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French capitalism transformed, yet still a third variety of capitalism

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Abstract

Rather than one or two varieties of capitalism, this paper argues that there are still at least three in Europe, following along lines of development from the three post-war models: market capitalism, characteristic of Britain; managed capitalism, typical of Germany; and state capitalism, epitomized by France. While France's state capitalism has been transformed through market-oriented reforms, it has become neither market capitalist nor managed capitalist. Rather, it has moved from 'state-led' capitalism to a kind of 'state-enhanced' capitalism, in which the state still plays an active albeit much reduced role, where CEOs exercise much greater autonomy, and labour relations have become much more market-reliant.

Keywords: capitalism; France; state; CEO; business; financial markets; production systems; management–labour relations; economic management; industrial policy.

Over the past decade, political economists have been divided over whether advanced industrialized economies are converging along the lines of a single one-size-fits-all neo-liberal version of capitalism (e.g. Ohmae 1990; Cerny 1994) or whether they fall into two main varieties: 'liberal market economies' characteristic of the United States and the UK (Soskice 1999; Lazonick and O'Sullivan 1997) and 'co-ordinated market economies' typified by Germany and many smaller European countries (Albert 1991; Hall and Soskice 2001). Gone is the third model of capitalism, 'statism', epitomized by France, which had found pride of place next to 'liberalism' and 'corporatism' during the

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post-war years (Shonfield 1965; Katzenstein 1978). Instead, France is seen either as on the road to 'Anglo-Saxon financial capitalism' by those who focus on the growing importance of the financial markets (Morin 2000; Orléan 1999) or as a less successful 'co-ordinated capitalism' or 'network-oriented capitalism' for those who have a more firm-centred analysis (Hancké and Soskice 1996; Rhodes and Van Apeldoorn 1997). Only a few scholars still see a distinctive pattern for France, Italy and other countries such as Korea and Taiwan (Schmidt 2002; Coates 2000; Boyer 1997; Weiss 1999), based on a continuing, albeit much changed, role for the state.

The reason for most scholars' elimination of state capitalism stems mainly from their assumption that today this model has lost its empirical validity, given the liberalization of the financial markets, privatization and deregulation. Although their assumption is not wrong with regard to the post-war model, it tends to overlook the continuing importance of the state or state-related institutions in the economic management systems of countries which have evolved from post-war 'state-led' capitalism to what one might today call 'state-enhanced capitalism', in which the state, having played a highly directive role in the past, continues to exercise significant albeit less direct influence. The distinctive patterns of such 'state-enhanced' capitalism tend to be lost when scholars put either the financial markets or the firm at the centre of their analyses. The former tend to exaggerate the extent of change resulting from the internationalization of the financial markets while overlooking the continuing differences in production systems and the role of the state as they argue for convergence towards market capitalism. The latter tend to underplay the continuing significance of the state as well as differences in production systems as they subsume France among other formerly state-led countries under managed capitalism. Approaches that take each country as having its own system of capitalism are less prone to such dangers, since they tend to see national capitalisms as evolving over time, becoming hybrids as they take on aspects of other varieties, in particular the Anglo-Saxon (e.g. Crouch and Streeck 1997; Streeck and Yamamura 2001). But while this view is of course most accurate – since all countries are in fact distinctive and in the process of hybridization – it begs our comparative question about how to categorize national capitalisms. And this, I argue, is best done by seeing not just one or two but at least three varieties of capitalism, since countries are still differentiable along lines of development from the original three post-war models, despite significant change. I use the word 'varieties' here deliberately to distinguish the current evolving forms of capitalism from the post-war, seemingly fixed models, and to underline the fact that these are empirical patterns rather than any new, stylized typology.

In what follows, I argue that, while traditionally market capitalist countries such as Britain have moved towards more intensified market capitalism and traditionally managed capitalist countries such as Germany towards more competitive managed capitalism, traditionally state capitalist countries such as France have gone from state-led to 'state-enhanced' capitalism. Because the

literature is vast and convincing on the differences between market and managed capitalism, I use the cases of Britain and Germany mainly as reference points for the more extended discussion of France as indicative of a third variety of capitalism. I focus on France because it has been ideal-typical of post-war state capitalism in Europe, but refer to other formerly state-led capitalist countries where appropriate to suggest that the case of France is not unique. I begin with a brief outline of France's state capitalism in contrast to the two other post-war models of capitalism and the challenges presented by globalization and European integration. I then discuss in comparative perspective the changes from the 1980s to the present in French government policies and the role of the state, in French business practices and the financial markets, and in labour relations and production systems. I conclude with speculation about the future varieties of capitalism in a more integrated Europe.

Post-war varieties of capitalism

In the post-war period, government policies developed in a situation of 'embedded liberalism' (Ruggie 1982) – where countries benefited from the protective barriers of capital exchange controls, fixed but adjustable exchange rates and optional barriers to trade – and this helped to consolidate very different systems of economic management and practice. These systems were generally seen as divided into three ideal-typical models (Shonfield 1965) on the basis of their differences in government policies, business practices and labour relations (see Table 1). In Europe, the UK was the primary representative of market capitalism, although the US was the ideal-type for the model. Germany, along with smaller European countries such as the Netherlands, Austria, Denmark and Sweden, were all different variants of the managed capitalist model (see Katzenstein 1985, 1989; Kurzer 1993). France was, of course, the exemplar of state capitalism (Schmidt 1996). Even Italy – or at least the 'first Italy' of large firms and nationalized enterprises in the North – approximated the model, although state paralysis (see Lange and Regini 1989) meant that it was best called 'state-led by indirection'. Post-Franco Spain also bears some resemblance to the state capitalist pattern (Perez 1997). It is in Asia, however, where we find the best other examples of state capitalism, in countries with 'developmental states' such as Korea and Taiwan as well as Japan in terms of its close business–government relationship (Weiss 1999; Woo-Cummings 1999). But these countries are outside the purview of this study.

Government policies differed widely among European countries in the post-war period. Market capitalist Britain's liberal or 'spectator' state generally had arm's length relations with business (Grant 1995). It sought to limit its role to arbitrating among economic actors while leaving the administration of the rules to self-governing bodies, although this did not stop it from providing aid to industry on an *ad hoc* basis and intermittently intervening through planning experiments, nationalized industries or government sanctioned, privately

Table 1 Characteristics of the post-war varieties of capitalism (1950s–1970s)

	Market capitalism (Britain)	*Managed capitalism (Germany)*	*State capitalism (France)*
Government role			
Policies toward business	Liberal Arbitrator	Enabling Facilitator	Interventionist Director
Policies toward labour	Bystander	Bystander	Organiser
Business relations			
Inter-firm relations	Competitive Contractual Individualistic	Co-operative Mutually reinforcing Network based	State led State mediated
Investment sources	Capital markets	Banks	State
Time horizons	Short-term view	Long-term view	Medium-term view
Goals	Profits	Firm value	National political-economic priorities
Industrial relations			
Management–labour relations	Adversarial	Co-operative	Adversarial
Wage bargaining	Fragmented	Co-ordinated	State controlled

Source: adapted from Schmidt (2002)

regulated cartels (Shonfield 1965). Managed capitalist Germany's 'enabling' state was instead focused on facilitating business activities through more targeted aid to industry by way of regionally provided subsidies and loans, support for research and development, as well as education, apprenticeship and training programmes, while often leaving the rules to be jointly administered by economic actors (Katzenstein 1989). State capitalist France's *dirigiste* or interventionist state, by contrast, sought to direct economic activities through planning, industrial policy and state-owned enterprises, in addition to all the ways the other states promoted business, while it administered the rules itself, as often as not through the derogation of the rules in favour of business (Hayward 1973; Hall 1986; Schmidt 1996).

Business practices in European countries were equally varied. In market capitalist Britain, relations among firms were generally competitive, contractual and individualistic – even though competitive behaviour was sometimes moderated by 'gentlemanly' agreements, tacit understandings and cartel-like arrangements among firms (Coates 1994). The financial markets, as the main source of investment capital, put pressure on firms for steady profits on a quarterly basis or risk take-over. In managed capitalist Germany, by contrast, inter-firm relations were co-operative, with mutually reinforcing networks of firms linked through supervisory boards, cross-shareholdings and close connections with customers, suppliers and the banks. The banks, moreover, provided guidance in corporate strategy and 'patient capital' focused more on market share and firm value over the long term than profits in the short term (Soskice 1999). In state capitalist France, business practices were state-led. The state mediated inter-firm relations, set medium-term corporate strategies through planning

and industrial policy and underwrote the investment of traditionally undercapitalized business, sometimes demanding no financial return at all if the state's medium-term goals were being fulfilled, such as maintaining employment or increasing production in strategic areas (Schmidt 1996).

Labour relations in European countries were similarly differentiated. In market capitalist Britain, labour–management relations were highly adversarial and wage bargaining among weakly organized employer associations and unions highly fragmented. This generally led to a high level of confrontation and inflationary pressure on wages. In consequence, although the liberal state saw its role as one of bystander to 'voluntarist' or free collective bargaining, this did not stop it from intermittently intervening through wage controls when the pound was under pressure or from attempting social concertation experiments and 'incomes policies' in failed attempts to co-ordinate wage restraint (Edwards 1995). In managed capitalist Germany, by contrast, labour–management relations were co-operative and wage bargaining was centrally co-ordinated among strong, cohesive employer associations and unions. This reduced confrontation and promoted wage restraint. The 'enabling' state, moreover, remained largely a bystander to such relations not only because, unlike in Britain, it had little need to intervene, given wage restraint, but also because it lacked the legal right – which made it different not just from Britain but also from other managed capitalist countries such as the Netherlands or Sweden, where the state often sat at the table with management and labour as a co-equal (Thelen 2001; Soskice 1999). In state-capitalist France, finally, labour–management relations were as adversarial as in Britain and employers' associations and unions even weaker and more fragmented, leading to much confrontation. But here, rather than acting as a bystander, the interventionist state organized wage bargaining and even imposed wage settlements when business and labour were unable to reach agreement, thus moderating wage rises and managing confrontations more effectively than in Britain but not nearly as successfully as Germany (Howell 1992).

All three post-war configurations of capitalism worked, for better or for worse, relatively unconstrained by major external pressures until the early 1970s, with exponential growth in their national economies. Of the three countries, however, Germany had the highest rate of growth, more than tripling its GDP per capita, which went from $4281 in 1950 to $13,152 in 1973 (in 1990 dollars), followed by France, which more than doubled its GDP per capita from $5221 to $12,940, and then Britain, from $6847 to $11,992 (Maddison 1995).

German competitiveness benefited from monetary policies that created a stable and favourable economic environment for business, from industrial policies that underwrote product innovation and employee training, from business practices that promoted strategic co-operation among firms as well as investment in plants, machinery, technology and human resources and from industrial relations and labour policies that fostered high-waged, high-skilled workers with high rates of productivity. All of this together ensured steady profits over the long term from export-led growth fuelled by high-quality,

high-cost, but highly competitive goods (Streeck 1997). British competitiveness, by contrast, suffered from monetary policies that created an unstable and unfavourable economic environment for business, from industrial policies that did little for product innovation or training, from business practices that focused more on squeezing out profits than on investing in new plants, machinery, technology or human resources and from industrial relations and labour policies that fostered low-waged, poorly trained labour and high production costs – all of which led to products that were low in quality and high in cost, especially when the pound was high (Coates 1994; Lane 1989). French competitiveness was somewhere between Germany and Britain. It benefited from monetary policies that created an unstable but favourable economic environment and from industrial policies that underwrote business investment and product innovation in strategic areas (especially in state-owned enterprise in public utilities and infra-structural services such as electricity and railroads). But it suffered from business practices that, without state support or outside the state sector, failed to invest in new plants, machinery, technology or human resources and from industrial relations and labour policies that fostered low-waged, poorly trained labour and high production costs (Schmidt 1996; Hall 1986).

But, whatever their economic management systems and whatever their relative competitiveness, all three countries' economies were severely challenged, beginning in the early 1970s. The first challenges came with the collapse of the Bretton Woods system of fixed exchange rates followed by the two oil crises in the mid-1970s, which together produced growing currency volatility, rising inflation and declining competitiveness. The challenges of the 1970s, moreover, were followed in the 1980s and 1990s by two other sets of economic challenges: globalization, defined most succinctly as the competitive pressures stemming from the rising internationalization of national markets for goods, capital and services, and Europeanization. Europeanization arguably represented an even greater economic challenge than globalization, since it involved integrating in a single market, and not simply opening to external competition, national markets for goods, capital, services *and* labour in addition to eliminating national currencies in favour of a single currency (see Schmidt 2002: ch. 2). In response, all three countries reformed in a more market-oriented direction, with government policies more supply-side, business practices more market driven and labour relations more market reliant. However, when they reformed, how they reformed and what those reforms did to their post-war varieties of capitalism was highly differentiated.

Government policies and the role of the state

In response to the economic challenges beginning in the mid-1970s, governments in Britain, Germany and France all sought to make their economies more competitive through policies that liberalized financial markets, privatized and deregulated business and decentralized labour markets. But the timing and

extent of the reforms differed, as did their effects on the role of the state. In France, reforms began slightly after those of Britain but way before those of Germany, transforming the state's role from one of leadership to an 'enhancing' role in which the state still intervened more, albeit now more indirectly, to improve the environment of business and labour than either the British or the German.

The comparative differences in government policies

The differences in countries' policy responses are best explained by reference not only to the institutional path dependencies that follow from differences in their post-war models of capitalism but also to a number of country-specific factors. The factors include countries' differing levels of vulnerability to global and European economic pressures, the governments' capacity either to negotiate reform – in the case of federal, corporatist countries with consensus-oriented representation systems such as Germany – or to impose it – in the case of unitary states with majoritarian representation systems such as Britain and France – and the legitimizing discourses that enhanced governments' reform capacity by persuading the public not just of the necessity of change but also of its appropriateness in terms of national values (see Schmidt 2002: ch. 2).

For Britain's post-war model of market capitalism, crisis came early, and so did government responses. High economic vulnerability, combined with great political institutional capacity to impose reform, given the 'Westminster model' and a divided opposition, meant that the Thatcher government was able to reverse many of the policy legacies of the post-war period without the fear of electoral sanctions. The staying power of these reforms, moreover, had a lot to do with the government's ability to generate a persuasive political discourse about the appropriateness, and not just the necessity, of reform, so much so that the opposition did not return to government until it, too, had embraced the neo-liberal policy programme (see Schmidt 2001). Contrast this with the United States, where federal institutional arrangements reduced the Reagan government's capacity to impose reform, despite an equally persuasive discourse (King and Wood 1999).

Beginning in the early to mid-1980s, the Thatcher government liberalized the financial markets with the 'big bang' of 1986, privatized business with the massive sell-off of monopolistic public enterprise as well as state-owned firms in the competitive sector, deregulated business by replacing voluntary self-governing arrangements and formal government–industry relationships with independent regulatory agencies and radically decentralized the labour markets through deregulatory labour policies that reduced unions' organizing and strike powers while increasing employers' ability to hire and fire at will – aided by mass unemployment and the defeat of the coal miners' strike (Howell 1999; Edwards 1995). As a result of these reforms, the 'liberal' British state became even more liberal, and acted primarily as an agent of market

preservation by providing framework legislation to locate decision-making power in companies and limit the power of organized labour (Wood 2001).

For Germany's post-war model of managed capitalism, by contrast, crisis came late, only in the 1990s as a result of the costs of unification and intensifying pressures from international competition. Reforms came even later, as successive governments sought to ensure that the 'enabling' state would promote greater economic competitiveness without jeopardizing the non-market co-ordinating institutions of the German managed capitalist model, in which regulatory authority was vested in private bodies, including employers' associations and unions (King and Wood 1999). The reform process was slow, given federal and corporatist institutional arrangements that meant that German governments had to negotiate reform with business, labour and/or the regional governments. But it was largely successful, including the liberalization of the financial markets starting in 1995 (Lütz 2000), the privatization of the relatively small number of public enterprises in West Germany in the mid-1990s (East Germany was of course another matter (Czada 1998)) and the deregulation of public utilities and infra-structural services such as telecommunications and electricity. However, the government lacked the political institutional capacity to negotiate reforms of the labour markets and pensions system (Thelen 2001). In this, it was stymied not only by entrenched union interests but also by its own inability to come up with a discourse able to reframe the terms of the debate about the social market economy (Schmidt 2000). The experience of other managed capitalist countries such as the Netherlands and Denmark was quite different, since crisis came much earlier, as did reforms in all areas, including labour (Hemerijck *et al.* 2000; Benner and Vad 2000; Schmidt 2000).

For France's post-war model of state capitalism, crisis came as early as in Britain, and so did government responses. In the early 1980s, however, the Mitterrand government sought to enhance economic competitiveness by increasing the *dirigiste* state's interventionism through a massive programme of nationalization and restructuring, before beginning, by the mid-1980s, to engineer the retreat of the state from the leadership of business and the control of labour relations. Successive governments of the left and the right accomplished this task through financial market liberalization, business deregulation and privatization, and labour market decentralization. Their success was due in no small measure to their capacity to impose reforms without crippling protests (other than in 1995–6), aided by policies that bought off the most affected interests through much of the 1980s and a discourse that spoke to the necessity of reform in the face of economic crisis and its appropriateness in terms of national sacrifice (Schmidt 2001, 2002: ch. 6). With their reforms, they transformed the state, which went from a leadership role to an 'enhancing' role. In that role, while the state for the most part sought to create and preserve market institutions that located decision-making power in companies, much as in Britain, it continued to intervene strategically to protect business and/or labour from the worst effects of the markets, including trying (but failing) to create something akin to German non-market co-ordination in corporate governance and management–labour relations.

French government policies and the changing role of the state

The government's liberalization of the financial markets, which began in the early 1980s but got its biggest boost with the 'little bang' of 1986, enabled business to replace state funding and bank debt with equity financing. Market capitalization of the French equity markets as a percentage of GDP went from a low of 5.6 per cent in 1982 to 37.2 per cent in 1993 and up to 111.5 per cent by 1999, while the annual volume of transactions on the French equity markets went from a low of 1.8 per cent of GDP in 1982 to 13.7 per cent in 1993 and up to 54.6 per cent by 1999 (O'Sullivan 2001).

The privatization programme was also a great boon to the financial markets. Full or partial sell-offs of industrial or banking enterprises, which began in 1986 and continued intermittently but increasingly through the 1990s, raised a total of 70 billion euros in public share offerings by 2002 (*Le Monde* 9 April 2002). Public-sector ownership went from a peak of 10 per cent of the economy in 1985 down to its pre-war level of 5 per cent by the late 1990s (Israelewicz 1999: 120) and public employment as a percentage of all employment dropped from 10.5 per cent in 1985 to 5.3 per cent in 2000 (*Le Monde* 9 April 2002). Unlike in Britain, however, privatization was highly *dirigiste* in approach and was focused primarily on state-owned enterprises in the competitive sector. Instead of floating all shares freely on the financial markets, as in the UK, the government decided how the shares were to be distributed among a hand-picked 'hard core' of investors – typically fifteen to twenty industrial and financial enterprises holding 15 to 20 per cent of shares – and others – employees holding up to 10 per cent and foreign institutions up to 20 per cent except for defence-related firms. This was intended to provide privatized firms with stable leadership akin to that of German managed capitalism as well as with protection against hostile take-overs and foreign acquirers (Schmidt 1996: chs 5, 6, 13). This approach to privatization was also the preferred approach of other formerly state-capitalist European countries, Italy and Spain – by contrast with Germany as well as the UK.

Deregulation in a wide range of industrial sectors complemented privatization, and substituted more arm's length relationships by way of regulatory agency and incontrovertible law for the closer, more accommodating relationships of the past between ministry and industry. Deregulation in the '*service public*' sectors – the public utilities and infrastructural services such as telecommunications, electricity, air transport and the railroads – pushed by the EU Commission, was another matter entirely however, given these industries' symbolic importance as France's post-war national champions fulfilling some of the welfare obligations of the 'Republican state'. Only in telecommunications did French governments accept wide-scale deregulatory reform in the mid-1990s, which was accompanied by partial privatization starting in 1997 (Thatcher 1999). They allowed only the minimum by way of deregulation of electricity, air transport and railroads and complied as minimally as possible with the resulting EU directives – unlike Germany which, having in most cases

resisted deregulation along with France, then deregulated way beyond what was called for by the EU (Eising and Jabko 2002; Héritier *et al.* 2001). Here, the discourse was used to fight a rearguard action against liberalization, and was all about protecting the '*service public*' industries from further EU encroachments (Schmidt 2002: ch. 2).

Deregulation of the labour markets, finally, began in the early 1980s with laws that established more direct worker–management dialogue in a failed attempt to generate German-style co-ordinated union–management relations. These were followed in the mid and late 1980s by a string of measures that promoted flexibility in hiring and firing and greater variation in pay related to performance. They culminated by the end of the decade in the government's abandonment of the entire system of state-organized wage bargaining (Howell 1992). These policies made the labour markets more flexible while they virtually guaranteed the radical decentralization of wage bargaining to the firm level. This in turn brought decline in union membership – from around 25 per cent in the 1960s to 18.7 per cent in 1980 and down to around 9 per cent by the mid-1990s. And it also brought the end to strikes and job actions in all but a small (but strategic part) of the public sector. From a high in 1976 of over 5 million days lost to strikes or work stoppages, the number of days lost declined in the 1980s to an average of around 1 million a year, and then down to half of that for most of the 1990s, except for 1996, when the number topped 2 million (DARES, Ministère de l'Emploi et de la Solidarité October 1999). The massive strikes in 1996 were focused on reforms that the Juppé government sought to impose, largely without consultation or public communication. The reform initiatives of the Jospin government, elected in 1997, generated fewer strikes, largely because it consulted widely with labour as well as business in the case of reforms of the social security system (e.g. the creation of private pensions), industrial relations (e.g. the 35-hour working week – see below) and even privatization, while it legitimized such reforms with a discourse that claimed to balance equity with efficiency in policies that mixed progressive and neo-liberal elements (Schmidt 2001).

As a result of these labour policies, industrial relations in French state capitalism came to resemble those of market capitalist Britain. It is important to note here, however, that the radical decentralization of wage bargaining in France may be less a necessary consequence of the reform of former state-led capitalist systems than of the particular circumstances of French industrial relations, namely, the weakness of employers' associations and the unions. Where unions and employers' associations have been stronger, as in Italy and Spain, reform has brought moves in the opposite direction, towards a recentralization of bargaining, with unions, employers' associations and government at the table. Italy, which had also had a state-controlled wage bargaining system similar to the French, albeit much less effective given the Italian state's weakness, politicization and permeation by interests, has since 1992 instituted incomes policies co-ordinated between social partners although led by the state (Regini and Regalia 1997; Locke and Baccaro 1999). Spain has similarly turned to more corporatist, tripartite patterns of bargaining (Perez 2000).

Deregulation, privatization and labour-market decentralization radically transformed the role of the French state, by reducing its interventionist policy instruments at the same time that the liberalization of the financial markets increased business independence by providing it with new sources of funding. Moreover, EU competition policies that set limits on state aid to business also constrained the state. But, although much less interventionist, the state did not entirely give up on seeking to influence business or labour where it saw fit.

The state used privatization strategically, to promote firm co-ordination through its choice of hard-core investors and/or firm consolidation through its choice of acquirers – as in the arranged marriage of French defence firms Aérospatiale and Dassault followed by the merger with German Dasa into EADS. Although the state left the fate of most firms to the markets, it still bailed out the biggest of failing industries such as the Crédit Lyonnais – albeit under the increasingly watchful eye of the EU Commission. Moreover, even though the state had largely given up on national planning and industrial policy focused on large firms, it continued to support small and medium-sized enterprises (SMEs). It did this through regional planning, subsidy and loan programmes, expert advice focused on promoting management capacity and financing through regional development agencies as well as through public–private venture capital funds and other programmes designed to bridge the capital gap for SMEs (Cieply 2001; Schmidt 1990). Although many of these initiatives proved costly and ineffective (Levy 1999), there is some evidence to suggest that efforts in the latter part of the 1990s, relayed by emerging business networks, have proven more successful (Le Galès *et al.* 2001). Moreover, the large firms that have tended to dominate the regional production networks in France have managed to take advantage of the wide range of regional economic development programmes and funds to modernize their suppliers' networks (Levy 1999; Amable and Hancké 2001).

The state has also had a major impact on business through its labour, social and education policies. In the 1980s, for example, the state's provision of early retirement programmes greatly facilitated the restructuring of industrial firms and the renewal of the workforce, with over 85 per cent of large mass-producing companies – but only 33 per cent of smaller firms – having used such funds to move out of mass production into more diversified markets (Salais 1992; Amable and Hancké 2001). The renewal of the workforce in turn succeeded mainly because of the state's education policy, which set the ambitious target of increasing the number of young people completing the secondary school exit exam – the *baccalaureat* – from 40 per cent in 1984 to 80 per cent by the mid-1990s, and which reached 75 per cent by 1995 (Courtois 1995). Finally, the state was forever tinkering with the industrial relations system, as governments of the right sought to liberalize the labour markets with regard to hiring and firing, work conditions and working hours, while governments of the left sought to 'moralize' them. This was most notable in the case of the Jospin government's passage of the 35-hour working week, which took effect in 2000. But, although the legislation was intended to reduce the number of working hours in order to

increase jobs, it actually did more to increase labour flexibility by enabling companies to use the negotiations to revisit most company working-time rules. Moreover, the new right-wing government elected in spring 2002 has already gutted the law in many instances, e.g. by allowing more overtime for small and medium-sized enterprises and by suspending the implementation of an agreement in the hotel and restaurant field for two years to allow for new negotiations.

Business practices and the impact of the financial markets

Business practices in France also continue to differ from those in Britain and Germany. This is a consequence not only of differences in government policy reforms but also of the differing ways in which firms have been affected by the increasing turn to the financial markets. In France, CEOS are generally more autonomous than British CEOs because less subject to the dictates of the financial markets, more autonomous than German CEOs because less constrained by network-based relationships and more autonomous than French CEOs of the past because out from under the tutelage of the state.

The differential importance of the financial markets for business practices

The internationalization of the financial markets has had a major impact on business practices generally, as firms across Europe have increasingly turned to equity financing to the detriment of other sources of financing, such as the banks and the state. But significant differences nevertheless remain in businesses' levels of financial market capitalization, amount of take-over activity, degree of internationalization of finance and diffusion of share ownership, which in turn make for continuing differences with regard to corporate governance and corporate control. France sits somewhere between Britain, which scores highest on most of the above measures, and Germany, which scores lowest (see Table 2).

Although large firms in all European countries have increased their levels of financial market participation, French firms have consistently had much lower levels of market capitalization than British firms, but higher levels than German firms. In 1997, French firms' market capitalisation was 40 per cent that of British firms and Germany's 30 per cent. By 1999, although French firms' market capitalization had more than doubled, so had that of British firms. Moreover, in the late 1990s, French firms, much as German firms, had half the merger and acquisition activity of British firms, half the access to venture capital and half the foreign direct investment (while Germany had closer to a quarter the FDI). In addition, share ownership in France and Germany is less widely distributed than in Britain. French household equity holdings as a percentage of annual disposable income, much as German holdings, are about a quarter the size of British household equity holdings. French pension funds, much as

Table 2 Financial market indicators of the three countries' capitalisms

Economic indicator		*Britain*	*Germany*	*France*
1 Stock market capitalization in 1997 (as percentage of GDP)		100.9	31.4	40.6
2 Firms capitalized on financial markets, among Europe's top 500 in 2000	Number	146	60	67
	$ billions	2.27	1.1	1.8
3 Availability of venture capital in 1999 (survey ranking)		8	15	17
4 Mergers and acquisitions in 1999 (as percentage of GDP)		25	12.3	11.4
5 Direct investment flows in 1998 (percentage of GDP)	Inward	4.7	0.9	2
	Outward	8.4	2.8	4
6 Direct investment stocks in 1998 ($ billions)	Inward	326.81	228.79	179.19
	Outward	498.62	390.09	242.35
7 Households' equity holdings (as a percentage of annual disposable income)		82	22	19
8 Size of pension funds in 1996 (percentage of GDP)		74.2	5.8	5.6
9 Foreign holdings of equities in national stock exchange in 1997 (as percentage of total holdings)		9	10	35

Sources: 1, 5, 7 and 8: OECD *National Accounts* (1996–9); 2: *Financial Times* 4 May 2000; 3 and 6: *World Competitiveness Yearbook* (2000); 4: Sachwald (2001); 9: Morin (2000)

German funds, are among the smallest of all advanced industrialized countries and those of Britain among the largest. Only in the case of foreign equity holdings does France come out way ahead of both Britain and Germany, at triple the percentage of shares in the primary markets in 1997, with estimates of up to five times the percentage (at 50 per cent) in 2001.

These figures demonstrate British business's greater exposure to the international financial markets and international capital movements, and help explain why Britain's economy has been called 'globalization in one country' or an 'over-internationalized economy in an under-globalized world' (Hirst and Thompson 2000). Business is clearly more financial market driven than German or French business. Other factors also come into play, however, such as the fact that British firms depend for corporate investment funds more on the financial markets than do French or German firms, which tend to rely more on retained earnings for investment and turn to the primary markets mainly for the financing of firm restructuring and mergers and acquisitions.

Equally important are the differences in share-ownership structure. In Britain, share ownership is dispersed, and consists overwhelmingly of small shareholdings by portfolio investors and households – at 50 per cent and 30 per cent of all shares in the markets respectively in 1997. In Germany, by contrast, share ownership is more concentrated, with a majority of shares held by strategic

investors rather than portfolio investors and households – 57 per cent to 35 per cent (Vitols 2001). France has similar percentages, and an even greater concentration of strategic shareholdings in industrial companies than Germany let alone the UK – 58 per cent held in other companies in 1995 vs. 42 per cent and 4 per cent respectively (Jürgens *et al*. 2000). Although such concentrated share ownership has been diminishing in recent years in both countries, it still remains significant (see below).

In Britain, the dispersion of share ownership among small investors ensures the predominance of the interests of portfolio investors, who generally focus on a high return on their investment and on corporate governance concerns of transparency and maximizing 'shareholder value', meaning profitability. In France or Germany, the concentration of share ownership ensures that the interests of strategic investors – banks, insurance companies and industrial companies – hold greater sway, even if shareholder value has become of increasing importance as a result of firms' growing levels of market capitalization. Moreover, the more concentrated structure of shareholding, together with the lower levels of market capitalization, provide French and German businesses more insurance against hostile take-over than British business has.

These differences in financial market exposure only add to the differences in corporate governance structures. In Britain, the emphasis on maximizing shareholder value is reinforced by governance structures in which CEOs tend to dominate the boards of directors, their firms have a relatively low degree of interconnectedness and employees have little say except where they hold major shares in the company (Lane 1998; Vitols 2001). As a result, CEOs are largely autonomous, with the financial markets as the primary drivers of performance.

In Germany, by contrast, CEOs are much less autonomous. They share decision-making responsibility with a supervisory board, have strong interconnections with other firms through interlocking directorships, cross-shareholdings and mutually reinforcing relations with suppliers, subcontractors and customers and have employees with a great deal of say because they sit on the supervisory boards, negotiate wages through the national wage-bargaining system and set working conditions through firm-level works councils (Soskice 1999; Lane 1989). Although these relationships have been weakening in recent years (Deeg 1999; Lütz 2000), they still remain strong enough to ensure that 'shareholder value', or profitability, is only one among a number of 'stakeholder' interests, with firm value, strategic business interests and employee concerns also significant (Vitols 1999).

In France, finally, CEOs are not only more autonomous than British CEOs, since they are less vulnerable to the vagaries of the financial markets as a result of more concentrated share ownership, and German CEOs, because they are less constrained by boards of directors, networked relationships or the employees. They are also much more autonomous than they were themselves in the past in relation to the French state. Government privatization and deregulation of business has done away with state leadership of business, since it no longer underwrites investment, directs corporate strategy or owns many businesses,

while government deregulation and decentralization of the labour markets has neutralized labour. The state's new enhancing role, moreover, although sometimes not appreciated by firms even though exploited by them for their own benefit, as with the 35-hour working week, does little other than to enhance autonomy.

The French financial markets and their impact on French business practices

With the end of state interventionism in business, corporate governance in France has come to sit somewhere between that of Britain and Germany. Although the state had intended for privatization to reproduce the German managed capitalist pattern of corporate governance through 'hard-core' industrial and financial investors, it produced only a very pale imitation of it, which started breaking apart in the mid to late 1990s, as hard-core investors sold and foreign institutional investors – mainly North American pension funds – bought. For some, this breakdown in the hard-core shareholdings spelled the victory of 'Anglo-Saxon' market capitalism in France, with the evidence in the high level of foreign share ownership, CEOs' discourse of shareholder value claiming a new focus on profitability, new corporate governance rules and an increase in take-over activity (Morin 2000; Orléan 1999). But in truth, although these elements point to significant changes in French business practices, the finance-driven view of French capitalism overlooks a number of important factors that ensure that France falls far short of a market capitalist revolution.

First of all, French firms are not as vulnerable to the pressures of the financial markets as one might assume. Although foreign institutional investors controlled as much as 50 per cent of the Paris *Bourse* in 2000, they do not have significant stakes in most firms: only in six of the top forty firms of the *Bourse* – the CAC 40 – did the combined holdings of the three top institutional investors go above 5 per cent; for six others, the holdings are between 2 per cent and 5 per cent; and, for the remaining twenty-five, below 2 per cent (Parrat 1999; Goyer 2001). Moreover, despite the breakdown of the hard cores *qua* hard cores, there is still a lot of cross-shareholding left which reduces the liquidity of the markets: for example, in 1998 core shareholders still held an average equity stake of 20.5 per cent, although it was down from 28 per cent in 1995 (Morin 1998). And many of the largest firms remain under family control – nine among the CAC 40 – while a majority of French firms are family owned: 50 per cent of the capital of all French firms, 12 per cent for quoted companies. What is more, some of the highest performers continue to be state held in full or in part: for example, in telecommunications, transport and electricity, two of which are in the CAC 40. Of the remaining French firms on the CAC 40 index, many retain 'auto-control' through high levels of self-investment at around 50 per cent, in particular firms where founding entrepreneurs hold controlling interests – for example, Axa, LMVH, Cap Gemini.

Second, as noted above, the financial markets are not the main source of

financing for corporate investment, which would be their expected role in a system allegedly moving toward market capitalism. Instead, the primary markets have been used mostly for financial restructuring by private firms as well as the state – through privatization – and for mergers and acquisition – as with Vivendi's take-over of Seagrams and France Télécom's acquisition of the UK mobile operator Orange. This is evident from the fact that the primary markets have not shown any dramatic upward surge in stock issues since the step increases in issues in the mid-1980s and that the largest increases in volume resulted from the privatizations, the proceeds of which went to reducing the public debt, financing current state expenses and subsidizing state enterprises rather than to the privatized firms for investment purposes (Juvin 1995; O'Sullivan 2001). Where the financing of internal investment has been concerned, most of the larger firms have tended to look to retained earnings rather than the primary markets or to indebtedness – the pattern of the past. Between 1980 and 1996, self-financing rose by over 28 points, from 48.18 per cent to 76.39 per cent, while market financing grew by under 14 points, from 17.97 per cent to 31.1 per cent, and indebtedness as a source of financing plummeted by close to 40 points, from 38.28 per cent to minus 1.57 per cent (Insee 1998; Cieply 2001: 161).

Third, the driving force behind merger and acquisition activity has not necessarily been to please the financial markets, as evidenced by the fact that some of the more avid acquiring firms have controlling interests still held by the state – for example, France Télécom – or held by individual entrepreneurs – for example, Axa, LVMH, and Cap Gemini (O'Sullivan 2001). Instead, the drivers of mergers and acquisitions are the competing pressures for productive capabilities, and are located squarely in the strategies of firms with regard to the product markets rather than the financial markets (Hancké 2001; Amable and Hancké 2001; O'Sullivan 2001).

The discourse of CEOs, however, is largely focused on the financial markets, and in particular the foreign institutional investors, whom they portray as the drivers of their new corporate strategies. The CEOs' discursive interactions with institutional investors are all about communicating continuously through road shows and one-on-one meetings to explain that company strategy conforms to the dominant strategic model and that they 'submit to the imperative of profitability' (Morin 2001: 45–50). But, at the same time that CEOs use the discourse of 'shareholder value' to seek to convince fund managers of their firms' prospects and of their own credibility, they use it to avoid demands on the company not only by labour, suppliers, subcontractors and customers, but also by the state, to forestall government intervention, most notably in those companies where it still holds shares (O'Sullivan 2001; Hancké 2001).

This is not to suggest, however, that the discourse of 'shareholder value' is merely 'cheap talk'. 'Shareholder value' is certainly *a* driver of CEOs' strategies, but it is not *the* driver. CEOs do need to pay attention to foreign institutional investors' concerns. Once their companies are listed on the stock exchange, they are in fact more at risk from fluctuations in share price, witness the problems of

Alcatel in 1998 or Vivendi in 2002. And they are also more vulnerable to hostile take-overs because French hard-core investors have none of the loyalty of German network-based investors – witness the hostile take-over attempt by BNP of Paribas and Société Générale, which ultimately netted only Paribas. This helps explain not only the shareholder value discourse but also the actions taken to increase transparency.

Corporate governance reforms have brought more complete annual reports and greater adherence to Anglo-Saxon accountancy standards – although the French remain behind even Germany on this, more outside directors on boards – up from 3 per cent in 1988 to 28 per cent in 1998 among CAC 40 firms – and specialized board committees, which by 1998 had come close to the high percentages of the British and way outdistanced the Germans – e.g. with 90 per cent of France's CAC 40 having audit committees by comparison with 100 per cent of Britain's FTSE 350 and 7 per cent of Germany's DAX 30 (Goyer 2001: 138–41). But transparency with regard to executive pay has remained minimal until recently, instituted by law only in 2001, while small shareholders have relatively few protections, a large majority of the directors remain more inside than outside and only the hard-core investors or members of the boards of directors have much power, which they rarely exercise. Moreover, CEOs have been happy to implement foreign institutional investors' recommendations when it comes to executive pay and stock options: French senior executives are now second only to the Americans with regard to stock options, which in 1999 were valued at FF 83.7 billion, amounting to forty times the potential capital gains of the stock option plans of the Germans (*L'Expansion* 14 September 2000: 48–9). And CEOs do want institutional investors' money – to fund acquisitions as well as to enhance their firms' standing by listing on the stock exchanges, in particular the US exchange (Morin 2000; O'Sullivan 2001). Thus, one could argue that the dialogue between CEOs and institutional investors privileges a 'capitalism of voice' that allows the institutional investors their say without, however, diminishing French firms' autonomy (Loriaux 2002).

Autonomy, in fact, is one of the keys to understanding the continuing differences between evolving French capitalism and British market capitalism, in which CEOs are much more subject to the dictates of the financial markets, and German-managed capitalism, where CEOs are much more constrained by the network-based relationship and their boards of supervisors. The other key is the continuing importance of the French state not only in its greater capacity to intervene when it deems necessary but also in its greater importance as an indirect co-ordinator of business activity. The retreat of the state by way of privatization and cross-shareholdings did not entirely rid business of state influence, since state-trained, former civil servants remained in charge (Schmidt 1996: chs 10, 14; Bauer and Bertin-Mourot 1995). This has ensured that, even though French businesses lack the deep network linkages of managed capitalist Germany, they are nonetheless more interconnected than the British through the informal networks based on CEOs' shared elite state education and career paths, and therefore benefit from greater inter-firm co-ordination, sharing of

information and co-operation on corporate strategies from the top (Schmidt 1996; Hancké 2001). But there are still few safeguards of the kind found in managed capitalism against over-extension by overly ambitious CEOs – as in the disasters of Crédit Lyonnais in the early 1990s and Vivendi a decade later.

Labour relations and the differences in production systems

The continuing differences in corporate governance patterns and the differential impact of the financial markets also affect corporate production patterns and performance, as businesses seek to respond to the increasingly competitive pressures of the product markets. And here, again, France remains distinctive, albeit closer to Germany than Britain in terms of its production and industrial employment systems, having greatly improved on all measures since the early 1980s.

The differences in production profiles

Whereas Britain scores highest on financial market indicators, Germany does so on production-related indicators, with France, again, somewhere in between the two (see Table 3). For example, while France ranks at the lower end of advanced industrialized countries in terms of the ratio of price to quality of domestic products by comparison with foreign competitors in a *World Competitiveness Yearbook* (2000) survey, Germany ranks at the higher end of advanced industrialized countries and Britain at the level of many less developed countries. Whereas France's relative unit labour costs in manufacturing are not much higher than those of Germany, Britain's are far higher. Germany has the highest levels of corporate investment followed by France and then Britain. And German firms way outdo both the French and the British in percentage of shares in world exports. Only in overall productivity does France come in highest, ranked sixth in the world versus Germany's eighth (explainable by the fact that the East German numbers are added in with the West German), while Britain was way down at twenty-first. France wins on red tape, however, with fifteen weeks to register a firm by contrast with eight in Germany and just four weeks in Britain (*The Economist* 8 July 2001).

These differences in production profile are reinforced by countries' divergent industrial employment systems. Germany has the highest level of employment in industry and the lowest in services of the three countries (34.5 per cent employment in industry as a percentage of civilian employment vs. 62.6 per cent in services in 1999), Britain the opposite (26 per cent in industry and 72.4 per cent in services), with France closest to Britain on industry and service employment (at 24.8 per cent and 71 per cent respectively) (OECD 2000). Moreover, Germany consistently scores at the top, France in the middle and Britain at the bottom in terms of company or law-based employment protection, length of

Table 3 Production-related indicators of the three countries' capitalisms

	Britain	*Germany*	*France*
1 Price/quality ratio of domestic products (1999) survey ranking	28	5	14
2 Relative unit labour costs in manufacturing (1999) (1995 = 100)	141.5	88.8	92.6
3 Overall productivity (PPP) – GDP per person employed (1999)	$44,852	$51,487	$56,356
4 Investment (gross fixed capital formation as % of GDP in 1997)	15.6	19.9	17.1
5 Percentage of shares in world exports in 1998	4.8	9.7	5.5

Sources: 1, 3: *World Competitiveness Yearbook* (2000); 2, 4, 5: OECD (various years)

worker employment (eleven years vs. eight and five respectively) and provision of vocational training (34 per cent of a cohort vs. 28 per cent and 11 per cent respectively) (Estevez-Abe *et al.* 2001). Only in levels of employment and unemployment does Britain do better than Germany and France (70.8 per cent employed and 6 per cent unemployed out of the 15–64-year-old population from in 1999 in Britain vs. 65.6 per cent employed and 8.7 per cent unemployed in Germany and 60.2 per cent employed and 11.2 per cent unemployed in France).

These production-related indicators bespeak very different production systems. In Britain, the low levels of employment and unemployment protection, together with comparatively short-term employment and little vocational training, underpin a production system of mass production based on low skills, low wages and low product quality. This, added to a corporate governance system which gives the CEO great autonomy in the shadow of the financial markets, with few constraints from government or labour, has tended to promote high responsiveness to changing market conditions and a focus on projects with the potential for high yields in short time frames. As a result, in addition to success in areas such as foods, beverages, tobacco and other low-tech goods, Britain has also excelled in such areas as bio-technology and high-end services, where radical innovation is the key to market dominance (Lane 1998).

In Germany, the high levels of employment protection, reinforced by long-term employment and high investment in vocational training by state and employers alike, underpin a production system of flexible specialization based on high skills, high wages and high product quality. This, together with a horizontally co-ordinated corporate governance system – characterized by network-based inter-firm relations, providers of finance who take a more long-term view to return on investment and co-operative, technically skilled workers in co-ordinated labour markets – guarantees German firms the greatest success in sectors such as high-precision engineering and manufacturing, where incremental innovation is the key (Soskice 1999). But this production system also means that German firms have a slower response time to changing market conditions and greater difficulty in quickly restructuring

to move into new growth fields, making it harder for Germany to engage in radical innovation.

In France, finally, the reasonably high levels of employment protection, reinforced by more medium-term employment and middling investment in vocational training, underpin a production system of modified mass production – flexible Fordism – based on medium skills, wages and product quality. France's industrial relations system, in consequence, again differs from those of market capitalist Britain and managed capitalist Germany in the profile of the workers, the relative flexibility of employers or the role of the state in easing adjustment pains.

French labour relations and production systems

First of all, French workers are generally more highly skilled, better paid and better trained, with products of generally higher quality and less mass produced than in market-capitalist Britain. This marks a significant improvement over the past: whereas, in 1982, close to 60 per cent of workers were semi-skilled or unskilled, performing narrow tasks (d'Iribarne 1989), by the late 1990s, workers' skills had vastly improved and they mostly worked in polyvalent teams rather than individually (Duval 1998; Hancké 2001). The upgrading of generalist skills, due to the state education policies noted above, has been key to the reorganization of work, by contributing to higher productivity through the reduction in the administrative costs of a whole range of lower-level management tasks, such as administration, supervision and maintenance (Lane 1989; Hancké 2001). Workers' jobs nonetheless remain more 'Taylorist' – that is, repetitive – than in Germany, given that centralized state programmes cannot provide the deep technological training that the German regional system produces (Soskice 1997; Hancké 2001). But this serves the purposes of the larger French firms' flexible Fordist production model in which the education system provides general skills and firms add firm-specific skills (Boyer 1995; Culpepper n/d).

Productivity, however, improved not only as a result of re-skilling but also of down-sizing, with many large firms having taken advantage of state-financed early retirement programmes to renew their workforces. Firms also kept their numbers of employees down and their flexibility up by an increase in subcontracting through the outsourcing of production and services. Finally, firms also took advantage of the early 1980s laws on worker–management dialogue to promote better employee relations and worker integration into firm activities through quality circles – something in which France leads Europe (Hyman 1994) – while it used the 35-hour working week to improve flexibility, as noted above.

Changes in inter-firm relations have also improved productivity, as a vertically integrated pattern based on large-firm dominance has replaced the state-organized pattern of the past. Large firms tend to dominate regional

economies even more than before by integrating suppliers organizationally and technologically into their production systems, while being themselves subordinate to the strategies developed at firm headquarters, normally in Paris (Amable and Hancké 2001). But, with the adoption of new production processes in the 1980s, in particular collaboration on design and 'just in time' delivery systems, the largest French firms have modernized their relations with suppliers in ways that bring them into a much closer collaboration or '*partenariat*'. The relationship itself enables the large firms to ensure continued improvement of the quality of their suppliers' products and the efficiency of their operations, while the suppliers gain easier access to financing and stable demand (Hancké and Soskice 1996; Hancké 2001).

France's industrial relations system, together with a vertically integrated corporate governance system that allows CEOs the greatest autonomy, with few potential sanctions from the financial markets, other firms, employees or the state, ensures that France remains somewhere between Britain and France on innovation. Its firms do much better on incremental innovation than in Britain, given closer connections among firms through vertically integrated relations with suppliers, better-trained workers whose generalist skills reduce administrative costs and better labour–management relations based on 'quality circles'. But they do less well than in Germany, where workers' better technical skills produce higher-quality goods and firms' horizontally integrated relations with suppliers, together with even better management–labour relations based on works' councils, make for more co-operation in innovation (Culpepper 2001). By the same token, however, French firms do better on radical innovation than German firms, given that CEO autonomy ensures faster responses to changing market conditions and greater ability to restructure rapidly, although less than British firms, given less labour-market flexibility. This pattern has spelled success in areas that combine mass production and low production costs with rapid model changes and a positioning in certain protected, highly profitable market niches – for example, in the automotive industry, where Renault combines mass production with innovative design, or in the steel industry, where Usinor is a highly integrated conglomerate of large-volume and small speciality producers.

But France has also done well in traditionally state-dominated sectors such as telecommunications, electricity, rail transport and aerospace, where radical innovation has come from state-financed, high-profile *grands projets* in which there is close co-operation between CEOs and the state focused on developing new technologies (Amable and Hancké 2001). In other areas, however, such as pharmaceuticals, radical innovation came from the outside, mainly from acquisitions of US companies (Sally 1995; Cantwell and Kotecha 1997). The comparative figures on the share of US patents tell it all. Whereas France's share in US patents attributable to research in foreign (read US) locations more than tripled between the 1980s and the 1990s – from 9.19 per cent in 1983–6 to 33.17 per cent in 1991–5 – in Germany they increased by only a third – from 14.47 to 20.72 per cent, falling significantly behind France. The UK, by comparison,

started out much higher, at 47.09 per cent in the 1980s and went even higher, to 55.70 per cent, in the 1990s (UNCTAD 2001: Table II.9). But, however much French firms may have improved their competitiveness, they cannot rival the Germans for incremental innovation or the Americans for radical innovation because of the differences in institutional framework (see Amable *et al.* 1997: 145–50).

Conclusion

Although all three countries adapted and adjusted their post-war models of capitalism in a more market-oriented direction in response to the pressures of globalization and Europeanization, they continue to be categorizable in terms of not one or two but at least three varieties of capitalism. Traditionally market-capitalist Britain has become, if anything, more financial market driven in business relations, more liberal in state relations with business and labour and more market reliant and decentralized in industrial relations. Traditionally managed capitalist Germany has not lost its main characteristics, although its non-market managed business relations are suffering from erosion in the close network-based inter-firm and business–banking interrelationships, while its co-operative industrial relations are under pressure. Traditionally state-capitalist France, by comparison, has been transformed by the radical reduction in state interventionism, the dramatic increase in firm autonomy, and the radical turn to market-reliance in industrial relations (see Table 4).

French firms are now more autonomous than either their network-linked German or financial market-dependent British counterparts, let alone the state-led French firms of the post-war period. But they are nevertheless more exposed to the financial markets than German firms, given the high level of foreign institutional investors, and more co-ordinated than British firms through informal elite networks. Moreover, despite the general retreat of the state, France retains a more active role for the state than either Britain, where the state acts primarily to preserve the market, or Germany, where it seeks to protect non-market co-ordinating mechanisms. In France, the state continues to intervene, albeit in a more limited, supply-side way, through laws and incentives intended not only to make the economy more competitive but also to 'moralize' business and labour relations – even though, as often as not, its intervention has served only to further marketize those relationships. In addition, France sits somewhere in between Germany and Britain with regard to its production system based on medium skills, wages and product quality, with a higher productivity rate than the Germans and higher skills than the British, and with a higher capacity than Germany for radical innovation – in particular in formerly state-dominated sectors – and than Britain for incremental innovation.

In each of the three countries, finally, adjustment is the function of very different mechanisms for change. In today's more intensively market-capitalist Britain, change is driven by the financial markets and led by autonomous firms

Table 4 Changes in varieties of capitalism by the end of the 1990s

	Market capitalism (Britain)	*Managed capitalism (Germany)*	*State capitalism (France)*
Government role			
Policies toward business	More liberal More arbitrator	Still 'enabling' Still facilitator	Newly 'enhancing' Much more liberal but still seeks to influence
Policies toward labour	More of a bystander	Still bystander	Newly bystander, 'moralizer'
Business relations			
Inter-firm relations	More competitive, contractual, individualistic	Still co-operative but loosening of networked relations	Competitive, end of state mediation; autonomous
Investment sources	Capital markets	Firm, Banks, Capital Markets	Firm, capital markets
Time horizons	Shorter-term view	Less longer-term view	Less medium-term view
Goals	Shareholder values	Stakeholder values	Firm autonomy
Industrial relations			
Management–labour	Neutral	Still co-operative	Neutral
Wage bargaining	Radically decentral-ized	Still co-ordinated	Radically decentral-ized

Source: adapted from Schmidt (2002)

acting on their own, with comparatively little input – whether positive or negative – from the state or labour. In today's more competitive managed capitalist Germany, change is led by firms and negotiated co-operatively between business, labour and the state, by contrast with the unilateral actions of autonomous firms in Britain. In the state-enhanced capitalist system of France, change is firm led in those domains where business now exercises autonomy – in business strategy, investment, production and wage bargaining – but change is still state driven in those domains where neither business nor labour can exercise leadership – in labour rules, pension systems and the like – or where the state sees a need to reshape the general economic environment to promote competitiveness. In either case, the interaction is one of hierarchical direction rather than joint decision or unilateral action.

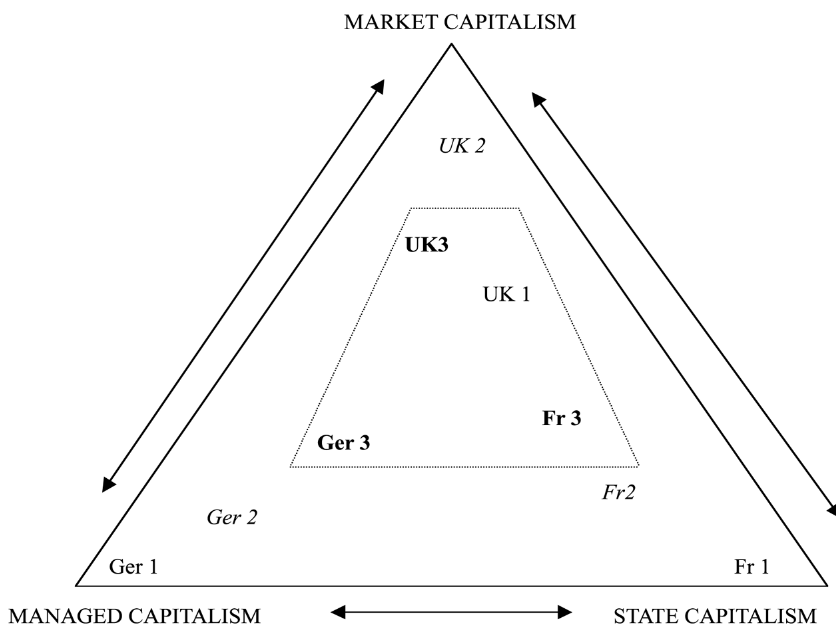
There is one further mechanism for change: European integration. Assuming a future in which European integration continues to 'deepen' and 'widen', change will also be driven by the on-going completion of the Single Market – through EU-led deregulation, competition policy, standard setting and so forth – and by on-going attempts to harmonize national economic policies in light of European Monetary Union and the single currency. Figure 1 is a rough sketch of how the changes might be plotted for the three countries for three different time periods: as of the 1970s, as of the early 2000s and in the near future, as a projection of current trends in the context of further European market and monetary integration (assuming that Britain joins the euro).

Market capitalism naturally sits at the top of the triangle, given the pressures

from globalization and European integration that tend to favour reforms in this direction. But, as Figure 1 shows, although all three have moved up closer to market capitalism, there is no convergence at the top of the triangle. Rather, there is a somewhat smaller space towards the middle of the triangle within which differentiation continues to occur. First of all, Britain, which started out reasonably far from the market capitalist ideal in the 1970s but had moved up close to it by the 2000s, can be seen to move back down a bit, as European integration as well as internal forces lead to more state regulation and more labour-market co-ordination. Germany, which began in the 1970s at the bottom left of the triangle as ideal-typically managed capitalist, moved not very significantly up from this by the 2000s. But we are likely to see a major jump in the future upward, closer to the middle of the triangle, as firms become more market driven and wage bargaining more decentralized, although nothing like a move to the market-capitalist ideal. Finally, France, which found itself in the 1970s at the bottom right of the triangle as the ideal-typical state capitalist country, moved radically up towards the centre of the triangle as business was deregulated and privatized and wage bargaining decentralized by the early 2000s. But, although it is likely to go a bit farther in this direction, especially given the EU-related pressures for deregulation in the public utilities and infra-structural services, it, too, will not converge on any single market-capitalist ideal.

In sum, the emerging European political economy, with its single market and single currency, shows continuing diversity in national political economies, with three varieties of capitalism, which have developed along lines of development from the three post-war models. This is a strength for Europe, not a weakness, given the comparative advantages of the differing national varieties of capitalism in different industrial sectors. And it is a strength that firms across Europe have already been 'capitalizing' on, as they seek to gain, through mergers and acquisitions as well as through imitation of 'best practices', the comparative advantages that they lack.

In the long-term future, such Europe-wide consolidation of firm activities may very well mean that differences in industrial sectors will become more salient than differences in national varieties of capitalism, as firms pattern themselves according to the national variety of capitalism that is most internationally competitive for the sector. This need not entail a geographical division of sectors within Europe, however, given that the mergers and acquisitions movement has increasingly obscured firms' 'nationality'. But it is likely to ensure that firms in financial services, biotechnology and the 'new economy' more generally will increasingly operate along the UK's market-capitalist lines; that firms in high-precision engineering and manufacturing are likely increasingly to adopt the techniques of Germany's managed capitalism; and that firms in sectors such as defence, which are influenced by the priorities set by national governments and the EU, or the railroads, which require heavy investments with low rates of return over long periods of time, are likely to follow France's pattern of 'state-enhanced' capitalism. National varieties of capitalism will continue to matter, however. This is because, whatever the sector, countries that



Key: 1, in normal type, indicates country circa 1970; *2*, in italics, indicates countries circa 2002; **3**, in bold, speculates on the future, with the dotted lines indicating the margins of the new European model.

Figure 1 Changing varieties of capitalism

developed from post-war market capitalism will continue to have more individualistic and competitive inter-firm relations, those that developed from managed capitalism will seek greater co-operation and consensus in labour–management relations and those from post-war state capitalism will almost always have a state that seeks to influence both business and labour where it sees the need.

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