Taking the State Back Out?
Comparing French Responses to Globalization
in Agriculture and Shipping
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Abstract

How autonomous is a state in today's highly interdependent international economy to pursue policies that diverge widely from the international norm? Does the degree of autonomy vary for different domestic sectors? We adapt and apply Benjamin Cohen's unholy trinity model (1993), to a comparative assessment of how France responded to globalization over agriculture and shipping, focusing on three dimensions — investment, transaction costs, and government policy responses. Although France is reputed to possess a strong state machinery (Katzenstein, 1987; Wilson, 1987; Skocpol, 1985), our analysis raises qualifications. On the one hand, regardless of government policy intentions, we find irreversible forms of disinvestment in both sectors, though different in nature — geographic for shipping, and functional for agriculture; on the other, we also find continued dependence upon the state — for aid in shipping and resisting free trade in agriculture. We further find that, although internal and endogenous, as well as external and exogenous, factors influence policy-making, the nature of these factors are different for the two sectors. We conclude by drawing implications of our findings for state-society relations and European integration.

Our appreciation for comments and support to Gustavo Acua, Arturo Borja, Jim Caporaso Henry Nau, participants on the ISA, 96 panel where this paper was presented, and anonymous reviewers.
Introduction

To what extent does greater economic globalization influence the autonomy of the state? Does the degree of autonomy vary for different sectors? As trade, foreign direct investment, and technology become increasingly open and fluid, policymakers and domestic firms appear to be more at the mercy of forces outside the control of the state.¹ The spread of liberal ideas, including deregulation and privatization, as well as common management and production processes, help to establish a competitive norm in which capital is encouraged to maximize returns globally. The issue is how much autonomy a state has in a highly interdependent international economic system to diverge from this international norm in sustaining domestic sectors.

France is one of the world's main economic powers, and has a critical interest in this issue. As a state with a strong executive and a reputation for an administrative elite with a well-informed view of the public interest,² one would expect France to be immune from the emerging private interest demands for lower public policy costs and greater incentives for investment. This paper investigates the public policy choices of France in two very different sectors: shipping and agriculture.

Three dimensions of state autonomy demand attention. First, because of the concern over delocalization in France, the perception is that it is difficult to reconcile high production costs with promotion of investment and employment. The decline by two-thirds of the French fleet since the 1970s confirms this view to many.³ Second, global competition is creating pressure to restructure domestic industries. Agricultural policy reforms of the European Union, as well as other international commitments in the World Trade Organization, portray this vividly. France is finding it notoriously difficult to make the adjustments amidst domestic resistance. Finally, open economies are increasingly concerned about the trade-off between private investment and public policy choices, even as many public choices are limited by international economic activity. How this trade-off works and what it means for specific sectors and countries are questions of increasing urgency.

Capital Power, State Power

Two intellectual strands that have not adequately spoken to one another before are brought together here: the power of mobile capital; and state strength in policy-making.

Within a structuralist perspective, some authors have argued that the power of capital over other social groups, such as labor, means capital can effectively set the agenda politically. Others see the most recent wave of globalization as an efficiency shakeout, in which multinational firms seeking lower factor costs and new markets have abandoned jurisdictions which do not make the investment environment attractive. Economic exit takes preference over political voice. What both camps agree on is the political significance of the mobility of capital.

The second tradition is a debate over the strength of the state in France. To one school, the state's capacity to resist private demands is strong, resulting in broad state autonomy in agenda-setting and policy-making. Others have criticized this view, arguing that membership of the European Union and decentralization within France have weakened that capacity. Still others propose a sector-by-sector analysis...
in assessing state-society relations.\textsuperscript{10} Although there has been an active debate within France over the effects and extent of delocalization,\textsuperscript{11} it has not extended to an analysis of the impact upon state strength.

While not rejecting the claim that a sectoral approach is perhaps more accurate, we raise three arguments about the relationship between a changing global political economy and the nature of state responses. The first is that the structural, cross-sectoral change occurring has empowered certain forms of capital over other social groups: capital that can escape the constraints of high-cost jurisdictions will do so in order to increase returns.

Secondly, this tendency towards exit constrains policy-makers who have an underlying motivation to maximize investment and employment. They will therefore take policy actions that minimize the risk of capital exit, an action complicated further by commitments already made abroad.

Finally, the reduction in policy autonomy weakens the state, regardless of the degree of administrative centralization, executive autonomy, or business voice, and impacts the various sectors differently. External obligations intensify this tendency, but may not necessarily be a precondition to it.

\textbf{An Unholy Trinity?}

We adapt a conceptual approach to policy autonomy under conditions of global capital mobility which argues that in cases of fluid capital movements and predictable exchange rates, national monetary policy autonomy is lost. The reason is that capital will flow away from jurisdictions where returns are threatened.

This approach has been developed by Benjamin Cohen,\textsuperscript{12} in which he followed up work done by economists and political economists.\textsuperscript{13} Briefly stated,
monetary policy autonomy—particularly the freedom to change interest rates to affect the supply of money—is curtailed in cases where states are bound to fixed exchange rate systems and allow full financial capital mobility. Cohen called this the *unholy trinity*, and argued that capital interests will respond to interest rate fluctuations by moving capital out of *rogue* countries, thus pressuring their currency to the point of breaking the fixed exchange rate system. The effect of this is seen most clearly in the European Monetary System, where countries such as Spain have been forced to adhere to relatively high interest rates in order to avoid parity adjustments. The French experiment under President Mitterrand in 1982-83 of *socialism in one country* also reflected this effect.

Is the impact similar, one might ask, in different policy areas? Under conditions of low transaction costs (falling trade barriers, for example), and capital mobility (privatization and an end to investment restrictions), does policy autonomy in areas that impose costs upon investors become more sensitive to international conditions? As with the unholy trinity, the model here shows how two aspects of internationalization—capital mobility and falling transaction costs—are increasingly embedded in international institutions or practices. It is the third variable—policy autonomy—that remains domestic but nevertheless becomes subject to *de facto* coordination with partners by virtue of the other two.

This is particularly important as the state’s ability to provide public support through protectionist devices or subsidies seems to be increasingly curtailed by legal commitments abroad and the spread of neoliberal ideas. Given that productive capital is equally sensitive to returns on investment as financial capital, the *a priori* prediction is that as capital fluidity increases, and transaction costs decrease, policy autonomy in certain areas will be more difficult to achieve.

There is by no means a consensus on the effects of *globalization* on state autonomy. While some see the state being forced into a competitive game for investment with other jurisdictions, others dispute the claim that economic openness leads to an attenuation of policy options for the state. Garrett, for example, asserts that greater trade openness and capital mobility were accompanied by a stronger relationship between left-labor power and fiscal expansion, and concludes that internationalization does not weaken the ability to create *left-leaning* solutions.


Does the degree of state policy autonomy vary by sector? One study shows that labor market and various economic policies which add cost to labor, such as national insurance and income tax charges, do in fact tend toward international equilibrium. We inquire if similar effects are seen in very different sectors of a single national economy.

Two Sectors

The case study focuses on the French shipping and agriculture sectors. They were chosen because mobility involves an entirely different process in both. Shipowners may reflag vessels to cheap foreign locations; farmers do not have the option of geographic exit, but may exercise a functional exit, that is, sell their farms and invest in other sectors. Of interest are the comparative responses of French shipowners and farmers to the loss of protected markets amidst increasing global competition.

Alongside the important differences in investment options, however, important similarities exist. The two sectors exist within the same institutional and political setting: French public subvention is constrained by EU law, the need for budgetary austerity, and rising consumer voice, manifested through privatization and greater competition. At the same time, the desire to promote French industry and agriculture (and employment) to the fullest extent possible is a political fact of life. Moreover, changing patterns of international competition have affected both industries. Trade has become more open, with greater competition from low-cost, non-European producers under the Uruguay Round agreement and association agreements with east and central European countries. Privatization and removal of investment restrictions have permitted wide use of low-cost flags of registry.

The question is, how have investment strategies evolved under changing political and economic circumstances? In addition, how have political responses to disinvestment differed between the two sectors? Does this experience herald an end to effective policy autonomy in the European Union, as the twin constraints of EU law and a rapidly globalizing economy circumscribe the potential actions of policymakers? Or do French policy-makers have effective instruments at their disposal to promote their objectives? What are the legal, political, and fiscal limits to French policy in these two sectors? What is the mixture of pro-investment policies and public support that is chosen under these conditions? How close is the relationship between industrial policy and investment choice?

Method Adopted

Three dimensions help us compare the two dissimilar sectors: investment, transaction costs, and government policies.

Investment, as previously discussed, will focus on both geographic and functional modes. This dimension is intended to parallel Cohen's financial capital mobility in our heuristic model. The primary concern here is the response of farmers and shipowners to economic and political change in recent decades. As we shall see, while productivity increased rapidly in both sectors, there was declining investment, measured in land under cultivation and seagoing tonnage. This was due both to policy change and greater economic competition.

Transaction costs refer to impediments to crossborder economic activity. We focus on two: trade barriers and currencies. This dimension parallels Cohen's fixed exchange rates—exchange rates being the only important transaction cost for financial capital. Currency values were an issue in agriculture, as French farmers found themselves disadvantaged by the EU response to the weak franc (export taxes increased the cost of French farm products in other EU countries), but not an issue in shipping. Farmers also found that the pressure to lower external trade barriers brought the spectre of increased competition; the same effect was apparent in shipping, though, as we shall see, the reactions to lower trade barriers were quite different in the two sectors.

Government policy response, of course, refers to the reaction by the French government to political and economic change, and is intended to be a parallel to monetary policy autonomy within Cohen's unholy trinity. Again, we find similarities in the loss of government autonomy in both sectors, though manifested in different ways. In agriculture, policy autonomy is lost to the EU, with farmers prodding the government through social protest. In shipping, the structure of the system, fluidity of capital, and nature of alternative policy environments available to owners circumscribe the potential actions by the French governments, with the EU presenting additional but milder constraints.

Agricultural Case Study

Summary

What has been the experience of the French agricultural sector over the years? An analysis indicates the exit of a number of investors, very high initial transaction costs caused by a deliberate decision to shelter trade, and an inevitable governmental disengagement, partial though it still is. What is striking is that an original interest of the French government to rationalize agriculture, as much for political as economic
reasons, boomeranged over time because of two significant external developments France could not control: the monetary compensatory accounts to equalize Community farm prices; and the Uruguay Round agreement to reduce barriers to global farm trade.

Merging National and Community Farm Policies

French farm policy has evolved in conjunction with the Common Agricultural Policy (CAP) of the ECC, since 1962, when the European Agricultural Guarantee and Guidance Funds (EAGGF) was adopted to coordinate the nature of government intervention and private investment. On the one hand, the EAGGF was a response, under French pressures, to Article 38 of the Treaty of Rome, which spelled out the goals of CAP; on the other, it sought to enhance the ECC principle of financial solidarity. France defiantly made agriculture the mainstay of European integration, but also created a future problem in the process: modernizing agriculture drove small-farmers out of the industry; and excessive regulations made French farm products globally uncompetitive. The first section conveys the effects of modernizing farms, the next two the results of regulation.

Investment

What was the nature of changes affecting investment? In brief, agribusinesses steadily replaced family farms. This transformation altered the structure of farming, employment, and production, and expanded output.

Table 1 shows, as the number of farms declined, the average size increased. Before the Treaty of Rome was signed, there were over 2m farms across France. By the time the transitional period of the ECC ended in 1970, there were less than 1.5m; and on the eve of the Uruguay Round talks of GATT, there were only 1m. Complementing this decline, the size of farms increased, from about 15 hectares in 1955 to about 28 thirty years later. As a result, whereas roughly one out of every four farms was over 50 hectares in size when the Treaty of Rome was formulated, roughly half of all farms were over 50 hectares when the Uruguay Round got underway.

Another dimension of farm rationalization is captured in Table 2: employment levels fell drastically over time. When the Common Agricultural Policy was fully elaborated and put into effect from January 1962, about one out of every five worker in France found employment in the farms. Thirty years later, only one out of

every twenty reported doing so. A massive outmigration had taken place, from the farms to metropolitans, from farming to other occupations. Clearly, the objective of rationalizing farms called for by Article 38 of CAP was amply fulfilled.

That this success benefited the big farmers is evident in Table 3, which informs us as to the nature of changes in the inputs and outputs categories of farming in France. Draught animals used in the farms were replaced by machines on a wholesale basis. The number of cows used fell from 2.3m in 1955 to barely 54,000 twenty years later, oxen from almost 0.7m to a paltry 14,000, and horses from 1.7m to only 250,000. At the same time, the number of tractors used multiplied from 8.3m to 58.4m and combine harvesters from 18m to 153m between 1955 and 1975. Mechanical traction provided slightly more than one-fourth of total traction in 1955; but by the time the transitional years of West European integration were over in 1970, it accounted for over 40%. Since that time period, the process of modernization has picked up even more momentum. As Table 4 shows, aggregate output expanded rapidly, as too the output per capita. French agriculture had not only been rationalized, but also largely mechanized.

Disinvestment has been widespread. On the one hand, there has been a large decrease in the number of farms and farmers over time, on the other, there has been a smaller decrease in land under cultivation, from 31.9m hectares in 1955 to 28.2m in 1986. Regardless, productivity has only increased.
### Table 1
Structural Changes in French Farming: Numbers and Size

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Farms (in m)</th>
<th>Average size (in hectares)</th>
<th>Over 50 hectares (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>2.1</td>
<td>15.2</td>
<td>25.3</td>
</tr>
<tr>
<td>1970</td>
<td>1.4</td>
<td>21.7</td>
<td>36.7</td>
</tr>
<tr>
<td>1986</td>
<td>1.0</td>
<td>28.2</td>
<td>49.8</td>
</tr>
</tbody>
</table>

Sources: Burrell, Hill, and Medland (1990); OECD (1994).

### Table 2
Structural Changes in French Farming: Employment Patterns

<table>
<thead>
<tr>
<th>Year</th>
<th>Farm Employment (in m)</th>
<th>Farm Workers as % of Total Labor Force</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>4.1</td>
<td>20.0</td>
</tr>
<tr>
<td>1960</td>
<td>3.5</td>
<td>13.6</td>
</tr>
<tr>
<td>1965</td>
<td>1.9</td>
<td>8.6</td>
</tr>
<tr>
<td>1970</td>
<td>1.6</td>
<td>5.0</td>
</tr>
</tbody>
</table>

Sources: European Communities (1978); FAO (1977, 1990); and United States, Department of Agriculture (1990).
### Table 3
Structural Changes in French Farming: Nature of Production

<table>
<thead>
<tr>
<th></th>
<th>1955</th>
<th>1975</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Draught Animals</strong> (in 1,000s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cows</td>
<td>2,300</td>
<td>54</td>
</tr>
<tr>
<td><strong>Machines</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tractors (in m)</td>
<td>8.3</td>
<td>58.4</td>
</tr>
<tr>
<td>Combine Harvestors (in 1,000s)</td>
<td>18</td>
<td>153</td>
</tr>
<tr>
<td><strong>Mechanical Traction</strong> (as % of Total Traction)</td>
<td>27</td>
<td>43 (1970)</td>
</tr>
</tbody>
</table>


### Table 4
Structural Changes in French Farming: Output Patterns

<table>
<thead>
<tr>
<th></th>
<th>Agricultural Output (1979-81=100)</th>
<th>Output per Worker (1979-82=100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>84.9</td>
<td>57.2</td>
</tr>
<tr>
<td>1980</td>
<td>101.7</td>
<td>101.2</td>
</tr>
<tr>
<td>1988</td>
<td>111.7</td>
<td>147.1</td>
</tr>
</tbody>
</table>

Transaction Costs

How have transaction costs fared in terms of sustaining farm policy? If rationalizing drove small farm-owners out of the industry, increasing costs contributed to eventually making French agriculture globally uncompetitive. One of the salient indicators of the deteriorating comparative advantage of French farming is the adoption of the monetary compensatory accounts (MCAs) between 1969 and 1970.  

The MCA, a bold attempt to supranationalize European farming, sought to equalize farm prices within the Community to eventually attain a single market. At least three monetary developments severely restricted the implementation of CAP, one of the clearest evidence of policy autonomy being permeated by developments both external (outside the country) and exogenous (outside the sector) —the revaluation of the deutschmark, devaluation of the French franc, and the abandonment of the fixed exchange rate system in 1969, 1970, and 1971, respectively. Because common farm prices were determined in terms of the Common Unit of Account (CUA) of the Community, which was itself based upon the gold standard, the actual exchange rate of a currency began to diverge from the exchange rate in terms of the CUA. The difference became known as the green rate. Just as its name conveys, the monetary compensatory account was meant to compensate member countries when the green rate of a farm product was different from the market rate of that commodity. Consequently, if countries had a strong currency, their MCA was positive, if the currency was weak, the MCA became negative. To equalize prices, then, the MCA taxed exports of weak currency countries and subsidized imports of strong currency countries.

Owing to a weaker currency, France, the bread-basket of Western Europe, ended up with a negative MCA, and the Federal Republic, for example, a major net importer of agricultural products, began to expand output by virtue of having a stronger currency, and thereby getting higher prices for farmers.

Some interesting and potentially divisive dynamics emerged. Table 5 profiles them.

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Table 5
Farm Trade Trends in the Federal Republic of Germany, German Democratic Republic, and France

<table>
<thead>
<tr>
<th>Year</th>
<th>GDR</th>
<th>FRG</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>-882m</td>
<td>-4.9b</td>
<td>-300m</td>
</tr>
<tr>
<td>1980</td>
<td>+2.1b</td>
<td>-14.6b</td>
<td>+3.6b</td>
</tr>
<tr>
<td>1985</td>
<td>+1.49b</td>
<td>-10b</td>
<td>+3.9b</td>
</tr>
<tr>
<td>1988</td>
<td>+1.64b</td>
<td>-14.4b</td>
<td>+7.8b</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>GDR</th>
<th>FRG</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>+4.2b</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>+4.8b</td>
<td></td>
<td>-1.1b</td>
</tr>
<tr>
<td>1985</td>
<td>+25.4b</td>
<td></td>
<td>-6.5b</td>
</tr>
<tr>
<td>1988</td>
<td>+72b</td>
<td></td>
<td>-11b</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>GDR</th>
<th>FRG</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>2.4</td>
<td>3.7</td>
<td>16.5</td>
</tr>
<tr>
<td>1980</td>
<td>3.5</td>
<td>4.9</td>
<td>15.9</td>
</tr>
<tr>
<td>1985</td>
<td>1.7</td>
<td>5.4</td>
<td>16.2</td>
</tr>
<tr>
<td>1988</td>
<td>1.6</td>
<td>5.2</td>
<td>16.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>GDR</th>
<th>FRG</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
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<td>20.9</td>
<td>17</td>
</tr>
<tr>
<td>1980</td>
<td>14.6</td>
<td>17.9</td>
<td>11</td>
</tr>
<tr>
<td>1985</td>
<td>7.6</td>
<td>13.2</td>
<td>11.5</td>
</tr>
<tr>
<td>1988</td>
<td>7.1</td>
<td>12.5</td>
<td>10.8</td>
</tr>
</tbody>
</table>


Although production expanded in the Federal Republic, so too did consumption, resulting in rapidly widening farm trade deficits, from about $5b in 1970 to almost $15b in 1988. Yet, since overall trade surpluses also mushroomed over that time period, the mounting farm trade deficits did not become a problem. For France, however, although 1970 was an exceptional year of a farm trade deficit, surpluses also increased—from $3.6b in 1980 to $7.8b eight years later. Since France faced rapidly deteriorating overall trade balances during that period, from a deficit of
From $1.1b to $11b, farm exports became even more crucial. Yet, export earnings from agriculture as a proportion of overall exports remained stuck around 16% for about twenty years, indicating that some sort of a limit to competitive farm production had been attained, and that agriculture alone could no longer be relied upon to reverse the overall trade deficits if it was to continue being sheltered.

France never supported the MCA system, yet preferred to compromise at the European level with the Federal Republic. At this level, interaction between the Commission and the Council of Ministers (COM) appears to be increasingly more deterministic over farm policy outcomes than the original positions of either. French policy over agriculture, then, is permeated, on the one hand, by exogenous or external influences and the vested and national interests normally articulated by farm ministers.

In addition, it must be noted that variable levies upon agriculture imports to the EUL helped discriminate against non-EU products and created a very substantial transaction cost in the form of a trade barrier. This barrier was to come under considerable pressure in later years, as we shall see.

Government Policy Responses

The third dimension of analysis, government policy responses, reveals the steady loss of control over farm policy within France specifically and the loss of French control over CAP in general. These were only inevitable.

Table 6 provides an overview of the steady French loss of control over farm policy. How France responded to seven chronological issues of negotiations and controversy convey an unmistakable pattern of declining influence: On the one hand, the strong initial support extended to the Community policy measures eventually gave way to furious opposition; on the other, although Community policy outcomes converged with French interests at first, over time divergences became the pattern.

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The dividing line between the exertion and evaporation of French control over outcomes seems to be the adoption of the MCA—an external, exogenous factor which not only seriously limited the opportunities of competitive growth of French agriculture, but also exposed the gradual erosion of state autonomy over farm policy.

From determining CAP in the 1960s, France moved towards opposing the MCAs in the 1970s, advocating reforms at the regional level in the 1980s, blocking reforms at the international level in the early 1990s, and consenting with global-level changes in the mid-1990s, no matter how half-hearted its asquiescence has been. We see French farm policy autonomy gradually curtailed by European agreements, then suddenly thrust into the global arena. The attenuation of trade barriers would lower transaction costs for sure, but also permit the more competitive non-EU producers more easy access into the EU. In short, French farm policy has undergone a revolutionary turn-around since becoming a part of the European Community.

22 Hanns Peter Muth, French Agriculture and the Political Integration of Western Europe: Toward an Ever Closer Union Among the European Peoples, Leyden, A.W. Sijthoff, 1970.
## Table 6
Community Negotiations over Agriculture

<table>
<thead>
<tr>
<th>Issues:</th>
<th>French Positions:</th>
<th>Community Outcomes:</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Price support levels (1962-1967); and payment for price supports (1965-1966)</td>
<td>Low price support levels; European Community to bear costs</td>
<td>Low price support; and Community to bear costs</td>
</tr>
<tr>
<td>4. Establishment of MCA (1969), and sustenance through 3 crises (1972, 1975, 1979)</td>
<td>Strong opposition</td>
<td>MCAs adopted</td>
</tr>
<tr>
<td>5. Reforms of March 1984</td>
<td>Strong support</td>
<td>Not adopted, but ceilings placed on guarantee levels and prices</td>
</tr>
</tbody>
</table>
Shipping Case Study

Summary

What is the experience of the French shipping industry in the past two decades? Even though disinvestment has been substantial, productivity increased dramatically in French shipping from the mid-1970s to the mid-1990s, and in the process, reducing transaction costs and making the sector more globally viable. At the same time, conducive policy responses from both the state and European levels minimized hindrances to change.

Investment

Disinvestment in shipping is much greater to accomplish in practice than in most other industries; all that is required in most cases is a letter of intent and the payment of fees. Following a pattern familiar to most OECD countries, investment in French shipping has declined dramatically since the 1970s. Whereas a total of 1,393 vessels of 10.7m gross registered tons (GRT) sailed under the French flag in 1975, by 1994, there were only 746 vessels of 2.1m GRT. This depavillonage—more than 80% of the fleet's tonnage—involved relocating to cheaper foreign flags, including flags of convenience, or leaving the industry entirely. By the end of 1994, French owners controlled 1.7m tons under non-French flags.

State-owned shipping was not immune to the trend. Turnover in the one remaining state-owned line Compagnie General Maritime (CGM), for example, declined from FF8b in 1992 to FF4b in 1995 because of a decline in shipping activity. Moreover, from 1985 to 1995, the number of ships owned by CGM declined from about 50 to 16 (although this did not represent a decline in capacity as drastic as it seems because many of the latter number were larger than the former number).

During this period, the average size of vessel under the French flag declined from 7,681 GRT to 2,815 GRT, suggesting reflagging was carried out mostly by the larger oceangoing vessels, leaving smaller coastal vessels such as tugs and fishing boats. The larger vessels face greater international competition, as they tend to be located in international markets. Small coastal vessels are by the nature of their trade more insulated from the effects of international competition.

29Comite Central des Armateurs de France, (CCAF), various years, Le Transport Maritime Français, Paris, CCAF.
30Thierry Delarue, Interview, Compagnie General Maritime, September 12, 1995.
Capital mobility in French shipping has always been high, and the question is, why did exit take place when it did? Interviews with numerous officials from French shipping companies, the trade union Confédération Francaise Democratique du Travail and the Ministere de Mer bear out the unsurprising conclusion that the main reason for disinvestment was the high cost of operation under the French flag, and the gradual attenuation of state-sponsored support for French shipping companies.

**Transaction Costs**

The reduction in transaction costs is evident most vividly in the liberalization of trade over the past ten years, thanks mainly to requirements of the European Union. A number of longstanding protectionist devices have been or are being dismantled, including cabotage protection, which limits domestic shipments to French vessels, and quotas for the import of coal and oil.31

Further contributing to the increased competition faced by French shipping, evident on the France-West Africa routes, is the steady loss of monopolistic arrangements. France’s largest privately-owned carrier, SDV Lines, was fined ECU 33.93m by the European Commission in 1992 for price-fixing on these routes, a complaint brought by the Danish company, Maersk Lines, and the Belgian line, Compagnie Maritime BeLge, among others, under the terms of a 1986 competition regulation in the EU.32 Even bilateral agreements with developing countries were also terminated by EU legislation,33 removing another monopoly of French carriers.

Domestic consumers, concerned about export markets and citing new global production practices, have widely applauded the results of these European-level measures.34 Freer trade in shipping services has, in turn, reinforced the tendency toward disinvestment, as the French government’s options to preserve high domestic operating costs and protect certain markets were removed by the European Union. Both Socialist and Conservative governments have accepted these strictures.

The decline in market share of French shipping from 1980 shows the effect of increased competition. In 1980, the French-flagged fleet carried 67% of hydrocarbon shipments through French ports, but by 1992 this had declined to 30%. Over the same period, dry cargo shipments on French-flagged vessels declined from 27% to

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The lost market share was taken by foreign shipping, both French and foreign-owned.

**Government Policy Responses**

The third feature of French shipping policy is the political reaction to these developments. If the optimists are to be believed, we would expect policy to be insulated from the competitive ravages of the neoliberal world either by higher French social productivity or by left-labor coalitions acting in defense of the social welfare of seafarers. In fact, neither is true. Moreover, shipowners, voting with their feet, brought the administrative elite very rapidly to the conclusion that French shipping policy would have to be no more onerous than that available elsewhere on the world regulatory market.

Successive French governments have pursued three main policy objectives since the EU changes of the mid-1980s. The first was the establishment of an offshore registry in the *Terres Antarctiques et Australes Françaises* (better known as Kerguelen) in 1987. Modeled after similar arrangements in Norway, Denmark, the UK, and other maritime nations, the purpose was to provide a *halfway house* registry nominally under the French flag but with lower social obligations. Initially it was open to bulk vessels, and the minimum percentage of French nationals was set at 25% of the crew, raised in 1990 to 35%.

As such, all seafarers on ships under the main registry are French or EU nationals.

In 1989 and 1992, the Socialist government changed the law to permit wider use of the registry, and in 1993, Bernard Bosson, the transport minister in the Conservative coalition government of Edouard Balladur, further extended the registry to include ships of all types except passenger vessels and those calling at French ports. At the same time, a two-thirds reduction in employers' national insurance contributions was instituted. The level of French seafarers required by Kerguelen ships in international trades was reduced to 25%, with 35% required for domestic trades (EU nationals may be substituted in most positions).

The fact that the average age of Kerguelen vessels is 13 years (compared to 18 years in the main registry) suggests support for off-shore registry by investors. Moreover, as stated earlier, the much larger size of Kerguelen ships (29,000 GRT to 2,900 GRT in the main registry) suggests that the vessels to have made the transfer are internationally competitive. The Kerguelen registry has expanded from 447,000 GRT (11% of the fleet) in 1991 to 2.1m GRT (50% of the fleet) in 1994.

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Needless to say, unions have consistently opposed the Kerguelen registry, which opens a large percentage of shipboard positions to foreign nationals. It was created by a Conservative government, but tolerated or expanded by subsequent Socialist governments, and followed a general European response pattern to the rapid disinvestment from all European fleets in the 1980s. France was neither immune to this trend nor able to plow a lone furrow in achieving socially-oriented solutions. Even CGM's state-owned tonnage was placed into Kerguelen.

The second main policy objective is a reduction in social costs to employers from a standard level of about 30% to 11%, for both the main and Kerguelen registries. In addition, the government provides limited investment subsidies for vessels under the French flag, and also provides some training assistance. These incentives, known collectively as Aide à la consolidation et à la modernisation (ACOMO), are in place for the 1995-97 period. It is constrained by two factors: one is the EU power to vet state aids; the other is the budgetary pressure the government faces.

The EU informally approved this plan, though many French officials remain nervous about its continuing viability under the competition articles (state aids) of the Treaty of Rome. In any event, this has arguably worked to the benefit of the French government, because it enables cost-cutting measures to be implemented on behalf of the EU. The benefit to the social partners is that it has the support of both labor and shipowners, because it preserves employment while cutting costs. The CGM, for example, which does not take advantage of the open crew possibilities on its Kerguelen vessels, does take advantage of the lower social costs of the ACOMO program.

Social costs alleviation has come in successive budgetary plans, and has been pursued by both Socialist and Conservative governments. In the 1991 budget, funds totaling FF300m were allocated to provide investment grants and consolidate and modernize the fleet for the period 1990-94. The conservative coalition government elected in 1993 reduced the social security charges and increased modernization.

The third main policy objective is privatization. More clearly than the other two objectives, privatization in French shipping can be identified with right wing governments. The state-owned carrier, CGM, was placed on the privatization list by the Balladur government in 1993, and in July, 1995, a privatization order cleared the

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way for the company to be sold. According to officials at CGM and in the government, the company will not be floated on the stock market, but will be sold to a corporate buyer (though not necessarily a French one), preserving a noyau dur. In 1995, banana growers and shipping companies from France, Belgium, and South Africa were all mooted as possibilities.

Three difficulties remain, apart from any adverse reaction by labor unions. One is the level of debt of the company, put at FF3b. It is an open question who will assume this debt, though it goes without saying that neither the government nor any prospective buyer welcomes assuming it.

The second difficulty is that the government does not want to sell the company piecemeal, despite the fact that some parts of it hold much greater attraction for investors than others. Insistence that buyers assume the debt burden or that they buy the entire company would greatly undermine its value. Finally, the third difficulty relates to the manning of CGM ships. Although CGM has promised to keep its own vessels completely staffed by French/EU nationals (even though they are under the Kerguelen flag), it is seeking a renegotiation when the current union agreement expires in 1996. If CGM is sold prior to the end of the union agreement, under a force majeure clause the new owners could renegotiate the agreement sooner.

The upshot of these changes in French shipping policy is a gradual decay in the ability of the government to support the fleet sufficiently to offset the higher costs associated with the French flag. Change has been prompted by two forces: One is the increased globalization of the industry in terms of wide investment choice and growing international competition. The other is the inability under EU law to protect markets for French shipowners.

Arguably, without the EU strictures requiring competition and fiscal discipline, France would be free to continue protectionism, and would thus be able to insulate itself from globalization. Certainly EU policy has been influential, but it is likely that even without this constraint, international competition would force an alignment of national policy to more liberal regimes. The reason is two-fold: First, the effect of rising consumer voice, manifested in calls for more choice and lower costs in transport, which is itself a result of greater openness in French industry to international competition. This effect is heightened by economic recession. The second is that there is less need for a fleet for security reasons (one of the most important reasons in all countries for a national fleet), and thus less overriding security rationale for preserving home-grown tonnage. Indeed, the decline of the French fleet began in the 1970s, well before any EU policy required the lifting of protectionist measures.


In its choice of instruments (Kergulen, ACOMO, and privatization), France is only constrained by the EU on ACOMO, where the vetting procedure may eventually prohibit redistributive efforts. Both the Kergulen registry and privatization escape Brussels' control (although privatization is a pre-condition to any further capital injections into the company), and are part of a much wider pattern of state response to economic change.

Under these circumstances, the strategy of liner companies is partial disinvestment, continuous negotiation with unions with the intention of lowering French nationality, investment in newer ships using fewer crew, alliances with other shipping lines to rationalize services, and advocacy of an improved environment in social and fiscal charges.

For its part, the government recognizes that it has little room for maneuver. Despite the characterization of the Kergulen registry as shipboard apartheid by a labor official because of the different pay levels for seafarers of different nationalities, government officials believe the reality offers them little choice. "We can't do anything that is not in line with the global economic situation". The progressive widening of the Kergulen registry to include more classes of vessels and the progressive application of reduced social charges to these vessels indicate the pressure all governments have faced to accommodate French shipping policy to the realities of an encroaching international policy marketplace. Only privatization can be closely identified with right wing governments (Balladur and Juppe in the case of shipping), marking a vestigial distinction between left and right to economic decline.

Comparative Findings

Summary

What are the comparative findings of our case studies of agriculture and shipping? We find similar outcomes but for different reasons and to varying degrees: We find the state having less autonomy in supporting key economic sectors under conditions of greater economic globalization, but that the degree of change in that autonomy differs for various sectors. Nowhere do we find the evidence that the state is completely eliminated as an actor in shaping policy determinants and outcomes: Instead, we find that the state has become one of several central forces shaping policy outcomes, rather than being the central force as previously.

44Jean-Yves Legouas, Interview, Confédération Française Démocratique du Travail, September 14, 1995.
Investment

In both agriculture and shipping we find irreversible patterns of disinvestment, but whose causal factors and nature are quite distinctive. Agriculture disinvestment can be seen in the decline in the area under cultivation; shipping in the decline in tonnage. These changes occurred despite overall productivity increases in both sectors, and they suggest that productivity growth was insufficient to counter the influence of international competition. Whereas disinvestment in agriculture is more functional and prompted by an underlying political instinct to be competitive, in shipping disinvestment is more geographical and prompted by an underlying economic instinct to be competitive.

Functional exit is different from geographical exit: the former may take place within the confines of national boundaries, the latter invariably involves transgressing national boundaries. More importantly, whereas the state can be seen as a partner facilitating a functional exit through conducive policies, a geographical exit may take place without any input from the state, and indeed, may undermine relevant state interests. While the state was a key factor in modernizing agriculture, reflagging ships was pursued independent of any state policy. Thus, although a loss of state autonomy and corporate disinvestment were common in both sectors, the nature of both was quite dissimilar.

In the same way, the causal factors were also distinctive. They were largely political in agriculture, and economic in shipping. France used farm policy to shape regional integration to its own liking: Not only was it the sine qua non of West European integration, but also became until the 1990s the mainstay of European integration in terms of budget allocation and agenda-setting in the COM. By contrast, French shipping policy was changed to some extent by European policy, but largely by global competitiveness. Although both sectors faced the same constraint of increased global competition, they responded differently: Agriculture could not become competitive because of rigid management, shipping, being more flexible to European and consumer preferences, demonstrated greater mobility.

Transaction Costs

The causal factors and outcomes of transaction costs were similar for both sectors, but with different points of emphasis. In both sectors, the process of dismantling trade barriers lowered transaction costs—exposing French shipowners and farmers to greater international competition. As we have seen, the response was rapid geographic exit by shipowners, tremendous resistance by farmers to the loss of trade barriers, and an attempt by the French government to minimize losses through some form of continued management. The causal factors were internal and endogenous, as well as external and exogenous for both sectors, though to varying degrees. For
both policy areas, the external and exogenous factors played an increasingly greater role than the internal and endogenous. However, external factors were largely European for agricultural, but both European and global for shipping.

Whereas for agriculture the external and exogenous factors were the MCA adopted by the European Community and currency exchange rates, respectively, for shipping the external element was international competitiveness and European policy. French farm competitiveness was hindered by the growth of a negative MCA. This, in turn, resulted in at least two discontinuities with long-term implications: First, it marked a divergence in policy preferences between the state and domestic groups, which were now more interested in coalitions at the European level with their German counterparts than with state policy-makers. Second, more competitive farm exporters outside of West Europe compelled France to make a sudden realignment of prices through the Uruguay Round agreements of 1993—marking a sudden but brief reassertion of state autonomy over domestic groups, but also reflecting an equally clear loss of state autonomy over external and exogenous developments. For shipping, currency is a much less significant transaction cost than trade barriers. The abandonment of protectionist measures reduced trade barriers to the point where French shipping could not compete—unless operating costs were also reduced. The recognition of this nexus prompted a wholesale realignment of shipping policy to reflect international developments.

Government Policy Responses

In terms of government policy responses, both sectors reveal increasingly less intervention, though the degree varies. For agriculture, although the Uruguay Round agreement marked a fundamental shift towards liberalizing policy, safeguards have been retained in trade negotiations with the US and other agriculture exporting countries, to maintain selective barriers to imports from the eastern and central European states, and to compensate farmers for the competitive impact of loss of exports to Italy due to the weaker lira. These safeguards, however, must operate within the context of the EU, which reduces the degree of freedom for the French government.

Shipping, on the other hand, was never as strictly sheltered as agriculture, and hence the degree of governmental retreat in the 1990s is conspicuously less. Although the government consciously sought to align policies to international standards, it is constrained to some extent by the EU, but much less than for agriculture, particularly with regard state aid. Moreover, unlike agriculture, the government has not tried to maintain trade barriers, but rather adjusted domestic policies to the global norm. The key difference between the sectors, therefore, is that in agriculture, state responded primarily to European-level decision-making, in shipping primarily to global competitiveness.
Implications

We draw three implications from our findings.

First, even though the comparative analysis was limited, we get a sense of governmental retreat in quite distinctive sectors — indicating perhaps a general liberalization of French policies. If this is the case, then we may expect a broader restructuring of state-society relations to reduce the hitherto dominance of bureaucracies, administrative elites, encompassing groups, or trade unions, and enhancing the role of business groups.

Second, as international competition is heightened by lower transaction costs, a future of uncertainty awaits as the more predictable, more controllable policy determinants within the domestic context vie for influence over the more unpredictable, less controllable determinants in the external setting. To add to that, the greater mobility of capital across boundaries leaves governments not only with less policy-making autonomy, but also as hostages to the capacities of corporations to invest.

Finally, how does our heuristic model compare to Cohen's Unholy Trinity? In terms of capital mobility, it clearly exists in both sectors — though differentiated between functional and geographic. This is taken for granted and no imposition of capital controls (through nationalization, for example) is even remotely likely. Transaction costs are virtually non-existent in shipping, but remain in agriculture (though the subject of great controversy and pressure). Policy autonomy has been willingly abandoned in shipping, as policies are aligned to the international norm, but in agriculture autonomy was sacrificed to the legal and institutional authority in the name of European unity long before the current assault on trade barriers was anticipated. Without effective policy remedy (and considering the high priority France attaches to its farming sector), it is hardly surprising that the effort to maintain transaction costs has been so strenuous.
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