French Foreign Economic Policy under Mitterrand

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Since the election of President François Mitterand last May, France has embarked upon a program of extensive nationalization, fiscal expansion, and industrial reconstruction. The industrial policy, which includes the new elements of decentralization, regionalization, and worker-management, puts new emphasis on the French commitment to "specific sector" industrial development. For the first three months after the Socialist victory in last June's parliamentary elections, much of France was on vacation, so little more could be said about the precise nature of the reforms or about the impact they could be expected to have on French international economic relations.

In recent months, however, with the nationalizations under way and the political and economic positions of Mitterrand's cabinet members more precisely articulated, it is becoming increasingly clear that the Socialists' reforms will have a substantial effect on France's foreign economic policy. Jacques Delors, the new French Minister of Economy and Finance, has publicly called for "a large scale economic agreement among the European Communities, the United States and Japan, to put order into the international monetary regime and to facilitate the recycling of [OPEC] capital."[1] Such an agreement, he adds, must include "a united foreign economic policy for the EEC"[2] and "a strengthening of the European Monetary System."[3] These pronouncements mesh well with the French President's plea for the creation of "a European social space,"[4] renewed efforts at international energy cooperation, and the coordination of European industrial policies. Mitterrand argues that these new priorities will necessitate the general restructuring of the Community's budget. Furthermore, Delors has declared that France will be no more protectionist than England or West Germany,[5] and Pierre Dreyfus, the new French Minister of Industry, has given assurances that there will not be a significant hardening of regulations governing foreign investment in France.

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1. "L'appel de Delors," in *Le Nouvel Economiste*, no. 310, 9 November 1981 p. 41.
2. "Delors s'explique," in *L'Expansion*, 4 September 1981, p. 56.
3. "L'appel de Delors," p. 57.
4. "Le Mitterrandisme de A à Z," in *Le Nouvel Economiste*, 5 October 1981, p. 45.
5. "Delors s'explique," p. 55.

Nevertheless, the rhetoric supporting free trade and international economic cooperation has clashed with the well-publicized goal of "reconquering domestic markets," which many people have viewed as a form of protectionism, and with the hard line France took at the last GATT multifiber agreement. An examination of the three main aspects of the Socialists' reforms — the nationalizations, the decentralization and regionalization of the French bureaucracy, and the specific sector industrial policy — suggests that France will be driven toward a more bilateral and protectionist position in its foreign economic policy.

Nationalization

The nationalization of French industry includes the complete takeover of five major industrial groups (Compagnie Générale d'Électricité, Pechinev-Ugine-Kuhlmann, Rhône Polenc, Saint-Gobain-Pont-à Mousson, and Thompson-Brandt) as well as the acquisition of 54 percent of the stock in Dassault Aviation and 51 percent in Matra.[6] When completed, the French government will control three-fourths of the French steel industry and synthetic fiber production — two ailing industries that have come to rely more and more heavily on state aid. In addition, the state will move into the new sectors of professional and household electrical equipment, glassmaking, and, most significantly, electronic and computerized office equipment, taking over between a third and a half of these respective sectors. The state will also expand its control in sectors where it already owns a significant portion of production: metallurgy (from 16 percent to 66 percent), base chemicals (from 16 percent to 52 percent), and armaments (from 58 percent to 74 percent). But perhaps the most significant sector to be nationalized is finance. The nationalization of the Banque de Paris et des Pays-Bas (Paribas) and the Compagnie Financière de Suez, will give the French government a virtual monopoly over the financial sector, allowing the state a significantly enhanced degree of control over all domestic investment.

Three features of the Mitterrand government's industrial nationalization are striking. First, several major exporting firms are among the groups being taken over. Many of these companies — especially CGE, Thompson-Brandt, Matra, and Dassault — have proved to be profitable and dynamic competitors in international markets. With the 1982 current account running a deficit of around 40 million francs, the government will have a strong desire to insure the continuation of these firms' high export levels — regardless of whether or not the tactics it employs are in strict accord

6. "Mitterrand's Socialization of French Industry Begins," in *The Christian Science Monitor*, 11 September 1981, p. 5.

with the spirit of GATT restrictions upon subsidization of export industries.

Second, by nationalizing financially troubled enterprises such as Unisor and Sacilor, the French government may be establishing a precedent for the salvaging of lame ducks. These firms, the world's tenth and twentieth largest steel manufacturers, together lost some 3.2 billion francs last year. Rhône-Poulenc, a base chemical and synthetic textile group, is also in trouble, having lost 327 million francs in 1981.

Dreyfus has repeatedly asserted that the French government is not adopting a policy of shoring up the nation's troubled industries. Last November he warned against "the temptation to save at any price,"[7] arguing that the purpose of nationalizing weak sectors was not to place them under the custodial care of the state but rather to "return them to a state of competitiveness" and "revive the large sectors that have lost their ability to compete due to the previous government's policy of abandonment."[8] His critics contend, however, that the growing international division of labor and the comparative advantage of some less developed countries in industries such as steel and textiles lessen the prospects for recovery in ailing sectors of the French economy. Although the Socialists tend to scoff at such arguments, they have yet to present a detailed and convincing plan for restructuring these industries to restore competitive edge. Furthermore, they have refused to make distinctions between sectors that are actually in decline and those that are ailing but still potentially competitive.

The third comment is that, after nationalization, the French State will control, and be directly responsible for, nearly half of the nation's industry and the quasi-totality of its finance — and roughly a third of all French jobs. Employment has always been the first priority of the Socialist Party, and the increased power that Mitterrand's victory has given to French labor will make it even more likely that the State will intervene aggressively into the market if jobs are at stake. Under President Giscard d'Estaing, sectors such as textiles and steel were tacitly understood to be in a state of decline; although the state was expected to take action to defend these sectors, its responses were often largely rhetorical. The transfer of resources and labor out of declining sectors creates a substantial economic burden which to this point has been borne largely by the unions and the working class. Future readjustment will be heavily government-subsidized, and the redirection of resources to more promising sectors will become much more expensive in both political and financial terms. The government will

7. "Pierre Dreyfus: Ma politique industrielle," in *L'Expansion*, 6 November 1981, p. 42.
8. *Ibid.*

therefore be discouraged from undertaking constructive adjustment measures. Instead, it may resort to protectionism. The government's policy toward textiles, examined in detail below, is a case in point.

Finance

In 1983 the Mitterrand government's policy of fiscal expansion to stimulate domestic demand will give way to one of heavy direct investment in key industrial sectors of the economy. For two reasons, this investment will be largely controlled by the state. First, the government will have an unprecedented ability to target investment, as it will control 90 percent of the financial sector and be subject to revised rules regulating monetary policy and inter-bank relations. Second, by the end of 1982, most of those sectors to be targeted will in fact be owned by the state.

The exact nature of the reforms to be instituted, and their long-term effects, are still unclear. Banking in France will undergo some remarkable modifications, though. Delors has carefully explained that their nationalization will respect the fundamental principle of the client's freedom to choose his own bank.[9]

The first target of the French banking reforms will most likely be the domestic money markets in which banks freely exchange currency and assets among themselves. Instead, all banks will deal separately with the Banque de France, exchanging assets and currencies at rates that are centrally determined. The purpose of this plan is to disengage domestic interest rates from world money and financial markets. It implies, of course, a strict application of domestic currency exchange controls and short-term exchange taxes (or restrictions) to discourage speculation.

Most significant among the projected banking reforms is the plan to separate investment and monetary policies. The Banque de France will retain control of all monetary and exchange rate policies and the coordination and the direction of all middle- and long-term government sponsored or subsidized domestic investment in France will be placed in the hands of a "Banque nationale d'investissement."[10] But even without this hypothetical "Gosbank à la francais," the Socialists feel that control over investment through ownership of banking will provide the state with "the principal tool, in the service of the Plan, with which to remodel the industrial landscape, favor preferred sectors, [and] create new enterprises. . . ."[11]

Such reforms may create both domestic and international problems. The Socialists are quick to recognize that state control of investment can

9. "L'Appel de Delors," p. 39.
10. "Comment fonctionneront les banques socialistes?" in *L'Expansion*, 2 October 1981, p. 101.
11. *Ibid.*

lead to wasteful and counterproductive over-bureaucratization. Delors maintains, however, that this tendency can be overcome through "decentralization, which will be the antidote for bureaucracy."[12] Only major directives will be established by the state; individual enterprises will be evaluated case by case at the local or regional level for small and medium sized companies (PMEs). Large companies and multinational firms will be dealing with the central bank in any case. The line between financial institutions that serve industries and state-owned banks that subsidize them would be thin, and the distinction might prove too vague for many of France's trading partners.

The Mitterrand government plans new regulations on French investment abroad and on foreign investment in France. According to Dreyfus, "French investment in foreign countries must be analyzed to determine the contribution that it will bring to the French economy."[13] He goes on to establish the criteria according to which foreign investments ought to be permitted:

> A foreign investment may be permitted if : 1. it provides access to new technologies that would be prohibitively more costly to develop "ex nihilo" in France; 2. it secures steady and reliable sources of raw materials; 3. it allows the realization of economies of scale through the lengthening of production series . . . or through the sharing of resource expenses among a larger number of production centers; 4. it attacks a competitor in his own market, thereby preventing him from accruing, through a local monopoly situation, the capital necessary to establish himself within French markets.[14]

As for foreign investments in France:

> When we are called upon to discuss the national interest of allowing [a foreign firm to invest in France] — for example, when such an operation is eligible for public assistance — we will look to see if this investment creates a significant number of jobs, what its impact will be on the French balance of payments, if it allows the transfer of technology or of information to French personnel. In the end, we would prefer that a French company participate as the affiliate of the foreign firm.[15]

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12. "L'Appel de Delors," p. 39.
13. "Pierre Dreyfus," p. 43.
14. *Ibid.*
15. "Delors s'explique," p. 54.

Such state control over international investment will likely cause conflicts with foreign governments and businesses. Furthermore, the proposed government intervention in international trade might cause responses in kind which would foster an aggressive form of international economic competition.

Industrial Policy

Pierre Dreyfus has put forth an ambitious policy of "re-industrialization." The new policymakers perceive a serious threat to the national welfare in the international division of labor arguments that are frequently invoked to explain the decline of various sectors of French industry, and they are determined to resist the sort of de-industrialization occurring in several other industrialized nations. Delors has declared the advent of "the third industrial revolution and the new international competition,"[16] and the French have resolved to be among the leaders of this revolution. Dreyfus speaks of "a voluntary attitude that will be the opposite of . . . submission to automation and to the international division of labor."[17]

This philosophy helps explain the French commitment to "the reconquest of France," specifically the reconquering of domestic markets now dominated by foreign imports. While investment incentives have been written into the tax revisions for fiscal 1982*, the major unleashing of investment will begin in 1983 and will be heavily coordinated by the state. The key sectors include the traditionally French low-technology areas such as leather, wood, furniture, and textiles, as well as the recently expanding high-technology fields of bio-industry and pharmaceuticals, medical and engineering equipment, information systems and electronics — areas in which French domestic consumption has been expanding quickly in recent years. The Socialists envision an industrial policy that will make French industry responsive to these shifting consumption patterns.

The role of the Plan in this investment coordination is not yet clear, primarily because the "mini-plan" enacted for only 1982-1983, is but a temporary provision until the 1984-1988 five-year plan can be enacted. This mini-plan, or the Plan Rocard (after Michel Rocard, the current Minister of the Plan), will be largely a set of guidelines and macroeconomic principles designed to lend coherence to the government's industrial strat-

* These tax revisions include a sort of Serisette-in-reverse: a system which establishes an inverse relationship between voluntary investment and "fortune" (property) tax. "Invest or pay, such will be the dilemma for a large number of procrastinating PMEs in 1982."[18]

16. "L'Appel de Delors," p. 37.
17. "Pierre Dreyfus," p. 43.
18. "Le Mitterrandisme de A à Z," p. 43.

egy. While Delors feels that the role of the Plan should be "to give public enterprises what they need to be competitive and powerful in world markets,"[19] he is quick to acknowledge that the power of the Plan has been largely outstripped by the size of the rapidly growing French economy:

> We will never return to a Plan like that of 1945-1952 which, because of the weakness of financial resources, fixed the criteria for long term finance and authorized all extentions of credit and repayment schedules. . . . Today the Plan must only fix priorities that will be implemented through fiscal and budgetary instruments. . . . The relative abundance of available capital in France's economy today rules out the return to a constrained system in which the Plan's director of finance must give the green light before every financial operation.[20]

In spite of reassuring statements like these, the state's control over finance will be extensive, and the government will have the ability to funnel investment funds to specific firms or sectors, generating a level of coordinated responsiveness to domestic consumption patterns that was previously unattainable. This can be interpreted as a form of subsidization to increase exports, and it may draw criticism from many of France's trading partners.

There are other aspects of the Socialists' plans for industry which may increase the pressure upon the government for protectionism. The "Plan Jobert," after Michel Jobert, Minister of Foreign Trade, proposes to bolster exporting industries and reduce imports by meeting three central goals for 1982: 1. to redress the French balance of trade deficit; 2. to prevent this year's increase in consumption (which the OECD estimates will be about a 2.5 percent[21] from being translated into a similar increase in imports; and 3. to shift priority from securing large contracts (e.g., exporting nuclear power plants) to current exchanges, which now represent nearly 80 percent of foreign sales.[22] In order to achieve these goals, Jobert plans the simplification of foreign trade risk insurance, the establishment, through Crédit national, of a procedure for preferred loans for foreign investment and export industries, and the tripling of the size of Sofinidex, the parapublic institution designed to provide technical and organizational assistance for exporting firms. All this will be capped off with a nationwide "buy French" advertisement campaign.

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19. "L'Appel de Delors," p. 41.
20. *Ibid*, p. 39.
21. "Le Mitterrandisme de A à Z," p. 43.
22. "Commerce extérieur: le plan "Jobert," in *Le Figaro*, 22 December 1981.

On a smaller scale, Jobert has won an acceleration of the reimbursement of VAT credits, and he is working at securing an agreement from the "Centre français du commerce extérieur" to provide technical assistance to PMEs engaged in export production. In the spirit of the Socialists' plan to decentralize the state's power, the Ministry of Foreign Trade will create regional service systems through the "Direction regionale de l'economie extérieure" in order to insure a regional orientation to the Ministry's export assistance (for the theoretical purpose of aiming such assistance at economically depressed regions). Finally, Jobert has pledged to put "coopérants militaires" (young French citizens working out their military service requirements through alternative programs established through the government) at the service of exporting PMEs.

Concerning multilateral negotiations, Jobert "plans to present [the OECD] with a plan for a 'buffering procedure' designed to prevent destabilizing fluctuations if foreign exchange, founded upon the necessary principles of commercial safeguarding clauses."[23] As for GATT, in addition to a much harder line for textiles (see below), Jobert plans to insist upon an agreement for expanded and intensified protection against counterfeits.

Whether these plans will be effective is an open question; whether they will pass unnoticed by France's trading partners is another question. France has firmly established itself as the world's fourth largest exporter. In 1982 578 billion francs worth of French exports will enter world markets (roughly one-fourth of France's GNP). As other industrialized nations attempt to recover from the current recession, they may be led to question the compatibility of France's industrial policy with GATT and OECD efforts to limit export subsidization.

French industrial policy contains still other provisions that are likely to lead to increasing pressure on the government for protectionism to revive economically depressed areas. The Socialists plan a vigorous policy of regionalization, based largely upon export expansion of local PMEs. If imports threaten to put an enterprise in a depressed sector of the economy out of business, the government will be pressured to protect that enterprise, either through subsidization or at less immediate cost by restricting the damaging imports. Given the decentralization of state power, regional directors and administrators who are highly sensitive to these pressures will have a greater degree of influence in the formulation of national policy.

This tendency will be compounded by the government's overriding concern with the level of unemployment. Regionally, the creation of labor-intensive industries will usually be favored over capital-intensive ones.

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23. *Ibid.*

Since the price of labor is higher in France than in many of its major trading partners, such firms will not enjoy a natural advantage over their foreign rivals. In nationalized firms, where programs for the institution of labor management and labor-direction will be under way, the unions will be stronger and more politicized, and the central government will be even less likely to resist demands for protection.

Furthermore, when public companies fail, it is the government that is directly responsible for paying the economic and political costs. Under a Socialist government, the unions will resist any efforts to modernize that would entail a significant reduction of labor's role in production, even to the detriment of a firms' ability to compete. If a firm risks losing a significant portion of its domestic market to a foreign competitor, or if it risks failure because of the inability to compete effectively on the international level, the state will have a strong incentive to intervene.

Energy

Economic policy may be the single most divisive issue facing the Socialists in the new French government. Soon after his inauguration, President Mitterrand made the traditional promises that France's energy independence will be assured, and announced that the nation would turn to conservation, to new energy sources, and to coal in order to achieve this independence. Until recently, however, the specific details of his energy plan remained vague.

Conservation will indeed be a significant part of his energy policy, and the 1982 budget for the "Agency for Energy Conservation" has been raised 51 percent over the 1981 level — to the billion franc mark. Still, conservation alone will account for but a small reduction in France's dependence on foreign energy sources.

Today France imports about 50 percent of its entire domestic energy consumption in the form of oil, down from 66 percent in 1974. Mitterrand's goal is to reduce that portion to around 30 percent by the 1990s. In order to achieve this goal he has had to soften his anti-nuclear position. In 1983, six of the previously planned nine nuclear power plants will be brought on line, and by 1990 between 28 percent and 30 percent of France's electricity will be generated by nuclear reactors.

Mitterand has called for increased production of coal, and production should be up by some 30 percent in 1982. This will be the first increase in the output of coal since the end of the Second World War. Production of coal, however, does not solve the problem of its use. Only a small portion of French industry is presently equipped to burn coal, and conversion from oil or electricity is discouraged by the fact that coal is not abundant in France, and its long-term availability is therefore doubtful.

Furthermore, Electricité de France is planning to increase dependence on nuclear power systems through the 1980s, and so far no new coal-fired thermal plants have been planned. Nevertheless, coal production has strong support among members of the Socialist government, largely because CFDT dominates the coal mining industry.

The Plan Rocard calls for the diversification of the sources of natural gas, which now supplies some 13 percent of France's energy needs. The French aim to cut the imports from Lacq et Groningue (Holland) from 70 percent to 20 percent by 1980, partly because of the difficulty they have had in securing long-term gas delivery contracts in recent years. Other natural gas producers — primarily the USSR, Algeria, and Nigeria — will take up the slack.

"New energies" such as tidal, wind, and solar power provide about 1.8 percent of France's current energy needs. The Socialists plan to have these "soft" sources break the 6 percent mark by 1990, and in order to help achieve this goal they are raising the government-sponsored research and development budget by 50 percent (from 200 to 300 million francs) in 1982. Because these sources are decentralized and regionally oriented, they fit well with the Socialists' general ideology. Support for these programs can therefore be expected to continue.

As for multilateral cooperation on energy, Mitterrand has become even more aggressive than his predecessors in his efforts to undermine the US-dominated International Energy Agency through the creation of a common European energy policy. At last November's summit in Brussels he called for a general restructuring of the EEC's budget that would shift resources away from agriculture (which now consumes 63 percent of the EEC's 134 billion franc budget) to industrial and energy policy coordination. Nevertheless, in spite of this effort and other more symbolic actions, France will remain heavily dependent on foreign energy sources well into the foreseeable future, and this tendency will be reflected in Mitterand's foreign economic policy. In the event of another oil shock or some threat to supplies, we can still expect France to negotiate bilateral agreements with producing nations, trading technology for long term contracts even to the detriment of multilateral solidarity.

Agriculture

Mitterrand has made it very clear that he is opposed to the continued monopolization of the EEC's attention and resources by agriculture, and his Minister of Agriculture, Edith Cresson, has put forth a proposal calling for the general restructuring of the Community's agricultural policy. Her plan would set production limits for each farm product within the EEC, and would then establish percentages of these limits for each country.

Price supports would be maintained for each product until the limit was reached, and then a significantly lower price would be supported afterward. On the domestic side, Cresson has called for the restructuring of national production to counter rising imports resulting from shifting demand patterns. Her plan is controversial in that it fails to provide for the expansion of agricultural production within France.

As one would expect, the plan has encountered vigorous resistance from the "Fédération nationale des syndicats d'exploitants agricoles" (FNSEA), who were quick to present a counter-proposal. The FNSEA plan, which calls for a significant expansion of output, would sell French surpluses abroad in order to raise revenue with which to fund the necessary price supports. So far, the FNSEA has received very little encouragement from the Mitterrand government. Considering the relatively small number of people employed in agriculture (and who directly benefit from price supports), and considering the large portion of EEC resources that is consumed by the agricultural policy, we can probably expect to see Cresson's plan prevail and, perhaps in a somewhat modified form, become the official French bargaining position at Brussels. If this proves to be the case, we may view Mitterand's agricultural policy as an exception to the government's trend toward bilateralism.

East-West Trade

Immediately after the military crackdown in Poland, Claude Cheysson was asked how France intended to respond. He answered, "it is an internal matter; we are going to do nothing, of course."[24] Since that statement, however, the government has adopted a much harder line on the Polish crisis, due in part to CFDT's outspoken concern for the Solidarity movement. But in spite of this rhetorical toughening toward the Soviets, nothing short of a full-scale Soviet military invasion of Poland would bring about a serious limitation of French economic relations with the Eastern Bloc.

The Mitterrand government sees the Soviet Union as a pragmatic imperialistic nation whose actions are motivated largely by self interest. Therefore, strengthening the Soviet Union's economic ties with the West would increase its dependence upon the West, thus reducing the chances that Soviet leaders would see any significant gain through actions that threaten or irritate Western countries. Furthermore, French leaders seem convinced that economic prosperity within the Soviet Union promotes political and social liberalization, which could in turn be passed on to the

24. *New York Times*, 15 December 1981, p. 14.

countries of the Eastern Bloc. Thus a higher degree of independence might be afforded to the Eastern European nations.

Conversely, imposing sanctions upon the USSR would jeopardize prosperity and reduce Soviet dependence on the West. France views Eastern Europe as a potentially vast market for its industrial exports, and the Soviet Union as a supplier of an ever-increasing quantity of natural gas. It is unlikely that the Mitterrand government will curtail French economic relations with the East.

This policy does not represent any significant break with the policies of past French governments, which have sought increasing economic ties increasing between Western Europe and the Eastern Bloc, and the French have frequently acted to undermine the US strategy of linkage between economic and political factors. Despite France's public display of sympathy with the Poles and her tough anti-Soviet line on other issues, we should not expect to see any significant modification of the traditional French support of East-West economic relations.

Other Factors

The nationalization of firms, the regionalization of state power, the high degree of government control over investment finance, and the sensitivity of the Socialists to their labor constituency all combine to make the Mitterrand government more vulnerable to pressures for protectionism. But cultural and historical influences will also contribute to the formulation of policy.

One such influence is the anti-Americanism which has recurred in France since the end of World War II. Despite Mitterrand's ideological opposition to Charles de Gaulle, he has not proved more friendly to the American administration than were his predecessors. In fact, his fundamental differences with Ronald Reagan have frequently surfaced in recent months. At Cancún, where Reagan favored a renewed reliance on private investment and commerce for the developing nations, Mitterrand echoed his Yorktown statement (". . . today's answer to America's war for independence is the South's struggle for economic independence") by calling for a new world economic order, including "a regulatory system governing the trading of primary resources," and signing the UNCTAD agreement on base products.

France's other disagreements with the United States range from the Franco-Mexican pronouncement on El Salvador to the purchase of Texas Gulf by Elf Aquitaine, and from the recent arms deal with Nicaragua to recurrent accusations of gross mismanagement of the US dollar and pleas for an SDR-dollar substitution account. While many of these disputes are largely symbolic, it would be a mistake to believe that they will have no real impact upon French foreign economic policy. While self interest is usually a good ruler with which to measure French actions, there is nevertheless a new romantic element in French politics — one that will manifest itself most frequently in France's relations with the Third World. The French might work to undermine trade agreements or international regimes that are detrimental to developing countries, and they can be expected to be more aggressive than past governments in securing concessions for Third World nations in future multilateral agreements, except where French interests are most directly concerned.

Textiles

The well-publicized goal of reconquering domestic markets is aimed primarily at three industries: furniture, electrical appliances, and textiles. In each of these sectors, imports have been expanding rapidly in recent years, domestic production has been falling off, and workers have been losing their jobs. Today 20 percent of the furniture and 40 percent of the electrical appliances purchased in France are imports from France's European trading partners, and nearly half of the clothing worn by the French were made in Southeast Asia, Italy, and Greece. The impact of this import boom is felt not only in the balance of payments deficit, which has been a concern of French policy makers since the 1974 oil shock, but even more strongly in the unemployment rate, which is of special concern to the Socialists. To deal with the problem, the French are employing a wide array of tactics, ranging from "buy France" advertising to a substantial reduction in social security taxes for key firms. Pressure will also be brought to bear on trading partners for multilateral — and, if those fail, bilateral — restrictions, and the unions will be asked to cooperate by being more flexible in terms of hours and wages. The government's policy toward textiles provides a particularly good illustration of Mitterrand's "reconquer domestic markets" strategy because it is in textiles that the impact of imports has been the most acute, and therefore the government's policies are clearly discernible.

The invasion of imported textiles in France has been of concern since 1973, but since 1977 it has become increasingly troublesome. In 1977, 35 percent of the textiles consumed in France were produced abroad; in 1981 that figure was about 48 percent. Because of the labor intensive nature of the industry, it is estimated that each percentage point of import penetration represents the loss of about 10,000 jobs in France's textile industry. This problem is aggravated by the general decline in domestic consumption of clothing, which has been losing about 1 percentage point per year over the last five years (with a rebound, however — 2 percent growth — in 1981). These factors have combined to create an average loss of some 25,000 jobs per year since 1973.

The government's strategy to deal with the problem is twofold, involving a domestic plan to rebuild the industry and a hard line toward future multilateral accords to reduce imports. On the domestic side, 1.3 billion francs in government funds have been earmarked for direct investment in the textile industry as part of a plan aimed at the modernization and the technological improvement of the factories. The government also plans to follow through with a 15 percent reduction in social security taxes, which will comprise a 3-4 billion franc tax cut to producers in order to stimulate investment.

The government will face a dilemma, however, in its efforts to modernize: how can the State reconcile automation — the best way to restore to these firms their capacity to compete — with employment, when automation means replacing men with machines? If the primary objective is, as the government officials claim, the preservation of jobs, the State's efforts may result in a form of modernization that does not really make the firms in the industry internationally competitive. If this is the case, we might expect to see the government relying more and more heavily on import restrictions.

The second part of the domestic policy to save the textile industry was announced by Mauroy, the French Prime Minister, as "a program without precedent" — a "plan textile" designed to formulate a common strategy between the Minister of Industry and the professional federations.[27] This will be followed upon by seperate agreements between individual companies and the departmental sections of the Ministry of Industry. The objective is to form a sort of "contract of solidarity" that will help the industry unite and adopt a common strategy in concert with the government to meet the challenge presented by low-priced imports. It is also hoped that, as in the case of the furniture industry, a deal can be worked out with textile distributors and major textile retailers to provide a discrete form of favoritism (a discrete form of non-tariff barrier) to help the ailing industry.

French textile workers and garment makers will also be called upon to make concessions. During the busy spring and summer months they will be asked to work 43 hours per week, and, in return, they will work only 38 hours per week in the slower season. Furthermore, they will be asked to accept a constant salary throughout the year averaging out the total. In sum, they will be asked to share in the spirit of solidarity with the government and with the industrialists in order to help revive the failing industry.

Solidarity, however, will be a purely domestic phenomenon. On 31 December 1981, the second Multifiber Agreement (MFA), concluded in 1976 among the 51 exporting and importing nations, expired. And during the negotiations for the temporary agreement signed on 24 December (to be renegotiated at the end of 1982), the Mitterrand government left no doubts as to its negotiating position for the next long-term agreement. Dreyfus stated publicly that he would not sign a deal that did not establish ceilings for various imports,[25] and, largely due to his efforts, the 24 December agreement not only established import limits requiring Europe's four largest suppliers — Hongkong, South Korea, Taiwan, and Macao — to reduce their quotas for 1982,[26] but it also contained a surge clause (prohibiting any sudden increase in exports to Europe, regardless of the established quotas) and greater flexibility for conducting bilateral agreements. Furthermore, M. Dreyfus has hinted that if the new agreement is not more effective than the last one, France might drop out of the MFA altogether and conduct separate bilateral deals with its chief suppliers.

This policy finds the Mitterrand government facing yet another dilemma, advocating on the one hand economic support for Third World nations and on the other refusing to accept their exports. But it also places France in direct opposition to West Germany, which supports liberalism as a means of achieving better North-South relations, and in conflict with virtually every other EEC member. If France does drop out, it will represent a major schism in the EEC consensus. This would be highly detrimental to the EEC's economic and political influence.

Critics of multilateral cooperation within the Mitterrand government point out that both the United States and Japan, while participating in the MFA, have not been averse to signing separate agreements with their chief trading partners. Furthermore, cheating on the Accord is commonplace within Europe and is apparently increasing. With the high level of trading in clothing and textiles it is becoming increasingly difficult to effectively monitor import levels. Stories abound of dresses from India imported to France through West Germany after the MFA limits have been reached, of gloves exported to Belgium and then re-exported to French traders as Belgian goods, and of workshops in the hills of Northern Italy that specialize in putting "Made in Italy" labels on Macao sweaters. These facts, the French feel, give them reason to be discontent with the MFA and to seek bilateral deals outside of the Accord.

Thus, in spite of Mitterrand's verbal defense of multilateral cooperation, the case of textiles seems to indicate a disillusionment with the results

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25. "Le Textile: stopper l'hécatombe," in LeNouvel Economiste, 28 December 1981, p. 39.
26. *Ibid.*, p. 39.

of such accords and a willingness to forego cooperation if domestic French interests are perceived to be at stake. The internal pressures that are working on the Mitterrand government — the need to protect employment, the need to modernize in a labor-intensive way, the need to reconquer domestic markets in order to reduce trade deficits — all combine to push policymakers from cooperation toward protectionism.

Conclusion

This paper examined the effects that the Mitterrand government's policies may have on France's foreign economic relations. It was argued that the extensive nationalization program being undertaken by the Socialists differs from past nationalizations in that it includes some of France's major export moneymakers as well as several lame ducks. Furthermore, upon completion of the program the State will control half of French industry and almost all of the financial sector. The State will thus assume a more direct responsibility for exports as well as for employment in declining sectors, and it will become more vulnerable to pressures to intervene in order to protect jobs (the number one priority of the Socialists) or to balance the trade deficit.

Many factors will enhance this tendency toward intervention. The State's policy of regionalization will decentralize governmental power and influence, and just as resources will be targeted at depressed regions, those areas that are being depressed by rising imports will be able to exert more pressure upon the central government to take actions that will limit those imports.

Furthermore, the greater political clout given to labor will also act to increase the pressure for protectionism. Labor will oppose automation that, while making firms more competitive, will eliminate jobs, and they will demand that the government intervene to restrict imports that threaten employment. While in the past the burden of moving labor resources out of declining sectors has rested largely upon the workers, in the future the government will accept that responsibility. Given the costs of direct, state-sponsored industrial restructuring, we might expect to frequently see the government taking the less expensive course of protecting declining sectors.

In the nationalized financial sector, the government has announced policies designed to disconnect internal interest rates from international capital markets. This is the preliminary step in the separation of monetary policy from investment policy, which will enhance state control over investment, giving the government more of the tools it needs to implement the Socialists' aggressive campaign to "reconquer domestic markets." It has been argued that this insulation of the French internal investment market may be perceived by France's trading partners as a form of export subsidization that is not within the spirit of OECD and GATT agreements. The resulting tensions may be aggravated by targeted direct investment in exporting firms and by State subsidization of newly nationalized lame ducks.

While Mitterrand's actions in agriculture seem to support multilateral cooperation, policies concerning energy and East-West trade show little modification of the policies handed down by previous governments. In the past, France has not been adverse to employing bilateralism in securing energy supply contracts, regardless of how seperate deals might damage the potential for multilateral negotiation.

Finally, the traditional French anti-Americanism should combine with a new solidarity with the less developed countries to promote policies that undermine US-dominated regimes and interfere with the cooperation necessary for OECD and GATT agreements. How the new government will relate to other EEC members has been less thoroughly explored, but it appears that, in spite of Mitterrand's appointment of some of the most eloquent EEC defenders to cabinet posts, there remain serious differences to work out over the structure of the EEC budget, the Community's line on textiles, and the creation of a "European social space."