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THE STATE AND ECONOMIC DEVELOPMENT

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"Economic Intervention in the History of the French
and other European States : A Comparative Study"

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RESUME

L'ETAT ET LE DEVELOPPEMENT ECONOMIQUE

Peut-on tirer des enseignements de l'histoire de l'industrialisation et de la comparaison internationale pour l'analyse des places et rôles respectifs du marché et de l'état dans le développement aujourd'hui ?

L'examen des économies industrialisées de marché révèle des anomalies durables par rapport à l'approche standard. Il convient de les analyser non comme imperfections par rapport à une norme, mais comme catégories d'analyse en propre. Un fil conducteur transversal au caractère composite et aux pratiques variées des économies de marché est proposé. Il s'inspire d'une formulation particulière du problème de la régulation. Il permet d'échapper à l'opposition entre défaillances de marché et défaillances publiques et de lui substituer le concept de défaillances de configurations institutionnelles. Les conséquences pour la politique économique sont évoquées en conclusion.

MOTS-CLES : Configuration état-économie, régulation, institutions, état circonscrit, état inséré.

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ABSTRACT

THE STATE AND ECONOMIC DEVELOPMENT

Are there lessons from history and from the comparison of state intervention in the French and other European economies which could be useful in the present discussion of the role of the state and the market in economic development ?

The cases of successful development exhibit a common commitment to the market logic. Yet the way it is practiced is specific to each country. These specificities point to the existence of mixtures of market, state and other institutions which must be studied - not negatively as anomalies but as positive objects considered in their own right. We propose a conceptual framework which enables us to substitute the concept of configuration failure for the notions of market and government failures. Finally, we discuss the consequences of this framework for economic policy making.

KEY WORDS : State-economy configuration, regulation, institutions, bounded state, embedded state

INTRODUCTION	1
I - THE RECORD.HISTORY AND COMPARISON	2
II - THE NEED FOR A NEW ANALYTICAL FRAMEWORK. FROM MARKET AND GOVERNMENT FAILURES TO CONFIGURATION FAILURES	5
1 - <u>A GENERAL HYPOTHESIS</u>	5
<u>Régulation</u>	6
<u>The industrial paradigm</u>	6
<u>The accumulation regime</u>	7
<u>The mode of régulation</u>	7
<u>The configuration of institutions</u>	11
<u>The state in régulation</u>	15
2. <u>ILLUSTRATION : STATE-ECONOMY CONFIGURATIONS</u>	15
<u>France : from bounded to embedded state</u>	15
<u>France and the Federal Republic of Germany compared</u>	17
CONCLUSION	20
REFERENCES	24

INTRODUCTION

Are there lessons from the history, past and present, of state intervention in the economy in France and other European countries which could be useful to the present issue of the role of the state and the market in economic development ? I shall answer "yes" but for reasons which are not commonly expressed in this debate.

My interest in the history of state intervention and in international comparisons of state intervention is not that of an historian, which I am not. It arises from what I have perceived for several years as a method more promising for understanding the role of the state in contemporary economics than the methods of standard public economics and of standard economic policy analysis, although the latter are methods in which I have been trained and which I followed when I became involved in this subject through the study of optimal planning and of the growth of public expenditure.

As with most social science questions, the right method is the one that fits the problem being addressed. The issue at stake is immense. I shall concentrate on what seems most important to me. Thus I shall not present a survey of the literature on the subject of state intervention. I shall only summarize some of the main findings, thus leaving more space to focus on what I consider as the main lesson, i.e. the need for a new analytical framework. This feature will make it necessary for me to mention some non-European cases, especially Japan and South Korea. These instances of successful development strengthen the case for the positive role of market orientation. However, while these cases exhibit a common commitment to the market logic, as all European countries also do, the way they practice it is specific to each country. These specifics usually appear as mere anomalies when viewed through the "glasses" of the standard market conformity literature. Yet these "anomalies" are persistent and successful in many instances. They point to the existence of mixtures of market and other institutions which must be studied not negatively as impurities but as positive objects considered in their own right.

I - THE RECORD.HISTORY AND COMPARISON

- 1 - French industrialization has been a very uneven historical process. This is familiar to all observers of the French economy. Hence the stop-and-start character of French development (ZYSMAN, 1977). The continuing presence of large numbers of peasants, small shopkeepers and small businesses resulted in compromises which were sources of structural rigidity and which impeded shifts in the allocation of labour and capital. This occurred in the context of a society whose distinctive character owes a lot to the early building of a strong centralized state which was already present when industrialization imposed itself as a driving societal force. It was a "stalemate society" (HOFFMANN, 1963). Yet a decisive impulse for economic and social change occurred after World War II. It challenged observers and is still a subject of reflection. Everyone, it seems, recognizes the important role of the state. But noticeable differences appear in the weight attributed to it (CARRE, DUBOIS, MALINVAUD 1972 ; KINDLEBERGER 1963 ; KUISEL 1981 ; ZYSMAN 1977 ; ADAMS 1989 ; DELORME, ANDRE 1983).
- 2 - France was a late-comer to industrialization, together with Prussia (GERSCHENKRON, 1962). The state was already present in a lot of activities, some directly related to industrialization, many others only indirectly related to it (finance, education, social care, public procurement, armament, together with tariff protection and subsidies). The relative paces of the growth of public spending and of economic activity were quite similar in France and in Germany before World War I (figures in Annex). Note, however, that a greater share of public spending in Germany was for social and economic functions. And the German level of industrial production was by far higher than the French one by the end of the nineteenth century. In both countries, as is clear from the graphs in Annex, the two World Wars and the crisis of the 1930's played an enormous role. Indeed they point to a basic phenomenon of the economic strategies that were to be followed in both countries after 1945 : the strategies were designed as reactions against the previous state of affairs, perceived as an indisputable defeat in Germany and as a defeat of archaic, antimodernist groups and structures in France. In France this resulted in a large consensus for modernization.

3 - The decisive drive took place in the Liberation period, through nationalizations and the design of national planning and the leadership of the Ministry of Finance (Direction du Tresor) in credit allocation. The First Plan (1946-1953) targeted six basic sectors. It illustrated a quite voluntaristic and discretionary government strategy ¹. The succeeding plans became increasingly indicative and even marginal in the 1970's and after (ESTRIN and HOLMES, 1983). A constant in policy orientation until the 1970's was the promotion of domestic production, without any equivalent concern for promoting domestic competition between firms. Still, the Plans and the economic policy programmes repeatedly stressed the challenge of international competition and the need for an adapted strategy as early as 1958, the period of the beginning of European Economic Community. Year 1958 stands as a second important turning point.

4 - Other important turning points have been the end of decolonization in 1962, the years 1981 to 1983 and the acceleration of European integration currently under way with its emblematic deadline of 1992.

In May 1981 a leftist majority replaced the rightist majority which had been in power without interruption since 1958. It decided on an ambitious Keynesian type programme, going against the stream of restrictive policies adopted in many other countries. It worsened the economic imbalances up to a point where its failure had to be acknowledged in March 1983, when it was decided that the French franc should be anchored in the European Monetary System. In practice, it proved to be a strong and lasting road to international openness, resulting in intense and spectacular changes of policy and structure that had been in place for decades, as is presented in section II below.

5 - What has been the impact of state policy on structural change in France ? One would be tempted to say that it has been significant, in spite of the difficulty of disentangling influences in any structural phenomenon. Another way of addressing this issue would be to know to what extent changes in evolution are associated with government initiatives. Once again the clearest case of such a link was during the immediate post World War II period, until the beginning of the 1950's.

The overall record is mixed. State intervention in industry

proved efficient in some sectors such as energy, aeronautics, railways, armaments, spacecraft by allowing large scale production and some shelter from competition. It failed when it attempted to promote sectors more open to competition and with rapid innovation (electronics, computer industry, machine tool industry) (ZYSMAN 1977, COHEN and BAUER 1985). Its role was also important in the financing of the economy. Here again it may have had a perverse effect due to the low cost of capital it introduced until the reforms of the 1980's.

Thus one may find that the most dramatic changes occurred in the changes in behaviour provoked by the openness to international competition which was initiated by decolonization and by the EEC creation and its recent acceleration. This trend has won a huge support. But this is a matter of foreign policy, as is stressed by W.J. ADAMS (1989).

- 6 - The comparison with other countries shows important variations. Italy had an overall growth rate similar to that of France and encountered important structural changes with a weak central state. Though Germany is said to have had no industrial policy it practiced the functional equivalent through so-called "structural policy", using a complex mixture of central and local state involvement in generally horizontal non selective programmes.

The spectacular cases of Japan and of some other East Asiatic success stories, such as South Korea, cannot be avoided at this stage. What is puzzling is the disagreement among experts on these countries as to the true role of the state (JOHNSON, 1982 ; TREZISE, 1983 ; AMSDEN, 1989 ; AOKI, 1986 ; BERQUE, 1987 ; MORISHIMA, 1982 ; VOGEL, 1979 ; YAMAMURA and YASUBA, 1987).

Although most governments today display a general commitment to free trade and to more liberalism there are deep differences in the way national economies define the free market and practice it. The overwhelming weight of informal norms in Japan, the characteristics of organized capitalism in Germany in the "social market economy" form, "sozial partnerschaft" in Austria, the "negotiated economy" in Scandinavian countries, the mixed economy in France, the pervasiveness of local alliances and networks in Italy are examples of such practices in otherwise market economies. These features point to lasting, sustainable specificities (ZYSMAN, 1983 ; LODGE and VOGEL 1987 ; HALL

1989 ; PORTER 1990). There is a growing evidence that these variations across countries should no longer be neglected in the analysis of structural change and should be studied as positive objects in their own right.

- 7 - This rapid survey suggests that a better understanding of the role of government ² in development and of its articulation with "the market" implies an improved knowledge of the way particular economies function as mixtures of a more or less strong market commitment and quite varied practices of it.

II - THE NEED FOR A NEW ANALYTICAL FRAMEWORK. FROM MARKET AND GOVERNMENT FAILURES TO CONFIGURATION FAILURES

A general framework is presented in this section. Limited space does not allow me to go into the details of its workings. Thus I offer a general hypothesis followed by an illustration of its application. Some consequences for development issues are considered in the conclusion.

1 - A GENERAL HYPOTHESIS

This section is intended to suggest a tentative theoretical approach which would grasp, albeit partially, the features summarized in the previous section. My starting point is to ask how to account for contemporary differences in the state economy nexus over time and across countries. The corollary question is whether there is some common leading thread among these variations. To devise such a unifying framework is one of the tasks pursued for more than a decade, in the context of an analysis of long run and structural change in advanced capitalist economies, by what has come to be called "régulation" theory in French, where it originated. It has since gained popularity in other countries. (PIORE 1987 ; DOSI et al 1988 : MARGLIN and SCHOR 1990). It is my assumption that this approach can be extended to less advanced capitalist countries and, broadly speaking, to market-oriented economies, a category which is bound to expand in the coming decades in the wake of the general failure of centrally planned economies.

Regulation is defined in a way which differs from its common meaning in economics. It does not refer to the usual triplet regulation-stabilization-

redistribution used to describe the functions of government, although they are part of the conception I present. Thus, for the sake of clarity, I keep the French orthograph with the acute accent on the e.

Finally, though the approach is common now to a number of economists, there remain differences in the ordering of concepts ³. I will refer here to my own research on the role of the state (DELORME, 1988, 1991).

Régulation

In essence the concern of régulation theorists is to describe how economic systems change while keeping their basic principles of organization. Tension and conflict, unevenness of development, disequilibrium, mutual dependence and order are basic to this reasoning ⁴.

I define regulation as the process through which a given type of order or consistency obtains in a complex entity -a socio-economic system- which is itself submitted to a never ending tension.

It thus differs from the idea of tuning, of a conscious adjustment mechanism. As BOYER writes "the process of fitting production and social demand in a given set of structures and institutions is always an uneven, unbalanced and usually contradictory consequence of very partial rationalities and strategies, however integrated modern corporate economies may seem" ⁵. Why then, notwithstanding these disruptive pressures, are there alternating phases of stable growth and crisis ?

The industrial paradigm

All economies are undergoing an intense and extended structural change at present, bringing imbalance and uncertainty. The current concern about Japanese methods of management, of production and of work organization and the comparisons with their occidental counterparts point to a sort of rediscovery of the fact that economic performance and competitiveness start on the shop floor (DERTOUZOS et al 1989 ; FERGUSON 1990 ; OUCHI 1981 ; PORTER 1990, Various authors in HBR, 1990 ; REICH, 1990; AOKI, 1990).

The word paradigm refers to a dominating principle. History tells us that although some sectoral heterogeneity has always existed, some dominating principles of work organization have prevailed. They are taylorism and fordism (taylorism with the addition of mechanisation). Will the system initiated and

so well developed by TOYOTA Corp., relying on extended cooperation on the shopfloor, on skilled and polyvalent labour, and on particular methods of management, gain wide usage in the years to come and have the same fate as its predecessors ? It seems that a majority of experts would answer positively for several industries, viewing its adoption as the only way to face Japanese competition, even if it would need to be adapted to differing sectoral or national contexts.

The accumulation regime

Micro units are mutually dependent. Apart from the set of regularities which are prevailing in a given period, there is also a set of regularities which ensure the continuity and the macroeconomic consistency of the accumulation of capital. Given the way productivity is obtained in the process of production, the accumulation regime is based on (i) the way aggregate income is divided between profits and wages ; (ii) the distribution between consumption, saving and investment, thus defining a volume and a composition of a effective demand validating the trends in productive capacity ; (iii) a particular set of relationships between capitalist and non-capitalist structures of production.

Hence an accumulation regime is defined by the set of regularities identified at the level of a whole economy which are articulated in a consistent way, enabling a more or less coherent evolution of capital formation, thus dampening and spreading over time the imbalances which permanently arise from the process itself. Macro models can be built along these lines (BOYER, 1988).

The mode of régulation

The notion of an accumulation regime is very abstract indeed. How can actions performed by a multitude of decision units whose perceived interests and objectives are diverging end up in a consistent whole at a community or macro economic level ? A set of rules of play must be introduced. They are mutually dependent and thus compose a system. They are in the nature of institutions. They have been introduced by AGLIETTA under the term "structural forms" and by BOYER as "institutional forms". They basically denote codifications of the main social relationships. In other words they are the

principles of organization of a given socio-economic system defining what I call "a given type or order".

This refers to the basic and lasting features which allow one to identify an economy as having unity over time. Accordingly one can say that Britain, the USA, Germany, and France have remained capitalist or market economies, though changing, and also that there are significant differences among them not to speak of the differences with the Japanese economy. And yet no one would say that Japan is not a market or a capitalist economy today.

Five such institutional forms are identified. They are :

- monetary and credit relationships
- the type of competition and property rights
- the wage-labour nexus
- the forms of state intervention
- the relationship with the international economy.

These are codifications of the basic principles of organization of the system. If one of them would be destroyed, there would be a change in the nature of the system. For instance, the elimination of competition and of private property would entail a new system which could hardly still be called a capitalist system. It is through the play of institutions in these areas that overall regulation obtains.

Now, how does production adjust to demand, credit to money, finance to capital formation needs, income distribution to demand formation ? There exist several ways or forms of régulation through which an adjustment process for the economy as a whole may or may not be induced.

This is the issue of co-ordination. The key to it lies with the working of the institutions in each of the five areas. Markets are a subset of institutions. Their common denominator is to be a competition space. This does not include all economic behaviour. Hierarchies are another type of conduct (organizations, so-called internal markets). The state is such a type of organization. There are still other types of behaviour, based on loyalty and other motivations (family, clans, associations). They may all be considered institutions, i.e. as social regularities which, through the operation of tradition, custom, convention, contract or constraint, tend to create durable and routinized patterns of behaviour.

Hence it seems proper for our purpose to consider that what we are calling institutional forms are composing the five régulation areas. These provide a way to point to the location of tensions in the economic system.

A mode of *régulation* is a set of institutions having the three following properties when *régulation* obtains.

1. It makes potentially conflicting decentralized decisions compatible without the necessity for decision units of gathering the information necessary to understand the working of the entire system.
2. It controls the accumulation regime and makes it compatible with the industrial paradigm through a more or less lengthy adjustment process.
3. It perpetuates the basic systemic relationships defined as regulation areas. If one refers to the industrial paradigm as representing the microeconomic level and to the accumulation regime as the macroeconomic level, then the mode of *régulation* appears as both mediating between these levels at a meso-economic level and being part of these levels, as schematized on figure 1. The mode of *régulation* is not a category "outside" the two other ones. Though it represents the connexion between them it also operates within them. In other words it defines the rules of the game which apply to the industrial paradigm, to the accumulation regime and to their articulation.

The combination of these three categories defines a mode of development or an economic regime. It is schematically pictured in figure 1.

It is immediately necessary to emphasize that nothing is mechanical in what has just been said : tension and the potential for crisis are never eliminated. Though the word crisis may be confusing, it is basic to the *régulation* approach to distinguish, on the one hand, cyclical crises such as the business cycle, which are a usual feature of any stabilized mode of *régulation* and, on the other hand, structural crises. In the latter case the very functioning of *régulation* comes into contradiction with the existing mix of institutions which must then be modified. This is the nature of structural change.

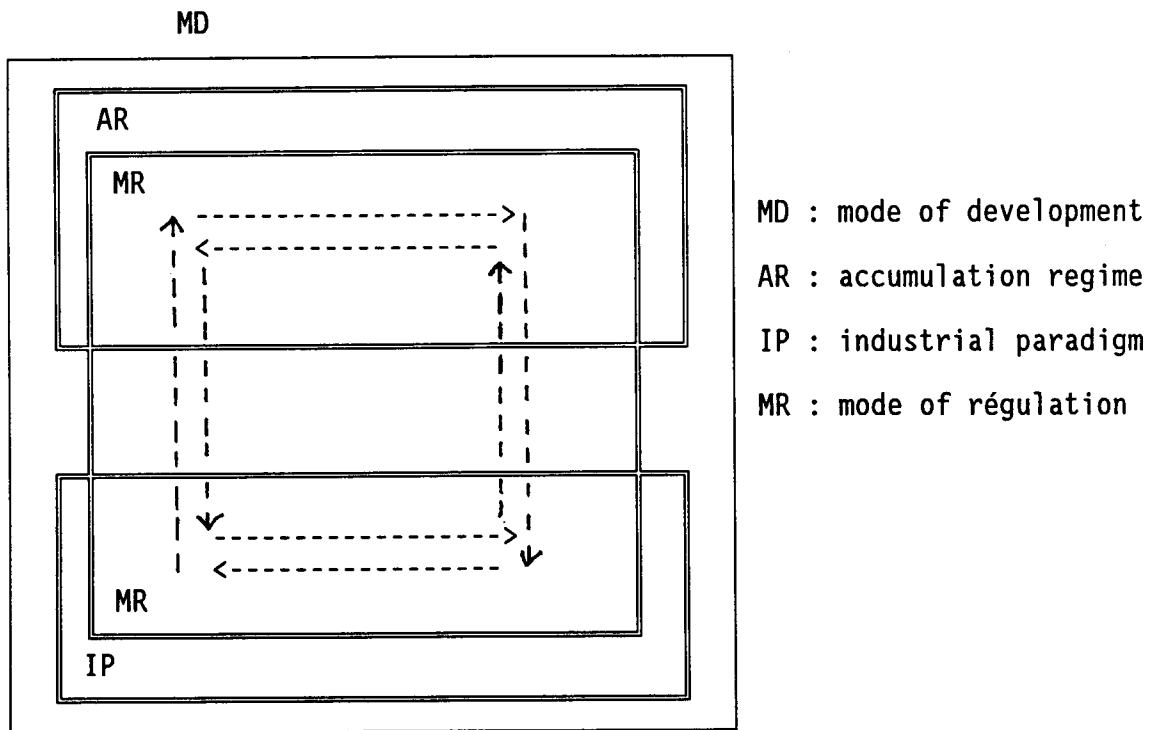


FIGURE 1

THE POSITIONING OF THE BASIC CATEGORIES

The key notion is the mode of régulation and the unit of analysis is the institution. This is not tantamount to excluding individuals by considering them as objects whose trajectories are determined by institutions. Simply, whatever autonomy they have, it is quite bounded in the short run. It is more difficult and costly for any individual to behave against the rules of the game than to abide by them. And these rules are social objects whose intentional modification takes time and energy.

One can say of individuals and institutions what Frank KNIGHT said of the river and its channel : "... for the time being the channel locates the river, but in the long run it is the other way". Of course long run in human matters is undoubtedly shorter than in geology ! ⁶

Hence the mode of régulation is a mix of institutions and of actors behaving in the space defined by the institutions. The institutions and actors operate in the five areas, which are present in all capitalist economies.

The key to the study of variation among economies lies in the mix of institutions. Though they are present in all economies, they differ greatly in practice and in their relative importance. A better understanding of the

state-market relationship thus depends on a better knowledge of the whole mix of institutions.

The configuration of institutions

To a large extent institutions channel human behaviour through the coordination of activities and the mediation of conflicts. In standard economics the market is the primary institution having such properties. Government intervention plays the same general role. Overcoming prisoner's dilemma situations through government action is a clear example of co-ordination, though it obeys a logic of hierarchy and of legitimate power. This same logic relates obviously to the mediation of conflicts.

But other logics of coordination exist: family, clans, alliances, associations, etc. Although they may not currently be considered as the driving force, they do play a role in the way most market economies operate. Japan is an especially spectacular instance of this phenomenon. But as we suggested in the first section it is far from being limited to Japan.

Coming back to hierarchy and competition, one can hardly avoid recognizing how more difficult it is to come to grips with these notions than a common wisdom would tell. FAVEREAU, for example, has proposed three distinct categories of markets (FAVEREAU, 1989). The first is that of general equilibrium theory, in which the price is the clearing variable. In actual life it presupposes that the market is precisely organized. The stock exchange and the commodities exchange are the two examples of it. These markets are governed by competition. At the opposite end of the spectrum are "markets" governed by protection from competition, of which the organization of labour use within the firm, as an internal market (DOERINGER and PIORE, 1985), is the main instance. The third category is that of markets for goods and services in which competition takes place between organizations (firms) and in which prices operate primarily as financing variables for organizations. Now, I do not intend to engage in a debate over the validity of these categories. The distinctions simply suggest that the Walrasian way of looking at an economy implies two basic assumptions : (i) any economy can be reduced to its markets ; (ii) any market can be reduced to stock exchange case. This view is too narrow. It lacks generality. Habits, rules, conventions, some varying forms of organization, in other words institutions, be they formalized or informal, are preconditions for the functioning of any market.

At this stage it seems justified to distinguish between external markets, governed by the principle of competition and institutions governed by a different logic, be it hierarchy ("internal" markets, public bodies), networking or something else. State activity lies primarily in the category of hierarchical institutions. In a detailed analysis we should also account for those public enterprises belonging to competitive markets.

All this can be summarized by a symbolic representation. Denoting by m the institutions having to do with competition, by h those dominated by the hierarchy logic, i.e. organizations, by o the other institutions, and numerating 1 for private hierarchies and 2 for public ones, it is possible to represent the configuration of the main institutional forms of an economy as the complex C :

$$C = [m, mh_1, h_1, h_2, 0]$$

where m is the first type of market mentioned above,

h_1 is the second type (internal market),

mh_1 is the third type (competition between organizations),

h_2 is state organization,

0 other ⁷.

What is usually considered as "the market" is the external market. According to this view it is useful to distinguish between external markets and organizations.

Institutional arrangements include arrangements which link institutions. There is a large variation of them in the allocation of resources especially for those provided by "the market" and by government. Here it is suggested that the important opposition is not between market and government allocation, but between external market and organization, the ambiguous -though prevalent- category mh_1 notwithstanding. In most cases, whether a good will be provided, produced or financed through competition or through organization is a matter of institutional arrangements, apart from the trivial cases of general

administration, law, armed forces and the relationships with other states. This may explain why the public goods literature is still in such flux.

According to our representation the cure for "government failure" may be market or any other organizational provision. Conversely, the cure for "market failure" may be government intervention.

Admittedly this brings us far from the view that everything which differs from the market is an imperfection or a degradation of it, thus enabling us to see supply and demand curves everywhere and preserving the possibility of mathematical formalization. The trouble with the alternative approach presented here is that no useful mathematical formalization is available, apart from the very abstract and too general formalization of dynamic complex systems theory. In choosing the lesser of two evils, between being roughly relevant or precisely irrelevant, I have opted to the first alternative.

The orthodox conception views all institutions as differing from the perfect market, (best approximated by the stock exchange) through a continuum of increasingly imperfect markets defined with respect to this reference. The alternative conception views these "imperfections" not as degradations of a normatively defined reference, but as differences in the articulation among varied institutions considered as positive objects in their own right. A theory of differences is what is called for.

Let us denote as a "configuration" the set of institutions in a given period on a given territorial space, defined, for the sake of simplicity, as a nation. Two conjectures may be raised.

One is "normal" in the sense that the régulation process obtains. Hence the institutional configuration sustaining it may be considered efficient. Malfunctions may occur in any one of the institutional forms but without destabilizing the whole configuration. In this sense one may identify some source of market failure (m, mh_1), government failure (h_2), or failure of any other organization ($h_1, 0$) or of a combination of them. The remedy may involve some arrangement within a given institutional form or among various institutions without modifying the overall logic of the configuration.

The other conjecture applies to abnormal periods, ie cases in which the régulation system fails to perpetuate the structural regularities which prevailed. Then the mode of régulation itself is challenged. What is at stake is a failure of the institutional configurations as such, ie of the system of institutional forms and of their interdependence. Instead of attributing

failure to particular elements of the configuration, we define this situation as a configuration failure.

In this conception, one can expect that in a normal or stabilized phase the institutional forms remain rather stable and thus are easier to isolate for study than in periods of intense structural change. In this way it is possible to define characteristic configurations of the state-economy relationship as illustrated in the next paragraph.

The basic skeleton of the mode of régulation is pictured on Figure 2.

Institutions					
Régulation areas	m	mh1	h1	h2	0
1. Money and finance	<div>MR</div>				
2. Competition					
3. Wage labour nexus					
4. State					
5. Relationship with other economies					

FIGURE 2
THE MODE OF REGULATION

The state in régulation

What has been said until now illustrates the many sided nature of the state in its relation to economic activity.

On one level, the state is three different things at the same time : an actor, an institution and a régulation area.

On a second level is the logic of state action. Again, a distinction between three terms must be introduced. The first is coordination, quite familiar to economists. A second logic is legitimization, the process through which something is accepted as being just and equitable, even though there may be coordination failures (unemployment, large inequalities). Of course in times of successful coordination this very success is in itself a source of legitimization. But in case of crisis, legitimization per se becomes crucial. Social policy, public provision of education, government and political action through the media are examples of this role. Another dimension of legitimization is the obedience of global norms and public restraint.

Here we reach the last and most specific function of the state, that of the ultimate legitimate power through its quality of sovereignty. This dimension should never be forgotten : on the one hand it accounts for a good amount of public intervention and utilization of economic resources. On the other hand it is always a potential form of action for the state when coordination and legitimization appear insufficient for the attainment of given goals. It operates as an institution among the complex of other coordinating institution. But it also operates at a higher (meta) level, that of society, in its relation with civil society. In this sense, it is part of the process of creation of the institutions included in the complex.

2. ILLUSTRATION : STATE-ECONOMY CONFIGURATIONS

The purpose of this section is simply illustrative. The general hypothesis of stable periods separated by disruptions originates from a time series analysis of state intervention in France. The comparison with the Federal Republic of Germany over the last two decades is a way to test its relevance to other countries.

France : from bounded to embedded state

The identification of two successive configurations of the state-economy nexus over the last two centuries in France was based on the finding of different regularities prevailing in different periods. It can be summarized in the following way.

The first configuration extends from the middle of the XIXth Century to World War I. Its main features lie in the submission by the state to the business cycle, to a monetary and financial constraint (gold standard, the public debt is reimbursed, inflation is low), and the implementation of a new system of rights permitting the development of the wage labour relation, which in turn brought state intervention in defense of the public order -not as a recognition of a specific nature of social conflicts. The state is thus limited, circumscribed by so-called free economic activity. This is a radical change from the prior situation. But the state protects industry and agriculture, is an important outlet for industry, controls a lot of activities, and provides an important and profitable opportunity for banks and savers because of its permanent indebtedness in a period of price stability. The state is thus far from being "non interventionist". It is simply bounded.

A new configuration has arisen since World War II which I define as the embedded or inserted state. It emphasises the profound changes which started with the historically unprecedented level of destruction in World War I and the massification of social life through the war economy. As a result of the interwar disruptions and World War II states became increasingly responsible for macroeconomic stabilization. This movement has been common to all industrialized countries. But it took very varied forms. A new type of money management, a new concern toward employment, the labour force and growth were the major features through which the so-called welfare state was established. In my opinion this wording is somewhat misleading since the change bore not only on welfare but also on the whole range of *régulation* areas. The result was an entirely new logic, not that of the state being bounded by and subordinate to the economic sphere as in the previous configuration, but that of the state, as such, being held responsible for macroeconomic equilibrium and growth. In that sense the state became embedded in economic activity. This posed little problem as long as rapid and sustained growth obtained. Success could easily be attributed to clever coordination. In itself growth was the driving element for the legitimization of government action.

This trend proved consistent as long as domestic accumulation remained the driving force. Downward pressure on profitability, growing exposure to

world markets, new competitive pressure, and technological change were among the new trends whose development ended in the new logic or international competitiveness as being the main challenge. Domestic accumulation now must adapt to this logic.

What kind of impact is the new logic likely to have on the role of the state ? According to the hypothesis presented here one would expect first that the very principle and logic of state embeddedness will continue to hold. The systemic nature of advanced industrialized countries prevents any return to a pre-embeddedness situation. Second, one would expect that since competitiveness is becoming the imperative, national style configurations which confront this challenge will come under less pressure for change than configurations which contain little or no concern about it. The comparison between France and Germany in the recent years offers a test of this assumption.

France and the Federal Republic of Germany compared

The figure below synthetizes the results of research on the way structural change is affecting state economy configurations in France and Germany. It illustrates a manner of fitting column h_2 crossed with the five headings associated with régulation areas in figure 2. For every régulation area a distinction is made between the regularities which have prevailed since the post-War years and their major modifications over the last decade.

The pace of change and its intensity are higher in France than in Germany. This has been especially so since the spectacular turn in economic policy in 1983, which brought changes in monetary policy and financing structures, liberation from price control and privatisations, more flexibility on the labour market, decentralization of the state, and European integration. No such turn appears in Germany. The present reunification may reinforce some state centralization. But it remains to be seen if the basic regularities supporting the practical embeddedness of the state in Germany, which have proved so successful until today, will be dramatically transformed by the ongoing reunification.

FIGURE 3

SYNTHESIS OF THE BASIC FEATURES OF THE STATE-ECONOMY NEXUS
FRANCE AND THE FEDERAL REPUBLIC OF GERMANY COMPARED

Champs de l'intervention publique	France	R F A
Monnaie et financement	<ul style="list-style-type: none"> . Politique monétaire et politique budgétaire considérées comme deux éléments, mis sur le même plan, d'une politique économique d'ensemble . Place importante de l'Etat dans le financement 	<ul style="list-style-type: none"> . Stabilité des prix comme objectif premier de la politique monétaire assurée par une banque centrale indépendante du gouvernement, contraignant la politique budgétaire . Place essentielle du système bancaire dans le financement des entreprises
	----- Modifications récentes	
	<ul style="list-style-type: none"> . Croissance de la dette publique . Réforme des marchés monétaire et financier visant à les développer 	<ul style="list-style-type: none"> . Croissance de la dette publique . Réforme des marchés monétaire et financier (moins importante qu'en France)
Concurrence et activités productives	<ul style="list-style-type: none"> . Politique industrielle menée par l'Etat central . Réglementation de la concurrence . Réglementation des prix . Entreprises publiques 	<ul style="list-style-type: none"> . Pas de "politique industrielle" mais interventions circonscrites de l'Etat central et des Länder . Rôle du système bancaire dans les décisions des entreprises . Réglementation de la concurrence . Liberté des prix . Entreprises publiques
	----- Modifications récentes	
	<ul style="list-style-type: none"> . Libération des prix . Privatisations 	<ul style="list-style-type: none"> . Privatisations

Source : ANDRE and DELORME (1989).

continued on next page

(FIGURE 3 CONTINUED)

Force de travail	<ul style="list-style-type: none"> • Système d'enseignement centralisé (compromis institutionnalisé) et importance de la formation générale • Sécurité sociale (compromis institutionnalisé) • Accords tripartites • Conventions collectives à caractère national 	<ul style="list-style-type: none"> • Enseignement relevant des Länder. Importance de l'enseignement professionnel et technique et de la formation dans les entreprises • Sécurité sociale (compromis institutionnalisé) • Codétermination (compromis institutionnalisé) • Conventions collectives à caractère régional

Modifications récentes		
	<ul style="list-style-type: none"> • Reconnaissance du caractère inadapte du système d'enseignement • Tensions sur la sécurité sociale (financement, organisation) • Incitation aux négociations dans l'entreprise • Encouragements de la flexibilité (travail à durée limitée, temps partiel, différenciation des contrats de travail) 	<ul style="list-style-type: none"> • Tensions sur la sécurité sociale (financement) • Fréquents allègements fiscaux pour les ménages (atténuent les revendications salariales) • Extension de la codétermination • Encouragements de la flexibilité (travail à durée limitée, temps partiel, différenciation des contrats de travail)
Formes de l'Etat, politique économique	<ul style="list-style-type: none"> • Etat centralisé • Planification indicative • Objectif: plein-emploi, croissance 	<ul style="list-style-type: none"> • Fédération d'Etats • Place importante de la politique des régions • Coordination partielle entre les niveaux administratifs (réformes de 1967 et de 1969) • Economie sociale de marché • Objectif: stabilité des prix; croissance compatible avec la stabilité des prix; exportations

Modifications récentes		
	<ul style="list-style-type: none"> • Décentralisation • Perte d'influence de la planification • Importance accrue de l'objectif de compétitivité 	
Articulation entre l'économie nationale et l'économie internationale	<ul style="list-style-type: none"> • SME: exerce une contrainte; moyen d'imposer la rigueur • Dévaluations à intervalles espacés 	<ul style="list-style-type: none"> • SME: n'exerce pas de contrainte; moyen de faciliter la compétitivité • Gestion du change avec le dollar comme contrainte

Modifications récentes		
	<ul style="list-style-type: none"> • Renforcement de la contrainte extérieure; compétitivité comme problème principal. 	<ul style="list-style-type: none"> • Intensification des difficultés dues à l'instabilité monétaire internationale

CONCLUSION

The level of development of a country relates to productivity, employment, income distribution and the degree of satisfaction of basic human needs. These in turn are dependent on actors, institutions, and the way their interrelations end up in macroeconomic consistency. The clustering in patterned wholes of these factors is the characteristic of industrialized economies. While technology is an important factor, it is the integrated nature of economic relations that makes them appear as systemic and more or less sustainable. Organization is the key.

History and comparative analysis suggest forcefully that there is no one best way, no optimal mixture or organization of the basic institutions and actors. This suggests also that any narrow notion of efficiency may not be suited to the issue. Japan is not less efficient than Britain or the USA, although there seems to be growing evidence that Japan is not more market oriented than the other two countries. It is often stressed that successful countries have some particular advantage in international trade. It would then be tempting to advocate a strategy focusing on comparative advantage as the key to competitiveness. However, there seems to be more evidence that an economy specializes in some industries because it is competitive in those industries, not the other way round. As intra-industry trade increases, the firm is becoming a more relevant focus for building advantage than the mere reliance on sector or product.

We are driven back to the factors that made development feasible and lasting in developed countries. Though nowhere was the state absent from economic life, it would be exaggerated to put the credit of development on conscious and planned action by the state on a permanent basis. The Meiji restoration in Japan and the 1st Plan period in France were exceptions. Modes of development are discovered rather than planned. They are the outcomes of processes of learning and imitation. There is no global subject able to plan and impose industrial and management strategies, accumulation regimes, and to guarantee their successful implementation. According to the hypothesis presented here, though the state is different from other institutions and actors in the economy, its strategies are pursued within a structural context which is both constraining and facilitating. Initial conditions play an important part. The so-called fordist mode of development in France was not the outcome of a policy explicitly aimed at creating such a system.

It was the result of a conjunction of complementary phenomena adding up to a virtuous circular process of economic development. What has been considered the success of macro-economic management would not have succeeded had not the accumulation conditions and the institutional and structural context been favourable. The French experience of 1981-2 illustrates this a contrario. Moreover, one should not overlook the role of the favourable initial conditions of post-War growth (needs created by the War, a general perception of lagging behind the US, little or no internal or external opposition to the new policy orientation).

Although the ex post outcome is not controllable a priori, this is not equivalent to saying that development policy is useless. History shows that the state has always been active in latecoming countries and the theory presented in this paper supports the role of the state in régulation. We have emphasized the importance of organization, which is specific to each country, although some basic development problems are common to a variety of countries (e.g., agrarian population, low skilled labour force, population growth, indebtedness, inflation, and lack of integration between the various parts of the economy). Strategic pragmatism may well be the correct name for development policy today.

It can best be supported by a policy of process rather than a deterministic one. The first main strategic resource is certainly more than ever the ability to cope with time i.e. to win some form of stability. This cannot be obtained without some degree of legitimization of the policy pursued and some mobilization of economic forces. Increased competition is a way to discipline behaviours and orient them towards learning, product quality and cost consciousness. Its sustainability requires a strong and disciplined state.

Finally it is my conviction that more insight into the orientation of development policy could be gained by enlarging our repertoire of arrangements that we know to be possible and potentially successful in a given country or a given industry at a particular time and place. The framework sketched out hopefully provides a first step in this direction.

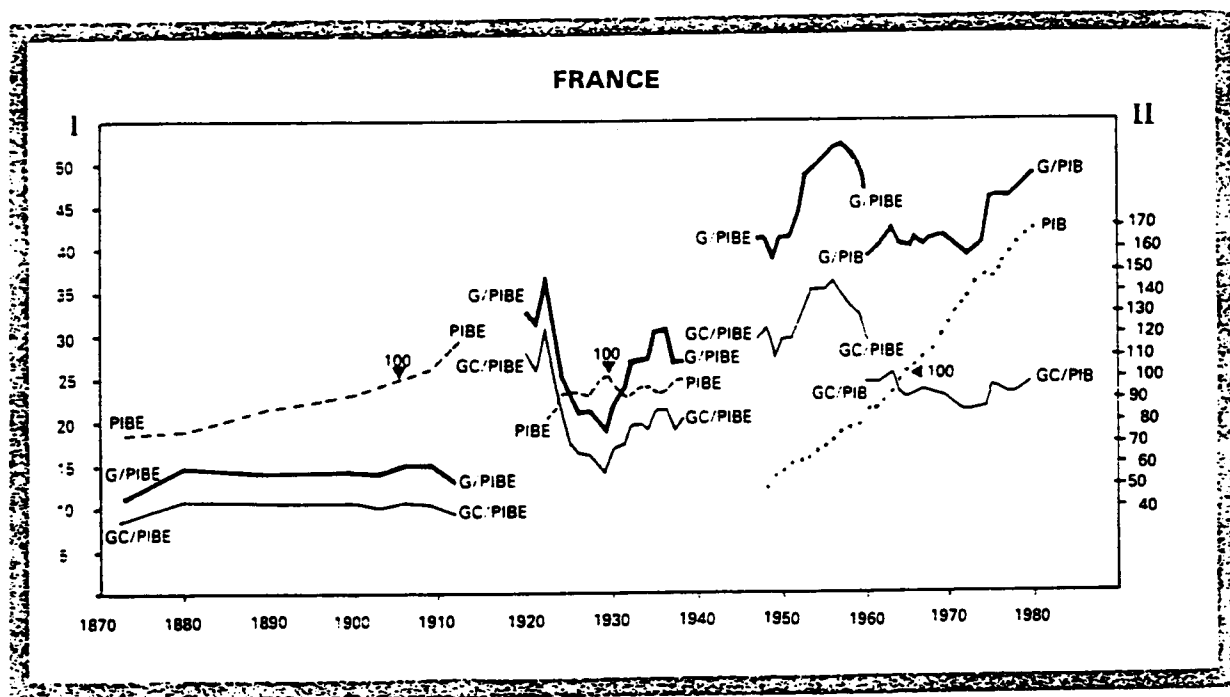
ÉVOLUTION DE LA PRODUCTION INTÉRIEURE BRUTE ET DU PRODUIT INTÉRIEUR BRUT PAR TÊTE ET POURCENTAGE DES DÉPENSES PUBLIQUES PAR RAPPORT A LA PIB ET AU PIB

G/PIBE : Pourcentage des dépenses publiques totales par rapport à la PIB
 GC/PIBE : Pourcentage des dépenses du gouvernement central par rapport à la PIB
 G/PIB : Pourcentage des dépenses publiques totales par rapport au PIB
 GC/PIB : Pourcentage des dépenses du gouvernement central par rapport au PIB
 PIBE, PIB : Indice d'évolution de la PIB de 1870 à 1940, du PIB de 1945 à 1980* (par tête, à prix constants)

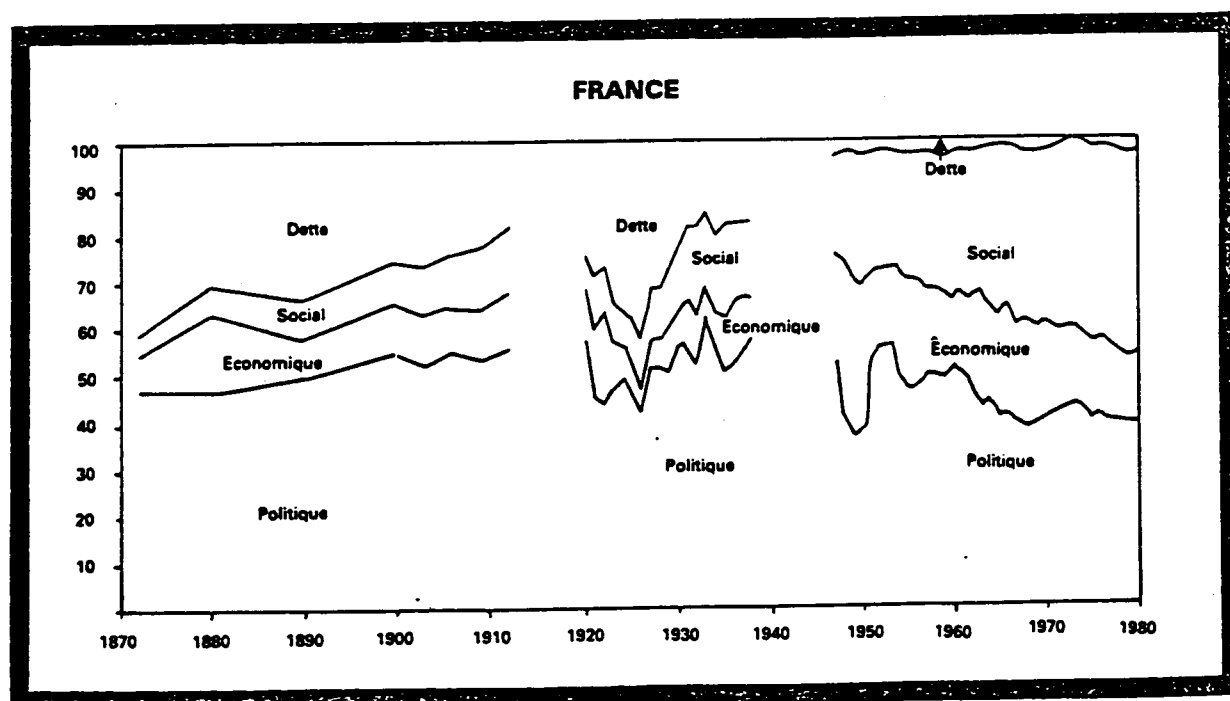
I. Axe des pourcentages

II. Axe des indices de la PIB et du PIB par tête à prix constants (1870-1915 : la PIB base 100 en 1906; 1920-1940 : la PIB base 100 en 1930; 1945-1980 : le PIB base 100 en 1965)

* La série du PIB n'est disponible que depuis 1959. Pour les années antérieures (1945 à 1958), l'indice est construit sur la base d'une hypothèse d'évolutions semblables du PIB et de la PIB.



STRUCTURE DES DÉPENSES DU GOUVERNEMENT CENTRAL DE LA FRANCE PAR DOMAINES



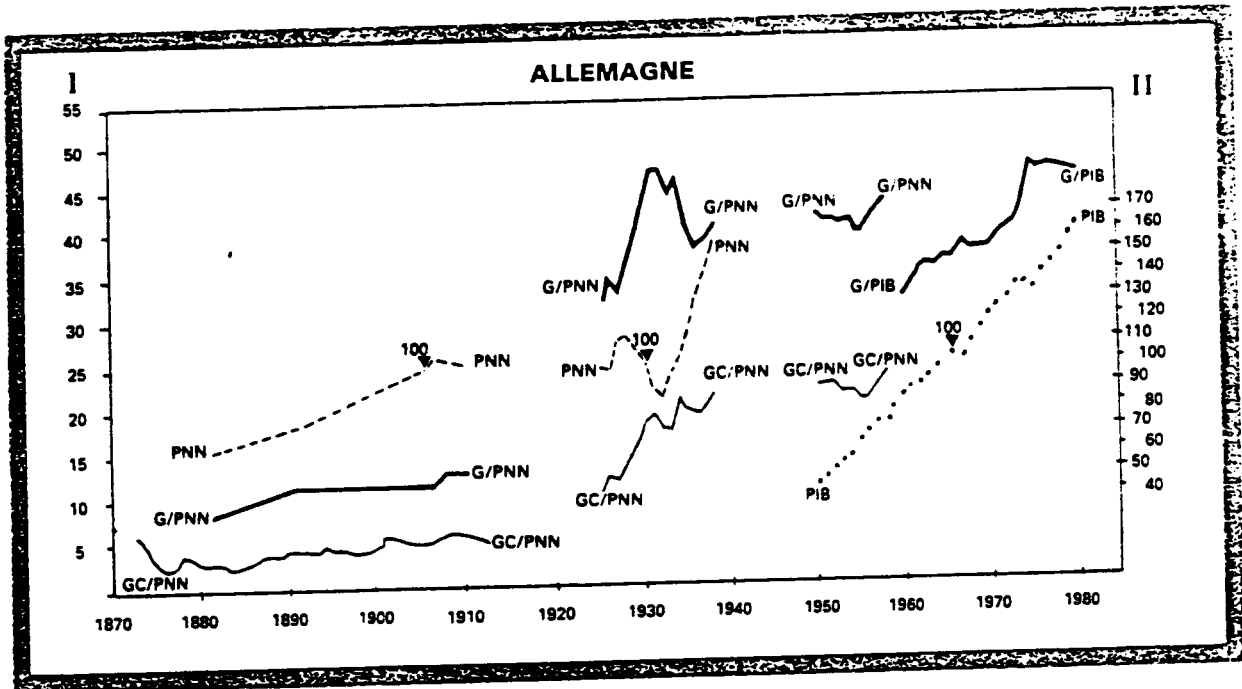
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ANNEX

ÉVOLUTION DU PRODUIT NATIONAL NET ET DU PRODUIT INTÉRIEUR BRUT PAR TÊTE
ET POURCENTAGE DES DÉPENSES PUBLIQUES PAR RAPPORT AU PNN ET AU PIB

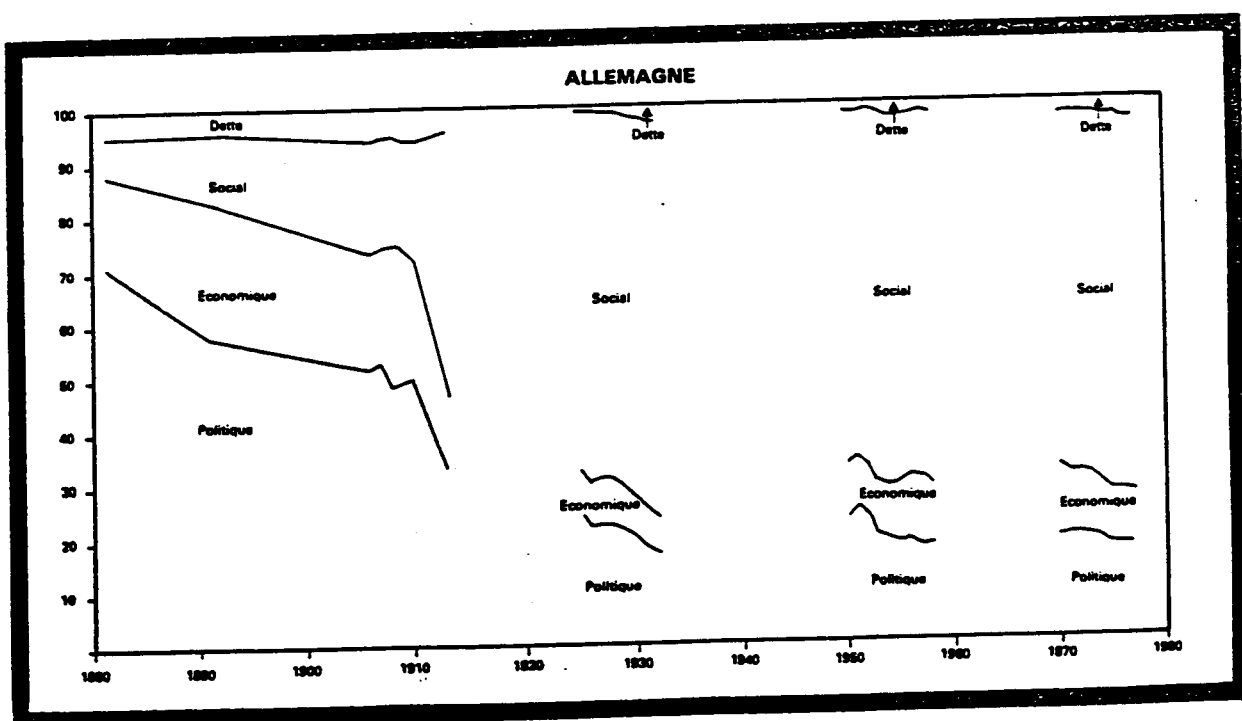
Allemagne

G/PNN : Pourcentage des dépenses publiques totales par rapport au PNN.
GC/PNN : Pourcentage des dépenses du gouvernement central par rapport au PNN.
G/PIB : Pourcentage des dépenses publiques totales par rapport au PIB.
PNN, PIB : Indice d'évolution du PNN de 1870 à 1940, du PIB de 1950 à 1980 (par tête à prix constants).

I. : Axe des pourcentages.
II. : Axe des indices du PNN et du PIB par tête à prix constants (1870-1915 : PNN base 100 en 1906 ; 1925-1940 : PNN base 100 en 1930 ; 1950-1980 : PIB base 100 en 1965).



STRUCTURE DES DÉPENSES PUBLIQUES TOTALES EN ALLEMAGNE PAR DOMAINES



Source : ANDRE, DELORME (1983).

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NOTES

1. The 1st Plan covered the reconstruction period 1946/1953. It took the form of production programmes with investment requirements for six sectors considered as basic to the economy : coal, electricity, steel, cement, agricultural machinery and transportation. It was subtitled "modernisation or decadence". Its objectives were satisfactorily achieved.
2. I use as synonyms the terms government and state though it would be necessary to maintain the distinction between them in other contexts (EVANS et al., 1985).
3. A more detailed presentation of the general model, albeit without any focus on the state's role, is in BOYER (1988).
4. It is thus somewhat similar to Commons' premise (WILLIAMSON, 1989). However its contention is to go further in theorizing.
5. BOYER, *ibid.*, p. 68.
6. Quoted by G. HODGSON (1988), p. 20.
7. One could add in a more detailed presentation networks between institutions and actors, notably between firms (HOLLINGSWORTH, 1990).