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GERMANY, FRANCE, AND POSTWAR DEMOCRATIC CAPITALISM

EXPERT RULE

François Godard

ROUTLEDGE

"In a striking work of revisionist political economy, François Godard draws our attention to the important roles that states played in the process of post-war modernization, especially in France and Germany. By showing how experts working for these states led social actors to new understandings of their interests, he challenges many conventional understandings of the postwar class compromise. Anyone interested in understanding how political economies are constructed will find food for thought in this important work."

– Peter A. Hall, *Harvard University, USA*

"Based on careful historical research, this book argues persuasively that state leadership played a key role in the postwar economic modernization of Germany as well as France. Emphasizing the ideational dimension of state leadership, Godard recasts the meaning of 'state capacity' and invites us to rethink the way that state actors relate to interest groups. His argumentation has important implications for understanding the politics of economic management not only in the immediate postwar period, but in the contemporary era as well."

– Jonas Pontusson, *Université de Genève, Switzerland*

Germany, France, and Postwar Democratic Capitalism

This book concentrates on the political economies of Germany and France in the period spanning between the end of the Second World War and the 1970s, with a subsequent consideration of Italy and Britain as 'shadow cases'.

European postwar accounts have never reconciled the thwarting of widespread aspirations to socialism, and the twin feat of equalitarian growth and institutional stability. This success is precisely due to achieving the reconciliation of democracy and economic management, the yearning for collective control over social and material outcomes that was tragically aborted in the interwar period, and fed 1945 expectations. Germany, in 1948–49, and France, in 1958, carried radical institutional and policy reforms with much more in common than previously realised. Under the recast republics, social groups were steered towards support for modernisation – by the state, not through a mythical settlement. Consensus was built for trade and low inflation as vectors for higher productivity. State capacity was lifted by leadership in ideas, executive branch accountability to voters, and technocratic agencies. British and Italian underperformances reveal the countries' uneasiness with the compact.

Once understood, the convergence of productivism and democracy in the European regulatory state provides a new narrative – especially relevant today – of experts taming populists.

François Godard was awarded a political science PhD at the University of Geneva for a thesis on postwar institutional and policy reforms in Europe. He published articles on ideational models, and on social democracy as seen by Marcel Gauchet and Fredrich Hayek.

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Preface

My interest in the *trente glorieuses* has generational roots. During my teen years in the late 1970s, I felt that I was coming of age in a gap decade, that the ‘really big things’ had taken place earlier, and not only music-wise. That feeling was unfortunately amplified by the fin de siècle’s outlook. But it took me time to translate that feeling into a research agenda.

This emerged only in 2012, when I met Professor Jonas Pontusson, who agreed to advise me on a comparativist doctoral project at the University of Geneva. By then I had realised that the social-science literature on the post-war era featured mostly siloed narratives, seldom crossing into each other’s fields. I was frustrated by descriptive economics, legalistic approaches of institutions, and narrow accounts of social group interactions. Moreover, it struck me that most scholars, too focused on examining deep social forces, missed the state, the elephant in the room. I stumbled on the profound – and hitherto unexplored – similarities of the founding of the German Federal Republic and France’s Fifth Republic in 1948–49 and 1958.

In 2019, Jeffrey Friedman asked me to read the proofs of his book about technocracy, *Power Without Knowledge*, an argument he wrongly thought was untimely. This was a eureka moment, for I began connecting the siloes into a proper political economy analytical pipeline. I started to causally connect two distinct fields: the bright images of technological breakthroughs (like transatlantic jet flights and mass consumption) in booming hypermarkets and the grey pictures of civil servants in three-piece flannel suits. The contrarian in me began to suspect that while scholars commonly oppose expertocracy to democracy, it might actually be the case that expertise often underpins democracy.

Jeff died suddenly in December 2022 after commenting on my manuscript. Like many scholars who profited from his mentorship and from the journal he edited, *Critical Review*, I feel that his support and advice made this thesis-cum-book possible. I am also extremely grateful to Jonas Pontusson’s disinterested intellectual curiosity and, more generally, to the Swiss academic ecosystem. Its openness to foreign students, its cosmopolitan professorial corps, and its general smoothness are admirable, even more so for someone coming from across the border where the academy is gated, and

not always by the best. Switzerland is an understudied bright specimen of social democratic Europe. I would like to express my gratitude to the Swiss National Science Foundation, alongside the University of Geneva's Maison de l'histoire and Fonds Rappard for financing the open access edition of this book. I also warmly thank the members of my doctorate jury, Professors Lucio Baccaro, Cédric Dupont, and Peter Hall, each of whom offered me stimulating critiques. Their feedback has helped me transform a narrow thesis into what I hope is a broader and engaging argument.

Let me also express my gratitude to (in alphabetical order): Michael Barnes, Patrick Bloche, Claire Enders, Shterna Friedman, Dominique Jaillard, Douglas McCabe, and Nadir Moknèche. My greatest thank goes to my partner Francesco. I dedicate this book to him.

Procida, September 2023

Introduction

Mythical postwar settlement, actual state-led refoundation

The dominant view in social science is that politics is fuelled by opposing material interests which is manifested primarily in conflicts between capital and labour. The majority of scholars, then, who study Europe's stunning economic success after the Second World War attribute it to a settlement between workers and employers: workers agreed to refrain from industrial actions and to link pay with productivity, while employers committed to reinvest profits and fund the welfare state. According to the prominent narrative, this settlement coordinated expectations of workers-as-consumers and business, propelling a virtuous consumption-investment circle. In a scaled-up version of the story, society harnessed capitalism until the settlement unravelled in the 1970s, when capital owners became more influential in determining public policies, which, in turn, initiated a neoliberal era of rising inequality (DeLong and Eichengreen 1991, Piketty 2014, Streeck 2009).

This book aims to dispute the standard narrative and its assumptions on both theoretical and factual grounds. At its core, the dominant account treats advanced industrial countries as governed by an underlying balance of power that pits the vast majority of the population against the small minority of capital owners. By implication, democracy – in the sense of the popular election of parliament and political leaders – either skews the scale towards the people in what primarily remains a confrontation of polar interests, or is simply a corrupt process that overrides popular interests in favour of those of the elites. In this materialist world, apparently, material interests are generally obvious to social groups, who infallibly know how best to pursue them. This account would also have us believe that after the Second World War, the organisations that had synchronised all the resources of their territories in an unprecedented effort to achieve victory reverted to the role of executive committees of dominant societal groups. I am not aware of any explanation of this act of the withering-away of the state. Yet no model of postwar politics is credible without an account of the state.

The settlement story is also refuted by the chronology I will reconstruct in detail in my account of postwar Germany and France – a comparison that the literature tends to neglect. In both countries, after 1945, the state underwent deep institutional reforms, drawing lessons from interwar populism

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and governance failures. Both the German and French states drafted policies to adjust the economy to the new international environment; only afterwards did they bring in social groups to review their plans. Then, by exercising leadership through the development, use, and promulgation of ideas, both states reframed how groups conceived their interests. Thus, the 1949 unified German trade union movement, which had been committed to socialisation and defiant towards the new republic, by 1963 was tamed into becoming a partner of the country's growing industrial export machine. Likewise, the 'Malthusian' French producers of the 1950s were transformed, by the 1970s, into global technology leaders.

Considered broadly, the postwar economic success story is primarily the result of what might be called technocratic republicanism. European states adjusted their socio-economic models to accelerate economic development while generating democratic support. With the nations of the western alliance committed to trade opening and stable exchange rates (if only to keep US protection), governments had to accommodate distributional claims accordingly; this is what I mean by the economy's 'adjustment' to the postwar international environment. When I refer to the 'success' of the postwar models, I am offering a *positive* yet immanent assessment, from the protagonist governments' own viewpoints, of their institutional longevity, compared to preceding regimes, and their economic outcome. I am, however, bracketing *normative* evaluations of the desirability of the broadly neoliberal values that guided German and French leaders at the time.

Rising productivity, openness to international trade, and the stabilisation of prices were crucial steps to the adjustment process, but were opposed by large segments of society. Therefore, Germany and France had to steer opposing groups towards new policy preferences by delivering egalitarian increases in material well-being, which created independent popular support for their policies. The main postwar problem was not, contra economists, the coordination of private interests, but the political problem of collective decision-making and action. Interests were reconstructed rather than balanced.

Narrative of a top-down process

I will begin with West Germany, showing that state initiatives drove the process that brought about the country's famed collaborative industrial relations. The main trade union, DGB, was gradually induced to pivot from a democratic socialist stance to support of the *soziale Marktwirtschaft* – the 'social market economy'. At its founding 1949 Munich congress, the DGB, although firmly anti-Communist, was uncommitted to the Federal Republic constitution enacted a few weeks earlier. It called for a 'socialisation' of the economy, which would be controlled by a corporatist structure, including unions and employers, that would parallel state administration. This was to pave the way for an 'egalitarian system of production', while competition was associated with 'chaos' (Markovits 1986). In a stunning shift, at its

1963 Düsseldorf congress, the union explicitly supported the new regime and its export-led, low-inflation model. Fast economic growth may have helped moderates win over their comrades, though many other European unions upheld radicalism despite the boom.

In Germany, the DGB pivot can be seen as an adjustment to the new political economic environment. The pivot was a response to a twin state-led process. First, the government regulated labour representation in its 'codetermination' laws of the early 1950s. Worker representation became mandatory on large company boards, but since the representatives had to be elected by employees rather than appointed by unions, the unions were opposed to this. Instead, they got their own militants elected in most firms, and pushed for national centralisation of wage bargaining to tighten their grip on local sections (a setup to which employers subscribed). The twist is that the realism of production floor workers drove the militants towards moderation – just as the government had hoped.

Meanwhile, the new Federal Republic leveraged independent expert opinion, starting with the central bank, to foster a national ideological convergence favouring low inflation and trade liberalisation. Rhetorically, leaders revived memories of Weimar hyperinflation in order to consistently associate price stability with protecting workers' buying power. Opening the country to imports was presented as providing working families with access to cheaper goods. (In contrast, French economic leaders at that time tended to argue against inflation as a matter of protecting savers, i.e. capital owners, and to demonise imports.) In what I call 'productivism', productivity was relentlessly advertised as the yardstick of material well-being. The independent central bank made policies promoting productivism more credible by actively reaching out to blue-collar audiences, and repeatedly rebuking businesses that were protectionist and addicted to cheap credit. The state fostered a new consensus in public opinion that, combined with the structural changes in industrial relations, tamed the DGB.

Similarly, France's Fifth Republic, established in 1958, made an about-face from the prevalent static 'Malthusian' programme that was geared to preserving status quo, and started addressing societal challenges head-on. With governmental coaxing, the farmers' and shopkeepers' lobbies eventually embraced modernisation. Fragmented and militant unions accepted and cooperated with industrial restructuring to enhance productivity. A previously reactionary and protectionist business leadership came to support a state-led effort to increase scale and to embrace new technology geared toward international markets. As with the German central bank, many French policies gained legitimacy because they originated with governmental yet politically unaffiliated experts, like those of the Plan Commission.

In both countries then, social groups were brought to align their preferences with the state's. They came to accept a frame of analysis against which they had previously fought because they adopted new ideas about the best interests of their members. This was not the result of a bargain or a settlement, but of a gradual change of mind that was actively sought by state agents. The resulting ideological U-turns were enabled by the massive systematic transformations in governance begun by the institutional big bangs that took place in 1948–49 in Germany and 1958 in France, both of which enhanced the power of the executive branch.

A key part of the big bang in both countries was the creation of political systems that fostered solid parliamentary majorities (as opposed to wobbly coalitions). These majorities, in turn, ensured stable governments: party discipline helped cabinets drive the legislative process, while, in turn, the executive had sufficient time to deploy policies, for which they were held accountable by citizens through de facto or de jure direct election of the head of government. Courts and independent administrations further reduced parliaments' capacity to run policy, as opposed to auditing it, and enabled non-partisan cooperation between state and economic actors. The tragic inadequacies of the unstable and ineffectual Weimar and late Third Republics were thus overcome. Learning from the crises of the 1930s, the German and French republics at last managed to successfully accommodate mass democracy by simultaneously strengthening state capacity, accountability, and checks and balances.

However, the big bang in each country concerned policy as much as institutions. In a seemingly paradoxical development, emboldened executive branches signed on to ambitious international agreements regarding trade and currency, which considerably curbed the range of policy options available to them. This constraint, however, became a platform to push through a consistent worldview of international cooperation and prosperity, conditional on conforming to the iron discipline imposed by commitments to low inflation and high productivity growth. Policy formulation and implementation serving these ends increasingly devolved onto experts and technical bodies that exhibited fact-based, science-informed decision-making – what postwar Germans dubbed 'objectivity'.

The economic boom of the *Trente Glorieuses* was much more impressive than it would have been had it merely made up for the years lost to war. In 1950, labour productivity per hour worked in Germany and France was about two fifths that of the United States, and almost 30% lower than in Britain. But by the early 1960s, Germany and France overtook Britain, and they matched US performance by 1990.

Catching up to the productivity of the American frontier economy had nothing preordained about it. Within the advanced capitalist countries of Western Europe, performance has varied widely, ranging, on the one hand, from the relative decline in Britain and the rise and fall of Italy to, on the other hand, the comparative excelling of Germany and France. European states that ignored key aspects of the Franco-German model delivered materially inferior results. To this day, worker productivity remains much lower in Britain and Italy than in France and Germany.

In the British and Italian shadow cases, the state proved unable to mobilise society towards productivism. In a postwar compromise, British governments did not intervene in dysfunctional industrial relations, while allowing peripheral interests in the Empire and the City to influence 'Keynesian' economic policy. Postwar Italy initially saw leading industrial firms modernising at breakneck speed, thanks to effective state agencies and audacious trade liberalisation. But growing government corruption channelled these firms into rent seeking by the 1970s. After the oil shock, both countries plunged into inflation and exchange-rate crises, and lower productivity was the long-term consequence.

The story I will be telling has a further twist. France and Germany fostered economic outcomes that were significantly and persistently *more egalitarian* than Italy, Britain, and the US. In other words, higher productivity came with lower disparities of living standards between inhabitants. This outcome suggests that the conventionally understood hard choice between equality and higher outputs is a myth. More strongly – consistent with the evidence I present, but not dictated by it – it would seem that Franco-German productivism, constrained by democracy and the labour movement, sustained the rise of more equal outcomes. Certainly, it can be argued that branch wage agreements in Germany and the high minimum wage in France pressured the least-productive firms to invest or close down and reallocate capital.

The genealogy of the European regulatory state presented in this volume radically undermines the prevalent political frame that the people and experts oppose each other, i.e. that democracy and 'expertocracy' are necessarily competing modes of rule, rather than (as I will suggest here) potentially mutually supporting. As we will see, recourse to non-political technocratic governance was a pillar of the postwar success story of European democracy. Autonomous 'technical' administrative bodies and non-partisan government officials were not obstacles to, but enablers of, democratic rule: technocrats formulated and administered policies that served economic ends endorsed by the people. Attacks on expertise from populists and promoters of deliberative democracy reveal a deep misunderstanding of republican or collective decision-making, although the role I assign the state in the formation of public preferences is not inconsistent with the neo-Foucauldian critique of 'neoliberalism' as an all-encompassing system of social control operating through culturally generated assumptions.

At a structural level, echoing Iversen and Soskice (2019), I will be confirming advanced democracies' formidable capacity for reinvention. And I will bring attention to the primacy of ideas in shaping social and political outcomes. Postwar modernisation was ultimately governed by state-shaped consensual visions that constrained social actors. The very possibility of such a development is obscured by the materialist and quantitative models that pervade the social sciences. I will follow a pragmatic research strategy in building a coherent causal story of the complex systemic adjustments that allowed democracy to fully take charge of the economies of France and Germany. This strategy will depart from the too-often-assumed self-evidence of material interests, and will instead assume that political actors must *interpret* material interests as such, and that such interpretations rely on a variety of ideas, theories, and beliefs.

Money and trade, Germany and France

To cut through the nexus of democratic economic management, I have organised my research around the policy domains of money and trade. My economic assumptions are fairly uncontroversial. Low inflation is a condition of productivity-enhancing long-term capital allocation. International trade exposes domestic firms to competition from superior global producers, constraining them to learn from foreign rivals. The two domains are positively interconnected: imports weaken domestic producer coalitions that would otherwise engage in inflationary distributional battles, while stable prices underpin an exchange-rate regime that favours international specialisation.

These two policy domains were crucial both on their own terms and as fundamental testing grounds of governance in postwar Europe. Their mishandling played a central role in the vicious circle of the 1930s. After the collapse of the gold standard during the First World War, money was no longer regarded as quasi natural. This led to botched experiments with credit and exchange rates that produced not only German hyperinflation, but also the British deflation and the 1936–37 inflation conducted by the Front Populaire in France. After the onset of the Great Depression, trade became a nationalistic win-lose weapon and protectionism helped dictators consolidate their power.

In the wake of the Second World War, after the immediate tasks of European recovery had gotten underway, the biggest economic policy challenge became the generation of a legitimate consensus about government control of money and credit, and the not-unrelated task of ensuring integration into the international economy. But wise trade and monetary policies required confrontations with prevalent ideas and powerful social groups.

In the months that immediately followed V Day, the most important state tasks, on which everyone agreed, were repairing railroads and securing food supplies. While the epochal development of the welfare state faced sometime vociferous opposition, capital owners could not go on strike in response, nor move their assets abroad. In contrast, the later shifts towards trade liberalisation and low inflation involved such major breaches in policy that they could only take place under the exceptional circumstances of the postwar period. The Fourth Republic's towering figure, Pierre Mendès-France, had left the government in 1945 when de Gaulle blocked his monetary reform programme. De Gaulle felt that he lacked the political capital necessary to confront the farmers and petty bourgeois who had been enriched by the war. Monetary and trade reforms eventually took place only after de Gaulle obtained full powers from parliament in 1958. In Germany, however, painful decisions began to be taken as soon as 1948 by technocrats such as Ludwig Erhard, who operated under Allied protection and supervision.

Of course, steady implementation of initially unpopular money and trade policies was not an issue unique to postwar Europe. It was merely exacerbated then. Discussing 1970s Britain, Ernest Gellner (1979, 299) nicely summed up the association between economic policy and democratic governance when he wrote that

> we cannot invent a world in which inflation would be impossible because no-one had the power to expand the money supply. Once it is known that the power exists, it cannot be wished away by the pretence that it does not exist. . . . The real 'cause' of inflation, i.e. the factor we may hope to change, is the social pressures leading to the abuse of that control.

My argument is not that free trade and low inflation *alone* can lift a country to catch up with the frontier economy; far from it. Such conditions are necessary but clearly insufficient. My point is rather that the deep changes in governance needed to address the two economic policy domains were catalysts for the creation of the modern European regulatory state, intermingling *Sozialpolitik* and *Realpolitik* (Katzenstein 1987). A telling illustration is the high French minimum wage, established in 1968, which pressured employers to push up labour productively. This postwar institutional and policy revamp merits the label 'miracle' that is often applied to Europe's postwar economic performance.

After considering the main West European countries, I decided to concentrate on Germany and France for two reasons: among large states, they provide the two most incontestable cases of successful postwar adaptation; and their strikingly similar experiences of radical constitutional and policy revamp at a ten-year distance are seldom studied together (I have not found a single attempt). The institutional and political economy models of the two countries are different and often contrasted, yet, as I will show, they present a good test of the unifying developments identified here.

I pay particular attention to 'crisis' episodes when government policy faced the widest opposition. Such crises include the intense reform periods during which new constitutions and new policy paradigms were established; and the balance of payment deficits and inflation surges that affected the two countries during the Korean War. A quantitative approach would not sufficiently account for such unique historical events. In such cases, 'a comparative analysis that starts with contextual differences and then looks for underlying regularities is the only way to proceed' (Evans 1995, 29).

I further question the formal-theoretic assumption that individuals act upon their objective interests. Instead, I draw on the sociological attention to meaning, starting with the idea that interests are (at least to a large degree) subjective, ideational constructs. Thus, I will provide a stubbornly interdisciplinary account. I happily reclaim the legacy of my native French, where 'political sciences' used to be spelled in the plural to reflect their drawing from a number of specialisations.

Emancipating the state from corporatist analysis

Broad accounts of the *Trente Glorieuses* produced by political scientists tend to describe the configuration of interest groups as a modern incarnation of medieval corporations, and their relationship with one another as the main driver of modern social economic history.

The most ambitious of these accounts may be that of Wolfgang Streeck (2009), who depicts a political economy torn between commoditisation (or rule by the market) and its containment by 'political stabilization of relative prices and extant social structures'. According to Streeck, capitalism changed immediately after the war as it faced new social constraints. But (he thinks) once the growth allowed by reconstruction was over by the 1960s, the inner tendencies of capitalism towards liberalisation and disorganisation returned, and, slowly but surely, the postwar settlement unravelled. The very influential account by Thomas Piketty (2013), depicting a postwar decline in inequality that was cancelled in the 1980s, is consistent with Streeck's argument.

In their corporatist, postwar-settlement narrative, trade unions agreed to index their wage claims to the growth in productivity. In return, reassured about long-term stability, capital supported the welfare state, progressive taxation, and reinvested most profits. This coordination of economic actors underpinned the 'Fordist' virtual circle of investment and consumption. A centralised labour market where national unions deal with national employer organisations proved a crucial component of this process, as it prevented rogue firms or local unions from launching inflationist bids for resources. Unions and employers from the most productive firms, dominating their respective coalitions, supported trade liberalisation; less productive firms and employees' opposition was attenuated by the terms of the settlement.

In the 'varieties of capitalism' account of European recovery, the postwar settlement is the Continental corporatist alternative at one end of a spectrum, which other end is occupied by a 'free market' Anglo-Saxon variant.[1] Relying on the trope of blue-collar industries, corporatist theorists tend to overlook producers outside of manufacturing. But as we will see, until the 1960s, farmers and shopkeepers were the main opponents of economic modernisation in France. In Germany, the 1953 *Lastenausgleich* settlement, which addressed claims from refugees and small investors arguably pre-empted far-right politics for three generations. In the 1960s, tertiary activity became the dominant provider of employment, but it is typically absent from social accounts of the period, despite the rise of white-collar unions.

A corporatist account of politics will also have to dismiss the crucial role played by university students and professors in the 1960s – actors who fell outside the capital/labour dichotomy. Similarly, most major wage disputes in France occurred within the public sector, which invalidates a class-based analysis in these respects. This was often the case in Germany too. Further, many conflicts involving private-sector owners took place in heavily regulated industries (such as postwar price-controlled German metalwork, where wage increases depended on state decisions). Moreover, numerous pay settlements were concluded in defiance of government inflation policy, revealing a state in tension with oligopolistic sectors where price discipline could be avoided.

The settlement model is also blind to actual chronology. Crucial institutional innovations that weighed considerably on monetary policy were made before any labour-capital deal could be struck. Stabilisation programmes in 1948 in Germany and 1958 in France reframed the terms of *existing* distributional disputes. In Germany, the autonomous, price-stability-focussed central bank was set up by the Allies in 1948. The Korean War balance-of-payments crisis in 1950–51 saw the emergence of a mercantilist growth model supported by a constituency favouring price stability, which was actively led by the bank. These developments took place before any hint of a grand bargain between corporatist interests. The same thing can be said about the reset of industrial relations under the 1952 codetermination law. Moreover, I find no evidence of any decisive impact of interest groups on the very consequential choices of the German parliament about the central bank's autonomous status in 1951 and 1957. As for France, claims about the Commission du Plan easing conflicts between capital and labour apply mostly to a period that began in the mid-1960s, long after the 1958 policy big bang, when price indexation was banned and pro-competition Common Market commitments were effectively implemented.

Trade is another blind spot of the corporatist theory. Even if, on paper, a corporatist settlement makes sense for domestic macroeconomics, it cannot explain the steady postwar commitment to trade liberalisation. A large literature contends that interest groups drive trade restrictions, not liberalisation. Conversely, Iversen and Soskice (2019) argue that electorates in the advanced sectors of the economy demanded pro-trade policies. This may help to explain the resilience of trade liberalisation, but not the initial deals, which took place when most of the relevant industries and unions opposed liberalisation policies that would (later) benefit unorganised, emerging sectors.

The French case is the final and, arguably, blind spot that invalidates the corporatist account. French political economy is very difficult to understand in corporatist terms, and even less so as instantiating the market-driven model. Thus, multinational comparative accounts tend to gloss over France and file it as anomalous. Most monographs zoom in on the role of the French state as an industrial engineer, while dismissing the labour movement as weak, despite the strong history of protest-driven policy making and demonstrations that trounced reforms. The French state, which is correctly and consensually seen as autonomous from interest groups and classes, poses a direct challenge to the corporatist literature.

Therefore, acting on Theda Skocpol's famous 1985 manifesto, I intend to 'bring the state back in' to political economy. I agree with her that 'state formation, political institutions, and political processes (understood in non-economically determinist ways) must move from the penumbra or margins of analysis and toward the center' (Skocpol 1992, 40).

State autonomy has been repeatedly pointed at without being fully explored.[2] Ironically, one stumbling block comes from the institutionalist school, which (despite its name) is much influenced by economics. Economists define institutions as rules, leaving the 'organisations' that set and contest rules dramatically underspecified. Against this tradition, I will follow Streeck and Thelen (2005, 12) in calling institutions organisations whose 'existence and operation become in a specific way publicly guaranteed and privileged, by becoming backed up by societal norms and the enforcement capacities related to them'.

A fruitful account of major changes in a country's political economy requires that we understand state institutions as agents. But just as organisations are more than the sum of the interests of the individuals working for them, states are more than the sum of the interests of bureaucrats. In political science and in economics, firms and groups often figure as actors, while public or state institutions tend to be marginalised; I want here to recover them as fully acting on their own initiative, as entities with strategic autonomy.

The state-centric perspective raises a number of issues that, in some cases, were left underexplored by pioneer scholars. I will try to clarify my approach by asking seven questions about the definition of the state, its boundaries, its pluralism, its internal coordination, the concept of state autonomy, that of state capacity, and the democratic state's historical purpose.

1 *What is the state?* The state is not a mere forum where interests trade. It is a self-perpetuating structure with a Weberian territorial monopoly on legitimate coercion, operated by specialised and dedicated personnel. Nordlinger's (1982, 11) state is the set of 'all those individuals who occupy offices that authorize them, and them alone, to make and apply decisions that are binding upon any and all segments of society'. State agents take 'authoritative decisions' and 'actions'.
2 *What are its boundaries?* Nordlinger (1982) puts the state on the public side and society on the private side of a 'fence'. This metaphor undeniably helps to identify two ideal-typical categories of actors, but realistically, the fence must be conceived as porous. The state directly influences the ideas of many agents who do not formally report to public administration. Evans' (1995) concept of 'embedded autonomy' has drawn attention to 'policy networks' that bridge state and society to exchange information, thanks to shared educational background and worldviews. European integration and the rise of postwar international treaties have also seen the emergence of public agents administratively independent from national states even if legally enabled by it. Such agents have been little investigated by political science.

3 *Is it unitary or plural?* It was frequently unclear whether the state depicted by Marxists and state theorists of the Nordlinger generation referred to a collection of individual agents or a single organisation. If the unity of 'the' state and its boundary remain defined by the Weberian monopoly and constitutional constraints, this framework needs amendment to accommodate a plurality of state actors. I take the state to be a bundle of public institutions, not a single power centre. A plural state includes decision centres under the political bond of the executive branch, the judiciary, independent administrative authorities, local governments, and state-owned enterprises. The state is also cleaved by the tension between elected and politically appointed officials on the one hand, and career bureaucrats on the other.[3]

4 *How are state agents coordinated?* If the state is pluralist, cooperation between agents becomes a key governance issue. Indeed, coordination between branches and agencies could be a main criterion for assessing state capacity and effectiveness, which cannot be taken for granted. Even in the most centralised states, consistent decision-making and implementation is often problematic. An effective state is much more than rule by a central office, as it implies implicit coordination mechanisms that can be cultural, sociological, or economic. I will argue that an ideational programme defining shared goals can help a pluralist state to work cohesively.

5 *Autonomous from what?* I take state autonomy to be a complete reversal of the usual corporatist and materialist perspectives. In the dominant literature, and especially in economics, society is the sum of private interests, the *non plus ultra* being property; and the state is typically assumed to act according to some subset of the total set. In my approach, state autonomy is the assumption that state agents act according to their understanding of a public interest that may depart from some subset of private interests. Such understandings, or ideas, are what Nordlinger calls state actors' 'preferences'. He locates the state's autonomy in its agents' capacity to make decisions according to their own preferences, regardless of those of society. Hence my attention to state agents and agencies involved in decisions *opposed* by major social interests, public opinion, or political parties.

6 *Is the state both autonomous and capable*? The success or failure of history's great powers has often been attributed to their capacity to appropriate resources and redirect them to select purposes (Finer 1997). State autonomy, however, does not entail state capacity. Under different labels, state capacity was used one or two generations ago to examine countries like France and Japan, which were often contrasted with Britain and the United States (Hall 1986, Johnson 1982, Shonfield 1965, Zysman 1983). Recently, this approach is popular in discussing developing countries (Acemoglu 2005, Fukuyama 2014, Studwell 2014). I will build on the established approach, assessing both the state's capacity to implement decisions and its capacity to influence, coordinate, nudge, or even coerce choices of private actors, all of which depend primarily on the state's capillary penetration of society. I will also consider the upstream governmental

capacity to make and implement decisions – its capacity to rule – which is degraded in corporatist models into a mere adjudication function.

7 *What ends are served by autonomous states?* My approach is not reducible to a traditional *Realpolitik* perspective that treats the state as selfishly seeking primarily to preserve itself and expend its influence. The modern state cannot be understood without its democratic straitjacket. Democratic endorsement both checks and propels modern states' autonomy. In the last analysis, the modern state's democratic check has amounted, at least in the postwar decades, to growth in the material well-being of the population. But cunning states strove to define what counts as material progress – i.e., what is the public interest.

Ideas as vectors of government

'Interests' are a simplistic device upon which to build political-economic models. In reality, interests are usually the multi-layered product of explicit ideas and tacit assumptions about the world. What is taken to be in one's interests, thus, can be disputed, as can the (putative) interests of an organisation. Individuals and groups can make objective mistakes about their environment and, thus, about what is in their interest. Besides, interests are always assessed in a forward-looking perspective that is inherently speculative. Ultimately, interests are a social concept whose definition results from transactions with other people or organisations. Moreover, interests thoroughly fail to explain collective action, as demonstrated by Olson (1965). And insightful critics of modern capitalism admire the system's capacity to generate mobilisation narratives (Boltanski and Chiapello 1999).

A convincing argument for a synthetic approach to ideas and interests has gathered steam in the past quarter of century (Friedman 2020, McNamara 2017). Mark Blyth (2002) argues that 'whether an economic idea is deemed to be 'true' or not depends on how widely it is held', a remark especially insightful in conditions of Knightian or radical uncertainty prevailing during acute political turmoil. 'Narrative economics' (Shiller 2019), which provides causal stories, can have significant material effects. These stories can be deliberately spread, and 'it may be worth noting that one of the ways in which governments influence the economy is by propagating theories about the economy' (Hahn and Solow 1995).

An account of people's ideas is thus necessary to explain social transformations. During institutional change, according to Blyth, economic ideas help agents reduce uncertainty and provide them with resources to act collectively. Ideas can also be used to undermine existing institutions and provide blueprints to construct new ones that embed the new ideas, providing stability and coordination. Although this model may work in some instances, the ideas tracked by Blyth often look like signifieds without signifiers. In my view, institutions are not only carriers but propagators of new ideas.

To articulate autonomous state action and manipulation of ideals, I turn to '*pratiques de gouvernementalité*' (Foucault 2004, 79),[4] which I translate as vectors of government or drivers of state influence over society. The three *pratiques* that I will consider are social learning, the construction of legitimacy, and ideational leadership. I will suggest that expert-led governance synthesises them, and can be regarded as the successful adaptation of the postwar European state to its international and domestic environments.

Social learning. Studying the history of British and Swedish social policies, Hugh Heclo (1974, 321) found much more ground to support an 'elitist interpretation' of policy change than a pluralistic interpretation: 'Social policy was not created by the humping together of billiard balls of power, but by men who could learn and whose viewpoints could change'.

In a 1993 essay on the 1970s and 1980s British policy shift away from Keynesianism, Peter Hall (1993, 278) significantly deepened Heclo's insight. The latter concerned social changes, whereas Hall focused on the state. Hall writes: 'we can define social learning as a deliberate attempt to adjust the goals or techniques of policy in response to past experience and new information. Learning is indicated when policy changes as the result of such a process'. He usefully distinguishes between three orders of policy change: routine adjustment, instrumental change, and paradigm shift.

In a twist, I would like to stress that social learning is not a simple mechanism whereby *the* lessons of history are acquired by *the* state. The process is more chaotic: history is analysed, interpreted, and instrumentalised by the personnel of state institutions, and the winning analysis is a product of competition among ideas and their exponents. This calls for an examination of the rival interpretations and the mode through which one of them is appropriated by an institution, which can be determined by the relative intellectual strength of the arguments available, but also by rivalry with other state actors.

In 1945, there were two alternative narratives concerning the economic lessons to draw from the recent mayhem and its interwar prelude. One narrative assumed that the appropriate policies would be self-evident to the people once collective control over the economy was established; the other assumed that expertise would be required to meet the needs of the people. The latter narrative provided intellectual support for the 1948 and 1958 reforms and the institutions born out of them.

Judith Goldstein (1993, 13), in a seminal history of US trade policies, draws a convincing portrait of how institutional structures and ideas interact: a government's course is re-examined when 'it is the perception, whether warranted or not, of failure of current policy of political institutions or both, that creates the incentive for political elites to change'. This perception is often brought about by a major economic shock that coincides with the availability of new and marketable policy ideas. Those that survive do so because they become institutionalised, sometimes layered on top of older institutions which were inspired by contradictory ideas.

Construction of legitimacy. Effective state action may be crucially dependent on its perceived legitimacy, creating a loop of authority enhancing authority. However, the concept of legitimacy is often neglected in political science. The search for legitimacy, a main motive for state action, is the attempt to ensure an institution's activity and specific decisions are consistent with what John Rawls (1997) calls 'public reason'. In my more restricted sense, public reasons are those justified by the public good on which citizens converge. In the postwar era, economic growth, or the increase in material well-being, amounted to the paramount public reason.[5]

A recent theorist of technocracy points out that this utilitarian form of public reason is inherently 'technocratic', as the question of how to achieve material well-being seems to be a crucial aim of contemporary governance, and which may require expertise to answer (Friedman 2019). Postwar authority sprang from an institution's economic expertise being recognised as such by society. Institutions that projected the image of economic intelligence increased their authority in a positive feedback loop between state capacity, impartiality, and legitimacy (Pritchett et al. 2017). Pierre Rosenvallon (2008) has argued convincingly that a 'double legitimacy' mingles democratic accountability and impartial public administration in the general interest. This form of legitimacy emerged in the United States and France in the late 19th century, under the 'rational management' and 'public service' models, respectively. More generally, however, modern state legitimacy is never disconnected from perceived fairness and effectiveness.

Legitimacy is intrinsically argumentative, which is why it is usually a work in progress and why one can talk about constructing it. Seeking legitimacy (as by attempting to demonstrate competence or intelligence) complements looking for public support, even if the two overlap. The latter is immediate, short-term, and is often personal or at least linked to a team of persons, while the former is institutional and long-term. To an extent, the search for legitimacy in the postwar era was part of a balancing act between expertise and democratic accountability.

Ideational leadership. My argument posits ideational leadership as the process by which the state resets the preferences of social groups. I include not only governmental or institutional initiatives to publicise and defend a policy, but also and, indeed, primarily state communication and action to change the political debate's framework (attempting, à la Hall 1993, to change a political 'paradigm'), resetting the polar options under consideration by the media, social actors, and the public, as well as what used to be called agenda setting.

The framing mechanisms I want to underscore are not rhetorical but political. The most important is repudiating partisan debates in favour of scientific or technocratic argumentation. This involves, on the part of the political leader, accepting independent sources of information and analysis, the outlook of which, of course, he or she may be able to influence, but only to a certain extent. The French state's focus on productivity growth as advocated by experts was a frame of analysis proposed by political leaders to social actors as limits within which they should set their claims. The same can be said about price stability in Germany.

Effective ideational leadership requires the ability to collect information and produce analysis or intelligence (regardless of whether this is the image projected in a given case). The most successful state agencies I will discuss, such as France's Plan Commission and West Germany's Council of Economic Experts, paired leading analytical minds with deep data gathering and processing. Along with this, they were able to broadcast their messages credibly. Needless to say, I focus on liberal democratic polities where there is competition in journalism, policy ideas, political programmes, and partisan politics. I am thus reluctant to use the word 'propaganda' despite its technical appropriateness.

Leadership is little studied in the social sciences. Much of the existing literature is located in psychology and Straussian normative theory, which consider the personal traits of prominent social actors. While I do not foreclose the importance of personality in historical outcomes, the ideational from of leadership I examine is a type of governance embedded in institutions. I discuss leadership because I investigate the actions by individuals holding power in state organisations. I do not limit myself to *political* leadership (i.e. those operating in the partisan space), but also consider appointed leaders. Perhaps the best contrast to ideational leadership is *transactional*, when governments bargain with social actors.

Whereas the concept of social learning captures the internal state process of policy evaluation and reform, the concept of ideational leadership addresses state efforts to convey arguments and conclusions to social actors. (I do not want to foreclose the many important instances of ideational leadership that flow from social actors, but these are not relevant in the cases I will examine.) This concept of ideational leadership has recently been fruitfully employed by Stiller (2010) in analysing welfare state reforms in Germany. She deliberately contrasts her template of actively led change against Streeck and Thelen's (2005) somewhat passive version.

To concretise my approach with an example, middle-class voters endorse parties supporting advanced capitalism because political parties and the state provide a compelling account of their interests, not because they possess an immanent capacity to interpret their predicament (as Iversen and Soskice imply). Without state ideational leadership, Stiller's template of state-led changes crumbles.

Book outline

Chapter 1 begins with Germany's and France's postwar economic outcomes in the international context. Their main and lasting achievement was to raise the productivity of their workforces towards that of the United States – no mean feat, as shown by the contrast with Britain, Italy, and other countries with relative stagnating performances. Notably, French outcomes improved markedly after the advent of the Fifth Republic in 1958, a change often overlooked by researchers. Crucially, this lasting surge of productivity is associated with household revenues that were and remain more *equal* than in Britain, Italy, and the United States.

After establishing these outcomes, I turn in the following chapters to historical research proper. Chapters 2–4 examine Germany from the 1948 to 1949 emergence of the Federal Republic, and Chapters 5–7 look at France under the Fourth (1946–58) and the early Fifth Republics. In each case, I discuss their constitutional reforms, the political system, and the institutions that handle economic policy. I then consider how each country implemented policies during crises before turning to their governance mechanisms and detailing instances of deep structural and ideational changes in social groups triggered by state action.

Chapter 2 describes how, in 1948, Germany started a unique refoundation experience. A radically low-inflation, export-led model took shape under the helm of appointed experts prior to the creation of the Federal Republic the following year. After that, an elected, stable, and powerful chancellorship endorsed the 'social market economy' policy mix and treated the resumption of economic growth as vindication of the new institutions. The executive claimed a non-partisan, technical, 'objective' approach to the economy guaranteed by the independent central bank, which was itself active in creating its own legitimating myth.

Chapter 3 considers how the Federal Republic's leadership met its first challenges by deploying a new governance model that leveraged skilled resources. During the 1950–51 payment crisis, social and expert support was mobilised to defend this model in the face of Allied, union, business, and parliamentary opposition. After further institutional tensions during the 1956–57 inflation surge, the policy mix defended by the central bank and the ministry of economics became unassailable. Independent state-sanctioned authorities (a seminal innovation) and 'scientific' economic analysis, alongside centralisation of policy-making, sustained the emerging consensus, a key factor in the shift in preferences of major social groups.

Chapter 4 provides a chronological reconstruction of the sequence of 1950s labour reforms to argue that the remoulding of German industrial relations was the product of state initiatives aimed at stamping out 'political' militancy and focussing bargaining between unions and employers on wages and working conditions. The ensuing centralisation of negotiations produced the 'institutionalisation of conflict' (Thelen 1991) that made for non-inflationary wage growth and industrial modernisation; in short, the labour movement had been tamed. This achievement would hardly have been sustainable without the social market policy consensus.

Meanwhile, right-wing opponents of the governing coalition were brought into the political mainstream thanks to a compensation scheme for refugees and restructuring measures for agriculture. This spared Germany the destabilisation caused by post-fascist parties active in France and Italy at the time. Business organisations were kept on a leash by a nominally friendly chancellor (Adenauer), and eventually were signed up to the Common Market despite many misgivings.

Chapter 5 tells the contemporaneous story of the creation of the Fourth Republic, which presents a sharp contrast with the founding of the Federal Republic. Partisanship led the constituent assembly to endorse a return of most features of the parliament-dominated, weak, and unstable late Third Republic. The Treasury attempted to finance long-term investment while also providing government with resources to appease distributional battles pitting farmers and petit-bourgeois businesses against urban workers, each with substantial parliamentary influence. Inflation and balance of payment crises in 1951–52 and 1956–57 led to reversals of (timid) trade liberalisation policies and requests for international assistance. Ineffective economic governance combined with the war in Algeria caused the May 1958 constitutional collapse.

Chapter 6 describes how France, however, kicked off European trade liberalisation in January 1959, thanks to the new political order which followed the return to power of Charles de Gaulle. The chapter makes sense of the profound revamp of French institutions and economic policy in 1958, which strikingly parallels the German sequence. The state went from being, as in the older, 19th-century liberal model, a social referee to being a purposeful democratic captain. Policy-making pivoted from a reactive to a defining mode – that is, from reacting to developments to defining the agenda. The new executive-led regime, recruited largely from the upper civil service, was empowered to push forward reforms previously blocked by distributive coalitions. Effective trade liberalisation through the Common Market pressured producers to restructure, while inflationary money creation was reined in by de-indexation and social engineering. The new economic governance passed its first test in the 1963 business cycle slowdown.

Chapter 7 shows how expert, non-partisan state agents built on their legitimacy to influence French society. Patient ideational leadership and alliances with reform factions led to the enrolling of social groups (such the farmers' association FNSEA and the business lobby CNPF) behind productivity-growth programmes. Despite ongoing union hostility to government policies, sectoral reforms and economy-wide initiatives gained labour's grudging acceptance thanks to the state's fostering of a pro-modernisation consensus, notably through high-profile technological achievements. Nuclear, telecoms, and aerospace breakthroughs galvanised an engineering economy worthy of Saint Simon, eclipsing the industrial policy failure of the Concorde.

Chapter 8 turns to postwar Britain and Italy to argue that they tried to circumvent social groups rather than mobilise them. This chapter sheds new light on the classic contrast between postwar Britain and Germany. Despite equally strong labour movements, Britain was in the grip of a fragmented, inflationary industrial relations system that, perversely, could not be reformed – precisely because of the Keynesian compromise between the Tories and Labour, which left unused Westminster's capacity for decision-making. The Treasury's subordination to the City (i.e. London's financial interests), initially associated with imperial interests, left British governments blind to the rise of continental regulatory states and their productivist efforts at training labour and modernising industry. From the 1970s forwards, only narrow London interests took advantage of the European market. Production grew faster thanks to rising inputs, and governments sought legitimacy through credit access, ultimately generating the Brexit backlash.

Italy's post-1945 constitution was similar to that of the impotent French Fourth Republic but, until the 1960s, its noxious effects were contained by a stable governing coalition and a select number of enlightened state agencies, starting with the Banca d'Italia, which fostered a German-style policy mix featuring low inflation and emphasis on exports. Full employment was reached, stimulating the militancy of competing unions, just when the political system became more fragmented and increasingly driven by patronage. Nevertheless, growth remained strong until the 1980s thanks to the Common Market and a one-off boom in locally rooted industries. After the early 1990s crisis, the Italian state, conscious of its weak capacity, effectively outsourced macro policy to Brussels and Frankfurt experts in the explicit hope that outside pressure would force domestic reforms. But lack of basic institutional capacity (especially in law enforcement) and the abdication of executive power to a vetocracy of social, regional, and business groups ensured that this hope was in vain.

Chapter 9 wraps up my case for the expert state as a successful technocratic-republican adaptation of liberal democracy. I compare the 1948–49 and 1958 paradigm shifts of, respectively, Germany and France. I argue that social learning took place by selectively interpreting narratives of the recent past, which led both countries to converge upon similar institutional reforms. At the same time, the rise of technocratic governance resulted from domestic experimentation, but gained traction through European integration, including the expert Commission's regulatory coordination and country peer reviews.

The intimate relationship between the regulatory state, productivity growth, egalitarian outcomes, and democratic legitimation that emerged in postwar Europe is still at work today. Germany successfully revamped its labour-market regulation in an expert-led reform enacted in 2003–05. The reform's (limited) negative impact on equality is being fought with social measures, including a new minimum wage. France's household revenues are the most equal of any major industrialised country, and its productivity remains close to the top of the heap, reflecting the continuing effect of structural incentives. However, the country struggles to sway social groups behind new reforms due to a legitimacy deficit incurred by its unbalanced presidential system. A lazy government rhetoric of 'reforming because Europe says so' encouraged a popular cultural backlash that blamed ongoing problems on globalisation. In response, the Macron presidency is an attempt to rejigger the Fifth Republic algorithm.

The thesis from which this book grew started with puzzlement at the change in the fortunes of socialism that has contributed to the vast thicket of analyses of neoliberalism. During the Second World War and the immediate postwar years, revulsion against capitalism and calls for the socialisation of the economy dominated public and elite opinion in victorious and defeated countries alike. In an influential 1942 essay, Joseph Schumpeter argued that socialism was an almost inevitable development of modern societies. Nevertheless, by the early 1950s, Europe seemed to be back on a liberal economic track. Many subsequent writers saw the advent of the Cold War as the moment when American and business hegemony suffocated popular aspirations. However, in a deeply ironic twist, a more recent revisionist historiography has transformed the postwar period into the heyday of the European social (or sometimes 'Fordist') model. The changing story left me wondering whether what happened during the *Trente Glorieuses* was a restoration of capitalism or its successful containment.

What my research taught me was that the back-to-normal impression was an optical illusion, even though what happened was certainly not the socialism that Schumpeter had feared and which so many others looked forward to. Instead, the relationship between the state, business, and social groups was profoundly reshaped in a fashion that instrumentalised capitalist growth for social well-being – with unprecedented success. However, I conjecture that the post-1980 free-market turn targeted by writers on neoliberalism is largely an Anglo-American development that should not be allowed to conceal something very different in Western Europe. This non-neoliberal third way has been misunderstood and maligned by populists and free-marketeers (as well as by those who exaggerate the reach of neoliberalism). The following effort in comparative politics is an attempt to set the record straight.

Notes

1 *The Varieties of Capitalism* by Hall and Soskice (2001) frames the debate, with earlier significant contributions from Berger (1981), Gourevitch (1986), and Maier (1981). Eichengreen (2007) provides an economist's take on the settlement. For a Marxist version, see Aglietta (1976). Wilensky (1975) and Esping-Andersen (1989) theorise the rise of the welfare state. Olson (1982) produces a popular version of corporatism wherein narrow interest groups are the main obstacle to economic growth.

2 Karl Polanyi (1944) was a pioneer in anchoring his narrative of capitalism to an autonomous state, a theme explored by Poulanzas (1971) so as to re-launch class-based analysis. Nordlinger (1982) theorised the idea of a state reframing societal preferences.

3 An excellent example of pluralistic state analysis can be found in Allison (1971) with his three models of the Cuban missile crisis. The first model is a classic strategic analysis positing each state as a single, rational player in a game; the second model looks at plural state organisations and their probable output (as implied by processes and procedures); and the third model examines individual decision

makers' strategies. Closing the loop, Allison shows that these individuals took decisions under assumptions consistent with those underpinning the other two models.

4 In the same passage, Foucault denied that the state was 'in itself an autonomous source of power'.

5 Most of the literature on political legitimacy is normative, whereas here I take a purely positive standpoint.

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1 The sustained postwar 'miracle'

The boom in Western Europe that followed the Second World War was remarkable for its intensity and its persistence. Mancur Olson (1982, 75) summarised it nicely, writing that 'the everyday use of the word miracle to describe the rapid economic growth in these countries testifies that this growth was not only unexpected, but also outside the range of known laws and experience'. The region's best performers had never before or since expanded as quickly as they did then, approaching the level of the world's premier economy, the United States. To this day, their workers remain almost as productive as their cousins across the pond. This book aims to show that the postwar 'miracle' was not merely a reconstruction burst but, more importantly, was the result of a long-term, mostly successful adjustment of European states to social and international conditions.

In the following chapters, I will lay out my narratives of postwar state-led adjustment of 'country models' in Germany and France, and argue for the superiority of this view over prevalent interest-based, corporatist, and industrial policy models. Before introducing my story, I will delineate the phenomenon that need to be explained.

Here I will initially look at long-term trends in gross domestic production (GDP) per capita, the rawest indicator of material prosperity, which from 1949 to the 1980s showed a steady rise for continental European countries compared to the US and the UK. To get a more detailed picture, I will then consider productivity per hour worked, which reveals that up to the present century France and Germany have kept pace with the US. I will suggest that their recent relative decline in GDP per capita indicates not lower productivity per hour but a social choice to work less. Postwar labour transfers from agriculture to more productive sectors can account for only a small part of their better results. This achievement was correlated with low inflation (or relatively low for France) and a steady increase in the traded share of GDP; both historical trends also highlight the relevance of a pivot in France in 1958. Confirming France and German economic robustness is the fact that their heightened productivity was achieved with more equal revenue distribution.

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Faster growth

There is no alternative to GDP to measure a country's material outcomes over time with a single indicator. After the Second World War, GDP growth was higher across much of the industrialised West compared to the interwar and pre-1914 eras, and this happy period ended with the 1970s petrol price shocks, leading to the unfolding of a tougher era. Within this macro pattern, individual country performances have, however, varied significantly, and that diversity underpins this book. I will look in more detail at the periodisation of the postwar boom, the contrasts between different countries, and their relative long-term performance in order to better pinpoint the exceptional nature of the German and French outcomes.

As seen in Table 1.1, in Germany, Italy, and France, the acceleration of postwar GDP growth was very substantial; the three experienced a full-blown *Trente Glorieuses*, culminating in the post-1973 slowdown. It is worth noting that their performance is all the more remarkable given that it was not shared by all major western countries. Britain's growth in the 1950s was barely above that in the interwar, the Netherlands' was better, but not spectacularly so, Sweden's was actually lower, and the United States did do better, but only in contrast to a dismal 1919–39 performance influenced by the Great Depression; US figures in the 1950s represented a return to the long-term trend seen before 1914 and after 1973. These other countries experienced an exceptional growth spurt in a much narrower period around the 1960s, when they nevertheless trailed Germany, France and Italy.

Table 1.1 Annual growth in real GDP per capita

	Germany[a]	*France*	*United Kingdom*	*Italy*	*Netherlands*	*Sweden*	*United States*
1871–1913	1.7%	1.5%	0.8%	0.9%	0.9%	1.7%	1.7%
1919–1939	3.8%	2.7%	1.4%	1.8%	1.5%	3.1%	0.3%
1950–1958	6.7%	3.8%	2.4%	4.9%	4.0%	2.6%	1.5%
1959–1973	3.8%	5.0%	2.7%	5.5%	4.6%	3.4%	3.0%
1974–1990	2.3%	1.6%	2.6%	3.4%	1.4%	1.8%	2.2%
1991–2018	2.1%	1.8%	2.4%	1.4%	2.4%	2.3%	1.8%

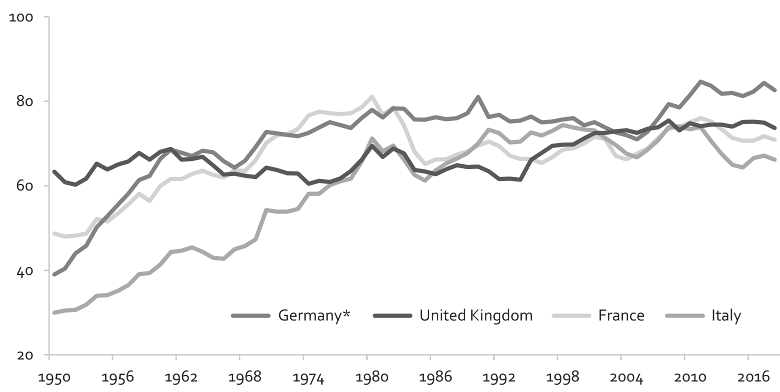
Source: Author's calculations. For 1871–1939 (gross domestic product per capita in 2011 dollars) Maddison Project Database, version 2020: Bolt, Jutta and Jan Luiten van Zanden (2020), 'Maddison style estimates of the evolution of the world economy. A new 2020 update'; for 1950–2018 (expenditure-side real gross domestic product at chained purchasing power parities, in 2017 US dollars, and population data) from Penn World Tables 2021: Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer (2015), 'The Next Generation of the Penn World Table' *American Economic Review*, 105(10), 3150–3182, available for download at www.ggdc.net/pwt; and for West Germany (real gross domestic product per capita, chain indexed at 1985 prices) from Penn World Tables 5.6: Alan Heston, Robert Summers and Bettina Aten, Penn World Table, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania.

[a] West Germany in 1950–1990.

The *relative* growth of Germany and France remained high from 1973 to 1990, even if they were overtaken by Britain and the United States in the 1980s, they stayed at a striking distance. Overall, the improved headline growth of France and Germany could be said to have lasted almost forty years after the war – the élan was considerably more substantial than a temporary acceleration accounting for a return to trend after the losses of war, as implied by some (like Abelshauser 2004).

Up to the early 1980s, France, Germany, and Italy steadily caught up to the world's premier economy, the United States (Figure 1.1). France's GDP per head rose from 49% of the US's in 1950 to 81% in 1980, Germany's from 33% to 72%, and Italy's from 30% to 71%. Meanwhile, the UK progressed rather more slowly, from 63% to 69%. In the subsequent period, relative performances went up and down, with the only overwhelming trends being from the mid-2000s, with the rise of Germany and the decline of Italy. But these figures hide sharp underlying national choices.

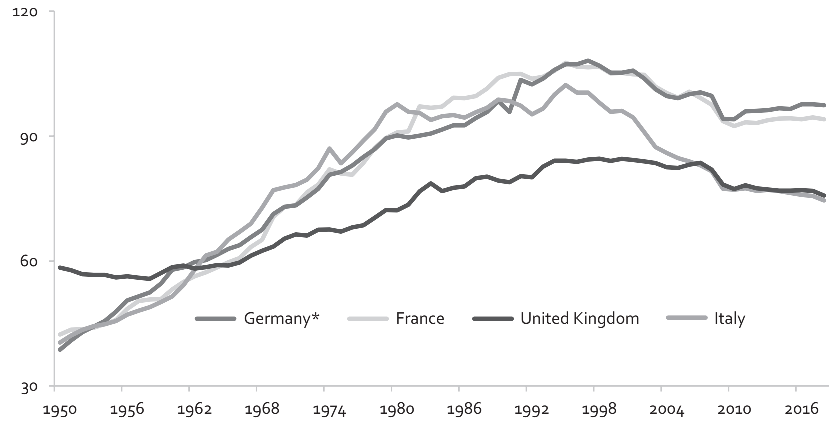
'Productivity isn't everything, but in the long run it is almost everything', Paul Krugman (1994, 11) famously wrote. Productivity trends tell an even more powerful story of European catch up than coarse GDP figures, and show that France and Germany's output per hour steadily grew from around 40% of the US performance in 1950 to a peak at over 110% in the mid-1990s (Figure 1.2). Their output overtook the UK around 1960 and the gap between them and the UK widened until the mid-1990s when it reached over 25 points. Italy's productivity also peaked in the mid-1990s, before plunging



* West Germany from 1950-1990

Source: Author's calculations (expenditure-side real gross domestic product at chained purchasing power parities, in 2017 US dollars, and population data) from Penn World Tables 2021: Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer (2015), "The Next Generation of the Penn World Table" American Economic Review, 105(10), 3150-3182, available for download at www.ggdc.net/pwt; for West Germany (real gross domestic product per capita, chain indexed at 1985 prices) from Penn World Tables 5.6: Alan Heston, Robert Summers and Bettina Aten, Penn World Table, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania.

Figure 1.1 GDP per capita, indexed (United States = 100)



* West Germany in 1950-1990

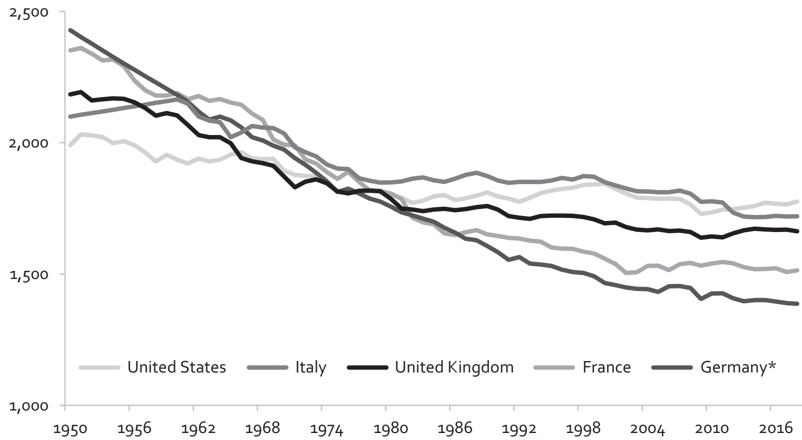
Source: The Conference Board® Total Economy Database™, April 2022, and author's calculation. © 2022 The Conference Board, Inc. Content reproduced with permission.

Figure 1.2 Labour productivity per hour worked, indexed (United States = 100)

down to almost British levels. I look here at labour output because it is the standard metric to assess productivity, although it must be understood as a synthetic measure whose flip side is capital intensity, including physical, human, and social capital. Basically, higher labour productivity results from a fitter work force, as well as from greater physical investments, and better institutions.

But why is the relative UK GDP per capita stable despite declining productivity? Simply because Britons have increased their relative workload. To fully measure the scope of German and French economic outcome, one must also take on board the fifty-year decline in annual hours worked per worker, which dropped by over 1,000 hours in Germany[1] and by over 800 hours in France, whereas the decrease was only 500 in the UK and 250 in the US (Figure 1.3). Germany's steady catchup to American GDP per capita is paired with a continuous relative decline in time spent working, which means that the relative improvement in welfare is significantly higher – if difficult to quantify. The same comment is valid for France until the early 2000s.[2]

The German and French sustained productivity catchup compared to the United States was exceptional. Figure 1.2 already shows that peers like Italy and the UK did tangibly worse. My point can be supported by a look at selected countries that did not catch up at all with the US during the postwar. From 1950 to 2018, Argentina and Mexico experienced *declining* relative productivity, while Brazil's and Colombia's productivity levels were flat. The performances of post-Soviet eastern European states since 1990 reveals another strong contrast between the steady rise of relative productivity in



* West Germany in 1950-1990

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Figure 1.3 Annual hours worked by workers

Poland (+73% since 1994) and Hungary, where productivity rose only marginally since the mid-1980s (+12%).[3]

Iversen and Soskice (2019) stress that no country has ever fallen back from the 'advanced capitalist' group, and that, conversely, only a handful of Asian 'tigers' have escaped the 'middle income trap'. However their approach neglects relative performances within the leading cluster, which are considerable when the France-Germany pair is compared to the UK, or when the post-1995 Italian decline is considered. In 1958, when reconstruction was over and west Europeans 'never had it so good' (Macmillan),[4] France and Germany's per hour productivity was only on a par with Argentina's and Mexico's, at around half of that in the US. The subsequent European convergence with the US is an outcome that calls for an explanation.

The higher productivity of Germany and France carries only one important caveat: lower employment. From the 1970s, labour participation rates started to diverge between these two countries and the US and Britain; by 1980, the latter two had rates for fifteen to sixty-four years old 4–5 points higher, by 1990, the gap was 9–12 points. The difference was partly explained by higher unemployment in France and Germany. But lower participation was in a large part a consequence of the earlier retirement of workers who would have sustained relatively high productivity if they had stayed at work. However, unemployment was particularly prevalent among low-skilled workers who depress productivity averages upon finding a new job. The post-1973 productivity performance of Germany and France (France's employment rates being the lower of the two) was probably a tad higher than it would have been with wider employment, but not that much (OECD 2007). Economist Thomas Piketty estimates that, corrected for under-employment, French GDP per hour worked would have been about 4% lower in 2015.[5] Meanwhile, Italy's much lower employment rate does not prevent it from also experiencing the lowest productivity of the G7.

To summarise, Germany and France experienced accelerated growth in the postwar era that allowed them to dramatically increase their GDP per capita relative to the United States up to the early 1980s. The underlying relative improvement in productivity continued into the 1990s. The two countries' lower production per head primarily reflect a collective choice for more leisure time than in the US or in the UK. There was, indeed, a lasting economic miracle.

The labour input

I turn now to the main mitigating factor that has been used to explain the large difference in pre-1974 growth between France, Germany, and Italy on the one hand, and the UK and the US on the other hand: the former group's benefits from massive increases in labour supply.

In contrast with its peers, Germany experienced an increase in its labour force after the war and throughout the 1950s thanks to the influx of refugees; the Federal Republic's active workforce increased by 23% from 1951 to 1959.[6] Also, after the war, the three continental countries still had much larger shares of agricultural labour than the UK and the US. The gradual shift from farms to higher productivity manufacturing and services in the following quarter of the century was a factor in the superior growth rates. In 1950, France and Germany still had 29% and 22% of their workforce in agriculture, compared to 13% and 5% for the United States and Britain (Maddison 1987) (Table 1.2).

The pace of labour transfer out of agriculture was significant up to the 1970s in Italy, France and Germany, but also in the US in the 1950s. The speed of transfer appears correlated with the overall rate of economic growth, with Germany and Italy experiencing the highest rates in the 1950s,

Table 1.2 Annual change in agriculture's share of employment (percentage points)

	1950–60	*1960–73*	*1973–84*
France	–0.7	–0.8	–0.3
West Germany	–0.8	–0.5	–0.2
UK	–0.1	–0.1	0.0
US	–0.5	–0.3	–0.1
Italy[a]	–1.3	–1.1	–0.5

Sources: Author's calculations from Maddison (1987); OECD database; Istituto Centrale di Statistica (1968).

[a] From 1951.

and France in the 1960s – although the direction of causation is unclear. Alone, the move away from agriculture was certainly a factor in the productivity catch up with the United States, but probably not decisive. The rise of France's and Germany's labour productivity per hour worked relative to that of the US was only slightly slower in 1973–84, even though the pace of migration out of agriculture was more than halved.

Inflation and trade

Having described the sustained improvement in material well-being – reflected mostly in productivity – that took place in Germany and France in the postwar years, I now turn to money and trade, the two policy domains in which I have chosen to structure my expert state model. As I explained, I assume that mastering money management – or low inflation – and insertion in international trade, and their accommodation in democratic, pluralistic polities, were possibly the biggest challenges facing European states in 1945. These were necessary, but not sufficient steps to catch up to the frontier US economy.

The data shows that Germany and France indeed rose to the challenges, but each in its own way. There is no qualification needed for the German results: Germany may rightly be regarded as a long-term global benchmark for money and trade, but the crucial question is how it became that benchmark. The French performance is less stellar but possibly more interesting because inflation and trade imbalances in the 1950s brought the institutional system to its knees and the post-1958 *redressement* – upturn and correction – sustainably put France on a par with Germany in terms of productivity.

In the second half of the last century, Germany was the low inflation anchor of the European economy, with results better or matching those of the United States. (Germany's slightly higher inflation of the 1990s was linked to reunification.) Remarkably, the average rate of German consumer price increases in 1973–90 was just slightly above that of 1959–73, despite the global jump in inflation rates from the early 1970s. By contrast, the Italian rate almost tripled, Britain's and the US's more than doubled and France's almost doubled (Table 1.3). This was a stunning achievement of the model

Table 1.3 Average annual consumer price inflation

	1950–59	*1959–73*	*1973–90*	*1990–99*
France	5.2%	4.5%	8.2%	1.7%
Germany	1.7%	3.2%	3.5%	2.5%
Italy	1.7%[a]	4.5%	12.5%	3.9%
UK	3.9%	4.8%	10.0%	2.9%
US	1.9%	3.1%	6.6%	2.7%

Source: Author's calculations from OECD: stats.oecd.org (11/3/19) and Bureau of Labor Statistics: bls.gov/fls/intl_consumer_prices.htm (11/3/19).

[a] From 1953.

put in place in the very first years of the Federal Republic, which I explore in Chapter 2.

France's 1950s inflation rate of 5.2% was not that high in absolute terms, but in an international context of low inflation and fixed exchange rates it helped initiate the balance-of-payment crises that did much to weaken the Fourth Republic, which was ultimately killed by the 1958 Algiers coup. That year's institutional and policy revamp clearly shows up with the lower rate achieved in 1959–73, at a time when price increases accelerated in all major markets. France's performance from 1973 to 1990 was broadly in line with peers and, crucially, it brought no liquidity crisis or suspension of trade rules.

To be sure, compared to Germany, France has continued to experience higher inflation and to deploy often chaotic short-term policy initiatives to curb it. Higher inflation led to repeated devaluations of the franc from the 1970s to the 1990s. Low inflation was never part of the French model's DNA unlike the Federal Republic's. But French inflation became a feature of an economy that did not carry systemic risk anymore (unlike, say, the UK's 1976 payment crisis).

With trade, Germany established a benchmark, for the country's remarkable 1950s growth that was primarily powered by international commerce. From 1950 to 1959, the value of the FRG's visible trade grew from 20% to 25% of GDP, whereas the same ratio decreased in France, Italy, and the UK. The sharp UK decline was paired with slower economic growth than its peers and reflected the country's problems with a trade network biased towards empire. *A contrario*, the Italian decrease was magnified by the country's fast GDP growth. The drop in the ratio for France was by far the most important in relative terms and reflects the country's incapacity to liberalise trade, which I will examine in Chapter 5. However, French trade was not geographically static, for it declined within the post-imperial Union Française and rose elsewhere, a trend that accelerated markedly in the first years of the Fifth Republic (Tables 1.4 and 1.5).

From 1960 onwards, all countries converged on growing (visible and invisible) trade ratios, with Germany achieving unprecedented levels from 2000. France's commerce matched and overtook that of the UK and Italy

Table 1.4 Visible trade/gross domestic product

	1950	*1959*
France	21.3%	16.5%
Germany	20.4%[a]	25.4%
Italy	18.5%[a]	16.2%
UK	31.4%	25.4%

Source: Author's calculations from OEEC 1960 (trade value) and IMF International Financial Statistics (GDP) (17/2/17).

[a] 1951.

Table 1.5 Total trade/gross domestic product

	1960	*1970*	*1980*	*1990*	*2000*	*2010*
France	27%	31%	43%	42%	55%	54%
Germany	n/a	32%	42%	46%	61%	79%
Italy	25%	30%	43%	36%	50%	52%
UK	42%	42%	50%	47%	52%	59%

Source: World Bank national accounts data: data.worldbank.org/indicator/NE.TRD.GNFS.ZS (1/3/17).

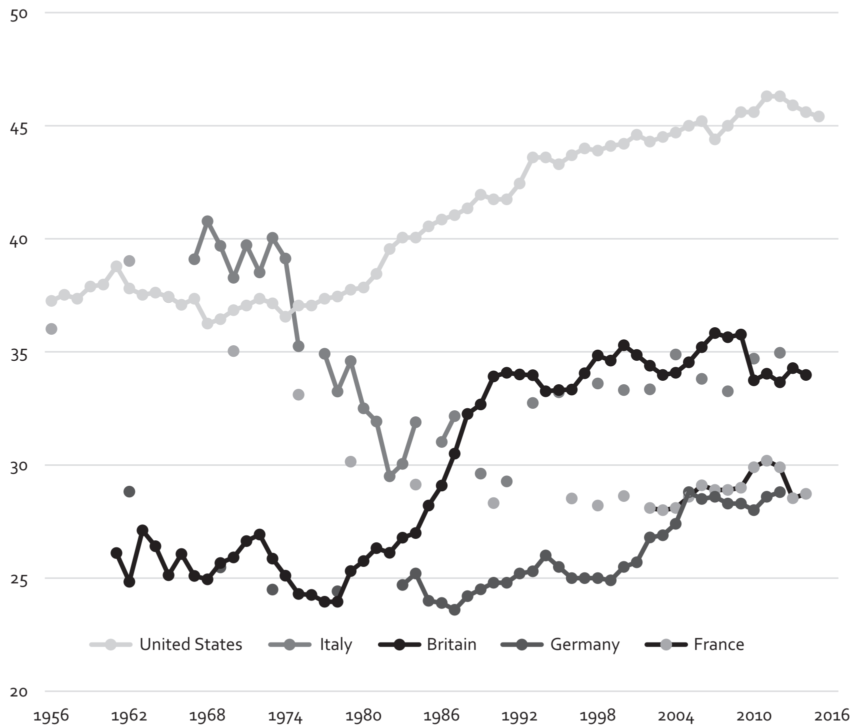
by 2000. Trade was a central component of western and global economic growth in the second part of the last century, just like it was an accelerator of recession and depression in the 1930s. Like my investigation into monetary policy, my look at trade policy considers the political economic conditions that allowed the postwar international economic integration to take place.

The egalitarian outcome

A final data point is needed here regarding the long-term social impact of the growth in production. One possibility is that the sectors driving productivity growth (alongside stagnating productivity, but restrictive practices sectors) managed to capture most of the rewards from what was a society-wide effort.[7] But this didn't happen in Germany and France, where postwar prosperity proved compatible with a lasting decrease in revenue disparity.

The Gini coefficient for household disposable income provides the most robust broad equality indicator available (Figure 1.4). A score of 1 would denote perfect equality, and 100 the concentration of all resources in a single household. In the postwar years, the Gini tells the familiar but nevertheless powerful, story of egalitarian growth, most spectacularly in France and Italy, with respective drops, between the 1950s and the 1980s, from 39 to 28, and 41 to 29. Germany, starting from a much less unequal level in the 1950s, improved from 29 to 24, with most of the decline effective by the 1970s. At the very least, this establishes that the 'miracle' was not at the cost of increased income disparity.

The data also confirm what is revealed by work duration statistics, namely that the end of GDP per capita catch up in the 1980s was a *trade-off*. From that decade, the United States and Britain noticeably improved their relative and absolute GDP performance, but at the cost of higher labour inputs and unequal outcomes. Post-1980s Italy was associated with the worse of the two groups. Like France and Germany, its relative productivity growth stalled, but, unlike them, it went into reverse from the mid-1990s and, like the two Anglo countries, suffered a rise in inequality but without the output jump. Germany also experienced a rise in inequality from the early 2000s, but to levels still very low by international standards.[8] France, most remarkably, after a postwar decrease bigger than peers, has kept its score stable since the



Source: Author's chart from The Chart Book of Economic Inequality chartbookofeconomicinequality.com/ (15/3/19).

Figure 1.4 Postwar trend in Gini coefficient*

* Equivalised disposable household income, except for Italy: per capita disposable income

1980s. With that recent and limited German exception, the sustained productivity performance was not achieved at the price of an increase in the social gap in living standards.

My economic argument

Productivity is the consensual main yardstick of economic performance as illustrated by the prior quotation from Paul Krugman. The beauty of ranking productivity is that it dramatically simplifies understanding of non-leading countries' task: they 'just' need to catch up with the frontier economy. Looking through the prism of catch-up allows us to sidestep the issue of *absolute* economic growth. The leading economy reveals the productivity potential, the others have 'only' to figure out how to reach it; one need not consider the long-term growth potential of industrial economies, as in Gordon (2016).

My demonstration is focussed on the two policy domains of money and trade because I claim that they had crystallised in the interwar as the main sources of political economy dysfunction, feeding into each other. The polities emerging from the Second World War faced the challenges of reaching societal agreements on the non-inflationary management of money compatible with a sustainable exchange rate, and on the integration of domestic production in international trade flows. By implication, these came with frameworks for wage growth compatible with rising investment, and mechanisms to reallocate labour and capital from declining to expanding sectors.

I need to emphasise that my special attention to money and trade does not amount to a 'theory of growth' of the relative weight of the two factors. My claim is only that getting these two policies right was the biggest task in postwar economic policy-making. In consequence, I downplay the role of demand management in that period, especially since associating the *Trente Glorieuses* with Keynesian policies is a myth that persists despite being debunked a long time ago (Maddison 1976). Before any discussion of relative merit and conditions of applicability, the fact is that, in a democratic polity, opening up to foreign competition and controlling the money supply are intrinsically more difficult than deficit spending and protectionist measures. Low inflation and trade liberalisation called for some form of state settlement with social groups, which, in turn, called for institutional capacity.

This book's focus is squarely on the transformative postwar years – it does not aim to provide a full account of France and Germany's economic development over three quarters of a century. But it claims that sustainable country models were created in 1950s Germany and 1960s France with a discernible long-term impact and welfare results superior to their peers. The argument does not explore the amount of change in post-1970s institutions, and governance and policies that influenced the two countries' recent economic outcomes. But the persistence and even development of the major innovations I describe – such as presidentialism, independent administrative agencies, productivist pressures on industrial relations, and ideational leadership – enable me to assume that they are still relevant to the results achieved in this century, as I will argue in the last chapter.

The postwar radical revamp seen in Germany and France followed a similar pattern connecting (1) a big-bang economic policy shift away from inflation and autarchy and towards one featuring a new stable currency, liberalised prices, and trade opening; (2) a deep institutional reform including a new constitution; and (3) new governance seeking to realign social groups' preferences towards economic growth. I call the package the 'expert state' to highlight the mutation over the old liberal harbinger state. I will proceed chronologically, looking first at defeated Germany and its emergence from occupation and hyperinflation to become a trading powerhouse. Then I will examine post-1945 France and how it squandered the energy of *Libération* with the impotent Fourth Republic and its inflationary distributional struggles, before looking at the 1958 advent of the Fifth Republic and the following years' establishment of a sustainable and unique state-led productivist model.

Notes

1 The TED data for Germany before unification (i.e. 1950–90) for Figures 1.2 and 1.3 are based on West Germany.
2 Britain has had a higher (and steady) share of part-time workers than its peers at least since the 1970s, meaning that the gap in working hours between it and other countries for full-time workers is even higher than shown in the chart. Germany's share of part-time workers was similar to France's until the mid-1990s and has since increased to a level close to Britain's, while France's stayed still, prompting the same comment. The growth of female part-time work accounts for the bulk in the recent increase in German labour participation rate. Because they are concentrated in lower productivity jobs, an increase in part-time workers may depress total productivity (Garnero 2016).
3 Argentina, Mexico, and Colombia's output per hour worked indexed on the US (100) was at 64, 54, and 25 in 1950 and 38, 39 and 23 in 2018, respectively; Brazil's crawled up from 21 to 23. From 1993 to 2018, the figure for Poland jumped from 30 to 52, while Hungary's merely rose from 48 to 54. Author's calculations from the Total Economy Database, April 2022.
4 news.bbc.co.uk/onthisday/hi/dates/stories/july/20/newsid_3728000/3728225.stm (8 July 2019).
5 piketty.blog.lemonde.fr/2017/01/09/of-productivity-in-france-and-in-germany/.
6 My analysis is based on data from the Statistische Bundesamt (destatis.de); ISTAT (1968, table 96 and 1972, table 329); Insee (1981, 23); and Beckerman et al. (1965, 83).
7 The distributional impact of productivity growth remains largely unexplored by economics. Under the standard assumptions, low growth or flat productivity sectors see workers' revenue increase in line with total production growth. Thus, for example, a male hair cut is typically priced at about the same amount as one hour of unqualified manual work, although this may reveal a floor rather than an equalitarian 'mobile scale'. For a discussion of William Baumol's 'cost disease' and for an illustration in recent economic developments, see Helland and Tabarrock (2019).
8 The best-in-class industrialised countries have seen some rise in inequality in the past decades. Finland's Gini score rose from 20 in the 1980s to 25 in the 2010s, Japan's increased slightly from 22 in the 1990s to 25 in the 2010s, Sweden's was at 22 in 1980, since it rose to 33 in 2013. Alongside France, the Netherlands has one of the few stable Gini coefficients, remaining in the high 20s since 1970. I stick here with countries covered by The Chart Book of Economic Inequality.

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2 Germany reinvents itself

The 1948–49 social market big bang

The spectacular rebound of the West German economy from the late 1940s may have been the development most befitting the 'miracle' qualifier so often applied to postwar Europe. Seen from the third decade of the 21st century, the long-term persistence of the key components of the German model as it emerged then – driven by exports, low inflation, and social cohesion – raises more than passing curiosity. The uniqueness of the transformation that took place has been brushed aside by some who reduce it to a catch-up process accelerated by immigration (of Eastern refugees), but this falls well short of explaining a 75-year success story.

A large school of thought locates much of the resilience of the model in a social compromise between labour and business that fostered corporatist institutions ensuring the coordination of expectations. I aim to turn this received wisdom upside down. I will show that state actors were the prime movers in Germany's adjustment of postwar governance and in the emergence of the 'social market' model. The seminal 1948 reforms, including a new currency and price liberalisation, were rolled out by non-elected experts who stuck to them despite widespread opposition, including the November 1948 general strike – which would turn out to be the last such movement in West German history.

The new Federal Republic brought about by the 1949 constitution was conceived as a response to the tragic interwar institutional failures, and eventually nurtured a social consensus over the social market. Civil-society groups, starting with the labour movement – initially the biggest opponent of the political-economic ideal type shaping up – were brought to subscribe to the new model under state ideational leadership, which reframed distributional claims in productivist terms, and *not* in a mythical self-generated settlement. I will tell this story in Chapter 4.

Here I will closely look at the birth of the new republic in the 1948–49 policy and institutional revolution, which leveraged a unique tabula rasa opportunity to invent an original version of modern democracy. Its innovativeness was possibly best captured by Michel Foucault (2004) in his Collège de France lectures, where he argued that under the Federal Republic, 'the economy produces legitimacy for the state that is its guarantor', stressing that

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'the production of well-being from economic growth will produce a circuit going from the economic institution to the population's overall adherence to this regime and system'. Far from being the marionettes of interest-driven social forces, the reformist leaders aimed at creating institutions that would combine high effectiveness or capacity with democratic legitimacy in a way that would prevent a reproduction of the impotence of the 1920s and the despotism of the 1930s.

The social market big bang displayed a dynamic interaction between three elements: the economic reforms, the new institutions, and the emergence of the ideological package. The institutions facilitated the reforms, whose early results legitimated the new constitutional order. Konrad Adenauer's coalition led by the Christian Democratic Union (CDU) took ownership of the policies orchestrated by Ludwig Erhard, and turned them into its own political programme, which was supported by the new central bank and by technocratic expertise. Pace and indeed momentum were decisive. Over eighteen months, the Allied-created central bank and the new constitution went live while a radical new economic policy was launched – Deutschland V2 would be the Bundesrepublik AG.

I will start my narration in the occupation-era Bizonal Economic Council, with the rise to power of Erhard, a character at the crossroad of politics, ideas and civil service, and the policy momentum thrust upon the country. Then I will consider the institutional reforms, especially the creation of the central bank and the drafting of the constitution, which radically reset parliamentary democracy.

The genesis of the social-market economy

The 1948 emergence of the *soziale Marktwirtschaft* is a complex phenomenon, which may explain why its full importance is often missed by historians and commenters. The complete story amounts to the German body politic refashioning itself. It was an intellectual outburst as a new political ideology arose and took centre stage; it marked a policy turnaround as a new set of economic rules were introduced; it also heralded an institutional upheaval with the launch of the independent central bank and a new currency.

If the 1948 economic reforms are accepted as a founding episode, this complicates the literature that treats them as a settlement among interest groups or between them and 'society'. No distributional battles were fought; rather, a new framework for groups was imposed rather than negotiated. A plurality of state actors enacted new rules and displayed willingness to spend political capital to uphold them. There was no unitary German state in 1948. The Bank deutscher Länder (BdL), the economy director of the Bizonal Economic Council, the Parliamentary Council and Allied commanders were quite separate organisations. In this respect, the German reform was very different from that to take place in France in 1958 under a paramount leader (with, nevertheless, a plurality of actors). But, as in France, the mechanism coordinating the reform was ideational. Crucially, this moment marked a departure from prevalent policy views in Germany and in Europe.

Immediately after the war, Germany experienced a socialist upsurge comparable to that observable at the time in Britain and France. It was probably spurred, as in France, by a broad (and largely justified) distrust of the business and financial elites associated with the defeated Nazis. But in Germany, this ideational shift did not lead to any significant policy change – the country was under Allied occupation – although left leaning majorities materialised in (western) Länder elections. In 1947, all eight politicians in charge of the economy of the eight western Länder were Social-Democrats. Tellingly, the ideological climate was also manifest in the prominence of the left Christian Socialist wing of the new Christian Democrat party which inspired the CDU's British zone's February 1947 Ahlen programme calling for 'a socialist economic order'.[1]

The themes of the Ahlen programme, as well as those advanced by prominent Social Democrats like Viktor Agartz, converged on numerous points. As in France and Britain, the nationalisation of natural monopolies was called for, and there were projects for economic planning. But the Germans insisted on the need for worker representation in business management. This issue was not central in France and Britain at the time: it was not mentioned in the Labour Party's 1945 manifesto[2] and was only alluded to in the programme of the Conseil national de la résistance.[3] Perhaps the biggest difference among these countries concerned the welfare state, which was the dominant theme of reformers in Paris and London and remains today the most important innovation associated with the Clement Atlee premiership and the French *Libération* administrations. By contrast, social security was marginal or absent in German politics of the time: despite the fact that social security is an idea to which Christian Democrats have been historically friendly, there is no mention of it in the Ahlen programme.

Leftish views also prevailed in the emerging national institutions. The first bizonal economic administrative council (*Verwaltungsamt für Wirtschaft or VAW*) was created in September 1946 and based in Minden, but it struggled to impose its leadership, notably in American zone Länder. In its first year, this bizonal administration was in line with Länder governments and led by a 'grand coalition' of the Social Democrats and Christian Democrats. In January 1947, the SPD's Viktor Agartz (who had been head of the British Zone economic body) became economy director and responded to the harsh winter and declining production with attempts at increased centralised control. This was consistent with the party's policies in the British Länder seeking economic 'socialisation', although the SPD was convinced that such a goal could be achieved only by a national government. But the population increasingly associated this stand with the continuing economic hardship, which led to improved scores for the CDU in Länder elections. Agartz resigned for health reasons in July as the administrative body was about to be replaced (Glossner 2010).

A revamped bizonal economic council (*Wirtschaftsrat des Vereinigten Wirtschaftsgebietes*), based in Frankfurt, was established in July 1947 as a quasi-parliament of deputies elected by the members of the Länder parliaments of the British and American zones. Parties did not agree on the selection of the new roster of directors (economy, agriculture, finance, posts and telecoms and transport), leading the SPD to retreat to an opposition stand and let a CDU-led leadership take over. Ironically, the new team proved relatively successful with the planned economy, notably with lifting bottlenecks in transports. However, the new economy director Johannes Semler aggressively criticised American aid, a posture that eventually led him to resign. The Council elected Ludwig Erhard as his successor in March 1948. He was chosen on a partisan basis – he was an independent leaning towards the Free Democratic Party (FDP) – rather than for the liberalisation programme emerging from his monetary reform committee; and was reluctantly backed by the CDU and the FDP (Van Hook 2004). He was to shift policy quite radically in a liberal direction.

Some factors were pointing to this direction, such as the population's increasing rejection of rationing and its growing wariness of Communism (the Prague coup took place in February). Capital owners large and small, starting with farmers, became more assertive. American benevolence towards socialising policies shifted to suspicion. In this context, the French and British political centre moved right – although this did not imply a reassessment of the 1945 reforms. Moreover, the centre-right politicians that eventually came to power in London and Paris had no articulate programme besides a return to liberal economics.

Things were different in Germany in part because the centre-right leadership took power with a new ideology that was, while still coalescing, consistent, and with a proactive programme that stood in contrast to the mildly reactionary plans of French and British centre-right politicians. More significantly, the founding of the Federal Republic in Germany produced a lasting policy trajectory. The policy shift toward liberalism was largely a technocratic process, and Erhard presented it as such. But he and his reforms were also supported by the winning coalition, which came to make the social market an integral part of the new republic.

The new regime was democratically validated by the August 1949 elections, which upheld the Basic Law supported by all leading parties, and the social market policy bundle put forward by the winning coalition. Moreover, the economic reforms themselves validated the regime. Michel Foucault described this process of legitimation,[4] providing not only an ex-post, stylised analysis, but also a striking synthesis of what actually took place in Year Zero of western Germany, where citizenship and consumption were uniquely linked in a way that legitimised the new regime. More recently, the historian Werner Abelshauser has likewise argued that 'the history of the Federal Republic of Germany . . . was first and foremost an economic history and that the so-called "economic miracle" of the 1950s had become West Germany's founding myth' (Grünbacher 2017).

The social-market doctrine won over the re-emerging political right in 1948 and 1949 in part for ideological reasons: the doctrine was intellectually coherent, had anti-Nazi credentials, and was allied with dominant popular sentiment. Additionally, unique circumstances and the smart manoeuvring by its main proponent, Ludwig Erhard – who became to the social market what Turgot, theorist and minister, was to physiocrats (Bilger 1964) – helped win over the right. In sum, proponents of early reforms claimed a set of ideas about economic policy as guiding principles; the success of these reforms, in turn, propelled the ideological package to become the programme of the eventual winners in the first elections; and the ideology was subsequently transfigured as the organising doctrine of state leadership, and ultimately became the country's rallying ideology. The favourable outcome of the reforms and the rise of the ideology is a story of state actors using ideational leadership to reshape institutions and societal preferences.

What came to be known as the social market was the product of a bundle of political-economic arguments expounded by a stream of thinkers and politicians over the postwar period that coalesced at the time of the birth of the Federal Republic, and it was eventually described as 'ordoliberal'.[5] Like all political currents with strong ideological roots, the social market cannot be summarised in a consistent doctrine as if written by a single author. It sprouted as much from law as from economics. The prevalent themes are, however, relatively stable, including the importance of market mechanisms for resource allocation (implying freedom of movement and of establishment), price and monetary stability, free trade, and vigorous antitrust enforcement. Most authors, and certainly CDU leaders, believed that the market order was not a natural product *à la* Adam Smith but rather the result of rules and laws administered by a strong state. The CDU, alongside Alfred Müller-Armack and his Cologne school, saw a clear Christian quality to such a society – but this aspect was not embraced by most economists or by Erhard. The latter consistently (and astutely) used consumer welfare as a yardstick of prosperity. This was not a trivial or self-evident yardstick in the postwar era since the left was still rooting for a producer-oriented vision of growth while the right was somewhat priggish on the topic. Ordoliberals were to supply the new Germany with many of the experts that legitimated politicians, and this technocratic orientation towards expertise would eventually become institutionally embedded (Bilger 1964, Commun 2016, Ptak 2009).

Ludwig Erhard graduated in political economy and sociology, and worked from 1928 in a Nuremburg industry research institute. When he was denied employment at his university of origin, he blamed it on his refusal to join a Nazi professors' union. During the war, he was a friend and advisor to Carl Goerdeler, a prominent participant in the 20 July 1944 failed putsch. Erhard, 'a specialist of applied economy' (Bilger 1964) never published proper political or economic theory but was regularly in contact with writers who, thanks to him, would become the intellectual godfathers of the social market economy. He was influenced, through his father, by the 19th-century liberal politician and journalist Eugene Richter, who shared the antitrust views of American progressives; by his professor Fritz Oppenheimer, a critic of interest groups; by a group of University of Freiburg economists led by Walter Eucken, who developed ideas for a free market supported by strong state institutions during the war; and by the exiled social philosopher Wilhelm Röpke, who wrote in favour of a stable currency and a return to the Gold Standard. From Geneva, Röpke acted as the leading public intellectual supporting the new ideology, notably in articles in the *Stuttgarter Zeitung* (launched in 1945) and the *Frankfurter Allgemeine Zeitung* (launched in 1949), and in a 1950 report commissioned by Adenauer. Müller-Armack, a former Nazi apologist, was an acquaintance of Erhard's since 1940 and, in December 1947, led a group of academics (including Eucken) in presenting a memorandum to the consultative committee on currency reform presided by Erhard (Glossner 2014, Mierzejewski 2004).

Erhard's anti-Nazi credentials helped him a good deal in being named Bavaria's economic minister by the United States military in summer 1945. In July 1947, he was appointed head of a bizonal committee of experts charged with presenting a plan to influence the upcoming currency reform; he brought in Eucken and his Freiburg colleague, the jurist Franz Böhm. In April 1948, the committee delivered its report, nicknamed the Homburger Plan (after the city of Bad Homburg where they met). It is unclear to what extent the plan influenced the reform, but the committee was an important step in Erhard's relationship with economists, his policies, and especially his career, as he was elected director of the economy by the Economic Council just as the committee was about to release its report.

The growing influence of the emerging ordoliberal current was on display even before Erhard's election as director. His predecessor, Semler, in January 1948, appointed an independent advisory board on economic affairs. Franz Böhm was the chair; Erwin von Beckerath, also from the Freiburg school, was his deputy; and Eucken was one of the fifteen other members. This board can now be seen as a forerunner of the Council of Economic Experts, created in 1963, which became a pillar of technocratic governance in the country. The ordoliberals allied with Erhard proved especially apt at broadcasting their ideas throughout the postwar period. To take a prominent example, in 1947 Eucken campaigned for a reform to suppress the surplus currency in circulation, and insisted on the need to liberalise prices simultaneously. In a 21 December 1947 article in the influential, Swiss-based and uncensored *Neue Zürcher Zeitung*, he pointed out that inflation fed rationing and distorted the incentives to produce (Commun 2016, 221).[6] The ordoliberal pull was much more pronounced in politics and policy circles than in German academic economics, which adopted the neoclassical synthesis in the 1950s (Glossner 2010, Nützenadel 2005, Solchany 2006).

On 21 April 1948, Erhard presented his programme to the Council. He drew heavily from the first memorandum of the advisory board, and included many themes that were, in the following years, to recur in the narrative about the social market economy. Crucially, he made explicit claims about the legitimacy of the emerging order that would seldom be expressed later on. Michel Foucault (2004) dedicated the major part of a lecture on a single sentence of this speech, in which Erhard grounded state legitimacy in economic freedom – which undermined the validity of the Nazi regime and, more importantly, suggested that the upcoming German state can be founded only on the economy, rather than on history or pre-existing institutions that collapsed in 1945.

In his address (Erhard 1963), the new director assessed the need for 'political experience' and 'scientific knowledge'. He emphasised satisfying consumer needs, and prioritised the development of small and medium enterprises. Perhaps disingenuously, Erhard argued that partisan polemics had exaggerated the opposition between planned and market economies, and that he stood as much against 'anarchy' as against a 'termite state' (*Termitenstaat*). He also indicted as authoritarian the economic policies that followed the price freeze 'twelve years' earlier – thus indicating a continuity between Nazi and occupation policies pursued under SPD stewardship – for those policies had limited the freedom to choose one's occupation and to buy preferred goods; and he linked the subsequent economic chaos (experienced with the black market) and worker exploitation to the price freeze. Erhard pled that a policy that aims at economic growth[7] is superior to one that seeks redistribution. Cunningly, he linked a planned economy with political centralisation, and a market economy with federalism, thus aligning his agenda with that of the CDU. In an echo of recent debates on socialism,[8] and leveraging widespread opposition to rationing, he stressed that price liberalisation is essential for optimal resource allocation and increasing productivity. Importantly, he associated price liberalisation with 'stable' international trade.

The Erhard programme, even if backed by an articulated school of social scientists, and even if it can be constructed as fitting the post-Prague Coup *air du temps*, was nevertheless a radical departure from the prevailing consensus for a mild form of dirigisme. The CDU's Semler, Erhard's predecessor as the bizonal economic director, never questioned the rationing and control policy framework, 'far from wishing to dismantle the control regime when hoarding appeared, the CDU wished to strengthen it' (Van Hook 2004). The British zone CDU's Ahlen programme, adopted just over a year earlier, was a classic postwar conservative fudge, worried about protecting private property while indifferent to the restoration of market mechanisms. At the same time, the SPD's line was strongly socialist in supporting a planned economy where property would be 'socialised'. Reactions to Erhard's plan after its April presentation were often negative, notably from the SPD and unions, and reserved amongst economic liberals who had supported him.

Despite initial scepticism and hostility, Erhard managed to get a mandate for liberalisation from the Council on 18 June, leaving him free to enact the required measures when and in the terms he thought fit, making him an 'economic dictator' (*Wirtschaftsdiktator*). He was leveraging growing opposition in public opinion to socialism, socialisation, and rationing. But he also convinced the council to embrace the social market bundle of policies, an exercise of ideational leadership that was to influence the course of the country for decades (Giersch et al. 1992, Glossner 2010).

Price liberalisation and the currency reform

If a single event can be identified as the Big Bang of postwar Germany, it is the 20 June 1948 introduction of the deutschmark, the *Währungsreform*. Price liberalisation was designed as its compulsory companion. Politically as well as economically, it is difficult to untangle the effects of each set of measures.

A reform was necessary because the monetary financing of the war associated with price and wage control had gradually undermined the workings of the economy to what could (anachronistically) be called Brezhnevian. Legally sanctioned prices were so low that most supply was diverted to the black market. And wages were so low[9] that workers would call in sick to spend their available time trying to barter goods for food, or work a second job for in-nature payment. Reports of labour scarcity coexisted with low productive employment. Money had lost its accounting role. But the reform was delayed as the Allies pursued first the goal of a pan-German agreement, which was abandoned over Soviet demands to control a second banknote printing site. In June, the French government agreed to have its occupation zone join the new currency area, the BdL and the West German constitutional process.

Technically, prices could have been liberalised and inflation left to run its course until a new price equilibrium emerged, but this would have been politically and socially unsettling. Taxation and ultra-tight monetary policy could also have led to stabilisation, but probably at the cost of lost output. Conversely, introducing a new 'hard' currency and neutralising most of the excess liquidity had the potential of rapidly stabilising prices and incentivising production (a rational response to the lack of cash). The authors of the original 1946 plan wanted it to be 'definitive', and to shape beliefs that it would be so. So they wished that the plan 'errs on the side of toughness' (BIS 1949, Clay 1950, Colm et al. 1955, Hartrich 1980, Häuser 2004).

The reichsmark was substituted by the deutschmark, the sole legal tender starting on 21 June 1948. All cash had to be handed over to banks and all deposits registered. These and debts were converted at a set rate of RM10:DM1, with a flat amount per individual convertible at a 1:1 rate. The state debt of RM400 billion was simply erased, like all inter se balances of financial institutions. Of the remaining balances in RM after the above deductions, changed at the 10:1 rate, half could be withdrawn after approval by tax authorities. Of the other half, 70% was eventually cancelled, and, from October, 10% had to be invested in medium- and long-term securities while 20% was freed. The sequencing of the reform was necessary to adjust as the actual size of the unknown RM monetary base became apparent (BIS 1949, Häuser 2004).

Legally, the creation of the deutschmark was a purely Allied business, enacted by trizonal military commanders two days earlier. Conceptually, the reform was conceived by a 1946 American paper by Colm et al. (1955). Some elements of the Homburger Plan, whose proposals were broadly consistent with the above, were taken into account. At a technical level, the reform led to close associations among the new German authorities. Seven of the authors of the Homburger Plan worked for weeks in an isolated location to prepare a set of laws and regulations that were ready on 2 June. The new BdL, operational from March, was responsible for setting monetary and credit policy. Crucially, the trizonal currency reform created the territorial entity that became West Germany a year later, including West Berlin, where the DM introduction was a key factor leading to the 24 June Soviet blockade.

The currency reform achieved a massive confiscation of savings – which is precisely what the French government had stepped back from doing in 1945. That, at least, is how most citizens perceived the measures (Hartrich 1980). The reform that a French national unity government legitimated by the *Libération* could not carry through was achieved in Germany by foreign powers assisted by a technical administration without much popular opposition.

The radicalism of the reform is difficult to comprehend without appreciating it as a pure technocratic product bypassing a democratic debate. German authorities were apparently fully conscious of the benefits of this situation and made no claim to be more closely associated with the monetary reform. Revealingly, many Germans were disappointed that the Allies did not handle themselves the 'equalisation of [war] burden' (*Lastenausgleich*) issue.[10] Ludwig Erhard took full ownership of the price reform.

Wirtschaftsdiktator Erhard announced the details of the measures on the radio on 21 June. The speech, directed at ordinary citizens, is noteworthy. As in his prior council allocution, Erhard took a technocratic stance, contrasting himself with politicians. He made an economic argument in pleading forcefully for liberalisation as a first step to re-launch productivity growth, and dismissed the risks of inflation. He also linked competition with price liberalisation. But he also made a political statement: he justified his action by citing a law that gave him, until the end of the year, full powers over prices because 'rapid action' was needed, and it could not depend on the assembly voting (presumably individual measures). Erhard endorsed the new deutschmark introduced the prior day. He pointed out that the 'coverage' of the currency did not arise as an issue, and 'rightly so' as the new monetary unit was backed by national production. He thus introduced a radically modern vision of money,[11] which can be contrasted with the French government's obsession with gold-backed currency and debt. Confirming the underlying philosophy described by Foucault, he argued that Germans can be active in political life only when they are free to choose their employment, their place of living, and their consumption. Erhard concluded his talk with a warning to 'capitalists' who would be tempted by short-term gains, and asked business associations to tell members that they must adapt (Erhard 1963, 81–88).

Tactically, Erhard made a politically astute move. He unbundled the prevalent association of capitalism with Nazism by presenting liberal measures with popular appeal (ending rationing, rekindling the supply of consumer goods) as the radical changes needed in Germany. The SPD found itself on the defensive (Van Hook 2004) for the socialist programme suddenly risked appearing as a vindication of the status quo. Erhard provided the nascent CDU-FDP alliance with a programme sharply at odds with the SDP's. In the second half of the year, it became clearer that CDU and FDP support for Erhard's reforms had enlisted them behind a long-term experiment that was politically very difficult to disavow. Erhard set the social market economy as the coalition's programme without asking for its views, and shortly afterwards it became the country's as well.

Erhard's innovativeness at this crucial hour for German institutions was his capacity to hold what was essentially a political job as if it were a technocratic remit. His leveraging of academic resources was useful on two fronts: It allowed him to justify his action as the product of technical or scientific analysis, and it provided material for an ideational narrative. Adenauer, who, ideologically, was fundamentally an opportunist, seems to have rapidly understood Erhard's potential and, as soon as August 1948, had him speak at a CDU convention – a mere five months after hesitating to back him as the director of economy.

Likewise, in February 1949, again at Adenauer's request, Erhard spoke at a CDU event, in 'his moment of triumph' (Van Hook 2004). He indicated his availability to campaign for the party, which endorsed the social market economy in its new programme, in Düsseldorf in July. In August, Erhard was part of the CDU slate of candidates and became the economic minister in September in the first FRG government – taking on the role of ideologue-in-chief of the new polity for seventeen years.

From 21 June, the twin reforms' effect was spectacular if not 'miraculous'. Stocks reappeared in previously empty shops. The barter economy running on mostly illegal 'compensation affairs' vanished rapidly (BIS 1949). This reflected not only a return to a healthier money-based economy but also the consequences of the wait for, and anticipation of, the reform that had led many retailers and producers to hoard stocks rather than sell them, as the economy experienced a rush out of cash, or a 'panic-buying fever' (Hartrich 1980).[12] The radical change of outlook was consistent with Erhard's focus on consumer welfare. Crucially, the experience of shops resupplied overnight became an enduring *image d'Épinal* of the social market, revered by its apologists. Yet soon after this impressive beginning, the benefits of the DM and liberalisation became far less clear cut.

The second half of 1948 became the litmus test of the new policy direction. Conceivably, lacking in democratic legitimacy, opposed by a large part of public opinion from the left, and only half-backed by most of the right and occupiers,[13] price liberalisation could have unravelled and been substituted by a more interventionist regime. What happened was the opposite:

despite some disappointingly high inflation figures and strong trade-union and political backlash, the Economic Council leadership and the BdL did not change course. By early 1949, the economy was booming, prices were declining, and the social market was becoming the effective ideology of the CDU. Crucially, the test was passed by the two-headed leadership of Erhard and the BdL.

In the first phase after reform production boomed, prices increased (particularly for textile and shoes), and unemployment grew in Länder hosting the most refugees.[14] This set the ground for growing criticism from trade unions and the SPD – which however failed to convince the Economic Council to vote for a no-confidence motion in August – but also from groups not associated with the left, such as pensioners, engineers, and insurance companies. Although public opinion appeared favourable to the currency reform and to liberalisation in early summer, it reversed course after prices started increasing. Opinion polls indicated large support for a resumption of controls. Worse, there were calls for renewed price controls within the political coalition supporting Erhard, and even Adenauer came to pressure Erhard to create a price office.

However, failing to present a clear alternative, the SPD made no gains in local elections held in the autumn. Opposition peaked with the 12 November general strike, which was of mixed success, partly due to divisions amongst the unions. The Allies had enacted a 15% wage increase just before the currency reform, which somewhat softened workers' views. Wage control was due to be lifted in November (it fell outside the Economic Council's remit). Even so, in November the SPD and unions were calling for a price office and an anti-profiteering law (Glossner 2010, Van Hook 2004).

Erhard diffused some pressure by having the Economic Council issue a 'price guide' to retailers, and by subsidising garment production. The Council also suffered tensions when farmer lobbies and the Länder of Bavaria criticised the agriculture director for resisting immediate food price liberalisation. But Erhard and the Council did not yield on the measures already taken. In a radio broadcast on the eve of the 12 November general strike, Erhard again argued for market rather than administered prices, defended the price rises as a necessary adjustment to the volume of money, and claimed support for his view from 'all German and Allied specialists' (Erhard 1963, 91).

The BdL also actively defended this course of policy. In its very first test of independence, despite rising unemployment, the BdL had to slow credit growth in restrictive measures taken in November and extended in December (Lutz 1949).

The learning curve followed by the new social market economy is well illustrated by the exchange value of DM100 notes traded in Switzerland, which went from CHfr55 in June to below CHfr20 in late November at the time of the general strike and rebounded to over CHfr60 by February 1949 (BIS 1949). The economic indicators all eventually turned positive. In the second half of 1948, production was 62% higher than in the same period of

1947, imports were higher than in the first half by 70%, while exports grew by 175%.[15] The cost of living rose 11% over the six-month period, but the reform was vindicated in 1949 when it decreased by 7% whereas wage rates increased by 5% (BdL January 1949, and February 1949, BIS 1949, 1950).

The international environment was certainly favourable as funds from the European Recovery Program (the Marshall Plan) began flowing into Western Europe in April 1948, considerably easing the 'dollar shortage' and the pressure to finance budget deficits through monetary creation. In this context, Germany was a leader, becoming a stabilising force, rather than a passive follower. Among large countries plagued by high inflation, Italy was the first to undertake reform in 1947 with spectacular results: The cost of living rose by 44% in 1947 and was flat in 1948. But France stabilised its prices only from the third quarter of 1948 (the whole year's cost of living increase was 42%), and Britain continued to experience significant inflation in both 1948 and 1949, with cost of living rising, respectively, by 5% and 4% (BIS 1950, 104).

The main unpleasant consequence of the reforms in West Germany was the sharp rise in unemployment, which was regarded by the government and the BdL as a supply issue, reflecting a more economical usage of labour, and essentially caused by the inadequacy of skills and by a mismatch between the geographical location of refugees and demand from employers, both of which could be resolved only through investment and time, rather than by reflation. This position was vindicated by developments in the 1950s.

A more fundamental issue was raised about the unfair social repartition of the reform's costs. The idea of 'equalization of burden', or *Lastenausgleich*, was a recurring theme in postwar German debates. Because of inflation, the financial burden of the First World War had fallen mostly on owners of financial assets, while owners of physical property escaped lightly. Many felt this outcome should not be repeated in a state respecting property rights. The freezing of RM balances was perfectly consistent with the aim of shrinking the monetary base while proceeding to a currency exchange at rates differentiated by amounts and by the status of the RM holder. Its impact was nevertheless arbitrary as it favoured again owners of physical assets in contrast to holders of cash and bank balances. The British and American militaries thought that the reform should come with a *Lastenausgleich* law, including one-off taxes on capital, but they decided at the last moment that German authorities were better positioned to carry them out and mandated the Council to produce a law within six months[16] (Clay 1950, Colm et al. 1955, Hughes 1999, Van Hook 2004).

The main German politicians and administrators would have preferred to let occupiers deal with *Lastenausgleich* rather than handling it themselves. This view is testified by BdL comments in its monthly bulletin (November 1948). The fact that German authorities blamed Allies for the absence of these measures may have helped to diffuse some tension. But perhaps the tension was not as high at it might have been because the debate was located mostly within the liberal and Christian Democrat circles and not between left and right, as most of the left was arguing for a socialisation agenda that treated private property (at least of big business) as a problem in itself. By the end of 1948, agreement had been reached only with regard to limited social measures that addressed the worst cases. A full law was eventually passed in 1952, addressing issues relating to both the war and eastern expulsions, which I will discuss in the next chapter.

Trade liberalisation

After the monetary and price reform, trade liberalisation was the most consequential long-term policy shift undertaken in the social market take-off period. The introduction of the deutschmark in June 1948 was a necessary first step to re-launch trade, as before that date most German exports were commodities. The new free trade ideal was conceived as a break with statist Nazi Germany and, indeed, with a protectionist tradition going back to the mid-19th century and first theorised by Friedrich List. As with price liberalisation, Ludwig Erhard was skilful not only in defending his policy on liberal principles but also in incorporating it in his consumerist programme, arguing repeatedly from 1948 that imports would help to stabilise or even lower retail prices. Erhard also considered that trade could help prevent 'recartelisation' of the economy.

German moves towards liberalisation were entangled in the US-led international process launched in 1944 in the Bretton-Woods conference. But American policy was less successful when it came to the specifics of the postwar institutional architecture of European trade. British and French resistance to 'supranational' organisations led the US to agree to a twin process: peer-reviewed trade liberalisation, led by the 1948 established Organisation for European Economic Co-operation (OEEC); alongside an integration process, snubbed by London and consequently led by Paris (Pollard 1985).

The OEEC, having abandoned its supranational ambitions, refocussed on intra-European liberalisation, whose first major step was the late 1949 coordinated move from quotas to tariffs for a substantial share of trade. Realism cleared the ground for the down-to-earth European Payments Union (EPU) project that went live in July 1950 as an OEEC daughter organisation, featuring a quasi-automatic mechanism, in a sort of Continent-wide trade clearing house. The central innovation of these pivot years was the introduction of peer reviewing of each country's policy commitments: a country would sign up in advance to liberalise certain product categories by a set date, and if it failed to meet the commitment, it would need to explain it to fellow governments and get their approval to implement a new roadmap. This became a process for supporting governments on top of their domestic distributional claims – a mechanism that is absolutely central to European institutions to this day. Liberalisation built momentum as almost all product categories were moved from quotas to tariffs, set to decline, and as European currencies were scheduled to become convertible by 1959.

Liberalisation measures were among the first economic policy initiatives of the new Federal Republic in 1949, starting with trade treaties with commercial nations like Switzerland and the Netherlands lifting quantitative restrictions. Unlike the bizonal directorate when it freed prices in 1948, Erhard's Economic Ministry had few powers to act alone, as decisions had to be ratified by the cabinet. Erhard gained government support not only because of ideological agreement but also because of a willingness to accelerate international recognition of the new Federal Republic through membership of multilateral bodies. This started with the OEEC, which West Germany joined in the autumn of 1949, and continued in July 1950 with the EPU, of which the country was a founding member.[17] By the end of 1949, the government had already announced aggressive liberalisation measures, as it submitted a list of products to be shifted from quotas to custom duties to its OEEC partners. Erhard was especially opposed to import quotas and the necessary government intervention (or 'planning') that went with them, which impeded market adjustments. In the autumn of 1950, West Germany lifted the share of its European imports liberalised (i.e., without quotas) to 60%, in line with its new OEEC partners.

The Allied administration had set the course for the inclusion of Germany in the emerging multilateral system, as in the founding 1948 GATT round most favoured nation (MFN) status was given to the three western zones. In the last few weeks of direct Allied control in August 1948, the occupying powers decided that Germany had to extend the most-favoured-nation status to all countries regardless of their position towards her. Germans resented this ruling, even though the new trading status was much more favourable than that issued after the First World War.

Germany was admitted to the GATT with the 1950–51 Torquay Round. The tariff enacted at the end of it placed West Germany in the middle of the road between protectionist France and Britain and liberal Switzerland and Benelux. What distinguished West Germany was the strength of its commitment to the process. This was manifest by its delaying the freeze of liberalisation during the Korea balance-of-payments crisis until currency reserves had practically run out in February 1951, and by the fast return to the liberalisation regime in January 1952, as soon as it was possible (Giersch et al. 1992, Wallich 1955).

The BdL proved to be the steadiest supporter of Erhard's liberalisation policy. This commitment was grounded in practical considerations. The dollar shortage, the lack of exchange reserves and gold, and West German dependence on imported food and other commodities made exports imperative and, conversely, cheap imports were needed as input to export industries. In 1950–51, a more forward-looking vision emerged, which some called 'mercantilist' (Holtfrerich 2008). It deliberately sought to keep the German inflation rate lower than elsewhere to improve competitiveness. During the 1950–51 payment crisis, the BdL stated that trade and credit restriction measures were taken with a view to permitting a return to freer trade as quickly as possible, stressing that it 'remains the objective of German commercial policy to achieve equilibrium in the balance of trade and payments at the highest possible level' (BdL January/February 1951).

Peter Gourevitch (1986), building on an analysis pioneered by Gerschenkron (1943), expounds on the predominant corporatist narrative, according to which the 'rye and iron' coalition that drove policy towards protection from Bismarck onwards collapsed with the Soviet occupation of Junkers' lands, opening the door to the postwar coalition of export industries and labour pushing for trade liberalisation. This would not be incompatible with an Olsonian explanation highlighting a postwar weakening of producer groups.

The main problem with this account is chronological. In 1949, there was no export lobby. German industry had been geared towards state and domestic demand since the early 1930s. It would never have pushed for trade liberalisation on its own. Export industries gained influence in the business federation BDI only during the 1950s. Throughout the decade, Erhard's plans for unilateral liberalisation were curtailed by parliament and Adenauer due to interest group pressure. The BDI was usually defensive and attentive to its most protectionist members, the influential and very protectionist agricultural interests. The DGB labour federation was much more favourable to free trade on pro-consumer grounds, but it never made this a priority. European integration through the 1952 Coal and Steel Community and the 1958 European Economic Community was primarily driven by Adenauer on high political grounds, despite opposition from most business interests (and Erhard's reservations).

The early FRG commitment towards trade liberalisation was greatly facilitated by the centralisation of political initiatives in the executive and by the consistent policy argument put forward on non-partisan terms by social market proponents such as Röpke (1950b) and the BdL. It was also critically supported by multilateral institutions like the OEEC, allowing an expert voice to be heard in the domestic debate. The international accords signed by West Germany lent credibility to its engagement to free trade. The legitimating effect of international recognition and support in the payment crisis affected in two ways international and domestic opinion. This was both a strong signal to societal actors about the direction of policy, and an 'institutional barrier to exit' (Eichengreen 1993), enabling them to take long-term decisions in the relatively safe knowledge that there would be no turning back on trade opening. Thanks to these early initiatives, trade became embedded in the republic's DNA alongside stable prices.

To sum up: in the 1948–49 social market moment, thanks to exceptional circumstances, Germany embarked on early radical policies that crystallised in a consistent *political* programme. Meanwhile, a new set of institutions considerably helped policy execution and made the social market the herald of the new country, in a process legitimised by the FRG's first elections. Like the new policy package, the new institutions were designed to prevent the governance failures of the interwar period.

Independent central bank: the 'fourth constitutional power'

The BdL was created in March 1948 by the Western Allies. It is difficult to overplay the role of this ancestor of the Bundesbank in shaping West Germany's postwar economic and social model, as this section will demonstrate.

The BdL became a fiercely independent body because it survived a testing process. Admittedly, it was born in a constitutional vacuum, but it skilfully managed the currency reform's consequences, entered into a fruitful alliance with Erhard, and used a combination of myth-making and PR to secure a permanently autonomous status for its successor, the Bundesbank, despite strong opposition. Hence, the German central bank's unique institutional position in the postwar West as a 'fourth constitutional power' (Holtfrerich 1988).

In an institutional system where legitimacy was based on economic outcomes, the BdL (and its president) leveraged custody of the deutschmark to become one of the main state actors with a voice on all major economic policy issues. Understanding the bank's shining place in the German postwar contributes to explaining the systemic marginalisation of its French sister.

Establishment and the early years of the BdL make sense only with the history of its predecessor, the Reichsbank, in mind. The first German central bank had managed at various periods to incarnate both a paradigm of independence, if protected by foreign tutelage, under Weimar, and full submissiveness under Nazi rule. The former central bank, and what it came to represent, was to be a constant reference in the debates about West Germany's central bank in the 1940s and 1950s. Narratives about it and interwar inflation still feed public discourse today.

Created in 1875, the Reichsbank was largely modelled on its Prussian predecessor. The bank had private owners (mostly major banks), but a management appointed by the Kaiser and the government. Despite this, the bank enjoyed significant autonomy and was practically free of government interference. The private owners had a veto right over extraordinary financing of central and Länder treasuries. This actual autonomy ended with the collapse of the gold standard after the outbreak of the war in 1914, when the *Goldmark* became the *Papiermark*, opening a period of sustained and accelerating inflation fuelled by monetary financing of government spending.

In June 1922, to meet an Allied condition for a moratorium for reparations payments, the Reichsbank's legal status was changed to make it effectively independent, but this did not prevent it from continuously financing government and business as the mark's international value collapsed and hyperinflation kicked off. The Allies mistakenly believed that autonomy would stop money-printing, whereas the central bank was willingly monetising the budget deficit because it believed that the inflation was caused by reparation payments (Orléan 2008). By mid-1923, however, the bank had signalled to the government that it would stop rediscounting treasury bills by the end of the year. This threat helped to put forward the October launch of the rentenmark by a new, privately owned institution, the Rentenbank, backed by mortgaged land (*renten* meaning an annuity). The new currency had the same value as the old gold standard mark. The October currency reform, enacted under special powers, effectively ended hyperinflation. In August 1924, the *rentenmark* was substituted by the *reichsmark* (RM), a currency with the same value.[18]

In 1924, the Reichsbank's status was reviewed by parliament in a law. Its first article stated that the bank was independent from the government. The gold exchange standard was re-established. The president and directorate were elected by a general council of seven German and seven foreign members, the former chosen by the private owners of the bank. The Commissioner for note issue had to be a foreigner. State access to Reichsbank funds was strictly limited. This international supervision was, however, suppressed by the 1929 Young Plan, which increased the German president's power to veto appointment of the governor and the directorate, while T-bonds refinancing terms were eased. Under the Young Plan the Allied-appointed *agent général des réparations* position was taken over by a new institution, the Basel-based Bank for International Settlement (BIS).

Enters liberal politician Hjalmar Schacht, appointed Reichsbank president in November 1923 by the government, against the will of the bank. Leveraging the bank's formal independence, its initial success in stabilising prices, the introduction of the reichsmark, and international support for it, Schacht was positively contrasted with unstable cabinets, and the Reichsbank was even called the 'Extra-Government'. In the 1928–29 negotiations leading to the Young Plan, Schacht conducted a rival foreign policy to that of the government. In 1929, he dictated terms of a loan to the government, leading to the resignation of the finance minister. Schacht resigned in 1930 and campaigned against the Young Plan on nationalistic grounds, despite having signed it. This period of independence was as much the product of the bank's status as it was that of Schacht's style of governance. In the early years of the Great Depression, in line with its international sisters and mostly in agreement with the German government, the bank followed a deflationary path that may have aggravated the crisis.

Nine months after Adolph Hitler's appointment as chancellor, in October 1933, the Reichsbank's autonomy was much curtailed: directorate and president appointment became solely the Reich president's responsibility (which became Hitler's the following summer). In 1937, the government declared that the Reich had resumed unlimited sovereignty over the Reichsbank. This breached international agreements under which the BIS had to be consulted for any change in the central bank law. Hitler appointed Schacht president of the bank in March 1933. Schacht served as minister of the economy from 1934 to 1937, and then without portfolio until 1943. He was dismissed from the Reichsbank in January 1939 after the revelation of (?) a confidential letter from himself and all bank directorate members to Hitler accusing the government of inflationary financing. Indeed, the government was not inclined to cut back on debt generated by its usage of exceptional bonds (imagined by Schacht himself in

1933), the proceeds of which helped to finance employment programmes and rearmament.

Thus, Schacht managed to merge in his own person the image of the bank as a tool of foreign powers, as imposing its will on an elected government, and as a servant of Hitler's military build-up. The independent Reichsbank had its hand in the 1920s hyperinflation, the 1930s depression, and the following war deficit financing that led to the 1945–48 return of hyperinflation (Holtfrerich 1988, Mee 2016, Werner 2015).

The Reichsbank's last operating branches in the British zone were taken over by the BdL in the spring of 1948. The BdL was created in March 1948 by the British and American occupation authorities, joined by the French a few weeks later. The bank was to be custodian of the new currency the Allies were to introduce in June. It would perform most of the functions of a central bank across the three occupation zones, which did not yet have any other joint institution.

The main issue that dominated discussions before the establishment of the BdL concerned centralisation, opposing federalist Americans and centralising Britons, and supported by former Reichsbank officials. For the Americans and many Germans, the Reichsbank was a powerful centralised organisation that greatly facilitated the Nazis' financial manipulations and thus the war effort; but for others, including former Reichsbank managers, the bank was a victim of Hitler. Americans believed that the best bulwark against a return to subjugation and authoritarianism was through decentralisation – in line with their broader federalist approach to postwar Germany. 'We would not permit the highly-centralized control of the Reichsbank to return' wrote US commander Clay (1950). Meanwhile, Britons were sensitive to the necessity of a single decision centre for a monetary zone.

History says that Americans 'won the day' (Marsh 1993). But this was on purely legal grounds. The original status of the BdL was set along the decentralised lines of the United States Federal Reserve with one bank per Länder, and operated through these institutions. The council was made up of the presidents of the Länder banks, each appointed by the individual state. Together they elected the council's president and the president of the directorate, akin to the management board (Mee 2016). However federal it was on paper, the bank was as centralised an institution as any of its peers. Individual Länder were in no position to veto decisions. The only personnel available to manage the emerging central bank in 1948 came from the Reichsbank (including many former Nazis, most at least tainted by the regime). An *esprit de corps* ensured that the former institution's identity re-emerged somewhat. Wilhelm Vocke,[19] BDL directorate president, later claimed to have actively fought the decentralisation plan (Marsh 1993).

Besides, it could be argued that the very business of central banking in a nation state – the ultimate monetary responsibility over a territory, from money issuance, credit policy, to foreign exchange manipulation – somewhat predisposed the new institution towards centralisation. The regional branches were it was argued at the time (Lutz 1949), financially useless and token pieces of federalism. History of central banking since then, with increasing centralisation of powers in the hands of governors, seems to support this point, too. In fact, a centralised operation was reconstituted, something that was eventually endorsed by law in 1957. Where the American input mattered, however, was in eventually embedding the bank's autonomy in the country's governing system in a much more thorough fashion than in the 1920s.

Establishing autonomy

Germany's central bank owes its high level of independence as much to specific historical conditions as to its legal status. The bank proved skilled at leveraging the conditions under which it was established by the Allies in 1948 to carve itself a wide space of autonomy. It then built on its early monetary success to campaign for, and win, a definitive independent status in legislation passed in 1951 and 1957, despite much misgiving amongst the political leadership.

The BdL's institutional seniority was its first guarantee of autonomy. It was created roughly a year before the Federal Republic itself. It was then 'the only trizonal official organization', as it matter-of-factly claimed in its first monthly report (BdL August 1948, 3). The BdL's statutes *explicitly* stated that the bank was independent from government, in sharp contrast with those the Bank of England, the Banque de France, or the Banca d'Italia, which ignored the issue. As article 1 put it, 'the Bank shall not be subject to the instructions of any political body or public non-judicial agency'. However, the board of the bank was subjected to instructions from an Allied Bank Commission, representing western Germany's sovereign powers.

But the bank was keen to erase the original sin of its foreign fathering, no doubt motivated by critics who painted it as a tool of occupation. As soon as June 1948, two months after its creation, the BdL decided to lower its main interest rate from 8% to 5% against the wishes of the Allied Bank Commission (Marsh 1993). In its second monthly report of September 1948, the bank kept its distance from currency reform, noting that 'the money supply, in general, is already too plentiful'. The report argued that monetary expansion results from factors outside its control. It criticised the Economic Council for its slow dealing with coal price regulation and, more importantly, in a veiled attack on occupation powers, criticised key aspects of the reform (including the lack of equalisation measures). It called for authorities to rein in government spending and to increase taxes, stating the importance of a coordinated policy between monetary and economic authorities. This theme would become key to 1950s policy effectiveness. Later in autumn 1948, in the wake of the surge in inflation following price liberalisation, the bank again resisted suggestions from the Allied Bank Commission that it should raise discount rates, preferring instead to restrict credit directly. In reality, the Commission never exercised its veto power (Wandel 1980).

Acting independently from the Allies was a one-way bet with German opinion that could only boost the BdL's stature. But independence from the new federal government was far from consensual and significant segments of expert opinion opposed it. The 1949 Basic Law called for the establishment of a '*Bundesbank*' (Art. 88), and the terms under which the BdL would get a definitive status in the new republic rapidly became an issue of debate.

There was a considerable body of opinion against independence, associated with foreign interventions in German affairs following the two world wars. It was going against the international trend after the recent nationalisations of the Bank of England and the Bank of France, as argued by Carl Schaefer, a private banker, chairman of a June 1950 conference on the future Bundesbank law held in Munich (Mee 2016). The idea of giving the federal government an ultimate veto power over the bank was supported by Chancellor Adenauer and Finance Minister Fritz Schäffer, both of whom made dark references to the Schacht Reichsbank.

Despite no initial strong view on the topic by social market proponents, and a preference for 'cooperation' between government and central bank, Erhard eventually emerged as the highest-profile backer of the BdL's view for keeping the bank independent and centralised. The BdL-Erhard de facto alliance would last all his political career, and was apparent from 1950 onwards, when the bank distanced itself from the stimulus measures taken by Schäffer (without much support from Erhard). In the autumn, when the Korean War boom was in full swing, Adenauer and Schäffer opposed increases in discount rates as envisaged by the bank and supported by Erhard. Adenauer had the council meeting held at the chancery on 26 October 1950, but to no avail: the rate was increased by 200 basis points. The chancellor was not alone in criticising the BdL's tight money; the SPD repeatedly attacked the bank and its autonomy (Holtfrerich 2008, Mee 2016).

Meanwhile, the BdL, and specifically Vocke, increasingly backed the social market. They repeatedly supported the trade liberalisation initiated by Erhard. At the peak of the inflation induced by the Korean War, the bank extensively and approvingly quoted Erhard's measures (excluding price regulation) to dampen inflation (BdL March 1951). Further signalling intellectual convergence, Vocke would occasionally quote Röpke (BdL March and April 1951).

Vocke needed allies to push his institutional agenda. In 1950, he started campaigning for the upcoming FRG law to uphold the BdL's independent status. This effort involved direct communications to political leaders, open public addresses and articles in the press, private contacts with the media, and indirect financial support for some friendly publications. The BdL built a narrative according to which the Nazis debased the currency and created the conditions for inflation because they subjugated the Reichsbank. Emblematic in this story was the episode in the winter of 1939 when Schacht was fired and Vocke resigned. The bank increasingly claimed responsibility for the 1948 currency reform from which it had initially dissociated itself. This was pitched to the very political base of the chancellor, through which the bank's popularity grew as the decade advanced (Goodman 1992, Mee 2016).

When in March 1951 the Allies informed the West Germans that they were ready to hand them ultimate control over the central bank, the debate accelerated. A draft bill would have given the government the oversight powers enjoyed by the Allied Bank Commission. But in April a behind-the-scenes battle was won by the bank. This resulted in a project for a 'Transition Law' with the bare minimum of legal material to ensure the passage of the bank from Allied to German legal status (the law was adopted in August). The Länder support for the BdL arrangements was considerably important (Berger and de Haan 1999, Mee 2016).

The Transition Law stated that the bank had 'to support the general policy line of the government within the framework of her functions', a fudge that was interpreted as meaning that, in case of conflicts between the government and bank, the bank's duties prevailed (Berger and de Haan 1999). Savouring victory, in a 17 May 1951 speech, Vocke cunningly quoted Finance Minister Schäffer's statement at the Bundestag 'we have no complacent Central Bank . . . thank God', adding that Schäffer 'understands the value of an independent Central Bank as a safeguard for the currency, and indeed of its value for the Government itself' (BdL April 1951).

Despite expectations, from then on, it took six years for the divided government to come up with a definitive Bundesbank law, primarily because of tensions with the Länder over the question of bank centralisation. Over that period, the BdL consistently claimed to the outside world its ownership of the currency reform, and credited to itself the low inflation rate and the strong deutschmark. These features were important causal factors behind the economic boom, and appropriating them enabled the bank to claim that its independence was the key institutional condition of economic success. The BdL had a clear preoccupation with its broader legitimacy, as when it couched its monetary decisions as the best for the interest of the 'common man' or the 'German housewife' and claimed repeatedly that its policy was responsible for the 1949–50 and 1952–55 price decreases and the consequential rise in buying power.

The bank was in a continuous struggle to show that it was up to the task and that its autonomy was necessary. It skilfully played public opinion. As one official explained,

> from 1948, we made a very deliberate policy of getting the public on our side. We attempted through all our publications and our speeches to explain our policies to the public and to convince them. By explaining everything and making a very deliberate effort, we never came to a situation where a major party has ever attempted to touch our autonomy.
> (Goodman 1989)

Tensions with the government arose again in 1955 as the post-Korean War deflation came to an end. After its first interest rate increase since 1950, the bank appealed directly to the small business interests most worried by the increase and who had the ear of Chancellor Adenauer. In a 7 November speech, Vocke argued against those who though that the bank risked undermining middle-class trade as well as small and medium firms with tight credit. He argued that credit restrictions hit first

> those who display the greatest recklessness and lack of direction and who . . . insist on financing long-term investments by means of short-term credits. . . . My appeal to trade and industry, to the trade unions and also to the banks is this: do not force on our part to apply the brakes with greater pressure!
>
> (BdL October 1955)

But the highest point of disagreement with Adenauer, and the moment when the bank may have definitively won the battle for its status, came with the Gürzenich affair. In March 1956, the bank decided to increase the interest rate again. The government suspended the increase for eight days, as was allowed under provisions of the 1951 law. On 17 May, Erhard and Schäffer presented the cabinet with a stabilisation programme consistent with the bank's views, prepared without Adenauer's knowledge. The next day they attended the bank's council meeting and made public their approval of a further rate rise. A few days later, Adenauer addressed a convention of the business federation BDI at the Gürzenich hall in Cologne, aggressively criticising the two ministers and the bank, and questioning the appropriateness of its independence (BDI threats to cut contributions to the CDU could have motivated Adenauer). This attack backfired rapidly.

Two weeks after the Gürzenich hall speech, Vocke landed on the cover of *Der Spiegel* as 'Kanzler der Deutschen Mark'. Erhard and Vocke probably contributed details to the article. By the end of the month, public opinion sided with the bank, and the government adopted the stabilisation plan (Berger and de Haan 1999). Attempts by Adenauer to have the bank move its headquarters to Cologne, closer to the capital in Bonn, also failed (Holtfrerich 2008).

Vocke was promoted to the position Schacht had occupied before him, and which was to become ever more common in the future – that of the super central banker, the technocratic leader par excellence.[20] This was carefully managed by the bank. By the end of 1956, the BdL had published a book collection of Vocke's speeches.

Crucially, after the Gürzenich affair, the SPD leadership decisively shifted in favour of central bank independence (Mee 2016). This was a first move towards the 1959 Bad Godesberg realignment of the party towards market policies. The policy change was made in an opportunistic fashion – Adenauer could be painted as allied with industrialists – but nevertheless reflected a long-term process. Gaining SPD support was probably the decisive institutional victory of Vocke and the BdL, which guaranteed the autonomy of the future Bundesbank.

Independence was preserved in the 1957 Bundesbank Law. It reformed the institution in a more centralised manner as the Länder banks became local branches of the new central institution. At the same time, it maintained the influence of the states, for Länder bank presidents remained council members (although their appointment was handled to the Bundesrat). The job of board president was abolished and the directorate president became a federal government appointee, alongside all other directorate members, who constituted half of the council members. The preserved federal structure and nomination cycles ensured that no central government would be able to nominate a majority of council members. The one single privilege of the government is the right of ministers to attend council meetings and make proposals, but not to vote (Goodman 1992, Mee 2016).

Even if the BdL put the defence of its autonomy at the heart of its policy argument, its nine years of existence were not dominated by conflicts with the government. Its usual modus operandi was one of close cooperation. The bank's policy framework was mostly shared by the federal government and their action was usually complementary and often adjusted to each other's interests.

The underlying policy agreement continued under the Bundesbank, whose influence grew over the following decades. Clashes were the exceptions highlighting the habitual agreement. In 1961, the bank lost a policy battle when the government decided to revalue the deutschmark instead of increasing taxes, as advised by the Bundesbank. Tensions rose prior to the 1966 general elections when Erhard, now chancellor, raised social spending while the bank pursued a restrictive credit policy. In 1972, in another struggle over the exchange rate, the governor managed to convince the Social Democratic-led cabinet to defend the dollar rate with currency controls. This was against the wishes of the finance and economy minister Karl Schiller, who favoured floating rates, and resigned because of it (Gleske 1998, Holtfrerich 1988).

The reality of West German governance ended up close to the 'Erhardian' vision of cooperation. This approach may have known its most formal institutional translation in the *Konjunkturrat*, or economic council, an informal body set up in 1956 between the Finance and Economic ministries and the BdL. The ideological convergence of the bank's management and the government was a powerful ex-ante factor for coherence between fiscal and monetary policies. Because the bank and the government shared similar arguments and references, the bank could participate actively in the construction of the social market. This coordination did not exclude negotiating and trading with other state agencies, nor with social interest groups.

Innovativeness of the German central bank

The BdL as it stood, once sanctioned by the Bundestag in August 1951, was a very different institution from its sisters abroad in two key respects. The Italian, French, and British central banks had been nationalised in the previous years. Alongside the United States Federal Reserve, even if they had no legal obligations to do so, the banks took policy instructions from their treasuries.[21] Moreover, these banks, unlike the BdL, had close historical and institutional links with the financial industry, the supervision of which was in their remit (Marsh 1993).

Allied central banks had financed the war efforts and they were expected to follow the lead of elected governments for postwar stabilisation and growth. The Reichsbank did the same, but its successor was now banned from doing so again. Meanwhile, central banks' umbilical link with their financial industries may have handicapped their capacity to consider issues from the point of view of the entire economy, as well as their ability to gain legitimacy as actors in a democracy. The Bank of England suffered from its bias for the City (and thus the Empire), while the Banque de France could not shed its association with unproductive rentiers – the Baumgartner BdF was stuck in a class war, siding with capital owners, including farmers, against salaried city dwellers.

But this double autonomy left the BdL far from what is today; the ideal type of central bank independence as an almost automatic, predictable agency, with a simple, single remit (low inflation). The BdL diverged from this ideal type because it had *no such explicit mission*. The law that created the bank did not set an economy-wide goal about price or employment. The dollar value of the deutschmark was fixed, as of the Bretton Woods regime, and eventual changes were the responsibility of the federal government. (Exchange rates were decided by governments and not central banks elsewhere too). So, narrowly speaking, the BdL was not the deutschmark's guardian. Meanwhile the bank had strict limits on cash advances to the federal government, but was free to buy treasury bonds. The BdL was not created as a proto-monetarist machine. Rather, its legal mission was to run the credit system (starting with interest rates) under the fixed exchange rate constraint. This, of course, implicitly meant price stability, but it also left the bank substantial leeway to define and act upon its mission.

Far from the computer-like independent central bank portrayed in the literature, the BdL revealed itself as a deeply *strategic* institution. Early on, it entered a transactional relationship with the executive branch that allowed it to carve for itself a significant space in the social market governance system. I suspect that if the August 1949 elections had delivered a Social Democratic-led government, the bank would have either chosen another policy credo or have had its autonomy curtailed.

Perhaps the biggest impact the BdL and the Bundesbank had on German opinion was the creation of hypersensitivity to inflation. Simon Mee (2016) convincingly argues that what is often presented as the product of history – specifically the hyperinflation of the 1920s and 1940s – was, in fact, the result of relentless central bank propaganda or myth-making.[22] Mee focuses on the self-serving value of a narrative that justified claims for statutory central bank independence, and he makes a strong case for it, but the fact that German public opinion adopted the bank's story had additional consequences.

The BdL was anything but an ivory tower that was preoccupied only by monetary supply. It was also closely involved in key government economic policy decisions, notably on international trade liberalisation, and its leadership often attended cabinet meetings while ministers regularly sat at the BdL council. Alongside the West German government, the bank was a co-recipient of the December 1950 special loan of $120 million from the EPU. In 1956 and 1960, the bank actively participated in government efforts to moderate wage settlements, leveraging its 'scientific' authority (Markovits 1986).

Although it was agile at politics, this was a means to an end. The BdL's core achievement as an institution was to *depoliticise* money – in this sense, the bank's approach was in deep convergence with ordoliberal thinking (Röpke 1950a, Slobodian 2018). Conversely, in France and Britain, postwar governments wanted to harness the power of 'finance' for the common good. In these countries, the victory in the Second World War was perceived as that of democracy and some form of socialisation of money management was a logical development in its aftermath. By virtue of its defeat, Germany took a different road that may have proved more influential in the long run. The early 1950s FRG arrangement acknowledged that money was part of the *res publica*; by status, the BdL was a 'public law' subject ultimately controlled by elected officials from the Länder, but its remit was closer to that of an antique magistrate than that of a minister.

This technocratic governance will be explored in the next chapter. But I will first complete my survey of the 1948–49 institutional big bang by considering the innovative adaptations to the modern democratic state brought by the West German Basic Law, introducing notably constitutional review into Europe.

The Basic Law: a comprehensive institutional response to the interwar crisis

The persistence and development of the social market economy in West Germany would not have taken place without the reorganisation of the country's constitutional and political system, which occurred almost simultaneously with the economic reforms I discussed. The Basic Law, or *Grundgesetz*, reframed the parliamentary system with a view to enhancing government effectiveness and its technocratic character, which were deemed necessary to steer the economy (rather than to preside over a neutral liberal state). FRG leadership then presented the early economic success as legitimating the new republic.

The Basic Law was written by a German committee under mandate from the three Western occupying powers, which also had ultimate veto power over the text. The Americans and the French were primarily concerned with limiting the powers of the central government. Many of Adenauer's Christian

Democrats shared this objective. The British Labour government was opened to centralisation, which the SPD favoured because of its socialising ambitions. The process of writing the Grundgesetz took place during the Berlin blockade, which helped to bring the French government behind plans for a western-oriented state. The rise of East-West tensions further accelerated western integration efforts, leading to the signing of the North Atlantic Treaty on 4 April 1949, and to calls for Germans to fully participate in emerging institutions including the OEEC (Clay 1950).

Plans for a West German state took shape at a conference held by the Allies in London in February 1948. By June, the three occupying powers had endorsed a report that set out the procedure for, and the timing of, the constitution-writing process. It included a statement of principles calling for 'a government structure of federal type which is best adapted to the eventual re-establishment of German unity . . . [that will] provide adequate central authority, and contain guarantees of individual rights'. Alongside was a 'Letter of advice to the Military Governors', suggesting the broad terms under which they should assess the compliance of the constitution with Allied requirements. It included a 'bicameral legislature in which one house represented the states, executive powers definitively prescribed by the constitution and with any emergency powers subject to broad legislative and court review', the exclusion of education, cultural and religious affairs, local government and most of public health issues from the powers of the federal government, and limitations on the latter's tax-raising capacity. The text was also expected to provide for a constitutional court (Clay 1950, Grosser 1978).

In summer 1948, the minister-presidents of western Länder were reluctant to undertake the task of creating a new German state; they worried they were de facto dividing Germany. They reached an agreement with the Allies that the drafting body would not be called a 'constituent assembly', and that the text to be adopted would not be called a 'constitution'. This 'provisional' approach was mostly supported by the Social Democrats and the legal scholar Carlo Schmid, their most influential representative in the drafting process. But as the debates proceeded, parliamentarians had to reckon with the fact that they were acting as a 'constituent power' as stated in the first paragraph of preamble (Krüger 1999). The minister-presidents refused the Allied proposal to have the eventual constitution ratified by referendum because they wanted to remain consistent with what they regarded as a provisional text, and because they disliked direct democracy; they suggested instead that the constitution be approved by at least two-thirds of the Länder parliaments (Gardner 2004).

The Basic Law was drafted by a parliamentary council (*Parlamentarischer Rat*) of Länder representatives, who met in Bonn from September 1948 to May 1949. It involved all major political leaders. Konrad Adenauer presided over the council. The SPD leader, Kurt Schumacher, played an influential role, although he was not on the council, and although most of the work was done in a 'special commission' headed by the SPD's Schmid. The FDP's

Theodor Heuss (the future FRG's first president) was also a very influential member of the commission (Grosser 1978). Apart from exceptional sessions, deliberations were not public. The making of the constitution by a secret committee contrasted sharply with the public processes in France and Italy at the time, but prefigured the drafting of the French Fifth Republic's constitution in summer 1958.

The tension between left and right underlined some of the most important debates held at the council, where centralising Social Democrats argued with 'federalist' Christian Democrats (an issue primarily raised by Bavarians). CDU partisans of 'konstitutionelle Demokratie', who stressed the need for checks and balances – notably with an upper chamber of parliament – opposed SPD supporters of 'soziale Mehrheitsdemokratie', or majoritarian democracy, who argued for the preponderance of the lower house (Gardner 2004, Golay 1958).

On the key issue of federalism, the centralised views of the SPD prevailed. There was only mild opposition by northern Christian Democrats. But the CDU ultimately managed to impose its views on bicameralism. Three major 'compromises' were made. In November, the SPD and CDU agreed to create the *Bundesrat*, a second chamber with members appointed by the Länder. In a second compromise in January the two parties settled on a *Bundesrat* status inferior to that of the Bundestag, as it would have legislative veto only on a pre-set number of issues.

The third compromise took place in April between the Council and the Allies. The disputed issues included the federal government's powers to redistribute Länder tax revenues from the richest to the poorest. While the SPD demanded this redistribution, the Allies feared it would concentrate resources in federal hands. The final wording limited the federal 'equalisation' rights to population welfare. The deal was made after the SPD congress, where Schumacher theatrically took issue with the weak powers of the central government, prompting General Clay to worry that the upcoming electoral campaign might be run by the party against occupiers. This led to Allied approval of the Basic Law later in April. The relatively centralised outcome is remarkable, resulting from an assembly of parliamentarians reporting to Länder without any national government to defend centralisation (Clay 1950, Gardner 2004).

It is often said (on the left) that 'capitalism was imposed on Germany'– that trade unions could have fought for a more socialist-leaning constitution. However, during the constitutional debate, trade unions held a traditional attitude under which the SPD handled politics, and displayed 'indifference'. It is true that the SPD was unsuccessful in proposing a parliamentary all-powerful central government which, in case of its electoral victory, could arguably have facilitated the implementation of a socialist agenda. The party even tried – and failed – to include in the constitution provisions explicitly allowing nationalisations. Nevertheless, the institutions created by the Basic Law never prevented important left-wing reforms in the following decades, while major decisions taken in the direction of the social market model were made outside the Basic Law, notably those of Erhard's Economic Council. The Marshall Plan was a further factor pushing in a pro-market direction (Markovits 1986, von Beyme 1983).

Three innovations: presidentialism, institutional parties, and constitutionalism

The Basic Law was innovative, but not for most of the reasons debated (such as federalism or socialism). Its uniqueness lay rather in the way it allowed the state to adjust to mass democracy and for its constraints on modern economic management.

The Federal Republic, created by the *Grundgesetz* and shaped by its first two decades of existence, was profoundly original. Superficially, the West German system could be called parliamentary government, as the Bundestag lacks the counterweight of a strong president and referenda (as under Weimar and the Fifth Republic). But the constituents had also introduced features limiting parliamentary control of government, ensuring cabinet stability, and centralising power in the chancellorship. They hence effectively bolstered the constitutional text with a series of innovations that set the new regime apart – or ahead – of continental peers. Focused on effective institutional mechanics and enforceable rights, the Basic Law diverged significantly from the programmatic postwar constitutions of France and Italy.

The *Grundgesetz* inverted the normative hierarchy of the Weimar Constitution, which was imbued with legal positivism and a vision of the *Rechtsstaat* as an expression of popular will. In the 1949 document, 'the rival principles of democracy and constitutionalism would lock themselves into a new and uneasy embrace, with the Basic Law's constitutionalist blades poised to cut short the reach of its democratic shoots' (Krommers 1999). The 1949 text invented a new balance between 19th-century liberal ideals (parliamentary sovereignty, rule of law, and laissez-faire) and mass democracy. It was a careful balance because the tension between liberal and mass-democratic ideals can be seen as having paved the way to the authoritarian and populist movements of the first half of the 20th century (Gauchet 2010).

I will focus here on four areas where the Basic Law's innovations were particularly consequential: 'presidentialism' in the *Kanzelerdemokartie*; the institutionalised role of political parties in the *Parteienstaat*; and constitutionalism and the dedicated Constitutional Court.

Establishing a 'democracy of the chancellor' or *Kanzelerdemokartie*, the Basic Law accomplished something that nobody wanted to overtly endorse in postwar Germany: the reinforcement of the executive branch. The Federal Republic marked a clean historical break in Continental Europe between the time when governments primarily originated in parliaments, and when governments became the product of a personalised election of a leader. To some extent, the new prominence of the chancellor finalised the importation on the Continent of the Westminster model that had begun during the French Revolution.[23] With the advent of the *Kanzlerdemokratie*, the chancellor became the keystone of the political system, with pre-eminence over the cabinet, control over (and role as the figurehead of) the main government party, and polarisation of the party system between himself and the opposition. From their first postwar general elections, West Germans could in practice vote for a man who would become their leader and would dominate his party and the cabinet. The head of the executive has been, since then, the leader of the main political party. By implication, the losing party's leader becomes head of the opposition (Niclauß 2014, Poguntke 2007).

The members of the Parliamentary Council did not aim directly at strengthening the executive and weakening parliament. The Parliamentary Council was rather seeking to reinforce the chancellor's authority over his ministers, which was often weak in Weimar coalitions, as well as to concentrate in the chancellorship most powers that used to belong to the president, to avoid a repetition of the Hindenburg interferences of 1930–33. They also aimed at preventing instability of parliamentary governments. The end-result was a form of presidentialisation in the person of the chancellor and centralisation of power over government and party in the Chancellor's Office (the *Kanzleramt*). The term *Kanzlerdemokratie* was initially used as a critique of the Adenauer government, reflecting a nostalgia for parliamentary cabinets. But it was nevertheless an important insight into the presidential or rather prime ministerial nature of the new regime (Padgett 1994).

Article 65 provides the main constitutional support for the central role of the chancellor. It states that he 'shall determine and be responsible for the general guidelines of policy' (the *Kanzlerprinzip*). This is the same language used in the Weimar constitution (1919). But the Basic Law abolished the Weimar president's right to dismiss the chancellor and did not stipulate, as had the Weimar constitution, that cabinet decisions should be taken on a majoritarian basis. Also, ministers were not to be individually responsible to parliament. Otherwise, the constitution was not very specific on the chancellor's remit (Golay 1958, Grosser 1985).

Measures to ensure governmental stability also strongly contributed to the *Kanzlerdemokratie*. Breaking again with European parliamentary tradition, the Basic Law did not include provisions for votes of no confidence. Rather, to force out a government with which it disagrees, the Bundestag has to elect a new chancellor – a 'constructive vote of no-confidence' (Article 67). If a chancellor loses a vote of confidence, he can ask the president to dissolve the Bundestag within 21 days; but if a new chancellor is elected, the right of dissolution lapses (Article 68). The chancellor's limited capacity to call new elections is the counterweight to the high fences protecting the chancellor from being fired by parliament (Southern 1994) – a contrario, a British prime minister could lose power by almost any vote in the Commons, but could also threaten the House with dissolution almost at will.

If the constitution did not explicitly establish the *Kanzlerdemokratie*, it did set the conditions allowing it to emerge. While other developments (such as the rise of broadcast media) were favourable to executive power, institutional arrangements blocked its rise to prominence in Italy and in the French Fourth Republic. Conversely, the specifics of history, including the presidential style of Konrad Adenauer and, more importantly, the consolidation of the party system that brought to pre-eminence two large parties with two high-profile leaders, helped to shape the first elections as primarily votes for a leader rather than votes for representatives.

German political parties of the Federal Republic have been given a prominent institutional status unique amongst major western democracies, justifying the *Parteienstaat* qualifier. The Basic Law supported political parties in contrast to the anti-party rhetoric prevalent in large parts of élite and public opinion in the Weimar period (Richter 1999).

The consolidation of political parties was undoubtedly eased by legal innovation. The first paragraph of Article 21, situated at the beginning of the institutional section of the Basic Law, was the first recognition of the role of political parties in a major national constitution:

> Political parties shall participate in the formation of the political will of the people. They may be freely established. Their internal organisation must conform to democratic principles. They must publicly account for their assets and for the sources and use of their funds.

This inspired the French constitution of 1958 (Grosser 1978, 263).[24] Crucially, by setting organisational requirements for parties – conformity to 'democratic principles' and financial disclosure – the Law bestowed a quasi-public status to the parties which can be seen as a counterpart to their political function. The next paragraph ruled as anti-constitutional parties that seek to undermine the 'free democratic order' of the Federal Republic. The third paragraph called for a law on political parties that eventually materialised only in 1967. The law, again unique in large Western democracies, came to establish in much detail the rules governing internal party organisation, financing (private and public), and sanctions for non-compliance. In a further institutionalisation step, the law stipulated that candidates for constituencies must be selected through a secret ballot (von Beyme 1983).

Article 38, concerning Bundestag members, might be seen as undermining political parties, as deputies are 'not bound by orders or instructions, and responsible only to their conscience'. But Alfred Grosser (1978) stresses that coming as it does after Article 21, it is better seen as a warning against undue influence of economic and social interests. I would also read it as an ineffectual reminiscence of the 19th-century liberal vision of a parliament of individuals. Party discipline in the German parliament has been in fact very strict, with dissident deputies able to be silenced by speech time limits. Indeed, election of half of the deputies on party lists certainly helps to discipline groups in the Bundestag.

The *Parteienstaat* also owes much to the electoral law enacted in June 1949 by Allied military governors. Their text was largely based on one voted earlier by the Parliamentary Council that provided for a ballot with two components: half of the Bundestag members should be elected by first-past-the-post in single constituencies; and the other half should be determined by party lists, with the latter result adjusted so that the composition of parliament would reflect the percentages received by each party in the second ballot (a model based on postwar Länder electoral laws). A majority of the Council agreed to this system, while the CDU-CSU in the minority favoured an all-majoritarian system.[25] The Allies then introduced a pro-majoritarian corrective mechanism, with the repartition taking place after eliminating parties without at least 5% of votes or three constituencies (Capoccia 2002).[26] The electoral law secured the parties' control over the selection of candidates (and thus party discipline) and, thanks to the 5% threshold, hindered political fragmentation. As we will see, the idea of the threshold and its progressive rise was copied by the Fifth Republic.

The first West German national elections were held on 14 August 1949 and delivered a very narrow victory to the CDU/CSU-FDP-DP alliance, which elected Adenauer chancellor a month later by 202 votes out of 402 (West-Berlin deputies were excluded). The Bundestag was fragmented between ten parties (counting CDU/CSU as one).[27] However, in the following twelve years, many smaller parties were eliminated as the share of vote of the CDU/CSU and the SPD rose from 60% in 1949 to 82% in 1957; by 1961, these two and the FDP were the only parties represented in the Bundestag. A significant reason for this shift is the 5% threshold which was cleverly used by the CDU-CSU to annex smaller groupings (Capoccia 2002).[28]

The Federal Republic's parties also acted as gatekeepers to political leadership, as 'parliamentary experience is indispensable to get into the higher executive positions' (von Beyme 1983, 112). In contrast, in the Weimar period, high-ranking civil servants were often directly appointed ministers (as in the Fifth Republic). Under Weimar close to a quarter of ministers were not party members. Under the Federal Republic, this figure diminished rapidly to a single minister under the SPD-led governments in power from 1969.

The constitutional scholar Leibholz drew attention to the new centrality of parties in western democracies, especially in Germany, since parliament is not a romantic assembly of representatives of the people but a place where their agents meet 'to get decisions registered which have been taken elsewhere'. Leibholz coined the term *Parteienstaat* before the Second World War. His analysis was influential in Germany for it provided both conservatives and radicals a justification for party domination of the political debate and for their institutionalisation. Von Beyme (1983) convincingly argues that this process has gained profound legitimacy in Germany – it was 'internalised' – as proved by the decline of changes in party affiliation by deputies in the 1949–80 period (once party splits and mergers are eliminated) and by the widespread negative perception of defectors. Iversen and Soskice (2019) point out that reputable government party 'labels', thanks to centralised, moderate leadership, were decisive in sustaining trust in policy from the 'advanced sectors' of the economy. Here I show that this institutional gain was state-engineered.

The rise of the centralised, disciplined mass political party as the gateway to West German executive power was an integral part of the system's postwar upgrade. Government stability and its domination by the chancellor seem to have been enough to balance the centrifugal force of the parties. Unlike Italy, no pathological *clientelismo* undermined the state. But polarisation between two major parties also narrowed the competition; made it more effective and thus more legitimate; and ensured government policy had a powerful machine to back it up in public debate. As we will see, this mechanism was often sorely missed by Fifth Republic governments.

The constitutional court created by the Basic Law, established in 1951, responded directly to American demands, and, knowing the major developments that constitutionalism has taken in Europe since, can be identified as a major vector of transatlantic institutional influence. At creation, the court was a 'historically unprecedented' innovation in Europe (Rinken 2016).[29] In fact, the American model proved a handy solution to constitutional writers seeking a vehicle for safeguarding individual rights and for upholding the institutional rules set out in the Basic Law.

The Basic Law's first section constitutes a list of 'basic rights' that 'shall bind the legislature, the executive and the judiciary as directly applicable law'. This contrasts with the programmatic value of the French and Italian constitutions and with the secondary position of rights in the Weimar text (where they are associated with 'obligations').

The court created by the Basic Law accepted individual recourses and issued important rulings early in its life. The Federal Republic was the first European state to effectively submit its rule-making to full judicial review (as opposed to ad-hoc administrative court rulings and ex-ante reviews).[30] Up to this day, the court rules ex-post in actual disputes where the constitutionality of a law is challenged, as well as in 'abstract' rulings where it has been called to review a law. The abstract reviews, independent from cases, were developed by the court as an 'objective process'. 'The petition and the petitioner are only the catalyst for a function which the Court has to fulfil in the public interest, and in which there are no participants in a procedural sense'. The German court has no political question doctrine akin to the Supreme Court of the United States, and 'is obliged to rule on issues within its area of competence' (Rinken 2016).

The constitutional court has gained considerable influence ex-ante on the writing of laws, as deputies often amend bills with a view to make them acceptable to the court. It has gradually taken on the role of a technocratic tutor of parliament by considerably redefining the scope of legislation, away from

19th-century liberalism. This is most notable in its 'doctrine of essentials', which calls for 'the positive intervention of the state' to bring opportunities to citizens. Under the court's jurisprudence, parliament is today obliged

> to investigate the consequences of a law . . . to respect scientific knowledge . . . to offer prognoses on future developments . . . [and] to accept the duty to amend a law after unintended consequences have been recognized.
>
> (von Beyme 1998, 13)

Some see the court as one of a number of checks and balances (Southern 1994), but this strikes me as ahistorical. In a country returning to democracy where the only national elections are for the lower house of parliament, and where a large share of the opinion (starting with the SPD) regards it as almost a sovereign body, in line with the Westminster concept and many Continental political forces, parliament could not have been seen as symmetrical with the judiciary.

The drafters' intentions were not to muzzle parliament, but rather to *discipline it*, to ensure that it could not undermine government privileges. The court must be understood as part of a system where democracy and the modern state are codified and organised for sustainability and efficiency. The individual rights enshrined in the constitution and the court were a protection against a 1930s-style populist drift. But the court was also a proactive machine for adjusting law and institutions to societal developments. Writers of the constitution were motivated by a 'fear of democracy' (notably of *direct* democracy), as well as the desire to strengthen the executive and to 'increase legalization' of the political process (Rinken 2016). The Constitutional Court was therefore an important part of the emerging technocratic state.

Crucially, Social Democrats rallied to the idea of a constitutional court because they saw it as a bulwark protecting the central government from encroachment from the Länder (Golay 1958).

Born-again Germany

After its 1945 near-death experience, in 1948 and 1949 (western) Germany went through a rebirth that could only be compared to major revolutions. The simultaneous changes in the institutions, in the economic model, and in the prevalent ideas about them all had independent sources. There was no prime mover or coordinator. But together they dynamically fed into each other to produce a remarkably resilient system.

To wrap up the chapter, the 1948–49 German big bang created together a new republic and a new political economy model in a thoroughly top-down fashion. Economic reforms took place first. In spring 1948, the BdL, a new independent central bank, was created by the occupying powers, while price and trade liberalisation was designed and implemented by Ludwig Erhard, a technical appointee drawing his legitimacy as much from the full powers granted to him by a transitional parliamentary body as from claims to scientific objectivity that were supported by economists and the nascent ordoliberal ideological current. In the early phase of reform, the bank and Erhard stood firm despite widespread opposition. By 1949, when inflation stopped and economic growth gained traction, the social market programme became the herald of the emerging West Germany body politics. Konrad Adenauer and his CDU rallied to the policy package. A new constitution drafted by parliamentarians meeting away from the press was approved by the allies in April 1949. The Basic Law rebalanced power away from parliament and towards the executive and the judiciary. In August, voters endorsed the new institutions in the Federal Republic's first general election. Adenauer's victory was due to the reform's economic momentum, and the social market became his coalition's rallying project. The BdL nimbly manoeuvred to secure its autonomy and entrench its position as the ultimate referee of the new country's financial and economic policy.

The Federal Republic was harnessing the *demos* through parties and parliament to support a stable, law-bound, and effective executive branch. This was a priori not inimical to a socialist agenda. Conversely, the governing coalition was converted to the social market agenda. At first, it used the Allies' arrangements and then created new institutions to lock in structural constraints that were difficult to reverse, such as trade pacts and the end of rationing. Rapidly, the purposeful nature of the government came to be seen as serving a non-political goal, that of economic growth, which, in turn, made the new polity's legitimacy dependent on economic outcomes.

The dynamic adjustment of institutions, ideas, and economic model was most dramatic with the new central bank. The BdL, a product of military occupation, gradually took ownership of the equally parachuted-in deutschmark, and cleverly embraced the social market so much so that it was eventually viewed as one of its guardians. In turn, central bank independence was added to the nascent national credo. Were one to strip off the ideational glue fitting the BdL to the FRG, and the purposeful ethos presiding over the German institutional construction, the bank would have lacked much of its punch, similarly to most of its peers.

The new governance would be forcefully displayed when group interests were reframed to be compatible with the social market, as we will see in Chapter 4. But first I will tell the story of how the 1950s tested the low inflation, export-driven policy compact, and emerged stronger thanks to the deployment of expertise-based leadership. The coalescing of the FRG around the social market would not have come about without the early economic success of the currency reform. Its consolidation, however, took place over time. The new institutions were tested in the area – the economy – where they had most latitude to act; and they acted decisively. The technocratic mode in which this success was achieved proved eminently compatible with the social market. The 'law-bound' qualifier readily applied to German state institutions was easily translated into 'expert-run'.

Notes

1 germanhistorydocs.ghi-dc.org/sub_document.cfm?document_id=3093 (3/9/23)
2 labour-party.org.uk/manifestos/1945/1945-labour-manifesto.shtml (3/9/23)
3 eduscol.education.fr/document/31786/download (3 September 23)
4 Foucault seems to argue that the new republic saw the very participation in the market economy (presumably as consumer or producer) as its legitimising process; effectively, politics collapsed into the micro-economy so that consumption became a vote of confidence. Although I appreciate the maverick philosopher's wonder at a system claiming the exact opposite of 1968 dogmas (*tout est politique*), my lighter reading prefers circumspection on this claim – because post-war social market proponents do not seem to have argued in any way for the end of politics as we know it – while retaining the intuition of a polity explicitly seeking legitimacy in its material performance. (By 'material' I mean economic, implying a utilitarian logic that definitively left behind metaphysical-nationalist visions.)
5 *Soziale Marktwirtschaft* was a term used primarily to describe the emerging West German political-economic model, and by its proponents, like Erhard, to designate their programme. Alfred Müller-Armack was the first to use the term in print (1946, 88), although it has been claimed that Erhard himself invented it in 1945 (Glossner and Gregosz 2011, 36 n26). 'Ordoliberalism' refers to the ideological current backing the social market project. The theme of 'ordo' took shape from 1933 in the so-called Freiburger Schule around Walter Eucken and Franz Böhm. The first issue of the *ORDO* annual review appeared in May 1948, one month before the currency reform and price liberalisation. The term *Ordoliberalismus* was coined in 1950 (Bilger 1964, Commun 2016).
6 In 1947, when few newspapers were yet authorised in Germany, Zurich's *NZZ* played a key role in the spread of ordoliberal ideas in German elites. Exports of the daily to Germany boomed from 3,000 to 17,000 copies, and future chancellor Konrad Adenauer was a regular reader. Besides Eucken, Röpke was a prominent contributor (Commun 2016, quoting Riedl 1992).
7 In a visionary remark, Erhard speculates about a tenfold increase in production (Erhard 1963, 76).
8 The 1920s and 1930s 'socialist calculation' debate had been reactivated by Hayek in his 1944 polemical essay *The Road to Serfdom*, influential in ordoliberal circles (Godard 2013, 365–66).
9 In 1946–47, a worker would receive RM0.95 per hour, when a single cigarette on the black market would cost RM7 (BIS 1949, 42).
10 The equalisation was regarded by the authors of the 1946 report as an essential part of the reform, needed for its long-term success, and addressed by the second and third of their three step approach (Colm et al. 1955, 206 and 208).
11 If not an accurate presentation of the central bank's balance sheet.
12 Hoarding before the reform was unofficially encouraged by Erhard as a way to ensure sufficient supplies when it took place (Van Hook 2004).
13 In July 1948, when Erhard met US military commander Lucius D. Clay, he was asked 'Herr Erhard, my advisers tell me that what you have done is a terrible mistake. What do you say to that?' To which he replied, 'Herr General, pay no attention to them! My own advisers tell me the same thing' (Hartrich 1980).
14 Refugees expelled mostly from Czechoslovakia, Poland and East Prussia, were estimated at 9.4 million (ECA 1951). Refugees from East Germany, not considered as war victims by the Lastenausgleich laws, were estimated at 2.5 million in 1950. The total population of the Federal Republic, including West Berlin, amounted to 51 million in 1950.

15 These figures are probably inflated as a significant share of the pre-reform production was exchanged through the 'compensations' mechanism or sold on the black market and not recorded by statistics (Lutz 1949).
16 cvce.eu/content/publication/2003/3/10/a5bf33f8-fca0-4234-a4d2-71f71a038765/publishable_en.pdf (3/9/23).
17 At the EPU became operational, bilateral trade accords between members were cancelled by a multilateral most-favoured-nation regime (Eichengreen 1993).
18 Rentenmarks continued to be occasionally issued, and were accepted for payment up to 20 June 1948 in western Germany.
19 Vocke sat on the directorate of the Reichsbank for twenty years. Alongside all other members, he had signed the January 1939 memorandum criticising the government's financial policy that led to the firing of Schacht by Hitler and Vocke's resignation in February. Vocke's personality eclipsed that of BdL council president Karl Bernard who, despite a theoretically equal status, ended up with a supporting role in the bank's leadership (Mee 2016).
20 In a 2017 Anglo-Saxon-centric presentation, Mark Blyth defines the Cold War era (1945–80) by a few criteria including, in bold, 'No One Knows who Runs the Central Bank'.
21 The Federal Reserve recovered its independent monetary policy in the same year, 1951.
22 Comparisons between opinion polls taken in Britain and West Germany in 1967 and 1968 showed strong divergences in views of inflation, as Germans were much more prepared to give up wage increases if prices were stable (Behrend et al. 1967, Noelle-Neumann 1968).
23 This was despite the fact that in the following decades executive centralisation was further accentuated in Britain, Germany, the United States, and Fifth Republic France.
24 Article 49 of the 1946 Italian constitution states that 'any citizen has the right to freely establish parties to contribute to determining national policies through democratic processes' (senato.it/documenti/repository/istituzione/costituzione_inglese.pdf – 3/9/23). Unlike the German text, this article is rooted in individuals' rights and does not clearly address the institutional role of the party itself, nor does it mandate any rules for the functioning of political parties.
25 The Social Democrats were ambivalent about the electoral system but, on tactical grounds, favoured proportional representation, a position obviously supported by all small (national) parties (Golay 1958, 140, 141).
26 This provision was initially set at 5% in any Länder and one directly elected deputy, in 1953, the 5% threshold became national, and in 1957, the number of directly elected deputies rose to three (Grosser 1978, 276).
27 According to the Federal Returning Officer: bundeswahlleiter.de/en/bundestagswahlen/1949.html (6/5/19).
28 The Basic Law's Article 21, Paragraph (2) also played a role in curtailing party numbers as the Constitutional Court, acting under government request, banned the neo-Nazi SRP in 1951 and the Communist KPD in 1956.
29 Europe's first constitutional court was established in Austria in 1919. The Italian Constitutional Court, although stipulated by the 1948 constitution, became operational only in 1955. The Weimar Republic's State Court was dedicated to institutional issues, mostly adjudicating disputes between Länder and the Berlin government, and could only intervene at the request of Reichstag members (Caldwell 1997).
30 Individual recourses were allowed by the Federal Constitutional Court Act of 1951, and this provision was inserted in the constitution in 1969. In 1952, a law settled the court in Karlsruhe, away from political power but in the same city as the other top federal courts (Rinken 2016).

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3 Germany's new social market governance and its test

The Federal Republic was created in a fifteen-month period of intensive institutional construction. Its legitimacy was primarily sustained by the improvement in economic prospects. This provided the template for developments over the following fifteen years, if not longer, when state actors – including Erhard and the central bank – constructed a policy narrative supportive of export-led, low inflation economic growth.

The project was broadly neoliberal, as it favoured the restoration of a working market economy. At the same time, for these policy planners, a working market necessitated active government policies. At the onset, it was a substantial endeavour to shift from rationing to market prices, from barter to monetised economy, and from state-managed to commercial-driven international trade. An actionable programme for the Bundesrepublik AG was developed in a second phase, around 1950.

Social market policies were focussed on stabilising prices and freeing trade. In 1950, leaders like Erhard and Wilhelm Vocke (the BdL president) squared this dual goal by locking in West German low-cost competitiveness to underpin export-led growth. The idea of monetary stability became understood in relative terms. Whereas the classic liberal principle of a fixed value of the currency unit (at the time, in dollars, convertible in gold) implied no consumer price inflation, the new German understanding realistically accepted low inflation (at least implicitly), *provided that it was lower than in other major economies*. Speaking on the radio in September 1950, Erhard (1963) speculated that if West Germany had a lower inflation rate than elsewhere, that could boost exports and production. The historian Carl-Ludwig Holtfrerich (2008) argues that the BdL had a policy of 'monetary mercantilism' or 'monetary protectionism' that crystallised in the 1950–51 foreign balance crisis.

As seen in Chapter 2, the exceptional conditions prevailing in defeated Germany in 1948–49 – including military occupation and the constitutional void – left administrators like Erhard free to rule along technocratic lines, with legitimacy claims grounded in expertise. Further, the constitution adopted in 1949 was designed to ease the operation of a chancellor-led

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executive branch, and to weaken partisan policy-making through judicial review of parliamentary decisions and state action. The new central bank embodied depoliticised governance. I will argue that the initial experience, and the shape, of the new institutions informed the very governance of the new Federal Republic, leading to the refashioning of the expectations of interest groups, which I shall examine in Chapter 4.

In this chapter, I look at how the new institutions created in 1948–49 – the chancellor-led government, a disciplined parliament, and the independent central bank – deployed a new governance model in the following fifteen years. I will describe how governing leaders tried to sell an economic programme to the country by depicting it as a vision that had no plausible alternative. That policy package was challenged by interest groups, political opponents, foreigners, and various government factions during the Korean War balance of payment crisis from late 1950, and in 1955–56, when the economic boom peaked.

But before delving into these two episodes, I will consider three central and interlinked developments in governance: the rise of centralised and technocratic decision-making; the shift towards 'scientific', 'objective' lines of arguments in the public debate; and the emergence of independent public authorities.

Centralisation and technocracy

The new prominence of the executive and its personalisation in the chancellorship were the most visible features of a broader trend leading away from parliamentary democracy and towards increased centralisation associated with the rise of technocratic governance.

During the 1948–49 constitutional debate, the intellectual climate was already favourable to the idea of a technocratic republic (if not to the term itself). An extreme example came in the call for a 'chamber of experts' published in the *Süddeutsche Zeitung*. Rejection of partisanship also took the form of a call for 'personalities' (*Personlichkeiten*), as opposed to party-affiliated politicians, to head the state. Suspicion of direct democracy led to rejection of popular election of the president and of provisions for referenda (Gardner 2004). I venture to suggest that this intellectual and political climate very likely underpinned acceptance of the role of the BdL, the Constitutional Court, and strong executive power.

The federal parliament itself took on a technocratic dimension at an early stage. The Bundestag proved more attuned to producing legislation than to debating policy. The bulk of work is done in committees alongside ministerial divisions. Many deputies develop high levels of expertise, which attenuate partisanship within parliament, and most committee sessions are closed to the public, which further helps to limit lobbying. Between 1949 and 1965, only eight out of over 14,000 committee sessions were public. As a result, the vast majority of decisions are unanimous, or the products of very large majorities (von Beyme 1983 and 1986).

Centralisation increased steadily in the first three decades of the Federal Republic, and mostly in favour of apolitical bodies. Constitutional changes in 1957, 1969, and 1976 strengthened Bund (or federal) powers. Länder progressively shifted their focus from using their powers individually to collectively leveraging them in the Bundesrat, which reinforced federal governance. The most high-profile move in that direction was the constitutional amendment of 1969, which allowed federal intervention in policy areas that were previously under sole Länder responsibility – provided the states cooperated with the intervention. These policy areas included higher education, agriculture, environment protection of coastlines, and regional industrial policy. However, since the growing 'cooperative federalism' required deeper cooperation between the states and the federal government, it was arguably a product of increasing homogeneity across states rather than a product of a power grab from the centre (Grosser 1985, Katzenstein 1987).

'Horizontal' organisations of the Länder (i.e., excluding Bund participation) also coordinated in a number of policy domains where they had exclusive jurisdiction, as was the case with the permanent conference of education ministers (*Kultusministerkonferenz*). A similar organisation emerged in the 1980s for Länder broadcasting regulators, which are national structures closer to international organisations than to federal ones, as they do not have a dominant central authority. The international comparison is also helpful to conceptualise the accords formalising interstate cooperation such as conventions (*Länderabkommen*) and treaties (*Staatsvertrag*).

Besides administrative and economic rationales, Grosser (1985) explains the centralisation process seen in the Federal Republic from the 1950s to at least the early 1980s as resulting from the imbalance between weak Länder and a strong national identity, pointing out that (before unification) only Bavaria had a distinct historical and cultural identity (historic Prussia being in East Germany), whereas migrations helped to increase population heterogeneity across the Länder.

Cooperative federalism tends to accentuate state autonomy and technocratic governance because whole segments of public policies are decided through informal bargaining outside of institutions and formal political accountability mechanisms. This is what Katzenstein (1987, 53) alludes to when deploring 'the undemocratic character of joint decision-making in West Germany's system of intergovernmental relations'. Crucially, Katzenstein substantially makes the same remark about his long list of parapublic institutions that

> operate largely outside of the limelight of the public attention. . . . Parapublic institutions are the trademarks of an oligopolistic style of politics in which the state is neither the central nor a peripheral player. They are both actors who participate and arenas that facilitate a stable accommodation of conflicting objectives (ibid, 80).

All of these are characteristics of a growing expert state in which much decision-making is delegated to non-political bodies. A whole debate developed on the 1950s German left about the seeming inevitability of 'technocracy' and its compatibility with democracy, a debate in which Jürgen Habermas played a key role (Gruendel 2022).

'Objectivity' as the communications yardstick

One aspect of the discussions around the Basic Law where the left-right cleavage was *not* significant concerns 'objectivity' (*Sachlichkeit*). 'The ideal against which parliamentary democracy was generally measured was nineteenth-century Britain, in which debate was believed to have taken place in an objective manner, untainted by party political considerations' (Gardner 2004, 72). Claims of technical or scientific expertise came to constitute an important part of the West German governance model in a process some called 'scientification', or *Verwissenschaftlichung* (Nützenadel 2005). In a virtuous circle, this frame underpinned the late 1940s media renaissance and the politicians' communications.

The postwar West German press was established in a licensing regime that ended only in September 1949 (censorship stopped in October 1946). The first newspapers were published by occupying armies, such as *Die Welt* by the British forces. Media culture changed markedly from the 1920s, when it was dominated by staunchly partisan publications. Most postwar newspapers did have a party sensitivity, but they also explicitly adhered to a demanding professional vision. The occupiers insisted on this: 'a clear differentiation between factual reporting and opinion-based pieces was very much encouraged by the Allies' (Gardner 2004, 27).

The Americans were the most proactive in nudging the ecosystem in the direction they saw fit. General Clay resisted authorising party papers, preferring to licence individuals with journalistic experience who did not, however, publish under the Nazis. His administration issued a bilingual 'Fair Practice Guide'. Beginning in October 1946, papers were allowed greater space to discuss domestic and international politics, even the occupation; but opinions leaning towards nationalism, militarism, and fascism were banned. Some newspapers were established with an editorial 'panel' that represented a broad spectrum of opinion. In the British zone, the military licensed mostly party-affiliated newspapers at first, before authorising more diverse operators (Gardner 2004, Glossner 2010).

In an indication of their sensitivity to objectivity, newspapers even criticised each other, debating whether their reporting style 'was objective and contributed to the democratic debate in an appropriate manner' (Gardner 2004, 67–68). Amongst other trends, this attitude led to regular and deferent publication of expert opinion. 'The respect paid to professorial opinions in the press was a reflection of the desirability of their perceived attributes: experts, in command of their subject, without a party political bias'.

Public wariness of a press authorised by occupying powers may have further led editors to separate opinion and facts. It is plausible to think that this new media contributed to a more favourable attitude towards technocratic governance amongst the public.

The postwar radio and nascent television media may also have led the public to approve of technocracy. The Allied military took over broadcast operations, which were eventually transferred to newly-created public service organisations with a mandate for non-partisan news. In being returned to German oversight, there was an increase in the number of political appointees on the broadcasters' boards and in the bodies to which the broadcasters reported. This was in line with the strong role of political parties in postwar German civil society, but it did not affect the independence of public affairs coverage. The latter was established as a constitutional principle by the Karlsruhe Court in 1961, which has closely monitored its implementation in several rulings (Huber 1988).

In short, then, Germany shifted from a staunchly partisan media in the 1920s to a totalitarian propaganda model from 1933 and, from 1945, to a pluralistic, but public-interest-minded system. There are similarities between this evolution and that which took place in other countries. In the United States, from the 1930s onwards, public-spirited newspapers came to dominate a market previously held by Citizen Kane-type publications often associated with corrupt local political machines. In France and Italy, the party-affiliated press declined steadily in the postwar period as titles claiming professional reporting rose (even if paired with proud ideological preferences). In most countries, the postwar broadcast media sought to avoid partisanship, either in a public-service model or in a heavily regulated system, as was the case in the United States and Canada. But West Germany pioneered the public service model as an ideal type for *all* the country's media, even while much of Europe relied on vigorously partisan print outlets and government-piloted broadcast news.

As it took over media supervision from the Allies, the new German Federal Republic embraced the values the Allies had tried to infuse into the system. These were also largely held by the management of postwar newspapers. Thus, media coverage was tilted toward fact-based, technical-sounding argumentation regarding economic policy. This was particularly important in a country where, as I explained earlier, economic success legitimated the new constitutional order. There was, then, a congruence between the expectations of postwar media and the messages issuing from state and government leaders.

Erhard's success may be partly explained by his being at the forefront of this new technocratic orientation. He was an active communicator, addressing the public by radio during the monetary and price reforms. He regularly published opinion pieces in newspapers and, as soon as he was appointed director of the bizonal Economic Council, operated an effective press office independent from the Council's. Erhard brought together the group of investors who launched the *Frankfurter Allgemeine Zeitung* in November 1949. In contrast, the Social Democrats continued to rely mostly on party-owned publications to broadcast their views, which deprived them of the appeal of expertise (Glossner 2010).

As I will show in Chapter 5, personalised, direct communication was also to be a key feature of de Gaulle's return to power in 1958. This 'rhetorical' leadership may have been an invention of progressive presidents of the United States (Tulis 1987), enhanced by radio from the 1920s, and further developed by Franklin Roosevelt and totalitarian leaders in Europe. In his discussion of postwar presidentialism, Marcel Gauchet (2010) argues that Roosevelt proved that there could be a democratic version of contemporary dictators' attempts to develop a direct relationship with 'the people'.

Autonomous agencies

State actors' preference for non-partisan and 'objective' communications was an underlying factor favouring the rise of technocratic state agencies with an independent voice in the policy debate. It is one thing to refer to and valorise 'objectivity', another to have institutions dedicated to producing technical arguments. When the latter happens, the technocratic governance gains credibility by an order of magnitude.

These various institutions were overall not explicitly political, even though they were often called upon to make public policy decisions. They escaped the normal political competition and debate. Their leadership were usually careful to claim only technical or law-bound competence and to circumscribe their statements to issues deemed non-political. But their very existence was based on prior casting of essential policy choices. Thus, for example, the establishment of an independent central bank removed credit control from the government, just like the creation of the European Coal and Steel Community (ECSC) took over the power to vet merger and acquisitions, undermining some of the very basis of state 'industrial policy'. Likewise, a council of economists put the science of markets above almost any other social consideration.

In social market governance, independent administrations played a crucial role in withdrawing from the partisan debate whole pieces of policy, most notably issues concerning money, prices, and international trade. What fuelled the economic programmes of interwar populists – the double act of reflation and protection – was increasingly out of reach of postwar governments thanks to the outsourcing of the relevant policy domains.

Three specific organisations exemplify these trends wells: the German central bank; the European Commission; and the Council of Economic Advisers. I will discuss each of them in turn. The German central bank was the most important and consequential of them. While I explored earlier the historical setting of its establishment and its institutional legitimation, I will here look at its modus operandi. The European Commission had a forerunner in the

High Authority of the ECSC. And the Council of Economic Advisers also institutionalised objective, 'scientific' counsel in German governance.

Central bank as referee

The BdL is the mother of all of the FRG's independent administrative bodies – born before the Republic itself. I will argue that the bank contributed to the eventual success of the social market because it took part in the broader governance process. The added value brought by the bank to the Bundesrepublik AG was not that of a siloed manager of monetary affairs, but its role as a referee in economic policy helped establish the rules of the games accepted by most. This holistic role, not captured by economistic research, must be credited with West German economic achievements in the postwar period. The BdL of the 1950s is close to my ideal type of the expert state on four counts:

- It had a set strategy for the West German economy that went a great deal beyond its legal remit: the promotion of an export-led growth model.
- It produced an analytical framework that shaped wider debates on policy.
- It influenced other power centres.
- It enhanced its public legitimacy and legal independence.

The BdL intelligently leveraged the credibility brought by its autonomous status by adopting a policy of active communication, which was aided, in turn, by its extensive research operations. In sharp contrast, other central banks tended to communicate their views privately or only within specialised forums, generally away from the spotlights of the media and public debate. These central banks' closeness to the financial industry, in Paris and London, may have further impaired their capacity to communicate with a broader public.

The BdL's monthly reports and public speeches of Vocke were a platform that engaged public opinion, social interests, and the government far beyond its narrow financial remit, and was backed by the best available data on the West German economy. In these reports and speech, the bank regularly discussed trends in employment and wages in an argumentative fashion, building its authority in public opinion, as testified by the 'Kanzler der Deutschen Mark' title awarded to Vocke by *Der Spiegel*.

In the wake of the currency reform, the BdL took pains to argue that the actual buying power of wage earners had increased compared to the late 1930s and to the period before the reform (January 1949 report). It often stressed the link between productivity and growth in the standard of living, and warned against focusing merely on increases in nominal rather than real wages (July 1950).

Early in the 1950s, the bank argued that unemployment was structural since workers could not move at will from one branch of production to another (July 1950). It further argued that structural unemployment could be eased by investment in industrial and infrastructure 'bottlenecks' (slowing growth) and by special measures targeted at refugees, rather than by easing credit (December 1950). The bank commented regularly on wage accords, indicating whether it thought they were in line with productivity trends or unjustified on economic grounds. For instance, in October 1950, it approved a wage deal for miners that would, in principle, enhance productivity. The following month, however, it expressed worries over wage increases in chemical, metal, and textile industries. A few months later, it singled out trade unions' denunciation of contracts when negotiating for higher pay deals, which the bank regarded as inflationary, including in the building industry and mining sector. The bank was especially worried about wage deals that *anticipated* price rises and which could, it argued, initiate an inflationary 'spiral' (March and April 1951).

The role of outside referee gained strength throughout the 1950s. In November 1960, Chancellor Adenauer commissioned a study 'to consider the scope for wage increases in 1960' from the Bundesbank. In January, its president, Karl Blessing delivered a memorandum that came to bear his name. The note called for moderation in wage claims, disclosing a 3%–4% productivity growth forecast. Adenauer then held talks with employer associations and trade unions, which he concluded with an open letter quoting the Bundesbank forecast (Fellner et al. 1961).

The bank also weighed in considerably in the debate on trade liberalisation. Still, in the early 1950s, when protectionist options were being advocated, the bank nevertheless argued for trade liberalisation, West German price competitiveness, and export-led growth. In December 1950, it defended the government's decision to not suspend liberalisation. When the unexpected new deterioration of the balance of payments led the government to do just that in February, the bank stood by the government because it made a commitment to a fast resumption of the process, stressing that it 'remains the objective of German commercial policy to achieve equilibrium in the balance of trade and payments at the highest possible level' (January/February 1951), repeating the same commitment of 'the German Federal Republic' in March, as if the bank spoke on its behalf.

Public advocacy was central to the BdL's relationship with the government. The bank believed that a coordination of monetary and fiscal policy was necessary to maintain low inflation. In his May 1951 speech, following the agreement with the government on the Transition Law, Vocke stated:

> The question may be asked *whether the Central Bank has the power* to prevent inflation *at all*. My answer is that it has this power, as long as the finances of the Government are conducted in an orderly and conscientious manner. . . . We have orderly finances and we have a Finance Minister who stands firmly on the side of good order.

He then issued a veiled threat: 'The truth is that a Central Bank which is determined to defend the currency has in its hands very powerful weapons, which can at times be made extremely unpleasant' (reproduced in the April 1951 BdL report).

The bank was monitoring budget balance and fiscal policy and offering advice for the latter consistent with its own stance. In November 1950, it argued for tax increases that were 'now a matter of urgent importance'. It was attentive to the government's international commitments, as well as those made to the EPU in 1950. In 1955, the bank was concerned with the loosening of fiscal policy, as it thought that the government was about to spend its way to the 1957 elections using the funds set apart in the 'Juliusturm' for rearmament (Holtfrerich 1999). In August 1955, the bank increased its discount rate by 50 basis points and announced through the press that this change was a 'warning shot' addressed to the government.

It was possible for the bank to appoint itself as a fiscal watchdog only because of the broader agreement it enjoyed with the government on economic policy. This demonstrates a division of labour within a purposeful and co-operative enterprise. The central bank produced non-partisan policy advice and thus legitimacy, whereas the government accepted public remonstrance on its budget. Early on, the bank framed its analysis in recognisable social market terms. In its February 1949 report, it triumphantly describes how a period when 'profits could be made quite easily' had given way to a new era when, to generate the same returns, the economy has 'to accomplish higher performances', to 'administer its resources more economically', and 'to care more about the consumer supply'. It noted that 'the consumer . . . has the feeling that there is sense in working'.

Likewise, the Bundesbank became an active player in the debate over the revaluation of the deutschmark in 1961 and 1971, even if it was not in charge of the exchange rate (Holtfrerich 1988).

The ECSC high authority and the European Commission

The creation of an autonomous supranational economic regulator proved to be for trade what the independent central bank was for money. But unlike the independent central bank, which had antecedents to build on, the predecessor and model of the European Commission, the High Authority of the ECSC, when created in 1952, was an unprecedented institutional object. There were historical examples in a domestic context, but these were exclusively American, starting with the 1887 Interstate Commerce Commission.[1] The creation of the High Authority was a decisive historical innovation from which emerged the modern European regulatory state.

The ECSC High Authority represents a fascinating Franco-German convergence. For the French, it was the ultimate avatar of a postwar policy that initially sought some form of control over German heavy industry, a policy that brought about the postbellum International Authority for the Ruhr.

But the 1950 plan that set out the building blocks of the ECSC, issued by the French Foreign Minister, Robert Schuman, was moving away from revanchism and international control over German industry, and toward a scheme supporting joint-European control. The internationalist Schuman thus killed off the last French hopes for some sort of German reparations.[2] His plan aimed at preventing the return of a militaristic leverage of German heavy industry, and did so by establishing a common market for coal and steel, while securing supplies for French industry.

Meanwhile, the Germans were focussed on ending discriminatory treatment against them, and the tutelage of the International Authority of the Ruhr with its quotas and administered prices. The Bonn government also sought to leverage a new international body to legitimise the new republic. The Germans could easily understand the ECSC's status as ceding sovereignty to a supranational body, consistent with an option opened by the Basic Law's Article 24. But the idea generated many debates in unitary France. Strong opposition to 'supranationality', as testified by the parliamentary rejection of the European Defence Community in 1954, eventually led to a change of vocabulary in the negotiations of the 1957 Rome treaties: 'supranational' was abandoned in favour of 'Community' and '*communautaire*', and the executive body became a Commission rather than an Authority.

Nevertheless, both sides regarded the project as a first step in a still nebulous European unification process. The ECSC institutional architecture undeniably had the profile of *un État en devenir* with its executive (the Authority), head of state (council of ministers), court, and parliamentary assembly, all of which prefigured the European Union's layout (Bitsch 2007). The compromise was reached on a legalistic frame – the executive body cannot take arbitrary decisions – with the implied check and balance institutional system.

There was thus a convergence on 'objectivity', on the non-partisan nature of the supranational body, as stressed by Monnet when he wrote that 'the independence of the High Authority from governments and relevant interest groups is the condition for the emergence of a common vision, which neither governments nor special interests can entertain' (Roussel 1996, 542). The Authority's first president, Walter Hallstein (1951), pointed out that the new 'constitutional' Court of Justice was the 'guardian of the objectivity of the High Authority'. In 1955, during the negotiations that would lead to the Treaty of Rome, a Messina Conference Committee working document stated that the common body (the future Commission) would be given the duty to 'define objective positions' (Uri 1989).

The ECSC marks two major governance innovations that were not quite noted at the time. References to 'objectivity' signal that the Community was a major step in transforming issues of trade and economic management into technical, non-political issues. It also marked the import into Europe of the concept of an autonomous regulator. This double characteristic explains why, from the onset, the European Commission could be presented as being *both* a proto-European government *and* an administrative agency. Formal democratic accountability was ensured by the council of ministers and the parliament, which shielded the commission from raw politicisation, or exposure to party politics. When Monnet said that the new institutions had 'political objectives', he meant that their participation aimed to pave the way for further European integration. I am not sure if he understood that they, as a result, also participated in a reframing of the institutional systems of the European states by redefining what was in and out of the political debate – i.e., by excluding trade and a range of economic issues.

There was also a substantial policy debate about the Schuman Plan, which pitched a dirigiste France against a liberal Germany. This tension is well conveyed by the contrast between Monnet's war economy-style planning and Erhard's social market. Two policy goals were allowed to bridge the Rhine: competition and productivity. Crucially, these happened to be seminal for the future of the European regulatory state. Monnet wrote that 'the general objective of the High Authority can be summarised in the rise of living standards through the increase in productivity. All the tasks attributed to it derive from this principle' (Roussel 1996, 543). These policy goals addressed French worries about facing 'unfair' competition from low-wage rivals, and German fears of dirigisme, because the latter would be used exclusively to stir firms towards higher productivity business models. In a telling example, the French referred repeatedly to the need for the High Authority to have powers to close unproductive units. André Philip, a prominent French Socialist, explicitly contemplated such an outcome, one that would allow the reallocation of resources to French manufacturing away from mining (Shaev 2016). Meanwhile the French were happy to subscribe to the idea of competition because they feared conspiratorial cartel-like behaviour in Germany. The French were not especially fond of competition per se, but parts of the German government like Erhard were. The underlying originality of the compromise was to harness vigorous public powers to *build* a common market.[3]

The ECSC treaty was ratified despite strong opposition from both the right (on free-market grounds) and from Social-Democrats (on nationalist grounds). The SPD also shared IG Metall's fears of the risks posed by the treaty to the vertical integration cartel model of the Ruhr. Both organisations thought that Communists would experience a resurgence if the Communists were the lone group to oppose this plan. In France, Communists and Gaullists opposed the treaty, which was ratified thanks to votes from Christian democrats, radicals, and Socialists from the SFIO. The latter decided to support French manufacturing industries against mining. SFIO leaders from the mining north, including Paul Ramadier, voted for the ECSC treaty despite their misgivings, apparently out of European convictions and anticommunism. The main French trade union, the Communist CGT, was strongly against. Industrialists in all six founding members opposed the treaty and especially the powers of the High Authority. Likewise, concerned interest groups opposed it. The treaty, then, was purely a product of state leadership (from Le Monde coverage 31/1, 21/3 and 9/4 1951; Shaev 2016).

The new European institutions of the 1950s, however, were to prove more consequential because they induced domestic actors to change their behaviour – although this is apparent only with the benefit of hindsight. The international organisations curtailed member governments' freedom of action and provided a referee. As irrevocable state commitments, they supplied governments with a strong argument to defend structural measures to adjust to trade opening. The policies favouring competition and productivity gained the status of being 'scientific', unpartisan goals. The international organisations were also a source of non-political opinion that helped, at times, to justify policies – as in the 1950 EPU report episode (discussed below). Like domestic institutions, these international authorities were not created to directly handle societal tensions, but they did provide a way to exfiltrate some issues from the partisan and distributive debates in national politics.

The Council of Economic Experts

In a country where law and jurists used to dominate, the rise of economists and economic science in the public sphere was a spectacular consequence of the turn towards objectivity. The proponents of the social market economy were especially keen to seek apolitical support and legitimation for their choices from economists. The 1950 report commissioned by Adenauer to Wilhelm Röpke is a prominent example (Röpke 1950). This search for 'scientific' support by economists was eventually institutionalised (in this section I draw from Giersch et al. 1992 and Nützenadel 2005).

In the 1950s, few official sources were participating in the economic debate, which ensured that each intervention was noticed. The Ministry of Economics' Advisory Council (BMWi), created in early 1948 at Erhard's initiative, was the main economic brainstorming centre of the federal government, but it also had a somewhat political remit as a government advisor.

From the early 1950s, as Adenauer sought to engage the labour movement (despite Erhard's misgivings), there were discussions concerning a possible Federal Economic Council that would have been a considerably attenuated national codetermination body in which both unions and employers would sit. In the mid-1950s, the SPD and FDP put forward projects of a committee that would annually report to parliament on economic policy. At the SPD, there was an underlying idea of planning, at the FDP, a task of arbitrating industrial relations disputes. Neither of the two projects gained Bundestag approval, as Adenauer was still manoeuvring around the idea of a Federal Council. Some contemporaries associated this plan with the American Council of Economic Advisers created in 1946 by the Full Employment Act, even if the relative politicisation of the American council was deplored.

Erhard put forward the project of an economic advisory panel as an alternative to the Federal Council. He failed to gain approval from Adenauer, who was afraid of a body taking policy-making out of his hands and those of the government. The union federation DGB and the peak business association

BDI had reservations, too. The project was re-launched by Erhard in 1962 when he had more sway due to Adenauer's planned retirement. Erhard worked to build a large political and societal consensus. He notably gained the approval of Georg Rosenberg, the economist who was elected chairman of the DGB in 1962, by promising to include in the council someone close to trade unions. Parliamentary approval came in summer 1963 thanks to SPD support.

The *Sachverständigenrat* statutes aimed at ensuring the body's effective independence. Members are appointed by the government, including one suggested by the BDI and one by the DGB. At least one of the other members is close to the main opposition party. The Council was allocated dedicated research staff at the Federal Statistical Office and members receive generous expense allowances. All government departments, as well as regional and local authorities, are required to respond to its requests for information.

The Council's tasks included advising the government and informing the public. The Council stayed aloof by not directly participating in policy debates, and by framing them in rare pronouncements, gaining a somewhat 'religious' respect from the media and politicians. The release of its annual reports had a high profile ritualistic dimension with a widely reported press conference. Reports mixed comprehensive academic considerations with a clear economic message, usually concisely evoked by titles like 'Stabilisation without stagnation' or 'Alternative foreign trade adjustment'.

Publication of annual reports was an issue as the Council sought to maximise impact and display its independence. Under the 1966 arrangement that continues to this day, the reports are published mid-November and the government has eight weeks to respond to them. The new council was repeatedly in conflict with the government when publishing its reports. This was, in part, because it notably argued that the trade surplus may be the key cause of inflationary pressures, and that the best remedy would be flexible exchange rates – an attack on the whole Bretton Woods architecture that the government did not want to consider. But these quarrels with political authorities were, according to its secretary general, a condition for the Council's increased reputation for impartiality.

The establishment of the *Sachverständigenrat* crowned the state's efforts to create a consensus behind the social market economy. Its policy parameters became like constitutional rules. The political swings to a grand coalition in 1966 and to a SPD-led government in 1969 thus did not lead to any significant reassessment of the model set in place in the immediate postwar period.

The independent bodies I reviewed above pioneered an institutional form that has proved historically very successful. The independent central bank is now the global norm. Many multilateral organisations have developed their expertise and advisory capacity that adopted traits of both the German Council of Economic Experts and the European Commission. The OEEC (building on its role in the 1950–51 crisis), the International Monetary Fund (IMF), the North Atlantic Treaty Organisation, and more recently the World

Trade Organisation have each been used as independent sources of policy recommendation by European governments keen to back their decisions with non-partisan counsel.[4]

Other types of autonomous organisations have also proved popular, notably antitrust authorities pioneered by the American Interstate Commerce Commission and, in Europe, by Germany's Bundeskartellamt (created in 1957, see below). The growth of independent administrative organisations took place in parallel with that of judicial review by constitutional courts, another German postwar innovation – so much so that it is difficult to conceive of the former without the ultimate vetting by the latter (extended developments are charted in Rosenvallon 2008).

Peter J. Katzenstein (1987) spotted the impact of 'specific West German institutions that in linking state and society as well as different levels of government encompass political opponents in a tight policy network'. But in bundling together, as 'parapublic institutions', the Bundesbank, churches, and welfare associations, he may miss the uniqueness of the independent state actor as I define it, and may hence underestimate how it can strengthen state authority. His take on the German state as decentralised because of 'the dispersion of state power among competing institutions' downplays the importance of the underlying legal and ideational cohesiveness.

It has often been argued that Germany has accepted the multilateral rules of the EEC more easily than other European countries because of its existing familiarity with federalism. There is surely truth in this, but the prior existence of independent administrative organisations within the country may be a complementary explanation.[5] These independent bodies constitute the main difference between the Federal Republic's technocracy and that of French Fifth Republic that I will explore in Chapter 6. With its tradition of a strongly centralised, unitary state, France has embraced autonomous administrative bodies later and often reluctantly.[6] The apolitical, expert role has often been handled by agencies lacking policy autonomy (Insee, the Plan), which are more easily plagued by suspicions of partisanship than are the independent German agencies. The latter's part eventually came to be played by the European institutions.

Autonomous state agencies, alongside technocratic centralisation of decision making, and the rise of 'objectivity' as a policy rhetoric, all underpinned the social market message. We can illuminate how the new governance worked by closely examining two episodes in the 1950s that challenged the core policies of trade opening and low inflation.

New governance tested: the Korean War balance of payments crisis (1950–51)

The outbreak of the war in Korea in June 1950 produced a rapid deterioration of Germany's balance of payments, which, like other European countries, had been in deficit since the end of the Second World War (the 'dollar shortage'). The economic revival following the 1948 currency reform increased both imports and exports, but increased the deficit. In the first half of 1950, the deficit contracted rapidly as imports decreased (partly because importers delayed some transactions, expecting prices to fall) and exports steadily rose, but as soon as war broke out prices of imported commodities increased sharply as consumers and producers started hoarding, pushing up imports and the deficit. A government stimulus of DM400 million, decided in the winter when growth had weakened, fed into German's buying power when disbursed in the summer when overheating was already a threat (Cairncross and Jacobsson 1950).

The crisis severely unsettled Erhard and his policy package – he was 'forced . . . into a corner' (Van Hook 2004, 213). No key aspect was spared attack by a wide spectrum of critics: trade liberalisation, tight money and the view of unemployment as structural, the primacy of consumption, and a market-driven approach to investment. Erhard bent but did not break and, by 1952, the social market project was running largely unscathed, extra strong in having withstood the challenge. This episode highlights the combination of technocratic governance, executive power, and ideational leadership explored in this book.

In October, as it realised that Germany's borrowing line with the newly created EPU was running down, the central bank took measures to cut credit issuance to business, aimed at slowing imports growth, and raised its main interest rate. Adenauer was fiercely against the raise because he was afraid of 'general political turbulence', including demands for higher wages, as noted earlier. To influence the bank, he held the council meeting, which was due to consider the hike, at the chancery, where he was backed by finance minister Schäffer. But Vocke, supported by Erhard, remained inflexible, and a majority of the BdL board followed him. Regardless of the legal context, it is difficult to imagine such a rebuke to a democratic head of government by a central bank board anywhere else at the time.

The government adopted a number of administrative measures to weaken import growth without reneging on the liberalisation decided a year earlier. West Germany requested assistance from its OEEC partners within the EPU. The latter commissioned a report from two independent experts, Alec Cairncross and Per Jacobsson, delivered in November, which broadly endorsed the government's policy and laid the ground for a special $120 million credit to West Germany to be repaid by June 1951.

The expected betterment of the trade balance, however, took longer than expected and the external pressure increased in February when the People's Republic of China entered the war. This prompted new panic purchases, by which time the extra EPU credit was exhausted. The German government, against Erhard's advice but with Vocke's blessing, suspended trade liberalisation, returning to quota imports for all product categories.

Meanwhile, pressure mounted for the government to act to increase investment in the steel and coal industries, which were struggling to meet booming international demand from weapon manufacturers. Tensions increased in March when the American high commissioner, John McCloy, wrote to Adenauer asking for a change of policy, for direct intervention in the economy to suppress 'excess' consumption, and for pilot investment in heavy industries. Milton Katz, the head of the Economic Cooperation Administration (ECA), accused the German government of 'Schachtian policies' – deliberately running a deficit to extract tariff concessions and subsidies from creditor countries.

The crisis reached its political peak in April when the government was about to endorse a plan by Schäffer that included a special consumption tax and the creation of a state-led investment fund financed by a levy of 25% on corporations' depreciation charges. Erhard strongly opposed the plan as a dirigiste ploy, even if he thought that some investment stimulus was necessary, albeit through 'market-conforming' means. Erhard managed to outmanoeuvre his rivals by prompting an offer from the BDI of a 'voluntary' contribution to finance heavy industry investment – in other words a financial transfer from the freed, very profitable consumption sector to the price-controlled, cash-starved coal and steel producers. The business group rapidly organised an industry committee with trade unions to oversee contributions. This was formalised and complemented by a January 1952 law – the *Investitionshilfe Gesetz*. The initiative, initially unpopular amongst business, proved to be the BDI's most successful postwar PR move since it considerably helped the public metamorphosis of entrepreneurs from Nazi supporters into economic miracle heroes (Grünbacher 2017).

The balance-of-payments problem was rapidly overcome because imports plunged in the second quarter of 1951 – thanks to the suspension of trade liberalisation, which happily coincided with the end of the global inflation sprout. The EPU special loan was repaid by May and the new balance-of-payments surplus allowed liberalisation to be resumed by January 1952, when 60% of products were taken out of quotas, rising to 75% in April.

A second issue brewed in the shadow of the payment crisis: inflation. The rise in international and West German wholesale prices started spilling into the retail sector in early 1951, prompting many trade unions to denounce existing contracts and to call for wage increases. A deterioration of workers' buying power at the beginning of the year (partly due to a decrease in hours worked) reinforced unions' sensitivity to the issue. The cost of living had decreased in the first half of 1950, after which the trend turned positive again and accelerated in early 1951. There were worries of a cost-wage spiral kicking off, notably at the BdL. In March, the SPD and unions demonstrated for lower prices, one banner reading 'Lower Prices – Erhard – Go' (*New York Times* 23.03.1951).

The government and the BdL were critical of the ease with which employers granted wage claims under the assumption that they could be recouped by price increases. In February, Erhard warned business against anticipating inflation. Measures were taken to increase food supply, short of direct price control. Starting in April, a committee of unions and employers' organisations, spurned by Adenauer, elicited from both sides commitments for stable prices and 'appropriate wage policy'. Ultimately, these efforts worked and retail prices stabilised in the fourth quarter of 1951 before entering a decline cycle.

Overall labour wage claims remained sustainable during the inflationary period. Unions seemed to share the views attributed to business by Erhard, 'that the employers have it in their power to raise prices and wipe out any gains the workers might thus make' (White 1950). An often-repeated explanation treats high unemployment as the cause (Kindleberger 1967), but the BdL (December 1950) analysis shows that the problem was structural, as the unemployed did not have the right skills and were not in the right areas, so the supply reserve was low. A more compelling explanation can be found in union leadership's focus on the battle for codetermination, to the point of downplaying wage demands. More broadly, wage claims moderation could be attributed more to the unions' weakness than to any form of social settlement or labour market slack (Carlin 1996, Wallich 1955).

In this crisis, the defenders and opponents of the social market policy package provide a fitting contrast to each other. Defenders of the market liberalisation were smaller in number but more coherent and had the argumentative upper hand – which proved crucial in winning the battle. The BdL, the EPU, the IMF, the Organisation for European Economic Co-operation (OEEC), and the BIS all converged on an analysis consistent with Erhard's and the BdL's. Whereas the broad opposition was more clearly driven by (diverging) political agendas and displayed weaker intellectual strength – including the nationalistic SPD and the nominally Keynesian United States administration. The debate was between the experts and the rest.

Perhaps the most extensive exposition of the experts' argument was in the Cairncross and Jacobsson report of November 1950 that laid the ground for the $120 million special assistance granted to West Germany the following month. In it, the two authors explain that employment growth was generated in 'very large proportion' from export growth and that this mechanism was to be the main one to expect a decrease of unemployment from. To sustain export growth without overheating, they argued that some curtailment of investment is unavoidable, to apply 'a brake' on demand growth and to maintain a balanced budget. Conversely, they rejected 'deficit spending' because it would undermine exports and thus the capacity to import essential commodities. The authors believed that restrictive credit policies associated by restraints in public sector spending could be enough to stabilise imports while exports growth would allow the balance of payments to turn positive. Revealingly, they pointed out that

> present conditions are the reverse of those which prevailed in the 1930s, when world demand was weak and, in order to raise the level of employment, countries were increasingly thrown back upon the domestic expedient of public works and internal financing.
>
> (Cairncross and Jacobsson 1950)[7]

Commenting approvingly on the measures taken in September–November, the authors used arguments and phrases similar to those of the BdL:

> The main reason for taking financial action (instead of imposing quantitative credit restrictions) is obviously that, if such action is successful, it will establish the foreign trade of Germany and, at the same time, the foreign trade of its commercial partners at a higher level than would otherwise be possible – a development which would have a most favourable effect on employment.
>
> (ibid)

This leads them to call for a 'co-operative attitude' towards German exports from other nations. On this basis, they supported the granting of 'temporary assistance' to Germany of $100–200 million.

In its monthly reports, the BdL extensively discussed the high unemployment problem in terms consistent with Cairncross and Jacobsson. It stressed that 'structural' unemployment was partly to blame on 'bottlenecks' in the German economy (and not on credit restrictions), which could be lifted only through sectorial investment. It blamed price controls on coal and steel that made these sectors unattractive to investors, it also called for an increase in savings and the 're-establishment of an efficient capital market' to reduce the incentives to pour back all profits into one's company, under the premise that it was conductive to better capital allocation for business to access funding on the financial markets. The bank also stressed that unemployment could be reduced only gradually, by higher capital stocks, and by refugees relocating to more suitable areas and upgraded their skills to the actual demand.[8] In a May 1951 speech, Vocke rousingly praised the EPU (BdL monthly report of April 1951).

The IMF had an even more restrictive view of European economies as it argued in its (September) 1950 annual report for cuts in investment (thus in domestic demand) to allow for faster export growth. In its 1951 report, the BIS approvingly reviewed the measures taken by Germany, pointing out that, if successful, 'foreign trade would have been established on a higher level than would otherwise have been possible', which is the same argument used by the BdL and Cairncross and Jacobsson. The OEEC (1951) took positions consistent with these, calling for restraints on demand, public spending cuts and tax increases, encouragement of saving, curbs on consumer credit (including real estate), and postponement of investment. These views are now endorsed by the modern consensus. Harold James (2003), for examples, states that 'the Jacobsson/Cairncross course proved to be completely correct'.

Critics reused arguments they had put forward in the winter of 1949–50 when the economy slowed down. The SPD was the leading opponent of the social market, and it retained a consistent, traditional socialist position throughout the period (including the August 1949 elections). It called for state planning and control on prices, even if this was given a nationalistic, Allies-hostile colour by chairman Kurt Schumacher. The SPD also drew on arguments put forward by German Keynesians such as Erich Preiser, who proposed to stimulate demand by monetary and fiscal financing of state-planned investment. Besides its lack of consideration of the structural dimension of refugees' unemployment, the striking weakness of this position was its ignorance of international constraints, both economic – the need to export to finance essential imports – and political, primarily the Allied goal of a trade-led re-launch of European economies that assumed growing West German imports.

Aside from unemployment, workers' buying power was prominent in the SPD's misgivings, with the claim that wage growth was inferior to that of the cost of living. But this was true only in the first quarter of 1951, when real weekly industrial earnings declined 4%. Before and after that period, growth was steady, except for occasional flat quarters. In December 1950, real earnings were 32% higher than in March 1949[9] (the oldest date for the series; BIS 1951). Reliability of the price statistics was discussed, however, as inflation of items not covered was probably higher than for items covered. Fast increasing wages also indicated that the unemployed manpower was not immediately available for the industries experiencing growth. Trade unions, focussed on the codetermination issue, did not engage much in economic policy debates, which was regarded as the preserve of the SPD (Markovits 1986, see below).

Perhaps the most significant critic of the Erhard-BdL line was the US government. The ECA was preoccupied by the consumption boom created by the currency reform, which featured some conspicuous display, as it noted in its February 1950 report exposing a negative view of social market policies. The ECA was less research-driven than the above international organisations, as it was operating under political authority, that of the United States High Commissioner in Germany, John McCloy. The Administration believed that excessive luxury imports reflected an unbalanced distribution of income that was also responsible for underinvestment and thus high unemployment. The ECA asked the West German government to implement expansionist fiscal and monetary policies.[10] This criticism echoed the more academic condemnation from the Oxford economist (later) Baron Balogh, who had earlier denounced 'a co-existence of savage hardship with detestable excesses of luxury' in a report to the Fabian Society (1949). These arguments were thoroughly dismissed by Cairncross and Jacobsson, who showed that 'imports of non-essentials [are] not in quantities which materially affect the trade balance'.

In March 1951, the ECA issued a new report on the refugee issue that made broader analysis and recommendations regarding the West German government's economic policies. The Sonne report (whose name derives from the investigation commission's president, H. Christian Sonne) took a moralistic tone to attack most aspects of the social market agenda (ECA 1951, Grosser 1978). The American government's critique of West German policies was also motivated by the occupier's eagerness to see the country contribute more to the war effort, as testified by a March 1951 McCloy letter to Adenauer sent at the height of the crisis (Schwartz 1991). But the government tilted its policy just enough to buy time and let it return to its prior shape as soon as feasible.

Erhard won his Korean War battle. The twin policies of stable prices and export-led growth remained the economic paradigm of the Federal Republic (a conclusion also arrived at by Van Hook 2004). I venture that some key reasons for why the social market survived the Korean episode include its proponents' capacity to call up support from non-partisan authorities and, relatedly, their superior engagement with ideas. In the autumn of 1950, Erhard could quote from the Niederbreisiger Kreis group of economic experts from the government's coalition in the Bundestag, the Economics Ministry's expert advisory board, and the Wilhelm Röpke report commissioned by Adenauer.

The BdL's autonomous decision-making, demonstrated in the October 1950 clash with the chancellor, alongside its unique expertise, notably as the best regular source of data and analysis on the West German economy,[11] were constitutive of its growing authority in the public debate, as I discussed in Chapter 2. The bank could play the part of the social market watchdog, explicitly quoting government official policy when trying to curtail credit and spending and to remain open to imports. For example, in its December 1950 report, the BdL explained that easing access to credit would affect exports and thus undermine rather than stimulate growth. It stressed that 'this is the reason why the Federal Government decided last autumn not to depart from the policy of liberalisation'.

Erhard defended staunchly the social market package: 'there is no question of changing direction. . . . I will not be impressed or driven off the road', he said in a 1951 public debate (Erhard 1963, 148). Adenauer saw this attitude as 'dogmatic',[12] but the pragmatic chancellor may have underestimated the long-term value of a complex and consistent ideological stand. In other words, Erhard had established new grounds for the policy debate. Having strengthened and legitimised the social market bundle since 1948, Adenauer could dissociate himself only if he advanced a credible alternative, supported by 'objective' independent sources.

As seen with the BdL's approving references to Germany's commitments to the EPU, this nascent institutional-cum-ideational governance was imbricated with the new postwar multilateral system. West Germany's international obligations were regularly referred to by the government to justify policy choices. In this episode, the international organisations started playing a crucial role in domestic politics as ultimate technocratic referents[13]; in exchange for special support, the government agreed to have its policies reviewed by its peers. In 1950 and 1951, West Germany was granted exceptional credits and suffered no trade sanctions despite its suspension of liberalisation. This crucial postwar innovation was to experience an enormous expansion within the European Communities and then Union.

During the whole Korean War inflation cycle of June 1950 to March 1952, Germany recorded the lowest cost of living increase of the large European economies with 13%. Italy did well with 14%, but this was the same rate than it experienced with wholesale price inflation, whereas West Germany had supported a 30% wholesale increase. The United Kingdom, which suffered the same 30% wholesale rise, recorded a 17% cost of living increase. France, which went into a full inflationary spike, had rates of 44% and 38%, respectively (BIS 1952).

The better German performance cannot be attributed to a national pay settlement by disciplined trade unions – there was none. Nor did it result from unilateral credit restriction of the central bank that, through bankruptcies and unemployment, would have constrained employers and unions to scale down pay rises. Total employment stagnated from September 1950 to March 1951, and started rising strongly from then on until the third quarter; seasonal factors were important, but crucially total (wage) employment throughout 1951 was 500,000–900,000 higher than the previous year (BdL December 1951). The social market had withstood its first stress test.

The 1955–56 boom and cooling off

In 1955, inflationary pressures started ramping up again in West Germany. The cost of living, flat in 1954, grew by 1.4%. By the third quarter, wages were rising at an annual rate of 14% against 6% a year earlier. Since 1950, total employment had grown 24% while unemployment had fallen from 1.6 million to 900,000, with sectoral and geographical labour 'shortages' appearing. The inflation spike – peaking in the first half of 1956 at 4% – ultimately proved quite limited thanks to BdL measures to restrict credit and to several government initiatives to defuse localised upward price pressures. By September 1956, the BdL initiated an interest rate cut cycle. Growth in real GNP (the measure mostly used at the time), reaching an unsustainable 10.7% in 1955, eased to 7.1% in 1956.

The episode features key state actors following an autonomous agenda negotiating changes in behaviour with groups – unions wanted a continuous rise in buying power, while business was ready to superficially accommodate it through inflation. The BdL ignored businesses' opposition to measures to cool off demand, while Erhard pushed for further import liberalisation to reduce prices. These initiatives added credibility to the state's anti-inflation commitments. Ultimately rigorist economy and finance ministers Erhard and Schäffer could engage unions increasingly sharing their low inflation paradigm instilled since 1948 (as shown in Chapter 4). Erhard and the BdL were in a good cop-bad cop act, the first seeking to convince interest groups to curtail unsustainable growth, which, if ineffective, would be achieved by the second deploying coercive measures (Erhard 1958). Adenauer, favouring a social settlement approach, was marginalised.

Early in 1955 Erhard was on a consumerist crusade, pushing a theme that underpinned his political message from 1948. The minister was calling for 'people's' refrigerators and washing machines (*Volkskühlschränke* and *Volkswaschmaschinen*), urging German industry to ramp up mass production of household durables. This campaign was obliquely criticised by the BdL because production and consumption growth prospects were already very good, and the bank was afraid of a negative impact on savings. But the minister was concentrating his attention on the cheaper end of the market, openly endorsing low-price competition and encouraging imports to pressure domestic producers. Erhard skilfully used consumers' interests as the main argument behind a drive to accelerate import liberalisation (Giersch et al. 1992).

By the mid-1950s, liberalisation had mostly run its course as a trade opening process. In 1956, only 8.5% of intra-European imports still faced quotas in West Germany, mostly in line with its largest partners. However, West German liberalisation was much more advanced for American and Canadian imports, of which only 9% faced quotas, against 89% in France, 76% in Italy, and 44% in the United Kingdom (EPU 1956).[14]

Erhard had enacted three major waves of unilateral across-the-board tariff reductions, a policy supported by the SPD, whereas Bundestag members from the governing coalition asked for sectoral exemptions. In 1955, temporary cuts were made on consumer goods and agricultural products, expiring in mid-1956. At that point, Erhard made most of the reductions permanent and decreased duties on most industrial products by 25%. In 1957, with the prospects of further cuts, industrial sectors, which sought to be included on the 'protection list' of products for which tariff was not to be reduced, pleaded with Adenauer. The chancellor pressured Erhard on their behalf, leading the Bundestag to enact a 25% cut instead of the 50% envisioned initially, but sectorial exemptions remained limited.

Erhard took other measures as a part of his 'psychological' drive to prevent the emergence of inflationary expectations. In May 1955, he launched an initiative to facilitate private imports from consumers through mail order, which did not have much impact on actual trade but nevertheless led to hostile industry reactions. The following year, for the first time his ministry used powers from the Allied-enacted Cartel Law to make a few high-profile interventions, including a ban on retail price-fixing by producers of films for cameras. This measure intimidated producers in other sectors to postpone planned price rises. Erhard was also leveraging public opinion to support his antitrust bill under scrutiny by the Bundestag, and which was strongly opposed by industrial interests, notably on the issue of retail price fixing by wholesalers.

The BdL started its tightening cycle in August 1955 when, for the first time since 1950, it increased its discount rate and minimum reserve requirement. It cited sectoral bottlenecks, a 'climate' (used in quotation marks) more favourable to price increases, and 'wage increases . . . on a scale that exceeds the possibilities of lowering costs through improving productivity' when there is 'ability to pass higher costs on to the buyer', hoping that the rise would be enough, which would be the case if capital expenditure was reined in and wage settlements became more moderate.

Pressures on business to keep prices stable were leveraged in calls to unions for wage moderation. In September 1955, Erhard, alongside the BdL's Vocke and Bernard, held an unprecedented meeting with DGB union officials and IG Metall leaders after a wave of local strikes and high wage settlements (alluded to in the previous month's BdL report). Without gaining any commitment from unions, Erhard launched a new private import initiative, and issued renewed threats of lower tariffs. These were badly received by industrial interests – who presented his initiative as 'psychological' warfare. Erhard's pro-competition approach generated resistance from the minister of agriculture, but gained traction elsewhere. The labour minister Stork criticised entrepreneurs for feeding a boom by over-investing as in 1870–71 and 1923–29. The BdL supported this analysis, stressing again that firms seemed to believe that they can finance growth through price increases. Testifying to the latter's influence on public opinion, in a long *Spiegel* article (13 September 1955) detailing the above, the bank's arguments were repeated as positive truth and 'official statistics' were quoted trustfully, as the magazine points out that they were not challenged 'even by the unions'.

In October 1955, Adenauer brought together the BdL, Erhard, Schäffer, and BDI representatives in a meeting where the first three found themselves allied in criticising industry and proposing measures (including tax increases and imports). In a report, the Ministry of Economics advisory council called for 'sharp restriction on credit expansion'. To the contrary, the BDI was asking for further public stimulus of the economy. Officials from the organisation raised doubts regarding the validity of the BdL's autonomy (the Bundesbank bill was under debate). In December, the BDI's leader Fritz Berg publicly criticised the rise in interest rates. In both instances, the 1930s Reichsbank was quoted as the example to avoid.

In November, Erhard intervened with Brenner, the leader of IG Metall, to plead for further negotiations with employers before calling a strike. To support his effort with unions, he convinced Schäffer and the cabinet to increase subsidies to milk producers to prevent them from raising prices.

The German Farmers Association had increased pressure on the government by contemplating possible production 'strikes'.

Tensions between the BdL, supported by Erhard and Schäffer, and employers supported by Adenauer, peaked in May 1956 with the Gürzenich meeting, when the chancellor openly criticised the BdL, only to find the bank nevertheless acting on its interest rate rise threat two weeks later (see Chapter 2). Policy-wise Adenauer was defeated, even if he may have prevented the BDI from turning against the CDU. 'The most remarkable fact of the economic situation of those months was that my close collaboration – or rather agreement – with the Central Bank was by no means generally approved', Erhard (1958) euphemistically wrote concerning this incident.

In explaining its May 1956 interest hike the BdL stuck to its productivity-based argument when addressing pay rises. But it was also attentive to criticisms by business and Adenauer, responding that 'contrary to an opinion expressed in some quarters', interest rates are still an effective instrument. The bank directly confronted opposition by pointing out that if rates had as little an effect as claimed, the reaction against the rise would not be that strong. Crucially, the bank was arguing that it needed *to create pain* for some businesses. Besides, the bank argued that squeezing credit would not hurt exports; further increasing capital investment at that point in the boom would only exacerbate tensions (in line with what it said in 1950–51). Finally, in an understated call for government initiative in this matter, it refuted the most politically potent arguments that small firms would suffer most, stressing that the economy was not in a concentration process (as Marxist analysis would have it), and that credit policy was not the right instrument to support the weakest businesses.

The tension between the BdL and the chancellor revealed that the workings of central bank autonomy were more sophisticated than the dominant model would have it. As predicted by the consensus theory, the bank behaved in a 'time-consistent' manner by ignoring interest group pressures which would drive the politician in the short-term electoral cycle. However, the bank also participated in discussions with interest groups in alliance with ministers, which was a plausible factor in undermining an incipient wage-price spiral. The bank's authority was considerably enhanced by Erhard's guerrilla war against business price increases, which much strengthened the credibility of BdL calls to unions and businesses for wage moderation. Unions were simply deprived of the price rise argument for higher wage claims. The productivist and consumerist frames of analysis from the BdL and Erhard, respectively, had a considerable influence over the policy debate in a clear illustration of ideational leadership.

To wrap it up: in both 1950–51 and 1955–56, the emblematic policies of the social market – low inflation and trade opening – gathered rising opposition. The alliance of Erhard and the BdL managed to stay on course thanks to deploying ideational leadership. Under the new governance, issues were treated as technical problems that called for scientific opinions. The framing of 'objectivity' went hand to hand with the development of expertise-based independent agencies, providing space outside of partisan politics for policy formulation and monitoring – as pioneered by the central bank. The full display of the German technocratic governance materialised with the 1950s' refashioning of industrial relations.

Notes

1 When, in an April 1955 letter, Paul-Henri Spaark, the Belgian president of the parliamentary assembly of the ECSC, proposed that the upcoming European Economic Community be headed by a body similar to the ECSC's High Authority, the French Ministry of Foreign Affairs responded in a note with a reference to the ICC (Bossuat 1997).

2 The 1945 Monnet Plan entertained the project of harnessing German heavy industry to finance French reconstruction (Lynch 1984). Robert Schumann was born a German citizen in Luxemburg and lived in Alsace under the German Empire, which he helped administer during the First World War.

3 It is worth noting that this philosophically ordoliberal or even neoliberal approach escaped Erhard. He conventionally viewed the ECSC as a compromise between dirigisme and liberalism with potential for both policies to be pursued by the new community. Throughout the 1950s debates about Europe, he would tend to prioritise a purely trade liberalising approach against 'new institutions' (1963, 169). This may call into question the claim that neoliberalism as an organised movement was responsible for neoliberal institutions.

4 Following James (2003), it could be argued that international organisations supervising multilateral adjustment programmes can be used in two ways by the national government implementing them: as scapegoats, to which the burden of responsibility for unpopular measures is shifted; or as an external leverage to generate domestic consensus on reform in a stance now usually called 'ownership'. The tension between these two postures runs throughout the postwar period up to this century when, arguably, rejection of the scapegoat model ('we need to reform to meet EU commitments') was behind much of the populist outburst in recent years, such as the 2005 French referendum and the 2018 Italian M5S-Lega coalition.

5 Some allowance must be made to diverging national traditions of the French Rousseauist *volonté générale*-based democracy against Germany's Kantian *Rechtsstaat*.

6 The European Commission's management of the common agricultural policy was the first instance of a proactive usage of an independent technocratic authority to defuse the political debate in France (see Chapter 7).

7 What Cairncross and Jacobsson did not say, however, is that the weak demand of the Thirties was partly a product of political decisions to raise trade barriers and tariffs, and that the outlook for export-led growth in 1950 was the result of active policies to liberalise commerce. In other words, by asking the West Germans to prioritise exports, they were asking them as much to adjust to the world economic environment as to participate in building a new trade-friendly order. It is also noteworthy that with this report, the OEEC took the path opened by the League of Nations in the early 1920s with its structural adjustment programmes in Austria and Hungary. The latter proved so unpopular that no government repeated the experience. Conversely, possibly because local politicians claimed ownership of the measures, the Cairncross and Jacobsson 'money doctor' job (as coined by Schuker 2003) proved such a success that it became the mother

of all subsequent multilateral structural adjustment programmes *triggered by a balance-of-payments crisis*. They typically featured cuts in domestic demand (implying restrains on government spending), and an effort to relaunch through exports – the reviled orthodox 'austerity' – with the corollary rejection of domestic demand stimulation alternatives. Flandreau (2003) explores the roots of adjustment programmes in 19th-century advisory work of foreign bankers and academics, showing how the tentative monitoring role of the League of Nations pioneered the postwar practice of conditional multilateral lending. In the same volume (James 2003), the 1950 EPU intervention is shown as a successful trial for future stabilisation programmes. After his appointment as IMF managing director in 1956, Per Jacobsson would oversee the 1957–58 French adjustment plan.

8 In early 1950, the unemployment rate in rural Schleswig-Holstein was 26% and 59% of unemployed were refugees, compared to rates of 5% and 13% respectively, in urban North Rhine-Westphalia (Giersch et al. 1992).

9 Including a 6% increase in weekly working hours.

10 In 1949, the West German government had submitted to the OEEC a memorandum on the country's economic prospects up to 1952, which was relatively pessimistic – realistic to some – and was a key factor in provoking the ECA calls for stimulus (Van Hook 2004). An internal OEEC assessment of the ECA memorandum endorsed its conclusions and saw higher international financing as the only option for improvement (OEEC 3 January 1950).

11 To exemplify the influence of the BdL reports, it suffices to point out that the Cairncross and Jacobsson report was drawing extensively on data and arguments they published.

12 Tension between the two grew steadily; in March 1951, Erhard even challenged Adenauer to fire him, but the chancellor was not ready to forgo the popularity his economic minister brought to the government (Van Hook 2004).

13 Some form of multilateral supervision of domestic policies took place from 1923 when the Reichsbank was overseen by the BIS and foreign creditors.

14 The percentages are based on the 1949 European imports in Germany and 1953 for imports from North America.

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4 Framing a new exoskeleton for German civil society

From the beginning, the social market programme hit strong social opposition. The greatest challenge came from the labour movement. The reborn and newly unified national trade union, Deutscher Gewerkschaftsbund, and its allied Social Democratic Party favoured a radical project of 'economic democracy' sharply at odds with the neoliberal market-driven model of the governing alliance. The November 1948 general strike could have been a training ground for further conflicts – but it wasn't. Despite significant social tensions in the first part of the 1950s, the left came to sign up to the Federal Republic and its model in decisive meetings: the SPD in its Bad Godesberg congress in 1959, and the Deutscher Gewerkschaftsbund in its 1963 manifesto.

In short, the government *tamed* labour. This was thanks to the state governance that emerged in the late 1940s: the executive chancellery, the long-term growth programme, and the policy credibility brought by the independent central bank. The state reset the agenda of labour, which came to accept the government's framing of policies concerning productivity-led wage growth. Unions initially focussed their claims on 'codetermination', i.e., workers' representation in business management. The government permitted that to occur in the metal industries. This engaged labour and legitimised the idea of codetermination. But the government refashioned the idea, associating labour to companies' management. This had the effect of pre-empting unions from being censors of business, and instead made them partners of management.

Works councils became the sites for key workplace-related debates. This new encompassing institution did not fall into wage-price spirals for it constrained militancy to focus on working conditions, rather than on broader political or social issues. In reaction, unions, followed by employers' associations, centralised wage negotiations. Further regulatory reforms created a legalistic frame for industrial relations. The result was the unique German 'dual system', amounting to the 'institutionalization of conflict' (Thelen 1991). This integrated local and national industrial relations into a centralised labour market operating under an extensive legal frame, a 'national exoskeleton of rule-setting institutions' (Streeck 1997).

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The approach also worked on the opposite political side. Refugee and savers associations had the potential to create a German prequel to Poujadisme – the French populist movement of the mid-fifties that created an alliance between farmers and shopkeepers (see Chapter 5). But the *Lastenausgleich* settlement reversed their momentum while enhancing the legitimacy of the FRG's economic model. Farmers were assured state support for revenue in exchange for a commitment to modernisation. The Bundesverband der Deutschen Industrie (BDI), the main business federation, was influential for the Christian Democratic-led coalition, and was one of its key financiers. Nevertheless, it was subject to a transactional relationship with Chancellor Adenauer, who made a series of important decisions despite the group's opposition. The BDI also failed to stop the central bank from repeatedly withdrawing the punch bowl at the height of the party.

This chapter shows to what extent the new democratic model that emerged in Germany extended beyond some liberal restoration. By resetting societal preferences, the social market programme helped reconcile the postwar aspiration to collective control over the economy with pluralistic politics, and with hard constraints like sound money and international trade.

Labour longing for 'economic democracy'

Organised labour's postwar agenda was focussed on the idea of workers gaining control of production through *socialisation* and *codetermination*. The concept of socialisation bundled increased social oversight of business and nationalisation proper. But in a polity that defined itself against totalitarian National-Socialism and Communism, state control was shunned and so was the word 'nationalisation'. Thus, the SPD and unions argued for a vague 'democratic' social takeover of basic industries (Kelly 1950). The later was seen as a bulwark against a return of Nazism. Socialisation was intended as public oversight overlapped with codetermination. A multi-layered corporative approach was envisioned, which linked workers with firm management in local production units, as well as at regional and national levels, in councils where economic decisions would be taken. Socialisation and codetermination amounted, together with a dose of planning, to 'economic democracy', a full-blown alternative (if lacking detail) to the emerging social market. 'Co-determination is conceived as a broad principle, really a whole system of social, political and economic thought' (White 1950).

Leaving aside public ownership of 'basic industries' (echoing French and British nationalisations), codetermination would have enabled labour to arrange a deep, institutional corporatist settlement with capital. It would have granted unions a foothold in business, checking the power of management to exploit dominant positions in labour and product markets for high prices and profits. In such a setting, in wage negotiations with labour, the latter would be informed of firms' financial situation, and payrises would be awarded without spilling into inflation. The unions' vision was for a relatively decentralised system, which ensured coordination of labour via trade unions, and of the capital side via business associations and conglomerates. These plans also implied a quasi-institutional involvement for trade unions. They would play a central role in defining economic and social policy, putting them potentially in a position to rival the state. This was the idea implicit in the 1950 letter from Victor Agartz to Hans Böckler, the DGB postwar leader (Markovits 1986, Wallich 1955, White 1950).

In Germany, workers' representation within the firm has a long history stretching back to the early industrial revolution. The main historical precedent was the February 1920 law on works councils. This was the outcome of a convergence between reformists and majority socialists on one side, and business on the other, all fighting and fearing radical and soviet revolutionary forces unleashed by the 1918 defeat. The law established councils as 'subsidiary and subordinate organs of the Trade Unions' (Katzenstein 1987, 127–29). The 1919 constitution not only endorsed local councils, but also called for national and regional councils – a provision that was never fully implemented. The councils under Weimar became the representatives of the unions on the shop floor. Much weakened by the Depression, councils were abolished by Hitler in 1933 (Guillebaud 1928, Thelen 1991).

In the wake of the 1945 Allied invasion, works councils re-emerged outside of any legal mandate. They were explicitly authorised under Allied Law No. 22 in April 1946. In the East, they were eventually suppressed by the Soviet military. In the West, councils were actively encouraged by British authorities (reporting in London to a Labour government); they endorsed an agreement under which the Ruhr's steel and coal industries' management conceded 50% of supervisory board seats to workers' representatives. Weak business leadership needed support in the face of occupation powers' dismantling projects for German industry. As in the first postwar period, a 'class alliance' was spurred by outside threats. Works councils, then, helped rebuild trade unions from the bottom up (Beal 1955, Markovits 1986, Thelen 1991).

The founding congress of the Deutscher Gewerkschaftsbund confederation in October 1949 – when the trizonal republic was only three months old – was a triumph of social learning. It unified the German labour movement for the first time, with 5 million members. It included Christian unions, as well as blue and white collar workers, and allowed for single representative organisations per firm and industry.[1] The DGB laid down a definitively collectivist programme calling for economic democracy, including socialisation of heavy industry, transport, and banking, and codetermination across all sectors. Testifying to its ambitions, the Federation adopted a programme that addressed broad political issues rather than traditional union concerns (Flanagan et al., 1983; Markovits 1986).

With the momentum created by the postwar rise of works councils, the Ruhr union gains, and its unification under the aegis of the DGB, the labour movement's codetermination programme directly challenged the social market. Yet in the following thirteen years, state initiatives led to a radical adjustment of DGB's views, and to its positive engagement with the new order.

Codetermination and labour market centralisation

The new FRG leadership elected in 1949 found codetermination a fact on the ground. But the concept was alien to the ordoliberal worldview of Erhard and his economist allies, who were trying to make product, capital, and labour markets responsive to price signals. They were not hostile to collective bargaining, but saw it not as opposed to capital, but an aspect of a society where management was fully in the hands of capital owners. For ordoliberals, labour involvement in management undermined it; employers, echoed by Erhard, chiefly feared politicised union representatives.

In late 1950, Erhard's Ministry of the Economy, with open support from employers' organisations, prepared a codetermination bill that would have severely curtailed unions' gains in the mining (*Montan*), coal, and steel industries. Unions threatened strikes and Adenauer weighed in. The *Montanmitbestimmung* law, eventually approved by parliament in the spring of 1951, came to endorse most features of the existing codetermination pattern in the sector.

The chancellor had a long-term relationship with the DGB's Hans Böckler, who died in February, before the bill was passed. Their relationship is usually described as a major factor explaining the trade unions' success in refashioning the project. But, as I argued in Chapter 3, that spring the government was on the economic defensive facing inflation, the payment crisis, and US calls for a shift to 'planning'. Politically, Adenauer was keen to reach a deal with anticommunist Böckler when he enlisted German industry behind the American war effort in Korea. He supported the war with the aim of lifting the last Allied restrictions on German production,[2] but public opinion and the SPD tended to be pacifist. Having won on the issue of codetermination, the DGB endorsed the ECSC Treaty, breaking on this with the SPD and IG Metall (Markovits 1986, Shaev 2016, Thelen 1991). The realistic Adenauer also had little ideological misgivings, especially since the left wing of the CDU and its union allies supported codetermination.

The government's audacious turnabout illustrates the flexibility afforded by the *Kanzlerdemokratie*. Granted opportunistically, the *Montanmitbestimmung* became a stepping-stone towards building the Federal Republic's legitimacy with the core labour movement. With the benefit of hindsight, winning through parliament a major institutional reform made unions stakeholders of the new republic.

The relatively favourable bargaining conditions labour enjoyed in 1951 were mostly gone in 1952 when parliament considered a second codetermination bill applying to all other private economy sectors. Inflationary pressures had dissipated and there was a surplus trade balance. Unemployment was still significant, but decreasing. The law voted in October 1952 mandated works councils and workers' representation on supervisory boards in all companies with 20 employees or more, but it fell short of unions' requests on two central issues: representatives were to account for only one-third, and not half, of the boards, while the councils were clearly dissociated from unions as the former held ‘responsibilities for the welfare of the company’. Works councils could not negotiate wages. The Works Constitution Act passed against the ‘bitter opposition of the unions’, afraid of company-controlled yellow unions, and was welcomed by employers, feeling safe from internal destabilisation (Thelen 1991).

The 1952 act was not a social settlement, but a unilateral attempt by the state to reframe industrial relations by rooting workers’ representation in local business operations. Whether such a relatively confrontational initiative could have been taken without the decisiveness afforded by the 1949 Basic Law is an open question. The delinking of plant labour issues from national political agendas overdetermined the configuration of German industrial relations.

Unions’ ultimate victory – at a cost

Decisively, unions decided to engage with, rather than shun, the new councils. They thus accepted a higher degree of autonomy for local union membership and its participation in management. To offset a potentially centrifugal force, unions centralised decision-making and negotiations with employers. They thereby won the third round of the codetermination political battle, but, by doing so, were integrated into the social market.

In the early 1950s, the unions’ collective bargaining was organised by industry on a regional basis. Lack of national coordination led to many bargaining failures, according to analysts. The structure of bargaining changed in the middle of the decade when IG Metall, the FRG’s largest union, centralised decision-making and pushed for nationalised negotiations with employers – not only within its own domain but also across the economy. It emerged as a national pace-setter for the whole labour movement: a concession won by IG Metall in one sector or region was typically replicated elsewhere.

Locally, as soon as the Works Constitution Act was passed, IG Metall promoted union shop steward committees. In the following years, it started to aggressively campaign for seats on works councils. The labour movement followed suit. As soon as 1953, the DGB accounted for 84% of all elected councillors (Armingeon 1989). As councils became more established in the 1950s and 1960s, they were conquered by the federation, with ‘currently over 80% of . . . councillors’ even in small plants; thus, ‘the unions turned the “logic” of the dual system on its head’ as local gains reinforced union loyalty (Thelen 1991).

Works councils could not officially negotiate wages, but they did just that in the 1950s and 1960s: while they were banned from accepting discounts on national or regional wage rates, they could agree on bonuses through ‘wage drift’ (which was the difference between plant wage rate locally bargained for and the national accord). The drift could reach 70%. Works councils therefore not only did not undermine unions, but ‘their informal role in negotiating wage drift served to shore up centralized bargaining by stemming opposition to it in the plants' (Thelen 1991).

The DGB's 1955 Action Program (that listed union demands) initially failed to deliver its target of reducing work to 40 hours per week. But IG Metall achieved that in the Bremen accord of 1956, which was the first of a series of similar sectorial deals. With the Bremen accord, national leadership of IG Metall 'wrested control over collective bargaining from its own regional officers' (Thelen 1991). The centralisation of unions spurred employers' associations in the same direction, bringing about the idiosyncratic German labour market: a national setting of wages that mingled with local adjustment capacity. Thelen (1991) famously christened this mixture the 'dual system'.

Post-1970s analysis emphasises that the dual system favoured adjustment. 'In years of prosperity the dual system successfully held in check *militant* syndicalist tendencies', and in tougher economic times with high unemployment, the system fostered decentralisation and flexibility. While some argue that in bad times the dual system helps the growth of 'plant egoism', Thelen stresses that the flexibility shown in tough economic conditions reveals resilience rather than a 'breakdown' of centralised bargaining (Thelen 1991, 19–20). For Streeck (1981), 'corporatist' industrial relations facilitate industrial adjustment – in contrast to 'pluralist' (Anglo-Saxon) systems.

Codetermination also had a structural moderating influence on the DGB. The Bizone economic director that preceded Erhard, Viktor Agartz, came to lead the radical wing of the trade union. When he delivered a speech with class war tones at its 1954 Frankfurt congress, the union cadres elected to works councils and supervisory boards were incensed. They were further angered by negative criticism of codetermination outcomes by the union's research institute he managed. In particular, the *Montan* industries' labour directors, appointed by unions according to the 1951 law, thought that the Frankfurt speech had poisoned their work atmosphere. These moderates played a key role in ousting Agartz in 1955 (*Der Spiegel* 9/11/55).

German industrial relations were to eventually emerge forming a positive feedback loop, a non-inflationary and adaptive model supporting productivity growth. But this was not a necessary consequence of the dual system; its emergence was rather a product of the legalistic institutional framework of wage negotiations, and of an ideational shift among social groups.

The legal straitjacket

In Germany, collective agreements were legally recognised during the First World War, and were codified immediately afterwards. The rules were, philosophically, corporatist-leaning, as they made employers and unions responsible for setting work conditions. A 1923 ordinance, however, made state arbitration of labour conflicts compulsory. This arbitration option spread rapidly, undermining the emergence of an effective negotiation framework. From the onset of the FRG, however, regulatory dispositions firmly re-anchored labour negotiations and trade union activities in cooperative procedures and rules.

The April 1949 Collective Bargaining Act (*Tarifvertragsgesetz*, TVG), issued by the Allies after extensive consultations, abolished Weimar-era mandatory arbitration and established the legal validity of collective agreements between unions and employer associations. According to the act, agreements apply de facto to all firms and employees in the branch, whether they belong to a negotiating party or not. This makes redundant the state's extension of application to non-unionised labour. Further, the agreement was to remain valid until superseded by a new one.

The 1949 Act was consistent with Weimar corporatism, so employers and unions welcomed the end of mandatory arbitration. The act participated in the building of a legalistic straitjacket because it was magnified by the new Federal Republic's institutions. The unions' acceptance of the act was a step towards their acceptance of the constitutional order. Workers' right to freedom of association was recognised by the Basic Law's Article 9, even if trade unions are not mentioned in it.[3] Illustrating this, during the early 1951 tense negotiations over the *Montan* Codetermination Act, Adenauer responded to threats of strikes by noting that they would be unconstitutional, which led unions to ask workers to resign individually to maintain the threat.

Crucially, in the *Rechtsstaat* established by the Basic Law, conflicts were carefully channelled towards legal forums. 'Taken in full, courts in postwar Germany have sculpted industrial conflict into a highly controlled exercise of economic muscle to be used solely to settle individual disputes rather than existential struggles between capital and labour' (Silvia 2013). The constitution called for the creation of a national labour tribunal, which was established by a 1953 act. The Federal Labour Court (or *Bundesarbeitsgericht*), which started operating in April 1954, created a jurisprudence harmonising decisions of regional labour courts.

The jurisprudence of the Federal Labour Court gradually codified in details the right to strike and to lockout. The court, and the Länder rulings it endorsed, banned political and wildcat strikes. In late 1958, the Federal Labour Court ruled illegal an IG Metall regional strike carried out two years before the expiration of a work contract, and ordered the union to pay DM 100 million damages to employers. 'Labor laws and the labor courts . . . have ruled out union tactics considered quite normal in other societies' points out Katzenstein (1987). The legalistic framework instituted by the industrial relations laws, notably the legal enforceability of national wage agreements, thus undermined militancy, as Streeck suggests (1989).

> Industrial relations practitioners and politicians routinely declare collective bargaining to be autonomous of the state. Yet, a detailed examination of German labor law . . . makes plain the indispensable role of the state in buttressing the postwar German industrial relations regime.
> (Silvia 2013)

I see a deep underlying consistency between the state response to codetermination claims and rule-making in industrial relations – the aim and result were 'depoliticization' (Katzenstein 1987, inadvertently but quite interestingly echoing Erhard 1963). Unions' participation in social and economic life was to be codified and channelled towards exclusively work-related issues (curtailing their capacity to act nationally on political grounds), while unions' legitimacy and, indeed, monopoly over workers' representation, were fully acknowledged and consolidated.

The productivist argument prevails

The incorporation of the labour movement within the social market exoskeleton was as much ideational as it was institutional. In the 1950s, unions came to accept the terms and parameters proposed by the state as frames of reference for wage negotiations, turning their back on class warfare rhetoric. Hence bargaining moved away from redistributive arguments towards considerations about splitting productivity gains.

The BdL acted as the main social-market think tank. In the early 1950s, it turned towards abstract productivity analysis. This was a shift from its prior emphasis on the connection between price and wage increases, as well as on its concern with preventing them from spiralling out of control. During the 1950–51 inflation acceleration, the bank published comparative estimates of the trends in retail prices and cost of living as well as data on 'real' wages, in which growth's dependence on retail price stability was repeatedly stressed (as in the August 1951 report). In early 1952, the BdL introduced a chart of productivity to back up its claim that in 1951 per man-hour compensation grew faster than production (January/February 1952).[4] The productivity-based argument became a staple of central bank rhetoric; in 1960, the Bundesbank's president Karl Blessing presented to government officials his memorandum warning against wage increases higher than productivity growth (Flanagan et al. 1983).

Erhard followed the same shift. In 1950, his case for restraining wages was based on the international competitiveness of West German industry. As he saw it, German wages could not increase if foreign wages did not. Likewise, in 1951, he used international comparisons and gave supporting statistics to trade unions, asking for a critical review. But in 1953, he shifted to arguing that it is productivity growth that boosts real buying power, not (presumably nominal) wage increases (Erhard 1963).

Meanwhile, unions failed to produce a conceptual frame underpinning wage claims. When unions protested against the post-currency reform inflation in November 1948, they called for a return to price controls (Van Hook 2004). This was politically a non-starter against the Erhard rhetoric proclaiming the end of sixteen years of rationing. The following year the DGB started its life without much to say about actual wage battles because its focus was on broader political and social changes under the socialisation banner.

In fact, the left (labour, specifically) had no thought-through opinion on how prices and wages should evolve in a liberalised market, understandingly so as they disapproved of it in principle. Hence, since they did have to make an argument, unions fell back on the thematic ground laid down by the BdL. At the June 1951 DGB congress, the new leader, Christian Fette, called again for price controls, but argued within a BdL analytical framework, quoting official statistics indicating a decline in *real* wages: either prices would decline or he would push for wage increases. The March 1951 DGB economic programme (a brainchild of Agartz's research institute) likewise embraced the BdL theme of production bottlenecks, to which it gave a state investment planning response (Berman 1951).

The 1952 DGB failure over codetermination boosted the voice of a group of reformers, the Circle of Ten (*Zehnerkreis*). It was associated with Agartz, who argued for putting politics on the back burner and to focus, instead, on maximising the takeaway from collective bargaining. This implied that labour turned its back from corporatist considerations sensitive to the prospects of a business sector, and sought instead the highest pay deals regardless – what the French would call '*tradeunionisme*'. The approach was theorised by Agartz in December 1953, when he claimed that, following the American example, aggressive wage growth could drive productivity through increased demand. Perhaps stretching consistency, he framed the argument in Marxist terms, as a power struggle with capital (Markovits 1986).

After gaining endorsement in the DGB congress, the group led the drafting of a May 1955 '*Aktionsprogramm*' which broadly inspired the federation for the rest of the decade (Markovits and Allen 1984). In the following campaign for the 40-hour week, the DGB rightly stressed that its gradual implementation could be absorbed by productivity gains. Productivity was recognised as the engine of increased living standards, but without calling for any particular labour responsibility. However, this maximalist stand would change after Agatz was sidelined in late 1955.

The DGB signs up to the social market

Regulation of codetermination and the adjustments it produced, the increasing weight of legal rules on industrial relations, and the emerging consensus on the economics of wage growth ultimately steered the DGB towards positive engagement with the social market, which it confirmed in its reformed programme of 1963.

The shift in labour politics took place over a number of years from the late 1950s as the *Aktionsprogramme* approach floundered and the 'social partners' (or, more disparagingly, 'accommodationists'), engaging with the social market, gained the upper hand over the 'activists' who remained faithful to the radical postwar ambitions for socialisation. The tension between these two currents went back at least to the first postwar period.[5] They reverberate with rivalries between different unions of the federation. Behind the activists stood IG Metall, alongside printers and workers in chemical, wood, and leather industries; the social partners were backed by organised labour from construction, textile, the postal service, and railways. The latter were not only favourable to a more engaged negotiating stance towards employers, they also resented activists' pacifism, which they countered with a 'patriotic' attitude towards the FRG (Markovits 1986).

Social partners were allied with an influential group of 'Keynesian' economists[6] within the DGB. It was led by Agartz's nemesis, the head of the economic section, Ludwig Rosenberg, who was to become chairman of the federation in 1962 (Markovits and Allen 2016). The rise of economists within the labour movement may have reflected the social market ideational leadership forcing social actors to take economics seriously. In a later period, Streeck (1984) noted that three personal assistants of the IGM automobile trade union chairman had economic doctorates.

In 1959, in an echo of the *aggiornamento* that had just taken place in the SPD in Bad Godesberg, the DGB decided it would replace its 1948 Munich programme. A new version was to be agreed upon in the next congress in 1962, which was completed by a special congress the following year in Düsseldorf. In contrast with the 1948 Munich programme, the Düsseldorf version called for reforms through the parliamentary system and that were to be consistent with the *Rechtsstaat*. The goal of socialisation was replaced by a range of proposals rooted in the Western liberal tradition, such as the maximisation of individual 'freedom and responsibility'; in Keynesianism, with a call for full employment; and in postwar social-market ideas such as rejecting abuse of economic power in favour of competition and price stability. The postwar opposition to capitalism had morphed into a mild critique of Germany's emphasis on exports and the under-consumption that resulted from it.

While the Munich programme linked competition with chaos, in Düsseldorf it was associated with planning, conceived essentially as a framework and guidance process. The benefits of rationalisations were emphasised, whereas they were seen as inevitably noxious in Munich. In a development testifying to the spread of the technocratic vision, the programme's principles include the goal 'to make possible the understanding of economic dependency by publishing appropriate information'. The document also openly embraced automation. Despite using some rhetoric from the immediate postwar period, this programme was a victory of 'social partners' over activists. Düsseldorf produced seminal initiatives, including a renewed claim to widen workers' representation from one third to half of supervisory boards. That goal was reached in 1976 under the government of SPD's Helmut Schmidt (Markovits 1986).

The shift made official in Düsseldorf may have had a lasting positive impact on the DGB, halting the decline in union membership. As a share of total German workers, members of the labour union fell from 39% in 1951 to 30% in 1963; the figure stabilised in the 1960s and grew again in the 1970s under SPD-led administrations (Armingeon 1989, 2).

Restoration, settlement, or taming?

The West German labour movement's adaptation to the social market economy (which was openly endorsed from the 1960s forward) was in no way a foregone conclusion, and certainly not a mechanical consequence of postwar enrichment. Leading French and Italian unions remained staunchly anticapitalist throughout the period (arguably, up to this day), despite the tangible material gains made by their members. Higher standards of living do not entail support for 'capitalism', as a matter of either logic or history. Therefore, we need to explain the West German unions' shift.

Up to the 1980s, the thesis that prewar capitalism had been restored in Germany was prominent in Marxist and radical circles, but since then the postwar-settlement narrative has dominated the literature. A third interpretation, union taming, is alone consistent with my account.

Andrei S. Markovits (1986) may be the most prominent exponent of the prewar-restoration view. Against those who suggest that labour actively worked for the restoration of capitalism, that it sought 'capitalist reconstruction', he argues that unions *failed to prevent* this outcome. This is consistent with the postwar statements of labour and SPD leaders. Markovits argues convincingly that union leaders were not revolutionaries, but that they hoped to shape the reconstruction in a socialist direction, failed, and adjusted their plans accordingly.

In Markovits's radical perspective, the postwar saw a succession of labour defeats. In the aftermath of the Nazi collapse, hopes for a resolutely socialist agenda – echoed even on the right in the 1947 CDU's Ahlen Programme – were frustrated when the Cold War broke out. The 1948 currency reform, the 1949 Basic Law, and the first FRG-wide elections were all lost by the left. The Works Constitution Act, the 1953 elections, and remilitarisation are three other key battles that were lost. A third electoral defeat in 1957 lead to the SPD's Bad Godesberg congress in 1959 and to the DGB's 1963 Düsseldorf Programme, both sidelining earlier revolutionary ambitions and sanctioning 'the victory of Keynes over Marx' (Markovits 1986).

No doubt the social and economic outlook in the mid-1950s was perceived as a restoration of prewar capitalism by a postwar generation of militants hoping, in West Germany as elsewhere in freed Europe, for a clean break with the market economy. This perception was superficially supported by the fact that denazified 1930s elites returned to prominence in business and politics. But the restoration argument fails to account for the rise of a different type of capitalism – as testified by outcomes – and the *dynamic* union response to state initiatives, such as the 1952 Act. Markovits overlooks the processes by which the unions were brought into 'the system'. He may be confusing his normative analysis of the change in union's preferences – seen as some form of resignation – with a positive (or strategic) analysis of progressive ideological adjustment to institutional realities and the economic boom (bringing to mind the witticism attributed to Keynes, that I change my mind when the facts change).

After the end of the *Trente Glorieuses* in the 1970s, the narrative of restoration was superseded by that of a postwar settlement. Many academics who made prominent contributions to the study of postwar German society take the settlement idea for granted, and do not discuss the political process that gave rise to cooperative industrial relations. For example, Wolfgang Streeck (1997) discusses a postwar 'compromise' between 'Social Democracy and Christian Democracy . . . traditionalism and two alternative versions of modernism, liberalism and socialism' that involved 'traditional status protection'. The settlement was balanced by 'extensive welfare state and established labour unions', with 'special status of artisanal firms' offset by 'the competitive regime' and 'a safely entrenched union movement' (ibid.). He does not, however, specify who dealt with whom. More recently, Streeck (2009) proposes a narrative, drawing on Polanyi (1944), under which forces seeking stability and continuity of 'a reliable social order' constrained capitalism to enact rules to protect society from its inherent destructiveness. He suggests that this explains postwar reform, when new 'market constraining institutions' arose with the aim of putting bounds to 'economizing'. In Streeck's earlier and later accounts, it is unclear whether the opposing 'forces' are associated with discrete interest groups.

Peter J. Katzenstein (1987) has developed a functionalist analysis of postwar Germany, where 'parapublic institutions' and 'policy networks', including labour and employers' organisations, substituted in large part for a weak state that was, during the Cold War, a 'semi-sovereign' internally as well as externally. His analysis, however, downplays the exoskeleton-building process, possibly because he (along with many corporatist writers) does not attend to the timing of particular events. Likewise, Kathleen A. Thelen (1991, 20) does not devote much consideration to the origins – as opposed to the workings – of the 'dual system'. However, she emphasises that

> the dual system operates . . . in precisely the way that the conservative framers of the Works Constitution Act intended, namely to drive a wedge between the central union and the shop floor and to encourage the cooptation of labor at the plant level.[7]

Corporatists highlight the peculiarities of German industrial relations compared with those of other large industrialised countries. They converge on a view that smooth industrial relations are the ones most conductive to inclusive economic growth and swift adjustment to shocks. They are mostly indifferent to the origins of the system, or casually accept the idea of a settlement. The latter may simply express a tautology: social actors operating within a system necessarily accept it, even if they wish it were different. But if the notion of a settlement is meant to refer to a proper agreement, however implicit, resulting from a bargaining process, it has little grounding in historical facts.

Certainly, no scholar argues that there was an explicit Swedish-style deal. But there is no evidence of an underlying, implicit bargain either. In spring 1951, the FRG leadership was under assault as its core social and economic options were attacked by foes and allies, while the payment crisis and the Korean war placed pressure on available resources. A far-ranging corporatist settlement was possible, *but it was avoided*. What followed consisted of a mixture of unilateral state initiatives, societal responses, and state deals with interest groups.

One might save the settlement interpretation by casting the state as a representative of 'capital'. But my account (thus far and in what follows) shows that the state bargained with, and enforced adjustment on, industry and other interest groups just as much as it did with and on labour.

The social-market economy project was successful because it struck most deals under its own terms, and because these deals were between the state and social groups, rather than between social groups alone. This is not to say that the FRG had a grand plan that was methodically delivered. Rather, its method of governance brought social groups into the system and constrained them to argue within the productivist paradigm of the social market. In other words, the Adenauer government did not plan to establish centralised and flexible industrial relations. Those relations resulted from the way industry adjusted to state-imposed constraints. The one consequential constraint was that of rooting labour representatives in local productive units, thus fostering a sense of economic realism.

The labour movement was a major challenge to the social-market economy and, through its alliance with the SPD, possibly *the* most important challenger, putting forward a full (if sketchy) alternative in proposals for 'economic democracy'. During the late 1940s and 1950s, the government fought this challenge by reshaping industrial relations and by framing debates about wages and prices in productivist rather than redistributive terms. The centralisation of wage negotiations by encompassing unions did not automatically lead to sustainable wage claims: unions had to develop an understanding of economic constraints compatible with this notion, and this was achieved by social-market ideational leadership.

This amounted to a state-induced alteration of societal group preferences, spectacularly seen in Bad Godesberg in 1959 and in Düsseldorf in 1963. As testified by the programmes respectively adopted by the SPD and the DGB, the postwar labour aspiration to social control over the economy had morphed into the embrace of competition (including, crucially, foreign competition) to check employers' power over wages. The social market was consolidated by the SPD's rise to power beginning in 1966, and by the reforms enacted in the following sixteen years, in a vindication of the *Parteienstaat*.

Centralisation under the *Kanzlerdemokratie* greatly facilitated the bargaining process with social groups, as seen in the 1951 crisis. The legalism of West German industrial relations is not a cultural oddity, it is congruent with the constitutionalism of the Federal Republic. The independent central bank raised itself to the status of legitimate referee in sharp contrast to the Banque de France, then positioned as a bulwark of the *possédants* (as I explain in

Chapter 5). The centralised labour market – which the settlement, corporatist literature rightly emphasises when comparing West Germany's stable prices history with its more inflation-prone peers – is a product of the state's social engineering.

My account is, in a sense, a leftist prewar-restoration narrative stripped of its class-war overtone. It is difficult to reconcile the story of a succession of battles lost by labour with the notion of a settlement between capital and labour. Markovits (1986) reproaches unions for their 'state fixation', because they submitted formal codetermination proposals to parliament and government in 1950. In parallel fashion, Streeck (2016, 233) suggests that the postwar reformed economy was the product of a state trying to save capitalism from itself. (This conceded state autonomy under the cover of a quote from Marx's *Capital*.)

British and French forces of the left had a different postwar agenda from their German sisters, with statist projects of planning, nationalisations, and social security. Some key elements were implemented after left-leaning governments came to power in London and Paris. These reforms were preserved even when politics took a right turn in 1948–51. But in neither of these two countries did the fresh postwar governments effectively reform industrial relations, which remained at risk of feeding into the price-wages spiral – as they did. Conversely in West Germany, where the left waited until 1966 to enter government, the postwar struggles' produced a profound legacy in the shape of the dual system and the least conflictual industrial relations of a large western economy (according to International Labour Organisation data quoted by Bordogna and Cella 2002).

Neutralising right-wing interests with the *Lastenausgleich*

The Federal Republic also faced challenges from the right. As with codetermination, state initiatives reframed claims from refugees and war damage claimants, in the process dwarfing groups that could have posed a threat to the political system. Structural reforms – and subsidies – contained the menace farmers presented to price stability. Despite their political closeness to the governing coalition, private sector lobbies failed to stop major policy initiatives, including international trade liberalisation, interest rate rises, and the antitrust law.

The FRG's consolidation of its legitimacy through codetermination had its mirror image on the right with the *Lastenausgleich*, 'equalisation of burden', that neutralised opposition from owners of real assets destroyed by the war, eastern expellees, and holders of financial claims wiped out by the 1948 currency reform – three issues that became closely linked. It was estimated that roughly 18 million individuals had suffered war damages, and that there were 8 million refugees in 1949 – that is, half of the FRG's population, before we even consider those who lost out in the 1948 reform.[8]

Michael L. Hughes (1999) explains that the November 1940 War-Damages Decree issued by the Nazi government, with its generous provisions (expected to be met by defeated countries), created a legal basis and, more crucially, rising expectation from civilian victims as the war ended. Then, the flow of Eastern expellees formed a growing stream of claimants. Holders of reichsmark-labelled debt, largely issued by the state for war financing, were a third group taken into consideration in the postwar debates. The latter issue was regarded as especially sensitive because rentiers' losses experienced in the early 1920s due to inflation became a prominent cause in the second half of the decade and its lack of resolution was widely seen as favouring the rise of National Socialism through the collapse of the liberal bourgeoisie, the *Bürgertum* (Feldman 1993).[9]

In April 1948, in the Homburg Plan produced by the monetary reform committee presided over by Erhard, *Lastenausgleich* provisions ensured that a levy on real assets would be payable by their owners. This somewhat balanced the write-off of most paper claims that was to be effected by the introduction of the new currency. But the Allies declined to include the equalisation provisions in the June reform, instead assigning the task of writing a law to Erhard's Economic Council by year's end. Americans were afraid of including provisions in the currency law that would risk undermining it in the future, such as recognising claims that politicians would be tempted to monetise (Hughes 1999).

The first *Lastenausgleich* law was voted in December 1948 to provide 'immediate' relief, with substantial issues postponed for another law. Erhard proposed a levy on inventories held on the eve of the currency reform, in an initiative consistent with his prior positions.[10] This solution was accepted by the council and even by the main business lobbying group only after the high taxation rate proposed by Erhard was considerably reduced, to meet concerns that payments could undermine firms' investment capacity. However, contrary to the wishes of groups of emerging victims, the law retained a *social* model of a monthly payment for victims unable to work, rather than *individual* recompenses based on wealth lost.

In the following two years, the debate on the final *Lastenausgleich* gathered pace as victims became a political force to be reckoned with, despite the general economic betterment they enjoyed. The main association of expelled refugees, the Zentralverband vertriebener Deutschen, was created in 1949 and led by figures close to the CDU. The Block der Heimatvertriebenen Deutschen (BHE) refugee party, created in 1950, gathered 32% and 23% of the votes in that year's Länder elections in Hesse and Schleswig-Holstein. The SPD opportunistically considered an alliance with the new party. Nevertheless, the party's ideological references were clearly for the right and often the worst part of it, reactivating fears of Weimar-era extremism, especially in the aftermath of 1951 and 1952 demonstrations of the war victims (Hughes 1999).

The party and the broader lobby were set on the idea of an *individual* equalisation based on transfers of capital ownership, whereas the political establishment converged on the idea of a *productive Lastenausgleich*.

The CDU recognised the need to adjust the recompense to the capacity of the economy and, despite of its reflexive respect for private property, came to favour entrepreneurial ownership over owners of unproductive real assets. The SPD associated its willingness to help the socially disadvantaged to a calculated support of the property-less majority of refugees and to initiatives for economic integration of unproductive individuals.

By all accounts, the second *Lastenausgleich* law of 1952 favoured the social and productive options. Individuals' actual needs (not value of lost assets) were the primary criteria determining disbursements to war victims as well as to their employers, and to the building of public housing (where they had a priority). The theoretical 50% tax on assets was payable over 30 years and finely adjusted to earn DM1.5 billion per year – the figure the finance ministry thought sustainable. The law repealed the 1940 act on war damages. The BHE gathered a disappointing 5% at the 1953 elections but agreed to join the CDU-led governing coalition. Despite continuous campaigning, the ultimate law concerning the *Lastenausgleich* in 1957 was in line with the 1949 and 1952 precedents. A dedicated 1953 law settled claims by savers.[11]

Thus, throughout this period, government policy sucked breathing space from the material threat of right-wing contestation of the FRG. This was done, in part, by buying out potential opponents. The long negotiation with the victims' lobby groups and the SPD resulted in measures substantially consistent with the social-market credo – economically liberal in principle, conditional on outcomes. The new regime's legitimacy was strengthened by the acquiescence of war victims. Crucially, as pointed out by Hughes (1999), the victims had to moderate their discourse and recognise that their claims were set against a productive majority, in sharp contrast to the 1920s rentiers fighting mythical 'speculators'.

The *Lastenausgleich* episode does not easily fit the corporatist narrative. The state created policies to 'share the burden' of the war, but it never came to a direct agreement with the coalition of aggrieved victims. Business lobbies participated in the debate to ask for a minimisation of the transfers, but they were not part of any deal either. This development falls somewhat outside of my two policy domains: the war victims were not obstacles to trade liberalisation nor were they part of inflation-generating restrictive arrangements. The *Lastenausgleich*'s relevance springs from its shaping of the FRG's governance, which consolidated the state's capacity and legitimacy to promote the social market agenda.

The farmers' settlement

Another example of ideational leadership can be found in the Agricultural or 'Green' Act of September 1955 (*Landwirtschaftsgesetz*). In a context where most key food prices were still regulated and where fast economic growth was slowly spilling into upward pressure on prices, the farmers' association (DBV) was increasingly vocal in calling for 'parity' between revenues from agriculture and from other economic sectors. It sought this objective by price increases. Farmers' parties were being set-up in some Länder under a national umbrella organisation, rallying elements from the refugee party BHE. There were fears of a split of radicals from the association. The CDU-CSU was also worried about losing the agricultural vote.

It took more than a year of negotiations between political forces, the economic and agriculture ministries, and the sectorial associations, before the bill was passed, with backing from all major parties and the farmers' association. The text of the law was considerably influenced by economic arguments, and sidelined distributive claims. Over the course of the year, the 'scientific' advisory council for the Ministry for Food, Agriculture and Forestry – created under the model of its Economics ministry sister – made a detailed criticism of the idea of revenue parity between sectors (*Der Spiegel* 2/2/55).

Beside paving the way for agricultural policy to become primarily a *welfare* policy for farmers through headline rhetoric about 'parity' and substantial increases of very material subsidies (Knudsen 2009), the act addressed the issue of growing agricultural productivity and its corollary, the labour shift to other sectors of the economy. It included measures for land consolidation, product marketing, mechanisation, and easier inter-generational property transfer. A key provision mandated annual reports comparing agricultural and other revenues, which came to be known as the *Güner Berichte* and provided a respected statistical reference for policy discussion. Rapidly the reports introduced the goal of promoting competitiveness of German agriculture in Europe as negotiations for the Common Market advanced (Hardach 1980; *Die Zeit* 20/12/56).

The Green Act was hardly consistent with the social-market ideal of a 'market-conforming' (*Marktkonform*) economy driven by prices and private transactions. But it did fit into a pattern of state intervention to reshape interest groups' expectations in order to lift road blocks on the low inflation export-driven path. Food was still the weightiest category in consumers' baskets in 1955, and a very sensitive input in workers' assessment of the trend in their buying power, it was therefore the potential prime mover in a price-wage spiral, as indeed it was in 1950s France. The German response differed from the French in two aspects. The act provided the state and farmers with a common conceptual frame and a number of mechanisms to ease modernisation, both unavailable to the French at the time. Subsidies were awarded in both countries, but only Germany could afford them, whereas in France, they added to the monetary-financed budget deficit. The Green Act was possibly the first major step towards the Common Agricultural Policy (CAP), and certainly directly inspired the 1960 French *Loi d'orientation* on farming.

The BDI swallows trade deals, weakens cartel law

Like the DGB, the BDI, a federation of sectoral associations, was launched in the very first weeks after the FRG's creation to represent business interests in a single group. In contrast, during the Depression the movement had practically split into two wings along political lines. Its sister organisation, the Bundesvereinigung der Deutschen Arbeitgeberverbände (BDA), represents employers and handles industrial relations. The latter continues to lobby with parliament and regulatory agencies, whereas the BDI handles high politics and relationships with top government figures. This was especially true in the postwar era under the BDI's high-profile first president, Fritz Berg, who held office from 1949 until 1971.

Postwar business associations faced a stiff public-image challenge, but they revamped the perception of the German entrepreneur as an economic miracle hero (rather than a Nazi supporter, in a change of perception well told by Grünbacher 2017). The BDI and BDA jointly invested heavily in a research institute in Cologne, the Deutsches Industrie Institut,[12] funded in January 1951. By 1961, it had a staff of 160. Unlike the highbrow DGB think tank, it was initially more of a propaganda outfit but slowly became a proper research institute. In the 1950s, it would label as 'scientific' mere PR pieces, in an *homage du vice à la vertu* – an implicit recognition that technical, economic arguments set the standards of debate.[13]

According to most restoration and settlement narratives, the social-market state acted on the agenda of capital owners. This narrative is received uncritically for several reasons: the CDU-led coalitions ran in opposition to the socialist SPD; the coalitions were oiled by a not-inconsiderable dose of anticommunism; and business owners and associations financed the CDU-CSU and the FDP. But this proximity was *faute de mieux*. In sharp contrast to the visionary labour movement, the postwar business lobby was composed of defensive organisations that reacted to proposals from the left or the government. It lacked a coherent, forward-looking programme, shrouding itself in a vaguely nostalgic ideology (at times liberal, at times reactionary), and merely argued against initiatives that undermined members' short-term interests. Effectively, the business lobby was against competition, in favour of protectionism, and oblivious to financial stability constraints. Its long-term attitude was oppositional, if not to the social market as a concept, at least to its most prominent policies. The BDI's small firms elected and re-elected Berg by a majority because 'he was, like most of them, a very strong opponent to Economics minister Erhard's neo-liberal market economy' (*Der Spiegel* 1/11/60, Grünbacher 2017).

BDI's relationship with Adenauer was much more positive. Berg met the chancellor weekly, and was described as his 'economics minister in everything but name' (Moravcsik 1999, quoting Thomas Rhenisch). In light of historical evidence this is grossly exaggerated, but it indicates that their political partnership was personal and opportunistic rather than institutional and strategic. Throughout Adenauer's chancellorship, they supported each other at some crucial moments, such as when Adenauer ineffectually opposed the BdL interest rate rises in 1950 and 1956 and when Berg endorsed the EEC project. The chancellor was thus sensitive to the business lobby, but in a transactional give-and-take way, not in the one-way state-capture fashion implied by corporatist models. Meanwhile other state actors, namely the BdL and Erhard, repeatedly ignored BDI objections to their policies.[14]

Earlier I described how the BdL and Erhard pushed through anti-inflation measures despite opposition from the BDI. Further frictions between Berg and Erhard occurred in the autumn of 1960, when the government wanted to slow the pace of growth while the BDI offered only 'insignificant' commitments (*Der Spiegel* 1/11/60). In 1961, Berg and the BDI strongly opposed the revaluation of the deutsche mark. Adenauer gave his word to Berg it would not happen. It occurred a week later, leading the BDI to suspend its monthly DM 100,000 donation to the CDU (Grünbacher 2017).

Beyond short-term issues, the business lobby rejected key features of the social-market model. It opposed central bank independence, weighing in for politicised money management. The BDI also fought trade liberalisation and competition regulation. The state mostly ignored these protectionist urges, but substantially scaled down anti-cartel regulatory plans.

The BDI was rhetorically in favour of trade liberalisation, but opposed most of the concrete measures for achieving it, notably insisting on 'strict reciprocity' against Erhard's unilateralism. The metal industries association and the BDI opposed the Schuman Plan. Once the ECSC was created, they fought initiatives from Jean Monnet's High Authority (Giersch 1992, Moravcsik 1999).

Crucially however, at the time of the creation of the Common Market, the BDI aligned itself with Adenauer's high politics preferences. This stand was attributed to Berg's pragmatic relationship with the chancellor. Berg consistently supported the Adenauer's pro-French policy, often against most large corporations, notably chemicals and automobile producers, who fought 'little Europe' and supported the British-backed Free Trade Area project. A corporatist model would have predicted the opposite: political power acting on business' preferences.

The case of the liberalisation of textile imports demonstrates the effectiveness of the combination of centralised decision-making and consistent economic doctrine. Liberalisation was gradually restored after its suspension during the Korea war balance–of-payments crisis. Textile quotas were abolished in April 1953. Soon there was a surge in imports of low-quality, cheaper garments from Italy. Some German producers had to close. The association of textile producers (*Deutschen Textil-Einzelhandels*) sought regulation to ban the recycled and mixed fabric used in Italy, but to no avail. A former president of the association, Joseph Johannes Illerhaus, who was a CDU member of parliament since 1953, scaled down his protest against imports. This shows the relative strength of party discipline over the influence of lobbies, in sharp contrast to France's lower chamber under the Fourth Republic (which I will discuss in the next chapter). Erhard further argued against any return to protectionism by pointing out that retail textile prices had declined 9% in the four years up to 1954 (Der Spiegel 6/4/55).

In early 1959, Carl Neumann, a prominent BDI executive and textile industrialist, launched a frontal attack on Erhard, especially his calls for price cuts and cloth imports, after the closure of 75 companies and the dismissal of 50,000 textile workers during the previous twelve months. But the economics minister did not budge, gaining large media support and relying on his personal popularity. The continuing decrease of textile retail prices was pointed to by contemporary articles – prices indexed at 100 in 1950 were down to 84, versus 125 for all industrial products (*Der Spiegel* 25/3/59).

Erhard proved less successful with antitrust regulation. Competitive markets were a central tenet of the ordoliberal creed in the 1940s. To Erhard, the idea of state intervention to foster competition and to break cartels was especially important because it provided an articulate response to the postwar left criticism of capitalism. The latter was focused on the German history of industrial cartelisation, which Social Democrats and unionists wanted to remedy by increased political and labour control over business in the broad codetermination agenda. Erhard could say he too fought cartels, but through competition.

Only on his third try, in 1957, did Erhard manage to have parliament enact an antitrust law. This, though, considerably diluted its provisions by granting sectoral exceptions. At the same time, the cartel 'prohibition principle' survived (which was directly inspired by American law).[15] The first attempt to enact this law failed in 1949, as it became enmeshed in Franco-American efforts to deconcentrate the Ruhr mining and metal industries and ban vertical integration. Opposition came from owners and unions seeking codetermination of a planned industry; from many politicians from the left; and from the CDU. The latter two groups were united by a shared nationalist undertone. The second attempt took place in 1954, after codetermination and the Schuman Plan had stabilised the prospects of the *Montan* industries, but it was blocked in the Bundesrat by the 'Christian socialist' wing of the CDU, which was keen to preserve for the state the capacity to foster cartels if needed.

The 1957 version was produced after lengthy negotiations with the BDI. Remarkably, the SPD had come around to supporting the original antitrust project – no mean feat of ideational leadership. In its 1959 programme, the party stated that 'free competition and free entrepreneurial initiative [are] important elements of social-democratic economic policy'. However, 'in the end, Erhard decided that he could not risk siding with the SPD against industry' (Van Hook 204), especially months before a general election. The law's influence on the competitiveness of German markets was certainly an order of magnitude lower than that of foreign competition. Early on, integration in world market had been seen by social market proponents as 'a powerful tool to prevent recartelisation' (Giersch, Paqué, and Schmieding 1992, quoting the 1950 Röpke report).

The competition law was a failure not because of a single overriding factor, but rather for a series of less significant reasons, such as its early association with Allied occupation (when US idealism joined French naked ambitions over the Ruhr) and coalition politics. Nevertheless, it was the first competition law in an EEC member-state, and its long-term influence was considerable.

Active government refashioning of industrial sectors to make them competitive, originating in the Progressive Era, had lost substantial political traction during the Depression. By the 1950s, a 'Big is Beautiful' philosophy dominated attitudes towards industry on both sides of the Atlantic, with conglomerates flourishing in the 1960s and 'national champions' initiatives prized in Paris and London. Only in the 1970s was there a renaissance of pro-competition policies in the United States, with the deregulation of air transport and telecoms (Woll 2008). In Europe, the implementation of the 1992 Single Market and the 1990s privatisation wave occurred alongside extensive development of antitrust regulation. In such sectors as telecommunications, the end of state monopoly was associated with the birth of an extensive regulatory regime aimed at fostering competitive markets where none existed previously. This renaissance of competition activism was very much powered by the European Commission, which relied on legal rules and mechanisms that were influenced primarily by Germany, whose Bundeskartellamt is the oldest trustbuster in the Union (Djelic and Quack 2005).[16]

Coming round to the social market

The emerging postwar West German state leveraged the new institutions to push forward an economic and social programme that came to define the country. In 1947, the social-market agenda was a marginal set of propositions without much support among the political parties, the occupying powers, or the media. By the early 1960s, it had become the consensual policy framework of the Federal Republic, a status definitively confirmed in 1966 when the Social Democratic Party entered government with a commitment to stick to the social market – which it did for its sixteen years in power. The state's success in reshaping social preferences is often confused with 'consensus' politics. But I hope I have shown that this outcome in Germany was the result of state action, not of a compromise.

Policy goals of price stability and trade liberalisation were central to the economic model that took shape at the onset of the Federal Republic, but they were only gradually endorsed by societal groups. Starting in 1948, Erhard pursued a continuous campaign to promote material well-being through mass consumption and lower prices, pre-empting distributional wage claims. At the same time, the BdL gained credibility as the defender of buying power, while its unflagging argument for productivity-based compensation growth won over 'social partners'. Stable prices came to be regarded as a bulwark for modest families. The codetermination reform constrained unions to review their strategy and eventually to accept responsibility in firms' economic health – banning reckless wage-price spirals. The state opened West Germany to imports through repeated unilateral steps, leveraging union support, and forcing businesses to adjust. Right-wing groups with potential for bidding up resources, such as refugees and farmers, were driven to accept economically sustainable settlements.

This ideational success was achieved thanks to critical governance innovations. Most of the economic policy debate was shifted to non-partisan, 'objective', technocratic bodies. The extensive publication policy of the BdL, later copied by the Council of Economic Experts, set the parameters of the public debate. The Bank leveraged its independence to gain popular legitimacy and to stand firm in its policy choices despite interest and political pressures, making it more credible. Executive-driven policy-making also helped to strike trade deals, despite strong sectoral opposition. The new governance allowed the social market to surmount the 1950–51 payment crisis despite domestic and foreign resistance. Five years later, interest group challenges to high interest rates and trade liberalisation were overcome too.

Established primarily as an economic state, a purposeful state, and a state seeking the population's well-being, the new German republic went through a positive feedback loop as increased material prosperity sustained its growing legitimacy. This ideational, Nordlinger-type process is exactly what the prevalent political economy literature about the postwar Federal Republic overlooks.

The broadly neoliberal programme was supported by many social scientists, economists, and jurists associated with ordoliberalism, which was quite influential within the government and the central bank. Luminaries like Röpke helped state leadership improve its credibility. However, let me emphasise that the social-market model as it stood in the 1960s was not the realisation of a pre-set ideal-type. For one, ordoliberals had no extensive views on the welfare state: they neither opposed social provisions nor called for them. Nevertheless, the German welfare state expended steadily, notably with the 1958 pension reform, and this was viewed as a crucial part of the social market to which the DGB and the SPD subscribed to. The Erhard pro-consumer policies and politics are also difficult to root into ordoliberal writing: Röpke's communitarian preferences are far from Erhard's urban consumerism. Crucially, the trade liberalisation, judicial review, and competition police wished for by ordoliberals paved the way for the emergence of a regulatory-cum-productivist state that none of them anticipated and about which many would have had misgivings.

Earlier, I addressed the shortcomings of the prevalent societal research model of a postwar settlement, arguing that the labour movement was tamed into becoming a willing partner of the social-market economy. The most insightful authors have argued that the peace in German industrial relations relied on an institutional 'exoskeleton', but were vague about how it came about. This is one of the main research blind spots in my view; the other concerns how it was sustained. The narrative I have provided here depicts state capacity and governance in a way mostly at odds with the consensus political-economy model that is manifest, for example, in Katzenstein's *Policy and Politics in West Germany: The Growth of a Semi-Sovereign State* (1987).

For Katzenstein, Germany is an oligarchic, consensual, bipartisan polity that smoothly implements incremental policy. International organisations (NATO and the EEC) have tied down the state, leaving a political 'dwarf' (to use the aphorism attributed to chancellor Willy Brandt). Perhaps too much driven by this international perspective, Katzenstein argues that the same 'semi-sovereignty' applies domestically where federalism and corporatist institutions provide checks and balances strongly limiting capacity. But I have argued that the institutional pluralism he sees as a sign of impotence is, to the contrary, the very source of the Federal Republic's state's high capacity. The Constitutional Court has protected governments' freedom of manoeuvre from parliamentary interference. Money and financial policy include more options and more flexibility through the partnership of an autonomous central bank and the treasury than would be the case if the former were under the latter's thumb. Besides, the bank and the independent economic advisers considerably reinforced the government's policy credibility. Federalism is to be understood in a trio with the *Parteienstaat* and the *Kanzlerdemokratie* where decentralisation was balanced by the national authority of the chancellor and the opposition leader over their parties.

Behind the convincing grainy understanding of the day-to-day workings of the Federal Republic, Katzenstein is surprisingly uninterested in the advent of the oily institutional machine he describes. He relies on an underlying theory of adjustment of West Germany to lessons from history and post-1945 constraints – notably the loss of the Junker East – and endorses the settlement theory when discussing industrial relations. This is to treat the exoskeleton as coming about on its own, rather than through deliberate actions in acute political battles, like those around codetermination. The foundational story, the reframing of societal preferences, was the achievement of a high-capacity state, not a policy dwarf.

Katzenstein also overlooks the maintenance of the consensus society through a belief system and a legitimation process – to pile up metaphors, the ideational infrastructure of the republic, what Foucault (2004) called the economic 'continuous genealogy' of the West German state. I argue that the state engineered changes in societal preferences and sustained the new productivist consensus through an explicit discourse and institutional arrangements favouring expert rather than political decision-making.

Thus, Katzenstein's model may need crucial upgrades to account for change. Autonomous state initiative and ideational leadership explain how an autarchic, chaotic, occupied postwar Germany transformed itself into a stable, open, and prosperous republic. In a unique Ground Zero historical circumstance, emerging leaders engineered a virtuous circle of reforms that reshaped society's expectations. Over 15 years, the term of reference of the political system was reset in the social market mould. The state capacity to build support for new social and economic rules makes the difference between the Weimar and the Federal republics.

Notes

1 Unity was made possible, in part, by the marginalisation of Communists in a FRG frightened by the Stalinist German Democratic Republic (proclaimed one week before the founding DGB congress).

2 The lifting of restrictions on West German steel production in March 1951 by the Allies paved way for ratification of the ECSC.

3 This was substantially in line with the Weimar constitution, although the latter explicitly referred to unions (Article 159).

4 In 1952, France was trying to prevent a wage-price spiral through indexation, most notably of the Pinay bonds, and productivity was not part of the conversation (see Chapter 5).

5 The social partners' roots were in the 1918 factions that supported initial moves towards codetermination, and came to dominate the main union federation under Weimar. Philosophically, this current drew from a corporatist vision under which both labour and employers' associations were 'agents of order' or *Ordnungsfaktoren* (Markovits and Allen 1984).

6 Some of whom, like Rosenberg, did not have a formal training as an academic economist.

7 Superficially, the direction of potentially radicalising influence, from central union to the shop floor or vice-versa, is subject to many interpretations. Favouring the emergence of local labour representatives cooperation with management was clearly a goal of the 1952 act, which was perceived by many critics as an attempt at fostering 'yellow unions'. A few decades later, Streeck and Thelen (2005) consider that a virtue of the system, as it shielded the centre from local militancy. Social-market exponents were afraid of a national labour movement capable of mobilising local workers on political causes, whereas Streeck and Thelen believe that the system prevents some local militant sections, which would often represent the most productive units, from hijacking the national negotiation agenda and imposing unbearable conditions on less productive competitors. Streeck and Thelen do not regret that the West German labour movement moved away from political militancy French or Italian style.

8 The 8 million refugees were expelled from former German territories given to the Soviet Union and Poland, and from Czechoslovakia. Refugees from Soviet-occupied East Germany were not allocated grants from the *Lastenausgleich* (Hughes 1999).

9 I wrote 'seen as' to emphasise the prominence of the issue in the late 1940s. Historians such as Feldman are cautious about linking the 1920s inflation and the rise of Nazism.

10 As noted earlier, before the currency reform, Erhard and others had informally encouraged hoarding (even if this was illegal), in the hope that the merchandise would be released after the issue of the new currency, countering inflationary pressures. Erhard had warned that resulting exceptional profits would be taxed (Hughes 1999).

11 Eastern expelled refugees' lobbies remain active in the FRG up to this day. Their public presence fed into Soviet rhetoric against a 'revanchist' West Germany, and somewhat reinforced some of Eastern Europe's governments' alignment with a 'protective' USSR. In 1989, Chancellor Helmut Kohl refused to recognise the Oder-Neisse frontier with Poland by fear of alienating votes from refugees and descendants (Connor 2010).

12 In 1973, it changed its name to the *Institut der deutschen Wirtschaft* (IW) when its remit officially shifted towards that of a think tank.

13 In 1953, the BDA produced a basic programme, *Reflections of the Social Order*. It featured, despite some internal opposition, 'pragmatic acceptance of trade unions' in sharp contrast with Weimar-era pronouncements (Silvia 2013).

14 The main exception to this hostility took place in April 1951 during the payment crisis when the BDI came to an explicit agreement with Erhard on a 'voluntary' tax to finance investment.
15 American influence over West German competition regulation was twofold. Occupying powers directly legislated against concentration in the 1947 Law 56 and mandated Erhard's bizonal administration to draft a new law in 1948. A 1950 research trip to the US led by the chairman of Erhard's advisory council Franz Böhm provided the groundwork for the publication of a report that was influential in the drafting of the anticartel law (Djelic and Quack 2005, Van Hook 2004).
16 Notably, German officials of the first Commission were instrumental in interpreting its competition remit set in the Rome Treaty as giving it direct overseeing powers, in contrast to French calls for greater latitude to national regulators. Germans also influenced the 1960s Commission to take a more lenient view of productivity-enhancing mergers than status quo-maintaining cartels (Djelic and Quack 2005).

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5 France's unsustainable Fourth Republic

The twelve years of the Fourth Republic[1] provide a fascinating contrast with the early Federal Republic of roughly the same period. Whereas the reformed German state mobilised economic strategy for dynamically integrating itself in the world economy, the French government struggled reactively with inflationary distributional claims, and failed to implement trade liberalisation. Having demonstrated its incapacity to prevail over social interests, the enfeebled Republic had few defenders when attacked by colonial putschists in 1958.

At the Liberation of France in the summer of 1944, general Charles de Gaulle brought from Algiers to Paris his provisional government, which was officially recognised by the Allies in October. A year later a constituent assembly was elected. Alongside the vote for representatives, in a referendum, electors massively endorsed a mandate for the assembly to write a new constitution. In April 1946, a first project adopted by the assembly was rejected in a referendum. A new assembly was elected in June, whose constitution project was endorsed by an ultimate referendum in October. The resulting Fourth Republic was, in most respects, similar to the parliament-dominated Third Republic. De Gaulle, supporting an executive-led institutional model, and uncomfortable with the left-leaning coalition government, resigned in January 1946 and campaigned for the 'No' vote in the two referenda of that year.

Supported by a consensus of political and social forces, the *Libération* governments enacted a number of substantial popular reforms, including social security and nationalisations (echoing those of the 1945 Clement Atlee government in Britain). However, handicapped by low-capacity institutions, governments proved unable to enact the *tough*, *unpopular* reforms that would have stabilised prices and allowed trade to resume.

Immediately after the war, Germany, Italy, and France experienced spectacular price inflation that ended with stabilisation programmes and monetary reforms in 1947–48 (Britain's prices grew at much lower pace in this period), and concluded with the September 1949 devaluation of major currencies against the dollar. The 1950s saw low inflation, rising trade, and sustainable economic growth across Europe – but not in France.

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The Fourth Republic struggled to deliver a stable monetary regime. Arguably, the most crucial decisions on economic policy were taken in April 1945 when prime minister de Gaulle refused '*la rigueur*' proposed by minister of national economy, Pierre Mendès-France, not because the policy package was regarded as undesirable, but because the government believed it lacked the political strength to affront the interests that would coalesce around Poujade a decade later. In the 1950s, France suffered two periods of accelerating inflation, culminating in 1952 and 1957. Although these were roughly synchronous with overheating of the global economy, inflation rose higher in France than elsewhere. Later, governments intervened to stabilise prices as French inflation unleashed full-scale financial crises. As a result, there was less growth in production in France than among its peers.

Likewise with trade: Germany saw a dramatic increase in the GDP share of foreign trade after the war, whereas the percentage declined for France (Table 1.4). By most accounts, the Fourth Republic failed to adapt to the new postwar international environment. Governments did not engage in sustainable liberalisation; they relied twice on the use of quotas and struggled to wind down extensive measures to help domestic producers cope with international competition. Timid opening initiatives proved at odds with the inflationary settlements of societal claims, and had to be rolled back when the current account balance became unsustainable in 1952 and 1957. Governments were committed to the European and Atlantic integration coordinated by the General Agreement on Tariffs and Trade (GATT) and the Organisation for European Economic Co-operation (OEEC). Most crucially, France was the main protagonist of the Rome Treaty that created the Common Market, effective in January 1959.[2] But European integration was incompatible with the 'Malthusian' model aimed at preserving the social status quo: quotas, opposition to liberalisation and global competition, protectionism, and other policies designed to maintain an equilibrium rather than foster innovation. France was set in what Marxists call a 'contradiction': its only emerging comprehensive project that was compatible with the postwar environment (aka modernisation through European integration) was opposed to the social consensus inherited from the 19th century.

The Malthusian model rested on an ideal-type 'equilibrium' between social groups. It was impotent at transforming economic growth. Lacking any consistent road map, Malthusianism turned into short-term sectoral distributive demands. But the model was resilient because political competition was fed by interest groups that depended on government's resource allocation. In this system, opening trade was effectively impossible, as shown by the 1952 and 1957 payment crises. Protectionism was the external face of the domestic overdraft economy, experienced through inflation. Hence, in both trade and money affairs, the France of the Fourth Republic achieved very little in contrast to its peers. What explains this French exception?

I will argue that three independent causal mechanisms – the societal, institutional, and ideational – reinforced each other. The government feared the revolutionary potential of *social*, distributional conflicts, and pursued policies (such as monetary creation) to avoid confrontation.[3] *Institutions*, in turn, facilitated government's avoidance of conflict: the weak executive, on which claims converged, relied on the state-run financial system to feed credits and subsidies to firms, thus postponing market sanctions and their social consequences. This has been called an 'overdraft' economy, presided over by the all-powerful Treasury. The *ideational* variable came into play because many 'modernisers' regarded the overdraft economy as a cash smokescreen for curtailing consumption in order to boost investment. But inflation was incompatible with insertion into the booming international trade network.

Recurrent distributional battles – including industrial action and farmers' protests – provide the background to this chapter. I will first explore the Fourth Republic's institutional shortcomings and the perverse 'overdraft' system that arose at the Treasury in rivalry with the conservative Banque de France. I will argue that, and explain why, this left the enlightened planning commission mostly impotent. Lax money management contributed to the two inflationary episodes, as governments bowed to claims from unions, Poujadistes and business groups – each of which, as we will see, influenced policy. I will next consider the two failed attempts at trade liberalisation, deep ideational opposition to it, and the emergence of the fragile European integration agenda. I will review how a closed analytical system exacerbated, rather than challenged, predominant policies. I conclude the chapter by arguing that the inflation-generating growth of the Fourth Republic was unsustainable.

The *Libération*'s spent opportunity

'To govern is to choose' claimed Pierre Mendès-France,[4] the man who could have been France's Ludwig Erhard but became, rather, its Cassandra. Elected to parliament as a (centre-left) Radical Socialist in 1932, he was imprisoned by the Vichy government and escaped to join de Gaulle in London in 1941. In September 1944, three weeks after Paris was freed from German occupation, Mendès was chosen by the general to head a super ministry of the national economy, which would, in theory, supervise all relevant state operations. (This approach was echoed by Erhard's department five years later.)

Mendès's ideas about money anticipated the German reforms of 1948. He was, however, no ordoliberal. In tune with prevalent views at the time, he believed in extending state planning of the economy, and in significant nationalisation of key business sectors. What set him apart was a belief in *la rigueur*; the word 'austerity' lacks the normative undertone of the French term. Mendès believed that to recover from the war, France needed to moderate investment and consumption, and that a monetary clean-up was a precondition for such moderation. Erhard thought about incentives: a trusted currency and free prices would entice Germans to produce. Mendès thought republican morality: a stable currency would constrain politicians to balance budgets and speak truth to citizens, who would thus accept wage restraint.

He proposed an initial freeze of cash balances linked with a currency swap, to be followed by an assessment of assets that were to lead to taxes on war profits and the largest fortunes.

Mendès and the finance minister René Pleven disagreed about policy and about the remit of the economy ministry. In early 1945, tensions between them increased. In April, de Gaulle favoured Pleven and Mendès left the cabinet without much support, opposed by the Communists and the Banque de France (Bougeard 1994). The government leader was afraid of unsettling the still massive rural France, which had seen gains in the black market and had accumulated savings, often in gold. The moment of rigueur was aborted, and this was to affect the upcoming Fourth Republic by dragging governments into distributive battles. With Mendès' failure, the *Libération*'s high expectations hit the institutional reality.

The French political élite was eminently aware of the shortcomings of the Third Republic's institutions. De Gaulle and the three leading parties dominating government – the Communists; the Socialists from the Section française de l'internationale ouvrière (SFIO); and the Christian Democrats of the Mouvement républicain Populaire (MRP) – were united in their rejection of the impotent governance of the 1930s. But the process of constitutional revision, launched in October 1945, was hijacked by political jousting, perhaps due to its public nature and the lack of leadership. The government was divided over key options. Eventually, the French constitution experienced a mere facelift, leaving in place the ineffectual executive branch – the very arm of government that brought the 1940 defeat.

The constitution was drafted in public debates of the constituent assembly that was rich in defiant posturing, and endorsed by the October 1946 referendum. Left constituents entertained a Rousseauiste fascination with the French Revolution's *gouvernement d'assemblée*. The executive power was a blind spot. But even the broader republican current that included the liberals was suspicious not only of the government, but also of constitutionalism itself, which was perceived as a threat to the popular sovereignty expressed in elections, and to social autonomy (Rousselier 2015).[5] The two constituent assemblies tasked with writing the new constitution skirted contemporary governance questions, stuck in pre-republican issues, such as the containment of executive power. This context ensured that neither state capacity or legitimacy nor the rule of law were enhanced by the postwar institutional reforms.

Constituents sought to make institutions more decisive by concentrating powers in the lower chamber, now called the National Assembly – out of hostility to the conservative Third Republic senate. Checks and balances were mostly ignored. The president was consigned to a largely ceremonial role. Some weak measures to strengthen the role of the prime minister (formally 'president of the council') failed under the weight of parliamentary tradition. The government was given the legal option to ask the president to dissolve the assembly and call new elections, which could have helped discipline the parliamentary majority. But this dissolution option could be used only under strict conditions, including a censure vote by the majority of deputies. The process that actually emerged required rebel components of the parliamentary majority who wanted to oust the government to negotiate to make the cabinet resign. This was to be done without calling a formal vote of non-confidence – leaving the PM without the ability to threaten dissolution. Proportional representation, introduced in 1944, was kept by parliament (it is not a constitutional provision), as it was believed that the then small number of parties would be consolidated, and that this would help government stability. But fragmentation developed rapidly as the system guaranteed representation of the smallest factions.

Alone amongst major political leaders, de Gaulle fought the new constitution, calling for a robust executive president in light of the defeat in June 1940. Most on the left, along with many liberals (with notable exceptions like Léon Blum), opposed this proposal, frightened by the precedent of Louis-Napoléon Bonaparte's rise to power in 1848;[6] and because they wished to prevent a return of Vichy authoritarianism. The general's misplaced critique of political parties, with its perfume of *caudillismo*, did not help the message's reception.

In 1945, Mendès showed that the state was unable to lead society. The ill-conceived constitutional reforms of 1946 were no help. From then on, government and state institutions sought primarily to handle distributional demands, which would become the main principle for explaining the workings of the Fourth Republic's institutions. The failure of this principle led, in 1958, to the collapse of the Fourth Republic.

It is rare, but illuminating, to compare the Fourth Republic's institutions to the Federal Republic of Germany's 1949 basic law. Bracketing federalism, which was irrelevant to France, German constituents sought to curtail parliament rather than the executive, by enhancing the rule of law with the Constitutional Court. They fully endorsed the Westminster model of a *leading* prime minister and a formal head of state. Parties were recognised and made responsible, the electoral system included a majoritarian mechanism. The 'constructive vote of no-confidence' was innovative in limiting government instability. In contrast to France, the German constituent process was secretive, and the constitution was endorsed by parliamentarians only, in an epoch-making reversal of plebiscitary demagogy. Lower state capacity in France explains the Fourth Republic's failure to drive the country to fully participate in the postwar boom.

The distributional vortex

The Fourth Republic's institutions were dramatically underequipped to address a country steered apart by sectoral groups. French revolutionary history, revived in the 1930s and quite alive in the Communist mobilisation at *Libération*, led to a congenial government 'peur de la rue' or fear of riots (displayed, most recently, in the 2019 Gilets Jaune crisis).

Early on, the Third Republic found a settlement under which the state sought *l'équilibre économique*.[7] Critics called it Malthusian because of its implicit zero-sum view of innovation. The resultant policies aimed at 'protection and defence' of existing industries, including small retailers and farmers (the herald was the 1892 Méline tariff). In reaction to sectorial demands, governments would manipulate tariffs and subsidies, often alongside corporatist regulations, resulting in high barriers to entry, survival of the least profitable producers, stagnant production, and slow innovations (Cleary 1989, Kindleberger 1963, Kuisel 1981, Lüthy 1955, Sauvy 1967).

Tentative trade liberalisation in the late 1920s was aborted with the Depression, which saw, largely in response to interest group claims, the spread of quotas, licenses on imports, cartel agreements, exchange controls, and clearing agreements (Haight 1941). That approach had not prevented the 1936 social explosion and its tragic impact on rearmament (through the mandatory 40-hour week). By 1945, while Malthusianism was forcibly rejected across the political leadership spectrum, the sectoral coalitions behind the model were well alive, with unruly labour unions on the left and stubbornly backward-looking peasants and retailers on the right.

Postwar French trade unions were 'irresponsible' in a positive (not normative) sense: unions were uncommitted towards the long term and tended to decline a share in management responsibility (Reynaud 1966 [152] uses the term *irresponsabilité*). This reflected structural and ideological factors enduring to this day.[8] Unlike in Anglo-Saxon countries or in Germany, in France, there never was a wage-contract cycle, as salaries can be renegotiated every year; work stoppages can be launched at about any time for any reason, usually for short periods as the decentralised movement has little funds to support strikers (and to discipline local units). Industrial relations volatility is exacerbated by shop floor competition between unions on ideological grounds, wrapped in a romantic vision of working class spontaneity and *action directe*, often encouraged by management support for small unions perceived as weakening the largest ones, at the cost of increased instability (Reynaud 1966). Governments have been keen to recognise small unions as 'representative', with a statutory right to collective bargaining: 'French authorities seem to have shown a delight in recognizing minuscule unions, splinter-groups and breakaways, and France is an exception to the general rule that the power to recognize is generally used to stabilize union structure' (Clegg 1976, 38). This may have been viewed as the least-worst option because, if governments had helped the strongest unions (as in the US and Germany), it would have ended up reinforcing the Stalinist Confédération générale du travail (CGT, ibid).

Ideologically, most French trade unions follow an anarchist and revolutionary tradition that joins immediate material claims with broader political demands, while lacking and often rejecting economic analysis. For all unions, the massive 1936 strike movements that coincided with the Front Populaire electoral victory constituted a model of quasi-revolutionary modus operandi – despite its generally unacknowledged shortcomings.[9]

Competition between trade unions, the 'revolutionary' ideology at the CGT, and the lack of multi-year labour agreements produced regular attempts to ignite conflicts. Their propagation generally depended on their peculiar circumstances, notably popular perception of the recent trend in retail prices. Meagre trade union resources gave strikers only minimal support. Thus, momentum was crucial; strikes lost impetus if they lacked walkouts, which built up support that, in turn, led to political intervention. Typically, waves of industrial action would initially focus on Paris state-owned enterprises, often public transport. Once considered at cabinet level, increases were usually granted. The increases, in turn, were cited in claims from other sectors, leading, thus, to a generalised upward adjustment in wages.

If inflation was a two-stroke engine, the counter-weight to urban wages was agricultural prices. The massive French agricultural sector had the advantage of a dominant peak association, as postwar farmers' interests coalesced around the Fédération nationale des syndicats d'exploitants agricoles (FNSEA). The group's numbers made it politically influential: agriculture employed one quarter of the active population in the mid-1950s (Carré et al. 1972, 496). But it was influential also because it was single-mindedly concerned with prices. Government regulated some key prices (including wheat, bread and, intermittently, meat). For many households, food prices were a proxy for the wider cost of living, and rises seem to have directly influenced workers' sentiments during labour conflicts.[10] Conversely, politicians feared farm protests just as much as trade union activism.

The postwar state was unsuccessful in restructuring farmers' representation. Despite *Libération* government patronage, the left-leaning Confédération générale de l'agriculture (CGA) failed to become the umbrella group for trade bodies, co-ops, mutuality and farm banks (Cleary 1989). It was rapidly overshadowed by the agricultural syndicate (the FNSEA), which was led by the old agricultural élite (Cleary 1989).

Throughout the 1950s, agricultural militancy was focussed on prices. Smallholders had no resources to invest in productivity improvement. The only way to shadow the country's growth in living standards was to obtain higher *real* unit prices, which they obtained by leveraging their politically weighted sheer numbers. Meanwhile the more capital-endowed farmers (often in the North and Paris areas) could enjoy growing profitability. This blue-collar-to-green-collar redistribution model – part of the Malthusian settlement – had powerful allies in the fragmented urban *petit commerce*.

The influence of retailers and craftsmen peaked with the rise and fall of Pierre Poujade's movement. He first created the Union de défense des commerçants et artisans in 1953 on the back of local anti-tax demonstrations, and then formed the political party Union et fraternité française, which burst into parliament in 1956 after winning 12% of the votes, only to be thoroughly defeated in the first Fifth Republic elections in 1958 (Souillac 2007). The small business lobby group Confédération générale des petites et moyennes entreprises (CGPME), created in 1944 and still operating today, has had a longer lifespan.

In 1953, protests erupted in reaction to the fiscal consequences of price stabilisation. Two-year delayed tax bills stopped being devalued by inflation, leading to a jump in actual tax paid over 1952–53. A new centralised tax administration, the Direction générale des impôts (DGI), created in 1948, was flexing its muscles. When interest rates were generally lower than the rate of price increase, small traders who had invested in *physical* stocks of goods tended to benefit from inflation compared to savers. The over-developed retail and artisan sector was nervously seeing the emergence of supermarkets (the all-purpose *magasins à prix unique*). Perversely, the sector's political weight had gained it special treatment, notably low effective tax rates, but the regulatory framework was also a disincentive to invest and expand (Tristram 2005).

The Poujadistes' biggest policy impact was to slow down fiscal reform. Shopkeepers fought against attempts to extend the new value-added tax (VAT) to retailers; the tax favours more capital-intensive and thus more productive operators, and the retailers believed they would be disadvantaged compared to supermarkets. VAT implementation was also poised to curtail tax evasion and stiffen enforcement.[11] Intensive lobbying in parliament led the government to abdicate and decide against extending VAT to retailers in April 1955 (Duverger 1960, Tristram 2012). In the same period, the government passed significant tax cuts for artisans and lightened control mechanisms (Tristram 2005).

One of the most symbolic Poujadiste battles was against the 1954 anti-alcoholism plan of PM Mendès-France. In an approach that prefigured that of the Fifth Republic, Mendès used primarily economic arguments to fight subsidised overproduction of alcohol, and to depict the severe consequences of world-record abuse.[12] He attempted to withdraw legal, hereditary alcohol production privileges granted to 3.5 million farmers (the *bouilleurs de cru*), but parliament swiftly censored that initiative. Reaching out to farmers, Poujade led the anti-Mendès revolt under openly anti-Semitic slogans.

The Poujadiste coalition contributed to the maladjustment of the French economy by considerably slowing modernisation of the retail sector, which remained an inflationary factor, a drag on tax collection and channel to resource misallocation.

Caught between unruly trade unions, an overwhelming farm lobby and politically destabilising Poujadistes, French governments were wary of approaches that aimed at a grand bargain or a social settlement of prices and wages. They were seen as inherently inflationary, based on the precedents of the June 1936 Matignon accords and the July 1946 Conférence économique.[13] Both negotiations led to important increases in pay but caused inflation without making the industrial bargaining framework any more inflation-proof. Consequently, postwar governments sought initiatives to prevent tension from rising. But these initiatives were either futile or backfired (possibly because the political leadership was not ready to seriously commit to them and their outcomes).

New institutions to represent social interests were created, including the Social and Economic Council, an advisory price committee, and a body fashioned to debate and direct credit policy. Each could have been the conduit for at least informal negotiations between the government and social interests. But none helped pave the way for a social settlement, nor pre-empted or helped cool price spikes; instead, they engaged in merely technical discussion.

The most important government initiative to deflate social tension occurred with the shift from wartime state-controlled wages to a peacetime regime. This was reflected in the February 1950 law on collective bargaining and the minimum wage (SMIG), which was meant to mark the unfolding of a new era where wages would be set by decentralised negotiations between employers and unions, closing a sixteen-year *dirigiste* period. The law was seen as shifting the burden of stability to employers, who would resist pay rises that would endanger the survival of their business, whereas workers would hesitate to strike if threatened by unemployment (Le Monde 11/2/1950).

The key mechanism of the 1950 law, which aimed to distance the SMIG setting from the government, was the Commission supérieure des conventions collectives (CSCC). Under this commission, trade unions and employers' federations representatives were to determine the minimum wage rate. The SMIG was to provide the basic 'vital' buying power for a blue-collar worker's family, measured through the calculation of a typical household budget. However, in a characteristic instance of the Fourth Republic's incapacity to frame economic debates, the CSCC did not agree on the budget components, thus making the government responsible for setting the rate. In August 1952, emphasising the failure in social dialogue, parliament voted a law indexing the SMIG on consumer prices, which only shifted the problem to the index's definition.

Not only did the 1950 law fail to create an autonomous process for setting the minimum wage, but it also had the perverse effect of abetting the centralisation of wage and price setting by the government in a politicised process. Despite preaching decentralisation, the government helped to focus social conflicts on the SMIG by using it to index residential rents and family allowances. Rises in the minimum wage became a focal point for trade union militants. Once granted by the government, they provided an impetus for new claims across the whole wage scale. The '*hiérarchie des salaires*' was a widely respected idea – egalitarians were a small minority even in radical unions. A rise in the minimum wage was perceived as a legitimation of rises in all other wages. These claims were reinforced by a widespread perception that wage disparities had been much reduced by the war economy and needed expanding (Lefranc 1969).

French centralisation was profoundly dissimilar to the German version. The latter concerned industrial relations and operated dynamically between labour and employers. In France, trade unions remained fragmented and competitive, whereas economic power was concentrated within the state.

Unions had no incentives to seek to optimise their claims with the broader population (unlike their German 'encompassing' sisters), but they were very aware of power concentration; unions would easily pitch their claims at the government above ministerial and company heads. Meanwhile, the government could always mitigate a ruling in one sector with a measure in another, postponing and shuffling around real costs. Without a political will anchoring the state, centralisation increased the risk of a price-wage spiral.

Cartelised, subsidised, and regulated French business added further fuel to the inflationary distributional fire. Following *Libération* capitalists were ostracised, widely seen as former *collaborateurs,* but lobbying grew in influence under the Fourth Republic. The initial activity of the Conseil national du patronat français (CNPF), a peak association that included all the sectoral business federations, established in December 1945, was rather low profile, but the organisation gained in strength as politics were reshaped by the Cold War. With regard to public policy, the CNPF was essentially defensive and short-termist. Note that the words '*patrons*' and '*patronat*' carry a social class meaning that is not evoked by its translation as 'employers'.

Producer lobbies' political influence was mostly felt in parliament, where they would finance candidates opposing the left at election time; many deputies could count on a regular CNPF stipend. The lobbies would supply printed information backing their stance to parliamentarians who had limited secretarial support, and their standing committees lacked much research staff. Physical access to the National Assembly and Conseil de la République buildings made some groups seem intimidating. Meanwhile, the state depended on trade associations to implement policy, and cartel-like regulatory capture was rampant (Ehrmann 1957, Weber 1986).

The 1950 plan to offload wage settlements to 'social partners' was stillborn. In the social and economic framework of postwar France, discussion about wages and prices had to involve the state as the central actor; assuming labour and business could discuss these matters together unsupervised was either wishful thinking or short-term cynicism. Rival distributional claims fuelled political competition, pressuring a weak executive, which state agencies had to accommodate. In short, thanks to a commitment to restart market mechanisms that was widely popular with public opinion, the French state was unwilling to set prices and wages. But it was impossible to implement this approach because the state controlled a massive share of the economy. Crucially, social actors were unequipped and unincentivised to play by market rules. Notably, many private sector businesses were able to access cheap credit and subsidies on demand. Distributional claimants would seek state arbitrage in any dispute, and the Treasury would accommodate by printing money.

The Treasury and the overdraft economy

The institutions in charge of economic and financial policy experienced structural stress between their massive footprint and the volatility of political decision-making. The French state's reach and scope had expended massively since 1914. Government spending as a share of GDP had grown from 17% in 1913 to 39% in 1937 (Schuknecht and Tanzi 2000). The *Libération* brought a thick extra layer of responsibilities with the creation of social security, widespread nationalisations, and inception of economic planning. Beyond sharp policy divergences, the leading political forces supported modernisation and overturning the Third Republic's '*Malthusianisme*'. But these forces proved inattentive, if not hostile to the effectiveness of government.

The result was utterly dysfunctional. The congenial '*peur de la rue*' of French governments was left without any semblance of long-term leadership to balance it. The political leadership was, on paper, behind modernisation, but the guiding metric was fear of social unrest. Governments on average survived just over six months and were never in a position to engage civil society. The one such attempt, under the 1954–55 Mendès-France presidency of the council, lasted barely in line with the average.

The formidable French state was left like an armoured division without a road map. The tension between the institutions' sheer weight and their fear of public opinion was reproduced in the tension between the Treasury and the Banque de France. The commands were clearly in the hands of the Treasury, which controlled credit allocation by banks. But the *Trésor* was torn between its commitments towards investment and its fear of a repeat of prewar liquidity draughts when the Banque de France dictated its terms to cash-starved governments. The Banque de France was largely autonomous, and remained closed to the financial sector despite its nationalisation in 1945 (a few months before the Bank of England). Its standing was diminished and its intellectual firepower was clearly behind that of the Treasury. However, the Bank still had ultimate veto power over spending, which it exercised defensively, as opposed to strategically. Two agencies under the legal umbrella of the Treasury had lasting influence over French economic governance: the Plan Commissariat and the statistics body INSEE. But I will argue that their impact was fully felt only under the Fifth Republic. Meanwhile, client ministries were seldom above the role of sectoral mouthpieces in the distributional cycle.

After the war, the Treasury's remit was extended considerably, as it came to oversee the nationalised companies and banks, as well as disburse the Marshall funds. Thanks to regulatory supervision of the financial system, the Treasury controlled the volume of credit issuance. By 1955, its balance sheet was bigger than that of all other financial institutions put together (Quennouëlle-Corre 2000). It commanded an economic expertise much wider than its core public finance domain by recruiting the élite of France's top schools and supervising the nascent statistical bureaucracy.

The Treasury's worldview was rooted in interwar cash crises, during the Cartel des gauches and Front populaire administrations when governments had to negotiate terms of borrowing with the banking establishment and the Banque de France. The 1945 nationalisation of the Banque was partly motivated by a will to emancipate the state. However, the legal conditions for BdF cash advances to the Treasury encouraged it to develop 'shadow' financing techniques, and to extend its control over the financial sector. This was a case of 'fiscal dominance', as economists call a policy mix where monetary policy is at the service of government financing. But the Treasury's main aim was not, as it is often assumed when discussing state borrowing, to keep debt sustainable (it was low), but to *stay liquid*.

French savings were weak and difficult to channel into investment (CNC 1951). 1940s inflation delivered the 'euthanasia of the rentier' that Keynes had called for (2008), but also low investor confidence, leading many to hold on to bank note and gold stocks. The engine of money creation was bank lending to economic agents rediscounted at the Banque de France mostly under the *crédit à moyen terme mobilisable* facility. The latter transformed a modality of short term business borrowing into longer term investment financing. The facility came to overcome in value lending secured on real assets.[14] Government financing was the main beneficiary of financial market repression – the Treasury captured back liquidity created by the budget deficit through the 'circuit' (de Lattre 1960, 432).[15] The circuit designates the rules and operations that prompt economic actors to use liquidities to buy treasury bonds or to deposit them in bank accounts directly or indirectly controlled by the state. For the Treasury, capturing back the liquidities, which were created by credits to the economy, amounted to 'closing the circuit'.

The Treasury's tight leash resulted in an equity-light model – where businesses could live with a low capital base thanks to heavy borrowing – that has been called the overdraft economy. Its main draw-back was inflation, built-into the system. Firms benefitted from a de facto guaranteed access to extra credit, and companies' extreme sensitivity to interest rates undermined their use as a policy instrument: rising rates could immediately push many into bankruptcy. To maintain its leash over the economy, the Treasury fought internal financing of business investments out of cash-flow (Loriaux 1991, Patat and Lutfalla 1986).

The creator of the circuit, François Bloch-Lainé – Treasury director 1947–52 – thought it was a useful way to finance investment, which, in turn, would eventually sort out distributional conflicts. Put cynically, inflation was a smokescreen favouring a covert modernisation, with workers falling for a nominal illusion. However, data shows that the Treasury failed on its own terms. It did not deliver an exceptional investment effort relative to France's peers, and it did not protect its political masters from financial markets sanctions, ironically delivered by its theoretically dependant central bank (Bloch-Lainé and Bouvier 1986).

Much is made of planning in the typical narrative of the Fourth Republic. That claim deserves deflating. Most of liberated Europe, by continuing the war economy, centralised resource allocation for reconstruction; some form of investment planning was even requested by administrators of American aid. France had a dedicated planning agency, the 1946 Commissariat général du plan. But while the rhetoric may have been proto-socialist (thus garnering support from the left), the Plan was not. Early on, the Treasury won administrative supervision over the Plan. By the 1960s, the Plan morphed into a double exercise of coordination and informal consultation. Only the latter exercise was partly successful, thanks to its converging with other Fifth Republic initiatives that I will discuss in Chapter 7.

The 1950s Plan had a deeper, but more complex impact on French policy: it was a breeding ground for the emerging modernising technocracy and its worldviews. This role was played by individuals brought together in an agency – the Plan Commissariat – working outside the established hierarchical structure of the civil service. These men (who were recruited by the bigger-than-life Jean Monnet, 'father of Europe') would include Robert Marjolin, the first OEEC director general; Paul Delouvrier, future senior executive at the ECSC and the European Investment bank; Étienne Hirsch, who would take over from Monnet as Commissiare in 1952; Jean Fourastié, to be posted at the OEEC and the ECSC; Pierre Uri, who would write most of the Rome Treaty; and Roger Auboin, director general of the BIS (Gaïti 2002). This network had a double policy legacy: a specific one on European integration, and a macro one on regulation, as we will see in the next chapters. The *économie concertée* approach pioneered by the Plan, associating long-term targets and strategies with subtle state manipulation of incentives like the VAT reform was to become a template of Fifth Republic interventions.

Conversely, possibly the most counter-productive state agency of the Fourth Republic was the unsettled, myopic central bank. In a financial system harnessed by the Treasury, the nationalised Banque de France was apparently sidelined and subservient, but it played a prominent part in the 1952 and 1957 stabilisation programmes. The Fourth Republic's central bank was, to be sure, not autonomous in the usual sense given by the literature, as the Treasury was in charge of monetary policy; it controlled credit issuance and ruled over BdF interest rates. The bank had much *institutional* and intellectual autonomy. But unlike its German sister, it did not leverage its intellectual autonomy, and fell into scientific provincialism since the leading thinking took place at the Treasury or in the Plan's network.

Nevertheless, the Banque played a key part in economic governance by leveraging its political legitimacy as 'custodian of the franc', understood as the defence of its value in gold. The bank conceived of this guardianship reactively, focussed on government deficit and the exchange rate, rather than actively attempting to build 'confidence' in the franc to stimulate foreign investment. Unlike Germany, it lacked a holistic strategy for economic growth. Its favouring tool for creating confidence was issuing state bonds, an approach heralded by the right's hero Antoine Pinay, prime minister in 1952. The bank used its autonomy to play to an audience usually limited to the core conservative constituency of savers. Budget deficits in the 1940s and 1950s were primarily financed by direct Banque de France cash advances, rather than by issuing bonds to sell to banks.[16] The advances to the government were supplied under terms set by parliament, and any increases in the ceiling needed a formal vote and signature of a 'convention' between the two parties.

When that occasion arose, it gave the Banque the opportunity to communicate (usually by leaks and unattributed quotes) to parliament and the public its views on government economic policy. In this capacity, the Banque entered the political arena in 1952, 1953, and 1957, at the culminating points of liquidity crises but also during narrow political windows of opportunity, when governor Wilfrid Baumgartner (1949–60) played the 'pope' preaching to the 'emperor' – the finance minister (an ironic reference to that Middle Ages power struggle). Perversely, this political prospect was a key reason behind the Treasury's creation of the circuit, built to avoid or postpone as far as possible a request to the Banque for advances (Feiertag 2006). The Fourth Republic's Banque de France, in contrast with the German central bank, shows that central bank autonomy can be toxic outside the right institutional setting.

Besides the malevolent circuit, one side-effect of the rivalry between the Treasury and the Banque was to suffocate strategic thinking in the two institutions and in satellite organisations like the statistics office INSEE. This prevented the emergence of something akin to the national economic policy framework that played such a key part in building the German social market model.

The overdraft economy created by the Treasury to meet the demands of political leadership was unsustainable. It only postponed the time of reckoning, which came when international inflationary pressures put the French model under stress in 1951 and 1957.

Two inflation upsurges and payment crises

The 1951–52 and 1956–57 inflation episodes resulted in payment and political crises that exposed the governance inadequacies of the Fourth Republic. They followed a similar pattern: in both cases, the government failed to curtail growth in domestic demand (or allow market forces to do so) in order to accommodate increases in military expenditures and import prices. Excessive demand fed into a wage-price spiral, which the government accelerated by minimum and public sector wage increases, as well as by assistance to the private sector to ease the burden of higher wages and controlled prices.

Crucially, the state leadership misunderstood inflation. Higher prices were due, to the left, to moneyed interests that ought to be controlled and, to the right, to budget deficits, which had to be cut to re-establish trust in the currency (Chélini 1998). Both sides tended to ignore agricultural prices. Politicians would thus rarely address the price and wage rises mechanics, even less so investment misallocation. Money governance was purely reactive. French thinking about the issues was provincial. When Per Jacobsson reported to the EPU on German balance of payment problems in 1951, he found himself in an intellectual alliance with Erhard and the central bank. But, when he visited

France in 1957 as director-general of the IMF, he had to engage in pedagogy; his influential December 1957 report[17] met head on the dogma that investment could be safely financed out of monetary creation. In contrast with Germany, French institutions lacked an authoritative anchor to produce a narrative explaining and promoting price stability. Even government-issued price data was not trust-worthy.

During the two inflationary episodes, the double trigger for credit tightening measures was the deterioration of the balance of payment and budget deficits. These led to requests for support and associated adjustment programmes from the Banque de France, the EPU and the IMF. In 1952, prices eventually stabilised as the commodities cycle turned, growth slowed, the deficits were cut and 'confidence' was restored. In 1957, adjustment was tougher, the war in Algeria intensified, and in May 1958 a coup d'état attempt cut short the Fourth Republic experiment. I will provide a detailed account of the misfunctioning of distributional governance as a seminal case study of the tensions the expert state came to resolve.

Inflation in the wake of the breakout of the Korea War proved much more severe in France than in other major west European countries. Upward price pressures emerged in the mid-1950s, when the impact of earlier stimulus measures was amplified by the war boom in commodities and households building stocks of food and goods. Unlike the one-off measures enacted in early 1950 in Bonn and Frankfurt, the stimulus initiatives undertaken in Paris had a long-term impact akin to the extension of discounted real estate loans of *crédit à moyen terme*, as I discussed earlier. Domestic factors exacerbated the inflation, such as the increase in military expenditures driven by rearmament in Europe and the continuing colonial war in Indochina (Koch 1983).

In 1950 and 1951, prices and wages increased in waves and the new SMIG became the yardstick for new pay claims; workers wanted to retain a gap between their salary and the market floor. For instance, maintaining the wage hierarchy after a minimum wage increase was the engine of September 1950 pay increases in the Lille textile industry, as explained at that time in *Le Monde* (12/9/1950). Once one industry approved a rise in wages, it became legitimate in other industries to request similar increases. Such increases in unionised urban work forces paralleled increases in public service and food prices. This led to new calls for rises in the SMIG, which was increased twice before the June 1951 elections and once more in September. The policy establishment recognised the problem only in the autumn, starting in October, when money policy was tightened – one year after Germany.

The credit squeeze, helped by international commodity deflation, lowered inflation. The new top problem then became the double deficit in the trade balance and the budget. Because subsidies had stimulated domestic demand, the trade balance went from a small surplus to a large deficit. France suspended application of the OEEC's liberalisation programme, returning to trade quotas in February 1952. The ballooning budget deficit led to the February 1952 political crisis when the Edgar Faure government, just one month old, resigned. Antoine Pinay was appointed prime minister in March 1952 under the implicit nihil obstat of Baumgartner, as the BdF increased the ceiling of its direct loans to the state. An EPU loan of $100 million in June eased the balance of payment problems (Feiertag 2006).

In 1956, a new inflationary crisis broke out, brought about by excessive wage increases from 1954, as well as by accelerated growth in foreign prices,[18] and the military build-up in Algeria.[19] As in 1951, the French economy could not absorb an unexpected increase in demand. The government postponed necessary adjustments until liquidity problems arose. Conscious of the impact of SMIG rises in the prior cycle, compounded by the spread of indexation clauses, governments tried to circumvent the problem by increases in bonuses legally outside of the SMIG; by increases in social benefits; and by massaging the price index via subsidies, tax breaks, and price freezes.

In 1957, inflation exploded. Consumer prices rose 10.9%, a steeper increase than elsewhere. The public debt started increasing in 1956, and bloomed in early 1957 (BIS 1958, IMF 1958). Financing became increasingly difficult: the Treasury's 'circuit' broke down because depositors withdrew cash. The Guy Mollet cabinet took the first austerity measures in March, but in May, it resigned after it lost a confidence vote. Facing a liquidity crisis, the acting government sought an advance from the Banque de France; once the government voted it in, it requested another advance. The Banque asked for a 'convention' ratified by parliament.

Stabilisation arrived when credit began to be tightened in April, culminating in February 1958 with the Treasury imposing an across-the-board limit to credit issuance by banks (Patat and Lutfalla 1986, 156). '*L'encadrement du crédit*' (credit supervision) would become a central monetary tool of French governments until the 1980s. The trade deficit was the second cause of the policy adjustment. The deficit emerged in 1956 and deteriorated dramatically until 1957. Trade and foreign exchange liberalisations were again suspended and the franc de facto devaluated through combined import tax and export subsidy. France entered into discussions with its main international partners, leading in January 1958 to a (not yet christened) structural adjustment programme, which exposed the country's failure to integrate into the booming Western Europe economy.

French trade's lost decade

Consistent with the rejection of Malthusianism, a theoretical consensus in Paris rejected the corporatist 1930s and embraced the desirability of liberalisation and the importance of European economic integration; but liberalisation and integration were seldom regarded as priorities. Treasury director François Bloch-Lainé and Carrière (1976) and Bloch-Lainé and Bouvier (1986) brilliantly represents this attitude. France was a leader in creating and steering the international institutional trade frame, including the OEEC and its sister the European Payment Union, but the country lagged with regard to implementation. By September 1956, France had the lowest share of liberalised imports in the OEEC, save Iceland. The liberalised share of its trade with the dollar zone, meanwhile, was the lowest in Western Europe, with only 11% (based on 1953 patterns) against 24% for Italy, 56% for the UK, and 91% for Germany.

Liberalisation was even shallower than it appeared. Off-quota trade was submitted to tariffs that varied by country. Quota trade was administered by technical committees of the Economic Council staffed mostly by members of producer associations (Baum 1958). The share of French imports from OEEC countries was lower than its peers, except the UK, due to colonial trade. French trade was also profoundly distorted by subsidies and taxes that were subject to the influence of interest groups. As noted earlier, due to the balance-of-payment crisis in the summer of 1957, France returned to full quotas (EPU 1958, Penfield Travis 1964).

France, like Germany at the time, sought to prevent political debate about trade liberalisation. But whereas the German postwar leadership openly claimed ownership of the issue (in the name of a 'scientific', non-partisan, consensual economic analysis), French leaders sought to remove trade from the public sphere altogether. Moreover, in contrast to the genuinely engaged FRG, France aimed at formally meeting international commitments while maintaining the highest possible protection for the politically sensitive agricultural and manufacturing sectors.

European integration was another way to liberalise trade. In 1948, France abandoned its 1918-style hopes of plundering German resources. One alternative was to jointly manage coal and steel resources. This was sketched in the May 1950 '*déclaration*' from foreign minister Robert Schumann, designed by plan commissioner Jean Monnet. The statement established the foundation of what would eventually become the European Union, stipulating that 'contrary to an international cartel seeking the sharing out and exploitation of domestic markets through restrictive practices and support for high profits, the projected organisation will ensure the merger of the markets and expansion of production' (*Le Monde* 11/5/1950).

France followed a shaky trajectory beginning with the Coal and Steel Community in 1952 up through the Rome Treaty that created the Common Market in 1957. While the country's political-economy culture was profoundly protectionist, France's major international partners were pushing for liberalisation. The political leaders realised there was no alternative to European integration; this became very clear to Prime Minister Guy Mollet during the Suez crisis (Elgey 1992).

An enlightened clique of upper public servants upheld the twin virtues of liberalisation: increased exports would finance investment; *and* increased imports would pressure French producers to improve productivity and upgrade output to world standards. A March 1954 report by a commission on the price discrepancies between French and foreign products (headed by Roger

Nathan, a former public servant, academic, and businessman) pleaded for trade liberalisation and increased domestic competition between producers. These protagonists of the 'deep' Fourth Republic – including Marjolin, Bloch-Lainé, Uri, Hirsch, Nora, Gruson, and, of course, Monnet – created a bridge between the international integrationist consensus and the foreign affairs minister, Christian Pineau, and PM Guy Mollet, who were driven mostly by geopolitical considerations.

In supporting international trade treaties, these public servants expressed the French counterpart to West Germany's adherence to independent policy-making bodies. In both cases, the basic notion was to move some economic decisions outside of the political arena. Looking back at the 1950s, François Bloch-Lainé and Carrière (1976, 108–109) wrote that 'exposure to headwinds was necessary to throw away the exhalations of our visceral protectionism; without opening or certainty of a rapid opening, there would never have been a cleaning up and a reinforcement'.

Trade unions and employers' organisations opposed all major trade deals while paying lip service to the idea of free trade. Against European integration stood a nationalist right (including both Poujadistes and Gaullistes), the Moscow-aligned Communists, and various centre-left leaders like Mendès-France. The latter, consistent with the employers' organisations, argued that France could only liberalise trade with Europe once social regulation was harmonised, i.e., once other European countries increased their welfare provisions to the French level. This argument ignores productivity, but has proved quite resilient as it is still heard today.

Thus, the French ratification of the Rome Treaty in 1957 was a political tour de force. Its success was due to careful manoeuvring by the Mollet cabinet, which adopted the generalised sentiment that post-Suez France could not carry on 'alone'. Extensive provisions allowing for delays in liberalisation and agricultural protection also helped to persuade hesitant MPs. But to sceptical analysts of the time, it would have appeared as one more programmatic scrap of paper that France would disregard, just as it had with OEEC liberalisation commitments. The treaty was full of escape clauses. The quantum leap into modernity that the European Communities would allow materialised only under the new 1958 regime. At the onset of the Fourth Republic, trade was regarded as peripheral, but at its conclusion, trade had become a central issue defining the country's future in a coalescing Europe.

The overdraft Fourth Republic

The inflationary model obstructed France's adjustment to the postwar international economic environment. Compared to its predecessor, the Fourth Republic was burdened by more responsibilities while suffering from practically the same deficient parliament-led institutions. The social settlement was not an option because it would have involved the Communist CGT, and the weak and unstable executive followed rather than led societal preferences.

The overdraft strategy was therefore a technocratic Plan B to make up for political impotence.

Superficially, the divided labour unions and powerful trade and retail lobbies of postwar France match the sectoral vetoes of an Olsonian model (Olson 1965). But French unions were not crafts-based, unlike their British cousins, and generally advanced claims across whole industries – often across the whole economy. They did not veto modernisation in most conflicts, but did so, practically, by contributing to the price-wage spiral. Importantly, the configuration of the interest-group rivalry under the Fourth Republic – blue collar unions, Malthusian small producers, Poujadistes retailers, artisans, and farmers – invalidates the 'society vs capitalism' narrative promoted by Streeck (2016).

Coordination by corporatist institutions looked impossible in France. The largest union, the CGT, was closely associated with the Communist Party that was strongly influenced by Moscow. In supporting a revolutionary agenda, it was, by definition, opposed to social compromises (except for those that were temporary and tactical). FO and the CFTC, even if anti-communist, professed socialist and mildly anarchist views, and also rejected grand compromises. Meanwhile, the business leadership in the private sector, still largely in the hands of owner managers, was characterised by a culture of secrecy and authoritarianism; its attitude towards the postwar emergence of the social state was typically reactionary. The CNPF of the late 1940s and 1950s opposed all social innovations and worked to prevent wage increases. It was unable to formulate an alternative to the mildly social-democratic model taking shape. The problem posed by the nature of the CGT camouflaged a deep attachment to pre-1936 paternalist management of the economy (Weber 1986). The small businesses body, CGPME, had the same inclinations; its conservatism was unchecked by the CNPF's few enlightened multinationals.

The problem was as follows: coordination through corporatist institutions looked impossible; but 'liberal' coordination through the market was unthinkable because of the state's central role. The state owned significant portions of industry and services (including energy, transport, and finance), directly and indirectly controlled most prices (including food), directed credit, subsidised exports, and restricted imports. Wage negotiations were products not of talks between workers (risking their jobs) and businessmen (risking their assets) but of claims aimed at the government, who was ultimately responsible for ensuring that employers could afford to raise wages. Paradoxically, then, France was a coordinated market economy without much coordination or market. The contradiction between state centralisation and the leadership's conflict-avoidance path created a paralysed and unsettled system.

As it became France's development bank, the Treasury also took on the role of a firefighter, a *pompier incendiaire*. To safely operate, the Treasury-dominated financial system needed to suck up most available savings and keep banks on a leash. This prevented the re-emergence of a healthy financial market that could support investment. In turn, the lack of private financing was used to justify the perpetuation of the overdraft economy. Jacques Rueff (1963) estimates that most of the monetary creation was accounted for by investment, which could not be financed by savings for lack of trust from investors. In short, monetary financing was justified by the lack of savings that it itself subverted.

The centralisation of investment under the Treasury's auspices was probably sub-optimal. On the one hand, public investments were ultimately arbitraged after heavy lobbying, and possibly biased towards the larger, lower marginal productivity concerns (Quennouëlle-Corre 2000). On the other hand, private investment was awarded under automated mechanisms (including loan discounting at the BdF) outside of market discipline.[20] The calls for more 'selectivity' in credits during tightening revealed the standard practice (for instance in a speech by BdF governor Baumgartner – *Le Monde* 19/1/1952). The vast small enterprise sector was geared towards tax avoidance and inflation arbitrage, rather than towards competition and investment.

Apologists for the Treasury argue that it sustained high investment despite political mismanagement – a view endorsed uncritically by some authors (Carré et al. 1972, Kuisel 1981). The implicit argument is that if France had lowered inflation, it would have grown at a slower pace than it did. Carré et al. focuses on the contrast between interwar and postwar France. But this is the wrong metric to look at the inflation issue for the international context was unrecognisable. Contemporary comparisons show that while, in the 1950s, inflation was higher in France than elsewhere, investment was significantly lower than in West Germany, comparable to Italy but superior to Britain.[21] This ranking was in line with that of growth rates (inflation and growth are discussed in Chapter 1). There was no trade-off. To claim a balancing act between inflation and investment (as in, e.g., Bloch-Lainé and Carrière 1976) is not only theoretically dubious but also an ex-post rationalisation. In fact, policy decisions during rising inflation in 1951 and 1956–57 were driven by the interlocked logics of social-conflict avoidance and government liquidity.

The priority given to growth, which was at the time phrased as a priority to investment, should not have implied support for consumption, a point made clear by many in the 1950s (including Auboin 1952). But the state was unable to take the stand of *la rigueur* advocated by Mendès and repress consumption (assuming the military's needs were untouchable) while keeping investment growth on track. I thus believe that the political resistance to meaningful credit tightening (whether through monetary or administrative means) used the slogan, 'priority to growth', to mask its inability to slow the system through credit. Thus, in 1955–57, because there was no trade-off between investment and consumption, both grew unsustainably.

Meanwhile cash-dependence was a structural feature of the savings-deprived overdraft economy that dictated policy choices. Credit tightening was resisted in 1951 and in 1956 primarily because of the liquidity needs of the state and private actors, not because of a deliberate choice to favour investment.

The Fourth Republic appears to have been trapped in a conservative vicious circle. Economic growth was appreciable but largely the result of reconstruction, technological catch-up, and a buoyant international environment, greased by American aid. It is unclear if *that* growth was sustainable. Further, growth in France was significantly inferior to that in West Germany and Italy. The 1957 Rome Treaty was full of promises, but its lax provisions enabled France to continue postponing market opening as it had been doing under GATT and OEEC rules.

Fourth Republic France indubitably had an important asset in its civil service, featuring a capillary, uncorrupted, and competent administration led by intelligent, high-skill, and dedicated top graders. A deep state oriented towards the long term could have balanced the ministerial revolving door of mostly short-term minded politicians. But much of this potential was wasted in the directionless micromanagement of the price system and the self-serving circuit. The upper civil service did impact the policy trajectory and can be credited with the French commitment to European integration, but the institutional system was unable to bring about the embrace of the world market that the German social market achieved.

To summarise my basic argument, the Fourth Republic was unsustainable for a number of reasons. The executive could not generate enough social support to carry out decisions that went against the preferences of key groups. Attempts at commerce liberalisation collapsed, as I documented, due to inflationary money management, or were undermined by subsidies and ad-hoc rules. Introducing VAT into the retail sector was thwarted by opposition from the Poujadiste social classes. A dramatic illustration of this came when the regime floundered due to its incapacity to convince Algeria's *pieds-noirs* to accept some form of settlement with the Muslim majority – the springboard of the May 1958 coup d'état. The Treasury entertained a strategic view of the country's economic future, its approach amounted to stealth repression of consumption, and the establishment of international constraints that would eventually force the country to reform. But the state lacked the capacity to steer revolutionary unions and provincial business owners towards a productivist direction sketched by the Plan. Without the upheavals of 1958, this process would have continued, and the 1960s economic outcomes would have been far less spectacular. In the next chapter, I will make the case for understanding 1958 as a fruitful rupture with the previous governance regime.

Notes

1 Intended *strictu sensu* as the regime inaugurated in 1946 and abolished in 1958 by two constitutional referenda. The 1944–46 period, when France lived under provisional *Libération* institutional arrangements, is often considered, casually, part of the Fourth Republic era, as I do here.

2 When the first intra-EEC tariff reduction was to take place.

3 Budget deficit was a major issue throughout the decade because it was financed by issuing money, not by borrowing. From 1954 to 1963, total public debt as a share of gross national product declined every year, from 35.1% to 23.5% (BIS 1964).

4 From Mendès-France's 1953 book *Gouverner, c'est choisir*.
5 Gauchet (2007) understands 19th-century liberalism as a doctrine of individual and social autonomy, leaving little room for collective action through the state.
6 Gauchet (2010) argues that Western democracies learned presidentialism from totalitarianism, and that it proved to be one of the key components of the successful institutional adjustment that started with the New Deal (if not with the Progressive Era). De Gaulle understood this – his own terms were rooted in military doctrine and French history.
7 Conceived as a stable state of the whole economy, not as a theoretical condition of specific markets. An extension of the idea was '*l'équilibre des prix*' (see for instance Banque de France 1951, 3), which seemed to exclude relative price adjustments. 'Équilibre' as an overarching social goal might be rooted in Émile Durkheim's 'scientific social science' (Lukes 1982). This idea is echoed in Stanley Hoffmann's description of the 'republican synthesis' (1963).
8 The history of the French trade union movement shares much with Italy and Spain, but this relatively wide footprint for a competitive, revolutionary model doesn't prevent it from being mostly overlooked by the literature on industrial relations and corporatist societal systems, focused on the opposition between the Nordic and German coordinated models and their Anglo-Saxon alternatives. Hence, the provision of a more detailed introduction to industrial relations in France than that found in Chapter 3 on Germany.
9 Front Populaire pay increases were eaten up by inflation (Asselin 1984, 67); the 40-hour week lasted two years and is partly blamed for the 1940 defeat as it impeded increases in weapon production (Sauvy 1967); paid holidays stood, but are not peculiar to France.
10 *A contrario,* a decrease in food prices could undermine a strike movement: the relative failure of the politically-motivated CGT strikes of January and February 1950 could in part be explained by a decrease in food prices in February 1950 in Paris (CNC 1951, 27).
11 In 1957, the average *profit* reported by the 1.5 million businesses under the income estimation scheme was equivalent to the *salary* of a typist. In 1950, 80% of 'estimated' businesses inspected were cheating (Duverger 1960, 159).
12 Alcohol overconsumption was probably the biggest health problem in the country. The French were drinking over twice more alcohol per head than Italians (ranking number two), and almost four times more than Britons (G.M. 1954, 539). Alcohol killed an estimated 17,000 in 1955, over five times more than in 1946 when consumption was still constrained by war rationing (Elgey 1992, 276). A study pointed to alcoholism as the main reason for interwar forty to forty-four years old French males' higher mortality rate, 77% higher than Dutchmen, and 35% higher than Englishmen (Ledermann 1946).
13 This model, and specifically the 1936 accord, was the acknowledged reference of the May 1968 Grenelle agreement, which helped cool down the near revolutionary tension with steep pay rises.
14 A business would obtain a short-term loan by providing the bank with proof that a client owes it money – this is discounting. Then the bank would *rediscount* the loan to the central bank against short- or (in this case) medium-term, cash advance.
15 Alongside BdF advances (negative in 1954 and 1955), bonds, and correspondents' cash balances, the deficit was also financed by the *obligations cautionnées* or guaranteed bonds. Since the 19th century, the Treasury issued the bonds to businesses needing a three to four months delay to pay some taxes or duties. From 1948 onwards, instead of keeping them on its books, the Treasury discounted the bonds at the BdF (Feiertag 2006).
16 At the end of 1958, banks held Ffr 8.5 billion in public debt against Ffr 13 billions of BdF advances (Bloch-Lainé and de Vogüé 1960, 362–63).

17 I thank Jean-Noël Jeannenay for granting me access to the Wilfrid Baumgartner archive fund.
18 International commodity prices grew only 0.5% in 1955, but increased by 5.1% in 1956, according to the Schulze index quoted by the BIS (1958, 100).
19 The insurrection started in November 1954. Military expenditures including special lines for Algeria rose from (new) Ffr10.20 billion in 1955 to Ffr12.65 billion in 1956 and Ffr 13.03 billion in 1957 (BIS 1964, 6).
20 Market discipline did play an increasing role, however, through the rise of internal financing (Bloch-Lainé and Bouvier 1986).
21 Based on GDP share of gross capital formation at 2011 purchasing power parity rates, from Penn World Tables: Feenstra et al. (2015).

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6 The 1958 French reset of institutions and economy

In June 1958, ten years after the introduction of the deutsche mark put Western Germany on course for its postwar rebirth, France entered its own reformist moment. In a period of just seven months, the country experienced some of the most dramatic changes seen in democratic Europe in the last century. As in Germany, institutions and economics were transformed concurrently. After winning special powers from parliament, the de Gaulle government enacted a new constitution that considerably reinforced the executive branch, and introduced a radical reform package that liberalised trade and prices – against most received opinion. In the next few years, the new government altered institutions and governance further, making the new Fifth Republic akin more to a regime change than to a constitutional upgrade. By the mid-1960s, France was treated as an example for the rest of Europe; through the 1960s and 1970s, its economic outcomes were superior both to its Fourth Republic record and to its peers.

This chapter and next present three claims about the Fifth Republic:

- It enhanced state effectiveness by combining constitutional and governance reforms that tended towards a technocratic model.
- It established productivity growth as the state's main domestic purpose and as the response to distributional claims; and framed trade liberalisation through European integration as 'irreversible'.
- It reframed societal preferences accordingly.

These processes are intertwined. Centralising state power in the executive enabled the emergence of ideational leadership in historically unitary France. The new technocratic profile of government personnel supported framing of policies in non-partisan ways. Of these, trade liberalisation through European integration was treated as inevitable. In turn, this made it easier to get social interests on board by signing them up for *productivisme* and promoting technological excellence as consensus values guiding economic decision making.

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This technocratic and productivist model[1] resolved the quagmire of the Fourth Republic's economics by allowing inflation to fall to a level comparable to that of foreign partners, and by opening France's internal market to international trade. The Fifth Republic sustainably adjusted the French body politic to its mid-20th-century circumstances.

The literature on France's postwar economic performance mostly fails to account for *politics*. Much of it rightly emphasises proactive modernisation state policies, but without addressing the fact that these policies were part of a political loop. Many authors conflate the rhetoric of planning with the rationale for policies; planning concerned less centralised resource allocation and micromanagement than unlocking sectoral vetoes. Meanwhile, institutional studies on the Fifth Republic generally focus on constitutional mechanics. Conversely, my analysis explains the regime change by incorporating a variety of variables: institutional reforms, technocratic governance, the manipulation of social interests, and ideational leadership. I will argue that productivism was the original French solution to distributional conflicts and international challenges.

As far as I can tell, the literature ignores the profound similarities between the birth of the Fifth Republic and the establishment of the Federal Republic of Germany – I have not found a single substantial discussion of this. Comparing the two reveals an underlying pattern of adjustment to, or social learning from, the postwar democratic world order. The emerging state model indicates that radical, top-down initiatives from the executive were linked to democratically endorsed ideational leadership, and a reshaping of social preferences. State capacity was enhanced by presidentialism, regime legitimacy built through economic outcomes, and pluralism or institutional checks and balances ensured by the rise of technocratic power centres.

Chapter 7 will consider the sectoral policy initiatives that sought to break the inflationary distributional politics and accelerate France's integration into the international economy. In this chapter, I review the 1958 package of institutional and governance changes that combined the new presidential regime and its technocratic constituency, namely the Plan Pinay Rueff towards the end of 1958, and the commitment to trade liberalisation. As we will see, this model was stress tested during an inflation surge in 1963.

Régime change

The Fourth Republic collapsed under the weight of empire. The return to power of Charles de Gaulle in June 1958 – launching his Caesar-like tenure or 'principate' (Avril 1987) – was primarily the result of the coup in Algiers on 13 May. With the government and parliament plunged into crisis, General de Gaulle, who was revered by the military, offered himself as prime minister. His conditions were accepted after negotiations by President René Coty and most non-communist deputies, who elected him President of the Council on

2 June. The next day, alongside the senators, they gave him full powers for six months, together with a mandate to write up a new constitution. The constitution was endorsed by a huge majority in a September referendum, becoming effective in October. It included provisions for the continuation of full governmental powers during a four-month transition period. In November, the Union pour la nouvelle république, de Gaulle's new party, in alliance with centre right MRP and *modérés*, won a majority in the National Assembly. In December, de Gaulle was elected president of the republic by the electoral college.

The institutional revamp dramatically increased state capacity. In one fell swoop, it aligned France's government with Britain's and Germany's along three dimensions: stability; parliamentary discipline; and personalisation. (In rebalancing government by strengthening the executive branch, de Gaulle was likely acting on the ideas of the early 20th-century legal scholar, Carré de Malberg [Mouton 2005].)

The revamp simultaneously remoulded the regime and the political system. The *system* was transformed (through a government ordinance) by the modification of parliamentary election law: it shifted from proportional to majoritarian elections, and required two rounds of them. Associated with the launch of a Gaullist party and stable allies, in sharp contrast with the divided left, the reform brought out *le fait majoritaire*, the emergence of a solid, stable parliamentary majority for the first time since the Second Empire. (Without political party polarisation, majoritarian two-round elections under the Third Republic produced fragmented parliaments.) The new party system was fully consolidated after the October 1962 elections where the Gaullists alone held a majority. With time, the majoritarian system evolved into a bipolar version by the 1970s (Avril 1987, Raynaud 2017).

Under the new *régime,* parliament lost the sovereignty it had enjoyed since Marshall MacMahon resigned from the presidency in 1879. Laws could now be reviewed by the new Constitutional Council, which also had a veto over Parliament's internal rules. The government set parliament agenda and no-confidence motions passed only if a majority of deputies endorsed them. The president gained the right to call elections at any time, a tool that brought dissidents into the fold. Combined with stable majorities, these measures helped to strengthen cohesiveness within parties. Parliament lost most of its capacity for political initiative – France had entered the era of *parlementarisme rationalisé*.[2] Most of the decision-making that used to take place in the National Assembly was transferred to the government, partly because a disciplined majority voted as told so that the texts were almost fully written up by the government, and partly because the new constitution allowed for an increase in the scope of government-issued regulation against parliament-sanctioned laws. Executive control over parliament increased further after the 1962 referendum endorsing the popular election of the president and the subsequent legislative elections victory of the Gaullist party (Avril 1987, Chantebout 1985).[3]

The 1962 reform also strengthened the legitimacy of the presidential office, ensuring that it kept its central executive position even after the departure of de Gaulle and his Weberian charisma. However, at core the president's dominance over the executive and the state, in the 1960s as in the 21st century, is not the direct product of written rules. Rather, his leadership proceeds from him being recognised by the parliamentary majority as its chief (Debré 1981, Duverger 1973). This would become clear during the three 'cohabitation' episodes of the later decades. Usage of the referendum was a further tool for the executive to circumvent parliament and obtain popular legitimation.

In the new political system, electors were called to select a head of government who would be supported by a majority in parliament. This had been the case de facto in Britain since the 19th century, and in Germany since the war, but was only attempted in Italy in the 1990s. This executive-dominated model – unlike the parliamentary-skewed Fourth Republic – opened the door to significant (non-constitutional) changes in the way France was administered, of which three are of paramount importance for my argument: direct appeal to public opinion, administrative centralisation, and technocratic management.

Electronic media was a major vector of the personalisation of the executive power. Sidelining parliament enabled de Gaulle and his ministers to directly appeal to the public through the broadcasters – importing what was arguably a Roosevelt innovation (Gauchet 2010). De Gaulle's key media novelty, taken up by the ministers, was to announce policy measures live on radio and television. The prominence of his interventions was enhanced by his association with a new medium in rapid expansion. Guy Mollet had appeared on television regularly, but announcements were made in parliament (Cohen 1999). By contrast, the Pinay Rueff Plan was disclosed to the population by de Gaulle and Pinay on radio and television Sunday evening 28 December 1958, and the PM himself briefed the newspaper directors on 1 January (Chélini 2001). This direct approach was already a feature of de Gaulle's Algerian policy, and may have been at its most effective during the April 1961 putsch and the May 1968 social movement. De Gaulle became 'the first political star of French television', excelling in partly staged press conferences (Bourdon 1994). TV also eased the emerging bipolar system: from the 1967 parliamentary elections, regulated propaganda time on state TV and radio was split 50/50 between government and its opposition, squeezing out the centrists (Avril 1987, Esquenazi 2002).

The effect of this direct appeal to public opinion was possibly stronger in France than elsewhere because French governments had closely supervised television news, and even more so since Guy Mollet's time. Before his return to power, de Gaulle had been *persona non grata* on public radio and TV for over a decade. The Information Minister was, to all intents and purposes, chief editor of the single channel's evening news, with a button on his desk to summon the head of broadcast bulletins 'like a chambermaid' (Bourdon 1994, Cohen 1999, Peyrefitte 1976).[4]

Governance centralisation started within government itself as strict cabinet solidarity was enforced, which contrasted with the Fourth Republic's tolerance for public dissent within the cabinet. Ministers were confined within the boundaries of their area of expertise and expected to not overstep them (Gaïti 1998).

Prime Minister Debré took control of economic policy. The Trésor lost its power to nominate managers of state-owned companies, which was taken over by the cabinet thanks to a 1958 ordinance and a 1962 decree. The appointment of secretary generals at the prime minister's office in Hôtel de Matignon and at the Elysée Palace was a further step in this process of centralisation; the latter even had a small economic team (Quennouëlle-Corre 2000). The 1964 Toutée report on wage negotiations in state-owned companies makes clear that Matignon was in charge, stressing that most ministries' direction general had lost their autonomy, with Rue de Rivoli (the finance ministry) overseeing even detailed personnel questions. As we shall see, the Elysée advisors' driving role in the Pinay Rueff Plan was a harbinger of things to come.

Most crucially, and without any formal legal reform, the Banque de France lost most of the autonomy it had during the Fourth Republic. The progressive dismantling of the circuit in the first part of the 1960s was the clearest statement that the government did not fear the Banque anymore.

Centralisation included the curtailment of the civil service's relative autonomy as ministers, and their expended spoils-system, *cabinets ministériels,* took a more hands-on approach to their administration, creating 'political and administrative networks tighter than under the Fourth Republic' (Quennouëlle-Corre 2000). This increased ministerial power resulted from a bundle of changes, including longer tenures (as chronic government instability ended) and the recruitment of a number of ministers from the upper civil service rather than from political circles, with Bloch-Lainé calling such ministers '*fonctionnaires ministres*' (Institut Charles de Gaulle 1992). Reduced autonomy in the civil service is exemplified by the deep tax reforms that occurred under direct political supervision, in contrast with the driving role of civil servants in the 1950s VAT reform. The tax directorate lost its power to initiate reform (Tristram 2005).

The centralised governance caused a break in the prevalent communication methods of interest groups, which had generally organised to influence parliament. In the Fourth Republic, well-staffed groups delivered messages to deputies with little research resources of their own; in the Fifth Republic, lobbyists had to deal with *cabinets ministériels* commanding state expertise and intelligence arms. The one-way flow of policy ideas from lobby to parliamentarians became a two-way conversation.

The rise of technocrats

The strengthening of the French upper civil service is usually seen as a product of the Fourth Republic. It is true that the École nationale d'administration (ENA), which became the élite's gateway, was founded in 1945.[5] And, as I argued in the previous chapter, some of the most lasting initiatives of the 1940s and 1950s, like the Plan Commission and European integration, were piloted by civil servants rather than politicians.

Yet the Fourth Republic's governing personnel was dominated by traditional professions, notably lawyers and, more generally, the provincial 'notables', and ministers were primarily recruited from parliament. The passage from the Fourth to the Fifth Republic marked a profound social change in the political leadership. In the Fourth Republic, there was a clear chasm between ministers from the locally rooted notables and the upper civil service, who were often from Parisian *haute-bourgeoisie* background. The social distance between these two groups created dysfunctions, impeding coherent government action (Birnbaum 1977). With the Fifth Republic, *grands bourgeois* technocrats came to directly hold key government jobs, and expertise became a validating criterion for appointment and policy making. This was the deliberate intent of the founders of the new regime, manifest in the fact that the new constitution banned parliamentarians from joining the government (Gaïti 1998, Raynaud 2017).

It became common for ministers – typically from the upper civil service, and often without political experience – to be nominated on the basis of technical competence. Hence, the Pinay successors as finance ministers were the BdF's Baumgartner and, from 1962, Valéry Giscard d'Estaing, an ENA and Polytechnique graduate.[6] Georges Pompidou (École Normale, Sciences-Po), a civil servant and former Rothschild banker, became prime minister in 1962 without ministerial experience. This remains a core characteristic of French governments to this day.[7] Upper civil servants accounted for 12% of 1944–58 ministers and state secretaries, with the figure rising to 27% in 1958–69 and 39% in 1969–74. Technocrats were already prevalent in *cabinets ministériels* under the Fourth Republic, but under its successor, their personnel number increased (to which the booming Élysée Palace policy staff must be added), and they came to dominate policy formulation and implementation. Indeed, many ministers started as civil servants, and joined a *cabinet ministériel* or Élysée staff before being appointed to government without prior 'on the ground' political experience. By the mid-1970s, 40% of Fifth Republic ministers had been in a *cabinet* before becoming minister (Birnbaum 1977).

The emerging elite were recruited from a handful of *grandes écoles*. ENA graduates were at the very top of the social hierarchy, and students were ranked upon graduation. The cohesiveness of this elite was not only ensured by its education but also by its control over the institutions: former students holding high civil service jobs undertook a large share of the teaching in the relevant schools (notably at ENA and Sciences-Po). They collectively became the intellectual leaders of the postwar republic (Fourquet 1980, Gaïti 1998).

The Paris technocracy dominated the intellectual life of government policy, a trend intensified by the centralisation of media and academia in the capital to an extent unparalleled in other large western countries.

In particular, Brigitte Gaïti (1998) explains the '*ralliement*' of the upper civil service to the Fifth Republic as the meeting of a new postwar state elite and a political opportunity. Members of this group shared a strong belief in government actively steering the economy, but many rose to positions of influence outside of the conventional civil service hierarchy, for instance at the Plan and the emerging statistics organisation. They saw an opening when the new 1958 leadership started to draw on resources outside traditional political and social interest circles (Gaïti 1998).

As the 1960s unfolded, the technocratic model spread to the private sector where top management was increasingly recruited amongst graduates from the *grandes écoles* rather than from owners' scions. As we will see below, technocratic leadership eventually took over key interest groups like the employers' Conseil national du patronat français, and enjoyed prominent influence over the farmers' Centre national des jeunes agriculteurs and the reformist union Confédération française démocratique du travail.

Technocracy is not a unique French phenomenon, but it had (and still has) special characteristics in France. These include the restricted pool of recruitment – the Fifth Republic's elite is a much smaller club than Britain's public school educated Oxbridge governing class[8] – and the spread of the same education profile from the public to the private sector, as well as the frequent passages between the two. The rise of managerial capitalism was described in the United States, notably by John Kenneth Galbraith (1967), but only in France did it take the form of an increasingly uniform managerial class that overlapped the state and commercial sectors. Further, only in France did top ministers come straight out of the civil service. Finally, I would stress that academic life and the production of policy ideas and debates was much more decentralised in the Anglo-Saxon and Germanic worlds thanks to federalism; the academy was sociologically more segregated from government, and from the think thanks and foundations.

The emergence of the European Economic Communities and its Commission as a major regulatory power in the 1960s was an important aspect of the rise of technocracy. Despite being led mostly by former politicians, the Commission positioned itself as apolitical, and was perceived as such. Starting with agriculture, from the mid-1960s, Brussels became the regulator of major segments of the French economy. Brussels was seen as an authoritative source of expertise and, eventually, a constraint on domestic political options. 'Meeting European commitments' became a favourite argument of reformist French governments to shift debates from political to technical grounds.

The rise of technocracy was not only a change in the political leadership's recruitment but also marked the advent of a new type of legitimation (alongside representation): competence, usually crystallised in 'economic knowledge' as a 'new science of politics'. This has been explained in detail by Delphine Dulong (1997). To me, this development echoes postwar Germany's infatuation with 'objectivity'. 'Engineers, technicians, managers, researchers, "organisers", these cadres represent the general staff of economic progress' wrote Maurice Duverger (1960, 166) in his widely used textbook. The rise of technocrats was self-reinforcing: as expertise became more prized, experts found themselves increasingly in a better position to explain and defend policy choices. Dulong stresses that the Fifth Republic's build-up of executive power had a strong sociological basis. Expanding on her work, I argue that the technocracy established a deep state bias in favour of technological and economic innovation. The new bias was enabled by increased state capacity – and reinforced it.

The rise of the technocracy reunified a state leadership previously polarised between a short-termist parliament of provincial notability, and a high-flying, but bound and gagged civil service. As it recovered capacity, the Gaullist state also recovered autonomy: the leadership was not an across-the-board elite, it was a proper state-generated mandarinate. Over 40% of ENA graduates in 1953–63 belonging to one of the grands corps had a parent who was or had been a civil servant (close to 90% of which were from the upper strata). Four fifths of *cabinet ministériel* members of the 1960s PMs were from the civil service, and most of their subsequent career was in the public or para-public sectors; thus, was born a Napoleonic-style state 'independence' both from the elected political class and from business interests (Birnbaum 1977).[9]

In a development similar to the one I discussed with respect to Germany, with the Council of Economic Experts, the Fifth Republic witnessed the significant growth of state-sponsored independent economic research. In the 1960s, the statistics office Insee extended its operations considerably[10] and the Commissariat du Plan flourished. Lower profile forecasting institutes and think tanks backed by state institutions multiplied, so such so that by the 1980s, it could be argued that 'the terms under which the social debate gets formulated are then produced no more by social actors themselves but by the state' (Jobert and Muller 1987). In Germany, expert advice was institutionalised at the upper level of policy formulation, in a position to challenge key government decisions. In the early Fifth Republic, while expert inputs were politically less prominent and more technical, they nevertheless played an increasing role in framing policy debates, as we shall see.

In the longer run, the consecration of expertise as a source of state power laid the ground for the emergence of judicial review – the Constitutional Council voided a law for the first time in 1971 – and, alongside the European Commission, that of autonomous administrations like the Competition Commission in 1977, and the Banque de France's independent status in 1994. These developments took place in France significantly later than in Germany but were grounded in similar ideas and reforms. Technocracy participated in a renewal of state legitimacy, capacity, and the rule of law.

The new institutions and emerging governance were in large part the product of technocrats' frustration at their inability to bend the political will to their reform projects under the Fourth Republic. There was also a convergence with the caesarean Gaullist politics, keen to resurrect such tropes as centralisation and the mandarinate inherited from the Bonapartist tradition. The distributional vetoing experienced in the 1950s motivated the push for centralisation, just as the history of governmental instability and parliament's dependence on Malthusian interest groups influenced the choice for a powerful expert-led executive. Likewise, Treasury's liquidity-driven budget management of the Fourth Republic, which had not only prevented quasi-state bankruptcies but greatly facilitated inflation, was abandoned by the Fifth because centralisation removed the threat of policy vetoes by the Banque de France.

Policies and institutions are often intertwined. The birth of the Fifth Republic can be analysed as a spectacular case of what Peter Hall (1993) calls 'social learning', where the whole regime mutation was primarily driven by lessons learned from dysfunctions of the (late) Third and Fourth Republics. Learnings, or rather perceptions, of fifteen years of policy mistakes informed the radical policy reforms enacted in the wake of the regime change.

Shock therapy

The December 1958 Pinay-Rueff plan has a critical place in my demonstration for two reasons. It included a bundle of radical measures that amounted to a consistent attempt to break inflation and allow France to integrate the Common Market – fixing the Fourth Republic's failures. Second, the plan was a technocratic product, secretly conceived, and implemented by the government via special powers despite widespread opposition. In both form and substance, the Plan broke with previous parliamentary-driven governance and established the new regime's rules of the game. It can be seen as the policy template of the Fifth Republic.

When de Gaulle became prime minister in June 1958, inflation was high and accelerating, the trade balance trend was 'disappointing', foreign exchange reserves minimal, and the budget deficit for 1958 appeared likely to break the NFfr600 million ceiling agreed upon with foreign lenders. France could not meet its commitment to OEEC and EPU to liberalise trade by June 1958. So considerable uncertainty over the implementation of the Rome Treaty from January 1959 alongside franc convertibility surrounded the agenda (Chélini 1998, Institut Charles de Gaulle 1986).

The initial economic measures decided by the new government's finance minister Antoine Pinay were high profile but substantially in line with the Fourth Republic's ineffective patterns. In July, the franc's 'hidden' 20% devaluation of 1957 (through export subsidies and levy on imports) was made official, in a mostly symbolic measure signalling a willingness to face issues directly. Likewise, the wheat price was increased at a lower rate than the 1957 indexation law would have called for thanks to a slightly tricky revision of the 1957 base price. This indicated a (mild) determination to break inflationary mechanisms. Some spending programmes were cut. In an encore to his 1952 act, Pinay issued a tax-free bond indexed to the widely traded *Napoléon* gold coins. The underlying idea was to instil trust in the franc amongst the conservative politician's supporting base of small savers. The success in issuing the bond, alongside an increased supply of gold, were indeed taken as proving a return of confidence.

Whereas Pinay appeared satisfied to have re-established confidence without raising taxes as called for by French orthodoxy, there were still worrisome main indicators. In October, the OEEC saw the improved situation as somewhat artificial, and as resulting from government restrictions on payments to foreign account, as well as from a continuous unsustainable current payment deficit. The organisation was unhappy about credit relaxation measures taken by Pinay. For the OEEC, it was urgent to open up foreign trade to stimulate domestic producers and undermine inflation trends (OEEC 1958).

Jacques Rueff's radical plan

The break with Fourth Republic economic management came from outside state, political or interest group circles as it was the brainchild of economist Jacques Rueff from the élite *inspecteur des finances* corps. Treasury Director and then deputy-governor of the Banque de France in the 1930s, Rueff had been, since 1952, a judge in the Luxembourg-based ECSC tribunal. Throughout the postwar, Rueff played Cassandra to French governments by repeatedly denouncing the slippery slope of inflationary policies, which he linked to Keynesian economics. Rueff's ideas were based on a rigid conservative view of money that endorsed returning to the pre-1914 gold standard. In this view, sound money was a custodian of social order. In many respects, his views were closer to those of German ordoliberals than to Anglo-Saxon conservatives so that he can be called the French Walter Eucken.

In June 1958, days after the de Gaulle appointment, Rueff wrote to Antoine Pinay to present his plan against inflation. The note was seen by a de Gaulle adviser, Roger Goetze, who insisted that Pinay organise a meeting of government economic advisors to consider it. Meanwhile, de Gaulle was impatient for a proper economic reform programme, and only mildly satisfied with Pinay's bond issue and cuts (rivalry with a fellow conservative political leader was probably also in the background). This led in late September to the appointment of Rueff as the 'coordinator' of an expert committee with the mandate to draft a general plan of reforms. Rueff was the *de facto* president and main writer of the report, and chose most of the members. The committee's existence was not officially disclosed until the report was ready in mid-December (Chélini 2001).

What came to be known as the Pinay Rueff Plan[11] addressed France's post-war economic problems. It focussed on inflation caused by the monetary-financed budget deficit. Responding to the Treasury's claims, the plan argued that foreign capital and private gold could help finance investment, which 'will not be sacrificed to the currency'. The government was aiming to avoid a situation in which the deterioration of the trade balance reduced demand and (hence) investment. Thus, the first target was to boost private savings and encourage foreign investment as a substitute for inflationary monetary financing. That was to be supported by the public's trust in the government's commitment to price stability. To do so, the budget deficit was to be financed by savings rather than by growth in the money supply (this notably contrasts with Pinay's habitual focus on liquidity). Ending subsidies and tax rises could push up prices and wages, but the risk was to be contained by liberalisation of imports and various regulations, which would make it difficult for firms to recoup wage increases by raising their prices (*Le Monde* 30/12/1958a).

The plan as enacted by the government included four sets of measures regarding (1) franc devaluation, (2) the end of price-indexed contracts, (3) the budget, and (4) trade liberalisation.

1 The franc's 17.5% devaluation against the dollar (and thus against gold) was higher than the foreign exchange markets expected, and probably gave French exports a substantial competitive hand. The franc became convertible, in a move coordinated with Britain and Germany (in itself, this highlighted the French commitment to the international order). On the symbolic ground, effective January 1960, a *nouveau franc* was instituted at a hundred times the value of the *ancien franc*. This was widely seen as a declaration of economic strength because of the higher nominal foreign exchange value of the re-based currency. The one-franc coin reintroduced the engraving of a female sower that used to feature on pieces up to 1914, in a reference to the gold-standard era.
2 Price indexation mechanisms were rescinded, including for agricultural products and for rents, and forbidden for wages – except for the SMIG which was to increase by 4.5% in February 'in anticipation' of expected price rises due to the Plan itself. Early in the year the government unofficially requested that the private sector limit wage increases to 3%, in line with the public sector.[12]
3 The budget effort was much noted at the time, possibly because its measures covered a wide range of sectors. The cumulative result was a modest decrease of the deficit, which might have been much higher without the Plan. Some public tariffs were raised, investments were increased, military expenditures were untouched, and the rest was squeezed.
4 Trade liberalisation, suspended in May 1957, was immediately re-established and raised to 90% for the OEEC countries (50% for the dollar zone).[13] France met its Rome Treaty engagements for a 10% cut in import

duties and increases in a range of quotas. In line with a November agreement with Germany, these measures were extended to all OEEC members (Bossuat 1997).

The 1958–59 economic stabilisation appears to have drawn on more domestic factors than it had in 1952. Whereas in 1952 France had benefitted from international deflation, in 1958, its prices accelerated while decelerating among its major trading partners. The decline in the real cost of labour was a core deflationary factor. In the early 1960s, SMIG increases stopped dominating the wage setting cycle. It remained a sensitive issue, which became prominent again in 1963. Trade liberalisation was greatly eased by the franc's devaluation, which stimulated a boom in exports even as (franc) imports continued to increase. The trade balance sharply rebounded from – NFfr 508 million in 1957 to NFfr 650 million in 1959. That provoked a similar change in the balance of payments as French industry's exports roared thanks to a devalued currency and buoyant international demand. All in all, the Plan was a resounding success by its own terms.

It has been pointed out, however, that the Plan did not directly deal with the fundamental, recurrent issues of the 1950s French economy since it did not provide for a sustainable non-inflationary wage and price adjustments, and did not address the financial mechanisms that enabled the vicious circle of rises (Feiertag 2006). The structural effect arrived primarily through the Plan's modus operandi – changing the relationship between government and sectoral interests by increasing the state's authority and its capacity to act. Critics miss the new radical policy orientations with de-indexation and trade liberalisation on which the plan staked its credibility; its long-term value lay in politics. Meynaud (1962) is one of the few who pointed out that the Plan was a high-stakes gamble whose outcome depended on the government's capacity to resist protests and sectoral claims. The Plan *established* the new state authority and neutrality that had been merely *proclaimed* by the constitution of the two-month old Fifth Republic. This was because the Plan was enacted against the wishes of just about all major political and social actors.

Success despite unanimous opposition

Opposition to the plan was widespread. On the left, parties and trade unions saw it as socially unjust partly because the (public service) price increases were to be supported by the lowest income families and, more broadly, because a deflationary policy implied lower consumption. Welcoming foreign trade was sure to lead to a higher deficit, which would need to be balanced by attracting foreign capital. That, in turn, would make France more susceptible to world economic fluctuations and thus provoke domestic social movements. Ultimately, these could frighten foreign investors – the Plan was a '*fuite en avant*' wrote Gilbert Mathieu in *Le Monde* under the headline 'France will pay' (14/1/1959). But General de Gaulle was not expected to be endorsed by the left (Socialists had declined to join the new government of Michel Debré).

There was also significant opposition from the majority parties. In November, in a piece in *Le Monde*, the treasurer of the Gaullist UNR, Albin Chalandon, attacked the key ideas under consideration by the (secret) committee, and argued that the committee should privilege growth rather than fight inflation (to avoid protests). In December, an article from *Forces Nouvelles*, the weekly from the Christian Democrat MRP, supported Chalendon (the MRP was part of the majority until 1962). After the plan was disclosed, farmers were in 'disarray', their federation FNSEA only hesitating on the scale of planned protests (*Le Monde* 3/1/1959b and 7/1/1959). Opposition ran throughout the top ranks of the state, including the Finance Ministry and the Banque de France; 'everybody, with few exceptions, was against this plan in the government' writes foreign minister Maurice Couve de Murville (Institut Charles de Gaulle 1986). Treasury director Pierre-Paul Schweitzer was very cautious, pointing out risks arising from European integration. Pinay even threatened to resign on Christmas Eve wrote Goetze (ibid); he eventually implemented the plan faithfully and left in January 1960, replaced by Baumgartner.

Governor Baumgartner's biographer Feiertag depicts him as a subtle operator anticipating the reforms, but the evidence he submits makes him look much more like a cautious, unprincipled actor, manoeuvring to maintain the appearance of BdF autonomy. The BdF refrained from taking any radical position against *crédit mobilisable* even at a time, like 1958, when there was an international consensus against it, from the IMF to the OEEC (Archive Wilfrid Baumgartner: AWB, 2BA38, Dr3; OEEC 1958, 19). Nevertheless, Baumgartner scored a sizeable political victory in obtaining assurance that the Rueff committee would not consider financial affairs, as explained by Roger Goetze (Institut Charles de Gaulle 1986 see also Quennouëlle-Corre 2000).

The *patronat*, worried about the sudden trade liberalisation, also took a negative view of the plan. Opposition came from both the small business CGPME and the peak association Conseil national du patronat français; a representative of the latter told the Committee that the plan was 'stupid' (Guillaume 2004, Lacouture 1985).

Besides direct opposition, there was a largely shared pessimism in governing circles on the feasibility of a radical break. Jean-Marcel Jeanneney, a member of the Rueff Committee, explains that 'the prevalent feeling emanating from the hearings was that France would not support such a medication' (Institut Charles de Gaulle 1986, 52).

The tone was also pessimistic in the Insee's annual assessment of the French economy, finalised on 10 December 1958 and published in January. The macro analysis discussed a possible 'relaunch' plan that could include wage increases, credit relaxation, and increases in public spending; the latter was the preferred option. The report argued that such a policy would not be sustainable for the balance of payments, but suggested that a new devaluation could be beneficial. The January deadline for trade liberalisation was seen as 'theoretical' (*en principe*) (Insee 1959).

The plan's core economic measure – opening the French economy to international competition – was a child of the technocracy. However, many of the prominent reformists of the 1950s were not Gaullist sympathisers and, in 1958, remained uncommitted to the new regime and its first initiatives. One rare support from the upper civil service came from the Caisse des dépôts' François Bloch-Lainé, a *mendèsiste* with some sympathy for the new regime who had declined de Gaulle's offer of a ministry (Bloch-Lainé 1976, Chélini 2001).

Ultimately, the plan was enacted because of de Gaulle's personal support for it, and his readiness to withstand a phase of popular discontent if needed (Goetze in Institut Charles de Gaulle 1986). The Bourse was ordered to close on 25 and 26 December, a move interpreted as preparatory to a devaluation of the franc. Cabinet approval was given only after meetings lasting into the night on Friday 26 and Saturday 27 December. De Gaulle even threatened to resign – a threat, while rhetorical, was likely taken seriously because of the 1946 precedent. Measures were published in the *Journal Officiel* on Sunday and Pinay and de Gaulle presented them to the public on radio and television in the evening (Chélini 2001). The shock-and-awe delivery no doubt helped weaken the unprepared opposition.[14]

De Gaulle achieved two eminent political goals. He re-established a consistent, centralised state economic policy: neither the Treasury nor the Banque de France were allowed any great say in the decision process. The BdF's role as the ultimate 'protector of savers' and possible censor of government was suspended indefinitely because it had to sign up unwillingly to a package with which there were many reasons to believe it disagreed. The fact that the Treasury played a minor role in the Rueff Pinay Plan was a sign of things to come. The appointment of Baumgartner to the Finance Ministry in January 1960 symbolises the Banque's new submissiveness.

The second political achievement was to demonstrate strength to interest groups. All the main actors of the Fourth Republic's inflation spiral were rebuffed as agricultural prices were deindexed, wage growth was strictly limited, utilities prices were increased towards sustainable levels, imports were considerably liberalised, and much pressure was put over the private sector to moderate retail price rises in a context of credit restrictions.

The plan leveraged unique circumstances that gave the government dictatorial powers in the Roman sense – backed up by the strong democratic legitimacy earned in the autumn referendum and general elections. New rules of the game – competition rather than centralised redistribution, European integration, balanced budgets – were imposed on society rather than negotiated, with the explicit message that, from then on, new arrangements had to fit within this framework. Much of this recalls Ludwig Erhard's June 1948 price liberalisation.

It is crucial to stress that the Plan's victory over opposition was not a product of a class warfare battle like Ronald Reagan's dismissal of the air controllers in 1981 or Margaret Thatcher's humiliation of striking miners in 1985. The Plan was not at all aligned on the employers' agenda, and a number of measures clearly spelled out the state's social neutrality.

The first social measure was an unemployment benefit scheme. The government insistently pushed the project, pressing trade unions and business to reach an agreement. In a 1 August 1958 national broadcast message, general de Gaulle had called for bargaining between employers and unions to establish a 'guaranteed wage fund' (*fonds de salaires garantis*). Discussions about unemployment insurance had already taken place between the FO union and the Conseil national du patronat français. After numerous government pressures, an agreement was signed on 31 December by the Conseil and major unions except the Communist CGT (which joined six months later). In another initiative, in January 1959, the government issued a decree creating a tax-break mechanism for companies to share profit with labour ('*intéressement*'). A further social measure strengthened the legal protection of trade union representatives. Finally, the February SMIG rise of 4.5%, anticipating public fare and price increases, broke the rule that the minimum wage was always indexed ex-post on prices (*Le Monde* 4/8/1958 and 8/1/1959). Although these measures did not spark any real turnaround in labour relations, at the time they tentatively moved in that direction, signalling the state's commitment to inclusive growth.

The 1963–64 stabilisation: new governance tested

The deep institutional reform and the radical policy shift favouring price and trade liberalisation were tested for the first time when the economy overheated in 1963. The government reaction was much faster than in the 1950s and, consequently, the measures required were much more limited.

About 700,000 people immigrated to mainland France in the wake of the April 1962 Évian peace accords and subsequent independence of Algeria in July, significantly accelerating consumption growth without easing the tight job market. The effect on inflation was compounded by measures taken in the autumn of 1962 by prime minister Pompidou's government (appointed by de Gaulle after Évian) to help garner support for the October referendum on popular election of the president and the November general elections that followed – both won overwhelmingly by de Gaulle and his UNR party. Prior to the referendum, the SMIG was increased at a rate substantially higher than the one called by the indexation rules, alongside increases in farmers' minimum wage and in family allowances.

In the spring of 1963, a one-month miners' strike undermined government support, and the 8% pay rise gained by the strikers contributed to further claims in other sectors. From 1959 forward, the government tended to limit public sector wage increases, which generated growing resentment. This contributed to the idea that the sector had to 'catch up' with the private side, and helped sustain an increasing number of industrial conflicts in 1962 and early 1963 to such an extent that, by 1963, catching up had become a self-sustaining machine. In *Le Monde* (25/3/1963), Pierre Uri argued that France had followed an inflation curve similar to those of the Fourth Republic, the only difference was the positive counter-effect of the 1959 devaluation that pushed foreign trade into surplus. But he seriously undervalued the extent of the *redressement*.

In 1963, French consumer prices rose by 6% after a still substantial rise of 4.6% in 1962. The 1963 peak was also fuelled by the international financial climate – France was fully synchronised with the rest of the Continent this time. The first steps towards a less expansionist policy were resisted inside the government as betraying promises made in 1962 of an '*année sociale*'. In the first half of 1963, the previously accommodative credit policy was mildly restricted. In August, the government stepped up efforts to control inflation by calling on retailers to restrain price rises and various *ad hoc* prices (notably on beefsteak), with a particular focus on those covered by the price index (BIS 1964a, Lelart 1986, *Le Monde* 24/8/1963).

The formal stabilisation plan was presented on 13 September by Pompidou and Finance Minister Giscard d'Estaing. Besides spending cuts and tax increases, the key element was the reintroduction of price controls in a decree, the enforcement of which would be relaxed from March 1965 (de Lattre 1969), but which would remain in force until 1978. This return to *dirigisme* was much deplored and seen by many as the government's rejection of the 1958 plan. But the relapse would prove temporary. In its July 1963 report on the French economy, the OECD took a mildly critical stance, pointing out risks of inflation acceleration due to increases in wages and food prices.

In this vein of argument, the 1963 stabilisation plan could be framed as just one more exercise in restoring order in finance after a politically induced spending spree, this time for the 1962 elections. But this plan differed markedly from the 1952 and 1957 programmes because it intervened at a much earlier phase in the degradation of accounts and thus again reflected a more proactive governance than previously. In the ambulance approach of the 1950s, government intervened when facing a payment crisis, months after international peer groups had called for a change of policy.

The new governance in place since 1958 ensured that the episode constituted a controlled retuning rather than a full-blown crisis. The French adjustment was similar to that of some other major countries and delivered no setback to the medium-term growth pattern – unlike the two crises in the 1950s. Food prices drove inflation far less than before, and the agricultural sector began to be realigned on a productivist and European path.

The plan was strengthened in November, notably with a credit squeeze. Most importantly, the government undertook several initiatives for structural financial reforms. I will discuss these initiatives in the next chapter, but they were milestones in dismantling the circuit – in sharp contrast with short-term responses in the 1950s to inflation peaks.

The plan's results were relatively swift. Average CPI growth dropped from 5% in 1963 to 3.2% in 1964 and stayed below 2.8% until 1967. The budget deficit collapsed, also thanks to higher growth, and thus tax intake, than expected. GNP growth only slightly declined from 6.6% to 5.1% in 1963 and 5.4% in 1964 (OECD database, BIS 1965a). This was in sharp contrast to the stabilisations of 1952 and 1957, both of which led to nearly two years of production stagnation and severely disrupted trade – all that on top of deep political crises.

The 1963 stabilisation plan demonstrated that the 1950s pattern of distribution-fuelled inflation was over. Political stability enabled the state to be significantly more resilient towards sectoral claims, and assured healthier public finances, which allowed sustained pro-growth policies. International commitments did not enter the discussion. Compared to 1952 and 1956–57, the macro consequences of the 1963 slowdown was much lower. But this was only the beginning of a process whereby the French political economy was to be reshaped by the requirements of international competition.

Opening up, and living up to it

I argued in Chapter 4 that, in the Fourth Republic, the issue of international trade was marginal to the policy debate and to the French economy, in part because tentative liberalisation was twice cut short, and in part because it did not affect such key sectors as consumer goods or agriculture. Conversely, the economy of the Fifth Republic was defined by trade liberalisation. Implementation of the Rome Treaty was one of the main rationales of the early 1959 reform big bang, and, along with global liberalisation, it profoundly changed the French economy for the rest of the century. Since then, the issues arising from the decisive choice of opening up have constrained – perhaps even overdetermined – key political decisions.

The creation of the Common Market was a shock to the French system. The third five-year plan produced by the Plan Commission, written in 1957, anticipated a stagnation in the volume of French imports by 1961, alongside a 33% increase in exports. In fact, imports increased by one quarter, while exports boomed by 65%. Trade expansion was driven by the Common Market, whose share of French exports grew from 22% in 1958 to 38% in 1963, while imports increased from 22% to 36%, this was the mirror image of the (mostly captive) colonial zone franc, down from 37% to 19% of exports over the same period.[15] Crucially, imports of consumer goods and, thus, competitive pressure on French manufacturers multiplied more than two and half times during the first three years of the Common Market (1958–61 – BIS 1964, Balassa 1979, Insee Annuaire Statistique 1964).[16] The French trade boom was sustained in the long run, as we saw in Chapter 1. In 1960, the value of French exports was less than two-thirds of the British total, which was overtaken by 1972.[17]

Implementation of the Rome Treaty undermined interest groups' capacity to defend restrictive practices.

> The Common Market, by reducing the sovereignty of the French government, has thus forced on France policies that in a purely national context would have been successfully opposed by its organized interests. Membership of the Common Market has also decreased the power of French organized groups

explains an economist (Hennart 1983). Lobbying on trade issues was undermined by the offshoring of policy making to Brussels, and wage increases financed by price rises became much riskier. Measures inspired by French industrialists to stop US multinationals establishing local units were made ineffective when investors turned to other Common Market locations.

In one illustration of the profound and on-going impact of liberalisation, the German manufacturer Grundig's exclusive distribution arrangements with a French importer, Consten, was challenged by some of the latter's rivals, leading to a court case and rulings by the Commission in 1964 and the European Court of Justice in 1966, breaking the contract's exclusivity clauses. In a typical import arrangement, Grundig's tape recorders were sold at prices at least 23% higher in France, no doubt a very convenient outcome for French producers (*Le Monde* 26/9/1964a).

The Rome Treaty's Article 85 banned 'any agreements . . . which are likely to affect trade between the Member States and which have as their object or result the prevention, restriction or distortion of competition'.[18] A regulation was issued by the Commission in February 1962, calling for any inter-company agreement to be notified to the EEC. Early on, notifications including a 'territorial exclusivity' were singled out by the Commission for detailed reporting. By October 1964, the Commission had received 19,000 such notifications. The Commission ruled that exclusive territorial distribution was legal, but could not be used to ban other importers from buying from foreign-based wholesale suppliers (*Le Monde* 19/10/1964).

Throughout the twenty-three years of Gaullist and centrist majorities, the government kept its commitment towards liberalisation. This was helped by the generally healthy balance of payments, where the trade pull-backs of the 1950s originated. In a first cooling off measure in September 1963, the government cut down custom duties to weigh on domestic prices, in a repeat of 1950s German policies. The only significant restrictive measures of the 1960s were taken in June 1968, after the May riots, when the government, fearing a sudden deterioration of the trade balance, implemented an EEC-approved temporary suspension of liberalisation for a selection of product categories – mostly consumer goods (*Le Monde* 17/9/1963, 26/6/1968 and 29/11/1968).

During the GATT's Kennedy Round concluded by the May 1967 agreement between the EEC and the United States, France adopted a rigid position on agricultural matters to shield the Common Agricultural Policy then under discussion from being shaped by US claims – a goal of the Kennedy administration. But France did not oppose the prevalent will of its EEC partners to lower duties on manufactured goods (Meunier 2005).

From the mid-1960s, the government's and Plan official's priority to consolidation was largely motivated by the need to boost producers' scale to meet international competition within and outside France. Favouring French exports became as much a priority as protecting declining domestic industries, notably when signing GATT derogatory quota deals, Japan being one example (*Le Monde* 4/5/1963 and 2/4/1968).

When it came under stress, the commitment to trade liberalisation bent but didn't break. I take here the example of textiles, whose employment was stable during the 1960s at about 400,000 and started declining rapidly starting in 1970. By 1980, the figure had shrunk to 268,000 (Insee, Annuaire Statistique various years). Repeated calls to increase protections for the textile industries did not prevent France from joining other industrialised countries in relatively liberal sectoral accords, starting with the 1962 Geneva agreement on textiles. Industry lobbying at best slowed the lifting of quotas for some textile imports from Italy (*Le Monde* 9/1/1969, Royon 1981).

Much of the literature dealing with economic policies of the 1960s and 1970s suffers from a 'Concorde syndrome' – a focus on the high profile industrial national champion support schemes. Results of the latter were a mixed bag, but should not hide the spectacular expansion of exports from 1959. The international trade success story typically missed by the literature lies in the service sector. In 1978, France became the world's top commercial services exporter with sales of \$29.2 billion, ahead of the US's \$26.9 billion.[19] Competitiveness of the domestic market, and specifically the productivity drive instilled by the new consensus helped French firms compete in foreign markets.

The French engineering and construction sector (*bâtiment travaux publics* or BTP) became a major foreign earner in the balance of payment from the late 1960s. French builders leveraged long-term and more recent competitive advantages. In the late 19th century, facing high prices for coal, they invented reinforced concrete, which gradually replaced iron as the main building material in the country, until the 1950s introduction of pre-stressed concrete, another French invention. Adding to the industry's strength, French concrete producers became the most competitive in the world in the 1950s. In the business model of the construction sector, entrepreneurs are in charge, not engineers (as opposed to in the US),[20] which help the companies offer a one-stop shop to large clients (Barjot 1991).

From the 1960s, the sector's consolidation was supported by fast-growing state orders and fiscal incentives. By the 1970s, leaders in the French construction sector had competitive advantages in size, in their capacity to fully handle large projects, and in their expertise with concrete, marrying innovative building structures with effective cost management. In 1974, firms redeployed postcolonial capacity to oil-producing countries, gaining more than their fair share of the infrastructure boom that would carry on until the 1986 downswing of the oil cycle. From 1973 to 1986, the French balance of payment surplus for construction grew by over five times in real terms.[21] By 1990, the top two global construction firms were French, four of the top ten and seven of the top twenty (Berthier 1992).

In Chapter 3, I took as a proof of Germany's state ideational leadership the endorsement of the social market by the Social Democratic Party in 1958 and by the DGB union federation in 1963. A similar argument could be made in France, if on a somewhat longer period.

I have extensively reviewed the wide opposition to trade liberalisation expressed by many political leaders and societal organisations throughout the 1950s. Many key supporters of the Rome Treaty highlighted the *protections* granted to French producers. However, starting in 1958, governments took a firm stand on the necessary adjustment of the French economy and, as growth accelerated, on the positive opportunity presented by trade. Within a few years, these ideas became mainstream.

François Mitterrand, a smart, chameleon-like Fourth Republic politician, emerged in the 1965 presidential election as de Gaulle's main rival, and would remain the effective leading opponent of the Gaullist and centrist governing coalition until he was elected president in 1981. Despite ideological zigzags from far right to far left, Mitterrand was largely consistent in supporting European integration. Indeed, his 1960s positioning was explicitly pro-European in contrast to Gaullist nationalism. This was not merely for tactical reasons, as Mitterrand argued within the terms set by the liberalisation policy. In 1968, in a lengthy article, he takes for granted the increased competition brought about by the Common Market, and complains that government policy was not vigorous enough to shake complacent entrepreneurs living off restrictive practices. Core left-wing policies, like the nationalisation of selected companies, are reframed as a response to the liberalisation challenge: 'To be sure, as long as the French economy stayed away from foreign competition, its growth, because it had so much catching up to do, was relatively rapid. But outside competition henceforth imposes higher duties' (Mitterrand 1968). Mitterrand treated liberalisation as practically 'irreversible'.

The 1972 *Programme Commun* of the Left referred only briefly to trade issues, stating that 'the expansion – largely open at the global scale – of trade and cooperation befits the requirements of economic and social progress' (Parti Communiste Français 1972). Some Mitterrand ministers in 1981–82 took protectionist stances, but in 1983, in its most dramatic moment, the Socialist government, forced to choose between its expansionary policy and European commitments, opted for the latter (and austerity), confirming the path taken in 1958. In his 1968 article, Mitterrand had rhetorically (but realistically) asked 'will the Left have to choose Europe over socialism?' He gave his ultimate response fifteen years later.[22] In a stunning ideational success for

Fifth Republic reformers, trade liberalisation became the main constraint of the French economy while it was marginalised as a topic of political debate.

The uniqueness of the nascent Fifth Republic resides in the bundling of several mutations that transformed the nature of the French state at the institutional, ideological and sociological levels. The new constitution, associated with electoral bipolarisation and the increased centralisation of administration and information, considerably reinforced the executive power's capacity to impose its preferences on other institutions and on social actors. This capacity was used by the new technocratic élite to roll out a modernisation programme. The very nature of this emerging leadership class greatly helped to reach out to, and reshape, interest groups as relays of the growth agenda. The new technocratic governance could be seen as exemplifying the benefit of depoliticising decisions when facing potentially strong organised opposition (Becker 2005).

The higher-capacity French state thus changed roles: the role of a referee of a Malthusian society where the balance – between social classes, country and city, industry and agriculture – had to be maintained, was replaced by the role of chief executive of a venture with a purpose: 'expansion' or economic growth. This goal was the justification for active reforms in all sectors whenever the government identified a stumbling block for growth. Social groups (such as farmers) that had been perceived, under the Fourth Republic, as needing accommodation, became, in the Fifth, the target of government intervention to reset their priorities towards productivity growth.

Notes

1 The two terms largely overlap, although 'technocratic' has a sociological dimension that 'productivist' lacks. Jean Meynaud (1964, 8) wrote that 'la technocratie trouve son fondement initial dans le culte de l'efficacité qui traduit le souci d'obtenir le maximum de résultats pour le minimum d'efforts', which parallels the research of the highest productivity.

2 The idea of *parlementarisme rationnalisé* emerged in the 1930s when reforms to strengthen the executive power were considered. It is often associated to the name of Boris Mirkine-Guetzévitch, a legal scholar (Chapsal 1984, 182).

3 The government proceeded with the referendum despite the State Council ruling it unconstitutional in private advice, a view informally shared by the Constitutional Council (Avril 1987, Duverger 1973).

4 Television reception took off in the early 1960s in France. Radio was the main broadcast medium up to then with public stations closely controlled by the government; however popular commercial 'peripheral' stations based outside of France supplied independent coverage, including Radio-Luxembourg and Europe 1 (from Saarland, Germany).

5 Interestingly, the ENA was created by de Gaulle and Debré.

6 Giscard is a foremost example of a successful personal reinvention to fit the new Fifth Republic. He was elected deputy in 1956 under a notable's profile as an independent in a constituency previously represented by his grandfather who had succeeded his great-grandfather, and where his father had once been mayor of the main town. He was appointed state secretary of finances in 1959 and finance

minister in 1962 under his new mandarin profile, entirely justified for a graduate of both ENA and Polytechnique, and former cabinet director of 1955–56 PM Edgar Faure (François 2011, Gaïti 1998).

7 Prominent examples of appointments of non-elected technocrats include Édouard Balladur to the finance ministry in 1986, Dominique de Villepin to the foreign ministry in 2002 and Emmanuel Macron as economy minister in 2014, the first two eventually became prime ministers and the third, president.

8 Annual graduates of the main grandes écoles were a fraction of those of Oxford and Cambridge.

9 In the very last page of his book, Pierre Birnbaum (1977, 186) adds a note of caution to his diagnosis of technocratic independence, arguing that the then nascent Giscardism was seeing a growing interpenetration of business and state interests. But he does not back this claim with examples. In fact, *a contrario*, an argument could be made that the state in the 1970s set strategy for top French companies, whereas agriculture may have been the sector most manifesting a confusion of private and public interest, which was under-noticed by the dominant rhetoric.

10 insee.fr/fr/information/1300622 (3 September 2023).

11 Not to be confused with the (Louis) Armand (Jacques) Rueff report from the homonymous committee issued to prime minister Michel Debré in July 1960, which proposed liberalising measures in domestic markets. That report was mostly ignored by the government.

12 When referring to the 'public sector', I exclude nationalised companies operating in a competitive market (e.g., Renault or Crédit Lyonnais) which fell under the 1950 collective bargaining rules applying to the private sector. The 'public sector' thus defined includes state-owned companies in monopoly (SNCF, Gas de France, etc.) and administrations, in which labour has the status of '*fonctionnaires*', with wages and work conditions under direct government management (OECD 1963, 36).

13 Based on the 1948 import profile. In 1959, the headline share of 90% accounted for 70%–75% of imports (*Le Monde* 22/01/1959).

14 In the 1958–59 winter, the de Gaulle and Debré governments used their power to enact laws through ordinances to launch several other reforms. In December, three government orders re-organised hospitals in a process that was completed by a law in December 1970. A decree of 6 January 1959 raised the school attendance mandate from 14 to 16 years old, effective in 1967. Years of education per person aged 15–64 were 9.6 in France in 1950, behind the UK (10.8) and Germany (10.4), by 1973, France was slightly ahead, and significantly so in 1992 with 16 years against 14.1 for Britain and 12.2 for Germany (Maddison 1995, 77): the human capital side of the Fifth Republic's productivity drive.

15 Most former empire territories in Africa were still in the zone franc, including the largest, Algeria and Morocco.

16 Real-term trade estimates based on current prices, figures deflated by the cost of living index. Figures exclude services.

17 Merchandise exports in current dollars, from data.worldbank.org.

18 eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:11957E/TXT&from=EN (3 September 2023).

19 In current dollars, from data.worldbank.org.

20 The segregation of US engineers in a distinct corporation led to the emergence of engineering consultancies without equivalent in France.

21 Figures from 1982 are not fully comparable to prior years due to a change in methodology.

22 The French Socialist party's incapacity to produce a progressive programme compatible with European integration (an ambition set, but unfulfilled in Mitterrand's 1968 article) may have been the root of its ineffective exercise of power since 1981 in the areas where it claimed competence – I think of persistent mass unemployment and minorities' social exclusion. Since radical Socialist reforms would imply

policies irreconcilable with those of the European Union, like monetary-financing of the deficit, the party settles for differentiating with its conservative stand on public services (i.e. opposing reform), and with new assistance schemes, or 'social-libéralisme'.

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7 The productivist Fifth Republic

By all accounts, for the first time since the 1920s, in the mid-1960s the Gaullist reforms put the French economy on a growth track compatible with that of its international peers. But the changes were to prove much deeper, going well beyond successful macro stabilisation. The turnaround was not the product of a one-off adjustment, as could have been conceived by conservative 1950s politicians and Banque de France governors. It was, rather, the result of a dynamic process reshaping France – which had only begun.

Technocratic governance was not simply the latest modus operandi of the executive branch. It rapidly revealed itself as a new way for the state to refashion social preferences to make them compatible with the macro goals of the government. The expectations of key social groups, such as retailers and farmers, were reshaped, allowing the roll out of productivist reforms including land consolidation and a retail value added tax. The employers' association was lured away from its reactionary politics to support modernisation through consolidation, international trade, loose state coordination, and active management of social security programmes.

Militant trade unions were brought into an unacknowledged agreement under which they supported industrial restructuration whereby increases in productivity generated pay rises while jobs were seldom cut. State commitment to technological excellence, with its symbolic breakthroughs in nuclear, aerospace, telecoms, and railway industries, contributed to the new economic narrative, while the 'depolitisation' of key issues, on behalf of technical committees and European law, helped generate support for new policies.

The Fifth Republic also introduced economy-wide measures that pressured all sectors to make productive adjustments, including a national training programme, accelerated banking adoption, and, from 1968, the high, GDP-indexed minimum wage. Measures to favour the most productive firms bolstered the service sectors (notably, retail). Until the 1990s, French corporations increased massively in size relative to foreign competitors.

The literature has attributed France's undeniably dominant economic performance throughout the 1960s and 1970s to planning of manufacturing. However, I will show that significantly more thorough action by the state was necessary to rekindle social coordination.

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I turn now to a review of key Fifth Republic reforms and policies that reframed the state and its relationship with sectoral interests. I will look at the state initiatives that sought to break the inflationary distributional politics of the prior regime, and to accelerate France's integration into the international economy – starting with the dismantling of the circuit, followed by the revamp of the protest-prone agricultural sector, the fiscal reshaping of the retailing industry, and the controversial national champions initiatives. I finally survey the productivist response to labour conflicts and its fitness to egalitarian France.

Finance: breaking the circuit

In the Fourth Republic, the 'circuit' was a perverse mechanism that protected the Treasury from a still-feared Banque de France, and allowed the Treasury to accommodate through inflation the spiral of distributional claims. As explained in Chapter 5, through the circuit, the Treasury sucked the economy's cash into institutions it controlled. Jacques Rueff had been a consistent critic of the Treasury, and of its financing of the economy through *crédit à moyen terme mobilisable*, alongside budget deficits – both ultimately powered by monetary creation. A late 1957 note on the French economy by the IMF's managing director Per Jacobsson (1957) likewise insisted on reducing the budget deficit and ending *crédit mobilisable*.

As I argued in the previous chapter, the Pinay Rueff Plan did not directly address financial reform because of opposition from the Banque de France. But it did put the budget deficit on a sustainable trend. After peaking at 5% of GDP in 1956 and 1957, the deficit was reduced to 2.8% in 1958, shrinking to the sustainable level of 1.4% by 1960. Even in the troubled year of 1963, the figure rose only to 2.1% (calculated from BIS 1964). The low deficits should not be overlooked as the product and testimony of distributional restraint. The latter was even more notable because the shortfall was financed by borrowing instead of monetary creation. Thus, the need for the circuit – securing government liquidity – was disappearing, which is not to say that Treasury officials were keen to abandon it.

The reform of Treasury financing took off only in 1963 under Finance Minister Giscard d'Estaing, and despite strong resistance from the department's upper management. My account here and below relies much on the detailed history narrated by Laure Quennouëlle-Corre (2000). A 1963 report by Maurice Lorain, inspecteur des finances and CEO of Société Générale, had a major influence on the pro-saving turn adopted that year. This turn consisted of an effort to increase the attractiveness of the financial markets and to prevent the state from crowding out private borrowers.

In November 1963, de Gaulle wrote a letter to the prime minister calling for an end to state reliance on short-term debt and money creation, arguing instead for exclusive recourse to medium – and long-term debt – an idea defended by Jacques Rueff (1963), de Gaulle's unofficial advisor (Peyrefitte

1994). The next month, the council of ministers established those principles as undergirding government financing: from then on the Treasury shall abstain from monetary creation and stick to '*neutralité monétaire*'. Financial reforms included the end of discounting of medium-term credit (including construction credits), enacted in 1965, under Élysée guidance and, again, despite resistance from the Treasury. The November 1963 initiatives were seen as a second stabilisation plan after that of September, and as addressing more structural issues, under an initiative coming from de Gaulle himself (Lelart 1986, Quennouëlle-Corre 2000).

Financial restraint relied much on the '*débudgétisation*' of investment, a process launched in the early years of the regime but accelerated with the 1963 stabilisation plan. The idea was to shift some investment expenditure into off-budget vehicles, such as the Caisse des dépôts, a process that took place from 1964. This was carried out alongside a closer control of the Caisse by the Treasury. In turn, the Caisse was increasingly financing itself from savings, rather than from the *crédit mobilisable* discounted by the Banque de France.

In 1960–64, bond issuance from state-owned companies increased by 113% against 29% for the private sector, reflecting the Treasury's pivot towards market financing. In 1965, Giscard conceived the project of ending the Treasury's a priori control over bond issuance ('*le calendrier d'émission*'), a plan strongly opposed by the Treasury and which was eventually partly enacted in 1966 by his successor Michel Debré, who maintained the Treasury's discretionary power over issues of over Ffr30 million.

Likewise, other credit and financial reform was gradual. The *coefficient de trésorerie* (a set share of banks' assets to be kept liquid) was created in October 1960. The minimum share or 'floor' of treasury bonds to be held by banks (included in the liquidity coefficient) was decreased from 25% to 7.5% in 1964, which produced a drop in the amount of treasuries discountable at the BdF. A most notable innovation was the introduction of treasury bond auctions from April 1963, a measure insisted upon by Giscard despite opposition from the Treasury, which was losing its capacity to pre-empt private borrowers on the financial markets. The coefficient and the auctions significantly weakened the circuit.

Giscard's reformist zeal was supported from the outside by Jacques Rueff, who, throughout the 1960s, remained an important critical voice, from a standpoint still closer to the German ordoliberals than to the Treasury's Anglo-American leanings. Rueff was respected by public and elite opinion, and his attacks seem to have influenced government decisions, as emphasised by Quennouëlle-Corre (2000). Another indication of the loss of influence of the upper Treasury management is the fact that, from 1963, Treasury civil servants no longer staffed the Finance Minister's cabinet. The Treasury's director reportedly had to make an appointment to meet Giscard.

Dismantling the circuit was necessary for the bank reforms prepared under Giscard and delivered by Michel Debré, Finance Minister from January 1966. With the active support of his advisor Jean-Yves Haberer (*énarque*, finance inspector), Debré significantly accelerated financial reforms. Haberer had studied in the United States the banks' role in transforming savings into investment, and was committed to importing the model in France. To avoid the scrutiny of the lobbies and parliament, in 1966 and 1967 Debré proposed executive orders, rather than new laws. The Treasury's top civil servants, always wary of weakening their department's capacity to directly control the financial system, opposed many of the executive reforms. The reforms included freeing the creation of new branches (the number of branches, which had previously stagnated, started to rise dramatically), opening the country to foreign banks, and allowing private and consumer banking to converge, notably in directly financing firms (Quennouëlle-Corre 2000, Thiveaud 1997).

The reforms completed the transition from state-led to market-led capital allocation, breaking up market segmentation. They also ensured the emergence of universal banking and what eventually came to be called *bancassurance*. These two novelties would underpin higher productivity of the financial sector and efficient conversion of savings into investment. Besides the development of the credit market, the Treasury supported fast extension of banking as a driver of financial modernisation and state fiscal capacity. Competition for deposits and for loan issuance stimulated innovations in French retail banking, and the drive to capture all payments in a system that was still cash-driven in the 1950s. In 1967, 53% of households held a bank account; ten years later 94% did (Thiveaud 1997, 61). The process was accelerated by the launch, in 1969, by the newly-elected President Pompidou of a range of initiatives to shift wages payments from weekly, usually in cash, to monthly, by cheque (Saada 1972). Treasury repeatedly refused banks' requests to charge a fee for cheques, as it preferred annual fees, which were less obtrusive and encouraged the switch to cheques. Consequently, cheque usage boomed in France: by 1990, there were 40% more cheques written in France than in Britain, and about six times more than in West Germany or in Italy, all with comparable populations (CGCBMSEEC 1992, 315).

The scholarly consensus has yet to acknowledge this turn in financial policy. Many stress the continuity of the *économie d'endettement*, the debt financing of investment, under the Fifth Republic (Feiertag 2006; Loriaux 1991). Indeed, a least until the 1980s, French corporate balance sheets continued to be dominated by loans. For this reason, interest rates remained too blunt an instrument to slow the economy; most post-1973 efforts to contain inflation were supported by fiscal policy. But this point should not distract from the massive financial reengineering that took place.

Once the circuit was dismantled, the state's financial might was considerably enhanced by the Giscard and Debré reforms. A banking system geared towards capturing liquidity for the Treasury was repurposed to collect savings and transform them into investment. Some regarded this as a politicisation of finance (Feiertag 2006) because more financial decisions were now taken by the political leadership, but this is in contrast with the hidden and blind nature of the Fourth Republic's circuit. The technocratic turn of the new republic's leadership meant that financial flows could be harnessed to selected development goals. Government capacity was further enhanced by the reversal of the stream of influence between the state and social groups. As we will see in the next section, this approach was first deployed in the farm sector.

Agriculture: the ideal-type sector

From the 1892 Méline tariff until the 1950s, French agricultural policy was built on two pillars: protectionism and price support. Under Vichy, out of necessity, a broader approach was initiated that included centralised marketing, but most of these ideas where sidelined after the war. Under the Fourth Republic, agricultural interests and politicians unanimously argued that the decline in farm employment had to be stopped, and that the small family operation should be safeguarded as the core production unit, while 'equality of revenues' with other professions should be granted to farmers.[1] As we saw, the farmers' claims for price increases were key constituents of the 1950s inflationary vicious circle. The agriculture lobby could count on majority parliamentary support even against the government, a tactic employed in August and September 1957 to vote for the indexation of agricultural products (Cleary 1989, Servolin and Tavernier 1969).

The Fifth Republic's shift in governance concerning agriculture took place in two phases. Initially, the government displayed an uncompromising attitude that contrasted with prior administrations'. But rapidly from 1960 onwards, this approach led to engagement with the farmers, and to the roll-out of a wide programme of agricultural modernisation in a close partnership with the 'enlightened' faction of the farmers' movement. The state effectively refashioned a social group's preferences, which provides an ideal-typical illustration of ideational leadership.

The Pinay Rueff Plan abolished indexation of agricultural prices and decreased the subsidies on fuel and agricultural material. The end of indexation associated with one-off measures generated a large protest movement in the winter of 1959–60. In March 1960, the farmers' lobby persuaded a majority of the members of the National Assembly to demand a special session. De Gaulle rejected that request. A similar incident took place in September 1961 when de Gaulle refused to give parliament the right to vote on an agricultural bill. Both episodes illustrated dramatically the new subordination of the legislative to the executive branch.[2] All political parties except the Gaullist UNR supported the farmers' demands. The government initiated a programme of reform amidst continued protests from farmers, which culminated in the spring and summer of 1961. Key prices remained set by the government, but it steadily refused to return to an automatic indexation system despite a massive outcry for it. The government wanted prices to be set on 'efficient production units' and refused 'social prices' (*Le Monde* 8/9/1961 and 9/9/1961).

During this period of high tension, an informal alliance emerged between the government and the reformist wing of the farmers' movement, the Cercle and the Centre national des jeunes agriculteurs (CNJA), which was established in 1957 as an independent trade body affiliated with the FNSEA farm federation. The movement had roots in the Jeunesses agricoles catholiques (JAC). French law had never allowed for the existence of a legal entity operating a farm distinct from the owner of the land or the tenant. Consequently, sons of farmers working with their fathers lacked the legal status of '*exploitant*' before formal inheritance, so they could not even become FNSEA members. The CNJA was a way for the generation that started working in the postwar period to get around this obstacle (Servolin and Tavernier 1969).

The rise of the current represented by the CNJA is illustrated by the career of its herald, Michel Debatisse. He was secretary general of the JAC until 1957, then held the same title at the CNJA from 1958 to 1963, and then at the FNSEA in 1966–70, ending up as the Fédération's president from 1971 to 1978 (Cleary 1989, Debatisse 1963, Luneau 2004).

The FNSEA leadership of the early days of the Fifth Republic was close to the far right, with Poujadistes and Algérie française supporters. The August 1960 law on agriculture was passed despite strong opposition from the FNSEA and the Chambres d'agriculture, which ensured that the Senate opposed the law (since the war, the rural-skewed upper chamber has no veto right). For Gaullists and, it seems, the general himself, the farm lobby's leaders were greatly tainted by their association to the Vichy-era Corporation paysanne. This was a further motivation for the government to favour the rise of new leadership at the FNSEA (Luneau 2004, Tavernier 1962).

The fundamental change in relationship between the peasants' lobby and the government came with the August 1961 appointment of Edgar Pisani as Agriculture Minister. Pisani, a former *résistant* and upper civil servant, was a senator affiliated with a small centre-left party (he was chosen by de Gaulle – in contrast to the Fourth Republic's partisan ministerial appointments). A month earlier, Pisani had spoken forcefully in the senate for a state-led revamp of the economics of agriculture, attacking endless subsidies granted in response to protests when funds for long-term projects were lacking.

The intensity of the 1961 farmers' demonstrations have been attributed to disappointment with the slow pace of the reform launched with the 1960 *loi organique*. The leaders of the 1961 movements were young reformers, many from the CNJA, focussing less on price than on faster structural reform. Their claims were more amenable to the state. One month after his appointment Pisani met the CNJA leadership and told them 'I count on you . . . We can build without disorder what you wish for' (Debatisse 1963, Keeler 1987, Luneau 2004).

The CNJA became renowned by pushing for reformist ideas, such as for a health-insurance mandate for farmers that would be financed by contributions proportional to revenue. This mandate gained support in the poorer, less productive areas (central France, Alps), but was opposed by the richer, more productive, and thus commercial-minded areas, such as Île de France and Normandy. But the CNJA also promoted ideas with deeper long-term structural consequences, which proved compatible with the interests of large-scale farmers. One such idea was to ease consolidation of farms via a state body granted pre-emptive buying rights, and to establish farms as legal structures that are not divided by inheritance (French law mandates equal split between siblings). The Centre even called for a minimum farm size (adjusted for each region): a measure embracing '*exodus from the country*' had been, until then, fiercely opposed by farmers' unions (Luneau 2004, Tavernier 1962).

The government adopted much of the CNJA programme, enacting it in the first half of the 1960s. An August 1960 law created dedicated agencies to ease land ownership consolidation in order to process and market products. The law created the *label agricole*, to be awarded at the request of producers. This was a first step on a path that proved extremely fruitful across Europe up to this century, consisting of adding value to local and traditional products thanks to strict quality certificates.[3] There were numerous reforms over the next two years, one of which, in August 1962, allowed priority purchase of land for farming, reinforced agricultural producer groupings, and created social measures favouring land consolidation. A public health insurance scheme for farmers was set up in 1961. While the agricultural laws emphasised traditional lobby goals (e.g., equal revenue for farmers), they focussed on modernisation by increasing productivity. A semantic shift from the slightly stigmatic *paysan* to the profession-like *agriculteur* took place, as observed by de Gaulle (Cleary 1989, Knudsen 2009).

The agriculture model that emerged (and which still prevails) featured at its core the independent farmer. Land ownership was secondary as French *exploitants* have to be actual farmers. Large landowners were constrained from renting out fields at controlled prices, and forbidden from creating a corporate-type business operation. The market for land was (and is) tightly regulated, favouring buyers who are farmers. Small-scale farmers join cooperatives for buying inputs, selling production, and sometime sharing equipment. Capital is supplied by loans mostly from the Crédit Agricole.

The government actively supported the CNJA, giving it, as early as 1959, two seats on the Conseil économique and representation in other state-sponsored organisations. The CNJA was thus one of the regime's selected interlocutors. In 1959, the new 'promotion collective' system allowed the state to subsidise selected civil society groups, and the CNJA became a regular recipient. In 1964, the CNJA received 750,000 francs from the promotion collective and 900,000 francs from the Fund for vulgarisation of agricultural progress, the total being four times what it collected from its members. That year the FNSEA received 547,000 francs from the promotion, but that figure increased substantially in the following years as its 'client' status was established. By 1970 CNJA and FNSEA were receiving over 1 million francs each from the *promotion*, while the FNSEA was receiving 3 million francs from affiliate duties. These resources enabled the organisations to substantially increase their staff and operations (Keeler 1981 and 1987). Crucially, state resources also helped leaders resist radical militants (Jobert and Muller 1987).

Greater resources supported the rise of Debatisse and his associates within the FNSEA which progressively came to endorse the productivist views of its young farmer arm. From 1964, the FNSEA gradually transformed itself 'from a relatively autonomous "pressure group" to a corporatist almost "official" union' (Keeler 1987). The Fédération became the main relay for the government's modernisation policy, while remaining a channel for farmers' protests, which it framed in terms compatible with public goals. This was achieved by 'privileged access, devolved authority and monetary subsidies' (ibid.). The FNSEA had considerable access to policymakers by being part of numerous committees, including the 1962-established department committees controlling farm investment from non-farmers. The Fédération also co-managed public official bodies with considerable patronage powers, such as the Chambres d'agriculture. To an extent, the Fédération substituted for public administration in agricultural affairs. Meanwhile, the FNSEA had enough leeway in selective distribution of subsidies and privileges to maintain its dominant position amongst farmers. 'As the state's need for a client increased, government officials encouraged the emergence of a "new generation" élite willing to set the FNSEA on a course compatible with the policy and political goal of the state' (Keeler 1987).

The last serious tensions to surface between the FNSEA and the Gaullist government occurred in the wake of the 1963 stabilisation plan. In October 1964, after the failure of a milk-delivery strike, the FNSEA returned to traditional lobbying, pushed for a motion of no-confidence in the National Assembly (which failed), and withdrew support from de Gaulle in the 1965 presidential election. But the Gaullist alliance with the agricultural lobby was maturing beneath the surface. In the 1969 referendum, the FNSEA was the only interest group to support de Gaulle's plan, in line with Debatisse's earlier positions favouring the 'participation' of workers in management (Bruneteau 1992, Debatisse 1963, Servolin and Tavernier 1969).

Yves Tavernier (1962), in asking if there was 'a "collusion" between the young farmers and the Fifth Republic leaders?', testifies to the mutual reciprocal and positive views held by upper civil servants and CNJA leaders. He quotes an unnamed leader stating that an authoritarian government was needed for reform 'to break resistance, to destroy reactions of "economic feudal powers", to promote a rational organisation of agriculture, while protecting essential values of freedom and responsibility' (ibid., 622). He stresses that the trade body's action is focussed on ministers' cabinets, not on parliamentarians (ibid.). The FNSEA cooperation with the regime led to internal dissentions and emergence of small rival unions, but the Fédération maintained its hegemony thanks to the 'gains' accorded by the state (Keeler 1987, Luneau 2004). The fruitful relationship with the farm lobby would prove highly valuable in setting up the Common Agricultural Policy, which would definitely unplug the sector from partisan politics.

The CAP was negotiated amongst EEC members between 1962 and 1964. The resulting unified European market was based on centrally set prices for agricultural products with import duties and quotas for third countries. The system was to be balanced by acquiring products by certified organisations in order to sustain mandatory prices (OECD 1966). The modernisation underway in France helped gain the FNSEA's support for the government's position and eventually for the new CAP, despite farmers' cyclical protests. The FNSEA, dominated by the most modern part of French agriculture – growers of sugar beet and wheat – focussed on price support, while the CNJA was skewed towards smaller farms that urgently needed structural interventions. They both accepted the CAP with the hope for price support and export markets (FNSEA) and welfare (CNJA). The new European mechanism had 'ideational underpinnings' quite compatible with traditional French farmers' beliefs, and the CAP sustained a few 'myths', including 'the direct relationship between the price of agricultural products and farm incomes', the risks arising from foreign markets, and the value of the family farm, as Knudsen (2009) argues.

In short, the early Fifth Republic steered agriculture towards modernisation, continuing to do so in the following decades. The state's agenda and that of the sectoral interest group were compatible, and the interest group's hold over farmers was institutionally reinforcing. The formula for responding to farmers' claims was boosting investment to enhance productivity. Price issues were outsourced to Brussels, leaving unchallenged the broad ideal of the independent farmers. Agriculture's capacity to lead the reactionary Malthusian interests was gone, as the sector now allied itself with pro-trade and modernising forces.

Scholars who have most carefully studied the issue agree that the state instrumentalised farmer groups. John Keeler (1987) sees in the early Fifth Republic's agricultural policy a classic example of 'neocorporatism', and shows an increased state capacity to 'corporatize' compared to the Fourth Republic. Stanley Hoffmann (1981) endorses this view, arguing that French agriculture was the best example of

> neo-corporatism . . . which allows the state, as dispenser of subsidies, favors and power, to orient these groups and to carry out policies which cannot be enforced by bureaucrats alone. . . . The symbiosis has worked well only with the Conseil national du patronat français and the FNSEA (admittedly of enormous importance).

As we shall see, instrumentalisation was part of a broader process of adjusting to the postwar environment. The state's new relationship with farmers groups would not have been possible without the institutional renewal that underpinned ideational leadership, which proposed productivity growth as the ultimate compromise. This made it possible to align previously conflicting social claims. While the scholars cited above possess a deep understanding of the Fifth Republic's institutional changes, they miss the significant role agriculture played in the previous regime's inflationary distributional system. They also miss how the idea of productivity has the power to mobilise all sorts of social groups. Instrumentalising interest groups resulted not merely from increased state power, but was an original solution to the problem of how a technocratic republic could adjust to the new postwar international order of open borders and stable money.

Besides its long-term effects, the agricultural policy of the de Gaulle governments considerably weakened the inflationary impact of wholesale food prices, which grew, between 1955 and 1958, by 33%. In contrast, all wholesale prices grew by 23%. From 1958 to 1963, food prices increased in line with other wholesale prices, even while food price rises were not driven by production costs (OECD, 1963). The change in the differential between food and the total wholesale prices in the two periods did not reflect international trends, as it was not correlated by the trend in wholesale prices in West Germany (BIS 1964, 1965).

The new agricultural policy framework had some significant drawbacks, including a massive increase in government spending on price support (including export subsidies and processing of raw products). Total expenditure was up five-fold from 1959 to 1962 (OECD 1963). Further significant increases were to be accounted for by the EEC budget. On the other hand, the inflationary pressure from food was greatly reduced, making it a successful social policy (Knudsen 2009).

Taxes and retail: the end of small-shop France

If the state could enlist formerly hostile farmers in its productivist drive, it could certainly mollify retailers, the other social pillar of the Fourth Republic's Malthusianism.

Under the Fourth Republic, social resistance twice blocked major tax reforms. In 1948, in a telling episode, the newly created Direction générale de l'impôt (DGI), supported by the most prominent civil service intellectual leaders, failed to enlist sufficient political support for a revamp of farming taxation and special exemptions (Tristram 2005). In 1954, the creation of the value-added tax (VAT) was one of the most seminal remunerative tax innovations of the 20th century, reflecting well on the adaptive capacity of the French administration – but full implementation had to wait 14 years. Levied on a firm's gross margin, the VAT is biased against the slow stock turnover, high-margin, low productivity French small business sector.

In 1955, facing Poujadiste opposition, the government postponed VAT application to retailers and artisans, preserving the favourable tax treatment of small businesses, one of the main reasons the French tax system was 'unfair and Malthusian'. The system 'hinders the most modern businesses, the most profitable, the most efficient, whereas it favours or protects the most antiquated, archaic, outdated businesses, supporting high production costs' (Duverger 1960).

Despite the 1955 climb down (when enforcement to retailers was postponed in the face of protests), the VAT remained a salient topic. In 1958, the small businesses association, CGPME, campaigned against the high-profile Édouard Leclerc chain of (small, independent) supermarkets because it was using a legal provision to pay the VAT instead of the local tax, which would have cost them much more; retailers thought they were thus facing unfair competition. But the administration refused to budge and Leclerc carried on with the VAT. However, another attempt at local tax and VAT reform, piloted by Giscard d'Estaing as secretary for finances, ended in 1959 due to strong opposition within the parliamentary majority – deputies with local electoral mandates were sceptical of the proposed alternative local government financing scheme (Tristram 2005).

A first step towards reforming the retail industry came with the March 1960 Circulaire Fontanet on restrictive commercial practices that essentially prohibited wholesalers from refusing to serve new chain retailers. As a ministerial instruction to the administration, it bypassed parliamentary debate. Significant protests arose against the *circulaire*, with support from many parliamentarians, some of whom saw in the measure a form of help to the Leclerc chain (*Le Monde* 27/6/1960).

After the 1962 Gaullist victory, parliament was no more the obstacle that it was in 1959. Giscard could focus his efforts on interest groups with the National Retail Conference, launched in July 1963 and concluded in April 1964. The conference appeared to consist of negotiations, but was actually a massive public-relation exercise resulting with interest groups' endorsing the extension of VAT to all retailers. Meanwhile, PM Pompidou, in a cooling off exercise, explicitly did not wish to enact such a measure in the short term out of fear of a backlash by local officials (*Le Monde* 24/4/1964). Giscard and his cabinet leveraged the new relationship with retailers and artisans' representatives for the draft of the reform, which was presented to parliament in 1965 and passed in January 1966. The retailers and artisans were also closely and regularly consulted on all implementations aspects of the VAT, which went into effect in January 1968.

The introduction of the VAT shrunk the previous border between the artisan and the small workshop. That eased investment, enabled scaling up, and increased productivity gains in activities ranging from construction supply (windows, plumbing) to hairdressing (Perrin 2007).

The government's successful extension of the VAT to small business was only the most visible aspect of its retail productivist drive. In 1965, the *code civil* was amended to permit unilateral '*déspécialisation*' of rental agreements by renters – thus allowing retailers to expand their range of product or shift to a new specialisation. Further, in 1965, a dedicated law set the terms to modernise slaughterhouses, following a succession of plans from 1962 to 1964 that dramatically restructured the public infrastructure of butchery.

Local slaughterhouses shrunk from 1,580 in 1962 to 418 in 1970 (De la Bourdonnaye 1970, 141). Inflation of meat prices had been a recurrent topic of city dwellers complaints during the Fourth Republic. In the 1963 price hike, it emerged again as a key focus of government concern – leading to a freezing of the price of beefsteak.

Hypermarkets were another French productivist innovation, facilitated by governmental policy, that would eventually spread globally like the VAT.[4] They bring in a single big box location all the food offerings of a top size supermarket alongside clothing, household, and automotive supplies (including petrol).[5] The founders of the Carrefour chain opened the first French hypermarket at Sainte-Geneviève-des-Bois near Paris in June 1963 with 2,500 square metres. In 1966, they opened at the Lyon suburb of Vénissieu a supersized version of 9,500 metres – a surface that is still today in the industry's typical range (Daumas 2006, §19–22). Hypermarkets boomed from 12 in 1967 to 115 in 1970 (Insee 1972). By 1980, there were 408 (Insee 1981), despite the infamous 1973 Loi Royer submitting them to prior authorisations from local politicians.[6] Hypermarkets usually became magnets for complementary large stores (sports equipment, do-it-yourself, furniture).

It is unclear why the hypermarket emerged in France before elsewhere. Retailing was far more fragmented and uncompetitive than in other advanced industrial countries, so maybe existing and new supermarket chains had a bigger incentive than their counterparts elsewhere to expand beyond food? Once the hypermarket model was established in France, it became the main vector of growth for food-based retailing, reflecting path dependence. In food-based retailing, productivity grows with size until 8,000 square metres, in large part due to the increase in non-food offering (Bisault 1987).[7] Elsewhere, cloth and household supply retailing modernisation took the shape of specialised store chains before Walmart and Carrefour globalised their model.

Modernisation of the retail industry greatly enhanced productivity growth for the French economy. It also neutralised one of the key inflation mechanisms, which was uncompetitive shops that were unable, and lacked the incentive, to absorb any share of wholesale price increases by raising productivity, and equally unlikely to cut retail prices in response to a decline in wholesale prices. Giscard d'Estaing had no secret grand plan for France to be covered by Auchan, Leclerc, and Carrefour stores, but his policies aimed at productivity growth laid the ground for retail modernisation.

In sum, the combination of ideational and institutional innovations of the Fifth Republic reversed the 1950s relationship between state and small business. In the 1950s, retailers and artisans could block reforms through their influence in parliament, invoking a widely-shared Malthusian ideal. But in the 1960s, the powerful and stable executive could shift public opinion towards a favourable view of modernisation and proceed with a step-by-step reform programme that prevented the emergence of a strong opposition; and the relative marginalisation of parliament helped lower local resistance to reform.

Big business: seeking critical mass

The state's drive for productivity in small enterprises and agriculture was matched by initiatives towards big business. Early on, de Gaulle's government showed awareness of the necessary tuning of the country's producers to increase competition in international markets. The main macro driver of state intervention was the pursuit of scale. A range of fiscal measures were established to support it. They contributed to the fast development of world-markets size French corporations in the last third of the century.

But I want first to look at the crucial employers' organisation, the Conseil national du patronat français (CNPF). In a rerun of the line taken with the farmers' FNSEA, the government gradually managed to enlist the peak business federation as an ally and conduit for its pro-productivity efforts. The *patronat* went from being the bulldog of the Reaction under the Fourth Republic into an enthusiastic proponent of sleek export-driven technocratic French capitalism.

There is an ongoing problem with French academic discussions about the *patronat* because it tends to project class analysis onto the employers' association. The *patronat*, as a class, as opposed to the unproblematic *patronat* as a shorthand for the Conseil (as used here) lacks direct Anglo-Saxon equivalents – the term 'bosses' comes closest to capturing it. But while a *patron* refers to a top manager or entrepreneur, *patronat* is an abstract noun that can refer to corporate management, where it would be translated as 'business'; or to the Conseil proper; or even more abstractly, to the 'capitalists'. This ambiguity can lead to confusion if these meanings are not carefully distinguished, and this confusion, unfortunately, has contaminated much scholarship. For example, books dedicated to the history of the Conseil are ultimately inconclusive on its actual political influence because they are drawn into broader industrial relations issues (Brizay 1975, Garrigues 2011, Weber 1986). The narrative is not helped by a general assumption, prevalent in French scholarship, according to which the Conseil *should be* very influential. However, I have found no solid confirmation for that hypothesis, which I suspect rests on the controversial premise that capitalists are necessarily coordinated as a class.

Conversely, it would be tempting to agree with an exasperated high-profile CEO who asked rhetorically in the mid-1970s '*what is the point of the CNPF?*' (Francine Gomez, quoted by Harris and de Sédouy 1976). If she was referring to the Conseil's lobbying outcomes, she had a point. I find no trace of a major state policy in the 1960s and 1970s being noticeably changed due to the *patronat*'s opposition. But this overlooks the Conseil's political role as a state supporter in key social initiatives, and as a regulatory conduit.

As I have argued in Chapter 5 and in this one, in France, the state is the focal point for trade unions' claims. Industrial relations are chaotic as collective agreements are typically impossible to reach. Hence, sectoral employers' associations have limited capacity to influence the trend in wages, even less so for their national federation. Most non-wage collective agreements are made mandatory by regulation, and most of these accords are initially conceived by the state, which pressures the Conseil to compromise. Therefore, I regard the Conseil as a state proxy in industrial relations, as well as, more broadly, in nominally corporatist arrangements of the welfare state. As such, and possibly also because it is seen by the labour movement as a committee of the bourgeoisie, the Conseil helps make credible what are ultimately state commitments. But, from the 1960s onward, the Conseil increasingly also became a conduit for economic policy by participating in the growing network of regulatory state technical bodies. This subjugation of the Conseil undergirds the claim that the Fifth Republic shares with Japan a form of 'corporatism without labour', structured around the state's relationship with agricultural and employers' organisations (Keeler 1987).

State cooperation with the CNPF intensified only in the late 1960s, building on the fruits of a government effort starting in 1958. Basically, the *patronat* came to abandon its opposition to the welfare state, to any challenge to restrictive practices, and to trade liberalisation (an opposition that had only mixed results under the Fourth Republic anyway), and to enter into a working relationship with the state.

The first transformative shock came with the institutional revamp that undermined the Fourth Republic lobbying model that centred on parliament. Business was now pushed to rebuild connections with the upper administration, a much more demanding interlocutor than resource-starved deputies. This led business associations to hire negotiators of a calibre matching their ministerial counterparts. Meanwhile, emerging professional managers of the leading French corporations came mostly from the same elite schools as the upper civil service, some of them even had public sector backgrounds. Top schools' pedigrees helped managers to speak to *cabinets ministériels* and to the Treasury, above the heads of (lower graded) permanent staff of sectoral ministries (Birnbaum 1977, Suleiman 1984, Weber 1986).

Further impetus for change came from direct state pressure. In 1958, under insistent demand to come to an agreement with unions on unemployment benefits, the CNPF did so. Indeed, the unemployment insurance institutional organisation resulted nominally from 'social dialogue', but actually from government pressure, according to François Bloch-Lainé (Weber 1986).

At the time of the Pinay-Rueff Plan, the CNPF was pressured to stick to wage discipline. In contrast, under the Fourth Republic, politicians had not wished to appear hostile to wage growth. In November 1959, PM Michel Debré wrote to Conseil president Georges Villiers, arguing that wage increases should reflect only productivity growth and, if profit growth turned out 'excessive', prices should be cut. In a March follow-up letter, Debré was more directive, urging business not to increase wages by more than 4%, a figure based on estimated productivity growth. If wage growth was to accelerate the government could speed import liberalisation. In a communiqué, the Conseil endorsed the 4% target. The final hourly wage growth rate for 1961 was 7.6% (BIS 1962, Le Monde 8/12/1959 and 16/3/1961).

Debré's second letter, and the *patronat*'s endorsement of it, provoked opposition from trade unions and some political quarters, notably Socialist and Christian democrats. They claimed that the government initiative violated the 1950 law that abolished wage control and instituted collective bargaining, and denounced a collusion of *patronat* and government against labour. In July, there was further discussion on this issue along the same lines at the National Assembly (*Le Monde* 16, 17 and 18/3/1961 and 3/7/1961). The government risked appearing aligned with business interests against labour, but this was a calculated risk whose upsides, from the state's perspective, included a demonstration of authority to society, framing industrial relations in the productivity paradigm, and signalling to the establishment a patron-client bond with the CNPF.

Like the FNSEA, the CNPF profoundly shifted its political agenda and personnel. In the Conseil's case, this shift occurred organically, without direct state meddling. In a first stage, the *patronat* resisted the type of *aggiornamento* experienced by the farmers' lobby. The Catholic-rooted Centre des jeunes patrons (CJP), which might be characterised as the twin of the CNJA, remained a gentle think tank that did not really (or failed to) challenge the broader employers' organisation. Following François Bloch-Lainé's 1963 book, *Pour une réforme de l'entreprise*, which presented a stakeholder approach, the Conseil leader, Pierre de Calan,[8] took a public stand for a traditional view of owners-run capitalism and led the Conseil to publish its uncompromising 1965 *Charte libérale*. The CNPF was not disposed to consider a settlement with unions, as shown by its negative response to the approach of the CFDT's Eugène Descamps in 1964 (Weber 1986).

But beneath these rhetorical positions, the Conseil was deepening its relationship with the technocratic state (under the latter's regulatory zeal). The demanding but necessary regular contacts with *cabinets ministériels* intensified. The Conseil developed increasingly close relationships with the higher grades of the ministries ('*les services*'), which were restructured to fit more closely to the actual configuration of business sectors. That process paralleled the increasing number of managers and CNPF officials with a civil service background.

In the late 1960s, the Conseil fully partnered with the technocratic state leadership when larger corporations gained control of the organisation, marginalising small and medium enterprises. A decisive turn was taken with the 1967 election of Paul Huvelin, a *polytechnicien*, as president, who succeeded the small businessman Villiers. Huvelin became an ally of PM Pompidou in key moments, notably in the May 1968 Grenelle negotiations with the unions, when the minimum wage was increased by 35%, as well as in a number of subsequent social initiatives, such as attempts at branch contracts in 1969, and, the following year, monthly wage payment and labour training reforms. In a June 1973 white paper, the Conseil appeared fully won over to the productivist model: free trade, free prices, high minimum wage, and a modernisation of hierarchical work organisation in cooperation with unions (CNPF 1973, Hall 1986, Parodi 1971).

Conversely, the small business lobby CGPME was mostly ignored in the early Fifth Republic, as state industrial policy was focussed on modernisation of the sectoral leaders. As a Fourth Republic-style lobby group, the Confédération's influence was primarily to be found in parliament through an informal *amitiés parlementaires* group. It bitterly resented the new form of governance, which is plainly described in the records of the October 1969 general meeting:

> It is first a kind of arbitrariness that can ignore public opinion and overlook the most legitimate positions. It is then the lack of any practical means of recourse against government decisions, against which members of parliament are left with practically no course of action. Finally, and overall, it is maintaining the omnipotence of the public administration.
>
> (Guillaume 2004, 53–54)

In addition to gaining the CNPF's active cooperation, macro productivist policies included a tax review that enhanced incentives for corporate consolidation. From the mid-1960s, the government prioritised industrial concentration, building on the Plan Commission's recommendations. The Plan favoured urging French firms to scale up via mergers and acquisitions in order to become more profitable and more competitive internationally. Besides, the Treaty of Rome included provisions for the eventual liberalisation of capital movements. The Plan also treated greater capitalisation in the stock market (which is attractive to investors) as boosting domestic companies' resources, making them more resilient were hostile investors to buy stock in the bourse. For the Plan, capital consolidation accompanied the shift from family-based to professional 'management' – the English word is the one used by the French (*Le Monde* 21, 22, 23 and 24/9/1966).

A July 1965 law, with a follow-up 1967 regulation, eased the fiscal treatment of mergers. The law allowed shareholders to receive a tax deduction for some of the profit taxes paid by the company from which they receive dividends. Corporations thus found it more profitable to pay out dividends rather than to reinvest the profits. It also allowed firms to unlock pieces of assets kept on the balance sheet in order to avoid paying capital gain taxes and the 'double taxation' of subsidiaries' dividends paid to their holding company. It thus encouraged a more 'fluid' capital market. In March 1966, a Committee for industrial development, presided over by the Plan commissioner François-Xavier Ortoli (who was close to PM Pompidou), was created to examine business concentration. It investigated desirable legal reforms and various projects that needed state backing (Tristram 2005).

The fiscal reforms made it less attractive to finance investment with cash. In the 1950s, *autofinancement* was common in France because low domestic savings were sucked up by the Treasury. A pragmatic solution was to use regulation to encourage self-financing. For example, the 1959 law allowed accelerated amortisation, which incentivise investment as a way of decreasing one's taxes. Over the following years, the official doctrine evolved and the tax directorate became increasingly critical of *autofinancement*, seeing it as carrying a risk of misallocation of capital. This was a further reason for introducing tax credits for dividends.

The Conseil strongly opposed the policy. While it was not against the tax credit, it argued that revaluating assets on balance sheets (as granted 'once for all' in 1959) would deflate profits and, therefore, taxes. In the mid-1960s, French businesses grew less slowly. Thus, amortisation charges on the books rose more slowly than profits, mechanically generating a faster increase in corporate taxes compared to profits (*ceteris paribus*). But the Conseil failed to bring the government around to its view (Tristram 2005). As I see it, this exemplifies the point I have been making all along: that the direction of ideational influence ran from government to the societal groups, rather than vice versa.

The state's support for scaling up French production units had significant long-term results. From the mid-1960s, business concentration in France dramatically accelerated. This occurred both in the private sector without government involvement (e.g., the canning, furniture, and beer industries) and in sectors under full or partial state control (e.g., banking, insurance, aerospace, metalwork, and oil). The total value of assets sold in merger and acquisition deals doubled in 1965, doubling again in 1966 to reach Ffr 3.3 billion. By 1970, the value had grown to Ffr 12.3 billion (Jenny and Weber 1975). Companies also increased in size: in the second half of the 1960s, mergers were twice as numerous as in the 1950s; from 1962 to 1970, the number of firms with 10 employees or more decreased, but the share of these with over 1,000 staff increased by 20%; from 1965 to 1970, the assets of the average acquired firm grew five times (Balassa 1979).

This trend towards consolidation included industrial policy of the kind that came to negatively characterise the Fifth Republic (e.g., the failed 1966 Plan Calcul, which aimed at nurturing a domestic computer industry). But these high-profile initiatives masked a slower, long-term trend: the rise of the large French corporation. As seen in Figure 7.1, in 1960, only 11 of the 100 largest (by sales) non-US industrial firms were French; 22 were West

	Top 100 non-US			Top 500 non-US	Top 500 global	Top 500 global *(all sectors)*
	1960	**1970**	**1980**	**1980**	**1990**	**2000**
France	11	15	14	42	30	37
Britain	33	22	16	90	45	35
Germany	22	17	21	62	30	34
Italy	2	6	3	11	7	8

Source: Author's compilation from *Fortune* 1961, 1971, 1981, 1991, 2001.

Figure 7.1 Largest world industrial corporations by sales and country

German and 58 British. However, by 1980, France ranked significantly higher than Britain and West Germany. (At the same time, the number of European firms on this list declined as Japanese and third-world oil corporations emerged on the global stage.) French firms continued to rank well, with their number in the global Top 500 on par with Germany in 1990, and ahead of both Germany and Britain by 2000. (I assume here that along with the impact of privatisations, the expansion of the ranking in 2000 to include all sectors, especially financial and retail, affected all countries and did not unduly increase the French presence in the ranking.)[9]

Sectoral input: beyond Concorde

The literature on the first two decades of economic policy under the Fifth Republic has two foci: the Plan and the national champions. I will assess the effectiveness of the former when discussing industrial relations, which is where scholars locate its impact, but I will look first at the champions.

The national champions' reputation suffers from a Concorde syndrome: the dazzling failure of the supersonic aircraft programme seems to have completely overshadowed the efficacy of other sectoral interventions. To be more precise, scholars are too focused on attempts to create national champions, and on those that failed, and neglect the successful results of the wider category of *plans sectoriels*. This is manifest in the best assessments of French economic policy, such as Hall's (1986), Zysman's (1983) and Cohen (1989) who do not directly discuss Concorde but use as their case studies plans that were, in fact, ineffectual at helping such declining sectors as textile, electronics, and steel.

I find no full assessment of sectoral *plans* available in the literature. My ambition here is to point to a number of such French state initiatives for which the evidence is at least mixed – and thus not obvious failures. My modest argument is that six sectoral interventions should count in the offsetting balance against Concorde, the *Plan calcul* for computers, and the aborted rescues explored by Zysman and Cohen.

The Airbus project was launched in May 1969 in a Franco-German partnership with smaller contributions from British, and later, Spanish associates. The programme was configured to meet requirements from the diverse partners so French plans were mitigated by German requests. Nevertheless, on the French side, it was financed entirely by public funds, and built on earlier industrial breakthroughs (for instance the 1950s Caravelle aircraft) and on a strong engineering tradition nurtured by the Toulouse-based École nationale supérieure de l'aéronautique. The legal structure guiding Airbus was the non-profit GEIE, for which major suppliers were shareholders, and it proved flexible enough to evolve gradually from a glorified committee into an autonomous, commercially driven venture. By 1987, Airbus claimed 25% of the global civil aircraft market (Muller 1989).

Like Airbus, in 1973, France gained a commitment from its major European partners for the Ariane rocket programme. It was mostly supported by Paris financiers, and the suppliers were domestic operators. The project built on 1960s French-led experimental launchers, Europa and Coralie. The first rocket was launched in 1979. The Arianespace corporation was created a year later; 60% of the shares were owned by French suppliers. By 1990, it had gained half of the global launch market (Smith 2001). Like Airbus, Ariane's development was financed by state loans. Its economic impact was an order of magnitude smaller than that of Airbus, but those who wished to treat both programmes as arguments for a state-led corporation pointed to the very small number of global operators, the lengthy and costly development stage, and the major customers' nationalistic bias (often based on military requirements).

Nuclear electricity production meets most criteria for state-led capitalism: it has substantial need for upfront funding; it has high, but long-term returns; and it is sensitive to regulation, as exemplified in retail (and thus tax rates applied to) prices for alternative energy sources, security rules, national grid management, and the capacity to generate public support for the policy. Hindsight allows us to see that it was the perfect candidate for the technocratic Fifth Republic state. The military-led development of nuclear energy was given a massive civilian boost by government decisions in 1973 and 1974 (before and after the oil shock). By 1978, France already had the highest share of its electricity coming from nuclear sources of any G7 country, with 13.5%, a figure that rose close to 90% in the 1990s, three times that of the nearest producers in this regard, Germany and Japan.[10] Notable features include the pragmatic choice to use American designs under licence rather than domestic alternatives, deep association of private and public organisations, and lowered costs due to standardisation (Kern 2011).

Building on earlier (underperforming) programmes, President Giscard d'Estaing launched a telecommunications investment master plan in April 1975, eventually dubbed the *Plan téléphone*. The number of 'main' landlines tripled in the following ten years. In 1975, France had the lowest rate of telephone subscriptions per 100 inhabitants of the G7, at 13.4, but by 1982, it had the highest outside of North America at 35.7.[11] Waiting time for a new line shrunk from fifteen months in 1975 to a couple of weeks by the early 1980s. Historians are divided in their assessment of the Direction générale des télécommunications (which called itself France Télécom from 1989), some praising its adaptability (Giraud 1987), others denouncing its politicised management (Darmon 1985). The 1970s effort included a commitment to digital switches: by 1988, 61% of French lines were digital, ahead of all peers – the next two were Canada at 40% and the United States at 35% (Llerena et al. 2000). Higher telephone network density and digitalisation were regarded as key factors in later French productivity growth (McKinsey Global Institute 2002).

The high-speed *train à grande vitesse* (TVG) programme was born in the national railroad operator SNCF's new research unit in 1966. It led to a project for a Paris-Lyon line, which, given the green light in 1974, commercially operated from September 1981. The SNCF and its private sector supplier Alsthom (later Alstom)[12] took a global leading role in the technology; Japanese firms were their only major rivals up to the 1990s. TGV deployment was mostly financed by state-guaranteed SNCF bonds (Cour des comptes 2014). France had the longest network of dedicated high-speed tracks in Europe; in 2010 it was overtaken by Spain, which based its network on French technology. However, there is no agreed cost-benefit approach to valuate high-speed train investments, laments the European Court of Auditors.[13]

A final programme is worth considering because it is radically different from all other plans labelled 'industrial policy' in the literature: the 1964 *Plan neige* for building ski resorts in the Alps. Massive infrastructure investments were made in over forty locations, about half of which were purposely created, with accommodations for 150,000 added by the mid-1970s. The plan was explicitly aimed at generating export revenues through tourism; as a side effect French firms came to dominate the global ski consumer and infrastructure markets (Knafou 1987). Government support in multiple forms came with the Grenoble 1968 Winter Olympic Games and the 1972 split of France into three educational regions, each with different dates for the February school holiday and so helped to optimise usage of the resorts (Le Monde 27/1/1972).

These plans had in common a co-involvement of public and private sector operators and financiers, public commissions, commercial validation and, crucially, a high technology component (ski excepted). They all seem to have benefitted from the Fifth Republic state's capacity for consistent long-term financial commitment to a project, and centralised decision-making and coordination. This amounts to a Colbertist model by all but name, leveraging secular French strength in education (the *grandes écoles*), and in sectors such as telecommunications and aeronautics (Cohen 1992, Dosso 2012). Although the challenge to evaluate the impact of the *plans sectoriels* in the French economic performance remains, these plans participated in a state narrative of technology-delivered productivity, which was to play a crucial role in bypassing the state's failures to follow a settlement path in industrial relations.

Labour: the settlement cul-de-sac

While a new relationship with the *patronat* was eventually established by the Fifth Republic, based on a belief in professional management, fast adoption of new technologies, and a focus on productivity, the Gaullist approach to trade unions was initially unsuccessful in creating a permanent mechanism to ease wage bargaining. Later, however, the state bypassed bottlenecks in industrial relations and accelerated modernisation by an inclusive high-tech mobilising narrative.

In the early years of the new regime, labour militancy cooled down, reflecting public opinion favouring de Gaulle, and unions' support for the government's aim to attain peace in Algeria. Tension in industrial relations arose anew starting in 1962, remaining conflictual up to the 1980s. As mentioned in the previous chapter, the Fourth Republic had created ambitious labour bodies that never emerged as effective social forums. The Gaullists were more cautious and tried to take initiatives to merely pave the way for a broader social settlement, but this goal remained elusive.

The government was behind the December 1958 agreement between the CNPF and non-Communist unions to create a new unemployment benefit system, but the bodies established six months later to manage the scheme remained technical affairs. In December 1959, a law passed on *promotion collective* or *sociale*, which 'was an effort by the state to affect the dynamics of interest representation through subsidization' (Keeler 1987). The legal programme gave much more money to non-communist unions than to the CGT, which got a fourth to a fifth of what its rivals gained (Benoît 2004). But this does not appear to have helped CGT's rivals either gain ground in membership or unlock unions' participation in settlement-type initiatives. The law may have been more productive in the agricultural sector, where subsidies seem to have helped renew leadership (as we saw earlier).

The *intéressement* mechanism, launched in January 1959, aimed at distributing a share of profits to the workforce. Both trade unions and employers were sceptical of it. During subsequent negotiations, unions wished to create committees that would represent them in the company, and which would disclose accounts to set the ground for profit sharing. The CNPF rejected the creation of the committees as leading to 'co-management', and the government declined to make account disclosure mandatory. Ultimately, the new scheme remained a legal curiosity, used by only a few companies. In 1969, de Gaulle was to relaunch the idea of *participation* as part of the reform package that led to his defeat and resignation in the April referendum.

Repeated attempts failed to initiate a broader 'social dialogue' about income policy. In 1963, Giscard called for such a policy, so an 'income conference' was held in Paris, and a government-commissioned report called for a labour arbitration mechanism. A second report followed, calling for multi-year contracts and 'undisputed' data on wage costs, to no avail. Attempts at creating respected data sources that would underpin social discussions (the joints of the German exoskeleton) failed, including a massive computational project from the Plan Commissariat. The Insee price index would remain challenged by union-sponsored rivals up to the early 1980s.

Thus, the mechanisms for setting wages remained substantially similar in the Fifth Republic to what they had been under the Fourth. Branch agreements were solely about minima, whereas the most productive units and those facing the most militant labour force paid substantially higher figures; wage drift was endemic. The opacity of pay (between various bonuses and special advantages) contributed to the differentiation of wages.[14] In a realistic

1966 article, a regional CFDT boss paints a picture of relative impotence among unions in a system where industry-wide agreements deliver only wage floors, whereas 'actual' pays are set at plant levels by management through manipulation of the national manual workers' scale of wages, bonuses, and specific terms, leading to a wide spread of revenues for similar workload, depending on the location of a firm and its market success (Declercq 1966).

When the labour market tightens in a region or for a category of skills, 'there is no break to a localised wage growth' (OECD 1963, 36). This, in turn, generates demand from the lowest paid for wage increases, which eventually pushes up the agreed rate at the branch, stimulating demand for better pay even among the best paid workers (OECD 1963, 36). This was encouraged by an underlying aspiration for equality of pay for equal work (across genders, companies, and industries when comparable). The demand for equal pay was generally downgraded to equality of wage *increases* associated with calls for rises of the lowest pay rates. Explicit trade union commitments to wage compression – consistent with real SMIG rising faster than production – are difficult to find before 1968. In practical terms, organised French labour was comfortable with the never-ending bidding process. Arguably, this pattern is compatible with the Tocquevillian model of a nation of independent peasants in which egalitarianism can easily verge on social envy (*The Old Regime and the Revolution* 1856).

Under the Fourth Republic, business often took a careless attitude towards the inflation of the cost of wages; low competitive pressure allowed them to balance the rise in wages with price increases, as well as subsidies. But employers felt more constrained under the Fifth Republic due to growing foreign competition and a far less accommodating policy towards subsidies. Nevertheless, for most of the *patronat*, the idea of settlement was just another way to keep wages low. Industries were fragmented; individual firms were secretive and unwilling to cooperate beyond sectoral regulatory barriers to entry. These are, again, corporatist features that the 19th-century sociologist would have recognised.

The resulting labour relations pattern is the opposite of the 'classic' Swedish system of the 1950s and 1960s described by Pontusson (1994). In Sweden, besides its egalitarian effects, sectoral and inter-sectoral wage differential compression was a powerful mechanism for reallocating capital and labour from less to more efficient production units and industries. In France, the pressure to modernise felt by lower productivity units was presumably less intense, while the most productive sectors and firms faced the risk of their higher profits being bided away in wage increases, undermining incentives to invest. Wage deals were unstable, able to be called into question at any time. This further deterred investment. In the public (i.e. non-competitive) sector, where pay disputes were most politicised and profit discipline only notional (firm survival was never at stake), the risk was to rebalance the budget, favouring pay over investment. This problem was not disregarded in France, but its Nordic solution proved out of reach.

With hindsight, it is clear why the settlement model was not a suitable option in France. As pointed out earlier, any major cross-sectoral deal would have involved a central role for the Communist CGT – an unpleasant and risky prospect for any Cold War government. More fundamentally, in a distributive system, where trade union claims are aimed more at the state rather than at private sector firms, the usual parameters of a long-term labour market settlement do not apply: labour stoppage cannot potentially bankrupt the employer; the basis of investments is not their expected cash return; and Eichengreen's (2007) coordination problem does not apply.

The state-owned, monopolist, blue-collar based service provider was a novelty of the postwar. The SNCF was created in 1938, Gaz de France (GdF) in 1945, Électricité de France (EdF) and Charbonnages de France in 1946, and the RATP in 1948. All emerged as militant workplaces generating frequent labour stoppages, often simultaneously or in waves intensifying the price-wage spiral of the Fourth Republic. France was not unique in this respect (and it manifested notably in the UK and Italy). One possible path for the state-owned, monopolist, militant public-service organisation is that of the overstaffed, underpaid, investment-starved model that came to characterise Italy. The Fifth Republic managed to take another track, that of high investment and productivity, despite continuing labour tensions.

Bypassing the industrial relations bottleneck

The failure to nudge unions towards an orientation of social settlement did not prevent an overall French economic adjustment, and the considerable weakening of the Fourth Republic's inflationary distributional pattern. This was, at first, due to the state's new budget parsimony and much higher political capacity to withstand claims, even against public opinion. Openness to imports helped discipline exposed sectors. Financing became more responsive to firms' performance. But soon a whole range of claimants, including employers and farmers, were, by government manipulation, substantially reoriented towards long-term sustainable goals. These developments were enabled by an idea that mobilised them, a set of 'shared justifications' (Boltanski and Chiapello 1999). That was productivity growth.

Productivity growth as an ideology – productivism, that is a focus on productivity above other factors – emerged as the French solution to the coordination problem. Technocratic management and trade unions all shared the goals of higher output, technological performance, and workforce training. Productivism was especially suited to a work culture that treated professional excellence, underpinned by a sense of honour, as the most respected achievement, independent from formal hierarchies (Iribarne 1989).

The state had definitely turned its back on the conservative Méline programme (leaving aside occasional rhetorical reminiscences). It thus would not guarantee sectoral revenues and positions, but it would deploy substantial resources to increase productivity, often as a response to social tension.

Agriculture is nearly the ideal type of social inclusiveness achieved through productivity enhancement: the 1960 *loi d'orientation* and the Common Agricultural Policy were the templates of future sectoral policies.

Schematically, under the Fifth Republic, French firms still experienced decentralised and chaotic industrial relations. But new features of the economic environment incentivised productivity. International competition led to prices being increasingly set by the market, and prices were perceived as a constraint rather than a variable under control. Regulation was shifted from favouring protectionist and restrictive practices to favouring the most productive units. This is evident, for example, with regard to the VAT, the tax relief on amortisation and investments, the setting of product standards, and, from 1968, the high minimum wage. Likewise, regulation favoured productivity with regard to public investment in education, infrastructure, and research and development, which the most advanced producers were best positioned to leverage to increase their competitiveness. The high-tech plans provided the patriotic heralds. We can see, then, that cultivating national champions was only one manifestation of a much larger effort.

In that sense, the productivity imperative that guided the Fifth Republic functioned as a structural formula. It helped the state choose between policies and specific interventions. Firms soon slipped into the same mindset.

Trade unions and their constituencies were persuaded to be favourably disposed towards the modernisation process thanks to the Republic's productivity ethos. That ethos highly valued engineering and engineers, technicians with specific expertise, and demonstrable performance. These were values with which even the Sovietophile CGT could be comfortable. As such, nationally and within firms, starting with state-owned enterprises that raised significant social tension, a technology-led project would generate support from unions that normally did not endorse any market-driven plan. There was thus a coagulation of interests around the productivity slogan, which was also intensified with the professionalisation of the private sector's management, which was itself encouraged by the state drive for technological excellence.

The mobilising power of the ideology of productivity is likely to have played a key role in state-owned enterprises. This was especially true in the non-competitive sector (utilities, transports) that, in the 1960s, began to focus on high performance – such as by making *plans* for high-speed trains, nuclear energy, and aircraft making.

The Régie autonome des transports parisiens (RATP) – the regional public transport agency – provides a fascinating case study of the mobilising capacity of technology projects. The next section examines the effects of the productivist ideology on RATP, drawing substantially on work by Michel Margairaz (1989).

The Paris public transport agency (RATP) was created in 1949 by merging the metro and bus organisations. Formally 'autonomous', it lacks the power to set its own prices and make its own investments. It suffered particularly from the government's price index policy in the 1950s (transport was a key component of the CPI). Ride prices set in August 1951 did not increase until January 1958. The latter rise still left RATP's real prices below their level in 1938. Energy, wage, and other costs had increased quicker than RATP's prices, leading to a massive deficit. Government subsidies were insufficient to rectify that deficit, which was partly filled by a special subsidy in 1958. Even with that subsidy, revenues covered only two third of the costs.

The RATP is also a hot spot of labour relations with a high strategic value. A transport stoppage in Paris dramatises the social tension across the country. Strikes at the RATP – often in response to food price hikes, in 1950, 1951, 1953, and 1955 – played a considerable role in pressuring governments to raise wages.

In the Fifth Republic, the RATP became a high-profile laboratory for the new governance and productivism. A January 1959 ordinance deeply reformed the Régie (the 1948 law had been debated for two years); from then on it was to be compensated in totality for the 'social' price discounts and government-imposed pricing.

In 1964, Pierre Weill was appointed director general. While previous managers had traditionally had a railway background, as a *polytechnicien*, he was the first RATP boss without prior work experience at the *Régie*. Likewise, the team of managers he created came from a similar engineering background – just like the new government technocrats. He oversaw the take-off of the massive *réseau express régional* (RER) project, construction of which began in 1962.

From 1960 to 1968, investment expenditure grew 15 times in real terms. In 1968, that amounted to 53% of turnover. A 1967 report by civil service luminary Pierre Nora endorsed the idea of taxing business to finance the RATP – a long-time project on the left. The idea was implemented in the 1970s.

Network extension went alongside significant productivity enhancement. Thus, in 1969, train departure times were automated, and automated ticket control booths were introduced; in 1971, electronic ticket control was rolled out. In 1968, the RATP began withdrawing dedicated ticket controllers, eventually cutting 4,500 jobs. This process took until 1974, organised along the lines of a 1970 agreement with trade unions that guaranteed no dismissal. So while some controllers took their pensions, a majority received new training as engineers. Meanwhile, between 1968 and 1972, weekly working hours were cut from 45 to 40, while total employment also declined.

By the 1970s, Paris's public-transport infrastructure was the envy of rival cities, like London and New York. It integrated regional and local networks with single monthly subscriptions for users and for the RER lines criss-crossing Paris, thus anticipating London's Thameslink by fifteen years and Elizabeth Line by half a century. Electronic ticket control in Paris was also decades ahead of most other large cities.

The RATP workforce remained a militant stronghold, but labour disruptions were contained. The Régie's unions played a leading role in May 1968, but this was the only moment they joined a lasting and politicised conflict before 1995. Strikes were frequent, but usually lasted for just a day and focussed on in-house negotiations. Crucially, wage policy at RATP aligned with the productivist turn. Likewise, the May 1968 strike led to a deal the following month that introduced higher rises for the lowest paid – in sync with the emerging national trend.

Under the Fourth Republic, setting the minimum wage was a recurrent policy issue. The broadly shared perception amongst policy-makers was that each rise, as an official acknowledgment of inflation, tended to push up the whole country's wage structure, on top of previous sectoral rises. This led governments to manage the consumer price index in order to slow the growth of the SMIG. The end result over the first eight years of the SMIG (1950–58) was an average annual increase of 8.2%–9.8% depending on the region, against 5.8% for consumer prices and 11.2% for the average blue-collar wage (vs 11.7% for the GNP).[15] As we saw in Chapter 5, the government succeeded in producing an increase compensating for price rises and which partly reflected productivity growth (as called for by the 1950 law); but due to the wage bargaining system, the increase was obtained only by encouraging an unsustainable inflation rate.

Starting in 1958, de Gaulle's governments wished to break the indexation mechanisms linked to the SMIG, starting with the Plan Pinay Rueff's anticipated increase of it. From then on, the policy was to shadow the price index. From 1958 to 1967, the SMIG rose by 45%–51% (depending on the area) compared to 40% for consumer prices and an increase of 2.3 times in the current prices GDP. Unsurprisingly, in a full-employment labour market, the share of private sector wage earners paid at the minimum rate declined from 16% in 1954 to 1.6% at the beginning of 1968 (Insee 1981, Padieu 1972). The resulting relative decline of the minimum wage reflected both the government's vision of it as a social safety net and only light trade union pressures for increases. Besides, I have found no trace that employers actively supported minimum wage rises.

That changed radically in May 1968, as did so many other things. By the end of the month, after the student protests had led to a general strike, a broad negotiation took place at the Labour Ministry between government representatives (including PM Pompidou) and all major trade unions and employers' organisations. The agreement reached on 27 May included an increase of 35% in the SMIG and of 10% in all other wages (spread across the January–October 1968 period). According to an eyewitness, the accord was primarily reached between the CGT and the government. In contrast, the minimum wage was last on the agenda of the second most important union (the CFDT), and other unions resisted the *relative* rise of the minimum wage (Bélorgey 2001). At face value, the deal allowed the established Gaullist and Communist powers to escape any radical, structural response to the protests, while matching the high symbolic threshold of the June 1936 Matignon accords.

Though it was improvised in May 1968, the new minimum-wage policy was formalised in a January 1970 law that changed the SMIG into the

Salaire minimum interprofessionnel de croissance (SMIC). Wages were to be increased not only to match prices but also in line with economic growth. In 1969, trade unions had relatively modest demands for the future SMIC, asking for it to index average wages, implying that it would not compress the scale of remunerations (Le Monde 3/9/1969). Responding neither to labour nor (obviously) to employers' claims, the new law was a deliberate transformative state initiative. France shifted from a low to a high minimum-wage model. If in the first phase of the Fifth Republic the SMIG grew at a significantly slower pace than did blue-collar wages, from 1968 the minimum wage grew fastest. From 1959 to 1967, blue-collar wages grew on average by 6.6% per year compared to 3.5% for the SMIC, but from 1967 to 1979, the increases were 12.9% compared to 14.2% (Insee 1981).

The ratio of the minimum wage to the median wage in France had declined from 0.50 in 1960 to 0.42 in 1967; in 1968 it jumped to 0.49; and in 1975 it had reached 0.58; it rose further in the following decades to 0.67 in 2007. In the US, the only other major economy with a national minimum wage at the time, the ratio declined from a 0.55 peak in 1968 to below 0.4 from 1985 (OECD database). The share of French private sector salaried workers benefiting from the SMIC rose to 5.8% in 1974, 8% in 1981, 10% in 1988, and reached its historical peak in 2005 with 16% (Cases and Lollivier 1989, Martinel and Vincent 2014).

The 180° change of approach on the minimum wage was unexpected, but deeply in tune with the productivist model. The May 1968 marches were notoriously unfocussed, and the tripartite agreement was not a response to the dominant libertarian themes of the protests. Nevertheless, the accord resonated with the protests' egalitarian message. Thus, though it was not the programme of any single agent, the high minimum wage became a central feature of the Fifth Republic's economic model by linking egalitarianism to productivism. High minimum wages in France had a similar impact to centralised wage deals in Germany and Sweden: they pressured less efficient producers to either upgrade or withdraw from the market.[16]

The French path to modernisation

The 1958 Gaullist takeover gave France a deep institutional revival, the main characteristic of which was a dramatic increase in state effectiveness – or capacity to set and deliver policy – demonstrated with the radical Pinay Rueff Plan. The revamp included centralising policymaking while weakening the autonomy of the treasury, central bank and, crucially, the parliament. Consequently, lobbies lost the influence they had previously exercised through deputies. The government leveraged state-owned broadcasts to address the population directly. The new administration was mostly staffed by technocrats from elite schools; it wrapped its reformist zeal using the language of non-partisan expertise; and appropriated ideational leadership with policy goals for low inflation and international trade liberalisation within the new

Common Market. The new directions came from a set of ideas that had matured in the Fourth Republic's technocratic circles. In short, the postwar regime had produced the ideas and the elite that could revamp the system, and the May 1958 crisis enabled that revamp.

Under the Fourth Republic, the state's inflationary accommodation of distributional claims was the main obstacle to France's adjustment to the international postwar order since rising prices impeded trade opening. Beginning in 1959, international trade was liberalised, and a gradual shift away from inflationary financing of credit imposed a new virtuous straitjacket on French firms. Budget discipline allowed for a relaxing of state control over financial markets and the gradual pivot towards encouraging investment.

The main foes of modernisation in the 1950s were reprogrammed for productivism. The relationship between the state and farmers was transformed into a relationship between patron and clients in a deal with a trade association converted to restructuring; retailers accepted that tax reforms opened the door to the hypermarket boom. Nudged by the government, the CNPF evolved from a mouthpiece for conservatism into a rallying point of technocratic management of the upper crust of French corporations, as well as a conduit for policy.

Policies for productivity sought to increase the scale of French corporations by lifting regulatory obstacles and directly intervening to favour selected mergers and acquisitions. Sectoral plans harnessing national champions to high-tech projects may have had more success in sustaining economic development than is usually assumed. Technological excellence provided a herald to generate firm consensus around productivity goals, including militant unions, as seen with regard to the RATP. Productivity fixed industrial relations in a way that settlement attempts had never provided. The apparent concession to raising the minimum wage after the 1968 crisis became a quiet point of convergence between egalitarians and productivists.

The Fifth Republic delivered lower inflation than the Fourth. Most important, inflation never again brought France into a payment crisis that required international assistance. Meanwhile, the country did not look back on the 1959 trade liberalisation, and became a fully fledged participant in the European and global opening process from which it had been sidelined before. The postwar adjustment puzzle had been solved. This translated into significantly improved economic outcomes – reflected in GDP and productivity growth – relative to the 1950s, and to its peers. There are serious doubts about whether the 1950s track would have been sustainable without foreign aid and the catch-up boom. In different historical circumstances, France could have eventually settled on a much lower output growth rate by the 1960s.

The systemic revamp could have followed alternative paths, however. The early Fifth Republic was definitely a neoliberal polity, created by political forces of the centre right and concerned with inequality of economic outcomes only if it slowed growth. But the regime's technocratic DNA was far from hostile to a leftist vision. For example, accelerating the shift from family-based to competence-based management and from patrimonial to market allocation of capital, while lifting high-consumption propensity lower earnings, could have increased pressure on firms to invest. A radicalisation of the meritocratic paradigm could have started with an attempt at reshuffling capital by taxing inheritance – but de Gaulle needed all the support of the rentier classes, one of the key 1959 measures lightened *direct* inheritance taxes (Gauron 1983). Social state costs could have been shifted to progressive income tax rather than regressive wage taxes and (also regressive) VAT rates could have been set lower.

But would France have supported faster modernisation? May 1968 might be seen as a defeat of the modernists who believed that rising material prosperity, mobility, and competition would erase ideological battles. Fixation on these issues may indeed have caused the French left to be incapable of steering the republic in a more inclusive direction when it rose to power in 1981. Despite this incapacity, the left's coming into government provided the regime with its ultimate and definitive legitimation.

In 2023, the Fifth Republic overtook the Third Republic as the longest-lasting modern French constitutional regime, confirming its basic success at survival.[17]

My account of the productivist side of the Fifth Republic united research domains usually kept separate in the literature, including state institutions, economic policy, and social dynamics. With regard to those three areas, in the 1970s, a relatively negative consensus emerged, exemplified by Michel Crozier's *The Standstill Society*.

Critics of the institutional arrangements deplore centralisation and the lack of check and balances. They believe these arrangements thrust the state towards authoritarian interventions, and see the president's policy leadership as undermining his (democratic) legitimacy, for he is both *chef de la majorité* and *président de tous les Français*. These worries lead to recommendations for constitutional revision to increase parliamentary (or 'democratic') control of the executive; and to either raise the political profile of the prime minister or switch to an American-style presidency (Avril 1987, Chantebout 1982, Duverger 1973a and 1973b; Raynaud 2017, Rosenvallon 2008 and 2015).

My analysis suggests that these writers may be misunderstanding the actual institutional setting. As my account shows, in the Fifth Republic, France has a more balanced institution than critics might think, for they may be focused only on *political* institutions, in the narrow sense. But I have tracked the rise of a number of *non-political* power centres – such as the European organisations, the Constitutional Council, and independent administrative authorities – that have political outcomes. Their growing effects are functional responses to the original lack of checks and balances, and they have been encouraged by the governments because they favoured a shift of the ground on which distributional issues were argued, from political to technical. Most political scholars miss the rise of expertise as a systemic factor because they restrict their attention narrowly to democracy, thus perceiving a *déficit démocratique*, and call for more politics. However, technocracy could be seen as a deliberate avoidance of *divisive* politics, rather than an avoidance of politics entirely. The popular election of the centralised Fifth Republic's presidential leadership provides it with legitimacy, while the supposedly democratic system of the Fourth Republic – the parliamentary coalition system – was notoriously opaque. Further, the technocracy of the Fifth Republic is non-political in the narrow sense – i.e. is non-partisan and thus not actively divisive – and so helped make a case for reform, as well as helped improve the quality and the effectiveness of governance.

At the same time, I plead for a reassessment of the literature on French economic policy, which has been preoccupied with industrial policy. Scholars evaluated it quite highly in the heroic 1950s and became sceptical towards it in the middle eighties. Their fascination with planning in the early 1960s gave way, in the late 1970s, to a more critical stance focussed on failed attempts at nurturing national champions (Hall 1986; Kuisel 1981; Shonfield 1965; Zysman 1983), and at shoring up declining sectors (Cohen 1989). To reassess the literature, consider that, as we saw, the Fifth Republic's institutions allowed long-term public commitments with regard to industries with long return horizons (like nuclear energy and aircraft production) that tend to turn off private investors. These ventures benefitted not only from public financial engineering but also from a state commitment made credible by the seven-year presidency, and by the closely allied upper civil service and industrial managers. The literature further overlooks service industries such as banking where France's productivity shines in being supported by structural state initiatives. Crucially, critics miss that commitments to technological modernisation greatly permit social mobilisation.

The weakness of French civil society is a recurrent theme in other works on the 20th century. France is often seen, in a Tocquevillian fashion, as displaying a feeble capacity for collective action due to the tension between a fear of face-to-face relationships, perceived as a threat to individual autonomy, and an absolutist conception of authority. Thus, the cliché that France is a nation of protesters congenitally reluctant to directly address social problems (Crozier 1970, Hoffmann 1963 and 1974). More recently, the authoritarianism of French working practices was attributed to a rigid school teaching model, and associated with low cooperation in a society defined by hierarchy, individualism, and defiance (Algan et al. 2012).[18]

I do not dispute these analyses, but they exhibit a lack of curiosity towards counterweighting mechanisms. They miss the shift of the roots of authority from ownership to expertise – which is everything but arbitrary in the eyes of social actors. They are also probably falling too easily for the cooperative narrative that the US civil society believes about itself.

The three domains of political institutions, economic policy, and societal dynamics are all related in governance. A prevalent dark view of France is that governments act out of fear of social protests, adopting patchwork, often short-term interventions that cosy up to market losers. In this narrative, the 1958 executive revamp only increased state stubbornness in seeking to manipulate outcomes so as to bypass social conflicts. Thus, higher state capacity proves counterproductive because it is insufficiently checked by independent institutions, stronger civil society groups, or private actors.

This view faces the challenge of explaining the good long-term French economic outcomes. They cannot be brushed aside by post-1980 high unemployment. Even if we bracket outcomes, this view tends to treat France as an anomaly in having neither the German trade unions' strength nor the Anglo-Saxon dynamic marketplace. It neglects to understand French idiosyncrasies on their own terms.

I have argued in this chapter that the centralisation of the political system went hand in hand with French egalitarianism that favoured economy-wide rules and sectoral minima that enhanced productivity. In the context of strong Communist and smallholder groups and ideological currents radically opposing the liberal state, it was unrealistic to steer groups towards a settlement (as the critics of the Fifth Republic prefer) because it implied reinforcing them as a precondition – a settlement can only take place between well-established partners. Only an executive significantly more capable than that of the Fourth Republic (that is with higher legitimacy and stability) could selectively and effectively engage with the groups in a process that reshaped their preferences, as was the case with agriculture and employers. More political debate in parliament, as wished by many scholars, would have encouraged the politicisation – i.e., divisiveness – of issues without helping to better implement or design better policies. A more potent state was also in a better position to drive bargains between groups, as we saw occurred in the 1958 accords on unemployment insurance and the 1970 agreement on training.

To recap, with the nations of the western alliance committed to trade opening and stable exchange rates (if only to keep US protection), governments had to accommodate distributional claims accordingly. This accommodation proved impossible under the Fourth Republic's institutions, and the system revealed itself as unable to reform. In France, adjustment came from an external shock – the war in Algeria – and the availability of a 'heroic' statesman (Hoffmann 1974).

The institutional reforms that created the Fifth Republic and the technocratic governance that emerged made possible economic policies that steered societal groups to accept restructuring and measures that increased productivity. The resulting model of political economy can be seen as responding to specifically French egalitarian passions, while also meeting issues affecting all western industrial democracies, starting with West Germany. My description of the two countries' postwar evolution reveals surprising convergences in governance – state-led and ideational – policy and institutions. We can thus declare the advent of a post-liberal expert state, the features of which underpin both Rhenish republics. The common shortcomings of Italy and Britain, so spectacular in the 1970s, but still salient in the 21st century, make the Franco-German convergence even more conspicuous.

Notes

1 Farm income parity was a widely shared policy goal in Europe in the 1950s and 1960s as documented by Ann-Christina L. Knudsen (2009). But it seems little thought was given to its compatibility with massive agricultural underemployment and the need to spur on migration to urban areas and jobs, for which low farm revenue – a price signal for resources reallocation – was a key mechanism. Beaud (1963) contains an illustration of unquestioning support for the goal of parity, together with realistic analysis of its practical shortcoming.

2 De Gaulle's refusal in 1960 may have been unconstitutional, argues Avril (1987). In 1961, de Gaulle acted under the 'dictatorial' powers of the constitution's Article 16, which he called upon after a failed military putsch in Algiers.

3 Actual implementation took place only in 1965 with the Label Rouge, first given to the Landes chicken (labelrouge.fr/une-histoire, 2/9/23).

4 Some claim the first hypermarket actually opened in Belgium (Roy 1971, 127). But, amongst large western countries, only in France did this retail format become a major distribution channel by the end of the 1960s. In the US Walmart emerged as a significant retail player only in the 1980s, essentially with non-food products, and opened its first proper hypermarket or 'Supercenter' in 1988 (corporate.walmart.com/about/history).

5 Insee's definition of a hypermarket includes at least one-third of food sales and 2,500 square metres.

6 The impact was mostly felt in generating political party financing rather than in slower hypermarket rollout.

7 Hypermarkets' higher productivity may need qualifications. Shopping with one's car rather than by foot around the corner implies road infrastructures and creates externalities. Hypermarkets also offload some logistics costs to suppliers, raising wholesale prices for all (including traditional shops). Promotions amplify the perception that prices are lower in super- and hyper-markets (than elsewhere), and their prices are much more competitive for branded, non-perishable products than for fresh food. In a broader trend, the shift towards self-service retail entailed the shift in consumer assistance from retailers to brands. For more detail, see Vigny (1978).

8 De Calan was an inspector of finances and former upper civil servant, as well as a prolific author of social and economic essays. His rhetoric was in line with traditional *patronat* claims, but his background testified of the rising technocratic profile of the Conseil.

9 Standard setting and certification, an interesting instance of productivist government policy, has been little investigated. Standards set by a strong, reputable state that committed to meeting its own targets are credible, and can be a powerful incentive for investment as the most productive firms have the most to gain. I suggest that centralised, technocratic Fifth Republic governments were keen to use standardisation to gain efficiency in state procurement and, more generally, keen to direct competition in agriculture (as seen earlier with food labels), manufacturing, and services towards higher quality products rather than low-cost alternatives. The European Committee for Standardisation was created in 1961 at the initiative of the Association française de normalisation. French firms are especially supportive of European harmonisation of standards (Tate 2001). Any positive impact on productivity would therefore have to be considered alongside the anticompetitive effects of regulatory capture. This is merely one feature of the rise in product and service regulation that become central for European integration in the 1980s.

10 World Bank database: data.worldbank.org/indicator/EG.ELC.NUCL.ZS?locations=FR-DE-CA-GB-US-JP-IT (23/2/19)

11 World Bank database: data.worldbank.org/indicator/IT.MLT.MAIN.P2?locations =CA-FR-DE-IT-GB-US-JP (23/2/19).
12 Alsthom was owned by the Compagnie générale d'électricité, nationalised in 1981 and privatised in 1986.
13 publications.europa.eu/webpub/eca/special-reports/high-speed-rail-19-2018/en/ (3/9/23).
14 A 1968 report from the CFDT counted sixty different types of '*gratifications*' or wage top ups (Le Monde 5/3/1968).
15 Hourly rates at current prices, blue-collar workers from mechanical and electrical industries, minimum wage rate is for the full rate zones. The 1950 reference data for SMIC and prices is for September (Insee 1982).
16 In a separate policy development, France considerably increased the scope of vocational and continuous training. A 1966 law had established the framework for a national scheme. In 1970, under government impulse, all trade unions, the CNPF and the CGPME signed an agreement on the organisation of privately funded training. The accord was endorsed and supported by a 1971 law. Even if conceptually distinct from the shift towards high minimum wage, the development of further education is a necessary accessory to it. As a topic of ideological consensus, it is also a key piece in productivist labour relations.
17 Assuming the Third Republic was created by the 1875 constitutional laws.
18 Political-economic literature addressing the *Trente Glorieuses* lacks a sociological understanding of the *spirit* of emerging productivist France. The shift from a mainly agricultural economy to a consumer society has been told often, like the postwar high and 1970s decline of the working-class culture. A fair share of French sociology is busy in Bourdieusian studies of social-class sensitivities and signalling. However, the beliefs and behaviour of the service sector middle class, cardinal to the postwar modernisation, are mostly ignored; and when examined, they are typically found dysfunctional.

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8 Britain and Italy, maladjusted to expert-led productivism

Britain and Italy make an unexpected pair. Their postwar economic trajectory formed a sharp contrast: Britain experienced a steady relative decline, Italy a spectacular rise. Institution-wise, the stability of the Westminster model run by a decisive prime minister was vastly different from the volatility of the new Italian Republic governed by consensual procrastination. Nevertheless, by the 1970s, Britain and Italy were each labelled a 'sick man of Europe' in having the highest inflation rates and worst industrial relations of the region. This pairing is relevant again today again because of their poor productivity and populist politics. In this chapter, I will argue that the two countries were both maladapted to the technocratic governance pioneered by Germany and France.

As I showed in Chapter 1, in the half-century after the war, economic productivity in the UK steadily declined relative to other European countries. There was a modus vivendi among the political leaders that accommodated the City and empire. The financial and colonial interests converged on defending a strong pound, and left industrial relations to employers and unions in a 'Keynesian compromise'. This model of delivering full employment and economic growth (even if low compared to the Continent) functioned well in a benign international environment, but became dysfunctional in the face of the shocks of the 1970s (the devaluation of the dollar and the oil crisis). In contrast, postwar Italy began at a much lower economic starting point, yet rapidly increased its gross domestic product by extensively leveraging foreign demand, and by shifting farm manpower to industry. However, social groups soon captured state policies in a distributional vortex made untenable by the abrupt cyclical change in the 1970s. In that decade, for both countries, the degradation in exchange rate, the balance of payment, and the state of industrial relations laid bare the state's inability to build social support in order to adjust to the international economy.

Interestingly, in the 1980s and onwards, Britain and Italy were to grow again by accelerating exports to other countries of the Common Market (which then became the Single Market). Britain's high-profile change in governance under the prime ministership of Margaret Thatcher renewed the alliance between state and City. Yet it did so by acquiring legitimacy among

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low-productivity workers through credit distribution – an unsustainable approach. Italy, in turn, exhausted the potential for fast-growth latent in the expertise of localised family-run manufacturing and started financing redistribution by borrowing more. This approach, too, was unsustainable.

Chapter 1 compared the postwar economic performances of Germany and France against those of Italy and Britain. In a nutshell, in the long run, the former delivered higher productivity and equality than the latter. In the latest comparable data covering 2018, Germany's labour productivity per hour stands at 97% of that of the United States, France follows closely at 94%, while the UK and Italy trail at 76% and 75% (Figure 1.2). Meanwhile, France has the lowest Gini coefficient – thus the smallest disparity between top and bottom household post-tax revenues – while the UK has the highest (Figure 1.4). The data illustrate that Italy's and Britain's economy were similar not only during the stagflation of the 1970s, but also in the subsequent period, after organised labour and inflation weakened considerably, and structural adjustment of production accelerated. Both managed to expand their economy only at the cost of greater social inequality.

Both countries benefitted substantially from the regulated European market: Britain through its global leadership in high-end services, and Italy through a unique low-tech manufacturing excellence. But no encompassing mechanism emerged to spread productivity gains. Indeed, the sectors that performed well depended, to a large extent, on the inertia of other parts of the economy, or even free rode over the rest of the EU in the case of the City. Conversely, the legitimacy of the regulatory state withered (due, in part, to politicians' incompetence and/or corruption). Arguably, that ultimately led to Brexit and to Italy's alternation of populist and (thus far) ineffective expert governments.

After the war, Britain and Italy faced the same structural issues as Germany and France: integrating into the world economy in pursuit of higher standards of living. One approach was to embrace the regulatory state in order to catalyse high productivity and inclusiveness. Britain and Italy, however, tried to bypass it – Italy lacked the capacity to set up such a state, and Britain deliberately eschewed this choice. Failing to create a viable alternative to the regulatory state, the two countries' experiences throw into sharp relief the results produced by neoliberal technocracy in Germany and France.

Britain: Westminster's City underbelly and the Keynesian compromise

The history of British political economy over the past seventy-five years is conventionally split in two parts: (1) relative to its European peers, Britain performed poorly until the late 1970s, when (2) a series of crises reversed its relative decline and initiated a twenty year bounce back. Scholars tend to diagnose stagflation as a consequence of the dysfunctional postwar industrial-relations system (Hall 1994, Olson 1982). Many further believe that, by weakening organised labour, the reforms under the Margaret Thatcher government (1979–90) laid the ground for an economic renaissance. However, this chapter will rigorously recast the earlier era to suggest the improved economy after the 1970s is rather due to increased inequality and greater inputs, rather than to faster productivity growth.

But this outcome is not necessarily due to low state capacity, as in Italy. In Britain, Whitehall's alliance with the City denoted high state autonomy. The postwar reconciliation between state management of the economy and democracy was attempted under the guise of a 'Keynesian compromise'. This compromise shunned France's and Germany's active technocratic governances, instead leaving key money and trade policies under the influence of the City, and industrial relations beyond state remit. That compromise became unsustainable when global conditions turned sour in the 1970s. The Treasury-City partnership survived the end of the empire, and morphed, under Thatcher, into a bias towards the financial services sector. Once it had marginalised unions, Britain tried to use finance to outmanoeuvre the European regulatory state. That model, in turn, gradually lost legitimacy and, thus, popular support because it relied on low-skill labour and debt. It eventually crumbled in the Brexit referendum.

Interwar Britain had witnessed growing tension between, on the one hand, the governing establishment that was devoted to the 'barbarous relic' of gold and, on the other hand, the increasingly powerful labour movement. This tension resulted in high unemployment that was not alleviated by the devaluation of currency or by protectionism. Clement Atlee's reformist Labour government, which took over in 1945 (a few weeks after V Day), was determined to resolve the tension between economic management and democracy by arguing for collective control over the economy, demand management, and social security (Wootton 1945). The programme took a lasting step forward with new social insurance schemes and the National Health Service. Policies for collectivisation of production had more muddled fortunes.

The nationalised industrial assets and Bank of England had no clear roadmaps even as the government indicated that they would retain strategic autonomy. When the Conservatives returned to power in 1951, they did not reverse major Labour decisions. In fact, in stark contrast to France and German neoliberals, Churchill's party was unable to produce consistent alternative responses to the socialist agenda apart from crying wolf (Hayek 1944). Instead, the Tories and Labour settled on an unofficial compromise: the Tories committed to Keynesian fiscal management of the economic cycle to check unemployment, left the new welfare state institutions untouched, and refrained from privatising state enterprises, while Labour agreed to play by the market rules. Crucially, the Conservatives agreed to leave industrial relations alone, while Labour maintained the trade union orthodoxy against state intervention. Meanwhile the financial nexus at the heart of British government – linking the City, the Bank of England, and the Treasury under a common imperial frame – went untouched. As a corollary, trade policy, too, remained set in the nineteenth century mould. Despite all the intellectual energy at the end of the war that went into discussing a programme of collective control over the economy, the democratic British state deliberately decided to stay out of the policy domains from which the Germans and the French would reframe their country models.

Like policymakers elsewhere after the war, British leaders aimed at not repeating the errors of the 1920s and 30s. But this led to a different set of mistakes. For example, the interwar was interpreted through Keynesian glasses: the focus was on unemployment resulting from demand slumps. This was a non-issue after the war, so its dominance on the government agenda distracted from more pressing problems. Other critical policy failures of the interwar period that weighed much on that time's unemployment, namely trade and money, were overlooked. Keynesians tended to consider international commerce mainly as a balance of payment issue, seen as a constraint on reflationary policies. Ironically, this converged with the City analysis focussed on the pound's exchange rate. None of these two lines of thought were much concerned about the fitness of British producers. Meanwhile, the issue of framing state power to issue money, so prominent in France and Germany, was almost exclusively understood in Britain in terms of economic stimulus; and the Keynesian compromise made taboo a hands-on tackling of the wage price spiral. Hence, the articulation of industrial relations and money management that took place in Germany in the 1950s, and was a decade later bypassed by France's productivity push, did not take place in postwar UK.

Under the Keynesian compromise, two separate spheres operated as if independent from each other: money under the Treasury and the Bank of England; and industrial relations on autopilot, left to unions and employers. In a context of full employment, Britain experienced a slow-motion Fourth Republic-style distributional tension that proved sustainable only until the 1970s, although at the cost of a relative decline in living standards.

Macroeconomic policy was largely shaped by established organisations such as the major banks of the City, the Treasury, and the Bank of England. Like the Banque de France, 'the Bank' was nationalised in 1946 yet retained its informal affiliation with financial interests. Again like its French peer, the Bank was not independent in the rigid sense given to this by the economics literature: interest rates were set by the Chancellor up to 1997, but the bank was nevertheless autonomous in that it had its own resources and intellectual independence. Its influence over policy remained considerable.

The disproportionate size of the City in regard to the British economy had no equivalent elsewhere in Europe. It was the legacy of the country's former imperial might, as well as related to the global use of the pound sterling. The Bank saw itself as a custodian and harbinger of the British financial system and its international ramifications, in contrast to the German central bank, which saw itself as an overseer of the domestic economy. The Bank's policies revolved around stabilising the pound in order to guarantee the health of the London financial industry, of Britain's international (and thus imperial) commercial interest, and, ultimately, of the state's capacity to borrow (Brittan 1971, Fforde 1992).

This rationale had been shaken in 1914, but it completely collapsed during the Second World War when the dollar became dominant in international trade. Britain's survival stemmed less from borrowing in free markets (as occurred when it fought Napoleon) than from American charity. Nevertheless, the idea that the pound needed to hold a high, stable value dominated Bank policy, influencing its advice to the government until the 1972 flotation. In 1967, when the US was unwilling to extend support, Prime Minister Harold Wilson had to devalue the pound, without changing associated policies. He expended great political capital in the process. To defend the pound's exchange rate, Britain would raise interest rates to attract foreign investors, which, however, undermined domestic investment. Only in the 1980s did the Bank start to value the City as a domestic high expertise industry on its own (a view with its own problems, see infra), rather than treating it as a platform to project UK power globally.

Labour favoured the high pound policy as a key factor in ensuring low (mostly imported) food prices. Industrial interests, in contrast, favoured devaluing the pound, but their political weight was dwarfed by Labour and the City.

Consistent with its focus on keeping the value of the sterling high, government prioritised imperial trade throughout the 1950s. Trade barriers were left relatively high. In the early 1960s, British tariff rates were much higher than those of West Germany for all major product categories (Crafts 2011). Policy was geared towards exportation to captive colonial markets, whose competitive pressure on British producers was minimal. The melting of empire and the Suez humiliation brought more realistic approaches to the capitalist world market. It also brought the first attempt, in 1961, to join the Common Market, which succeeded only in 1973 after two de Gaulle vetoes. During those long years, the UK trade policy was in limbo. The pound and the empire paradigm weakened its hold on the establishment, especially in view of the export-based Continental success stories and of French planning in particular (Shonfield 1965). The Labour government that took office in 1964 was particularly sensitive to these issues. However, the alternative trade policies that emerged were haphazard, and coalesced only in a crude pro-export top line imperative that eased the decision to devaluate in 1967. That decision was nevertheless taken precipitously under forex market pressures. It was a spectacular policy break but, unlike the 1958 franc devaluations, it did not arrive in a consistent policy package. This is understandable because the Keynesian compromise treated industrial relations as a separate sphere, and conceived of economic policy mainly as cyclical fine-tuning.

The compromise brought a consensual macroeconomic policy that was called 'Butskellism', a label derived from contracting the names of the Conservative Chancellor Rab Butler (1951–55) and his Labour predecessor Hugh Gaitskell (1950–51). The pattern that came to be known as 'stop-go' economics featured an acceleration of output growth that leads to a surge in imports and thus market pressures on the sterling exchange rate. Possibly thanks to the decentralised price-setting and labour market, in contrast to France, the overheating of the economy directly hit the balance of payments without first triggering price inflation. At which point the policy options were either to devalue the pound or cool down demand by raising interest rates. The first option encountered opposition from the financial establishment, while the second was politically costly in a nation that relied on mortgage loans with variable-rates. Structural supply-side reforms were lower down on the priority list, and the British state lacked the capability to implement them (Shonfield 1965).

When the pound came under stress, the brakes were applied, typically by fiscal and quantitative measures on credit (generally by restricting access to mortgages and to loans to finance consumer goods), rather than by increasing the interest rate (Scott and Walker 2017). The policy of stop-go regularly raised hidden road-blocks to growth that hampered industrial investment – the opposite of the official Keynesian doctrine. Butskellism channelled the burden of adjustment to demand rather than to supply. The UK lacked the policy instruments to do otherwise, as Hall (1986) has pointed out with regard to industrial policy in the 1960s; in the Keynesian compromise, the flip side of cycle management was non-intervention in labour markets.

Dysfunctional industrial relations and the 1970s paradigm shift

During the 1960s, wage negotiations were increasingly perceived as a structural issue. Thanks to widespread closed-shop, trade-based unions, Britain had one of the highest union densities in the world: in 1970, 45% of wage-earners enrolled in unions; in contrast only 33% did in Germany (OECD). Craft unions typically controlled the shop floor. This union strength, however, came with French-style unruly collective bargaining whereby strikes could break at about anytime. Formal industry-wide agreements were overtaken by the rise of informal workshop deals – a trend towards decentralisation that accelerated in the late 1960s. The industrial relations framework was a key factor in wage-prices inflation mechanisms and slowed down industrial structural adjustment (Cairncross 1996). This was exposed most thoroughly in the conflictual modernisation of the national newspapers in 1986–88.

In Germany, the central bank had used, albeit in code, the threat of recession and of rising unemployment to govern. This, however, was verboten for both governing parties in the UK as part of the Keynesian compromise. From the mid-1960s, inspired by Continental precedents, governments toyed with the idea of an income policy, but were unable to extract enforceable commitments from unions (Hall 1986). The other option considered was to reform industrial relations by taming the unions. Large segments of the 1964–70 Labour government were sensitive to this analysis (Richardson 1991). Attempts were made to institutionalise union-management negotiations.

Notably, in 1969, the employment minister, Barbara Castle, drew this from the conclusions of a royal commission. Since the proposed reforms implied legally enforceable constraints on the freedom of action of unions, the latter and much of the governing party vehemently rejected them.

In 1971, the Conservatives enacted some of these reforms. When Labour returned to power in 1974, it promised to repeal the 1971 act, with, in return, unions loosely committed to wage restraint in a grandly called 'social contract' that, however, did not stopped massive wage drift. What amounted to an understanding rather than a deal lacked any productivist engine. An ambitious 1977 government report called for German-style workers' representations on company boards, but unions' response varied between indifference and mild hostility. So the government shelved the proposals. The taming of the unions would take place only under Margaret Thatcher, after the system had fallen into mayhem.

Many features of 1970s Britain recall 1950s France. In the private sector, unions increasingly driven by local militants gained extra percentage points of pay increases from firms that were confident they'd recoup the higher costs by increasing prices. British unions were more powerful than their French cousins thanks to closed-shop and the membership dues it provided. The lorry drivers leveraged unions' legal privileges in a strike in January 1979. Public-sector trade unions from monopoly sectors had enormous political power, composed of miners, health workers, railway staff, and local government employees. This power was exhibited in coal miner strikes in 1972 and 1974, which caused massive power shortages that brought the economy to its knees. That led the government to concede to union demands. The pattern was that public-sector unions would leverage their power to request wage increases that kept up with the private sector; and the government would raise the administered prices while keeping credit loose. Under this pattern, by 1979 union density had risen to 54% (Towers 1989).

That pattern had been established immediately after the Second World War, but it proved much more destabilising in the 1970s, under such adverse international conditions as inflation and slow or even zero demand growth. After consumer prices rose by 24% in 1975 (a G7 record, four times the German rate, from OECD data), the borrowing requirement in the public sector rose to 7% of the GDP in 1976. Infamously, the government then had to request an IMF loan to re-establish confidence in the pound (which recalls similar French episodes in the 1950s). The subsequent (light) spending restrictions stimulated the grievances of workers in the public sector, which culminated in the 1978–79 Winter of Discontent, when all industrial relations pathologies piled up in an unprecedented striking potlatch. The Thatcher-led Conservatives won the following spring election by promoting a programme of radical reform under the 'monetarist' banner.

That ideological affiliation proved to be a crucial plank in what became known as 'Thatcherism', but not because its monetarism was superior to rival policies. In fact, by narrowly defining monetarism to mean the alignment of money supply with production growth, it was universally derided by the mid-1980s. Its force, rather, sprang from a consistent ideational package supported by an influential network of supporters. In the mid-1970s, at the beginning of a 'social learning process' (Hall 1993), the Bank of England adopted a sceptical stance towards earlier certainties concerning demand management and trade-offs between inflation and unemployment. Soon, the Treasury, too, turned sceptic. Reinforcing this orientation, influential journalists like the *Financial Times*'s Samuel Brittan and *The Times*' Peter Jay, alongside intellectual media voices like Keith Joseph and Brian Walden, preached the emerging competition paradigm to the elites. Once the Conservatives came to power, institutional reform enhanced the propagation of the ideology, notably, by the breed of quasi non-governmental organisations, popularised and derided as 'quangos', which were autonomous administrative bodies that embedded into their mission the idea of market competition.

Thatcher broke the taboo against using the threat of recession as a reason to govern, and let interest rates climb high enough to force companies to limit pay increases – or to go burst and feed unemployment. The unemployment rate of 5% doubled to 10% by 1982, and stayed above this until 1986. Under its new leadership, the UK willingly plunged into the international recession provoked by Paul Volker's Fed policy, and the Iranian revolution's impact on oil prices. North Sea oil drilling turned the balance of payments positive,[1] lifted the pound, and helped the government finance a booming budget deficit while cutting taxes to build a constituency. Consumer price inflation fell from 18% in 1980 to 5% in 1983, when the OECD average was still close to 11% (OECD data).

In another break with the Keynesian compromise, the government actively intervened to re-mould industrial relations. Between 1980 and 1988, parliament passed four acts: tightening the criteria for unfair dismissal; weakening the closed shop statutory provisions over low paid jobs and wage rates alignment across companies; restricting legal immunities applying to industrial action; and requiring a secret ballot to authorise strikes (Towers 1989).

In 1981, encouraged by the government, dissident unions started signing 'single-union/strike-free' agreements with employers. In 1984, the decisive and divisive government battle with the miners' union spectacularly established a new balance of power favourable to the state and employers. By 1987, union density fell to 42% (Towers 1989). The upside, as with mining and, in 1986–88, newspapers, was to ease industrial restructuring and capital reallocation. The downside was the duration of high unemployment and its heterogeneous distribution: many working-class communities and breadwinners were humiliated and marginalised. The policy's ruthlessness was, to the leadership and its supporters, necessary to radically change expectations. The decisiveness of the Westminster model – where 'parliament can do everything' (de Lolme 1771) – was at its highest singularity compared to American bipartisanship and European consensual politics.

Besides industrial relations, Conservative government policies proved decisive and seminal in a 'liberalisation' effort that amounted, in reality, to widespread economic *regulation*. The privatisations that came to be identified so widely with Thatcherism were, by necessity, calling for a step up of regulation. State monopolies were largely *unregulated* – sectoral administrations operating under their own rules. Transforming them into profit-seeking enterprises implied the introduction of regulation and referees to limit monopoly power and set terms for new entrants. In fact, it was necessary to *create new markets by regulatory fiat*, an approach antithetical to the orthodoxies uniting the government and its supporters: the Lockean property rights, and the neoliberal worldview that treated markets as the natural outcomes of interacting free persons.

Public-service privatisation was not on the 1979 Conservative manifesto, which only cautiously promised to 'sell back to private ownership the recently nationalised aerospace and shipbuilding concerns' (margaretthatcher.org). The policy emerged only incrementally on the Thatcher government's agenda as it took notice of the potential political benefits: the spread of shareholding amongst the population (with an expected consequential shift to the right) and substantial intakes for HM's Treasury. The emblematic public offering of British Telecom shares in 1984 influenced the rest of Europe and, indeed, the world for the next twenty years (OECD 2003). A sectoral telecoms regulator, the Office of Telecommunications, was created in 1984. In the 1990s, Oftel increasingly shifted towards competition in consumer services, setting the premises of the idea of network and services separation that would later become the orthodoxy of the European Union that favoured competition for privatised public services like telecoms, gas, trains, and electricity. The UK regulatory state evolved in close reciprocal hybridisation with the EU. The 1992 Single Market programme owed much to British influence, while the incorporation of EU competition law into British law led to the milestone 1998 Competition Act.

European integration was the hidden, easily forgotten mechanism working through the Thatcherite years. Joining the ECC in 1974 may have substantially and positively affected British economic growth by exposing domestic producers to competition from European rivals – a pattern experienced by other member states. In 1970, the costs of trade between the UK and Germany were 44% higher than between Germany and France; by 1980, the difference had shrunk to 15% (Crafts 2011). Manufacturing was redeployed to participate in, and often lead, European supply chains. Soon London-based financial and professional services became a regional hub.

Starting in 1974, the long wave of the postwar technocratic big bangs in Germany and France rippled through British governance to an extent that is not often fully grasped. Integration took place deeply within the British state, as quangos fitted into the coordinated European system and jurisprudence adjusted to European treaties. The indirect institutional impact was fundamental, leading ultimately to the 2009 creation of the Supreme Court. That, in turn, meant that the UK was the last major European country to establish judicial review. The court was a necessity in a governance system where expert agencies had become so prominent. At the same time, it made visible the de facto judicial hierarchy headed by the Court of Justice of the European Union. The 1998 Northern Ireland peace deal was underpinned by belonging to the Union.

Schizophrenic governance

An easy narrative would treat 1979 as the third instance, after 1948 and 1958, of European state-led refoundation. This makes sense when considering state ideational leadership: like the German and French episodes, the Thatcher upheaval was definitely top down. The rise of monetarism and 'free market' radicalism in the 1970s, its embrace by the Conservative Party and then the government, and the rollout of reforms consistent with the ideological premises backed by institutional support (from the BoE to the new quangos) together present a powerful case study of ideational inputs that produced institutional and policy change by means of a strong state. The Tories could build on an existing efficient and decisive constitution that inspired continental leaders of earlier generations. However, they redirected this model towards higher centralisation, just as did their German and French reformist predecessors with their own constitutions. Thus, as I noted earlier, the Thatcher governance significantly expanded the regulatory state.

But Britain's top-down, idea-led reforms did not follow the German and French pattern of producing prosperity and institutional sustainability. Relative productivity stagnated at levels noticeably inferior to the production frontier, and there inequality increased, as we saw in Chapter 1. A stylised Thatcherite argument suggests that Britain traded higher inequality for faster growth, but this is a myth. Meanwhile the foundations of the political-economy model that emerged from Thatcherism – open trade, the regulatory state, immigration – were the very issues that underpinned opposition to, and eventually withdrawal from the European Union.

I conjecture that these paradoxes resulted from Britain's schizophrenic relationship with technocracy. Despite Britain's full participation in the buildup of the European regulatory state, it has (cheered on by voices in the media) nurtured a rhetoric highly critical of regulation, 'red tape', quangos, and bureaucracy. 'Taking back control' was aimed against Brussels and against experts in London (Hay and Benoît 2004). Against his reputation, Boris Johnson demonstrated remarkable consistency promoting (as a journalist) the European 'superstate' myth in the early 1990s and achieving a 'hard' Brexit as prime minister. One lesson to be drawn from comparing Britain to Germany and France is that the legitimacy of a technocracy is as important politically as is its role in creating a productivist economy.

Britain seemed to support the European market only as a set-up for playing an off-shore card. British insertion in the global economy was like a pirate living off regulated economies. Britain took pride in the growth of a low-wage service sector relying on unskilled, often non-English-speaking manpower, associated with a high-earning, globalised professional services economy driven by finance – which probably weighed negatively on the growth of the rest of the economy (Cecchetti and Karroubi 2021). There was little or no attention to the adjustment of the economy in the middle of these two sectors: no industrial policy (a slur even for New Labour) nor macro policy (like a high minimum wage). I imagine that a too clever by half senior Whitehall public servant could argue in her private club that Britain was a free rider on the EU, exploiting the depth of the single market, while avoiding the burden of the 'social' policy.

The middle economy and its workforce were anaesthetised by the sacrosanct mortgage, possibly the nub of the British political economy, before and after Thatcher. The secular decline in interest rates and the rise in residential property value allowed many British families to enjoy the illusion of economic growth without increased production. The shift to 'funded', contributions-based pensions, initiated during the Thatcher era, brought a further dramatic rise in immediate consumption and borrowing, thanks to 'loans against pension'.

One deflated reading of post-1979 Britain would be that the country displayed more intensely a shift that took place across the whole industrial world. Inflation in the 1970s peaked higher and the external deficits ran deeper in the UK. Consequently, the narrow global monetarist moment, launched by the Volker Federal Reserve in 1979 and which was over by 1982, had sharper effects in Britain than elsewhere in Europe, where the same policy curve was followed. Under this reading the Thatcher 'revolution' is a side show. The same is true of the British deregulation push, which echoed US innovations in telecoms and air transport from the Jimmy Carter era that spread everywhere in the industrialised world.

Viewed comparatively, however, the problems that emerged in Britain were common to France and Germany as well, which stemmed from the felt need to integrate into the US-led international economy by controlling inflationary pressures stemming from mass politics. But in Britain, solutions to this problem occurred later than they did in the other two countries and proved unsatisfactory. The Thatcher experiment indeed correlates with an end of Britain's relative decline compared to Germany and France with regard to total output. But this was achieved by increasing inputs rather than relative productivity. Furthermore, the context – European integration and oil boom – was favourable. Crucially, Britain leveraged its access to the European market, starting with less regulation than the others, like an economic buccaneer. But by pitting the demos against the state, Thatcher did not foster a stable path to legitimacy in the postwar international context. She mobilised state ideational leadership to break social vetoes to modernisation but failed to build institutional legitimacy through inclusive policies. The resulting unequal development offered easy confirmation narratives to nationalist claims.

Italy: an impotent but consensual republic

Italy provides a fascinating shadow case to the expert-state narrative. It enjoyed considerable economic momentum up to the 1980s, despite dysfunctional institutions and highly conflictual industrial relations. The country could thus easily be taken as evidence that local conditions did not count that much in a postwar boom that was ultimately powered by international demand.

However, a more granular reading of Italy's political economic history since the Second World War tells a different story. Because it started from a backward position, its catch up was stronger than elsewhere. There was a huge reallocation of labour from farm to industry, which was enabled by relative political stability. But in the 1960s, politics turned clientelist. The productive sector entered a dual path. Large concerns increasingly geared towards domestic demand by a policy-mix associating corporate welfare to redistribution to producer groups, while smaller scale manufacturing rooted in local knowhow drove exports. The rise of the latter sector, the resilience of the political system, and growing budget deficits all helped the country supersede the 1970s crisis and sustain growth in the 1980s. In a spectacular *sorpasso*, by 1980 Italy's GDP per capita matched Britain's and, by 1990, Germany's.

But this was not sustainable. Starting in the early 1970s, money management was unsettled by floating exchange rates and by governments' lowered capacity to resist distributional claims. Large producers increasingly suffered from international competition. Small manufacturers leveraged the Common Market, but struggled to scale up for lack of an adequate legal and financial infrastructure. After tapping Italian savers, the government financed deficits on the international bond market. This process was eased by belonging to the Common Market, but rising indebtedness generated increased investor wariness. By the 1990, in the face of international slowdown the model ran out of steam, leading to an economic and constitutional crisis in 1992. Italy never recovered from that, leading to this century's low productivity, high inequality, and populism.

The Italian postwar performance was remarkable nonetheless, gross domestic product in 2017 dollars increased 5.6 times from 1950 to 1990, against 4.8 times for Germany and France (my calculations from conference-board.org).[2] I will suggest that the boom must be understood as having two phases, and that only the first of which, ending in 1972, was sustainable. I will argue that Italy's governance model was crucial to this story. The model was created in the late 1940s and unravelled in the 1970s under the stress of the international economic disruptions. Distributional politics brought first inflation, then indebtedness, and finally a constitutional collapse. Exposure to international trade did not generate the hoped-for domestic reforms to sustain productivity.

Ditching a monarchy tainted by its active association with fascism, the 1946 referendum that established the Italian Republic opened the door to a two-year constitution-writing process. The French and Italian constitutions of 1946 and 1948 were siblings, 'daughters of the same ideologies and the same circumstances' (Guerrieri 2021). As in France, the Italian left had a Rousseauist vision of a constitutional system that mediated between the popular will and the state. This implied that the parliament was all-powerful, with a subservient executive power, or *assemblearismo*. Government, the state, and state action were largely left in a conceptual void.

In the constituent assembly, Socialists and Communists (PSI and PCI) focussed on including social rights, which the Christian Democrats (DC) accepted. Consequently, the constitution became openly programmatic: the political system was to implement democratic decisions, while the mass parties, channels of *grande politica*, were the mirror image of German parties acting as institutionalised channels that supported state action. The Christian Democrats managed to steer the institutional settings towards their own goals. They had a more liberal view of constitutional arrangements, but were wary of executive power in light of Mussolini's precedent. Very few people made the ordoliberal and Gaullist argument that the drift towards authoritarianism resulted from the weakness and the impotency of parliamentary democracy. The same anti-authoritarian principles guided the making of extremely stringent provisions to revise the 'rigid' constitution. Despite the provisions in the 1947 peace treaty, unlike in Germany, the Allies did not guide the Italian constitution-writing process.

Thus, the Italian Republic ended up with governments responsible to both chambers of parliament, and elected by proportional representation without a majoritarian mechanism. The rule that made it necessary to use a dedicated non-confidence vote to force a government to resign proved inoperative (as under the French Fourth Republic), and the president's power to call an election in case of such vote was not used until 1972.

Any comparison with Germany and France must factor in the quasi-insurrectional climate of occupied postwar Italy. In 1946, for example, there were extra-judicial killings in the North and a Communist guerrilla war in Sicily. There were worries of incurring a scenario akin to the Greek civil war. To many observers, the constitution was a peaceful compromise between the Church and the Communists. The Christian Democrats radically rejected the unofficial Catholic alliance with fascism that had been heralded by the 1929 concordat. But the most remarkable act was by the PCI leader, Palmiro Togliatti, who managed to keep on board a vindictive Stalinist, revolutionary base while prioritising democracy building over socialism.[3] In a deeply divided country that lacked the patriotic fibre that united France, the 1948 constitution became the ground for uniting the Italian body politic even in the tensest hours of the seventies (Guerrieri 2021). But it incapacitated state decision-making. The very founding terms of the Italian Republic sanctioned a political process that gave all actors veto power. Over the next few decades, this power spread to institutions – trade unions, regions, justice. It increasingly impeded state action and thwarted attempts at substantial reform.

The *ordoliberale* episode ends in distributive wars

For a while, the weak institutional setting was offset by decisive governance due to a convergence of factors that parallel (to some extent) the German upheaval.

In August 1947, at the onset of the Cold War, following the exclusion of Communists from the government of Alcide De Gasperi, Luigi Einaudi, the budget and finance minister and the governor of the Banca d'Italia, issued a plan to stabilise the lira that was more drastic and more effective than almost all other similar attempts by democratic governments. At the same time, he rejected the idea of revaluing all assets, an idea advocated by the left and which echoed the DM plan. Price controls on many items, including bread, were lifted. The reform package turned inflation into deflation and, after a year, did stabilise prices. The impact of the Marshall Plan on commodity supply, as well as the effect of a warmer winter, dramatically increased the growth of production, which stabilised at a healthy high level by the end of 1948 (Cotula 2000).

Throughout the 1950s, the government was supported by a relatively stable DC-led coalition, and carried out a disciplined management of money. Until the early 1960s, when full employment was achieved, pressure for wage growth was kept in check by unemployment, which was fed by the massive shift in manpower from agriculture to manufacturing. The government also embraced foreign trade as a way of stimulating modernisation through international competition. Italy sought trade openings in Europe; committed to the ESCC, GATT, and OEEC liberalisation, the Common Market and currency convertibility (while cleverly manipulating key tariffs); and delivered prosperity. The country was steered towards modernisation by its allies, and by internal fear of communism. But the global economic environment is insufficient to explain Italy's growth, for it certainly did not prevent France from running into crisis. Instead, starting in the 1960s, exporting finished goods was key in propelling Italian economic growth (Oliva and Stefani 2000).

Additionally, throughout the 1950s, public investment and state-owned corporations encouraged private growth (Shonfield 1965). As we will see, industrial restructuring was actively promoted by two autonomous agencies: the central bank, Banca d'Italia; and the Istituto per la Ricostruzione Industriale (IRI) holding.

The central bank enjoyed a degree of autonomy comparable only to its German equivalent. The governor was appointed by the government (de facto until 2005, de jure since), but actual selection of candidates was largely an internal affair and, crucially, it was a tenured position (until 2005). The bank had independent resources and a large research capacity, which allowed it to be effectively independent from the government at the Liberation. It thus benefitted from both the weakness of the executive branch when Italy was still a defeated power in a world war, and from the authority of Luigi Einaudi, the appointed governor in 1944, who favoured the bank's autonomy. The bank came to occupy a central place in policy-making. This institutional setting was considerably strengthened by the bank's resistance to political appointments of managers, or *lotizzazione*. The bank became a spare wheel of the republic, playing crucial roles when policies shifted, and supplying leaders in times of crisis (such as, as I write this, Mario Draghi).

Einaudi's views echoed those of many German ordoliberals. A law professor and senator in 1919, he opposed major fascist laws. He saw price stability and savings as moral goals that underpinned the thriving middle class, which was the backbone of 'western civilisation'. However, he opposed the social-security programme. He and other Italian liberals were closer to the nineteenth-century orthodoxy than to the Christian Democrat neoliberalism prevalent in France and Germany (Einaudi 1954). Donato Menichella, who succeeded Einaudi in 1948 as governor of the Bank of Italy (until 1960), was also a convinced liberal who fought Christian Democrats favouring planning. Their worldview never crystallised into, or supported, a significant political thought current similar to the *soziale Marktwirtschaft* (outside of the Banca d'Italia).

Despite its creation by the fascist regime, the IRI came to embody an Italian, more pragmatic version of French 'planning'. The institute actively prioritised productivity (including retraining workers) and international competitiveness in the firms it supervised, often through majority stakes alongside minority investors. In the iron and steel industries, the IRI coordinated the public, private, and foreign investment that underpinned Italy's later industrial growth. These policies were backed by the central bank with regard to credit allocation (Shonfield 1965).

The first constitution of the republic came into force in January 1948; in the May elections, under boom conditions, the De Gasperi-led Christian Democrats won an absolute majority of seats, a feat never reproduced since. Einaudi was then elected president by parliament. By 1960, Italy's performance was referred to as a 'miracle' and the lira was considered a strong currency.

The ordoliberal-light Italian model met its first challenge in the early 1960s, when full employment dramatically accelerated wage growth. In muddy and violent circumstances, lower electoral scores pushed the Christian Democrats into a partisan realignment that brought the Socialists into the governing coalition in 1963. That alliance continued for much of the next three decades. Reform plans were mostly discontinued, even though the Socialists pushed to deliver goods to labour allies who failed to support government policy in return. A distributional inflationary spiral was avoided by the Banca d'Italia skilfully allying with the new leadership. This enabled the bank to tighten money in 1963 and 1964. This, in turn, ensured that the lira remained stable; that inflation paralleled its peers through the early 1970s; and that the rate of economic growth was one of Europe's fastest.

Early in the Italian postwar period, idiosyncratic developments in political economy occurred that were to eventually burden an already weak state that was not flexible enough to ensure systemic adjustments.

The Italian labour movement was similar to France's, but more unruly. Unions were fragmented by political allegiance; the largest was the communist-aligned CGIL. For this partisan reason, governments tended to favour fragmentation and rule out social compromises. A 'strike proneness' dynamic resulted from competition between unions, the prevalence of shop-floor militants over national leaders, and the lack of multi-year wage agreements as well as of mechanisms to enforce deals (Magnani 1997). In terms of the number of days lost to strikes per 1,000 employees, Italy was a close number two to France in the 1950s; in the 1960s, it was way above the top four European countries. The number rose from 302 in the 1950s, to 731 in the 1960s, and 1,041 in the 1970s, then six times the French rate (Bordogna 2002). In 1970, Italy's union density was a high 36% compared to 33% in Germany and 22% in France (OECD database).

Communists and their allies in the labour movement prioritised social guarantees associated with employment status over universalistic provisions *à l'anglaise*. In this respect, they were not dissimilar to most Continental unions. Socialists started to pay attention to welfare state initiatives only at the end of the 1950s (Giorgi and Pavan 2021). The high unemployment rate, amplified in the southern regions, accentuated the Italian left's tendency to primarily conceive policy through the lens of the workplace. That dynamic peaked when the *Statuto del lavoratore* was passed by parliament in 1970. As noted above, Einaudian liberals tended to be sceptical of the welfare state. Christian Democrats ideologically tended to support charity, rather than universalistic social security, which led them to push for targeted cash transfers and pensions, in particular.

Thus, the Italian welfare state grew at a much slower pace than abroad. Fragmentary public-health operations were consolidated into a national health service (SSN) only in 1978. Unemployment benefits were always sectorial and statutory. Welfare assistance was created in the 2010s in the form of a low-key universal revenue. Meanwhile, even today Italy has no minimum wage (and no dense corporatist framework that would substitute it). Vocational training remains in the hands of weak professional bodies, and the first national law to promote it was voted on in 1997, which opened the door to legal unpaid or minimally paid job contracts rather than workforce upskilling.

Starting in the 1950s, disability and early retirement pensions became a pillar of political patronage, alongside public-sector jobs. Pensions were the provisions that characterised the Italian welfare state. Between 1960 and 1981, the share of public spending devoted to pensions grew from 33% to 45% in Italy, while it decreased in France and Germany (to 40% for both in 1981). Meanwhile the share devoted to education was flat in Italy, while increasing significantly in Germany. By 1999, Italy's public spending on pensions reached 14% of GDP, respectively two and three points more than in France and Germany (OECD Social Expenditure Database). No statistics capture the share of pensions allocated through patronage. Largely staffed by cronies, the public sector eventually captured a massive share of the pension expenditure. Low pay but early retirement was the unstated deal in the workforce for decades. Given this model, Italy lacked many of the social-security features that underpin the reallocation of labour in sectoral restructuring elsewhere.

Early on, Christian Democrats developed a policy favouring home ownership, which connected national financial and fiscal incentives to local ecosystems of real-estate cronyism. This was practically unopposed by the Communists, who championed a right to housing and a fight against speculation (Rochat et al. 1980). An attempt at a major revamp of urban regulation was part of a reform package that triggered preparations for a coup d'état in 1964 (that episode has yet to be fully investigated; see Franzinelli 2010). This revealed the extent to which the issue was systemic. Home ownership, alongside its tax and planning privileges, were the backbones of Italian right-wing politics up to the 21st century. They became prominent issues for Silvio Berlusconi, who fought electoral battles against the prospect of a (small) property tax on main residences; his government repeatedly issued amnesties (or *condoni*) on illegal construction.

The patronage state ran on political competition at all territorial levels, amplified by the fragmentation of the Christian Democrats and Socialists in rival fractions. While the parties were the engines of the new order, they were unable to enforce internal discipline. By the 1960s, their internal rivalry intensified inter-party competition, propelling a colonisation of the state apparatus by *lottizzazione*. Through this spoil system, parties and factions extended influence over state departments and state-owned enterprises, including, crucially, the organisations managing pensions (Giorgi and Pavan 2021). The destabilising effects of the parliamentary constitution of 1948, which was partly neutralised by the phase of Christian Democrats' dominance, became more apparent. Helped by ideology and a hostile environment, the Communists remained united, but nevertheless joined *lottizzazione* in the 1970s (Capussela 2019).

Monopolistic public services and enterprises – notably the post, telephone, and telegraph (PTT), the universities, and the energy and railway operators – became political retribution machines, whose outputs declined relative to other European countries (Nardozzi 2004, Salvati 2000). Il *posto alle poste* (employment for life at the post office) became a lower middle-class ideal. There, mediocre, poorly paid jobs were offset by a work culture of laziness, sometimes illegal gains, and early retirement, often leveraging the generous provisions of the 1970 *Statuto*.

The above pathologies were more acute South than North of Rome, amplified by a mixture of culture, poverty, and misdirected development aid. After the unification of Italy, the South's relative standard of living plunged. The gap between with the North shrank in the 1950s and 1960s thanks to some productivity catch up and heavy public investment, but it widened again starting in the 1970s as state initiatives faltered (Iuzzolino et al. 2013, Putnam 1993).

The spread of criminal networks does not seem to have ever been effectively checked. Organised crime is sometime presented as a sort of autonomous body rivalling the state. This is clearly the case in typical extortion cases, but this misrepresents the mafia as a single body, when it is rather an ecosystem of rival networks that are *parasites* of the state. This is most visible in Italy, where traditional criminal activities (e.g., drug distribution) are imbricated with political corruption, such as in the awarding of state supply contracts.

The dysfunctionality of the Italian polity reached a height with terrorism, peaking in 1978–80 with the Aldo Moro assassination and the Bologna station massacre. The Marxist, dialectical group, Red Brigades, almost managed to provoke the authoritarian reaction many suspected it sought. That threat was averted with the suspension of civil liberties, making the Communists once more a valuable bulwark of the constitutional order. However, murderous far-right terrorists were never discovered, and they may have benefitted from support of segments of state security services. Italian democracy withstood its most severe crisis, but the flip side of the consensual system was, as we will see, the debt-financed distributional stampede.

The unsustainable sorpasso

From a macroeconomic perspective, things started unravelling with the 1973 wage negotiations, which launched a cycle of high inflation, repeated devaluations of the lira, and growing public indebtedness. That cycle lasted for twenty years. In 1975, in a caricature of social settlement, the employers' association, Confindustria, signed up to the wage indexation scheme, *scala mobile*, certain that devaluation would cancel competitiveness deterioration. The *scala* fed wage drift in a perverse loop: the wage compression built into the agreement did not push up productivity because small firms were not covered. Unstable, spineless government coalitions responded to, rather than shaped, interest-group demands, thus spending increased much faster than elsewhere.[4] By 1973, with the oil shock, the Italian economy was already the most inflationary of the industrialised west, reaching a peak of 21% in the growth of consumer prices in 1980 (OECD database).

In a display of *capitalismo assistito*, or corporate welfare, the increasingly subsidised corporate sector shifted towards domestic demand that was relatively shielded from competitive pressures. Only a few groups managed to scale up like their foreign competitors, as is testified by the small number of Italian names in the ranking of top multinational firms (Figure 7.1 and Amatori 2017). Without the mobilisation mechanisms of the French state-led productivism or the German corporatist deal-making, many Italian production nodes could not meet the post-1969 union militancy and entered into long-term decline – the port of Genoa and metalworks being particularly strong examples (Loreto 2016, Tonizzi 2000).

Despite the increasing dysfunction, the 1970s and 1980s generated high output and productivity growth in Italy relative to peers, mostly thanks to small firms. Building on local expertise and business networks unique to the country, the informal and family-run sector gained competitive advantages by escaping from the national wage agreements while accessing capital to invest (the financial system run by the Banca d'Italia was good at reinvesting local savings locally; Conti and Ferri 1997). The sector expanded in the countryside (in the *distretti industriali*), escaping the urban unionised workforce, and played a notable role (alongside illegal residential construction) in the unregulated sprawl defacing the *bel paese* and sustaining the local political machines. Low-tech exports to the open markets of the European Communities, especially in textiles and consumer durables, drove demand.

But this boost to the micro firm model was a one-off. In the long run, most of these producers reached some glass ceiling because they were structurally incapable of becoming full-scale Mittelstand-type operations. There were regulatory obstacles to increasing in size, albeit with some exceptions, such as in fashion; however, even these were mostly under foreign ownership (Amatori 2017).

Although monetary policy unravelled in the 1970s, trade liberalisation endured. After the monetary stabilisation in 1947, Italy selectively loosened trade barriers and pursued an export-led industrial policy, which was philosophically consistent with the new republic's rejection of the autarchy of fascism. In line with this, in 1957, Italy ratified the Rome Treaty (only the Communists opposed it), also entertaining the expectation that the clauses in the Common Market with regard to the free labour movement would secure a migration path to reducing unemployment. Bracketing some limited sectorial protective initiatives, Italy's commitment to the liberalised trade order remained steady in the following decades.

Two factors were central in Italy's steady commitment to liberalised trade and the Common Market. The first was governmental leaders' (and the Church's) loyalty to the Western alliance and its organisations. They regarded Italy's international partners as crucial supports for a perennially weak executive branch challenged by a Soviet-backed Communist opposition and, in the 1970s, terrorism. The second factor is that when faced with stiffer international competition, Italian business tended to ask for subsidies and currency devaluation rather than for formal import restrictions. Indeed, as the flip side of high inflation, the lira was repeatedly devalued, shrinking from 154 to a deutschmark in 1968 to a nadir of 1,275 in 1995.

Competitive devaluation had structural consequences: it led Italian producers to increasingly rely on cost advantages to sell internationally, thus constraining many to the lower end of product ranges. Besides, Italy lacked any mechanism, like the German industrial relations exoskeleton or the French high minimum wage, for incentivising companies to seek productivity gains. During the 1970s and 1980s, Italy was akin to France's Fourth Republic in the 1950s, but the international environment was much more accommodating to it: it featured flexible exchange rates and massive cross-border flows of capital. This helps explain why it took Italy a longer time than France to unravel.

In 1981, the wage price spiral gave way to deficit spending as the main macro mechanism for reallocating resources. Following the interest rate increases at the Fed and the Bundesbank, monetary policy tamed inflation. In the following decade, adjustment was ensured by a boom in state spending financed by borrowing. In the fifteen years up to 1985, government expenditures rose from 32% to 50% of GDP, while the gross public debt-to-GDP ratio jumped from 50% in 1974 to 120% in 1994 (IMF data). The increase in borrowing costs was a compelling factor in the spending growth (Bastasin et al. 2019).

In 1992, the country model, or *sistema paese*, collapsed. A new generation of independent investigative judges exposed corruption of the political leadership, leading to a disintegration of the DC and Socialist parties. Public unsatisfaction was intensified by the prior turn to austerity; the first primary budget surplus was recorded in 1991. In September 1992, with massive capital flight, the lira was devalued within the European Monetary System. The trigger was the Bundesbank increase of interest rates following German unification. The governor of the Banca d'Italia, the only patronage-free large state institution, was appointed prime minister the following spring. (In September 1992 Britain's pound was devalued simultaneously with Italy's lira, but with benign economic consequences.)

It is worth bringing this story to the present. Many comments about the end of the 'First Republic' were made during the 1992 crisis. Italy's recourse to the Banca d'Italia governor Carlo Azeglio Ciampi as the 'technical' (i.e., non-political) prime minister in 1993–94, the abrupt halt to growing public spending, and some reforms may recall, at least superficially, the 1958 French upheaval. Italy's political system mayhem also seems to mirror the French situation. In a fortnight, both the Christian Democrats and the Socialist parties disappeared, and Silvio Berlusconi's Forza Italia emerged. The latter's coalition victory in the 1994 elections brought, for the first time, the 'fait majoritaire' to the country. As in all major Western democracies, Italians were able to vote for a leader, and hold him accountable for the government's performance. This alone was a key reason for the popular appeal of the television magnate. However, unlike its Fifth Republic cousin, the Italian left did not rise to the challenge, and failed to reform its leadership. Council President, Romano Prodi (1996–98 and 2006–08), did not become the big boss of his coalition. By the 2010s, parties retook from the electorate their capacity to choose the PM. Plans for institutional reforms failed to clear the high constitutional hurdles.

The 1992 devaluation could not be repeated, notably because the huge debt was increasingly internationalised (Conti et al. 1994). Cheaper lira provided a penultimate shot in the arm. The last shot came from lower interest rates in a convergence towards the German rates when approaching the 1998 introduction of the euro. In the middle of the 1990s, Italy entered a phase of relative decline that continued into the 2010s. The Chinese shock affected Italy and Germany in opposite directions, accentuating the industrial slump. In 1995, productivity per hour worked was 2% higher than in the United States, by 2018, it was a quarter lower (Figure 1.2). Italy's illusionistic 1980s growth was a dress rehearsal for the 2000s Greek act (Felice and Vecchi 2012, Nardozzi 2004, Salvati 2000).

In its post-Cold War, post-DC, post-1992 crisis era, the Italian state leaders – that included high-profile civil servants, Banca d'Italia officials, and centrist politicians – converged on a choice of macroeconomic policy: agreement to European Union plans in the hope that, almost mechanically, Italian institutions and interest groups would sign up to the reforms necessary to meet the international commitments. The mother of these commitments was the effort in the 1990s to join the euro. That decision was made without much debate, and was widely seen as intrinsically desirable for it implied '*entrare in Europa*' (*sic*). In the short run, joining was seen as a solution to the exchange rate and to the inflation differential conundrum in the relations to Germany. In the long run, the idea was that domestic firms would have no choice but to restructure and that unions would have to display moderation, while, at the same time, the fragmented political system would finally take unpopular decisions under the heat of international competition.

As in a self-fulfilling prophecy (helped by the aftershock of German unification and a lenient international economic climate), Italian interest rates fell close to German levels, the budget charges for the debt shrank, and, with them, the deficit. The country was thus able to meet its commitments without much trouble. That came later.

More than in any other large state, politicians leveraged the technocratic depolitisation of issues. Instead of subtracting policy questions from partisan debates to open space to build social consensus, Italian governments passively crossed their fingers, hoping that adjustments would take place under duress. Rhetorically, any unpalpable change was needed 'for Europe'. This may have helped undermine opposition to regulatory convergence with the rest of the EU, but it worked only for a while. The pension reforms of 2010–11 were a rare success-story of this technocratic paradigm. But the achievement was short lived and even noxious: opposition to the reform propelled the subsequent rise of populist parties, which eventually managed to cancel key provisions.

Would-be reformist governments managed to implement only piecemeal reforms, while an increasingly daring judiciary has been ruling haphazardly in social and economic areas abandoned by the legislative and executive branches. Governments repeatedly made distributional awards (to home-owners and employees of state firms) that undermined respect for the rule of law and state impartiality. What came next is the current predicament of social media and populism or 'followship', as former prime minister Mario Monti put it.[5] As I am writing this book, a now-classical act is unfolding in Rome: a government elected on petty and symbolic partisan politics is trading promises of reforms for European financial support.

Italian depolitisation was the outcome of the government's weakness, primarily its incapacity to arbitrate between conflicting distributional claims. Whereas German depoliticisation crowned a process of ideational leadership. According to a not-so cynical view, only two Italian institutions have stood between the republic and an Argentinian scenario: the consensual constitution and the Banca d'Italia. The integration in the European Union and the North Atlantic alliance have provided the external anchors unavailable in South America.

Two inconclusive alternatives

In my research on France and Germany, I showed that to explain economic outcomes after the war, high politics took precedence over material interests. Indeed, institutions reshaped those interests. I started with the premise that the prime causes of the 1930s convulsions were to be found in the inadequate institutional adjustment to the tectonic changes brought by the First World War, namely the new consciousness that money and trade could be manipulated by the democratic state. The lenient international economic environment in the late 1940s allowed Britain to carry on despite lower growth than peers, and Italy to rapidly catch up to its neighbours' performance. But in the 1970s, the inflation surges in those two countries brought back the problems that they had not solved.

In both cases, the *proximate* mechanism underlying inflationary pressures was decentralised industrial relations, with closed shop unions in Britain and competing federations in Italy. But the *ultimate* mechanism was monetary issuance. In Germany, the politics of monetary policy had been fixed in the 1950s, when the modern industrial relations system emerged under state impulse. In France, the formal wage bargaining process was superseded by the state-led productivity drive. Inflation in these polities was a problem that called for society-wide agreement on some form of restraint against democracy if utilitarian goals (prosperity and economic security for all) were to be met. My diagnosis is that Germany and France in the 1970s had found institutional responses (more effective in the first than in the second), whereas Britain and Italy were still looking for a solution.

Britain reacted to the 1970s crises with the Thatcher neoliberal turn, while Italy managed to stick to old ways with borrowing, until it reached a dead end in the early 1990s. The two countries took opposite paths, which reflect their diverging state capacity. The Thatcherite way, in practice, actively embraced the regulatory state, while its political rhetoric attacked its legitimacy. The liberal model increasingly became less appealing as its dual outcome – London vs the rest – became more apparent. British governments were seeking consensus for a 'free-market' option that was explicitly pitched against the European model. That position allowed Britain to avoid strong adjustment measures for the workers and sectors outside the prized, City-led upper-end services sector. Conversely, the Italian way pledged good faith allegiance to Brussels-led governance, but declined responsibility for reform; the population's support eroded as the leaders' project was increasingly perceived as a never-ending austerity effort. Rome governments did not seek to build genuine democratic support for the expert state, which is typically conceived as a necessary, foreign evil. Nationalist, populist politics took hold of both countries in the 2010s, revealing their failure to meet the challenge of accommodating democratic legitimacy and collective economic management. The result, in each case, is an economy with low productivity and high inequality.

Corporatist models are useful for understanding the Italian and British inflation and payment crises of the 1970s, especially if they are compared with Germany at that time, and its oiled labour relations. However, these models offer little insight about the episodes that followed. What would have been the causal changes in material interests that would have propelled the Thatcherite revanche of capitalists? The standard narrative on the rise of neoliberalism points to a weakening, in the 1970s, of the labour movement (Piketty 2014 and 2019, Streeck 2017). But in Italy and Britain, labour was never as strong as in this period, the cycle reversal was state-engineered and ultimately electorally endorsed. The rewriting of the British political economy code was engineered by a massive state-driven ideological shift, not by an economic faction imposing its narrow agenda. The Italian descent, in the 1980s, into indebtedness was not a response to the needs of any identifiable social bloc, but a state solution to the 1970s distributional tensions.

Crucially, my narrative pinpoints the origin of the most recent British and Italian ailments in the two countries' early refusal or incapacity to acknowledge and decide on a legitimate role for expertise in their governance model. British Conservatives thrived electorally in fighting a regulatory state that was a key constituent of their finance-led, export-to-Europe growth model; whereas Italian governments lived by a double act of presenting reforms they genuinely hoped to enforce as imposed by the EU, while mobilising support through sectoral handouts, notably to homeowners, thus undermining the already weak institutions needed for reform. By the 2020s, the two countries were once again the sick men of Europe.

The contrast is profound between the German and French refoundation discussed in Chapters 1–7 and the British and Italian failures to create sustainable alternatives that would be both productive and egalitarian. The latter two countries also share the struggle to come to peace with the European regulatory state as they lack the ability to maintain a fruitful balance between expertise and democracy.

Notes

1 Oil was discovered in the North Sea in 1969 and production ramped up in the mid-1970s. The theoretical literature is sceptical about the economic benefits to a country of exploiting a major natural resource, notably because of the impact of higher currency value on manufacturing exports (the 'Dutch disease' from the Netherland's 1960s gas boom). However, I am not aware of a proper comparative study covering advanced industrial countries. Most assessments of the impact of the North Sea oil on the British economy are mildly positive, and I know of no argument demonstrating a *negative* impact (Bjørnland 1998, Cook and Healey 1995, 30–34).
2 For my account of postwar Italian economic and political history, I draw from Felice and Vecchi (2015), Nardozzi (2008), Fanfani (1998), Casella and Eichengreen (1994), Salvati (1984 and 2000), Sasson (1994), and Graziani (1972).
3 I thank prof Jean Rony for his private comments on the PCI history.
4 Sources: imf.org/external/datamapper/exp@FPP/FRA/GBR/ITA (3/9/23).
5 In a CNN interview on 20 May 2012.

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Conclusion

The European regulatory state between democracy and expertise

My examination of the postwar transformation of the political-economic models in Germany and France has revealed a profound convergence unnoticed by previous scholarship. In both countries, institutions were thoroughly revamped: the executive branch gained power in a presidentialist fashion, alongside new autonomous administrative authorities like the German central bank and the European Commission, all of which increased the state's capacity to steer social preferences. State leadership was anterior and necessary to social settlements in Germany, and replaced them in France.

I have focussed on understanding how states overcame social groups' opposition to the policy adjustments – specifically regarding money and trade – deemed necessary for productivity growth. In my account, the overhauled democratic system found the capacity to drive collective preferences by creating a narrative that mobilised national growth and which was legitimised by non-partisan expertise. The new institutions and governance created in 1948–49 in Germany and in 1958 in France fostered similar preferences for economic growth and a widespread acceptance of active adaptation to international and monetary constraints in the service of spreading prosperity to the masses. This mobilisation was achieved by shifting policy arguments from the political (i.e. partisan) to the technical ground, a pivot backed by the sustained cultivation of high-profile economic intelligence and analysis issued by autonomous bodies.

The persistent catch up (to the US) in productivity defining the postwar 'miracle', and its correlation with lower disparity of revenues (detailed in Chapter 1), are associated with the systemic renewal described here. France experienced a sustained lift-off only with the 1958 creation of the Fifth Republic and its break with prior Malthusian policies. The stellar German economic results since the war are difficult to dissociate from the social market model, whose early emphasis on low inflation and export-driven growth came to define the long-term outcomes of the country. Conversely, Britain dramatically trailed its peers' productivity growth amid continuous distributional battles that reached a climax in the 1970s, when an inflation and balance of payment crisis recalled 1950s France. Italy's brilliant postwar lift crashed in the 1990s when productivity growth went into reverse, hitting

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an institutional wall of corruption, restricted practices, legal volatility, and macroeconomic mismanagement. The two shadow cases owe much to the Common Market for the health of their leading sectors – British financial services and Italian manufacturing.

The vectors of government I considered in the introduction – social learning, construction of legitimacy, and ideational leadership – provide the key layers in my approach centred on governance, halfway between policy and institutions. The French and German political economies are often characterised by salient opposing traits, including centralisation and federalism, dirigisme and legalism, and possibly the most salient in the Cold War years, the presence and lack of a Communist party. These traits are prominent in comparative studies of the two countries, but they are marginal to my argument. More accurately, they are not obstacles to the *technocratic convergence* that I describe. The fact that they do not undermine my model indicates that the expert state was an innovation at a deeper level of the democratic liberal infrastructure than are these traits.

In this concluding chapter, I will begin by arguing that the developments I highlighted in the two countries echo each other, and can be understood by a single analytical scheme. Social learning began with a battle of narratives and fed into convergent policy choices and institutional reforms. I will then consider how the initial 'big bang' changes morphed into a long-term mode of governance supported by extensive use of independent expertise for ideational leadership in equilibrium with democratic legitimation. In that sense, the Franco-German seeds brought about the rise of the European regulatory state. This balance of democracy and expertise is key to understanding the 21st-century contrasting developments in Western Europe, shedding lights on the recent populist tide, and on options to roll it back.

Two narratives

In the first half of the 20th century, the French and German economies were cartelised and protectionist, with highly conflictual industrial relations. These characteristics precipitated the interwar crisis of liberal democracy, leading to a plunge into totalitarianism east of the Rhine, and the 1940 post-defeat downfall into soft fascism west of it.

After the war, two major narratives about the 1930s calamities were available to aid social learning and adjustment – seen as a necessity by all sides. Both were rooted in separate visions of the democratic revolution and its consequences.

The first stressed the extent to what the prewar state lacked control over the economy. In this view, the Depression could have been avoided if blind market forces had been harnessed towards the common good, and if private actors had been prevented from using their resources to block democratic forces – the French left's frustration with *le mur de l'argent* and the German left's memory of business' complicity with the rise of Nazism. This narrative led to a belief in the necessity of economic planning, and to calls to strengthen democratic control over the private economy through nationalisations, which was rephrased in state weary Germany as 'socialisation'. Stabilising the economic cycle was a priority, through state-led coordination and provision of social security programmes to individuals. Consistent with this analysis was a shared, simple understanding of institutions: the more 'democratic', the better. This translated into a preference for omnipotent parliaments and an underspecified executive closely controlled by the assembly. These views prevailed amongst French republicans in the 1946 constituent assembly, and SPD members in the 1948 parliamentary council in Germany.

The second narrative emerged more slowly. It, too, was utilitarian, but it was primarily concerned with the interwar dysfunctions, and subsequent breakdown, of liberal democracy. It regarded post-1914 monetary mismanagement as a major cause of social and economic destabilisation. Protectionism was seen as an important, if not *the*, culprit of the Depression. Those holding this analysis after the war were keen on institutional reform that would clip the wings of parliament and strengthen the executive branch. They were impatient with the interwar cartelised capitalism and thought it urgent to modernise business in line with American practices. State initiative was necessary to favour investment and competition, notably with foreign producers, and was a path to higher productivity. Monetary stability was paramount. Intervention was required to ease and depoliticise industrial relations. This broadly neoliberal narrative prevailed with the Adenauer and Erhard coalition in Germany, and later with the Gaullist majority in France.

The debate between the first and second narratives came to recoup the left-right divide, but only partially. Major left figures were critical of the first narrative, including Léon Blum and Pierre Mendès-France. A massive conservative undercurrent, in Germany's CSU and in France's *Modérés*, with agrarian roots, was at best indifferent to the second narrative's reformist streak.

By the end of the war, the first narrative was hegemonic across Europe, even in Christian democratic parties like the CDU or the MRP, occupying the right wing of the political spectrum. Conservative thinkers like Schumpeter in 1942 and Hayek in 1944 believed that a shift to socialism was quite likely. From 1947, the tide turned however, thanks to a mixture of rationing fatigue, fear of the rising communist threat, and the re-emergence of small owners' interest groups. In France, a centrist coalition played distributional politics to stay in power, while in the UK, the Keynesian compromise underpinned a similar pragmatic approach.

The second narrative came to prevail only thanks to catastrophic circumstances. In Germany, the war economy had brought a unique chaos that opened up space for an occupier-appointed new leadership to deploy an idiosyncratic approach. The eventual but spectacular economic success of this path in Germany and in Italy, feeding the European economic boom, helped gain credibility for the second narrative in France in 1958 during another extra-constitutional episode. Governments' embrace of an explanatory model for the recent past's failures was the first step of social learning. Starting from analogue analysis, reformers remarkably converged on policies and institutional innovations.

Germany's 1948–49 ordoliberal policy package radically deviated from the international (and domestic) political consensus by prioritising price liberalisation and negotiated wage settlements, while making an intransigent commitment to opening trade that pressured actors into productive choices. Until 1957, France tried the opposite: controlling inflation by settling distributional claims through manipulation of prices, and modernising while leaving its economy shielded behind a quota wall. The 1958 policy shift represented a strategic U-Turn, as trade opening became the organising principle and prices were deindexed. Earlier attempts at inflation financing of investment were abandoned, as the government committed to orthodox financial management.

Twin republics

The German and French convergence on institutional reforms started with the curtailing of parliament's ability to censure governments. They also ended de facto 'parliamentary sovereignty' with new constitutional courts vetting legislation. The authority of heads of government – chancellor and president – was considerably reinforced as both countries embraced presidentialism. Presidentialism, along with changes in the electoral laws to fight fragmentation, led to emergence of Westminster-style political systems structured around a majority and an opposition – *le fait majoritaire*. Together these institutional reforms amounted to a significant increase in state ability to take decisions and implement them over time. Arguably, the postwar German and French states had conserved their secular high technical capability and capillary presence across their territories, but the interwar crisis of liberal democracy concerned governance and a lack of *capacity to rule*, rather than the performance of day-to-day state duties.

The Fifth Republic and the German Federal Republic were conceptually very different from either the ideal-type liberal state of the Humboldtian night-watchman variety or its Third Republic legalistic incarnation dedicated to a Durkheimian equilibrium, while remaining far from a socialist state as envisioned by the *résistants* or by the immediate postwar Labour and Social Democratic parties. The two republics aimed neither at society-wide wealth redistribution nor at centralised capital allocation. But they were not culturally conservative either: they displayed openness to innovation even at the cost of undermining existing private power structures, while embracing social democratic ideas on expanding the welfare state and public education.

The FRG had an ideological commitment to private property and the market that was far less pregnant in France where nationalism had a much higher profile as an ultimate mobilising goal. However, in both models, systematic state intervention was regarded as necessary both to adjust the domestic economy to the international environment and to discipline domestic actors. In both states, what came to be seen as the optimal economic arrangement – market driven, export – oriented East of the Rhine, productivist on its West bank – was the outcome of state action, not of laissez-faire. Both models were driven by strong state leadership that promoted ideas of economic growth as a necessary condition for social harmony. These ideas were made explicit in Germany with ordoliberalism's association with mercantilism (i.e. 'trade surpluses are good'), and were implicit in France, with the Gaullist mixture of national pride recovery and modernisation.

The Federal Republic and the Fifth Republic share another crucial characteristic: their extra-constitutional origins. These were mostly the result of circumstances rather than deliberate choice, but influenced the forms of the regimes that emerged. In June 1958, unelected General de Gaulle managed to obtain full powers from the French parliament because he was seen as the only acceptable alternative to a full-blown military coup d'état from the junta already in command in Algiers. Although he gained institutional endorsement, the episode clearly fell outside constitutional boundaries – the 3 June 1958 constitutional law had to change the terms of revision set by the 1946 constitution.[1] Then, if the 1958–59 part of the regime change was extra-constitutional, the 1962 part – the introduction of popular election of the president – was positively anti-constitutional (Duverger 1973, Raynaud 2017). In Germany, the 1949 Basic Law was written under military occupation and along with guidelines from occupiers, who legally created the new republic. Meanwhile, the economic reforms of 1948 and 1958 were enacted under special emergency powers without proper checks and balances.

The bodies drafting the constitutions and the groups preparing the reforms carried out their work without scrutiny from the press – the creation of the Pinay-Rueff committee was not even officially acknowledged. This contrasted sharply with the divisive public debates leading to the adoption of the Fourth Republic constitution in 1946. The two new Rhine republics were funded in a top-down process steered by decisive leaders with an agenda, announcing the shape of their future governance.

The two processes were eventually democratically endorsed in competitive elections in both countries, and in a referendum in France, but as massive packages without vetoing of individual components. From a systemic point of view, the clear advantage of this modus operandi is that it allowed a consistent set of policies to be tried over a sufficiently long period to produce results, which is precisely what the Fourth Republic was unable to deliver.

There are few episodes in major western democracies that could be compared to these two. The only example that springs to mind is Roosevelt's early presidency: there were extraordinary majorities in Congress, it bullied the Supreme Court, and undertook extensive economic reforms. The two founding chapters may well have been unique, unreproducible historical conjunctures combining an institutional void with ideologically consistent leadership. They certainly cast doubt over the possibility of radical political economy reform in 'normal' times. Even if effective, the top-down mode of change would be hard to codify – what would be the rules allowing a shift to extra-constitutionality? No such institutional shocks hit Britain and Italy, both of which emerged as the sick men of Europe by the 1970s, engulfed by inflationary distributional conflicts. Italy's constitution survived untouched the 1992 debacle of its political system.

In Germany and in France, the new institutions and political systems delivered stable governments with consistent parliamentary majorities, which increased their policies' credibility since opponents could not bank on a rapid turnover of political leadership. The transformation was carried out by political forces with various ideological agendas that were overtaken in the emergence of the expert state. The conservative urge of ordoliberals, seeking to preserve an imagined *Heimat* life, and the Gaullist pursuit of a lost national *grandeur*, both had political mobilising power, but the rising model was decisively unencumbered by these ambitions, even if they survived in partisan politics. The expert state was a structural solution to the modern democratic conundrum, irreducible to its centre-right godfathers – as testified by its later embrace by the German Social Democrats and the French Socialists.

The Janus faces of advanced democracy

The initial successes of the two sets of reforms, economic and institutional, favoured a development of governing practices that had initially been chosen for circumstantial reasons. The emergence of the expert state – the name I give to the governance under investigation here – was not ostensibly called for in the shared narrative or by the reformers who created the new institutions and drafted the new policies. Rather, the innovations that took place in the two big-bang sequences of 1948–49 and 1958, notably the role of non-partisan experts and active mobilisation of public opinion, took institutional form in a trial-and-error process. Three intricately linked aspects of the new governance need consideration: the rise of expertise and experts; the rise of independent state agencies; and ideational leadership.

The marginalisation of the political élite favoured recourse to outside advice. The 1948–49 and 1958 reform projects were prepared by committees of experts led by prominent economists. Independent intellectuals with an academic background, typically that of a social scientist with an economics major, like Jacques Rueff and Wilhelm Röpke, were called upon to justify political choices and thus became influential policy voices. The similar profile of Ludwig Erhard was eminently technocratic; although he joined the Christian Democrats, he kept his distance from partisan politics, leading his economics ministry in the name of 'objectivity' grounded in social science. In France, de Gaulle, who was a towering figure called in by a consensus of parties, profoundly renewed the leading political personnel by recruiting primarily from the best and brightest graduates of mandarinate schools rather than from the traditional political class.

The experts' status as such was partly due to their distance from partisan politics, often through their affiliation with independent institutions or their position in the upper civil service. But it was also a product of their allegiance to scientific approaches, often called 'objectivity' in Germany. Most of the time, expertise was *expertise of the economy*. The economic science on the Continent in the mid-20th century was yet to be captured by the narrow circle of economics PhDs. Many of the experts I discussed were seen as 'economists' even if their background was in law (in Germany) or engineering (in France). As the century approached its end, economists in the technical sense came to represent a very large proportion of policy experts populating regulation agencies. By all accounts, the intellectual underpinnings of the technocratic governance were to be found in economics.

The rise of autonomous administrative authorities, like the German central bank and the Plan, took place on a second stage. They founded their authority in the quality of their expertise and in their independence from elected politicians, thus dissipating suspicions of ulterior motives, with credibility reinforced by 'overlapping checking mechanisms' (Majone 1996).

Like the Basic Law, the Bank deutscher Länder was a product of Allied institution-making. But its early build-up of expertise, its skill in managing the new deutsche mark, and its fruitful partnering with the Erhard economic directorship, suited a continuous increase of its role in the Federal Republic institutional setting, implementing policy, and building a non-partisan constituency for it. Created under the Fourth Republic, the highly skilled Commissariat du Plan provided France with an institution performing a similar function of 'depoliticising' selected arguments; it became the template for technocratic governance under the Fifth Republic. By the 1960s, new independent voices, such as the German Council of Economic Experts and the European Commission, became essential fixtures of the institutional system, sustaining the consensus.

Policy reviews by international organisations have played a central part in the advent of expertise governance. Foreign advice was crucial in Ludwig Erhard's battle to keep his programme on track under non-partisan premises during the Korea War payment crisis. The advice of the European Payment Union given to the German government was a premiere that had a lasting posterity in the form of structural adjustment programmes of the International Monetary Funds and the World Bank, and country peer reviews. The latter approach was to be institutionalised in the regular reports of the OEEC and the OECD, and became a structural feature of the European Economic Community (later, the European Union). Today, EU member budgets are reviewed by the Commission before being submitted to national parliaments.

The institutions I have singled out are each distinctive and would not fit into an indiscriminate quantitative category. That's why economic research on central bank independence has yielded poor insights. The autonomy of these agencies from elected officials is appreciable on a multiple scale matrix. They have a history, meaning they are path dependant. Their degree of independence is often the result of the dedicated strategy chosen by the organisation. 'Expert' leaders – like Wilhelm Vocke from the Bank deutscher Länder or Jean Monnet from the Plan and the European Coal and Steel Community – built their organisations' reputations with elite and public opinion, opening a whole new policy space. I also want to stress that autonomous institutions participate in the expert state governance *together* with other agencies, the political leadership, and an argumentative frame. Under the Fourth Republic, the treasury and the central bank enjoyed a high degree of autonomy (which they wasted in fighting each other).

Expertise and the institutions maintaining it provided the support for state ideational leadership. The concept sounds as straightforward as simply winning policy battles through ideas. But this volume documents a much more complex process where the issue is as much about the frame as about the precise content, and where consistency, resources, legitimacy, and argumentative strategy count enormously. The instances of effective ideational leadership I discussed weave together common beliefs, selected facts, and political arguments. I show that transformations that could have been regarded as the end result of blind social and cultural forces – like the French agriculture 180° shift from custodian of tradition to global production powerhouse – were products of deliberate political strategies.

In Germany and France, a consensus on major policy orientations was proactively formed by the state. Over years, governmental and institutional figures proposed a coherent frame of analysis for the economic policy in a steady and consistent way. The policy goals advanced by the state – export and productivity growth – were compatible with core opposition aspirations. The conflict was over the means towards those ends – such means as wage increases in line with productivity, or price deindexing. To persuade public opinion of the latter, economic analysis was mobilised, but it is crucial that such analysis stemmed from high-resources institutions whose political neutrality was accepted by most of the societal groups. Credibility was also enhanced by the expert profile of ministers and officials advocating policy. Governments also took confrontational measures coherent with their narratives, which constrained opponents to engage with policy.

Crucially, ideational leadership was associated with state interventions that helped steer groups towards compromise by lifting moderate factions. Thus, in Germany, the 'realists' of the main trade union federation, DGB, were strengthened by the laws on co-determination. In France, the agriculture ministry concluded an alliance with reformists in the farmers' union, leading them to eventually take it over.

The contrasting tales of the two countries' central banks in the 1950s illustrate how ideational leadership can work or fail. The Banque de France agitated against public spending – from which everybody felt benefits – while urging the protection of the value of savings, which can easily be dismissed as bourgeois interest. The BdF's governor's grand standing against prime ministers was viewed as partisan rather than public spirited. The bank had no significant economic research operation of its own. Conversely, the BdL's independence – as seen in its president's policy fights with the centre-right chancellor – and its expertise, which was displayed every time its data was quoted in public debates, powerfully sustained its authority. It pitched to Germans a worldview in which inflation was the main threat to their standard of living. The German bank shaped the Deutschland AG economic trajectory for decades, whereas the French bank's policy legacy is meagre.

A parallel path was followed in France starting in 1958. Ministers with light partisan affiliations and high technical expertise gradually enrolled farmers, shop owners, and artisans in modernisation programmes. Labour unions were much more of a challenge to address due to their fragmentation and the leading role of Communist CGT. These obstacles were overcome in two ways. First, the discourse on productivity was essential in generating consensus about work and business adjustment to new technologies and international competition. From this perspective, the Plan was primarily a story-telling machine for building a national commitment to productivity growth. At firm level, and especially in militant state-owned enterprises, high-profile technological exploits were critical in generating commitment from the workforce. Second, the French state deployed interventionist policies favouring the reallocation of resources to higher productivity firms, including sectoral 'plans' and economy-wide programmes like a high minimum wage.

The combined rise of experts, independent institutions, and ideational leadership laid the groundwork for technocratic governance. Such governance is often seen legalistically, as an association of rules and procedures. But I have treated it as designating the manner of governmental action; by implication, the same institutions could support different modes of governance over time. Thus, in this view, technocracy is not opposed to democracy. Rather, 'technocracy' is a mode of governance, and 'democracy' a regime.

This governance mutation must be seen historically. In the liberal state formed (in part) by the industrial revolution, distributional claims were confined to private disputes, and the gold standard was treated as an undiscussed a priori category. These principles came to be frontally challenged by the rise of democracy, and the related belief that a nation ought to control its material destiny. The First World War and its huge blood sacrifice brought a triumph of the democratic idea on all sides. When the Great Depression struck, the last 19th-century tenets crumbled, and active manipulation of money and trade spread across the industrialised world. The Second World War acted on the failure of the liberal programme.

In the expert state I described, technocratic governance arose as a counterweight to the democratically elected government after the considerable widening of the scope of its responsibilities in the two world wars and the Depression. As it was argued at the time of the writing of the German Basic Law, scientific knowledge, or 'objectivity', was seen as a bulwark against the possible excesses of the demos. As a moderating force, expertise could be compared to the classical ideal of the second chamber of parliament.

The postwar expert state was certainly not a return to pre-1914 arrangements: it did not put the money genie back in the gold bottle, and it did not re-enchant politics. On the contrary, it resolved the conflict between the democratic principle and private-initiative economic life by assuming responsibility for outcomes, transforming the status of the market economy into an instrument of collective wellbeing. Remarkably, the public control over the economy called for by progressives was conceded, or surreptitiously won. In my view, the neoliberalism of the 1950s and 1960s was not a 'reaction' against the end-of-war aspirations but their fulfilment; policy was to be subjected to 'objective' scientific guidance of economics. This was the key innovation.

The expert state or technocratic republic is an adjustment of the 'country systems', a mutation of the European liberal state. Democracy went from being, as it was in the 19th century, primarily about electing representatives who would, in turn, select an executive committee to act as a government into being, in the last century, a direct popular choice of the chief executive of the state, accountable to the whole electorate. The head of government gained considerable authority to drive legislation in parliament and to commit the state in deals with societal groups. Economic management was embedded into the institutional system. Growth of material wellbeing became a state duty and the market economy changed status: it went from being a private domain to which one deferred to, to being an instrument to be nurtured. From the onset, the European Economic Community's task was to *create* markets in such a way as to spread the wealth they generated.

Hence, if this book had to be boiled down to a single takeaway, it would be the Janus-like dualism of advanced liberal democracy, with a face directed at popular legitimacy and another at scientific endorsement. The population's wellbeing provides the final end of political economy. Conversely, only an autonomous public policy machine can produce the credible rationales mobilising consent. Capitalism was instrumentalised by democracy.

To put it in other words, technocratic republics do not abolish the tension between expertise and democracy. But they use that tension to propel each, whereby each side checks and balances the other. This tension is between two principles, not between bundles of interests, even less so between groups. The constant challenge of technocratic-republican governance is to deploy and build support for expert-endorsed policies that might be opposed by significant parts of public opinion – to this there is literally no alternative.[2]

It is the postwar emergence of this equilibrium between democracy and expertise in Germany and France that explains the two countries' successful refashioning of social interests in order to deliver sustainable egalitarian productivity growth. The confrontation with contemporary Italy and Britain clearly highlights the German and French states' superior capacity to lead society, at least insofar as utilitarian goals are desired.

Let me now turn to discussing whether my findings for the postwar era help to understand 21st-century developments in France, Germany, and major western democracies.

21st-century expert governance

Going back to the economic trends considered in Chapter 1, it is worth stressing that the high productivity 'country systems' that emerged in the 1950s and 1960s are still effective. To be sure, output per hour worked increased faster in the United States than in other G7 countries during most of the 1990s and early 2000s, translating into a relative decline for France and Germany. But, importantly, the two countries improved their results compared to Britain and Italy, and their gap with the US shrank in the 2010s (Figure 1.2). The German economy has delivered particularly high growth thanks to a lucky fit between core competitive advantages in key industrial sectors and booming demand from China, masking some persistent issues like underinvestment. If the Covid pandemic can be taken as a full-scale test of country systems, I note that France was much more successful in protecting the life of its inhabitants than almost all its large Western peers; this, while minimising school closures.[3]

In Germany and France, in accord with the postwar institutional innovations, the democratic process is continuously focussed on the selection of the head of executive power, who is directly accountable to the population for his actions, thus side-lining parliaments (unlike, say, in Italy). The effectiveness of such mechanisms to foster government stability is now more apparent due to the fragmentation of the party systems. Most importantly, the shift of governance from political to technical instances has grown in scale with the development of the European Union's institutions and the integration of national bureaucracies in a unified European governance and legal system.

However, if technocratic republican governance is still operational, its capacity to resolve the tension between democracy and effectiveness is increasingly tested by the twin rise of nationalism and populism. This challenge has proved much more potent in France than in Germany, possibly because of a weaker French ideational leadership that is blameable on shakier checks and balances.

The divergence between the two countries can be explored by looking at their labour market reforms in the 21st century. Since the late 1980s, at any point in the economic cycle, France has been suffering from unemployment rates higher than in most OECD countries. Germany experienced a smaller increase in the 1980s but its rate deteriorated in the 1990s, notably in the new eastern Länder. Germany's unemployment rate eventually peaked in 2005 at 11.3%, when France's was 8.9%, Italy's 7.7% (skewed towards the South) and Britain's 4.8%. France's unemployment tended to be concentrated amongst young adults, whereas Germany's was primarily associated to low education.[4]

After its re-election in 2002, the Social Democratic-led government of Gerhard Schröder launched a labour reform. It started with the creation of a commission headed by a Volkswagen manager who had been appointed to the company board by IG Metall, Peter Hartz. His name came to be associated with the programme, which included cutting the benefits to those who had been unemployed in the long term with the hope that this would incentivise their returning to the labour market. Together, the measures amounted to a significant boost to the low-wage, 'mini-job' segment. This accelerated the 'dualisation' of the labour market, which was endorsed by the major unions (Thelen 2014). Part of the endorsement came from unionised workers of the export sector (dominating the labour movement), who enjoyed low costs of services, which balanced out the slow growth in their wages (Bacarro and Pontusson 2016).

The SPD paid a hefty price for the reforms. It lost the 2005 elections, its left wing split off and went on to join the former eastern Communists in *Die Linke*. Chancellor Schröder may have overweighted the role of expertise while neglecting to obtain an electoral mandate for reform, having campaigned for its 2002 re-election mostly by taking a stand against American plans to invade Iraq.

But Hartz worked. Starting in 2005, Germany's employment has improved steadily, notably in higher age groups. The export boom was certainly a factor, but there is consensus on the positive impact of the revamped labour market on the rate of labour participation. Some authors, however, relativise the effect of the reforms and highlight the increased decentralisation of wage bargaining (Dustmann et al. 2014). One major drawback of dualisation has been a widening of revenue distribution as testified by the increase in the Gini coefficient, which however remains at a par with France, much below peers (Figure 1.4).

My argument here is to stress the German state's capacity to decide and drive a deep reform of key social arrangements, despite significant opposition. The whole sequence of an investigation commission led by an expert credible to unions and employers, and extensive parliamentary debates, helped build support for the measures. The reforms' underlying analysis had been strongly put forward by the bipartisan Council of Economic Experts (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen, Lage 2002). The broader Agenda 2010 package pushed by the Schröder government was presented as consistent with the Lisbon Agenda adopted by the European Council in 2000.

In France, centre-right governments tried twice to lower the minimum wage for workers under 26 years old, the age group in which unemployment is highest. In both cases, in 1994 and 2006, the attempt was met with wide street demonstrations led by university students. Governments eventually responded by cancelling the laws and regulations already enacted. In both cases, *la rue* won over the republic. The students were unlikely to be affected by measures designed to help unskilled youth join the labour market; the confrontation was driven by ideology rather than by groups fighting for their interests. Governments were caught on the defensive, lacking any electoral mandate to reform labour law. Further, the upfront expert work had a much lower profile and less credibility than did the Haartz programme.

Under the same settings, in 2014, the Socialist government of François Hollande enacted labour reforms despite strong street opposition. Fear of such opposition had determined the limited scope of the project. Nevertheless, the Socialist Party suffered at the 2017 elections even more than the SPD had in 2005. More comprehensive labour changes, including a revamp of the job placement system, were introduced by the new president Emmanuel Macron's government in 2017. The programme gained some public acceptance as it had been included in Macron's earlier electoral manifesto. This 'it was on my platform' approach underpins the Macron reformist effort, but relying on a democratic mandate amounts to only half of the necessary endorsement. What the electors committed to in a specific competitive contest is always open to interpretation. Moreover, it does not entail acceptance from social groups. All these issues re-emerged with the 2023 pension reform, despite its modest scope.

The contrast between France and Germany is also sharp when considering austerity policies. In the wake of the Agenda 2010 programme, Germany enacted the balanced-budget amendment or *Schuldenbremse* (dubbed 'debt-brake'), a 2009 constitutional amendment that capped federal budget deficits at 0.35% of GDP. This demonstrated the continued systemic capacity to build social consensus on a policy frame. Again, the reform benefitted from bipartisan support and active backing from the economic 'experts' and the Bundesbank. Simplified narratives of interwar inflation that spread in the 1950s battles around the central bank status were again called upon.

The fear of public and private indebtedness mixed up with a cult of current account surpluses has been derided as a confusion of economics and morals.[5] But myth-making is exactly the point of consensus building through ideational leadership. In this case, Germany has achieved public acceptance of severe constraints on public borrowing. If one accepts the assumption that social demands on the state are inherently biased towards spending, then the *Schuldenbremse* represents a powerful example of the refashioning of popular preferences.

This German debt phobia consensus has serious drawbacks, however. Returns on a current account surplus invested abroad may well be negative and the country's infrastructure suffers (Fratzscher 2018, Hünnekes et al. 2019). Berlin's stinginess has also undermined the post-2008 EU recovery, against Germany's best long-term interests. The legal interpretation of the debt-brake was loosened markedly in the wake of the 2020 pandemic and in support of Ukraine, in moves ultimately endorsed by all government parties, displaying a healthy social learning process. But a November 2023 ruling from the Constitutional Court has pushed back the issue to parliament and political decision-making. All in all the depolitisation of the deficit through constitutional fiscal rules appears to be in jeopardy, and upcoming arbitrages between taxation, investment and military spending will test the German governance model.

As exemplified by the long-delayed reform of the labour market, in France, over the more recent period, controversial domestic changes have proved much more challenging to deliver than in Germany. One problem, which started under the François Mitterrand presidency in the early 1980s and has persisted since, is the perverse use of the 'European argument' to justify difficult domestic political choices: unpopular policies are presented as either needed to support European integration or 'requested' by Brussels (even if they have been endorsed by France in the European Council). This approach was repeatedly used to justify 'austerity' measures, often alongside government statements arguing against the very principles on which the European rule was set. This dynamic has been especially acute in the trade area where governments have frequently taken protectionist stands and often openly blamed 'Europe' for international competition alleged to be responsible for the closure of industrial sites – an issue French media are especially irritable about.

The discrepancy between policies and rhetoric blew up in the face of the French government and establishment in the 2005 referendum on the European Constitution: 55% voted against it, killing the project. It is also probably one key reason for the growing popularity of extremist parties. In the first run of the 2002 presidential election, anti-European populists of left and right won over 40% of votes; by the 2022 election, they gathered over 60%. I see this as reflecting a massive failure of effective ideational leadership.

French governments have lacked a consistent narrative that would support their roadmap, and the governance system has failed to groom respected independent expert voices that would have revived the influence the Plan had up to the 1970s. The weakening of civil society constitutes an aggravating issue, particularly in France. Trade unions are vanishing from the private sector, and even in the public sector activism has dried up, replaced by bureaucracies financed by the state and employers (Adolfatto 2019). Issue-oriented, membership-thin associations – typically state-founded – dominate the public conversation on numerous policy issues by pushing costly narrow agendas (including in environment protection, housing and health). More thoughtful public agencies would have sought alliances with, and influence on, these public opinion actors along the lines of the Gaullist usage of *promotion sociale*.

As illustrated by the appointment of a raft of expert ministers, the Macron programme is clearly an attempt to revive the technocratic software on which governments ran under the likes of Debré and Giscard, featuring today a proactive defence of European integration and industrial policy, alongside welfare state modernisation along Nordic lines. But the French government is struggling to broadcast a coherent message because it lacks political, social, and intellectual hardware built into its institutions.

The imperial presidency model appears to be much to blame, as France alone in Europe has a head of state that also leads the government and the majority, crushing the political space of the cabinet and parliament under the weight of his national elective mandate and accountability. Criminalisation of political responsibility (i.e. when ministers account for their administration in courts rather than in parliament) is a further sign of the malfunctioning of representative democracy.[6] The president has repeatedly fallen back on mayors as his only credible available allies capable of rallying support. The drawbacks of a president-led rather than prime minister-led executive branch are becoming more apparent. Surprisingly, nobody seeks to learn from foreign constitutions featuring an elected president alongside the prime minister, where the latter is the effective head of government (as in Finland and Portugal). A separate but probably linked issue regards the low public trust in institutions measured in France (Algan et al. 2012). Ultimately, the fate of this Fifth Republic relaunch may be determined by the international economic cycle: slightly faster growth would definitely help, a new recession could be fatal.

The European regulatory state and populism

Besides providing a useful analytical grid to understand the relative performance of Germany, France, Italy, and the UK this century, the technocratic-republic analytical frame is consistent with broader trends of advanced economies governance.

The process of internationalisation of economic rules through treaties and organisations has been much maligned. Many regard the global and European trade and financial infrastructure as the expression of a supra-national coordination of interests of capital owners. Others suggest that the rise of the international economic legal order is fundamentally at odds with the national democratic state (Slobodian 2019). Besides proposing no alternative to rule-based international cooperation (one is being tested by Russia in Ukraine as these lines are written), these critics often miss the very different nature of the European Union: not only is it embedded in democratic polities (see below), but it also has a rule-making remit.

The growth of regulation is a defining characteristic of advanced economies. To my knowledge, there is no example of a country going in the opposite direction. To take an illustration, the total pages published in the US Code of federal regulations have grown twenty-fold between 1950 and 2016.[7] 'Compliance' has emerged as a core corporate function (Gaudemet 2016). The causal factors are numerous, including the rise in consumer protection and environmental concerns, alongside the development of the financial sector. Also, contrary to a superficial reading of the neoliberal policy wave initiated in the 1970s, privatisation and sectorial 'liberalisation' generated a massive *increase* in regulation (Levi-Faur et al. 2005). Ideologically biased research has often focussed on 'the cost' of regulation, but the consensus is shifting (Goldschlag and Tabarrok 2018, Parker and Kirkpatrick 2012). A highly productive economy thrives through regulation. The British meme about over-regulation and the European 'superstate', to which Boris

Johnson contributed as a journalist in the early 1990s, can be regarded as a very effective case of modern myth-making.

The rise of regulation has shifted the focus of the international trade framework away from tariffs, towards product and services standards, labour rights, taxation, investor protection and concentration rules. This is one reason for the growth of bilateral treaties and the decline of the World Trade Organization. In Europe, the legal infrastructure around trade has expanded and practically merged with other regulatory matters.[8] Hence, now trade issues are often domestic regulatory issues and vice versa. The establishment of the 1992 European single market was driven by the creation of a layer of 'harmonised' regulation. The struggle to put into practice the 2016 British decision to exit the European Union revealed the difficulty of escaping the globalisation of regulation: the country can no more contribute to it as an EU member, and will have to passively submit to it as a lone sub-scale actor.

As part of this flourishing of regulation, the autonomous regulatory agencies, whose initial introduction in Europe I have documented, have drastically increased. The 'depolitisation' of trade and regulatory issues that was initiated in the 1950s has continued unabated with a dramatic deepening of the relationship between state agencies and social groups, ranging from industries to local communities and sectoral interest representatives. Consultation procedures prior to, and in assessment of, regulation have multiplied. Regulation was further extended with the growth of judicial review and litigation, notably in administrative courts.

The regulatory ecosystem that has emerged in the European Union has proved particularly effective. Thomas Philippon's noted book (2019) argues that rivalry between EU states shields regulators from political influence, leaving them with extended powers. This approach has been especially successful in antitrust policy, leading to an economy more competitive in Europe than in the US, delivering higher consumer welfare. Philippon also points to the way European regulatory authorities are relatively insulated from lobbying through political contributions because they are more remote from parliament than their US counterparts. This relative cushioning of technocratic power from parliamentary influence can be traced back to the postwar reforms in Germany and France that I have documented.

The European regulatory state has also reshaped monetary policy. Back in the *Trente Glorieuses* monetary policy tried to balance distributional claims and price inflation. This paradigm was undermined in the 1970s, which led to the neoliberal policy turn. Since then, organised labour has gone through a severe decline in the private sector. In parallel, states like France aligned their monetary policy with Germany's to anchor lower inflation and interest rates. This process led to the introduction of the euro in 1999. This was one of the most radical steps in expert-based governance, which neutralised all political battles around money creation. Although less spectacular, the monetary union was also significant for German governance since policy was definitely externalised, whereas the pre-euro Bundesbank, even though autonomous, was operating in close cooperation with the political leadership.

By virtue of the 1992 Maastricht Treaty creating the monetary union, EU member states have agreed to set limits on their national budget deficits, which have since become the parameter of a distributional battle that was once ensured by the rate of inflation. The supply of money has remained a focal point of social tension, but where it was once manifest in price and wage settlements, it is now about the provision of public services and 'austerity'. The euro sovereign debt crisis deepened in the early 2010s when European governments, already running substantial deficits (that had been incurred to fight the earlier banking crisis), were too worried about their credit ratings to consider new fiscal stimuli. The European Central Bank became the main policy actor by launching a programme of buying government bonds in an audacious interpretation of its mandate that was eventually validated by the German Constitutional Court.

The euro project marked a dramatic acceleration of the expert governance bandwagon – and its derailment. Many Italian leaders hoped that external constraints, in an exercise of macro policy externalisation, would force the country to reform. Parts of the French leadership had similar expectations. This approach generated the toxic political rhetoric I flagged above, according to which 'reform was necessary to meet the requirements of the European Union', which was translated into public opinion as 'EU-mandated austerity'. Government leaders were only too happy to let the opposition attack Brussels instead of them. The less scrupulous, starting with the British Conservatives, would grow (flammable) political capital by attacking the EU directly. Thus, governments stopped using the non-partisan institutions as tools for consensus building, setting the ground for the dramatic rise of populism in the 2010s.

Today the European regulatory state embodies the expert counterweight to democracy. European Union institutions and rules are tightly intertwined with domestic ones: through the judiciary, whose ultimate court of appeal is in an EU tribunal, and through standard setting bodies (notably for food, medicine, finance), competition supervision or monetary affairs. The loss of equilibrium between democracy and expert rule is behind the anti-European upsurge in countries like Britain, France, and Italy. The reaction indicates the failure of domestic democratic processes rather than the shortcomings of the expert state.

Populism conserved its momentum in France and Italy despite the 2012 turnabout of the European Central Bank, whose bonds buying programme radically eased market pressures on indebted governments and unsettled the 'Brussels' austerity diktat' rationale. The 2020 Covid pandemic brought a further increase in the central bank stimulus, and the launch of an unprecedented EU debt-financed recovery plan. Both initiatives helped governments generously support the economy and families during the health emergency.

The very size of this support and the extent of the countries' pledges, however, are going to severely test the model. Implementation of the recovery plan is conditional on national governments carrying reform commitments monitored by the Brussels Commission. Will national governments find the political capital to carry unpopular reforms? Will they manage to associate the necessity of new neoliberal changes in labour or pension rules with the growth potential the recovery programme is expected to unlock in green energy and digital technologies? On the positive side, the Italian populists that gained power under Giorgia Meloni appear more keen to gain access to the EU founds than to challenge the Union's legitimacy – which provides some hope for taming the post-fascist beast. The appalling and frightening Russian invasion of Ukraine has apparently reinforced a Europe-wide sentiment of continental solidarity.

However, much caution is warranted. The careless Brussels blaming game of the past has raised the bar. The populist forces are now much more audible and probably credible than they were before the financial crisis, and social media has gifted them a fire power previously unthinkable for extremists. The first round of the 2022 French presidential elections witnessed a surge of demagogic rhetoric despite the huge pandemic state giveaways and the reality shock administered by the attack on Ukraine. The effort needed to generate consensus for difficult reforms may be much greater today because of the earlier loss of credibility. Emmanuel Macron's gentle postponement of pension age from 62 to 64 years old left him severely bruised. In fact, no major European government has asked citizens for tangible, significant efforts in support of Ukrainians, let alone Churchillian sacrifices.

The political travails in France and Italy echo the rise of populism across the western world, which thrives on constructing expertise as the enemy of democracy. The leaders of new forces appeal to the will of the people against decisions taken by expert bureaucracies, of which Washington, the European Central Bank, and the ENA have become icons. This is often framed as an opposition between a national 'people' and international organisations, as in American hostility to the United Nations or the World Trade Organization and, in Europe, against the European Union – one of the 'alphabet soup' of organisations denounced by expert bashing Brexiteer Michael Gove.[9] A popular and rarely debunked pseudo-sociological narrative pitches an unfathomable 'elite' class of experts against everybody else (Deneen 2018, Gurri 2018). Radical opposition to liberalism that appeals to nationalism *and* direct democracy are consistent with historical precedents (Todd 2017).

The prevalent liberal response to populism turns, in many instances, into its validation as it stresses democratic 'deficit' and urges increased voter participation in the deliberative process.[10] Besides its romantic appeal to a fabled popular will, this approach tends to validate the idea of state extraneity to society. That 'the people' could have an identifiable collective interest different from the state's underlies the vision of a state allocating entitlements to a never-ending procession of claimants. This was at the core of both the gilets jaunes riots *and* comments about them. The most conceptually challenging claim concerns a rise in buying power engineered by taxes, subsidies, and regulation, unrelated to productivity growth.[11]

But the liberals' somewhat reflexive call for 'more democracy' is understandable: discussion of the compatibility of the headline principles of western democracy with actual rule-making by experts has been carefully avoided by political leaders and state institutions since the emergence of the technocratic republic. This type of state, discussed by Foucault, is legitimised by performance rather than by theory; it lacks a normative frame. The hierarchy of second-order goals that have prevailed in Europe – like low inflation, competitiveness, and productivity growth – are backed by data and expert views in a somewhat circular fashion, while the democratic aspiration is channelled towards the choosing of a national leader. This tacit balance has worked in part because of economic growth. Here, the headline rhetoric of democracy and transparency government should be akin to the 'mobilization of bias' of the 1960 French plans according to Hall (1986): its point is not to make decision-making transparent, but to involve social groups in it.

The outburst of populism may indicate that this is no longer sustainable, and that what are needed to shore up the legitimacy of the system is a new form of consensus building that explicitly embraces expertise, as well as stirring up new groupings in civil society to offset the decline of labour-based organisations. Tocqueville was optimistic about the rise of democracy in America because it was channelled by the moral discipline of religion. During the last century, science may have taken the place of religion as the only transcendent principle balancing democracy. Democracy has yet to acknowledge it.

Notes

1 The parliamentary vote to give full powers to de Gaulle and the mandate for constitutional changes echoed the July 1940 vote to grant full constitutional powers to Marshal Pétain, although the latter did not include provisions for the safeguard of a liberal, democratic regime that were included in the June 1958 constitutional law. Both events also recalled the eighteenth Brumaire elevation to power of Napoleon Bonaparte in a 'heroic' model explored by Hoffmann (1963).

2 This tension was debated almost a hundred years ago by Walter Lippmann and John Deway in the wake of the expansion of the American federal government in the Progressive Era. Friedman (2019) delivers a thoroughgoing critique of technocracy's capacity to understand and manage complex social phenomenon, unveiling the challenge that would present a *principled* defence of expert rulings – as opposed to my tentative *consequential* argument.

3 According to *The Economist*, excess deaths per 100,000 inhabitants between March 2020 and June/July 2023 were 225 in France, 313 in Germany, 363 in Britain, 400 in the United States, and 477 in Italy. Amongst G7 nations, only Canada and Japan did better than France with, respectively, 159 and 178 deaths per 100,000 inhabitants (https://www.economist.com/graphic-detail/coronavirus-excess-deaths-tracker, 3/9/23). France also closed its schools for shorter periods than any G7 member (including most big US states), according to

UNESCO data (https://covid19.uis.unesco.org/global-monitoring-school-closures-covid19/, accessed 3/9/23). In 2020 and 2021 French schools were closed for significantly less time than in England, Germany, Italy, the Netherlands, and Spain (OECD 2022).

4 From the OECD database, accessed on 15 November 2019.

5 As noted by Mario Monti in *The New Yorker*, 22 June 2015.

6 This development was initiated in Italy.

7 regulatorystudies.columbian.gwu.edu/reg-stats (3/9/23), see also Dawson and Seater (2008).

8 Ironically, these developments were anticipated by 1950s French arguments against the Common Market. Opponents were right: commercial integration called for joint social and economic policy-making.

9 Sky News, 3rd June 2016.

10 Gérald Bronner (2013) argues that public consultations are often the fuel helping the spread of superstitions about new infrastructures.

11 Leadership failures to frame societal beliefs have not been exclusive to France. The introduction of euro notes and coins in 2002 led to a widespread erroneous belief about an acceleration of retail price inflation across Europe (Moati and Rochefort 2008), and played a part in the rise of populism. Where the French leadership proved especially careless was in the 2008 presidential election when Nicolas Sarkozy argued for a higher buying power, implicitly presented as a way to offset the mythical euro-induced inflation. The buying power argument resurfaced during the 2018–19 winter gilets jaunes crisis, and again in the 2022 presidential election, from President Macron, very irresponsibly so in my view. In all cases, leaders failed to link a rise in living standards to an increase in productivity, and felt instead into distributional gimmickry, ultimately legitimising populist politics.

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