others R. BOYER, P. PETIT "Crisis y Politicas economicas en la comunidad economica europea : el caso de Francia Informacion Comercial Espanola (Ministerio de Economia y Comercio). Revista de Economia, Septiembre (1981). For a more complete characterisation of the French situation before the election of F. MITTERAND see F. BLOCH-LAINE editor "Commission du bilan ; la France en mai 1981" Documentation française. Four volumes (1982).
- (98) Just some figures. In 1973 the investment level at constant prices reached 27.5 Billions francs 1970 and declined drastically till 1975. The recovery at the end of 1978 did not lead to pre-1973 level ; in the early 1981 private investment was stabilized around 27 Billions francs. During the same period, public investment climbed from 7 to 8 Billions in 1975 and then levelled off, exerting so a counter cyclical role. The only dynamic part of the investment is due to big nationalized firms, the investment of which has grown steadily from 4 Billions in 1973 to 8 at the end of 1980 at constant prices (p. 63 of the paper by P. ARTUS, P.A. MUET (1982) already quoted).
- (99) See R. BARRE (1981) p. 122-123.
- (100) This was the main theme of a well known article by R. BARRE "L'économie française quatre ans après (1976-1980)" Revue des Deux Mondes. Septembre (1980).
- (101) This relative unimportance of relative price effect is a salient feature of a rigorous test of the neoclassical investment model (P.A. MUET "modèles économétriques de l'investissement : une étude comparative sur données annuelles" Annales de l'INSEE n° 35 (1979) p. 85-133).
- (102) For a study on macro data read P. ARTUS, G. LAROQUE, G. MICHEL (1982) already quoted. For an analysis on individual data consult M.B. BOISSOU, J.J. LAFFONT Q.H. WONG "Econometrie du déséquilibre sur données microéconomiques" Mimeo-graph Toulouse I University, March (1983).
- (103) From a theoretical point of view, any classical unemployment equilibrium is likely to be transitory, as soon as prices can be risen by firms facing an excess demand on the product market. This is a confirmation, may be, of the econometric results obtained by the authors.
- (104) Employment and wage rigidities are a distinctive characteristic of the 1974-1975 recession, as shown in R. BOYER, J. MISTRAL (1983) Annexe table A 25 already cited.
- (105) For a more detailed analysis consult R. BOYER, J. MISTRAL (1983) "Politiques économiques et sorties de crise. Du carré infernal à un nouveau New-Deal" Futuribles, n° 70 Octobre and C.E.P.I.I. (1982) already quoted.

- (106) This twofold interpretation of the crisis is . specially clear when reading the first part of the political project of French socialist party (Projet Socialiste (1981) previously quoted). A first section stresses the deepness of the second structural crisis of the XXth century but a final section seems to attribute a large part of the social and economic difficulties to the Giscardian political strategy.
- (107) A renewed growth, spurred by a keynesian reflation policy, was central to the post May 1981 strategy of Prime Minister P. MAUROY . On this respect consult among many others M. BEAUD "Le mirage de la croissance" Syros (1983), A. LIPIETZ "L'échec de la première phase" Les Temps Modernes numéro spécial 441Bis, Avril (1983). See also the others papers of the same issue devoted to the economic policy of the left.
- (108) For a presentation of these structural measures and their expected outcomes read Commissariat Général au Plan "Plan intérimaire : Stratégie pour deux ans 1982-1983" Documentation Française (1982).
- (109) See M. BEAUD (1983) and for a more complete outlook the Budget for 1982 Ministère des Finances, Imprimerie Nationale, octobre (1982). The stimulus of internal demand and the world recovery in the first quarter of 1982 were supposed to lead to a rate of growth in France of 3.3%. In fact it turned out to be less than 1.5 %, a discrepancy which is at the origin of the policy reversal of June 1982.
- (110) Paradoxically enough, the reflation strategy of June 1981 is more limited than the CHIRAC' reflation of 1975 and more evenly distributed though time, as can be shown by a systematic comparison of these two episodes (INSEE C. 108-109 Tome 1 (1983)).
- (111) For a recent study about the explanation of this loss of competitiveness in 1982, read INSEE "Le commerce extérieur de la France 1981-1982" Mimeographed Service de la Conjoncture INSEE, Septembre (1982) or for a brief summary see M. AGLIETTA, R. BOYER "Une industrie compétitive en France et dans le Monde" in Ministère de la Recherche et de l'Industrie "Une politique industrielle pour la France" Documentation Française (1983). Considering the latest information on 1983 this diagnosis seems to have overestimated the weakness of the French industry. Nevertheless the rapid reduction in external deficit at the end of 1983 has been reached through the decline of growth, quite unprecedented with respect to French historical records.
- (112) From the middle of 1981 to the second quarter of 1982, French inflation oscillates between 13 and 14 % while in her six main commercial partners, the rate of inflation steadily declines from 12 to nearly 6 % at the beginning of 1983 (INSEE, Tendances de la Conjoncture Novembre (1983)). For an interpretation of this discrepancy consult P. ARTUS (1983) previously quoted.
- (113) See again C.E.P.I.I. (1982) and note (65).
- (114) Nevertheless the budget deficit remained of moderate size. It represented respectively 2.4 and 2.8 of G.N.P. in 1981 and 1982 (INSEE "Comptes de la Nation " (1982) C 108-109 Tome 1 p 121). At the same period the deficit was far more important in other European countries.

- (115) According to these "contrats de solidarité", the State gives subsidies to firms when they reduce weekly hours in order to prevent lay-offs or to create new jobs. A second form of agreement concern the link between early retirement and hiring young workers. In fact the second type played a determinant role in the stabilization of unemployment rates.
- (116) At the moment where the article has to end —january 1984— the external deficit for 1983 has been reduced to 42 Billions, and the monthly figures of external trade exhibit a quasi-equilibrium. But almost all the other key-indicators are still in the red : public deficit around 3 % of G.N.P., inflation trends superior to 9 %, new surge of unemployment statistics above the objective of containing them below the symbolic figure of two millions. The fate of "Plan DELORS" is still an open question.
- (117) In June 1982 and March 1983, MAUROY's government insisted upon the continuity of this policy since may 1981, for evident political reasons. Nevertheless at the end of 1983, President MITERRAND himself recognized this new orientation of policy in a famous but unofficial interview by Diary "Libération".
- (118) See section II below. The length of the lag between a social political project and its implementation in the economic system is a major result of historical researches by CEPREMAP-CORDES (1977), Ch. ANDRE and R. DELORME use to insist too on the limits of any forms of voluntarism in economic policy. Hence a possible explanation of the disappointing reflation of 1981 : great institutional reforms do take time !
- (119) Just an example. When he came to power, the socialist government intended to foster the industries of the future and relied upon newly nationalized firms (in the electronics for example). Two years later, most of the State subsidies go to old public firms such as SNCF, EDF... In such a way that funding electronics, space, bio-engineering... is more and more difficult. So the investment of the public sector has not played the dynamizing role which was expected. Similarly the employment is now being reduced and not increased contrary to the hopes of the parties of the left.
- (120) The document elaborated under the impulse J.P. CHEVENEMENT, then Minister of Research and Industry, is representative of this offensive policy (allocation d'ouverture des journées de travail des 16 et 16 Novembre 1982 in "Une politique industrielle pour la France" (1983) already quoted).
- (121) The social unrest in the car industry since autumn 1983 enlightens the conflicting objectives of job preservation on one side, industrial modernization on the other. A compromise is being searched after by present Minister of Industry L. FABIUS.
- (122) In retrospect this intermediate plan supposed a rapid growth to solve all the ongoing problem of the French economy. A rate of growth superior of 3 % was expected contrary to the quasi-stagnation which prevailed.
- (123) The contrast between "Plan Intérimaire" and "IXème Plan" is rather accute. As regards the objectives compare Commissariat Général du Plan (1981) and (1983). The differences are significant too with respect to technical studies : emphasis upon keynesian reflation in 1981, upon external constraint and competitiveness in 1983.

- (124) Nevertheless the positive effects are obtained after steady policies pursued during six-seven years, while unemployment may increase meanwhile. See the forecasts and technical studies associated to the IXth Plan. Furthermore various econometric models —the annual DMS and the quarterly METRIC— don't give the same optimistic —at least at medium term— answer.
- (125) In the early days of French planning and in the Sixties, one objective of the planners was precisely to mitigate economic fluctuations and reduce uncertainty according to the views of former Commissaire au Plan P. MASSE ("Le Plan ou l'anti-hasard" Gallimard (1965)). This orientation has stimulated original research on economic policy (M. DELEAU, R. GUESNERIE, P. MALGRANDE "Planification, incertitude et politique économique. L'étude Optimix, une approche de la liaison court terme-moyen terme dans le cas de la France", Revue Economique (1973)).
- (126) This point is central in this interpretation by J. DELORS of the decline of the French planning in Stuart HOLLAND Ed. "Beyond capitalist planning" Basil Blackwell Oxford (1978).
- (127) The necessity of such a new social accord is specially difficult within the adverse trends generated by the present crisis. For more analyses of this apparent paradox, read the concluding paper of the book by R. BOYER, J. MISTRAL (1983) or the article in Futuribles, Octobre (1983) R. BOYER, J. MISTRAL "Politiques économiques et sortie de crise. Du carré infernal à un nouveau New Deal".

The first part of the report deals with the general situation of the country and the progress of the work. It is followed by a detailed account of the various projects and the results achieved. The report concludes with a summary of the work done and the prospects for the future.

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