



France: The political economy of discontent. The “Gilets Jaunes” movement

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Abstract:

The author comments on the months of protest by the “yellow jackets” movement, to provide a diagnosis of the reasons of economic malaise in France. It is claimed that France only really started losing ground relative to Germany since adhering to the Economic and Monetary Union (EMU). A reform of the EMU would be needed for the country to recover lost ground, but the current political conditions at the European level do make such a reform likely. The author concludes by predicting a continuation of the status quo, matched by growth of the radical right in France and other EMU countries.

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1. Rise and decline of the “yellow jackets”

The initial impulse of the “yellow jackets” movement came largely from the countryside and small cities, since public transport in these localities is poor and the car is a key element for work and life of families. But very soon the movement redeployed to the big cities and Paris, becoming a mass protest. Concurrently, along with the amplification of the demonstrations, new demands emerged. These involved, in addition to the reduction in the price of gasoline, even the resignation of the president, including the increase in the minimum wage, the replacement of the Solidarity on Fortune Tax (ISF), or the requirement that pensions will be

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readjusted according to the rising cost of living – two measures previously revoked by the present government.

No political party or union organizations directed the movement. In addition, since its inception it avoided being identified with, and even any link with them. As it has happened in France before (*Nuit Debut* in 2016) and elsewhere (for example in Spain with the *Indignados* and in Italy with the *Five Stars Movement*) it arose and became a mass movement largely thanks to social networks. In the meantime, violent groups introduced in their midst transformed the peaceful demonstrations into violence overflows. These last features, together with the fact that the protests arose about a tax that supposedly will be used for ecological purposes, plus some unfortunate expressions on the part of participants of the protests, initially moved some critics to attribute to the movement a fascist nature. Even the Interior Minister claimed that mainly *Rassemblement National* (RN, the far-right party led by Marine Le Pen) fomented the protests.

Some observers, however, have given arguments that allow us to better understand what was happening. The historian Gerard Noiriel has shown that struggles against taxes have always played an important role in the popular history of France. At least since the fifteenth century the rejection of taxes has been an essential dimension of popular struggles, which are commonly associated with the feeling of injustice (Noiriel, 2018). In a recent interview, this author also referred to the “politically incorrect” expressions that sometimes arose in the midst of mobilizations. He pointed out:

“Despite historians or sociologists who idealize popular resistance, people are always traversed by contradictory tendencies [...]. Politically incorrect words and behavior are common in movements that are not led by activists able to define a collective strategy and name popular discontent in the language of class struggle. [In] the massacre of Italian workers [which took place in a small-town in France in 1893, ...] the spontaneous movement of unemployed French workers [...] degenerated to the point of becoming a pogrom against seasonal workers [...] who had been hired in the salt mines. I am convinced that if the news channels and smartphones had existed in [other times], the journalists could also have registered xenophobic or racist comments during the strikes” (interview with Gerard Noiriel in *Le Monde*, 11/27/2018).¹

Another commentator has shown how the rejection of taxes has much to do with expressions of immoral behavior that the press has denounced. Among them, for example:

“In 2011 it was discovered that Liliane Bettencourt, the richest woman in France, hid from the treasury more than 100 million euros, and that she contributed in kind to Sarkozy’s electoral campaign. Later came the story of [the] one-time Hollande’s finance minister, in charge of the fight against tax fraud. He confessed [...] that he had a hidden account in Switzerland worth 600,000 euros [...]. In parallel, [... several] episodes appeared that exposed the mountains of tax evasion of multinationals, political leaders, and celebrities of sport and of the world of entertainment. This sequence makes equality on taxes appear as a fable [...] while the world is now divided into two categories: on the one hand the ordinary taxpayers, who must agree to make efforts to support public finances, and on the other the powerful, that can exonerate themselves from legal restrictions without being truly bothered” (ibid.).

And Spire concludes: “It is still too early to measure the long-term impact of this movement. But his first merit is to have shed light on the feeling of fiscal injustice that has been brewing for many years among the popular classes”.

Beyond the intellectual debate, however, what silenced, and even changed many initial critics’ minds, and what led the government to negotiate, was the huge mass support of the

¹ Throughout the text, all quotations from original French are the author’s translations.

population. At the height of the protests, the French Institute of Public Opinion (IFOP) noted that, according to its survey of 11/29/2018: “71% of respondents observed positively the mobilization (48% of support and 23% of sympathy)”. It added:

“The support for the movement of “yellow jackets” is a majority in all political sensibilities, with the exception of *La République en Marche* [LRM, the party of the President]: 86% of supporters of the *Rassemblement National* [RN, extreme right party of Le Pen] support or sympathize with this mobilization, 77% among supporters of *La France Insoumise* [LFI, the main party of the radical left] and 68% among supporters of the *Parti Socialiste* [PS] and *Les Républicains* [LR, traditional right party]” (ibid.).

Among supporters of *La République en Marche* the proportion was only 34%. In turn, the journal *Le Monde* reported in those days that 62% of workers, 56% of employees, and 54% of independent workers supported the protests. On the other hand, and this shows well the fracture of ideas (and social) that exists in the country, only 29% of high-level professionals (called in France “cadres”) supported it.

After a time the forces of the movement began to decline. At that moment the government acted on two planes. On the one hand, on the days scheduled for the demonstrations, it deployed a huge amount of police forces, justifying them on the basis of the need to discourage violent actions. On the other hand, the President, in his first public intervention after the beginning of the movement, put forward some measures that, in his opinion, should respond to the demands of the discontented. Among these measures was cancellation of the special tax on gasoline that was at the origin of the protests. Likewise, the President called for a “Citizen Initiative Referendum” so that, as a whole, the French people can decide how to move towards the future.²

2. The vertiginous rise of Macron

Unlike the average militant of the “yellow jackets”, Macron comes from the top of the social pyramid. He is a graduate of the National School of Administration (ENA), one of the most prestigious schools in France, created in 1945 for the teaching of the leading cadres of public administration. He has held positions of power in the private and in the public sectors practically since the beginning of his career.

Macron appeared in the world of politics without support of any parties or movements already organized, and ascended in that world very quickly. Sometimes the media has rationalized that vertiginous rise with the enthusiastic support of disillusioned followers of either the Socialist party, or the Republican party, or both, and to the skill of his fans to manage the social networks. Those things did happen, but one must not lose sight of the essential: for the victory of Macron another fundamental factor was the support of the right-wing press and the business world.

At the beginning of the electoral process, their support for Macron was not too resounding. But when the press showed some dirty laundry of the candidate of the traditional right and his preferences came down, then the right-wing press and the business world decided to play all for candidate Macron.

² After the President’s speech, some polls were taken of militants of the movement asking them for their opinion regarding the proposals he announced. Between 60% and 70% of the interviewees expressed dissatisfaction with these proposals.

The specialist Julia Cagé has noted some very significant facts that help to understand the importance of the support that Macron achieved. Among them, she points out that the money given by the state to the candidates depends on the results obtained during the last legislative elections. This thwarts the appearance of new movements, except if they manage to attract enough private donations to compensate for this disadvantage. She shows that such a thing, which had never happened in France before, was exactly what Macron achieved. At the end of 2016, La République en Marche, the party he founded in April of that year, had already raised 4.9 million euros in private donations, against 7.4 million euros for Les Républicains and only 676,000 euros for the Socialist Party. She also points out that political innovation cannot be born without being financed. However, in all Western democracies, private donations go first to the conservative parties. And she notes on the other hand that a donation to a political party is reimbursed at 66% through a tax reduction. In other words, if you are among the 10% of the wealthiest French and make a donation of 7,500 euros, it will cost you 2,500 euros in the end. And the cost of the donation for all citizens will be the remaining 5,000 euros. To which she adds that she carried out a study of all the community and legislative elections in France since 1993, concluding that, on average, the candidates who spend the most win the elections (Cagé, 2018).

Whatever the case, Macron obtained 24% of the votes in the first round of the presidential election, above the 21.3% received by Marine Le Pen, the candidate of the extreme right. The vote that he obtained was not spectacular, but his first place in the voting was unexpected probably even for his own supporters. In the second electoral round, competing against the candidate of the extreme right, he obtained a stronger result: 66%, compared to almost 34% for the latter.

3. The president of the rich

Shortly after taking office, President Macron's initial support began to decline. At the time of the start of the protests, this support stood at a mere 25% (the figure is for mid-November, 2018). This percentage was somewhat higher than the one he obtained in the first presidential round, but it is well below what he achieved in the second round. Incidentally, his quoted support percentage is only slightly better than Hollande's 20% on an equivalent date, and is well below the 45% support that Sarkozy had at the same time.

People who voted for him believed his message, when he claimed that he was neither right nor left. Very soon the disappointment came; however, it should be noted that President Macron did not betray anyone. His campaign proposals were very clear. In particular, he was explicit in a few clear ideas. First, he claimed that what France needs is to reduce the "excessive" weight that the state still has in the economy, which would burden the nation and discourage the private initiative. In fact, one of his key proposals, which went in the same sense as that of the candidate of the right, was to reduce public employment by 150,000 jobs. Second, private entrepreneurship must be strongly supported so that taxes on profits should be reduced. All in all, it should not have surprised anyone that he named as his main ministers men drawn from the ranks of the traditional right-wing party. It should also not be surprising that the main economic measures that he has taken are similar to those proposed by the political right. Among them, and notably, the cuts (that he has imposed or that he has wanted to impose) on many items of the state's social expenditures, measures to make more flexible

the labor market, as well as the tax policy measures, which in the public eye favored mostly firms and the rich, and have harmed the modest sectors of the population. In this sense, one of the first measures in the government, and certainly one of the most emblematic ones, was the almost total suppression of the “Solidarity Tax on Fortune”.

It is for all this that at the beginning of his term President Macron was nicknamed “president of the rich”. In an interview with an already quoted author, the interviewer asks her explicitly on this point: “You say that the Macron donors” obtained a good price-quality ratio “thanks to the elimination of the Tax on Fortune (ISF) [decreed by the Macron government]. Is not that a too rash statement?” To which she responded with a lapidary phrase:

“Behind that formula there is evidence: a person subject to the Tax on Fortune (ISF) who donated 7,500 euros to La République en Marche [the President’s party], which cost him only 2,500 euros [thanks to the deduction of taxes on donations], and who finds that the ISF is eliminated has really made a good investment” (interview with Julia Cagé in *Libération*, September 2018).

4. The economic roots of the discontent

As in the rest of Europe, the standard of living in France fell sharply with the economic crisis that unfolded in 2008, and the loss suffered has not yet recovered, or in any case it has done so very slightly. Between 2008 and 2017 the average purchasing power per inhabitant was practically stagnant, and for certain categories it had even decreased. Meanwhile, unemployment remained very high, slightly above 9% of the working population, compared to a European average of 6.7% (as of September 2018).

At the same time, the feeling of inequality, injustice and exclusion seems to have become more acute. It must be said that economic-social inequality is not too severe in France, and in fact it is less than what exists in many other countries in Europe, not to mention the USA. Neither has it worsened in recent times. Moreover, thanks to high taxes and transfers, France stands out in Europe as the country that does most to reduce income inequality. For example, public social spending, which represents almost 32% of GDP, is 12 percentage points higher than the OECD average. Also, a recent study by INSEE, the national statistics institute, shows that the pre-tax and transfers income of the richest 10% of the population is 22 times higher than the lowest 10%. However, that gap is reduced to only six times after taxes and transfers.

But it would seem that people now resent more the impression of injustice and exclusion. In several interviews, the protesters in the yellow jackets expressed that ‘the others’, which includes the rich, the high officials (the “cadres”), and the politicians, for example, are much better than ‘us’, and even much better off than they were before. And in France, where equality is a value with great moral weight and in public opinion from at least the French Revolution, a widespread feeling that there is a lot of inequality is an undoubtedly worrying element.³

In any case, it seems clear that in reality the economic situation of the country and its people has not worsened. But in politics, people’s perceptions may matter more than objective reality, and in this sense, in light of what the polls show and what the press reflects, in the

³ Jean Pisani-Ferry, a former economic adviser to President Macron, identifies a breakdown in social mobility, and thus in faith that the system can improve lives for the next generation, as part of the explanation for the discontent (*Le Monde*, 29/11/2018).

country there seems to be a generalized perception that things are going wrong.⁴ This is why the yellow jackets have received such a massive popular support from the public opinion.

What can have caused this? The hypothesis that seems to me more plausible is that there are two phenomena closely linked behind this perception. On the one hand, there is discontent, or bewilderment, in the face of the very radical changes experienced by French society. On the other hand, there is also the idea that France ‘is falling behind’ regarding the importance it had in the past. I will now refer to these two issues.

5. France during the 30 glorious years

There is a fairly widespread impression according to which the French would be reluctant to change. President Macron himself has put forward such an opinion in at least two occasions. However, I think this is a very questionable idea.⁵ French society has radically changed, without major social conflicts (apart from the May 1968 protests, whose origins were non-economic causes). Although changes cover all areas of social life, here I will deal only with the changes in what for convenience I will call *the economic model*, by which I refer to the way the government directs and plays a role in the economy. For this purpose it is useful, I think, to go far back in time.⁶

Immediately after the end of the Second World War, France inaugurated two major institutional innovations that few capitalist countries have been able to successfully implement under democratic conditions.⁷ On the one hand, it founded a very effective *developmental state*. On the other, it built an efficient *mixed economy* (“*économie concertée*”). Despite De Gaulle’s political and economic inclination rather to the right, when he came into power immediately at the end of World War II his government nationalized several large industrial companies, as well as the Banque de France (the central bank) and the four largest commercial banks. At the same time it established a rigorous control over credit and international capital movements. Last, but no less important, what was called Indicative Economic Planning was established. The results were spectacular. Between the end of World War II and the mid-1970s (a period usually called in France “*Les trente glorieuses*”) the average rate of GDP growth was almost 5% per year, and the unemployment rate was kept very low.

Economic growth came together with some important features. On the one hand, state spending, and especially social spending, together with their share of aggregate demand, grew. No less important, labor protection for workers improved and real wages grew very fast (5.2% per year), slightly above the growth in labor productivity (5% per year). As a consequence,

⁴ In a survey conducted at the end of 2014, it was found that only 17% of French people thought that 2015 would be better than 2014, while 34% feared that it would be worse. These results placed France in the group of the most pessimistic countries in terms of the immediate future (*Le Parisien*, September 2015). According to another survey conducted in several developed countries in the spring of 2014, when asked about their expectations about the future of their children, 86% of the French answered that it would be worse than theirs, which means that on this point also the French are the most pessimistic of all those interviewed (Pew Research).

⁵ Amable (2018, p. 3) argues: “France is, according to a widespread cliché, ‘unable to reform’. This is blatantly false. For better or worse, substantial institutional change has taken place since the early 1980s.”

⁶ In his response speech to the yellow jackets movement, President Macron said the protests reflected the “forty years of dissatisfaction that reappears.” Certainly, for about the last four decades the French economy has behaved poorly. But here I will go a bit further back.

⁷ On these issues, see especially Boyer (1976).

income distribution improved and the share of wages in output increased from about 42% in 1950 to about 50% in 1973 (reaching its peak of almost 55% in 1980).

State command, indicative planning and control over domestic credit, in the context of a well-designed industrial strategy, played a leading role in achieving fast economic growth. French planning began immediately after the war. This allowed guiding the decisions of the private sector. In fact, a special study conducted on the subject found that “about 80% of French industrial firms knew the expansion objectives of the Plan, two third of them knew also the economic perspectives of their branches, and half of them both the growth perspectives and of investment of their branches” (Carré et al., 1972, p. 577). This did not diminish the role of the government, which had under its direct control the investment in large nationalized companies and on banks and, therefore, on the availability of credit. Maybe James Tobin was not off the mark when he speculated: “[p]erhaps Jean Monnet’s postwar ‘indicative planning’ in France, where government sponsored a coordinated raising of sights to overcome pessimism and lift investment, is an example of what Keynes had in mind” (Tobin, 1987, p. 8).

State involvement in the development of supply capacities and in technical progress was crucial. At the same time, the state invested directly as an entrepreneur. Stoffaës gives a detailed account of state direct intervention in industry. In his words

“The large project policy [was] linked to both national defense (nuclear, space and aeronautics, information and electronics), and ensuring supply of basic inputs (petroleum, oil, uranium, etc.). ‘Big projects’ were supported by a large variety of means and industrial policy actors, the ‘national champions’. They could be either research laboratories or large public entities such as the ‘Commissariat à l’Énergie Atomique’ [...], the ‘Centre Nationale d’Études Spatiales’, the ‘Centre Nationale de la Recherche Scientifique’, the ‘Centre Nationale pour l’Exploitation des Océans’” (Stoffaës, 1991, p. 454).

He goes on to tell that the ‘champions’ could also be public firms: arsenals from the Ministry of the Army, firms from the oil industry, or also private or mixed firms. In fact, the entrepreneurial state, recently described by Block and Keller (2011) and by Mazzucato (2014) in their studies of the US contemporary experience, had played a much larger and central role all along the French postwar economic scene.

The economic model that I have just described worked without major changes for around three decades. Its very existence, as well as its endurance, is surprising. Consider in particular that in those years the increasing state expenditure was financed mainly with progressive taxes on personal income and with taxes on profits, even as labor legislation favored workers while the share of wages in income grew. And despite all this, the French developmental state had its golden age when the country was run by parties from the right or the center of the political spectrum, whose economic thinking is almost totally antagonistic with central aspects of that model (Amable, 2017). However, what happened can be understood if one considers that in that period considerable success was achieved, without major economic problems.⁸ But then domestic troubles (epitomized by the 1968 movement) first, and afterwards externally caused problems, appeared. Subsequently the model of the developmental state and the mixed economy began to waver.

The first strong economic shock occurred as a result of the violent rise in oil prices, one of them in 1973 and the second in 1979. To this, economic recessions on a world scale were added

⁸ Wage increases themselves did not cause too much rejection, since they stimulated consumption and demand. So, paraphrasing a famous slogan of those years (slogan of the former German Chancellor Schmidt) it could have been said at that time: today’s high wages create today’s demand, and therefore tomorrow’s investment and employment.

almost immediately in both cases. The consequences of such hikes and world recessions were diverse. On the one hand, the trade balance of France and with it the fiscal accounts became strongly negative. In addition, the rise in the price of oil and production costs was transferred almost entirely to the prices of final goods, causing a fall in real wages. As workers tried to resist that fall, there was a price-wage spiral that brought the inflation rate to levels rarely seen before.

In this context began the dismantling of the economic model hitherto in force. It is difficult to identify the exact date on which this process began, although in the opinion of Amable (2017, p. 62) such a date could be set in 1976. In that year, austerity measures began to be applied, which sought to limit state spending and to restrain wages, and with it aggregate demand. But the expected results were far from reached as growth remained low, inflation stayed high and the public deficit was not eliminated.

6. The new French economic model

As a result of the discontent generated by the austerity measures, François Mitterrand came to power in 1981 in a coalition that included socialists and communists. His government tried to reinstate and reinforce the previous economic model. Economic growth resumed, but as the world situation was unfavorable, the trade balance deteriorated at the same time as a great capital flight was unleashed. Faced with this situation, the government decided at the beginning of 1983 to radically change the economic policy. Priority was given to the fight against inflation and monetary restriction and austerity became the essential political orientation of the government (Boyer, 1987).⁹

It was at such a moment that the development state was definitely abandoned. From then on, the different governments that succeeded each other, including those headed by the socialist party, have persistently applied the policies we now call neoliberal.

Among the many structural and strategy changes that took place with the new economic model, we can highlight the following.¹⁰ On the one hand, the role of the state in the economy has been reduced, even though the weight in aggregate demand of public spending and of total taxes has continued to increase (Ramaux, 2012). But the composition of government spending has changed. Social spending rose, together with its relative weight in the economy and in total state spending. This has been so because it has become necessary to meet the growing needs of the population, as well as the problems that have been aggravated due to people's demands confronting the mediocre behavior of the economy. In contrast, the share of investment spending in government spending has fallen.¹¹

⁹ Amable (2017, pp. 99-100) comments that the government asked the American economist Robert Eisner to give his opinion on the change of strategy, hoping that he would support this change: "Contrary to expectations, the conclusions were in the opposite direction, and instead of supporting the change of direction, Eisner considered that 'an obsession with the deficit of payments abroad and the collapse of the franc has led France to take unsound austerity measures.'" (Eisner, 1983). As far as I know, Eisner's paper was never translated into French.

¹⁰ The changes in the economic situation were accompanied by others equally important throughout society. Referring to the intellectual life, Pierre Rosanvallon points out the following: "The intellectual milieu seemed to go into lethargy in the 1980s as if it had suddenly become languorous." (Rosanvallon, 2018, p. 202). And he adds: "it was also [...] the time of disappointments, and even more of the difficulty of overcoming them with new bursts of energy. A diffuse feeling of exhaustion, of the end of the cycle, was grafted in this way on a vaguely guilty pessimism" (ibid., p. 207)"

¹¹ In this regard, J. Levy points out: "the logic of *dirigiste* policy was reversed. Instead of steering resources from consumption to investment, as during the post-war boom period, French policy increasingly steered resources from

The latter is related to the privatization of numerous state-owned companies. At the end of 2013, the state controlled 1,444 firms that employed 801,270 employees. Thirty years earlier, 3,500 companies were under state control and the workforce was 2,350,000. Thus, the proportion of public employment in relation to salaried employment fell from 10.5% to 3.4% between 1985 and 2011.

The second major change had to do with the financial sector. With the privatization program almost all public banks were transferred to the private sector. The number of state banks was reduced from 124 banks in 1983 to 3 banks in 2004. In 1993 first and then in 1998 the current legislation was changed, granting autonomy to the central bank (Banque de France). In parallel, almost all financial operations, which were previously controlled, were liberalized and deregulated. This has contributed to the “financialization” of the economy, namely the growing predominance and political power of the financial industry in the economy and society, and the increasing participation of non-financial corporations in capital markets and financial services. In connection with this, Alvarez (2015) reports that, in 1978, financial assets accounted for only 36.4% of total assets, but by 2013 had reached 59% of the total, even as the financial income of non-financial corporations rose from 8% in the 1960s to 60% in 2013 (see also Reyes and Mazier, 2014).

We may note here that financialization seems to have adverse effects on economic growth. On the one hand, it may have contributed to the fall in the wage-share.¹² This affects growth because, on the one hand, in France a wage-share fall has a harmful impact on demand and employment (De Jesús and López, 2019). On the other hand, according to another econometric study

“the financial rate of profit, i.e. the rate of return on equities held, seems to exercise a negative effect [on real investment]. In that respect, the stock market boom and the increase of financial profitability might both have contributed to slowing down fixed capital accumulation to the benefit of financial accumulation [...]. The arbitrage between real and financial accumulation could be a major factor contributing to the insufficient recovery of investment [...] in France” (Clévenot et al., 2010, p. 711).

The third major change is related to the deepening of France’s commercial and financial integration with the rest of the world, and with Europe in particular. This has happened especially in the context of its membership in the European Union (EU) and the European Monetary Union (EMU). Beyond the advantages that may have taken place due to such integration, it has also meant the loss of national control over monetary and exchange policy as well as fiscal policy.¹³

The results of this integration can be seen in the light of some indicators. The sum of exports plus imports represented around 12% of GDP in 1950, almost 20% in 1970, 30% in

investment to consumption [...]. If, in the first period, economic logic trumped social logic, from 1968 to 1983, social logic trumped economic logic. The social anaesthesia state represented an effort to bring the two logics together, to address the needs of the disadvantaged, while enabling French companies to invest and modernize” (Levy, 2008, p. 418).

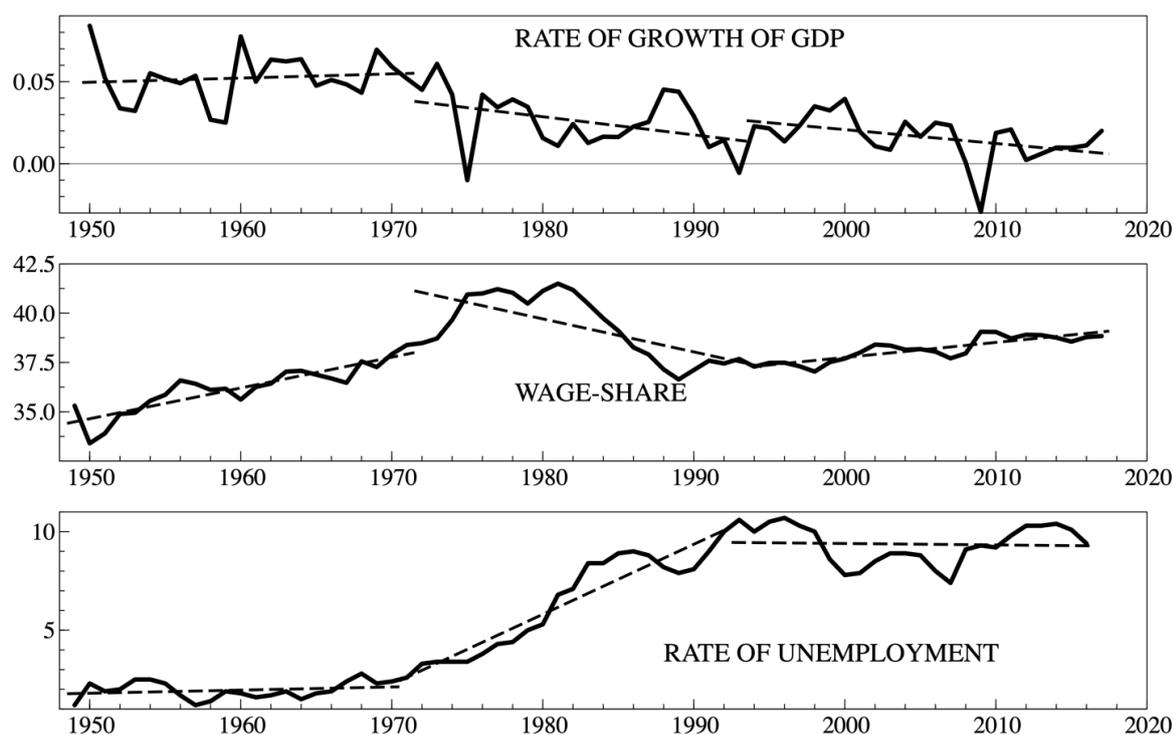
¹² In his study, Alvarez (2015) found a negative association between the degree of firms’ financialization and the wage share. He concludes that financialization “is a change that involves a wide-ranging process of social recomposition and a substantial shift in the bargaining power of the various social actors, strengthening owners and managers’ positions and resulting in the growing exclusion of labor from the revenue generating process” (Alvarez, 2015, p. 19).

¹³ In 2005, France voted on the treaty for a European constitution; 54.9% of voters rejected this treaty, compared with 45.13% who voted in favor (the abstention was 30.3%). But successive governments have totally ignored this rejection.

1990, and 60% in 2017. On the other hand, from the mid-1980s, almost total deregulation of international financial operations began. Exchange control, which had been in force for several decades after World War II, was totally dismantled in six years, culminating in 1989 with the total abolition of said control (Drumetz, 2003). In this context, the sum of foreign shares and bonds, which represented about 30% of the total assets held by residents in the years 1995-1998, represented 83% of the total assets of residents in the years 2003-2006. In parallel, the proportion of stocks and bonds held by non-residents in respect of total national issuance, which was around 27% in the first period, had become close to 70% in the second period (Duwicquet and Mazier, 2015).

The results achieved with the new economic model of France have been far below what was expected. Figure 1 shows three variables that allow us to assess these results. In order to facilitate a comparison with the previous economic model, the graph covers the period running between 1950 and 2017.

Figure 1 – France, macroeconomic evolution



The graph speaks for itself. On the one hand, the growth rate of output dramatically declined: from about 5% annual average between 1950 and 1975, to around 1.5% between 1975 and 2017. On the other hand, the rate of unemployment swelled: from approximately 4.1% on average between 1950 and 1970 to 8.4% between 1975 and 2017 (in this last year it stood above 9.4%). Finally, the wage share of the value added was on average slightly higher

in the last period: 38.7% versus 36.7%. However, while it persistently grew during the first period and until 1980, in the second period it fell strongly first (almost 5 percentage points between 1980 and 1989), and then it has risen very slowly. In 2017, the wage share was at 38.8%, more than two percentage points below the highest level it reached, which was 41.1% in 1980.

7. France and Germany. Unequal partners?

The discontent expressed by French people also arises because the idea that France 'is falling behind' has become more severe. This affects the image of President Macron because, contrary to what was expected, there are no signs that with his government this backwardness is being overcome. Now, the concern with the supposed, or effective French falling behind has recurrently appeared in this country.¹⁴ In the past, France was compared with England, or with the USA. Today the comparison is made with Germany, its largest neighbor and trade partner. It is thought that this country's performance has been exceptional. It is important to see how true this is, and to study the differences between the two countries. This will allow us to evaluate whether the idea of French lag is fair or not. It will also allow us to identify some of the difficulties that the French economy faces today, especially in its relationship with its German partner.

The overall economic performance of Germany and France during the last decades was mediocre, but without too great differences amongst them. Between 1990 and 2010 GDP grew in the first one at an average annual rate of 1.45%, while in the second one at a rate of 1.35%. It is after the 2008-2009 crisis that important differences appear, with growth rates at 3.1%, and 1.6%, respectively, between 2010 and 2017. Nonetheless, throughout the period 1990-2017 Germany grew at an annual rate only 0.2 percentage points higher than France (1.9% and 1.7%, respectively). Anyway, the consequence of the growth divergence of the last part of the period, plus differences regarding their labor markets, is that the unemployment rate in Germany, at 3.4%, is one of the lowest in Europe, while that of France, 9.4%, is above the European average.

There are two other additional differences in the performance of both economies, which are important as such and also contribute to fueling French pessimism. The first is the shrinking of its manufacturing sector, since its weight in GDP, which was already low in comparative terms, fell from approximately 16% of GDP in 1995 to 11% of GDP in 2016. In contrast, Germany has been able to defend its manufacturing sector, whose relative weight was kept at around 23% in that same period. The second big difference is with respect to the trade balance. In 1991, both countries had a slight trade deficit, of around -1.5% of GDP in both cases. In 2016 the situation had changed radically: while France showed a deficit balance of about -0.6% of GDP, Germany showed a surplus balance, at around +8.2% of GDP. But there is also a huge difference in size: in the last year just mentioned, German exports more than doubled those of France: US \$1.25 trillion and US \$498 trillion, respectively.

¹⁴ The idea of French lag goes far beyond the economic field. Referring to the intellectual and cultural aspects, an observer, otherwise sympathetic to France, wrote: "The culture of the Fourth Republic and the first years of the Fifth, when the political divisions were stronger and the conflict within and between the magazines was more animated, implied many more arguments and genuine criticisms than those that can be found today. [...] If the French cinema has not fallen so far, this is mainly due to the continuous flow of works of its original transformers: Godard, Rohmer and Chabrol are still as active as when they started. As for its contemporary production, the only film that France has successfully exported in recent years, *Amélie*, is the unhealthy kitsch thing to make even Hollywood squirm" (Anderson, 2009, p. 148).

It is common to find in the press the opinion that the German relative advantage has taken place because that country, unlike France, would have carried out a great effort to renovate its productive equipment through massive investments. This is not what the available information shows. For each and every year from 2001 until 2017 the investment rate of France exceeded that of Germany. This is probably why France's labor productivity is higher than Germany's in absolute terms, while the evolution of productivity in France and Germany has been very similar (Flassbeck and Lapavitsas, 2016). The most favorable evolution of Germany, then, must be sought elsewhere. In what follows I concentrate on two major economic transformations that have taken place in that country.

The first of these transformations has to do with the labor market. From its reunification onwards, wages in Germany have grown very slowly, and in any case below labor productivity (Flassbeck and Lapavitsas, 2015). Concurrently, the labor market became more segmented and low paid jobs have swelled. Indeed, the number of temporary workers rose from 300,000 in 2003 to 900,000 in 2013, while the number of workers with precarious employment increased from 5 million to 7.5 million in the same period. In addition, between 1995 and 2013, the share of workers with hourly wages below the poverty threshold increased from just over 13% to 18% of total employment (Celi et al., 2018).

On the other hand, in the non-tradable goods sector (especially services) the average nominal individual salary grew 25% between 1993 and 2012, while in the tradable-goods sector wages grew around 50% in that same period¹⁵ (Le Moigne and Ragot, 2015).

In contrast, in France between 1990 and 2017, wages grew slightly above productivity. Besides, although in this country labor market segmentation also deepened, this process has not been as strong as in Germany: between 1993 and 2012, in the tradable-goods sector, wages grew by nearly 70% (40% more than in Germany), while in the non-tradable sector they grew close to 50%, that is, twice as much as in Germany (Le Moigne and Ragot, 2015).

A first important consequence of wage restraint in Germany is that the share of wages in value added fell: from 64.6% of GDP in 1991, to 62.4% in 2017. In contrast, in France this share rose slightly in that period: from 62% to 62.2% (see also Schwellnus et al., 2017, for more details).

Wage restraint in Germany surely contributed to weakening the growth of consumption, and thus has adversely affected the growth rate of GDP.¹⁶ Indeed, Germany's average rate of growth of consumption between 1999 and 2017, at 1.0%, was 0.5 percentage points below the French one. But this in turn contributed to slowing down its demand for imports, with negative effects on French exports.

A second consequence of wage evolution in Germany is that unit labor costs grew very slowly: between 1992 and 2015 they grew at an average annual rate of 1.2%. In France, on the other hand, the annual rate of increase in costs during the same period was 1.4%.

The other notable transformation in Germany that should be kept in mind in this discussion has to do with the greater internalization of its intermediate demand (Celi et al., 2018; see also Simonazzi et al., 2013). In particular, this country has reoriented much of that demand to Eastern European countries, to which it has also directed a large amount of its direct

¹⁵ Incidentally, the German labor market began to change before 2002, which is when the so-called Harz reforms, further liberalizing the labor market, were enacted.

¹⁶ There is a debate about whether a rise in the wage share in value added has a positive or negative effect on aggregate demand. The statement of the text is supported by a study by López (2013), who on the basis of an econometric analysis found that in Germany a wage share fall discourages demand and output.

investments abroad. This has happened especially in the tradable-goods sector, in which in 2012 “the share of imported intermediate consumption over total intermediate consumption in Germany stood at 52.3%, compared to only 35.5% in France” (Le Moigne and Ragot, 2015).

The two major changes in the German economy that I have just mentioned have had important effects not only in that country, but also in France. The first effect that must be pointed out is that unit production costs (labor and material) rose much more in the latter country than they did in Germany. Between 2007 and 2012 they grew at an annual rate of 0.6% in the tradable-goods sector, while in France they grew at an annual rate close to 1%. Faced with German competition, French firms have been forced to reduce their profit margins: between 2005 and 2012 margins remained stable in Germany, while in France margins fell almost 10% (Le Moigne and Ragot, 2015).

The fall in margins suffered by French firms made it possible that, between 2005 and 2012, tradable-goods prices grew in France a little less than in Germany. But as was already seen, this did not prevent the French trade balance from deteriorating, while Germany achieved a huge trade surplus. Moreover, in 2017 the trade balance of France with Germany was largely in deficit, with a negative balance of US \$20 billion. In fact, France’s trade deficit with Germany accounted for 20% of its total trade deficit that year.¹⁷ Naturally, this unequal exchange in favor of Germany made the French producers lose market. Thus, it had a negative impact on French effective demand, production, employment and profits.¹⁸ At the same time, the deterioration of the trade balance has contributed to the worsening of its fiscal balance. In other words, its unfavorable trade balance with Germany is part of the reason why France has a fiscal deficit.

As we have seen, slow wage growth has not been the only change that distinguishes the general behavior of the German economy from the French one. But its impact has been very important. Based on an exercise with an aggregate model, a recent work reaches the following conclusion:

“wage restraint, which has been observed in Germany in the last two decades, alone accounts for 40% of the difference in performance of exports between France and Germany. As a result, German wage restraint has heavily penalized the French export sector. The rest of the difference is due to the quality of the German products and, probably, to the best positioning of Germany in its exports. [...] It turns out then that the problem of ‘French productive lag’ is largely (at least 40%) the result of nominal imbalances between France and Germany. The analysis of this effect [wage moderation] on the rate gap of unemployment between the two countries is more uncertain. A conservative estimate is that this difference in cost trends has contributed to an increase in unemployment in France by two percentage points.” (Le Moigne and Ragot, 2015, p. 181).

In light of what we have seen, we can better understand the roots of French economic difficulties. Due to its membership in the monetary union the country has lost practically all the economic policy instruments it had in the past. But in addition, its main trade partner has achieved, for various reasons but in particular due to wage restraint, important gains in competitiveness (Flassbeck and Lapavistas, 2015). Thanks to this, German manufacturers have increased their sales in France, while French producers resent the loss of market in their own

¹⁷ Germany’s trade surplus with respect to France is its third highest, after those it achieved with the United States and the United Kingdom.

¹⁸ As shown by Kalecki (1954), a negative trade balance implies that in the deficit country profits are lower than those that could have been obtained in other circumstances. In the surplus country the exact opposite occurs. In other words, capitalists in a country that manages to capture foreign markets from other countries can increase their profits at the expense of the capitalists of those other countries.

country. The resulting trade deficit depresses effective demand in France and increases unemployment, even as it swells the government deficit.¹⁹

To redress this situation, the French successive governments have tried various measures. Among them public spending restraint, particularly public employment, and labor market reforms to lower wages and achieve what is euphemistically called “internal devaluation.” Neither has given, nor could they give, the expected effects, and not only due to their adverse social consequences, but for strictly economic reasons. Restraining government spending hampers demand. The same thing happens when wages are reduced (De Jesús and López, 2019). In both cases, domestic demand, economic growth and employment are adversely affected.

It is often pointed out that the difficulties affecting the French economy are due to the rigidity that the Monetary Union imposes on fiscal policy. This limitation is harmful, but even if it were lifted the problems would not be solved. Let us suppose for the sake of the argument that France manages to bypass Brussels’s objection and carries out a significant rise in public spending with the consequent increase in its fiscal deficit. Then effective demand would recover and unemployment would be reduced. But the counterpart would be a rise in the external deficit. Sooner rather than later, doubts would arise about France’s creditworthiness. Then capital flight will take place, interest rates on foreign loans would grow, and there could even be the threat of an external crisis. In such a situation, the government would be forced to stop spending to contract effective demand and imports. In fact, this type of situation would occur even in the case, very hypothetical indeed, of (what we might call) a “Shumpeterian miracle” and French businessmen went into an investment spree to modernize their productive equipment. The result would also be a greater external deficit (although here without the counterpart of a greater public deficit) with the consequences indicated above.²⁰

Thus, the European Monetary Union is flawed not only because of the limitations it imposes on fiscal policy. Its other main problem is the absence of any mechanisms to ensure that surplus countries grant long-term loans amounting to their surplus to deficit countries.²¹ Herein lies the root of the deflationary bias embedded in the EMU.

Meanwhile, the European economic outlook does not give many reasons to be optimistic. Germany does not want any changes to the principles ruling the EU. In the outlook of the different governments that have led this country in the last decades as well as its two main political parties (and it appears that in the eyes of the German public opinion also), the economic problems of its neighbors have nothing to do with the design of the EU. They are solely due to their decision of retaining a bulky state, which hampers modernization and discourages “animal spirits”, along with rigid labor laws that prevent wage flexibility. Besides that, the current European situation has brought to the country clear advantages. Not least the fact that nobody doubts today that in Europe Germany rules the roost.

Considering what we saw about French economic difficulties, we can understand why in the presidential election of 2017 the main political parties, with the exception of president Macron’s party and the traditional right party, raised the demand for fundamental reforms to the EU. In fact, both the candidate of the extreme right and the candidate of the radical left went

¹⁹ In national accounts terms, the public deficit and the external deficit are positively associated.

²⁰ Sometimes it is claimed that the problems occur because in a monetary union the exchange rate is fixed. Suppose however that France could devalue. The results would be a rise in prices, and a price-wages spiral if workers prevent the fall of their real wages. If however real wages fell such that a real depreciation of the currency was achieved, the wage reduction would cause a drop in domestic demand and in total aggregate demand (De Jesús and Lopez, 2019; see also Mazier and Valdecantos, 2015).

²¹ Short-term bank credit is not a good substitute when the external deficit is structural.

further. They raised the possibility that if their demands were not accepted, France would withdraw from the Union.²² Together, the votes of the presidential election of the supporters of a radical change of the Union represented 47% of the total votes cast (or 53.5% if the votes obtained by the candidate of the socialist party are included).

8. Où va la France?²³

At first it seemed that the *Gilets Jaunes* were creating a situation of lawlessness. However, when the movement began to decline the landscape normalized. According to a survey conducted in mid-January 2019, the popularity of the President had risen seven percentage points in a month, from 23% support in December (his lowest level to date) to 30% in January. Something similar shows the results of an interesting survey conducted by IFOP that took place in mid-December 2018. In that survey, the intentions of voting in a first round in a presidential election were simulated as if it took place now and with almost the same candidates as in the actual first round of 2017. Macron's votes in this hypothetical first round would rise from 24% to 25%.

This result is unsurprising. Confronted with social disorder almost everyone wants a return to order. Let us recall here what happened in the parliamentary elections that took place in June 1968, after the dissolution of the National Assembly by President De Gaulle to respond to the crisis of May of that year. The presidential majority overwhelmingly won those elections, with 46% of the vote. This was the first time in the history of the Republic that a party won an absolute majority in the National Assembly.²⁴

Thus, everything indicates that the stability of President Macron's government is not threatened. But what will happen in the medium and long term is uncertain.

On its left the government and its political support have little competition. In fact, after the movement of the *Gilets Jaunes* the left seems to have lost strength. This is what the exercise just mentioned shows, in which the voting intentions of a hypothetical first round were simulated. The votes of all the left parties (including the extra-parliamentary left) would go from 27.7% to 24%.²⁵

The French left is today strongly divided, although its different factions seem to share two main ideas. The first is that in order to solve the problems of the French economy and society the state must recover its role of promoter, guide and benefactor it had in the past. The second is that this is impossible in the context of EMU in its present character. But here it confronts a

²² Melenchon, the candidate of the radical left, proposed in principle to negotiate a way out of European treaties by abandoning existing rules for all countries that wished to do so and negotiating other rules. These would include ending the independence of the European Central Bank, organizing a European conference on sovereign debt that would lead to moratoriums, low interest rates, rescheduling and partial cancellations, and establishing a protectionist policy, with the cancellation of the free movement of capital and goods between the EU and the rest of the world. Once the negotiations were finalized, the final agreement would be subject to a referendum, and the French could choose between participating in the "refounded European Union" or leaving the EU.

²³ I have borrowed the title of this section from a book, collecting his articles on the subject, from a well-known Russian revolutionary leader. To give a bit of suspense to this narrative, I will not give his name. I will do as in some old Russian novels, and I will write exclusively his initials, as well as those of his real name: L... T... ; L... D... B... .

²⁴ The leftist parties, which were considered partly responsible for the crisis, suffered a crushing defeat in that election. It is astonishing that now the main representative of the radical left demanded, in the heat of the *Gilets Jaunes* movement, to disband the National Assembly and call for new elections.

²⁵ Melenchon, the highest representative of the radical left, is the one who would lose more votes: his share would fall from 19.6% to 14%.

great difficulty. Even though a majority of the French people recognizes the problems stemming from membership in the EMU, support for the latter remains a majoritarian one. Thus, the most recent information for France (European Commission, survey of mid-October 2018), shows that 57% of respondents (with 34% against) believed that the euro is a good thing for the country. Now, the proposals of the French left demand a radical change of the EMU. But such a change is impossible with the correlation of forces that exist in the EMU today. So a confrontation with the EMU is inevitable. However, the majority seems to be opposed to such a confrontation, especially in light of the difficulties for the UK associated with Brexit.

The situation of the far right is different, as it is the one that has most gained thanks to the *Gilets Jaunes* movement. According to the survey just mentioned, Le Pen's vote in that hypothetical election would rise from 21.3% to 27%.²⁶ Let us also remember here another fact. In the first round of the presidential election, Le Pen obtained 21.3% of the votes, while in the second she reached almost 34%. This shows very massive support. In 2002, also competing in a second presidential round, the candidate of the extreme right and father of Marine, Jean-Marie Le Pen, obtained 20% of the votes.

Marine Le Pen and her party are, today, the main political force in France. Le Pen is also strongly opposed to the EMU and demands that France recoups all the economic policy instruments that it lost due to its integration into the EMU. But she has not detailed what her economic strategy would be if she succeeded. It seems that she does not need details either. Her rallying cry against the EMU is her fight against immigration.

It can be anticipated that in the short and medium term the economic difficulties of France will not be solved. And all the evidence shows that Le Pen and her party are the winners when these difficulties are aggravated. But there are also other elements that play in her favor. A very important one is the impact that her ideas, proposals, and progress are having on the French political scene. The traditional right party, for example, has recently appointed a new leader, whose discourse and proposals are taking that party much more to the right. On the other hand, on a planetary scale its allies are gaining strength. In addition to the triumph of Trump, another to take into account is the rise to the government of Italy of the extreme right-wing party [now no longer part of the governing coalition, *ed.*]. Also in Austria and Finland, right-wing extremist groups now participate in coalition governments. In Germany, the Alternative for Germany (AfD) entered the Bundestag in September 2017, becoming the third largest party in the country. In Denmark, Sweden and the Netherlands, far-right parties got the second or third place in the last general elections. And we must also mention Hungary with Viktor Orbán, in power since 2010, and Poland with the Law and Justice Party, which rules since 2015. Europe is changing, and not necessarily for the better.

The great physicist Niels Bohr once said that predictions are difficult, especially about the future. But anyway, and to finish, I dare to do it. I do not think that in France things will change drastically in the short or even in the medium term. I do not think that in this period the so-called "glass ceiling" will be broken, which prevents Le Pen and her far right from reaching the government. But I dare to predict that, unless the left manages to overcome its weaknesses, two things will happen. One: the far right will continue to grow, and its ideas and proposals will greatly shape the future political debate. Two: in the next presidential elections, both previous competitors, Emmanuel Macron and Marine Le Pen, will be back in the second round.

²⁶ The joint votes of Le Pen and Dupont-Aignan, another candidate of the extreme right, would go from 26% to 34%.

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