'Economic Patriotism, the Clash of Capitalisms, and State Aid in the European Union'

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Abstract:
This article analyses the political economy of state aid in the European Union (EU) using the concepts of economic patriotism and models of capitalism. State aid is analysed as a form of economic patriotism, which is conceived here as economic interventions which seek, by a number of means, to advance the perceived economic self-interest of particular groups and actors (firms, workforces, or sectors) defined according to their territorial status. The article argues that the paradox of neo-liberal democracy generated by liberal international markets, overlapping economic governance regimes (such as the EU and the World Trade Organisation), and nationally delimited political mandates presents new problems for policy-makers attempting economic interventions like state aid. Forms of economic patriotism are partly shaped by national institutional and social configurations and state traditions. Within EU economic governance, this generates a 'clash of capitalisms' whereby liberal EU anti-trust and competition policy norms proscribe certain state aid and industrial policy measures favoured by some European states. As traditional industrial policy becomes decreasingly viable, new modes of economic patriotic interventionism are enacted within contemporary processes of market-making, and the re-regulatory activity framing European markets. The paper focuses on French state aid responses to the global economic crisis, noting how the retreat of neo-liberal ebullience within the EU provides a conducive environment for resurgent French *dirigiste* approaches to state aid, indicating that the politics of economic patriotism and state aid will continue to be important features of the European political economic landscape in the years ahead.

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JEL Classification: B10; D20; D72; F50; G28; G34; H81; L52; P16

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1. Introduction: Economic Patriotism, Models of Capitalism & State Aid

This article explores state aid in relation to the concepts of economic patriotism and models of capitalism. Economic patriotism is conceived here as forms of political economic activity in contemporary Europe which seeks, by a number of means, to advance the perceived economic self-interest of particular groups and actors (firms, workforces, or sectors) defined according to their territorial status (see Clift and Woll forthcoming).[1] The French government's coining of the term in mid-2005[2] is not, in one sense, the point. Economic patriotism is conceived here not as a *sui generis* French phenomenon, but a broader trend within contemporary advanced economies. The notion is also interesting because it is related to, albeit distinct from, a much longer established set of practices and approaches to economic policy such as neo-mercantilism, economic nationalism, and protectionism. It shares some common ground with the under-elaborated notion of 'industrial patriotism' introduced by Jack Hayward (1986: 68). Yet economic patriotism, as deployed here, is a more encompassing term than these similar formulations. As explained below, it is of broader political economic significance because it is revealing of enduring and

[1] The concept of Economic Patriotism, as deployed here, was developed jointly by the author and Cornelia Woll in the context of the Warwick/Sciences Po Paris *'Economic Patriotism: The Limits of the Liberal Market'* Project which we co-organise. The project papers are under consideration for publication as a special issue of the *Journal of European Public Policy* in 2012 (vol. 19, no. 5).

[2] Dominique de Villepin argued against a possible hostile take-over of the French company Danone by PepsiCo on 27 July 2005. The notion had previously been employed in France but became central to national and international debates in the aftermath of de Villepin's speech. See Christophe Jakubyszyn, "Dominique de Villepin en appelle au " patriotisme économique," *Le Monde*, 29 July 2005.

intriguing contradictions within state/market interactions in the context of internationalised liberal market capitalism.

Varieties of Capitalism identifies two prevailing ideal-types of capitalism, the liberal (LME) and the co-ordinated market economy (CME) (Hall & Soskice 2001: 1-70; see also Albert 1991 and Crouch & Streeck 1997). Locating this analysis of French experience in comparative political economic perspective, France is a particularly statist variant of the CME variety or model of capitalism (Levy 1999; Schmidt 2003). Within a related comparative political economy debate, the French economic model identifies France as the prime European exemplar of the 'Developmental State' (Woo-Cummings 1999; Shonfield 1969; Marquand 1988), and this explains France's long history of and proclivity for state aid. Crucial to this was the French economic ideology of *dirigisme*, which denotes the French tradition of directive state intervention in economic activity (Kassim 1997, Schmidt 1997, Hayward, 1997), and within that, state aid has always been an important policy instrument of *dirigisme* (Shonfield 1969). Thus this consideration of the evolution of state aid is indicative of broader dynamics of change in the trajectories of contemporary capitalisms.

The first section will define the concept of economic patriotism and briefly trace its origins to what Colin Crouch has called the paradox of globalised neo-liberal democracy,[3] namely how governments pursue the political economic interests of their populace (in order to get re-elected) under conditions of complex economic interdependence which they cannot fully control. This lack of control results from the

[3] I owe this expression to Colin Crouch and would like to thank him for a very helpful discussion of these points.

‘institutionally incomplete’ nature of contemporary national economic governance regimes (Deeg & Jackson 2007). These coexist with constraining supranational regulatory regimes (such as the EU and WTO), and as a consequence, aspects of market regulation of today’s complex economic interdependence effectively lie outside national governmental control. The second section will set out how forms of economic patriotism are partly shaped by national institutional and social configurations, with particular reference to state traditions and intellectual traditions of political economic thought. This will be illustrated with reference to how corporate governance and company law in United Kingdom, France and Germany is shaped by particular political traditions which one might call neo-liberal, *dirigiste*, and ordo-liberal respectively. The remainder of the article explores the particularities of French economic patriotism with specific emphasis on state aid.

The central argument of the article is that the paradox of neo-liberal democracy generated by liberalised international markets, overlapping economic governance regimes, and nationally delimited political mandates presents new problems for economic policy elites. In the European context, the politics of state aid is particularly affected by these overlapping mandates, and the conflicting models of political economy which shape different economic governance regimes. Specifically, the political economic model underpinning EU economic governance draws on neo-liberal conceptions of competition and markets. In broad terms, it aligns more closely with the LME as opposed to the CME variety of capitalism. The partiality characteristic of French economic patriotism, protecting national champions, is at odds with the neo-liberal principles underpinning the policing of the Single European Market and the EU competition regime. Thus, some argue, completing the single

European market entails the dismantling of elements of France’s *dirigiste* and *colbertist* policy regime (Clift 2003, 2004; Hayward 1995; Kassim 1997). This explains why EU state aid politics involves a ‘clash of capitalisms’ logic (Callaghan and Hoepner 2005; Clift 2009; Hooghe & Marks 1999). In relation to state aid, particular national approaches to state/market relations (especially in CME-oriented economies) are threatened by LME-oriented market re-regulation by the European Commission.

The second main claim in this article is that the response to the more challenging regulatory environment for traditional industrial policy in the form of state aid involves the development of new forms of political intervention in economic and corporate activity (see Levy 2006). Through these new modes of intervention (such as reinventing urban policy as industrial policy), prevalent in France (and elsewhere), economic patriotism is inscribed within contemporary processes of market-making, and the re-regulatory activity framing European markets. These modes of intervention combine neo-liberal and protectionist elements but are geared towards advancing the economic interests of particular territorially defined groups – at times French, at times European. Thirdly, the contemporary economic crisis has seen a changing political economic mood. The current global economic downturn and financial crisis may signal a sea change in political economic ideas. The recent resurgence of Keynesian thinking is one manifestation of this. The retreat of neo-liberal ebullience of institutions like the European Commission (EC) is part of a wider questioning of *laissez faire* and self-regulating markets. All this is a conducive environment for the resurgence of French *dirigiste* approaches to state aid, meaning that the politics of economic patriotism in relation to state aid will have interesting policy consequences in the years ahead.

2. Defining Economic Patriotism[4]

The analysis presented here explores what the politics of economic patriotism tell us about the persistent tensions between neo-liberal market integration and national economic policies. This article defines economic patriotism as ‘economic choices which seek to discriminate in favour of particular social groups, firms, or sectors understood by the decision-makers as ‘insiders’ because of their territorial status’ (Clift & Woll 2009: 15). Economic patriotism implies that the interests of the homeland weigh more heavily than individual interests in the economic choices of, in this case, corporate and political elites. The asymmetric targeting within economic policy choices can be either implicit or explicit. While economic patriotism, in its original French usage, referred to high-profile political initiatives aimed to sway public opinion, it can also happen without extensive political communication. In both cases, it is possible to clearly identify the targeted benefactors of the policy (and conversely, those disadvantaged). In general terms, the study of economic patriotism expands the focus for the analysis beyond traditional industrial policy to incorporate a broader range of legislative, regulatory, discursive and other interventions to shape markets and their outcomes. This article has a particular focus on state aid. It explores how economic patriotism is inscribed within contemporary processes of market-

[4] This section draws heavily on earlier papers co-authored with Cornelia Woll in the context of the *‘Economic Patriotism: The Limits of the Liberal Market’* Project which we co-organise.

making, and more specifically in the re-regulatory activity framing state aid practices and their impact on the activities of firms in contemporary European markets.

Economic patriotism and neo-liberalism are not necessarily incommensurable or necessarily incompatible. Economic patriotism contains policies that are generally referred to as neo-mercantilist, but is not restricted to them. ‘Economic nationalism’ can, under certain circumstances, refer to *liberal* economic policies and institutions, hence Helleiner’s (2002: 308) notion of ‘liberal economic nationalism’. Similarly, economic patriotism can co-exist with (and indeed be actively pursued within) a broadly neo-liberal single European market. Neo-liberal economic policies can be designed in favour of selective industries. As such, they can be part of economic patriotic regimes. These subtleties and nuances can be overlooked in discussions of French economic policy-making which paint in broad brush terms, assuming policy to be consistently *dirigiste* or Keynesian, failing to capture the actual twists and turns of French economic policy since 1945 – which, especially under the influence of Jacques Rueff, included some neo-liberal elements (Denord 2007).

To give an example of a neo-liberal economic patriotic policy regime, the French ‘competitive disinflation’ strategy pursued vigorously by left and right alike from the mid-1980s, which was the fulcrum of macroeconomic policy after 1983, was neo-mercantilism par excellence, but also unambiguously neo-liberal. Competition disinflation engendered a paradigm shift of priorities in macroeconomic policy, relegating full employment to a distant future aspiration, and promoting tackling inflation to priority number one. Its rationale was to achieve lower inflation in France than in Germany, and hence (given pegged exchange rates) improve French competitiveness vis-à-vis its European trading partners (see Lordon 1998; Blanchard & Muet 1993). Some scholars interpreted German macroeconomic policy in the mid 2000s as another phase of competitive disinflation (OFCE 2006; Cafruny & Ryner 2007). Similarly, the 'Social VAT' reforms undertaken in Germany, and considered seriously by Sarkozy, are both a neo-liberal tax shifting strategy, and a neo-mercantilist economic strategy (reducing production costs, and hence the price of goods on international markets). These are examples of neo-liberal economic patriotism - neo-mercantilist in intent, yet liberal in character. Thus, the two are not mutually exclusive. Liberalisation and Europeanisation do not render neo-mercantilism 'irrelevant', but change its context, entailing a shift in the balance between *dirigisme* and neo-liberalism in the pursuit of patriotic economic interest.

The concept of economic patriotism, as defined here, identifies particular and distinctive *drivers* behind these policy impulses (be they protectionist or liberal), namely the clash between political and economic boundaries (see Clift & Woll 2009). Economic patriotism hinges on the profound, if not necessarily self-evident, contradictions between internationalising liberal market integration and spatially limited political mandates and processes of political governance of the economy. Given the overlapping network of economic regimes, politicians have to face Crouch's "paradox of globalised neo-liberal democracy": pursuing the political economic interests of their citizenry (in order to get re-elected) under conditions of complex economic, legal and regulatory interdependence where their effective control is significantly circumscribed.

The use of the term economic patriotism, as distinct from economic nationalism or neo-mercantilism, highlights and underlines these distinctive sources of economic patriotic intervention. Furthermore, unlike economic *nation*alism, economic patriotism evades methodological nationalism, and remains agnostic about the shape, size, and indeed nature of the unit claimed as *patrie*. Studying economic patriotism therefore allows examining the multiple ways by which political and economic actors seek to resolve the above political tensions, and articulate economic policy objectives with territorial boundaries. One possible variant is *supranational* patriotism, as exemplified by the "fortress Europe" debate (George 1996; Cafruny & Ryner 2003; Costa, de Maillard & Smith 2007). Thus economic patriotism can imply a transfer of economic objectives from the national to the regional level, such as the European Union (EU). This can lead to liberalisation within the EU for the sake of protection towards the outside, as for example in agriculture.

In the European context, economic patriotic interventionism can also be transferred to the European level and turn into pan-European (or at least EU-wide) patriotism, possibly entailing economic restructuring of large European firms. French exclamations of economic patriotism, for example, consistently cite the need for French and European champions in the same phrase. The Grignon Report (2004) recommended 'European neo-Colbertism',[5] re-articulating French *dirigiste* industrial policy at the European level to meet the challenges of globalisation,

[5] Traditions of state direction of, and intervention in, economic activity in France have a long heritage, traceable at least as far back as Jean-Baptiste Colbert, minister under Louis XIV between 1661 and 1683. Colbert's bent for state interventionism in economic affairs reached a zenith when, in 1666, he issued a *règlement* to the effect that the fabrics of Dijon and Selangey were to contain 1,408 threads (no more, no less), and those of Auxerre and Avalon 1, 376 (Heilbroner 1992: 24)

deindustrialisation and delocalisation. European-wide investment in research and development focused on strategic sectors was advocated to herald the emergence and consolidation of these 'European champions' (see also Roustan 2004). The European Commission is often chastised in French political debates for failing to embrace or indeed permit such European neo-Colbertism.

3. Institutionally Incomplete National Governance, the EU & Economic Patriotism

Present day economic patriotism is a response to the reconfiguration of economic governance and the interdependence of markets that could only fully develop as a consequence of increasing economic liberalization in the wake of the breakdown of Bretton Woods, and the re-energising of European integration in the 1980s (see Clift & Woll 2009). The integration of markets and the concurrent weaving together of regulatory frameworks put pressure on national economic intervention to comply with international trade agreements or European competition policy. With old-style industrial policy in the form of state aid increasingly frowned upon, or indeed proscribed, governments have had to become creative to assure traditional economic policy objectives with new means. The multiple policy instruments in support of national or regional economic actors are today more fragmented and less coherent, yet they remain prevalent.

The novelty of modern day economic patriotism, particularly in a European context, has its roots in the interactions of overlapping economic jurisdictions, and their mismatch with political constituencies. This is integral to contemporary capitalism, and the market-making and regulatory activity which inscribes it into the global political economy. In Europe, in many instances, the compartmentalisation of 'national' and 'EU' levels does not make sense in political economic practice. Comparative capitalisms and corporate governance scholars have noted, for example, how national corporate governance regimes are today 'institutionally incomplete' because 'national institutions are becoming overlain by a growing set of European and international institutions' (Deeg & Jackson 2007: 155). A multi-levelled governance of political economic and corporate activity prevails, which spans the regional level (such as European regulation) and the global level (such as the World Trade Organisation). Economic patriotism must therefore operate within certain limits of supranational and global regulation. This 'institutionally incomplete' nature of national economic governance regimes exacerbates Colin Crouch's 'paradox of globalised neo-liberal democracy'.

In policy domains such as industrial policy or corporate governance, national differences impede a harmonious or harmonised European policy response or strategy (Clift 2009; EC 2007). Supranational rules constrain or prevent policy mechanisms such as tariffs, public procurement, and favoured market access. Elements of traditional economic nationalist political economy and industrial policy (such as indiscriminate use of state aid) have been rendered unfeasible by negative integration built upon neoliberal political economic foundations. European competition policy has at times interfered to proscribe state aids and subsidies and other forms of industrial policy (Levy 1999; Schmidt 1996). Such EC activism repeatedly draws stinging criticism from national political elites and economic actors. Thus, in some instances, national traditions of economic intervention (discussed below) are in stark contrast to the policy solutions implied by EU-level integration. This helps explain why boundary disputes between EC economic governance competencies and national ‘ownership’ of economic patriotic policies or areas of regulation are increasingly politically charged.

The framing of European economic patriotism can incorporate notions such as ‘developmental state Europe’ (Gamble 2006), as well as the EU as ‘shield’ against globalisation. The ‘Lisbon Agenda’ to transform the European Economy into ‘the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion … by 2010’ is another, more liberal variant of this European economic patriotic discourse. Problems arise with the disjuncture between the ‘developmental state Europe’ terms in which French policy elites are thinking, and the actual trajectory of European economic integration, and its governance. So far, EU-level activism has been less *dirigiste* in character than French policy elites would wish, although perhaps not as neo-liberal as the standard caricature suggests (Jabko 2006). In part as a result of this dissonance, ambitions for developmental state type activism find expression at the national level through economic patriotic discourse and deeds (see below).

This dissonance has been very visible amidst the instability unleashed by the financial crisis, and national responses to it. This has brought the limits of European integration, and the tensions within liberal international economic governance into sharp focus. Frosty EC responses to national fiscal stimulus and bank and automobile industry bail-out initiatives in the wake of the current financial crisis created friction between national and EU policy elites. The Commission was forced to revise its

Directives on State aids, not once but twice, in November 2008 and February 2009 in order to manage these tensions. The state aid struggles between member states and European competition authorities testify to difficult times for the single European market, and the greater latitude for state aid conceded by the commission indicates the power of the economic patriotic policy reflex, especially in times of recession. A focus on economic patriotism facilitates analysis of the extent to which we are witnessing a shift within the ideational processes by which ‘the European economy’ is constructed as a social and political space (Rosamond 2002). The liberal market-oriented elements enshrined in the Single European Market are, it seems, being re-balanced by more regulated, co-ordinated capitalism, perhaps even *dirigiste* elements in the wake of the economic crisis of 2008-9. The increased use of state aid by national governments, and acceptance of state aid by the EC since 2008 is a reflection of this.

4. Economic Patriotism and National Traditions of Legislative and Regulatory Intervention

National institutional and social configurations, which one might call neo-liberal, *dirigiste*, and ordo-liberal in United Kingdom, France and Germany respectively, shape the discourse and policy choices of economic patriotism. This is because, as Matthew Watson notes, economic policy ‘reflects the body of law already in operation nationally’ and ‘the reproduction in law of different national approaches to the task of market-making'.[6] The importance of intellectual traditions in shaping forms of economic patriotic interventionism can be illustrated by examining how economic policy relates to the legal context within which it is pursued. Indeed, economic laws reveal the footprints of these different traditions of economic thought. For example, in the case of corporate governance and company law, which crucially shape the operation of capitalism in any given setting, distinct traditions explain stark differences between company law in Britain, France and Germany. In Britain, the liberal tradition was extremely influential on both sides of industry, leading to a *laissez-faire* approach to the company. The Manchester School of liberal economic thought drew on, and perhaps distorted, Lockean norms of property rights to arrive at a contractualist logic, and an absolutist conception of corporate property rights. In this conception the function of company law was to protect property rights, and no *quid pro quo* or social obligation could be expected in return for the enormous privileges of the licence to operate, and limited liability (Hunt 1936; Tivey 1978; Hannah 1983). As Gamble and Kelly put it (2000: 33-4),

> although the huge legal privilege of limited liability had been granted, the exponents of laissez-faire were very unwilling that anything substantial should be conceded in return for it, in the shape of accountability, disclosure provisions or particular governance structures to ensure that companies acted in accordance with the public interest. Having given companies a basic framework, the laissez-faire proponents argued, the State needed to leave them

[6] This discussion draws on the paper 'Economic Patriotism and National Traditions of Economic Thought', presented by Matthew Watson at the economic patriotism workshop at the University of Warwick, February 2008.

> to manage their own affairs, having no desire or business to force on 'these little republics' any particular constitution.[7]

The subsequent evolution of English company law demonstrates that laissez-faire principles proved extremely influential in shaping the constitution of the company. In relation to accountability, disclosure, or internal organisation or constitution of the firm, no requirements were stipulated. The interests of small investors or the working class were not reflected in the limited liability legal settlement which was legislated in Britain in the middle of the 19th Century.

In contrast to the British case, where the company is seen as primarily a private association, in France and Germany there was more of a notion of limited companies being public bodies. As such, they could be called upon to fulfil functions other than profit-making, which Martin Höpner studies as a form of "cross-subsidizing." (2006) The market-making legal fabric of company law in these political economies reflects different traditions of economic thought. In France, the notion of social interest of the firm, *l'intérêt social*, has always been pervasive (see Clift 2007). As the Viénot report on French corporate governance notes, this *intérêt social* simply does not exist in Anglo-Saxon law, yet it plays a key role in French company law (Viénot 1995: 935);

> In Anglo-Saxon countries the emphasis is for the most part placed on the objective of maximising share values, whilst on the European continent and France in particular the emphasis is placed more on the human assets and resources of the company

The report defines the social interest of the company as,

[7] The 'little republics' quote is from Hunt (1936: 135).

> the greater interest of the body itself … the company considered as an autonomous economic agent pursuing its own ends, distinct notably from those of its shareholders, employees, creditors (including tax authorities), suppliers and customers, but which correspond to their common general interest, which is to ensure the prosperity of the company

As if to demonstrate how far removed from the English company law paradigm the *intérêt social* can be, Alcouffe (2000: 134-5) notes that it is partially derived from the encyclicals of the Catholic Church, rooted in the ideas of Thomas Aquinas. Regarding the aim of the company, these stipulate that it

> is not merely the acquisition of profit but is the very existence of the company as a community of people who in their different ways search to satisfy their fundamental needs and who constitute a group peculiar to the service of the community as a whole

In Germany, a constitutional approach to economic lawmaking used public authority to delineate the rights and obligations of private actors within firms, and thus “German lawmakers constitutionalized shareholder representation through public authority” (Jackson 2001: 132). Company law has, since the 1870s, required two-tier board arrangements, with a managing and a supervisory board drawn from all sides of the company, and extensive worker representation and consultation. This constitutionalist approach inscribed a conception of ‘industrial citizenship’. This entailed the protection of the public interest, and the building of the corporatist ethos establishing the rights and obligations of all social partners into the very make-up and institutional and governance structure of the company. This has given rise to what

Jackson terms Germany's "non-liberal" corporate governance, which spans market regulation, financial regulation and company law (Jackson 2001).

Also important in Germany is the ordo-liberal tradition of economic thought. Traceable back to Walter Eucken, this variegated tradition, which 'originated in the agony of the Weimar Republic' has been summarised as 'a strong state committed to the restoration of a competitive economic order' (Lehmbruch 2001: 80), which places emphasis on rule-bound economic policy-making. Whilst ordo-liberalism betrays 'considerable affinity to the statist tradition of German economics', it involves 'reconciling a capitalist economic order with social reform'. Ordo-liberalism entails '"market-conforming interventionism," in particular to guarantee competition as a condition for economic efficiency' (Lehmbruch 2001: 81).

This forms one element of the post-war German 'discourse of embedded capitalism,' namely the 'social market economy' which can be summarised as 'a pragmatic and eclectic combination of ordo-liberal concepts with social policy postulates of the Social Catholic tradition' (Lehmbruch 2001: 84). The discourse of embedded capitalism combined redistributive welfare with the market economy, and a commitment to full employment (which ordo-liberals like Eucken were sceptical of) (Lehmbruch 2001: 84). Regulation of the economy was justifiable provided it could be argued to be 'in conformity with the market', and thus 'the distinction between state interventions according to their degree of "market conformity" became the magic formula for this accommodation of the ordo-liberal creed to social policy and helped to reconcile it with the heritage of state-led social reform' (Lehmbruch 2001: 84-5). The incorporation of labour into the post-war German political economy and social market economy proceeded via co-determination through corporatist collective bargaining institutions, and German corporate governance norms which treated workers as ‘industrial citizens’ with extensive rights within the firm. The fingerprints of these ideational influences can still be seen on the shape of German company law and corporate governance today, and provide the context for its particular brand of economic patriotism.

Thus the form that the particular French brand of the broader phenomenon on economic patriotism discussed below takes is shaped and influenced, though not determined, by French state traditions of economic interventionism.

5. Models of Capitalism, The European Single Market, and the Clash of European Capitalisms

\As noted above, *Varieties of Capitalism* identifies LME and CMEs as the two prevailing ideal-types of capitalism (Hall & Soskice 2001). These map onto the comparative political economy distinction between ‘shareholder’ and ‘stakeholder’ capitalism (Kelly, Kelly & Gamble 1997). CME and LME varieties of capitalism thus ‘provide a broader institutional context within which stakeholder and shareholder models of governance can be analyzed’ (Vitols 2001: 338).The ‘nexus of institutions’ (Cioffi 2000: 574) which constitutes a variety of capitalism, through which governments, state and firm actors organise and regulate corporate and economic activity, has a profound impact on actors’ behaviour, norms and incentive structures. These shape how capitalism works in any given setting.

Within the LME ideal-type, Hall and Soskice emphasise ‘competitive market arrangements’ to co-ordinate firm activities, and more specifically ‘highly competitive markets’ to ‘organise relations’ with firms’ ‘suppliers of finance’ (Hall & Soskice 2001: 8-9). This is market-based firm financing, reliant on capital markets rather than bank- or institutionally-based processes. In CMEs, by contrast, ‘non-market’ interactions, institutions, relationships and ‘modes of co-ordination’ are crucial. Firms rely on these non-market oriented networks to ‘co-ordinate their endeavours’. Long-termist relations with banks and other private, public or para-public financing institutions are characteristic CME modes of firm financing. These lead to ‘network monitoring based on the exchange of private information inside networks’ (Hall & Soskice 2001: 8). The cross-shareholdings which formerly sustained the ‘protected capitalism’ logic (Schmidt 1996) of France’s ‘financial network economy’ (Morin 2000) are typical CME mechanisms.

Elsewhere, I have explored in detail how this ‘clash of capitalisms’ has influenced the (non-)harmonisation of takeover regulation in the EU (Clift 2009). The reason why the apparently technical issue of takeover regulation is of great political economic significance is because different approaches to takeovers reflect different models of political economy. Takeover regulation is a battleground in the clash of capitalisms within European economic governance. Broadly speaking, to the extent that market mechanisms can operate un-impeded, the LME approach prevails. To the extent that states and firms are able to introduce or rely on impediments to a free market for corporate control, a more co-ordinated, regulated, or ‘institutional economy’ (Crouch & Streeck 1997) approach prevails.

To some extent a similar story provides the backdrop to debates about state aid within the European political economy. Thus the 'clash of capitalisms' explains the political economic causes of divergences between the EC and some member states over state aid. Here we use the French example to illustrate a broader point about the relationship between European economic integration and domestic economic policy in relation to state aid. The U.S. influenced anti-trust, anti-*dirigiste* bias of the neo-liberal Single European Act (SEA) and its competition regulation, policed by the commission, are built on the LME model of political economy.

In the case of France, this LME model blunted some of the French model's traditional *dirigiste* policy instruments, notably state aid. The policy mechanisms of traditional French *dirigisme* included, firstly, price, credit and exchange controls; *tutelle* (or hands-on supervision) over key (public and private) industries, involving 'an intricate network of commitments on the part of private firms... all in return for favours from the state... [and] the habit of the exercise of power by public officials over the private sector of the economy' (Shonfield 1969: 86 & 128). The final element of the 'economy of administered finance' was state orchestration of industrial finance through the Plan. Central to France's *dirigiste* interventionism was the state's role in providing funds for industrial investment (Zysman 1983: 99-170). The state's centrality to the institutionalised system of 'selective allocation of credit' from private and public banks gave the French state extraordinary leverage, acting as the gatekeeper for strategic, cheap capital (Zysman 1983: 75-8). State loans tended to be conditional upon meeting specific restructuring targets, incorporating subsidiaries into parent companies, or merging with other big firms (see Clift 2003, 2004).

These French *dirigiste* industrial policy mechanisms were at odds with the neo-liberalism of the Single European Act, predicated upon Anglo-Saxon norms of capitalist organization. This was perhaps most evident in anti-trust directives, based on U.S. anti-trust legislation. The monopolistic, protectionist and *dirigiste* norms of the French industrial policy, particularly in the public sector, clashed with EU rules on unfair competition, liberalization and deregulation. Hoepner and Schafer have argued that European integration has entered a new phase in which it 'systematically clashes with national varieties of capitalism' but also 'asymmetrically targets' the institutions of CME stakeholder capitalism, with the result that 'political resistance in the organised economies leads to a crisis of political integration' (2007: 6). Some national traditions of political economic intervention are or were indeed more attached to a prominent role for state aid than others, and thus the SEA's Anglo-Saxon or LME bias asymmetrically targets *dirigiste* approaches to industrial policy. The case of state aid thus supports Hoepner and Schafer's thesis. The politics of state aid in the EU involves a 'clash of capitalisms' logic (Callaghan and Hoepner 2005; Hooghe & Marks 1999), with defence of particular national approaches to state/market relations from the perceived threat of LME-oriented re-regulation on the part of state actors in more CME-oriented economies (for example, France, Italy, and Germany). This illustrates how European initiatives present opportunities to policy actors in their import and mediation by institutions, governments, and national politics.

6. State Aid, Economic Patriotism & The French Case

The economic patriotism argument predicts that, as old-style industrial policy and heavy-handed state intervention has gained a bad reputation, governments had to become creative to assure traditional economic policy objectives with new means. The multiple policy instruments in support of national or regional economic actors continue to be a conspicuous feature of French capitalism, albeit on a more selective basis. This remains the case despite all the integration of markets, the weaving together of regulatory frameworks, and the pressure of European competition policy. In relation to state aid, the economic patriotism argument anticipates that its erosion as an economic policy tool in contemporary Europe has been overstated or exaggerated. The means are found to continue providing state aid, by circumventing or ignoring the regulatory regime. The deployment of state aid by governments endures, albeit not on the same scale as in earlier decades.

A second theme that economic patriotism work on state aid explores is the changing forms of aid, altered to circumvent the impediments (described above) to old-style industrial policy presented by the EU regulatory environment. One important evolution has seen the development of urban policy – with cities now becoming the objects of a new form of industrial policy, and therefore modern day national champions. Thus, ‘as competition tightens the noose around many of the things that governments try to do for favoured firms and sectors, so they start to look for activities to support their national economies that cannot be defined as anti-competitive practices’ (Crouch & Le Galès 2009: 3). Spending on infrastructure projects and bids to attract major events to cities are now crucial forms of economic patriotism as ‘urban policy has become for the advanced services-oriented economies of the early 21st century what industrial policy was for much of the 20th’ (OECD 2008).The remainder of this article explores these economic patriotism arguments regarding state aid with reference to the French case.

The French State’s regulatory tentacles reach far and wide into the internal workings of French capitalism, reflecting in part the legacy of a tradition of *dirigisme* and ‘Colbertist’ state interventionism noted above. In the post-war era, the French state, with its extensive range of holdings in a number of large French firms, as well as a much wider set of informal links to elites throughout France’s ‘financial network economy’ (Morin 1998; 2000). Through such links, by a variety of cajolery and moral suasion, the French state induced the emergence of a set of inter-linked relationships in major French firms cemented by cross-shareholdings and interlocking board memberships. These were known as the *noyaux durs* (Schmidt 1996). This generates a regulatory environment potentially highly conducive to economic patriotism.

The reach of the French state’s tentacles into France’s corporate fabric has been weakened since the 1980s. The causes include privatisation, the internationalisation of French capitalism, and the liberal EU economic governance and competition regime discussed above. Nevertheless, even after 25 years of the decline of *dirigisme* (see Levy 1999), certain economic sectors remain subject to high degrees of regulation. Thus the potentialities of economic patriotic interventionism vary in nature and degree across sectors. Yet scholars of French capitalism have long noted how French *dirigiste* policies and practices – such as state aid – continue to prevail despite all the anti-trust and competition regulations at the EU level (Hayward 1995, Schmidt 1996). French adaptation to the Single European market provides another example of and context for a wider phenomenon within contemporary French capitalism, the capacity of the French state to reinvent its modes of intervention and state activism (Cohen 1996; Wright 1997; Levy 1999, 2006, Howell 2009).

Within this reinvention of intervention and activism, and the restructuring of French capitalism to liberal-oriented EU activism, the inevitable tensions that arise between French *dirigisme* and the economic model underpinning the Single European Market can be partially resolved because 'theory has changed more than practice' (Guyomarch *et al* 1998, 176; see also Levy 1999: 21, 274-9). French public procurement norms also *still* favour French firms. High profile instances of European directives ordering repayment of subsidies (Renault), blocked mergers (de Havilland), or enforced opening of markets (Air Inter) are not necessarily representative of wider trends, and 'certain nationalized industries continued to receive large infusions of capital while others were encouraged to merge, regardless of their anti-competitive effects' (Schmidt, 1996: 176 & 230). Through the 1980s and 1990s the French state continued to bail out ailing firms – on a more dramatic scale than in the golden age of French *dirigisme*. Huge French firms such as Air France, Renault, PSA, Michelin all received sizeable support, and the Credit Lyonnais saga involved a massive state bail-out. As Levy notes, these were not isolated aberrations; 'state financial intervention was not simply a one-shot deal to ease the transition from a *dirigiste* to a liberal industrial strategy' (1999: 279). Thus, even after liberalisation and privatisation, and the supposed retreat of the French state from dirigiste state aid practices, 'state authorities have found themselves drawn back into the business of providing capital to loss-making, but strategic multinationals and to neglected SMEs' (Levy 1999: 283). In the early 2000s, the French state intervened in a recapitalisation of France Télécom in 2002, and Alstom in 2003 (Dudouet & Grémont 2010: 101).

More recently, Sarkozy's presidential programme (2007: 9) contrasted a vision of Europe as a liberal Trojan horse – merely facilitating the free circulation of capital and goods – with his own vision – of Europe engaged in protecting its citizens. A reflection of this agenda was Sarkozy's attempt to downgrade the competition rules in the negotiations leading to the Lisbon Treaty, and his symbolic success in securing the removal of the headline goal of Free Competition from the Treaty's preamble. This illustrates the ongoing desire to retain *dirigiste* elements as France seeks to mediate and moderate the neo-liberal character of EU economic governance. The current financial crisis and global economic downturn provides a conducive environment to redouble these efforts, as well as a contemporary illustration of the strength of the policy reflex to resort to state aid within the French political economy.

Under Sarkozy, we have witnessed a further spate of economic patriotism and economic interventionism. This was illustrated with Sarkozy's February 2009 *plan de relance* rescue package for the French economy. Part of Sarkozy's economic relaunch plan was a reorganisation of the *Caisse des dépôts et consignations* (CDC). This large state-owned bank which runs, among other things, state pension funds has for decades invested on behalf of the state in infrastructure and development projects (EIU 2010: 9, 12-3). The very substantial financial assets of the CDC have long been deployed strategically by the state, investing to buy up stakes in large French firms deemed in the national interest. This role was enhanced and revamped in November 2008, when the CDC acquired a €20bn French Sovereign Wealth Fund (FSI) to 'support strategic [French] firms during the crisis'.

The economic relaunch plan was partly targeted at the car industry, with state aid seeking to prevent the delocalisation by Peugeot of French car production to Czech factories. Intervention in the car industry is partly explained by the place of the automobile industry in the French economy — it constitutes 45.2% of exported production, 534 000 jobs, 2.3 % of employment, and 14.7% of private R&D (OFCE 2009: 2). It is one of France's key manufacturing industries, 5th in terms of value added, 4th in terms of employment. It is also key in terms of the balance of trade. Nearly 1 in 2 French cars are exported, with 85% of exported French cars going to other EU countries. The car industry is also a key motor of private research – crucial in its own terms and for the positive technological externalities.

Sarkozy's 'car pact' had three key objectives. It sought to offer, in the short term, support for demand and jobs in the car industry. The second, longer-term aim was to form part of an industrial policy geared towards ensuring the future of a strategic hi-technology industry. Thirdly, and related to the second, it sought to encourage the production of cleaner cars. The total funds dedicated to the package amounted to €9 bn. The key element involves, at its heart, a €6.5 bn commitment to help car producers Renault and PSA Peugeot-Citroën (with innovation and clean technology R&D). This financing of large development programmes to develop cleaner cars took the form of cheap 5 year loans at 6% (not the 10+% market rate). It is offered in return for commitments on 'doing everything possible to avoid redundancies' and not closing plants whilst in receipt of the state loans. The significant increases in funding support, Sarkozy made abundantly clear throughout the negotiations, were conditional upon commitments to preserve jobs, and not to close any factories in France. He intimated a further conditionality that supported firms could not delocalise production outside France for products to be sold on the French market. Sarkozy said; *"Qu'on délocalise pour gagner un nouveau marché au Brésil, je le comprends parfaitement mais qu'on fasse fabriquer ailleurs qu'en France des voitures qu'on vend ensuite en France, c'est plus difficile à accepter"* The EC raised its eyebrows at some of Sarkozy's comments, but authorised the French scheme in February 2009. [8]

A further €600m was channelled through the SFI – France's new Sovereign Wealth Fund – and earmarked to fund new equipment through a modernisation fund, thus doubling financial support for sub-contractors. These plans to help French car industry equipment suppliers rise to the competitive challenge of low cost producers and become European or global champions underpin the investment fund, jointly financed by the French State, Renault and PSA. Sarkozy's pact also entails a doubling (to 2bn euros) of financial support channelled through the SFEF designed to boost consumer lending to increase car purchases. Subsequently, the pact also removed the 'professional tax' on productive equipment. This built on earlier measures taken in December 2008 to offer refinancing to PSA and Renault, and to incentivise buying cleaner French cars.[9]

The final element of Sarkozy's economic re-launch worthy of note is the bank rescue plan. First announced in October 2008, it aimed at restoring confidence and liquidity into the French financial system, as well as recapitalising and restructuring some

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[8] http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/332

[9] 'L'Etat débloque 7,8 milliards d'euros pour le secteur automobil' *LE MONDE* 09.02.09

troubled banks. The EC took its time to approve the plan, initially vetoing it and arguing that member states cannot use state aid to allow banks to increase their lending books. This provoked some angry exchanges[10] and a number of revisions were made before final approval was secured. Changes included allowing banks to issue preferred shares as collateral to government money in addition to subordinated debt, as well as to convert already issued debt to shares. €10.5 bn was handed out to six large French banks in December 2008 - Banque Populaire, BNP Paribas, Caisses d'Epargne, Crédit Agricole, Crédit Mutuel and Société Générale.

One of the main changes to France’s top banks as a result of the rescue plan was the merger of *Banque Populaires* and *Caisses d’Epargne* to form BPCE. The background to this merger was that Natixis, one of the worst affected French banks which was heavily implicated in the sub prime lending markets – was a joint venture of the two banks, set up a few years earlier. Caisse d’Epargne posted a loss of €2 bn due largely to Natixis’ exposure to toxic sub-prime liabilities. This exposure was such that the future viability of its parent bank was threatened. The plan involved the orchestrated merger of *Caisses d’Epargne* and *Banque Populaires*. The newly merged bank, Banque Populaire Caisse d'Epargne (BPCE), is now the second largest retail bank in France (EIU 2010: 13), and Natixis forms its investment arm. The arranged marriage proved to be a remarkable success story, and BPCE achieved a swift turnaround and even returned to profit during 2009 (EIU 2010: 14).

Of the €77bn raised on the markets and channelled through the new state financing structures, and thus backed by a state guarantee , €2 bn was used for the refinancing

[10] ‘Brussels blocks French bank bail-out’ Financial Times 28-Nov-2008

of BPCE (Massoc & Jabko 2010: 18). There was a central role for Sarkozy's Elysee chief economic advisor, Pérol, who had a background in banking and is credited with a key role in the banking rescue plans' elaboration. For his troubles, Sarkozy appointed Pérol as the new head of BPCE, the bank which emerged out of the enforced merger (Hardie & Howarth 2009; Massoc & Jabko 2010). Pérol took with him to the newly merged bank a team composed of two other close Sarkozy confidants. This enabled the rescue of the bank to avoid nationalisation, whilst ensuring the French state, or at any rate the president, would retain significant informal influence over bank operations without being present on its board (Massoc & Jabko 2010: 31).

Another key restructuring event within the banking rescuer was to refinance of Dexia (a Franco-Belgian municipal lender)- where the French Government injected €3bn of capital to shore up the institution. As with BPCE, one aspect of the bank restructuring was the insertion of a close Sarkozy ally to run the bank. In this case Sarkozy placed his ex chief advisor Pierre Mariani (EIU 2010: 7; Massoc & Jabko 2010: 27). This was classic '*pantouflage*' familiar to all scholars of elitist French capitalism (Suleimann 1978: 226).

In the spring of 2009, the state became the largest shareholder in the largest French bank BNP-Paribas BNP, holding 17% of non-voting shares (Massoc & Jabko 2010: 28). Close links between Sarkozy and Michel Pébereau, the BNP president, were instrumental in speeding up the second tranche of state financial support. The day after that happened, BNP announced that it was buying the Belgian and Luxembourg sections of Fortis Bank. (Hardie & Howarth 2009: 1033; Massoc & Jabko 2010: 28).

Thus French state aid was instrumental in providing the assistance that enabled BNP-Paribas to exploit the crisis to pursue an aggressive external expansion policy which made the bank the largest in the Eurozone. The fact that French banks were relatively less hard-hit by the crisis than many of their international competitors meant they were well placed to pick up M&A bargains in the form of troubled financial institutions. This presented a window of opportunity to give a *coup de pouce* to international champion advancement, and French state actors were keen not to waste a good crisis.

7. **Conclusion**

In recent decades, the changing nature of state market relations (and the constraints of European economic governance) made certain formerly favoured neo-mercantilist policies and industrial policy strategies decreasingly viable. Colin Crouch's paradox of neo-liberal democracy, generated by the liberal international markets, overlapping economic governance regimes, and nationally delimited political mandates, thus presents particularly vexing problems for European economic policy makers seeking to use state aid to support their national economic interests. The politics of state aid in the EU is affected by these overlapping mandates, and the conflicting models of political economy which shape different economic governance regimes. As a result, EU state aid politics involves a 'clash of capitalisms' logic, with defence of *dirigiste* national approaches to state/market relations from the perceived threat of LME-oriented re-regulation by the European Commission.

The current global economic downturn and financial crisis may signal a sea change in political economic ideas. The recent resurgence of Keynesian thinking is one manifestation of this. The retreat of neo-liberal ebullience of institutions like the European Commission is part of a wider questioning of *laissez faire* and self-regulating markets. All this is a conducive environment for a resurgence of state economic interventionism, and indeed state aid. In this context, the European governments have been developing new forms of political intervention in economic activity, notably in response to the financial crisis, in order to protect their industrial patrimony. Sarkozy's anachronistic 'neo-liberal economic patriotism' economic strategy (Clift 2008) is but one example of a wider European phenomenon. It combines neo-liberal and protectionist elements in pursuit of advancing the economic interests of particular territorially defined groups – at times French, at time European. The multi-level governance context in Europe, and the enduring liberal bent of the European Commission, makes such strategies difficult to pursue. This has been amply demonstrated by EC displeasure at Sarkozy's bank rescue plan in October 2008, and his 'car pact' in January 2009. That said, economic patriotism, and state aid, will continue to play a significant role in the rhetoric and practice of European economic policy-making.

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