SOCIALISM VERSUS LIBERALISM:

GLOBALIZATION'S IMPACT ON THE SOCIAL AND BUSINESS SYSTEMS IN FRANCE

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Introduction

Since France began privatizing state-owned enterprises in 1986, the country has undergone profound shifts away from its reliance on the government, a source of subsidies, and from the banking system, the traditional source of debt lending, towards dependence upon international capital markets as a means of satisfying their financing needs. This change, however, has introduced foreign investors into the French business structure and, through the permeation of their foreign business practices, is changing long standing French traditions concerning corporate governance. It is also influencing the role of the firm relative to that of the social system in providing for the retirement and well being of workers. How is this change affecting the French's regard for globalization? How does their culture and history influence their views on this subject? What is the future of French business, and what will become of the social safety net that has existed throughout the 5th Republic? Will the French be forced to conform to the liberal American model?

In this thesis, I will explore the relationship between the globalization of business and conflicts in the French social system to conclude whether or not France will abandon its current system for the liberal model. First, I will present the differing opinions regarding the globalization debate. These will include the socialist and the liberal perspectives, along with a third specifically related to the emergence of the Anglo-Saxon institutional investor (for this paper, "Anglo-Saxon" nations will be defined as the US and the UK). Second, I will explore current issues that are sources of conflict between business and social policy. It is my goal in doing this to understand the movement towards liberalism and the role that globalization has had in this shift. In particular, I will examine the relationship between the social system, the increase in foreign shareholders, and the proliferation of mergers and acquisitions within France. Third, I will consider cultural and historical factors influencing French attitudes towards globalization to show whether they aid or block the liberal movement. Among these will be attitudes associated with the social system and those linked to business. Finally, I will examine the uniqueness or commonality of the French experience by looking at Germany as a point of comparison.

1. Perspectives on Globalization: Bourdieu, Madelin, and Izraelewicz

The spectrum of opinion currently present in France concerning globalization can be seen in the varying opinions of Pierre Bourdieu, a prominent sociologist; Alain Madelin, the former Minister of Finance and Economics (1995) and the head of the Liberal Democratic Party; and Erik Izraelewicz, the Editor and Chief of the daily, center-left newspaper, *Le Monde*. It should be noted that, while this represents a cross section of public opinion (with views based in the left, the right, and the center of the political strata), it is not an exhaustive list of all opinions present in France; that could be a thesis in itself.

Pierre Bourdieu

Bourdieu, a socialist, represents the "leftist" view present in current French society. As such, he promotes the collective interests of society over those of the individual and presents the point of view that the current economic order is a reflection of the "neoliberal utopia," reflected in a political problem that presents itself as a scientific reality. He believes that liberalism legitimizes itself through "a scientific description of reality," built up by "orienting the economic choices of those who dominate economic relationships," thereby "creating conditions where liberal theory can be realized and function through a program of

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methodical destruction of collectivism." Furthermore, neoliberalism draws its social acceptability and perceived inevitability via the political and economic interests of those whose interests it expresses, namely, economists, business executives, and politicians who promote liberal concerns.

The problem with neoliberalism, as Bourdieu sees it, is that it operates by separating the economic and social realities and tries to implement an economic system that is highly theoretical. Social realities are then presented as constraints on the economy (thus interrupting the ability of the "free market" to function in its most efficient, and, liberals would argue, optimal manner). The resulting society, he believes, embodies the Darwinian principle of "survival of the fittest" and creates insecurities based on the inequality of people within the system and on the instabilities related to employment. This keeps society subservient and in compliance with the economically and politically dominant group's wishes. For example, an unemployed labor force, which is ready to replace those who have jobs, keeps the employed subservient to those with dominant economic interests (corporations and managers). This leads to a destruction of collective state-run institutions (which, he feels, counteract liberalism) and a rise in individualism which he refers to a the "cult of the winner." The immediate visible effects of this are an increase in poverty within advanced economies and in income disparities.

Instead, Bourdieu argues for a collective society typical of the "old order" in France, where reserves of social capital protected the social order. This structure is still present in that country, though it is dwindling; the social order, he believes, is prevented from dissolving into chaos by the existing institutions of the traditional social system. As this system is being dismantled due to the rise of globalization and the need to compete, the idea of social solidarity is being threatened. Hence, Bourdieu believes the solution is to fight the movement towards the liberal model by constructing a new social order. This will "encourage rational pursuit of ends collectively arrived at and ratified."[1]

Bourdieu also has strong opinions regarding the influence of neoliberalism as it relates to the changing role of the state and the growth of globalization. "Globalization is a myth used in the battle against the welfare state…European workers are told they must compete with the least favored workers in the rest of the world."[2] He cites workers operating in countries with no minimum wage, child labor, and twelve-hour workdays as proof of his point; why would the French want to compete with this? They do so because it drives the profitability at the core of the liberal model, which is controlled by those who profit from it. The globalization of business, he believes, is largely responsible for the implementation of the liberal model, a model that has long existed in the US but is beginning to gain support in France as the state acquires autonomy from the social and economic forces present within society.[3] This allows the state bureaucracy to inflict the will of dominant groups that are in control economic relationships. "The state nobility preaches the withering away of the state and the undivided reign of the market and the consumer, the commercial substitute for the citizen, has kidnapped the state: it has made the public good a private good, has made the 'public thing', *res publica*, the Republic, its own thing."[4] Bourdieu believes that the result of this shift is a social separation driven by politics, a separation that has long existed in the US but which is emerging in Europe and which can be seen in the state's abandonment of areas of social policy. The resulting abandonment causes enormous suffering throughout society,

[1] Pierre Bourdieu, "Utopia of Endless Exploitation; the Essence of Neoliberalism," Le Monde diplomatique, trans. Jeremy J. Shapiro, n. pag., online, Internet: www.monde-diplomatique.fr, December 1998.
[2] Pierre Bourdieu, Acts of Resistance: Against the Tyranny of the Market, trans. Richard Nice (New York: The New Press, 1998) 34.

not only for the impoverished. This explains why, in nations where the state has traditionally played a prominent role, the resistance to the neoliberal doctrine is much greater; citizens within such nation-states have a preconceived idea of the state that often doesn't match the changing reality.[5]

The solution to the current global quagmire is, in Bourdieu's opinion, a shift in the current perception of the role of the market versus that of the state. "It is taken for granted that maximum growth, productivity, and competitiveness are the ultimate and sole goal of human actions, or that economic forces cannot be resisted…there is a presupposition that there is a radical separation between the economic and the social, the latter being abandoned for sociologists as a reject."[6] Instead, Bourdieu advocates accounting for the social costs of different policies when making economic decisions, some of which may prove that "strictly economic policy is not economical." As part of this, he wishes to institute an "economics of happiness," a measure by which one could account for the material and the symbolic costs associated with the insecurities related to un or under-employment.[7] Furthermore, as globalization progresses, social actors remain on the national level, thereby impairing their ability to combat the liberal model. To counteract this, Bourdieu suggests moving towards a "new internationalism," where social actors (for example, unions) would work on the international level to build institutions capable of battling against global financial markets and corporations while preventing the loss of social gains achieved on a global scale.[8]

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[3] Bourdieu, Acts of Resistance 32-33.
[4] Bourdieu, Acts of Resistance 25.
[5] Bourdieu, Acts of Resistance 31-33.
[6] Bourdieu, Acts of Resistance 30-31.
[7] Bourdieu, Acts of Resistance 39-41.
[8] Bourdieu, Acts of Resistance 41.

Alain Madelin

An opposing view to that of Bourdieu, one that supports the liberal model, is that of Alain Madelin. Madelin, a proponent of liberalism, argues that a liberal French model, one that has not been imported from the Anglo-Saxon nations via globalization, exists and has been present throughout history. Since the Revolution, however, the state has gradually increased its control through alternating and successive phases of statism and liberalism. The result of this has been a constant move towards "dirigisme" – an economy marked by a high level of state intervention responding to a long-term historical necessity (some would say a "planned economy"; this definition is not entirely accurate). Currently, he is convinced that the state is too large and the future, driven by globalization, necessitates the reintroduction of liberal reforms.[9] This said, he believes that socialists (such as Bourdieu) have misjudged liberalism; it is not an ideology based upon social Darwinism and it does not promote an end to social generosity. "It is a mistake to think that liberal thought reduces a man to the role of economic agent, whose sole function is to produce, consume, or invest. For a liberal, the economy is above all made of men and women more or less encouraged to prove their initiative, to innovate, to work, in social structures that favor more or less the best in each person." Rather, Madelin believes that "liberals are the first to recognize that, if man needs liberty, there also exists a well understood need for security." He cites the 19th Century liberal economist Frédéric Bastiat, who wrote of the fundamental need for security in the human soul, as an example of this, along with the development of the first forms of modern social protection (the *mutuelles*, companies that were the precursor to the insurance system) by liberals during the same period as evidence of this.[10]

[9] Alain Madelin, ed, preface, Aux sources du modèle libéral français, (France: Perrin, 1997) I.
[10] Madelin, Aux sources VI.

Furthermore, Madelin believes that globalization and the technological revolution are making liberal ideals – autonomy, individual creativity, and lower levels of intervention – more of a reality than ever before.[11] For example, the creation of the European Union, with a single currency and decreased regulation, has embraced the liberal doctrine of the free market, and compliance with the Maastricht Criteria has led to lower inflation and constrained budget deficits. As such, Madelin argues that "European imperatives are eradicating the principal roots of the dirigiste state." However, he feels that obstacles to the progress of French companies and to free competition still exist, including high social charges, an enlargement of the state, and constraints on the job market. As such, the unemployment seen in France is not the result of a free market associated with liberalism; rather, it is the result of the nation's lassitude in adopting reform compared to the international norm.[12]

Finally, while Madelin feels that globalization encourages liberalism, he is very critical of the French state. He feels that the centralized, paternalistic state is over involved and costly, and that politicians justify their existence via spending ("I spend, therefore I am"). This, he believes, is handicapping the economy. Instead, he advocates a redistribution of power away from politicians towards the individual, believing that "a collective public should not involve themselves in what individuals, families, companies, or associations can accomplish." As such, he quotes Abraham Lincoln: "Power must not do what the citizens are capable of." Yet even he does not advocate a complete elimination of the state's role, citing the need for the state to provide security (both physical and social) to the populace.

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[11] Madelin, Aux sources VII.
[12] Christian Stoffaës, présentation, "Crises, expansion, Europe: de la France dirigiste à la France libérale de 1919 à nos jours," Aux sources du modèle libéral français , ed. Alain Madelin (France: Perrin, 1997) 333-334.

This, he believes, creates a problem: France, as a nation, was constructed around the state; the French identify a provident, involved nation-state as part of their heritage. Hence, Madelin fears that the crisis of the nation-state is becoming one of French identity, a crisis reinforced by socialism.[13]

Erik Izraelewicz

Erik Izraelewicz presents an altogether different view of the globalization debate in France. His opinion, more moderate than either the liberal, free market view of Madelin or the opposing collectivist view of Bourdieu, is that the French are adopting the Anglo-Saxon "liberal" model due to the replacement of the French state as the major shareholder in formerly state-owned companies by Anglo-Saxon institutional investors in these now publicly-traded corporations. This infiltration by foreign investors is resulting in a loss of control by the French over their corporations. When the French government began privatizing industry in 1986 through use of the capital markets (a process that continues), no French institutional investors existed to buy up their stakes, and the number of French individual shareholders, due to their regard of the stock market as relatively risky, remained few. As such, American, British, and Dutch money managers entered the markets and purchased these shares, imposing their values – higher short-term profitability, greater transparency, and an increased voice for the shareholder – upon French companies and, through these, on French society.[14]

The question, according to Izraelewicz, has moved beyond one concerning the potential benefits or costs associated with globalization, as suggested in the social/liberal

[13] Alain Madelin, Quand les autruches relèveront la tête, (France: Robert Laffont, 1995), n. pag., online, Internet: www.democratie-liberale.asso.fr, Ch. 1.

debate. Instead, he accepts that globalization is an undeniable force within the modern economy and concentrates his discussion on how France will position itself, vis-à-vis the Anglo-Saxon institutional investors, to benefit from this shift given its social and cultural concerns. As such, he addresses two debates that he feels France has long abandoned: what is the role of national capital, long a source of investment for industry, and who should own the means of production?[15]

The solution, he believes, is for France to take back a part of its companies, be it through repurchase by the state (advocated by a certain left) or by increasing the individual investor base (suggested by a certain right), neither of which he believes is effective. Instead, Izraelewicz advocates creating collective French ownership of the means of production using the suggestion of French economist François Morin to establish French institutional investors. Izraelewicz feels that, by establishing a collective ownership base such as that found in mutual or pension funds, the French will have the power and interest relative to foreign investors to participate in the new growth that is shaping the world.[16]

Similarly, Izraelewicz argues that the social contract must change with changes in working conditions and life expectancy. He uses the example of Fordism, the economic ideology used by American auto giant Henry Ford, to illustrate this idea. Ford put forth a sort of "social compromise," where instead of paying dividends to his shareholders, he lowered the price of his mass-produced cars so that his employees could afford them, instituting the capability of mass consumption. However, as people began living longer, they needed a greater level of savings for retirement, and began investing instead of consuming, thus blurring the lines between investors (contributors of capital) and workers (contributors

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[14] Erik Izraelewicz, Le capitalisme zinzin, (Paris: Grasset 1999), taken from chapters 3, 4, 5, and 6.
[15] Izraelewicz, Le capitalisme zinzin 264-265.

of labor). This was exacerbated by the increased productivity in machines, which increased the instability of work, thereby ending the idea of a lifetime working contract (also due to the increases in life expectancy). Fordism had fallen into crisis by the late 70s due to its inflexibility, resulting in inflation, debt, and unemployment. Hence, Izraelewicz argues that the social contract must be flexible enough to adapt to changes in worker productivity and life expectancy; otherwise, it risks causing more problems than it solves. Moreover, he feels that this inability to adapt is at the heart of the current debate over the social system in France.[17] It is also reflected in the need for France (and Europe) to establish its own capital and institutional investor base.[18]

The three opinions presented here are representative of different perspectives that currently exist in France concerning socialism, liberalism, and globalization. As such, questions concerning the responsibility of the state versus that of the corporation towards the worker, the role of the international capital markets and of the foreign institutional investor, and the need for state intervention/regulation have reared their heads in the globalization debate. In an attempt to understand the role that globalization has played in these changes, the next section will examine some of these issues where social policy and corporate governance have clashed.

2. Corporate and Social Interactions Resulting from Globalization

Overview of the Social System

The current social system was established following the Second World War to provide social protection to the population, with the goal of guaranteeing all citizens

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[16] Izraelewicz, Le capitalisme zinzin 257.
[17] Izraelewicz, Le capitalisme zinzin 258-263.

sufficient income to assure their subsistence.[19] It is a combination of the Bismarkian model, under which the social system is financed via contributions, and the Beveridgian model, which provides for social protection to all and the compensation of economic inequalities amongst the populace by redistributing revenues through social policy.[20, 21] This protection includes medical coverage, unemployment, retirement and disability benefits, and family/housing payments.

However, as times change and France experiences shifts in demography and fluctuations in unemployment levels, the equitability of the system's financing is called into question.[22] The amount spent by the social system is staggering; in 1995, social spending accounted for 30% of France's GDP, or 2,300 billion francs, far exceeding the federal budget of 1,597 billion francs. Added to this is the concern over the continued growth in spending – an increase of 3.49% in 1994 and 3.96% in 1995 – demonstrating the system's rising liabilities.[23] Of this 2.3 trillion, 80% is financed by contributions in the form of payroll tax, the largest amount paid by employers as a percentage of salaries paid.[24] (Refer to Appendix 1) This is where the social system meets the globalization debate. The two areas where this conflict is most prevalent are in retirement spending and in unemployment benefits.

Retirement Costs

Like most western industrialized nations, France is undergoing a demography shift due to an aging population that will result in higher liabilities for the social system and,

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18 Izraelewicz, Le capitalisme zinzin 250.
19 Georges Dorion and André Guionnet, La Sécurité Sociale, 6th ed. (Paris: PUF, 1997) 10-11.
20 Alain Redslob, La France face à la mondialisation: de la peur à l'espoir, (Paris: L'Harmattan, 1999) 51.
21 Dorion, La Sécurité Sociale 10.
22 Dorion, La Sécurité Sociale 5.
23 Dorion, La Sécurité Sociale 83.
24 Dorion, La Sécurité Sociale 102.

possibly, higher costs to individual citizens and employers. The French system, like many systems in Europe, is pay-as-you-go, meaning that current benefits are paid through current contributions. While one in six French citizens is over the official retirement age of 60, this is expected to decline to one in three by 2050. Furthermore, the working population will decline after 2005, when the generation born following WWII begins to retire. It is therefore estimated that an additional 100 billion francs (in real terms) will be needed to finance the retirement system in 2015.[25]

Additionally, life expectancy has increased throughout the G7 nations; in France, men are expected to live for 19.7 years after retirement, women for 24.9 years.[26] Thus, retirees will be collecting from the social coffers for a longer period. While the increase in life expectancy is in part due to the progress of medicine, it will strain the current system of subsidizing medical coverage. France already spends an amount equal to 10% of their GDP on medical costs annually. While the government has attempted to control costs through limiting doctor's visits (an idea met with great protest) and closing unused hospitals, Bernard Kouchner, the Minister of Health, says that accomplishing this is "horribly difficult".[27] An aging population, such as that present in France, will need higher levels of care to combat degenerative diseases (ex: heart disease, cancer), chronic illnesses associated with age (ex: cataracts, osteoporosis), and increased levels of infectious disease (ex: tuberculosis, AIDS).[28] To quote Professor David Miles:

> "Overall, the bottom line is fairly clean cut. In many European countries demographic changes are so pronounced over the next few decades that either the state pension schemes will have to become much less generous or else national

[25] Pierre Boissier, La question sociale, (Paris: Ellipses, 1999) 122-123.
[26] Dorion, La Sécurité Sociale 91-93.
[27] Sophie Pedder, "For Fear of McJobs," The Economist, online, Internet: www.economist.com, 5 June 1999.

governments face difficult choices between raising taxes by several percentage points of GDP, or running substantial deficits over a sustained period."[29]

The question then becomes one of what the employer's role is in subsidizing retirement benefits. Similarly, how much should the employee be expected to contribute? The socialists would argue that corporate France and the individual worker have a responsibility, in the name of solidarity and collective well being, to contribute a greater portion of their profits to fund social security. Bourdieu cites the revolts seen across Europe, "battles for the dignity of workers," as the result of threatened removal of social entitlements. These entitlements are, in his opinion, "among the highest achievements in civilization…(yet we are) using the pretext of globalization, of competition from socially less advanced countries, in order to cast doubt on them. I cannot help feeling something like a sense of scandal at those who make themselves the allies of the most brutal economic forces…"[30]

An opposite, more individualistic, opinion is presented by Madelin: "the French must work until June 9th to pay the *prélèvements obligatoires* (taxes based on a percentage of income earned, deducted directly from pay) that support public administration and social organizations before they begin earning their own money." Yet, these revenues are insufficient to cover public spending; the budget deficit in France equals two months' average salary per French worker.[31] This said, Madelin does not advocate more radical suggestions such as the elimination of the system entirely or, as Leila Tadayon advocates, the investment of social security funds in the capital markets.[32] "Sécu is expensive but very important to the French," he says. "It is a symbol of the Republic, it is part of our history…it

[28] Boissier, La question sociale 123.
[29] Leila Tadayon, Social Security Reform and Capital Markets: A Prespective on Germany, France, Italy, and the UK, thesis, Upenn, 1999, 16.
[30] Bourdieu, Acts of Resistance 60-61.
[31] Madelin, Quand les autruches Ch. 4.

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was the best system in the world. Now that is no longer true."[33] Finally, Madelin calls for a "clarification of responsibility," where revenues from workers would pay only social expenses accumulated through work (worker's compensation, some medical insurance, some retirement benefits) while separating out non-work related charges (family allocations) to be paid from other tax revenues.[34] This reflects the liberal concern for the individual (Bourdieu would argue, at the expense of collective society) often associated with the Anglo-Saxon model.

Yet, is the crisis over future retirement benefits caused by, as Izraelewicz might argue, the presence of Anglo-Saxon shareholders in French companies? No. This is a problem that all industrialized nations, including the US, are facing. What can be attributed to the globalization of ownership is the concern expressed at the corporate level regarding these expenses and their negative impact on profit margins. While this more resembles the liberal American model, it is unwise to view this movement as an acceptance of liberal principles or of American economic policies. "We have the greatest respect for others, but we have our traditions, our model, and we wish to keep them," stated President Jacques Chirac at the 1997 G7 meeting, where copying America's economic policies was discussed.[35] The refusal of the French to adopt American liberal ideals is also evident in the pension debate, where the French have not been persuaded to save for their own retirement via the private pension funds, citing that this too closely resembles the risky, inegalitarian American

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[32] Tadayon, Social Security Reform and Capital Markets.
[33] Madelin, Quand les autruches Ch. 5.
[34] Madelin, Quand les autruches Ch. 5.
[35] Sophie Pedder, "The Grand Illusion," The Economist, online, Internet: www.economist.com, 5 June 1999.

system.[36] Thus, the French, while adopting pieces of the American model, will maintain much of their own system.

Unemployment Policy

The costs of the French social model also impact another social ill: unemployment. Currently, the French suffer from high, chronic unemployment. 11.5% of the population, or approximately 3 million people, are unemployed. This is most pronounced amongst the young; 25% of all people under the age of 25 have no job. Of these, 40% have been without work for over one year, and half of those for more than two years. It takes five times as long for the unemployed to find a job in France (though, given the higher level of job security, they are five times less likely to lose this position once they find it). [37] The unemployment rate in France is also much higher that that of its trading partners (Refer to Appendix 2). "The uniqueness of French unemployment," according to Pierre Boissier, "is that one enters the system much less than elsewhere, but it is much more difficult to leave, acting as an obstacle more than a passage."[38]

According to Boissier, there are several causes for the high unemployment seen in France. First, there are structural causes. During the 1980s, 160,000 additional people debuted annually on the job market due to births, immigration, and increases in women working. It was difficult to absorb all of these workers into the labor force, resulting in rises in unemployment. Second, the level of a corporation's profitability positively influences employment. In France, for example, wages increased with the productivity level between 1974 and 1990, meaning that, as more was produced, the extra revenues were eaten away by

[36] Pedder, "For Fear of McJobs."
[37] Pedder, "For Fear of McJobs."

rising wages. This resulted in lower profit margins and reduced job creation. During this same period, the difference between increases in productivity levels and those of wages was seven times greater in Germany and three times more in the US than in France, resulting in higher profits and, at that time, lower unemployment.

A third cause of unemployment relates to the role of unions and collective bargaining in wage negotiations. As capital has been substituted for labor, employer's needs have moved away from low skilled, lower paid workers to skilled, higher earning employees. However, unions have increased the wages of the unskilled. Over the past twenty years, the buying power of the average salary increased 20% in France, while the number of jobs increased only 4%. Over the same period in the US, buying power increased only 5%, where job creation rose 37%. The result is that employers can hire more qualified workers for nearly the same price, or replace the former with technological advancements that increase productivity and cost less.[39] Philippe Bourguignon, CEO of Club Med, describes this phenomenon: "…in the US we employ more kitchen hands; in France, we put in a dishwasher."[40]

Finally, there are the payroll taxes that French firms must absorb to cover the costs of the social system. While France's wage costs are almost equal to those of their trading partners, a gap exists between the direct salary expenses and the total cost of employment. This penalizes jobs in France relative to other nations and discourages hiring (and firing, due

[38] Boissier, La question sociale 12.
[39] Boissier, La question sociale 15-17.
[40] Sophie Pedder, "A Wiser, Weaker State," The Economist, online, Internet: www.economist.com, 5 June 1999.

to high severance costs born by the employer).[41] The result is a labor market that lacks the necessary flexibility to adapt to economic fluctuations.[42]

This inflexibility and expensive work force has several ramifications. First, it is a driver of delocalization – the movement of jobs and industry out of France to lower wage countries with a less severe regulatory environment – which is a negative consequence globalization. The hourly cost of labor in France is twice as high as in Taiwan, five times greater than in Morocco, and forty times that in Vietnam. These countries also have lower social expenditures and regulatory constraints.[43] Second, as mentioned above, it discourages hiring within France. The government has attempted to resolve these problems by instituting policies and programs aimed at increasing employment levels. One such program is the 35-hour workweek.

The idea behind the 35-hour workweek is that additional jobs will be created if everyone works four hours less per week. Martine Aubry, the Minister of Employment, believes that this will create one million new jobs over the next five years. Yet in practice, one is seeing changes within French companies that, while increasing their competitiveness within the global economy, do not really create jobs. France already has higher worker productivity than the US or Germany. According to Louis Schweitzer, the head of Renault, "It is the most productive place to make cars in Europe." This is further reflected in strong GDP growth, up of 3.2% in 1998, which is the best in a decade for France and exceeds the European average.[44] The problem is that high labor productivity is the result of firms not wanting to employ a lot of people. Hence, companies tend to invest more in machines, as

[41] Boissier, La question sociale 132.
[42] Pedder, "For Fear of McJobs."
[43] Redslob, La France face à la mondialisation, 72-73.
[44] Pedder, "A Weaker, Wiser State."

there are no social costs associated with this. This situation has been exacerbated by the 35-hour policy. Instead of hiring more employees, companies have been forced to innovate, producing more with their given structure. This will only increase, as gains in productivity will allow workers to do more in less time. The auto industry is a good example of one where rising productivity due to technological development has resulted in displaced workers. Schweitzer supports this, arguing that, "In our industry, the number of jobs will continue to decrease, because productivity will increase faster than production; the 35-hour workweek will just slow that decrease."

Finally, the new law has allowed companies to gain new, "previously unthinkable" flexibility from the unions, permitting weekend and evening work.[45] Employers' concerns over flexibility and labor costs can also be seen in the type of jobs that are being created. In 1998, 80% of the new jobs created in the private sector were short-term contracts.[46] Similarly, employers are outsourcing more non-core functions (ex: accounting, systems engineering) than ever to reduce labor expenses. In the 1960s, 3 million of the 22.5 million workers were employed under outsourcing arrangements; in the 1990s, that figure has risen to 5 million of 24 million.[47]

While these arrangements give employers the needed flexibility denied to them through the existing employment and social policies, they have increased job insecurity and are a source of great concern for socialists like Bourdieu. "Job insecurity is now everywhere," he states, citing the proliferation of part time and temporary work contracts as its cause. Insecurity helps keeps workers subservient to the dominant economic forces that

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[45] Pedder, "A Wiser, Weaker State."
[46] Pedder, "For Fear of McJobs."
[47] Boissier, La question sociale 228.

are manifestations of liberalism, an argument that was presented in Part I of this thesis.[48] While Bourdieu does not believe that this insecurity stems from globalization, he feels that it is intensified via the "deterritorialization of the company," as neoliberal policies have extended competition among workers to a global level through delocalization. This problem relates back to his argument in Part I about workers being forced to compete with each other for minimal wages.[49] Why should the French do this? Are they not worth more?

Madelin's view is profoundly different. "The right to work, inherited from Taylorism and Fordism, was constructed on the basis of a representation of work and a means of production that do not represent modern realities." France, he believes, has become a country of two economies: the rich market economy and the protected state economy, where spending is related to political decisions. As the second increases, the first declines, causing unemployment to rise. He feels that the idea of traditional salaried work doesn't fit the new economy of flexible information technology and mobile capital and industry. As productivity gains reduce the need for labor while increasing profit margins, the economy will diversify, permitting new job creation. However, Madelin fears that no new jobs will be created because the additional revenues needed to do so are being diverted to cover public spending and taxes. He extends this argument to the 35-hour workweek, believing that unemployment must be resolved through the creation of new jobs, not through sharing those that already exist. Unemployment, he feels, is not fixed by working less; instead, the number of new jobs being created must increase.[50]

To what extent does globalization play a part in the origins of this discussion? What is the role of the foreign institutional investor in the debate over French firms' needs to

[48] Bourdieu, Acts of Resistance, 82-83.
[49] Bourdieu, Acts of Resistance, 84-87.

increase their profitability by reducing their social taxation burdens? Given the influence that Izraelewicz argues these shareholders exert over company goals (including, as will be discussed next, the acceptable levels of earnings, which are governed partially by labor costs), it is not surprising that high payroll taxes and generous social benefits are highlighted as areas to be trimmed so that profits may be improved for the benefit of shareholders. Additionally, this influence is also the reason why the liberal American model is held up as the model of flexibility. British Prime Minister Tony Blair, himself member of Britain's leftist Labour Party, has lectured the French on the need to imitate America's flexible labor markets, using the evidence that US unemployment is lower and growth is higher, to promote social cohesion and inclusion, two important elements in France's collectivist tradition.[51] But is this model adaptable to France, and would the French want it if it was? Jean-Louis Beffa, CEO of Saint-Gobain, does not believe so, stating that foreign pension funds are "forcing onto French corporations a quickness that imposes considerable human problems; I'm not sure they are best adapted to Europe."[52] Similarly, Prime Minister Lionel Jospin has been quoted as saying "yes to the market economy, no to the market society," highlighting the opinion that the country should seek to capture the benefits associated with the markets while maintaining the collective social solidarity that characterizes the social economy.[53] Based on this concern over both the security of the worker, it seems that France will fail to fully convert to liberalism.

[50] Madelin, Quand les autruches Ch. 2.
[51] Pedder, "For Fear of McJobs."
[52] John Tagliabue, "Resisting those Ugly Americans; Contempt in France for US Funds and Investors," The New York Times, n. pag., online, Internet: www.nytimes.com, 9 Jan.2000.
[53] Pedder, "A Wiser, Weaker State."

The Role of the State

Both of these issues, retirement funding and unemployment, call into question the role of the state. The state continues to be responsible for nearly half the national economy and for the redistribution of approx. 50% of total production. It spends 54% of GDP and employs one in four workers. It helped turn France into the fourth largest industrial power and the fourth largest exporter following WWII.[54] Yet its power has diminished partly due to the privatization of state-owned assets, which have reduced the state's ability to direct the economy, and partly due to the increased reliance of firms on capital markets instead of the banking network (both public and private), for their financing needs.[55] There are certain functions that the state must manage – the postal system, public education, and public transport, to name a few – but what is its role within the market economy?

According to *The Economist*, the dirigiste model believes that an intelligent state is better than the markets at organizing the economy.[56] This is evident in the proliferation of graduates from Ecole Nationale d'Administration (ENA) and Polytechnique (X), two of the most elite *grandes écoles*, throughout the government, an exclusive feeder system that serves both the dirigiste state and France's largest corporations.[57] This opinion is echoed by Boissier, who says, "The state must play its role, not substituting itself with the economic markets…but compensating the injustices: help the weak! The least adaptable, the least trained, the poorest, the old, the sick…there is no economy without a social system."[58] Is this possible? Can one, for example, have a generous, government-run social security system that is financed entirely through taxes while encouraging capitalism?

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[54] Pedder, "The Grand Illusion."
[55] Izraelewicz Le capitalisme zinzin 275-277.
[56] Pedder, "A Wiser, Weaker State."
[57] Sophie Pedder, "The Usual Suspects," The Economist, online, Internet: www.economist.com, 5 June 1999.

Corporate Governance and the Role of the Shareholder

Globalization has had a profound impact on the corporate governance of French companies and the role that shareholders play in this system. As mentioned earlier, state privatizations created an opportunity for investors, both individual and institutional, to purchase shares in former state-owned enterprises. Yet, due to the risk-aversion of individual investors (and, one could argue, French institutional investors), their negative opinion of the stock market, and their fiscal prudence that doesn't favor stocks, France did not participate as strongly in the "furor of the bourse" seen in Italy, Germany, and Spain, where individuals and domestic institutions purchased shares following privatizations. Even today, stocks comprise only 12% (on average) of a couple's financial means.[59]

During this time, American institutional investors were looking to diversify their portfolios and began to purchase French shares. As such, foreign holdings in the Paris bourse went from 10% in 1989 to 40% in 1999. In comparison, foreign holdings in the American stock market were only 10% at the end of the same period.[60] Similarly, either American or British investors control 35% of the CAC 40, the forty largest companies that trade publicly on the Paris exchange.[61] Similarly, in the first eight months of 1999, foreign investment in French stocks and bonds totaled $70.3 billion, exceeding total investment in 1998.[62]

Domestically, French institutional investors (ex: SICAVs, OPCVMs, and FCPs) lack the same presence as their trading partners; they own only 27% of the Paris bourse's market

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[58] Boissier, preface, La question sociale 8.
[59] Izraelewicz, Le capitalisme zinzin 180.
[60] Izraelewicz, Le capitalisme zinzin 194-195.
[61] Pedder, "A Wiser, Weaker State."

capitalization, whereas in the US, domestic institutional investors control 47%.[63] This has upset many a politician, including President Chirac, who was quoted as saying, "French workers are being sacrificed to safeguard the investments of Scottish widows or California pensioners."[64] Essentially, this is correct. The profits of French companies (and thus the labor of French workers) is benefiting Americans; Americans will retire off of French labor, while the French pension system will reap no similar future benefits from the current profits of French firms.[65] Additionally, Izraelewicz believes that France has become, of all industrialized nations, the most dependent on foreign capital. As such, French firms must often make decisions that are incongruent with domestic concerns and national culture.[66]

The first problem has to do with the fundamental differences in corporate governance between Anglo-Saxon investors and the French. François Michelin, former tire manufacturing CEO, complains that, "One wants to impose on companies ideas of corporate governance that are typically Anglo-Saxon, that have nothing to do with the secular French right or the structure of French companies." This is first seen at the shareholder level. Izraelewicz likens the Anglo-Saxon model to a democratic system, with the shareholders replacing the people, the board of directors replacing the congress, and management replacing the executive branch. In contrast, he illustrates how the traditional French company resembles a monarchy, where the CEO does everything, including choosing board members, with no system of checks and balances like that which is present in a democracy.[67]

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[62] Tagliabue, "Resisting those Ugly Americans."
[63] Izraelewicz, Le capitalisme zinzin, 190-191.
[64] "France Economy: Local Firms Expand their Horizons," Country Briefing, The Economist Intelligence Unit, n. pag., Online, Internet: www.viewswire.com, 24 Feb. 2000.
[65] Izraelewicz, Le capitalisme zinzin 191-194.
[66] Izraelewicz, Le capitalisme zinzin 174-175.
[67] Izraelewicz, Le capitalisme zinzin 208-211.

These two different structures present problems. Anglo-Saxon shareholders believe that owning shares gives them voting privileges in matters of corporate governance, while the French system gives voting rights only to management and certain key shareholders (usually family members and other companies).[68] Often, key shareholders and banks, which would lend money to companies and then accept stakes if the firms couldn't repay their debts, would exchange strategic positions in their companies for those of another. The result was a complex cross-shareholding relationship, often accompanied by executives sitting on one another's boards (Refer to Appendix 3). Yet these shareholders were not motivated by profit; these arrangements were a form of protection against takeovers and served to strengthen business networks. This is changing, both within Europe and through US investments, as these stakes are being treated like other investments. The result is a new pressure coming from shareholders for companies to generate returns.[69] As such, there has been a rise in the idea of shareholder rights, where investors are demanding, and getting, a voice in corporate governance.[70]

The second, and probably the largest, area of contention concerns corporate governance and the independence of the Board of Directors from Management. In Anglo-Saxon nations, as well as in many other parts of the world, a separation exists between these two groups (though, according to Izraelewicz, this has never been proven more effective). This is believed to promote best practices through independent governance, a sort of double check for management's decisions.[71] In France, however, only 2% of companies have a board that is separated from company management, and only 28% of boards are truly

[68] Izraelewicz, Le capitalisme zinzin 221-223.
[69] "Bidding for the Future," The Economist, n. pag., online, Internet: www.economist.com, 12 Feb. 2000.
[70] Izraelewicz, Le capitalisme zinzin 208-209.
[71] Izraelewicz, Le capitalisme zinzin 214-217.

independent (versus an independence level of 80% in the US).[72] Originally, board positions were positions of honor, where there were only a few meetings per year, generally to carry out the wished of the CEO. Now, there are 8-10 meetings annually and it is truly a form of work. Furthermore, a concept known as *cumulards* exists, where executives sit on multiple boards (nearly half of all board members are friends from the old boy network of X and ENA, a factor that was beneficial for the company when the government, run by the same elite group, had a closer relationship with business). It is not unusual for someone to sit on five or ten boards. In 1997 it was estimated that 70 people shared 300 board positions within CAC 40 companies. Almost no board members are women, though, in an effort to increase board independence, foreigners and others who are independent of the corporation, such as finance professors, are being asked to join. For example, between 1997 and 1998, the number of large companies with at least one foreigner on the board doubled, up to 20%.[73]

Yet can one simply take outside values related to corporate governance and apply them to France? No, according to French economist Olivier Pastré. While he agrees that certain committees typically found within the American board are useful (for example, audit), imposing the Anglo-Saxon model is inaccurate because boards in France typically operate differently than those in the US, making less decisions and meeting less often. Instead, Pastré feels that the external control imposed by the state, by judges, and by journalists serves as a more important check within the French system than does a board operating independent of management.[74] Similarly, economist Élie Cohen raises the question of defining the board's role, then proposes ideas to improve its functioning. These include

[72] Pedder, "A Wiser, Weaker State."
[73] Izraelewicz, Le capitalisme zinzin 219-220.

rigorously applied term limits for board members, designated independent directors not connected with the business, and the creation of specific committees (audit, recruiting, and compensation) to oversee management. Contrary to Pastré's opinion, however, Cohen acknowledges that the intervention of pension funds, due to their large holdings and their power to influence share prices, is the most effective and vigilant form of control.[75] This idea, seen in the different levels of influence relative to the different levels of investment, is reflected by Madelin: "One sees how US pension funds contribute to capitalism and defend their interest, and one sees how badly defended French collective investments are."[76]

A third question relates to the issue of transparency. Historically, secrecy in business has been very important in France; it prevented others from copying a company's strategy or from knowing just how successful (in terms of profits) a company was. Thus, it averted the curiosity of others and served as a safeguard against exposure to friends and employees. Similarly, Izraelewicz suggests that the low level of disclosure required for bank loans was a reason for French firms' traditional reliance on debt.[77]

Relaxed transparency standards ended once companies went public and management teams found themselves reporting strategies and earnings to Wall Street analysts and institutional investors. The markets demanded that companies be well organized and reveal a high level of transparency, both on the level of corporate profits and also on that of executive salaries. While this came as a shock to the French business environment, it was an even greater shock to French society, where this phenomenon is considered unnatural. There is an

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[74]Olivier Pastré, "Faut-il revoir la composition et le fonctionnement du conseil d'administration des entreprises?" Chroniques Économiques 1999, Le Cercle des Économistes (Paris: Descartes & Cie, 1999) 171-172.

[75]Élie Cohen, "Faut-il revoir la composition et le fonctionnement du conseil d'administration des entreprises?" Chroniques Économiques 1999, Le Cercle des Économistes (Paris: Descartes & Cie, 1999) 174-176.

[76]Madelin, Quand les autruches Ch.1.

[77]Izraelewicz, Le capitalisme zinzin 105.

expression that describes this ideal: *Pour vivre heureux, vivons cachés*. (To live happily, we live secretly) Formerly, such business secrets were known only by the banker or the state, by family members (if a family business), or by the CEO, yet now they were public knowledge.[78] The Anglo-Saxon thinking, according to Izraelewicz, was that a CEO's compensation reflected his performance and his value to the company, and thus was important in calculating the value of the company's stock.[79] This caused great protest amongst French CEOs, who feared public comparisons between one another, debates on the legitimacy of their compensation, and the social ramifications that such disclosure would have on the solidarity of collective society.[80]

The final issue concerning the globalization of investors and their impact on corporate governance relates to their demands of regular, elevated rates of return on their investments. The measurement of profits via return on investment (ROI) and earnings per share (EPS) are congruent with fund managers' goals of creating value of their investors and are common benchmarks of company performance in the US.[81] According to economist Jean-Hervé Lorenzi, funds typically demand a regular return of 15% from the companies in which they invest. This leads to a dilemma about making management decisions solely for short-term profits as opposed to defining a long-term strategy.[82] There is also a question of sustainability; is a consistent 15% return realistic given annual production increases of about 5%?[83]

[78]Izraelewicz, Le capitalisme zinzin 225-226.
[79]Izraelewicz, Le capitalisme zinzin 230-231.
[80]Izraelewicz, Le capitalisme zinzin 232.
[81]Izraelewicz, Le capitalisme zinzin 234-235.
[82]Jean-Hervé Lorenzi, "Faut-il revoir la composition et le fonctionnement du conseil d'administration des entreprises?" Chroniques Économiques 1999, Le Cercle des Économistes (Paris: Descartes & Cie, 1999) 174.
[83]Izraelewicz, Le capitalisme zinzin 240.

Alcatel, as illustrated by Izraelewicz, recently found itself the victim of this problem, a problem which also demonstrates the "mistrust of transparency." Serge Tchuruk, the CEO of the telecommunications firm, symbolized long-term thinking in his beliefs that it took years to reap the benefits associated with investments in the equipment needed to run his business. Hence, he felt that short-term gains, as demonstrated through quarterly reports, were inconsequential. When Alcatel began publishing quarterly reports in the summer of 1999, investors displayed a different focus, more situated on the present; the firm's market value dropped by 70 billion francs due to the lack of quick returns.[84]

Similarly, Lorenzi believes that this need for consistently high returns leads to the temptation to think short-term and to use techniques such as mergers and acquisitions (creation of economies of scale) and layoffs (reduction in costs) to achieve the necessary gains. Long-term, however, he believes that there is a convergence between the interests of shareholders, directors, and clients.[85] This idea is refuted by Bourdieu, who sees the internationalization of the French capital markets as a form of domination by the richest countries. Globalization is the "extension of the hold of a small number of dominant nations over the set of national financial markets." This puts the nation at risk to speculative assaults by massive institutional funds, which prompts devaluation. Furthermore, he feels that internationalizing capital markets prevents the country from manipulating exchange rates and interest rates to influence the economy (investors would put their money in cheaper sources of capital if they believed a country's be artificially inflated), as these become determined by the market.[86] Octave Gélinier, the founder of Cegos and a pioneer in the field of technical

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[84]Izraelewicz, Le capitalisme zinzin 227.
[85]Lorenzi, "Faut-il revoir," 174.
[86]Bourdieu, Acts of Resistance 38-39.

education, supports Bourdieu's argument, arguing that "creation of shareholder value must be accompanied by the creation of value for the personnel."[87]

While it may seem that the implementation of Anglo-Saxon values leading to a migration towards their liberal model is inevitable, one sees evidence in the corporate environment that this migration will never be complete due to the value that the French place on solidarity, cohesion, and equality, traits which can be seen among business leaders. Jean-Luc Lagadère, the CEO of the defense firm of the same name, believes that "French business leaders have a much greater sense of their social responsibility than do their Anglo-Saxon counterparts." Moreover, *The Economist* believes that the ultra-liberal model is associated in France with "brutal, uncultured, capitalist American ways."[88]

This cultural difference in business also appeared in a 1998 OECD report aimed at determining an optimal of corporate governance.[89] The results of this study were that effective corporate governance models must reflect the country and the culture in which they operate, and that not only shareholders, but also clients and other actors in the local environment, are important considerations when making business decisions. Two of the six authors of this report, Ira Millstein, and American, and Michel Albert, a Frenchman, illustrated this by expressing their country's contrary attitudes towards this subject. Millstein believes that "the primary objective of the company is to maximize shareholder value, there are no other possibilities," whereas Albert feels that "the behavior of companies must remain

[87] Anne Tézenas du Montcel, "Une mode chasse l'autre," Sous la crise, la croissance, ed. Olivier Jay, (Paris: P.U.F., 1999) 56.
[88] Pedder, "The Grand Illusion."
[89] Ira M. Millstein, Michel Albert, Sir Adrian Cadbury, Robert E. Denham, Dieter Feddersen, and Nobuo Tateisi, Corporate Governance: Improving Competitiveness and Access to Capital in Global Markets, OECD 1999.

compatible with society's objectives, including social cohesion, the well being of the individual, and equal opportunity."[90]

The resistance to liberalism and the pervasive sense of social responsibility is reflected in three recent business events, all of which represented the negative aspects of capitalism to the French populace. First, Axa, the insurance conglomerate, announced that it was doubling insurance premiums on existing policies of mentally handicapped children, as these policies were a source of losses. This met with scandal in the press; Axa was perceived as a greedy company trying to profit at the expense of the helpless. The company quickly changed its mind, deciding to leave insurance rates at their current levels. Second, Michelin announced a sharp rise in earnings simultaneously with an announcement that it was reducing its work force by 10%, prompting accusations that the firm was putting profits ahead of its employees' well being. This has led to legislative attempts to protect workers by prohibiting profitable firms from laying off employees (it has not yet passed). Finally, TotalFina's initial refusal to accept responsibility for the crash of the subcontracted oil tanker Erika off the coast of Brittany, on the legal grounds that the ship was not owned by the firm, led to outrage amongst the French. It was publicly perceived that the company had a responsibility for both the accident and the clean up efforts; under threat of boycott, the firm pledged 700 million francs to clean up the pollution, forcing it to accept moral responsibility for the accident.[91] Public reaction to these three situations outlines France's desire for a responsible business sector that accounts for the social costs of its actions, thereby prohibiting a complete embrace of the liberal Anglo-Saxon model.

[90] Izraelewicz, Le capitalisme zinzin 252-254.

The Role of Mergers

The merger activity currently happening in France reflects the liberal Anglo-Saxon influence that, as mentioned above, is changing corporate governance. France, along with the rest of the EU, is experiencing a boom in mergers and acquisitions (M&A) activity that compares to no other time in its history. In 1999, transactions within Europe, at $1.2 trillion, exceeded those in the US for the first time in years, up 50% over 1998.[92] In 1998, France was ranked second on the continent (behind the UK) in terms of M&A activity, up 31% over 1997.[93] Furthermore, domestic mergers within the Hexagon topped $300 billion in 1999.[94]

The increase is facilitated by several factors that are affecting the Continent as a whole. First, the single currency has reduced transaction costs and brought lower interest rates to Europe, meaning it is cheaper for European companies to issue debt to fund their financing needs. According to *Business Week International*, "the continent is awash in cheap money." Similarly on the equity side, high stock prices are making stock-swap transactions easier to complete.[95] Second, regulation and government interference are declining.[96] Finally, the development of the regional economic zone via the launch of the Euro has increased the reference market in which companies compete. Thus, it is not enough for a French company to dominate the domestic market; now the regional market has a new

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[91] "France Economy: Capitalism Fails to Win Over Local Firms," The Financial Times, n. pag., online, Internet: www.viewswire.com, 6 Mar. 2000.
[92] "Bidding for the Future."
[93] Stanley Reed, John Rossant, and Gail Edmonson, "Deal Mania!" Business Week International, online, Internet: http://web.lexis-nexis.com, 18+.
[94] "France Economy: Local Firms Expand their Horizons."
[95] Reed, "Deal Mania!" 18+.
[96] "Bidding for the Future."

importance. As such, companies are consolidating to establish a strong pan-European competitive position.[97]

What is interesting to note in France is the motivation for these deals and the form that they are taking. According to economist Élie Cohen, a major driver of these transactions relates to the growing influence of global institutional investors over French management. The changes in French corporate governance that have been encouraged by an international shareholder base are pushing companies to become more efficient, reducing the fat off their operations, thereby increasing earnings and returns to investors.[98] Companies are becoming more strategic; they are trying to reinforce their core businesses, many of which were diversified in the 80s, to better adapt to difficulties within their respective industries. The widening of the reference market referred to in the previous paragraph further encourages this. The wave of consolidation is tied to the idea that the market will reward companies whose assets are focused on their core business, while those that are overly diversified will be punished. Investors assume responsibility for their own portfolio's diversification to assure themselves of lower global risk; this becomes more difficult to accomplish when companies are overly diversified, leading fund managers to invest elsewhere in assets that are more focused on a core competency.[99] Finally, the reason why French companies in particular are participating in M&A transactions so heavily relates to their size. Their industry, finance, and service sectors are less concentrated than they are in other developed

[97] Élie Cohen, "L'année des fusions-acquisitions et des restructurationd des entreprises?" Chroniques Économiques 1999, Le Cercle des Économistes, (Paris: Descartes & Cie, 1999) 52-59.
[98] Élie Cohen, "L'année des fusions-acquisitions," 51-52.
[99] Élie Cohen, "L'année des fusions-acquisitions," 48-50.

countries, and their companies are not as large. Thus, Cohen believes that there is a greater potential for consolidations and restructurings going forward; this is just the beginning.[100]

The Anglo-Saxon investor is also influencing the manner in which these deals are carried out. The hostile takeover, a transaction seldom seen in France, is permeating the French capital markets. In 1999, for example, two of the largest deals in France, TotalFina/Elf and BNP/Banque Paribas/Société Générale were pursued under this style. According to the Securities Data Corporation, the value of hostile takeovers in France for the first half of 1999 was $94 billion, an amount that surpasses the previous five years combined.[101] While, according to *Business Week*, "American style deals were long considered dirty in France," the French are now adopting Anglo-Saxon techniques to raise capital. The magazine predicts there will be more of these, as family controlled businesses and traditional, monarchical CEOs will try to maintain control of their operations during takeovers, resulting in longer, more contentious battles resembling that of last year's BNP hostile bid.[102]

Equally surprising is the acceptance of these "dirty deals" by the French regulatory authorities. One explanation for this relates to France's need, in the face of these Anglo-Saxon influences, to promote domestic companies that will retain French values and maintain the country's power within the European business environment. The French recognize that they must move beyond their domestic boundaries to maintain (or improve) their competitive position. They understand that, in certain industries, this process is facilitated by the size of the organization. It is believed by some that this was the logic for allowing the BNP takeover bid; if these banks continue to merge with others on the Continent, there will be a greater

[100]Élie Cohen, "L'année des fusions-acquisitions," 46.
[101]Robert Lever, "Les capitalistes," Europe, 389: Sep. 1999, 23-24.

chance that the new company will maintain French values and culture.[103] Similarly, Economist Olivier Pastré has expressed fear of cross-border banking consolidations. "The banking sector must remain in French hands; no developed countries permit their banks to be run by foreigners."[104] This is echoed by the hope of economist Élie Cohen, that "consolidation will be realized due to the dynamic nature of the French banking sector and not due to large banking groups that have emerged in many European countries over the past two years."[105] According to Robert Lever in an article appearing in *Europe* magazine, "The French authorities want a national champion who can play at the top table; this is not possible on a friendly basis." Finally, it is interesting to note that, while the regulatory officials approved the BNP transaction, the shareholders of Société Générale voted to block the transaction. Thus, BNP merged only with Banque Paribas. This illustrates the rising power of the institutional shareholder base versus that of the government. Even more interesting was that, in this case, employees held 8% of Société Générale's shares, the largest block of stock.[106]

Thus far, many mergers involving French companies have been purely domestic (Refer to Appendix 4). Yet one must wonder if the regulatory officials would permit similar transactions, were the acquiring company not French. Do these regulatory defenses imply a greater desire, as *The Economist* suggests, to keep the "foreign invaders" (most notably, the Anglo-Saxon investors) out, in order to promote economic nationalism and protect labor and

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[102] Reed, "Deal Mania!" 18+.
[103] Sophie Pedder, "If in Doubt, Seek Europe," The Economist, n. pag., online, Internet: www.economist.com, 5 June 1999.
[104] Olivier Pastré, "Que pensez-vous de la réorganisation en cours du secteur bancaire français?" Chroniques Économiques 1999, Le Cercle des Économistes, (Paris: Descartes & Cie, 1999) 142.
[105] Élie Cohen, "Que pensez-vous de la réorganisation en cours du secteur bancaire français?" Chroniques Économiques 1999, Le Cercle des Économistes, (Paris: Descartes & Cie, 1999) 145.

[106] Tagliabue, "Resisting those Ugly Americans"

collective values? In 1999, the French completed $126 billion of investments outside France, where only $36 billion worth of foreign transactions were accomplished within the country.[107] Recently, for example, Coca-Cola was prevented from buying the French soft drink manufacturer Orangina, and prior to the TotalFina/Elf merger, Elf was prohibited from merging with ENI, an Italian energy concern. This could be exacerbated if the target company held some strategic or symbolic value for the state (ex: Elf), as the state still maintains shares in certain companies.[108] France is partly trying to insure that the European market's resemblance to the US doesn't extend to the social sector. Dominique Strauss-Kahn has argued that "Europe must be protected from the excesses of liberal capitalism." His policies reflect this interest in creating a model that is different from the one found in the US.[109]

Finally, it is worth discussing if these fears are justified. Given the influence that American and British institutional investors have exerted on the corporate and the social level in France, it is easy to understand why the French are concerned. However, the OECD recently released a study illustrating that foreign firms make significant contributions to national economies. Multinational corporations (MNCs) account for a large and stable share of production in France. These firms also pay their employees more than the national average and create jobs faster than do domestic companies. For example, employment by foreign companies in France increased an average of 1.7% per annum between 1989 and 1996, while employment by domestic firms fell an average of 2.7% annually during that time. MNCs also spend more on R&D in countries where they invest; in 1996, these firms accounted for 19% of France's R&D expenditures. They also export more than do domestic

[107] "Bidding for the Future."
[108] Lever, "Les capitalistes," 23-24.

companies. In France, the value of their exports is 35.2% of their output versus exports of 33.6% of domestic firms.[110]

3. Cultural and Historical Influences on the Globalization Debate

It would be a mistake to analyze French reaction to the current changes taking place in their economy without considering their cultural values and their history. It is equally difficult to determine specific origins of the values system; one is undeniably a product of many different cultural values and experiences. Yet, there are certain factors that are influencing this debate and which will prevent the liberal economic model from an outright triumph. Among these are solidarity, the role of the state, resistance to American hegemony, attitudes towards business and wealth, and risk tolerance.

Solidarity

Solidarity, the idea of strength through the people leading to progress on the greater societal level, not on the individual level, is an idea that has appeared throughout this paper during discussions of the social system. It is a concept with which the French strongly identify, as demonstrated in their continued commitment to it throughout history. During the Ancien Régime (pre-revolutionary France), for example, one observes this on several levels. In urban areas, one sees the emergence of guilds, fraternal organizations organized by profession that served both as charitable institutions, providing assistance to its members when needed (ex: following a fire), as well as being sources of camaraderie, where workers of the same profession could bond with one another. Rurally, solidarity developed through

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[109]Pedder, "If in Doubt, Seek Europe."

village sociability and the family, the former serving as an extension of the latter, where common goods existed to benefit all. Rural farmers and peasants also demonstrate collective ideals, as they banded together to protect themselves against agricultural calamities (ex: grain shortages seen during the 16th Century).[111]

The idea of collective benefit is also seen during the Enlightenment. Rousseau, for example, writes of the need for the common good (solidarity), social equality, and the authority of the people in his book, *The Social Contract*.[112] The philosophers of the enlightenment, under the idea that "The right to work is the property of all man," were also instrumental in the establishment of the Édit de Turgot which, in 1776, created man's freedom to work.[113] Similarly, the idea of solidarity is seen at different points during the Revolution; the development of a cohesive proletariat facilitated popular uprising against the ruling class. For example, during the Cultural Revolution of 1793 and 1794, the populace begins dressing like the "sans culottes" (the poor) to show their solidarity with the poor and their support for democracy.[114]

The Industrial Revolution further encouraged solidarity. It is here that one finds the origins of the current social system. Professor André Gueslin describes this period as the "golden age," believing that the 19th Century social system was based upon universal values seen in the convergence between the belief in the Republic and the belief in the social economy. Both of these stressed the values of democracy, liberty, and brotherhood and furthered each other's legitimacy; at times, the Republic used the social economy as a

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[110]"Globalization – Foreign Friends," The Economist, n. pag., online, Internet: www.economist.com, 8 Jan. 2000.
[111]André Gueslin, L'Invention de l'économie sociale, (Paris: Economica, 1998) 8-11.
[112] Jean-Jacques Rousseau, The Social Contract, trans. Maurice Cranston, (London: Penguin, 1968).
[113]Gueslin, L'Invention de l'économie sociale 18.
[114]Amy K. Smith, lecture, History of France from 1500-1848, Upenn, Philadelphia, 4 April 2000.

political lobby, while at others, the social economy used the Republic to affirm its power and influence.[115]

The presence of solidarity throughout France's history, along with its current existence within general society and its influence over the social system, helps explain the importance of the social model within modern French culture. Similarly, one can apply the trait of solidarity to the current social/liberal debate; it is a recurrent factor in the writings of Bourdieu.[116] Thus, given the presence of this ideal within the culture, it is unrealistic to believe that France would ever completely adopt the liberal model.

The Structure of the State

As demonstrated earlier, the state continues to play a formidable role in the business and social sectors. The dirigiste model, based on a centralized, strong state, and its tradition of directing the economy date back almost as far as the origins of solidarity. It is best illustrated, however, during the reigns of Louis XIV and Napoleon. Louis XIV, the founder of absolutism ("l'état, c'est moi"), writes about the need for a centralized source of power and authority in his *Memoirs to his Son*.[117] This is also seen in the economic policies of his Finance Minister, Colbert.[118] Colbert developed mercantilism, a controlled economic policy where the balance of trade was always favorable and the state's wealth increased at the expense of its colonies and competing nations. He also began investing the state's revenues in public works projects that would assist this goal, such as the construction of ports. As a

[115] Gueslin, L'Invention de l'économie sociale 402.
[116] Bourdieu, Acts of Resistance.
[117] Jean Longon, ed., A King's Lessons in Statecraft: Louis XIV: letters to his heirs, (New York: Albert & Charles Boni, 1925) 39-45.
[118] Pedder, "The Grand Illusion."

result, trade doubled under his rule.[119] Absolutism established the state as a directive force within France's economy.

Napoleon further developed this centralized model, and with it, the faith of the French people in the dirigiste state.[120] In addition to promoting France's military glory, Napoleon established a bureaucratic state based on meritocracy (as opposed to the aristocratic tradition) that had a strong power base through its wide influence. As part of this, he established the civil service, which today remains a major employer; the "lycée" (high school education) system; and the civil code, which revamped the French judiciary and established the principle of equality.[121] Like Colbert, he also encouraged mercantilism. This can be demonstrated in his attempt to reinstate slavery in Saint Domaingue (now Haïti), France's most profitable colony. Napoleon also continued the government's intervention in the economy through protectionist trading. For example, in an attempt to bankrupt rival Great Britain, he prohibited commerce between the UK and all of France, leading to a 1% decline of British exports within a year.[122]

The long history of France's social-economic system, coupled with the strength of the French state, is not stopping the adoption of the liberal model. As noted earlier by Bourdieu, the creation of the Euro and the convergence of interest rates through the European Central Bank are limiting the state's ability to manipulate the economy, presenting an opportunity for liberalism to encroach on the system.[123] Furthermore, despite Jospin's election pledge to end privatization, he has since privatized another $30 billion of state assets.[124] In selling off more of its assets, the state is reducing its ability restrain the spread of liberalism. Hence, while the

[119] Amy K. Smith, lecture, History of France from 1500-1848, Upenn, Philadelphia, 29 Feb. 2000.
[120] Pedder, "The Grand Illusion."
[121] Amy K. Smith, lecture, History of France from 1500-1848, Upenn, Philadelphia, 6 April 2000.
[122] Amy K. Smith, lecture, History of France from 1500-1848, Upenn, Philadelphia, 11 April 2000.

structure and history of the state are contributing to the way the French view socialism, liberalism, and globalization, it will not keep them from gravitating to the liberal model.

US-French Relations and Perspectives on American Hegemony

Some of the disdain for the liberal model in France is its association with the American capitalist ideal. This connection is seen in the writings of Bourdieu, Izraelewicz, and in *The Economist*. As such, it is routinely referred to as the "Anglo-Saxon" liberal model. One often hears that France, not unlike many other nations, regards Americans, both culturally and in business, as imperialist. Is this true? If so, how has this attitude been formed, and what role will it play in the movement towards a liberal economy?

Historically, one can see challenges in diplomatic relations between the US and France. Following World War II, General de Gaulle set out to "Build an industrial civilization that is not derived from the American model and in which man will serve as an end, not a means."[125] This mistrust of the US is also illustrated in de Gaulle's removal of France from NATO in 1966, an act symbolizing the country's national independence.[126] In the current post-Cold War environment, the US maintains its position as the hegemonic power, a fact that makes the French somewhat uneasy. As a result, they try to resist American hegemony. Hubert Védrine, France's Foreign Minister, demonstrates this through his discussions concerning "the need to counter world domination by a single superpower."[127]

[123] Bourdieu, Acts of Resistance 38-39.
[124] "France Economy: Local Firms Expand their Horizons."
[125] Pedder, "The Grand Illusion"
[126] Pedder, "If in Doubt, Seek Europe"
[127] Pedder, "The Grand Illusion"

Concern about growing American influence is also apparent in France's motivations for establishing the European Union. Michael Baun argues that this was long motivated by the desire to prevent future German aggression (the Germans having invaded France three times during the past 150 years).[128] However, it has also become an attempt to reduce American hegemony. According to *The Economist*, the single currency represented "a triumph in Europe's battle against American hegemony" within France; finally, the nation possessed a currency that would compete with the dollar (unfortunately, the Euro has since declined to near parity with the dollar).

Worries over America's influence in France, both military and otherwise, are demonstrated in an April 1999 poll. The results indicated that 68% worry about America being the sole superpower. 61% felt that America's influence was too great culturally, 60% thought it was too great economically, and 56% felt it was too large militarily. NATO was viewed as a "tool of America;" when asked if a new pan-European military order should replace it, 57% of the French responded yes, compared with the average positive response of 36% for all NATO countries.[129] At the same time, however, the French choose to consume American culture in the form of television shows, movies, and music. "We're Americanizing ourselves without realizing it, and the more it happens, the more we resist it," says Dominique Moisi, the Director of the French Institute for International Relations.[130]

Unfortunately, the US is also becoming the hegemonic power in business due to the holdings of American institutional investors in French companies. Thus, it is imposing its liberal American business values on the French, challenging the long-established

[128] Michael Baun, An Imperfect Union: The Maastricht Treaty and the New Politics of European Integration, (Boulder: West View Press, 1996).
[129] Pedder, "If in Doubt, Seek Europe"
[130] Pedder, "The Grand Illusion"

collectivism that has become a piece of French identity. This, it could be argued, is further straining US-French relations, as evidenced by increasing protectionist trading boycotts and embargoes. To quote *The Economist*, "the strongest resistance to Americanization occurs when France's cultural ideas about itself collide with its economic needs. Economic reform is hard to bring off anywhere, but particularly so where it challenges potent issues of national identity."[131]

Given the French's historical regard of Americans as imperialist, along with the diplomatic history between the two nations, it is understandable how the French could now object, and possibly try to prevent, the further imposition of American ideals through economic liberalism. Yet, in consuming American popular culture, the French are perpetuating the model that they claim to despise. In that sense, are they driving themselves towards a new liberal economic order? Will they be able to stop the spread of American hegemony in all its forms?

Other Influences over Business and Social Environments

While there are many other factors influencing French attitudes towards business and the social sector (some of which we have previously examined) this section will focus on two: religion and the family. The role of religion in the development of business has long been debated. It is interesting, however, to consider this debate in the context of the current economic systems present in the Anglo-Saxon nations and in France. The former was dominated by Protestantism while the latter was influenced by Catholicism. As noted by David Landes, Max Weber considers whether Protestantism promoted a values system that

[131] Sophie Pedder, "Irreconcilable Differences?" The Economist, n. pag., online, Internet: www.economist.com. 5 June 1999.

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was conducive to effective business performance, thereby setting up the triumph of industrial capitalism, in his essay, *The Protestant Ethic and the Spirit of Capitalism*.[132] Weber believes that the importance of "the calling" – the idea, established by Jean Calvin during the Reformation, that "the highest form of moral obligation of the individual is to fulfil his duty in worldly affairs" – transformed religion into a function (work) of the Protestants' daily lives, while the Catholics maintained their ideology of self-denial, along with the monastic life aimed at "transcending the demands of mundane existence." Hence, being a good Protestant meant working hard, leading to the development of capitalism. Similarly, Catholicism was based on a cycle of sin and repentance. In the Protestant religion, however, judgment by God was cumulative; the individual was not rewarded or punished for what he had done during his life until his death. This motivated Protestants to work to the fullest extent of their calling while they were alive, while Catholics, knowing that they could repent for their sins and begin anew, lacked this motivation.[133] This idea is especially relevant given the current Anglo-Saxon liberal debate. Did the liberal Anglo-Saxon model arise from the Protestant work ethic, where people believed they served God through their work?

Similarly, one can see an influence on the development of collective social values through the early Catholic Church. There were two types of Catholics in 19th Century France. The first, liberal Catholics, contributed little to the charitable systems of the era and remained uninterested in the plight of the poor.[134] The second, social Catholics, attempted to establish a social order to regain social cohesion among the classes. In doing so, they focus on the family, which was viewed as a fundamental part of the church, and on workers, whom

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[132] David Landes, "Religion and Enterprise," Enterprise and Entrepreneurs in Nineteenth and Twentieth-Century France, ed. Edward C. Carter II, Robert Forster, and Joseph N. Moody (Baltimore: Johns Hopkins University, 1976) 42.

they believed could be redeemed through the suffering of work. In forming charitable organizations, the church acted as an intermediary between the state and the populace.[135] As such, the economy of the individual did not take hold, permitting the collective model to develop itself within France.

The family, at the center of the church's concern, also was at the heart of business development in France. Originally, the family served as a source of economic subsistence. Farmers, for example, inherited their land from their fathers. Following the dawn of the industrial revolution, the family remained the major unit of business; now families had become captains of industry. Landes adds to this idea, saying, "…the pace and character of French entrepreneurship was set by family firms, owned and managed by blood relations, whose primary concerns were safety, continuity, and privacy."[136] In 1936, 200 such families existed within the French business structure. The heads of these family empires tended to run their businesses in an authoritarian or paternalistic fashion, centralizing power and control in few people, similar to the structure of past governments. This lead to the current, monarchical corporate structure described earlier in this thesis. Financing of these firms was done largely via self-financing, where companies reinvested their profits to exoand their business in the future. Originally, these firms displayed a mistrust of the financial markets, preferring to borrow from state-owned banks. This lead to powerful state banks, who were responsible for the development of credit and lending policies; the emergence of an omnipotent public sector; the creation of specialized financing institutions; and finally, the substitution of missing capital.

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[133] Anthony Giddens, introduction, The Protestant Ethic and the Spirit of Capitalism by Max Weber, trans. Talcott Parsons, (New York: Charles Scribner's Sons, 1958) 4.
[134] Gueslin, L'Invention de l'économie sociale 88.
[135] Gueslin, L'Invention de l'économie sociale 112-114.

Currently, family firms are alive and well in France. Some remain controlled by family members, while salaried managers run others.[137] Over the past fifteen years, families have increasingly used the stock market to achieve their financing goals. 75% of the companies now trading on the Paris bourse are family run, representing 25% of the capitalization of the exchange.[138]

The importance of the family in France is also demonstrated in the French social system, where a category of social security benefits specifically devoted to the family exists. Following World War II, a *politique nataliste* emerged, thereby giving prominence to family spending. These payments originated from employers wishing to equalize social charges and contributions to prevent discrimination against those with families.[139]

Risk Tolerance

A final influencing factor in the current debate concerning the movement towards liberalism is the risk-averse behavior that characterizes French investors. According to Izraelewicz, this is seen throughout the French character, starting with the careers that people prefer for their children. These tend to be extremely practical; according to Izraelewicz, French parents tend to want their child to become a *fonctionnaire* (member of the civil service),a stable, socially acceptable position with excellent benefits. Investing in the stock market is associated with high levels of risk. As such, the market has acquired a negative image; it is perceived to be the "kingdom of speculation."[140]

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[136] Landes, "Religion and Enterprise" 42.
[137] Izraelewicz, Le capitalisme zinzin 100-104.
[138] Izraelewicz, Le capitalisme zinzin 140-143.
[139] Dorion. La Sécurité Sociale 9.
[140] Izraelewicz, Le capitalisme zinzin 180-183.

It should be noted that, through the process of privatization, which gave employees the opportunity to purchase shares in their firms and which gained public interest through widespread publicity, and through the ongoing bull market present on Wall Street over the past decade, individual interest and investment in the market has increased substantially within France. Over the past twenty years, the number of domestic individual shareholders of publicly traded firms rose four times, from 1.3 million in 1979 to 5.2 million in 1999.[141] 15% of the population owns stock, a dramatic increase over the 1% present a decade ago, but still far below the 50% level in the US.[142] Similarly, as noted earlier in this thesis, shares comprise only 12% of the average couple's investments, as compared with 82% in the UK.[143]

While the risk tolerance of the French is changing, it is doing so slowly. The role of the market and the profits of investors are a key piece to the efficient functioning of the neoliberal model. Thus, the French's resistance to and mistrust of the stock market will hinder their overall adoption of this economic structure. This will prolong the life of the social economy.

4. Is France Unique? The Case of Germany

It is important to note that France is not the only country experiencing challenges in reconciling their social economy with the growing liberal market. Germany is another country dealing with this conflict. The German debate was exacerbated by reunification, an incorporation of sixteen million people who had a standard of living that was one fifth of that in the Western half of the nation.[144] The existing social system was thus strained through the

[141] Izraelewicz, Le capitalisme zinzin 150-157.
[142] Tagliabue, "Resisting those Ugly Americans"
[143] "Bidding for the Future."
[144] "Germany: Is the Model Broken?" The Economist, 4 May 1996, 17.

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extension of benefits to former East Germany (this was costly, as the former Communist-bloc nation had higher levels of unemployment than did the West), and by instituting a 1:1 currency exchange rate for the Deutschemark (an overvaluation). Like France, Germany's welfare system is generous; it is aimed at giving everyone a stake in the system and promoting social inclusion. It is also impacting the business sector and is influenced by Anglo-Saxon institutional investors. What has been different, however, is Germany's response to this dilemma.

Germany, similar to most industrialized nations, faces mounting social costs driven by an aging population. Similar to France, the nation also lacks an adequately funded pension plan and a strong domestic institutional shareholder base. German unemployment, at over 4 million people following reunification, is at its highest level since the 1930s, increasing the present cost of social payments. Additionally, high minimum wages are assured through a strong collective bargaining system. The result is a reluctance of foreign firms to locate there due to the labor costs. [145] This is also reflected in domestic firms' decisions to move production facilities abroad to countries with lower cost, technically skilled labor. For example, BMW recently invested $1 billion to open a plant in Spartanburg, South Carolina.[146]

The codetermination model that exists between management and employees, however, complicates resolving the unemployment situation. Unlike in France, employees control half of the seats on companies' supervisory boards, helping govern the company, and, as part of this, have some control over the hiring and firing of employees.[147] This is central to the Rhenish model, a consensus system based upon strong ties between bankers,

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[145] "Germany: Is the Model Broken?" 18.

[146] Stephen A. Allen, BMW: US Manufacturing Investments, Wellesley: (Babson College, 1993)

industrialists, labor unions, and the state. After World War II, in Rhenish Germany, as in dirigiste France, banks and the state acted as financial intermediaries for enterprise.[148] This resulted in *Hausbanks*, -- state or privately owned banks which, as in France, lent money to firms in exchange for ownership stakes – thus creating another system of cross-shareholdings. Networks of companies developed around these banks, giving the banks a level of control over the companies while providing the firms with a sure source of capital.[149] Thus, a centralized system of financing was common to both nations.

Currently, as in France, the financial markets are replacing the bank's role. This is demonstrated in the number of smaller companies that have completed initial public offerings to raise needed capital, instead of getting bank loans. 80 such companies came to market in 1998, versus 20 in 1996.[150] A major difference between the two countries, however, is that German companies are less dependent on foreign capital than are their French equivalents. Anglo-Saxon investors control less than 10% of German market capitalization.[151] Germany also has a larger investor base than does France, allowing it to resist what Izraelewicz refers to as the "Anglo-Saxon invasion." As such, it has been able to progressively integrate liberal market mechanisms into the economy.[152] Individual investors are also warming up to the market; between 1988 and 1998 the number of individuals investing directly in equities doubled, from 3.4 million to 7.7 million.[153]

As in France, corporate governance is also beginning to change, and as in France, the German management is adapting to the concept of shareholder value. As such, a flood of

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[147] "Germany: Is the Model Broken?" 17.
[148] Izraelewicz, Le capitalisme zinzin 58-59.
[149] Izraelewicz, Le capitalisme zinzin 59-61.
[150] Izraelewicz, Le capitalisme zinzin 72-73.
[151] Izraelewicz, Le capitalisme zinzin 81-82.
[152] Izraelewicz, Le capitalisme zinzin 92-93.
[153] Izraelewicz, Le capitalisme zinzin 69-70.

M&A, similar to that seen in France, has appeared. Germany is currently faced with revising the Rhenish model, under which many companies overextended or diversified into non-core competencies, lower transparency standards were acceptable, and innovation was not considered very important.[154] Disclosure of executive compensation, as in France, remains a contentious issue.

Unfortunately, as noted by Izraelewicz, most methods aimed at creating shareholder value are not in line with the aforementioned Rhenish model. Specifically, the social consequences, particularly the layoffs often associated with merger activity, are not negotiated with unions.[155] The result has been conflict between management and unions, which strikes at the heart of the co-determination model. The latter reflects the hesitations of a population worried about this change. To quote Izraelewicz, "Germany is not ready to renounce the social economy."[156]

The nation has, however, made more attempts to resolve its social ills and reform the social system than has France. In 1996, the government recognized that the existing, comfortable social system and the elevated compensation structure were increasing costs to business and, with these costs, unemployment. As such, Helmut Kohl and his government proposed sizeable social reforms aimed at reducing and redistributing costs evenly between the federal government, local government, and the social security system. "One cannot live beyond one's means. If we do not act now, more jobs will disappear, then welfare will be unfinanceable." said Kohl.[157] This met with disapproval from labor, afraid of losing their extensive benefits. In 1998, faced with stubborn unemployment rates and continued

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[154] Izraelewicz, Le capitalisme zinzin 63.
[155] Izraelewicz, Le capitalisme zinzin 76.
[156] Izraelewicz, Le capitalisme zinzin 82.
[157] "Germany: Is the Model Broken?" 18.

discontent from the unions in the face of social reform, Helmut Kohl lost reelection to Gerhard Schröeder, a social democrat, after a Presidency that spanned sixteen-years.

Finally, Germany's response to global business has differed from that of France; they have accepted, and even facilitated, its insertion into the domestic economy. For example, the government has proposed eliminating capital gains tax on the sale of large industrial stakes (the cross-shareholdings) held by companies and banks. Currently these are hefty – between 50% and 60%. This would encourage the selling of large blocks of shares and would benefit individual investors, as the blocks would be spread across more owners. Second, Germany has displayed its commitment to the global economy through the creation of the Neuer Markt. This stock market for smaller companies resembles the American NASDAQ market. It has encouraged participation in the equity market by smaller technology companies and family-owned businesses alike. More importantly, the Neuer Markt has established itself as an international market by obliging listed firms to file reports using either American or international accounting principles and by requiring that all quarterly reports be filed in both German and English.[158]

In moving away from the traditional Rhenish model, a model based on collective inputs, it could be argued that Germany, like France, is superceding its social economy for a more liberal system. However, the change in government towards the left (also seen in France in 1997), combined with popular concern regarding the future of the social system, refutes this idea. While Germany has been more open to globalization and less influenced by Anglo-Saxon institutional investors than France, it is also intent on maintaining elements of a socialist system. Therefore, Germany, like France, will never fully convert to neoliberalism.

Conclusion

The debate over the future of the socialist economic model in France will persist as long as Anglo-Saxon institutional investors continue to influence the goals and strategies of French companies through their large shareholdings. This has been demonstrated through the French's adoption of Anglo-Saxon standards of corporate governance and via the virtual explosion of domestic M&A activity. This has not been a painless process; often, the values imposed upon the French model completely contradict its traditions. The treasured social system is also feeling the ramifications through changes in the labor structure, as evident through the rise in short-term, contract-oriented employment and outsourcing, as well as in rising cost pressures on the social security system.

These changes challenge a value that is central to the French identity: solidarity. This collectivism is the base for the entire social system. This trait, in combination with the traditions of a centralized, paternalistic government and a resistance to American hegemony, will prevent the liberal model from fully replacing the social economy.

Thus, the question becomes one of equilibrium. Where is the balance between the social and the liberal models? Is it possible to maintain the benefits of an extensive social system while promoting a free market economy? Germany, a country suffering from a similar dilemma, has made more attempts at reform and has facilitated the globalization of its financial markets, yet, like France, it has not found the balance between the two systems. Bourdieu is correct in his belief that globalization is resulting in insecurity among the French, as evident in the struggle between collectivism and the liberal model.[159] Yet, Madelin is also right: globalization and the technological revolution are making liberal ideals – autonomy,

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[158] "Bidding for the Future."
[159] Bourdieu, Acts of Resistance.

individual creativity, lower levels of intervention – more of a reality than ever before.[160] The solution, as argued by Izraelewicz, may be a compromise between the two models: a substitution of the current position occupied by Anglo-Saxon institutional investors with a similar, collective French shareholder base. This would ensure the preservation of the French social model amidst movements towards a liberal economy that relies upon the capital markets for its financing. For now, the only certainty is that the struggle between the two systems and the resulting challenges imposed upon French values will continue.

[160] Madelin, Aux sources VII.

Appendix 1

Rate of Contribution to the Social Security System
(in percentage terms)

Type of Benefit	**% of Pay, if Wages are Below the Stated Cutoff**	**% deducted off Total Base Salary**	**Total Tax on Pay on Salaries Below the Cutoff**
Health, Maternity, and Disability Benefits and Life Insurance			
Employer		12.8	12.8
Employee		5.5	5.5
Total		**18.3**	**18.3**
Retirement Contributions			
Employer	8.2	1.6	9.8
Employee	6.55		6.55
Total	**14.75**	**1.6**	**16.35**
Widow's Benefits			
Employee		.1	.1
Benefits for the Family			
Employer		5.4	5.4
Workman's Compensation Payments			
Employer		2.26 (avg.)	2.26 (avg.)
Total Benefits			
Employer	8.2	22.06	30.26
Employee	6.55	5.6	12.15
Total	**14.75**	**27.66**	**42.41**

Cutoff for Salary subject to taxation (as of Jan. 1, 1997): 13,720 francs per month; 41,160 francs per quarter.

(Source: Dorion, La Sécurité Sociale, 104)

Appendix 2

Unemployment Statistics

(in percentage terms)

Rate of Unemployment	**France**	**Germany**	**UK**	**European Union**	**US**	**Japan**
1987	10.4	6.3	10.4	10.5	6.2	2.8
1994	12.3	8.4	9.6	11.1	6.1	2.9
1997	12.5	9.7	7.1	10.7	5.4 (1996)	3.4 (1996)

NB: Germany Unified since 1994

(Source: Boissier, La Question Sociale, 12)

Insert Appendix 3 Here

Appendix 4

Mergers and Acquistions, 1999
Offers Announced and not Withdrawn, Jan. 1 – Aug. 31, 1999

	Target		Acquirer		Value of
	Company	**Country**	**Company**	**Country**	**Deal ($M)**
1*	AirTouch	United States	Vodafone	United Kingdom	65,901.9
2	Media One	United States	AT&T	United States	63,115.3
3	Total Fina SA	France	Elf Aquitaine	France	56,209.9
4	Elf Aquitaine	France	Total Fina SA	France	53,293.6
5	US West	United States	Qwest	United States	48,479.8
6*	Telecom Italia	Italy	Olivetti	Italy	34,757.9
7	Arco	United States	BP Amoco	United States	33,701.9
8	Hoechst	Germany	Rhone-Poulenc	France	28,526.0
9*	Ascend	United States	Lucent Technologies	United States	21,070.4
10	Promodes	France	Carrefour	France	18,301.8
11*	YPF	Argentina	Repsol	Spain	17,436.7
12	BankBoston	United States	Fleet Financial	United States	15,925.2
13	Honeywell	United States	AlliedSignal	United States	15,495.9
14	Tractebell	Belgium	Suez Lyonnaise des Eaux	France	14,189.0
15	One 2 One	United Kingdom	Deutsche Telekom	Germany	13,629.0
16*	Paribas	France	BNP	France	13,035.3
17	CWC Consumer	United Kingdom	NTL	United States	12,963.7
18	Marconi	United Kingdom	British Aerospace	United Kingdom	12,863.3
19	BOC Group	United Kingdom	Investor Group	France	12,726.8
20	Frontier Corp.	United States	Global Crossing	United States	12,594.4
21	Union Carbide Corp.	United States	Dow Chemical	United States	11,669.5
22*	Hispanoamericano	Spain	Banco Santander	Spain	11,320.8
23	Scottish Widows	United Kingdom	Lloyds TSB	United Kingdom	11,119.5
24*	TransAmerica Corp.	United Kingdom	Aegon	Netherlands	10,813.6
25*	Asda Corp.	United Kingdom	Wal-Mart Stores	United States	10,742.9
* Effective. All others pending.					
Source: Thompson Financial Securities Data					

(Source: OECD, Financial Market Trends (74: Oct. 1999) 17.)

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