

# **The Changing Nature of French Dirigisme**

## A Case Study of Air France.

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## Introduction

This thesis is concerned with the changing nature of French *dirigisme*. It sets out to examine how, and why, the level of ‘control’ and/or ‘guidance’ exerted by the French state has altered over time, with an emphasis placed on the profound changes to the traditional state-industry relationship that have occurred since the early 1980s. These changes have been brought about by a whole host of international, national and European pressures that have altered the economic, social, and political arena in which French *dirigisme* exists. However, whilst there appears to be a common trend towards liberalisation and competition within French industry, there have been sectoral differences. Thus, it is useful to have detailed, case-specific information in order to enhance our understanding of the changing state-industry relationship in France. As a result, this thesis provides a case study which investigates the relationship between the French state and the air transport sector.

Air transport offers a particularly interesting industrial sector for study, since few others have been so heavily dominated by, or linked to, the state. Numerous national champions exist across Europe, but few have come to symbolise the state, at home and abroad, in the way that ‘national flag carriers’ have. It is because of Air France’s status as the national flag carrier, its size, and its dominance over the French air transport sector since 1933, that it forms the central focus of this thesis. This does not deny that other French airlines have played (UTA, Air Inter), or are playing (AOM, TAT, Air Libert ), notable roles in the French air transport sector; just that they are insignificant compared to Air France. This thesis therefore concentrates on Air France and its relationship with the state since 1945.

*Dirigisme* is a rather vague term comprised of several components – ‘ambition, will, institutions, agents, and legitimacy’ (Wright 1997: 13). It attempts to conceptualize the piecemeal policy by which the state influences and intervenes in the French economy. This

intervention and influence primarily takes the form of either guidance or control. This form of industrial intervention reached ‘its *apogée* in the thirty years following the end of the second world war’ (ibid.: 3). Indeed, the highly successful form of state-led industrial growth experienced in *les trentes glorieuses* was proffered as an example to be followed by other nations (Schonfield 1965). However, several commentators have claimed that the failed Socialist experiment of 1981-83 ushered in a period of change (Cohen 1995; Hayward 1995; Sally 1995). This has involved a gradual retreat from the previously dominant Keynesian paradigm with its inherent tendencies towards state intervention, towards a neoliberal policy where competition dominates industrial policy (Wright 1995). A consequence of this is that both firm autonomy and the significance of the consumer are enhanced, whilst the ability of the state to exert influence or control over the industrial sector has declined. These views have led to an intense debate as to whether *dirigisme* is coming to an end.

Wright (1997) has claimed that, because of recent national, European and international pressures, the modern French economy is increasingly characterised by four elements:-

- an erosion, but not the disappearance, of both external and internal state autonomy, as a result in part of state volition or the unintended consequences of state policies.
- an emphasis increasingly placed on state guidance and less on control.
- a dismantling of several features of the traditional *dirigiste* model, but the tenacity of others.
- a decided shift from demand-led macro-economic management to a preoccupation with the supply side of the economy, and from creating national champions to providing the conditions in which those champions can flourish in an internationalised and Europeanised competitive environment.

He concludes that these four tendencies suggest that *dirigisme* is not dead, but has simply been reshaped. In this respect, industrial firms may have experienced increased autonomy and state intervention may have declined, but the state remains ‘a crucial and ubiquitous

actor' (Wright 1997: 2). This thesis seeks to test the validity of these claims and investigate why the traditional *dirigiste* model has changed.

The extent to which these tendencies can be discerned varies by sector. Indeed, several books have recently been published which illustrate the need to take account of these sectoral differences (Kassim and Menon 1996; Hayward 1995; Sally 1995). These accounts tend to be comparative, and their value derives from their ability to explain common sources of change and discrepancies between sectors.<sup>1</sup> In contrast to these comparative approaches though, the principal objective of this thesis is to see if the relationship between the French state and the air transport sector fits the description proposed by Wright. Comparisons with other French industrial sectors are considered only in so far as they throw light on the distinctive nature of the air transport sector.

In order to do this we need to get away from the aggregate descriptions of French *dirigisme* which are so common (Wright 1995, 1997; Hayward 1995; Cohen 1995). These descriptions tend to simplify what is actually a complex situation. The four points made by Wright may well characterise the contemporary French economy as a whole, but the extent to which they do so depends on several factors – the sector, the actors involved, the issues, the policy area. A more accurate and detailed picture can only be provided if we, first, disaggregate the nature of the relationship between Air France and the state, and second, the notions of the state and Air France themselves.

- Disaggregating the nature of the relationship between Air France and the state allows us to judge who has control over budgetary resources and who determines the routes, aircraft

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<sup>1</sup> For example, Sally provides evidence of stark differences between the French electronics and chemical sectors. On the one hand, the historically close relationship between the electronics national champion and the government is responsible for Bull's reluctance to accept European liberalisation and internationalisation. On the other hand, the greater financial and political autonomy traditionally experienced by French chemical firms have made them more enthusiastic advocates of change.

suppliers, and composition of Air France's management. Only by doing this can we see where the state enjoys control, where Air France exerts its authority, and how these 'spheres of influence' have changed.

- Disaggregating the notions of the state and Air France complicates the situation further, since it forces us to recognise that neither is a unitary actor. For example, the state is made up of several actors (the President, PM, Transport Minister, Finance Minister, Trésor, the bureaucracy etc.), whilst Air France is made up of the CEO, management, trade unions, and workers etc.. This disaggregation allows us to determine exactly which actor is dominant in each issue area, and how this has changed over time.

This approach highlights that it is far too simplistic to claim that either the state or Air France totally dominates the relationship between them. In many areas, state-based actors will predominate, but in others, actors within Air France will exert influence. Thus, the extent to which the four points made by Wright are accurate for the air transport sector will depend on which policy area, which actor, and which time period we are discussing.

Material for this thesis comes from several sources. Primary source information includes internal documents from Air France's own library at the Siège Sociale at Aéroport Roissy Un, Paris, and several interviews. Secondary source information comes from the comprehensive literature on the state-industry relationship in France and European competition policy. The press files and journal archives situated at La Fondation des Sciences Politiques, Paris were also useful, and specialist information on the air transport sector was provided by numerous professional journals.

The first chapter outlines the traditional characteristics of the French industrial system, highlighting the high degree of control exerted by state-based actors over the industrial sector, and air transport in particular. The chapter is split into three sections. The first deals with how the actors interact, illustrating how the *tutelle* and *pantouflage* systems led to a symbiotic

relationship between big business and the state, and more specifically between Air France and the state. The second deals with the policy instruments available to the state which allowed it to dominate this symbiotic relationship. The third considers how the state has used these policy instruments (primarily control over financial resources) to influence Air France's policies (routes, competition, labour relations, suppliers etc.). Thus, the first chapter is primarily concerned with the actors, policy instruments, and policies which characterised the traditional *dirigiste* relationship between Air France and the state between 1945-83.

The second chapter investigates the changes that have occurred to the *dirigiste* relationship between Air France and the state since 1983, and compares these with the changes that have occurred in other industrial sectors. Thus, this chapter deals with the paradigm shift that occurred in the early 1980s (Wright 1996)<sup>2</sup>, which saw the dominant macro-economic policies based on Keynesianism replaced by monetarism and neoliberalism around the world, first in the US and UK, and then gradually throughout the rest of Europe. It was at this time that the traditional French *dirigiste* system came under strain from its declining international competitiveness, its worsening foreign debt position, and its high unemployment and inflation rates. Following the failed Socialist experiment between 1981-83, the French government reversed its traditional policies, replacing them with an industrial approach based increasingly on competition and market principles (Schmidt 1996). State-led reforms of the financial system, state-led deregulation and privatisation programmes, and the state-encouraged commercialisation of most national champions led to a reduction in the autonomy of state-based actors. In this respect, Hayward (1986, 1995), Sally (1995), and Cohen (1995) are correct to say that there was a distinct break with the traditional *dirigisme* of the past. However, it did not mean the end of *dirigisme*, simply its reshaping.

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<sup>2</sup> As Wright points out, explanations of this paradigm shift need to be sought in the complex interaction of international, EU and domestic pressures, and in the interplay of ideological, financial, political, institutional, and technological factors.

The chapter is split into three sections. The first two look at how state-led changes to the financial system and the introduction of market-oriented policies since 1983 have had the effect of reducing the ability of most state-based actors to influence industrial policy. However, whilst the state was relinquishing (often voluntarily) its levers over the economy and most French firms were asserting their predominance over policy decisions, Air France was among a small group of firms which maintained the traditional *dirigiste* relationship with the state. Only after 1993 did Air France begin to distance itself from state intervention and to operate on a more commercial footing. This is despite the fact that it remains a public enterprise and continues to receive state aid in 1997. The third section of this chapter looks at these changes, and attempts to disaggregate those areas where the state has retained significant influence from those where Air France has gained greater autonomy. Thus, the second chapter is primarily concerned with how the relative influence of state-based actors and Air France-based actors over air transport policies (routes, suppliers, organisation, products) have changed.

Chapter three investigates the pressures which have undermined the traditional *dirigiste* relationship between Air France and the French state. In doing so it attempts to answer two questions. First, why did Air France's relationship with the state not change in the 1980s even though it experienced the same pressures as other French firms? Second, why did it change after 1993 when change had been so minimal before this date? Both questions are concerned with the specific characteristics of the French air transport sector, raising the issue of what made it so different to the rest of French industry. The answer is sought in the careful analysis of three sources of pressure – international, national and European.

On the one hand, European and international factors invariably encouraged and facilitated a state retreat from the industrial sector and the introduction of competitive policies.<sup>3</sup> They promoted deregulation, open skies, and the disappearance of state subsidies. On the other hand though, national pressures pointed in opposite directions, encouraging both industrial restructuring and the retention of the traditional *dirigiste* system. For example, most state-based actors and the management of Air France were relatively quick to recognise the need to adapt to the new environment, but their aspirations were opposed by the vast majority of workers, trade unions and general public. It was through the complex interplay of these often conflicting pressures that the state relationship with Air France developed. Thus, the third chapter is primarily concerned with illustrating exactly how these three pressures affected the ability of the state and Air France to influence air transport policy.

The conclusion analyses the changing relationship between Air France and the French state in order to see whether it fits the description given by Wright. Thus, evidence is sought to support or refute the claim that the contemporary French economy is experiencing four tendencies – a reduction in state autonomy, an increasing emphasis on state guidance instead of control, the dismantling of some aspects of the *dirigiste* model, and the shift to a preoccupation with the supply side of the economy. By doing this it hopes to show why the traditional model of *dirigisme* has not disappeared, but has simply been reshaped.

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<sup>3</sup> For example, Schmidt (1996: 4) argues that pressures from Europe ‘served as a challenge to business and a spur for the government to move from a state-directed economy to a more market-oriented one’.

# **The Traditional Relationship between the French State and Industry**

## **1945-1983: A Case Study of Air France.**

Between 1945-83, there was a strong and overwhelming predilection for state guidance/control in the industrial sector, and in the air transport sector in particular. The government enjoyed enormous influence throughout the economy, and as a result, firms such as Air France experienced only limited policy autonomy. This *dirigiste* relationship between the state and industry was based primarily on two factors. First, the state formed an extremely close 'alliance' with big business, and together they dominated economic policy making, and subordinated the interests of trade unions and other actors to their overall plan. Second, the state used the policy instruments (normally financial) at its disposal to direct the policies of its big business partners. By considering each of these factors (actors, policy instruments) as they relate to Air France, it is clear that the state also dominated the relationship with its national flag carrier.

This chapter is split into three sections. The first looks at the symbiotic relationship between the state and big business; the second investigates the instruments by which the state controlled the industrial sector; and the third illustrates exactly how these two factors impacted on Air France's policies and its relationship with the state.

### **Actors: The symbiotic relationship between the state and big business.**

An alliance between big business and the state dominated economic policy making between 1945-83. Three factors were particularly important in creating and solidifying this alliance. The most important was the introduction of planning into the industrial sector.<sup>4</sup> The war had

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<sup>4</sup> The introduction of planning after 1945 was built on a long tradition of state interventionism and protectionism (high in the agricultural sector, creeping in the industrial sector).

destroyed the French economy and it was soon obvious to the government that if they were to rebuild and modernise French industry, they would need the support of business itself. As a result, the planners concentrated their efforts on forging an alliance between business and the state to run the economy, as well as on extending state control over key sectors (gas, electricity, coal, banks). It was soon realised, however, that in order to compete effectively, smaller firms would have to be abandoned in favour of larger, more efficient ones. Hence the plan was altered to forge an 'alliance, no longer with business in general, but with the largest enterprises in the fastest growing sectors of the economy in order to rationalise the structure of French industry' (Hall 1986: 167). The central element of this plan was the state's mergers policy which 'essentially created the new social partners with whom it was to ally; and it changed the industrial interlocutors' (ibid.: 168). Instead of dealing with trade unions and business associations as it had in the 1950s, the planners tended to negotiate directly with the managers of firms. 'This process brought the managers of large industry and government officials closer together, and distanced both from other social actors' (ibid.: 168).

The second factor was the traditional system of *pantouflage* which strongly reinforced the close alliance that was already forming. As Sally (1995: 75) noted 'the government extends its web into society, notably through the *pantouflage* system by which the administrative elite circulates in big business and politics.' Graduating from the *grandes écoles*, notably the École Nationale d'Administration (ENA) and École Polytechnique (X), where they were instructed on how to run the economy, the *fonctionnaires* took leading positions at the very top of the French administration. After several years of experience in the *grands corps*, they moved into top positions in public and private firms. This was seen as the natural career path. Indeed, a survey by *Les Echos* found that only two of the top twenty five French firms had consistently been run by career managers in the previous twenty years (cited in Sally 1995: 118). This socialising phenomenon reinforced the move towards a social group at the

pinnacle of private and public sector management which had a set of shared initiatives, backgrounds and interests.

This *pantouflage* system certainly reinforced the relationship between the state and Air France. The position of Air France's chairperson was prestigious and highly sought after by people from the ENA (*La Tribune Désfosses*, 10 November 1993). Indeed, all the PDGs after 1933 had extensive administrative experience. Ernest Roume (1933-35) was the *Gouverneur Général* in Indochina for two years, Paul Tirard (1935-39) had been in charge of railways and had held several administrative positions in Crédit Lyonnais and Pêchiney, Max Hymans (1948-61) came straight from politics to air transport, Joseph Roos (1961-67) worked in the Ministry for Public Works where he managed air transport, Georges Galicho (1967-75) had been an advisor to the state, and Pierre Giraudet (1975-84) had been an engineer in the *Ponts et Chaussées* and director of RATP (*Le Journal du Groupe Air France*, February 1995). Thus, as a result of the *pantouflage* system, an ethos of state planning and administrative doctrine permeated the whole company.

The third factor was the concept of *tutelle*<sup>5</sup> – a complex, unstable and ambiguous organisational/hierarchical order in which government institutions (Ministries of Industry, Foreign Trade, European Affairs, Finance, the Bank of France, the Planning Commission, various inter-ministerial committees, along with a number of parastatal institutions which had the responsibility for channelling credit into industry) were interconnected with public and private management. This system maintained a high level of contact and communication between state-based actors and big business. This was certainly true in the air transport sector. For example, the decree of 9 August 1953, later modified by the decree of 16

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<sup>5</sup> The concept of *tutelle* can be understood in two ways. Most obviously, it is a juridical, administrative definition of the relationship between state authorities. However, it also has a wider, ideological notion that there is a concept of the 'general interest,' and that this can be defined by the state and

February 1978, gave the Minister of Economics, Finance and the Budget, administrative *tutelle* over Air France (Vinçon 1991: 212). Moreover, the *Conseil de Direction* of the *Fonds de Développement Économique et Social* enjoyed the right to examine the financial status and investment plans of Air France, whilst the Civil Aviation Code forced Air France to submit details of its pricing policy and its future strategic plans for state approval (ibid.:213). Thus, the introduction of national planning, the *pantouflage* system, and the *tutelle* system contributed to the close relationship between big business and the state in general, and between Air France and the state in particular.

Trade unions, on the other hand, found themselves outside this alliance, and became ‘policy outsiders.’ This was for historical and legal reasons. The onset of the Cold War led to the exclusion not only of the PCF from mainstream politics, but also of the communist-based CGT. Since the CGT was the principal axis of organised French labour, the majority of organised labour was excluded from the modernisation process during the 1950s. Moreover, the CGT was opposed to all forms of corporatist collaboration, preferring to advocate the rejection of capitalism rather than the improvement of working conditions and wages (Ross 1982). Other unions also began to withdraw their support from corporatist negotiations once it was realised that they were increasingly being dominated by the state and big business. Force Ouvrière (FO) was one of several unions to withdraw from participation in the preparation of the second plan and virtually boycott proceedings until the eighth plan.

However, the main reason for the exclusion of trade unions was the legal framework which made collective bargaining especially difficult, and which led to the fragmentation of the union movement (McCormick 1981: 353-356). The major unions (CGT, CFDT, CGC, FO, CTC) were all recognised as being nationally representative, and therefore qualified to sign

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discerned by state officials. This naturally gives rise to the idea that all private acts ultimately fall into the state’s domain.

agreements binding to all.<sup>6</sup> McCormick points out that in some cases, agreements were signed by a union whose membership included fewer than 3% of workers, and yet was binding on the other 97%. This led to fragmentation amongst the unions, and often to conflict. Elections which constantly pitted unions against one another often reinforced this competitive situation. Union weakness was also accentuated by the fact that membership only ever reached 22%, and was generally much lower.<sup>7</sup> Since unions never organised a sizeable proportion of the working population and could never deliver on disciplining their members, they were never taken seriously as social partners in the administration of the economy (Mouriaux 1983). These factors combined to make it relatively simple for the state and big business to override union opposition. Hence, ‘The French system of organised industrial growth succeeded not because of agreement on the necessary strategy between labour and capital, but on the ability of those at the centre of the process to subordinate the interest of labour and other groups in their plans’ (Herberg 1981:513).<sup>8</sup>

However, it would be wrong to deny any trade union influence. Despite a conspicuous absence of formal bargaining, trade unions were often able to influence management through ‘arms-length-bargaining’ (Batstone 1978). This power primarily came from the ability of trade unions to call crippling strikes, and was most evident in the public sector. More accurately, it tended to occur where public enterprises had a monopoly – SNCF. The impact of this can easily be seen in the constant demands for social dialogue in most public sector firms, and the strikes that often occurred if these demands were not met. Hence, trade union

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<sup>6</sup> This power dates from 1936 and the Popular Front, where ironically, it was supposed to improve the likelihood that management would have to bargain with more social partners.

<sup>7</sup> The high point of union density came soon after 1968 when membership reached 22%, but by 1980 this had fallen to 19% and by 1990 it was down to less than 10% (Visser 1991, Mouriaux 1991).

<sup>8</sup> Sectoral organisations, such as industry associations, also found themselves bypassed due to the tendency of large firms to deal directly and bilaterally with the government. The government simply did not treat them as privileged interlocutors.

influence, where it existed, tended to be negative and based on the ability to veto, rather than the ability to help formulate management policy.

However, trade unions in Air France enjoyed more extensive influence. Following its nationalisation, the company became known for its image as an '*entreprise sociale*' (Paillard 1993: 20). Management was prepared to establish diffuse social relations with employees, not only via the *Comité Central de l'Entreprise*, but also with employee welfare committees extensively situated throughout the dispersed Air France offices, regional airports and subsidiaries (Eaton 1993). By 1983, the Works Committee had a budget of 208 million francs and a sizeable staff. The main items of expenditure were welfare and solidarity (28%), canteens (27%), and cultural activities (12%) (Delamotte 1988: 229). Thus, management was committed to an almost permanent dialogue with the unions. Within this dialogue, unions were able to bargain favourable job rules, especially for pilots and flight crews<sup>9</sup>, and they also had a great deal of influence in how jobs were actually run, thanks to union positions in the *Direction du Matériel, du Fret, and de l'Information*. Salaries were above the national average, rapid progression and the ability to travel cheaply on the Air France network were expected, and a job for life was practically guaranteed.<sup>10</sup> Things improved even further in the early 1980s when the Socialists legislated to democratise the public sector by granting trade unions better collective bargaining, participation, and information rights. It was not hard to understand why union membership in Air France was significantly higher than the national average.

However, trade unions in Air France did face one of the major problems that plagued unions elsewhere in French industry – fragmentation. This was caused by the large number of trade

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<sup>9</sup> The position of the pilots in Air France was such that they were '*considéré par beaucoup d'agents comme le seul véritable dirigeant de l'entreprise*' (Paillard 1993: 20).

<sup>10</sup> Air France never made a job cut until 1989 (*Le Monde*, 16 September 1993).

unions that existed<sup>11</sup>, the numerous different sites and jobs, and the lack of solidarity between workers. There was always a huge difference between the flight crews and ground crews, and this was institutionalised in different statutes governing their working conditions. These cleavages constantly reappeared, preventing the workforce from maximising its benefits. Thus, a powerful alliance between Air France's management and state-based actors certainly existed. However, the relative influence of Air France's unions did allow the workforce occasionally to win major battles with the government and Air France's management.

Nonetheless, the fact that this symbiotic relationship between big business and the state existed, does not mean that the state necessarily dominated it. Indeed, it is clear that the state was often as much an arena in which other actors came together to determine industrial policy, as a significant actor in its own right. As a result, it is arguable that industrial policy was little more than 'industrialist's policy' (Hayward 1986: 230). Indeed, there is some evidence for this in the air transport sector. The Senate Report on Air Transport (1991) stated that it was not always clear whether it was the state or Air France who dominated the relationship. For example, Air France was able to use technical arguments to oppose government pressure to replace the aging Caravelles with what it deemed the inappropriate, but French-built, Dassault airplanes. Instead, they leased thirteen American-built Boeing airplanes (Anastassopoulos 1981: 100-103). However, whilst there is obviously some truth in this argument, it is clear that the state had the policy instruments to enforce a *dirigiste* industrial policy and that it was often willing to use them.

### **Policy Instruments: The state controlled the financial system.**

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<sup>11</sup> There were fourteen trade unions – the FO, FO-cadres, CGT, CGT-cadres, CFDT, CGC, CFTC, SNMSAC, Usaf-autonomes, Snomac, SNPL, SNPC, Spac, and Sunac.

The state enjoyed a whole host of policy instruments which it could use to control and influence industrial policy. First, the size of the public sector in France obviously allowed the state to exert influence in many areas of the economy. For example the state held monopolies in many sectors (gas, electricity and telecommunications), and in sectors such as aerospace, heavy chemicals and petroleum, more than half of annual turnover was accounted for by the state (Wright 1997: 7). Second, the state was, and still is, one of the biggest purchasers of industrial goods. For example, state orders were a necessary, if not sufficient, condition for the success of major projects such as the TGV (Cohen 1992). This naturally allowed the state to influence industrial policy in these areas. Third, the state also imposed planning contracts (*contrats de plan*) on individual firms. In the air transport sector these were wide ranging and quite detailed. For example, they dealt with financial goals (profitability and financing methods), social affairs (training, productivity, and working conditions), technical matters (investment targets, air control procedures), commercial objectives (quality of service), and the relationship with the state (regulatory environment, the remuneration of the shareholder) (Vinçon 1991: 214). However, the most important policy instrument in the hands of the state was its control over the financial resources available to industry. It was the state's ability to allocate credit and to regulate the financial system which, in most circumstances, allowed it to dominate the relationship with industrial firms such as Air France.

It was clear after the war that the state needed the assistance of big business in order to rebuild the French economy, but this alone does not explain why industrial firms were so willing to work closely with state-based actors. This can be explained by the fact that the state was the only source of investment available in 1945. Big business had few alternatives to the governmental and parapublic financial institutions which the state controlled. For example, the Paris Bourse was small and there was no traditional relationship between big business and banks as there was in Germany. In any case, most banks had been nationalised by 1950 and many of the other lending institutions (Crédit National, Crédit Agricole, Crédit Hôtelier) to

which business might have turned were already under state control (Hall 1986: 153). As late as 1981, 70% of all industrial credit in France was linked to state loans, guarantees, grants, and underwriting (Wright 1997: 7). Thus, the state's ability to allocate credit provided the glue in the relationship between big business and the state.

The state not only had the ability to allocate credit, but equally significantly, used this power to enforce an industrial strategy aimed at modernising French industry (Zysman 1983). For example, the state often altered the relative attractiveness of loans made by private and public institutions to persuade firms to follow industrial policies of its choice. Indeed, in several cases the state was able to forge alliances between individual firms and financial institutions for specific purposes. Thus, the 'credit-based, price administered financial system made possible administrative influence and often discretion in the allocation of capital . . . finance was crucial in shaping the state bureaucracy's capacity to intervene in industrial affairs' (ibid.: 168-169).

The government also used a restrictive financial regulatory environment to enforce its industrial strategy on individual firms. Throughout the 1960s, the government introduced a series of *contrats fiscaux* that conferred privileged tax treatment on firms in return for their agreement to undertake certain operations. Numerous *contrats de stabilité*, *contrats de programme*, and *contrats anti-hausse* were also employed by the government (Debbasch 1969: 128; MacLennan *et al.* 1968: 276), each entailing cooperation with some aspect of government policy. The 1950s and 1960s also witnessed a certain measure of 'government endorsed' inflation. A result of this was that firms increasingly sought exemptions from the government imposed price control policy. In this way, the French government was able to offer positive inducements to firms, in the form of exemptions, rather than penalties for non-compliance. Thus, the 'post-war French state followed . . . a practice of burdening firms with such a multitude of restrictive regulations that few could survive without selective exemptions

that rendered them dependent on the goodwill of the industrial policy makers' (Stoléru 1969: 148).

However, it should be noted that the control of these financial levers never rested with any one state-based actor. Rather, Wright portrays the financial system as a set of concentric circles, with the economic bureaucracies at the core and the industrial firms at the periphery. At the centre of this financial network was the Trésor, within the Ministry of Finance. The Trésor was of prime importance since it acted as the gatekeeper to the banking network. It was not simply a bank for the state, but was also an instrument for intervention in the public and private industrial sectors. However, the Trésor's power was constrained by several factors. First, its power was potential, and was reliant on the Minister's willingness to use it – something which changed over time. Second, it was constrained by the small size of its core staff – about 100. Third, it was weakened by the fragmented nature of the French bureaucracy which was characterised by compartmentalism and departmental feuding. Fourth, the Trésor was reliant on other semi-autonomous, financial intermediaries which often offered resistance.<sup>12</sup> Thus, it is clear that the state was not a unitary actor vis-à-vis its financial resources and that some state-based actors had more influence than others. However, this does not deny that the financial system provided the principal policy instruments by which the state dominated the relationship with big business. Hence, the financial relationship between the government and industrial enterprises became a major factor in determining state intervention/management autonomy.

Air France provides ample evidence that the state was indeed able to use its financial power to influence and impose policies on the industrial sector. From the time that several government-subsidised airlines regrouped under the name Air France in 1933, the new flag

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<sup>12</sup> Parapublic funding institutions and interministerial committees were vital in providing funds to targeted industrial sectors. FIM was specifically designed to promote major firms in strategic sectors and CODEVI provided the finance for industrial firms in general.

carrier was dependent on the state for financial assistance.<sup>13</sup> The new company had no real financial independence, with passengers covering only a quarter of the costs (fuel, wages) and the government being forced to make up the rest. From 1936-39 the financial situation worsened, with subsidies accounting for 65% of revenues (*Le Journal du Groupe Air France*, February 1995: 7). On 26 June 1945 an ordinance nationalised air transport, and Air France became a public company tightly controlled by the state. On 16 June 1948, the company did regain its limited status<sup>14</sup>, but the state owned almost all the capital from 1949 and to call the company limited was nothing more than a legal facade.<sup>15</sup> Indeed, state aid was almost automatically given every time there was a deficit. Thus, from the very beginning, Air France was dependent on financial assistance from the state.

The government was able to use this financial dependence to impose its own policies, and to restrict managerial autonomy. Air France was but one of many companies in vital sectors that came under state control after the war, and like them, its relationship with the state was governed by a pseudo moral contract – the state provided the money and Air France did as it was told. The state took total control of the management of the company, sat on *the Conseil d'Administration* as the shareholder, and imposed public service obligations and close links

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<sup>13</sup> The French government wanted a commercial airline to compete with Pan Am, Imperial Airways (1924), Lufthansa (1926), Sabena (1923), and KLM (1919). French aviation at this time was very disparate and relied heavily on subsidies even at this early stage. From the 1930s, the state began to realise the importance of defending national interests in aviation, and thus the need to regroup airlines under a single pole capable of competing with the other airlines. This involved SGTA, la CIDNA and Air Union coming under the *tutelle* of Air Orient on 31 May 1933. The new company was called *La Société Centrale pour l'Exploitation de Lignes Aériennes*, but on 30 August 1933 became known as Air France. The prestigious Aéropostale was also bought by the new company.

<sup>14</sup> The company had previously been a limited company for a short while in 1939, but was nationalised after the war.

<sup>15</sup> The state has continued to own about 98% of the shares in Air France since 1948. This was despite the fact that Article L. 341-2 of the Civil Aviation Code of 1948 stated that the state should only hold 70% of Air France's capital. 15% should have been held by private investors, and the remaining 15% held by public institutions. However, this has never been respected.

with national aviation constructors (ibid.: 4). Thus, like most public and private enterprises in France, Air France was the weaker partner in the state-big business alliance thanks to its ongoing reliance on financial aid.

### **Policies: Who was the dominant actor in each policy area?**

Therefore, it was the state's control of the financial system, combined with the *tutelle* and *pantouflage* systems, which created the circumstances in which the state was able to dominate the relationship with its national flag carrier between 1945-83. However, the relationship between the state and Air France that has been portrayed thus far needs to be disaggregated. Only by doing this can we see exactly where the state enjoyed control, and where, if at all, Air France exerted some authority. This will give us a more detailed and accurate picture of the relationship between Air France and the state. In order to do this, we need to consider the major decisions and policies implemented by Air France between 1945-83 – labour policy, routes, suppliers, competition etc..

*Labour Policy – the state increasingly became involved in labour policy, and was the predominant actor during times of social unrest and crisis.*

The state intervened throughout the labour market to prevent or quell social unrest for political reasons. Opposition to the state's industrial policy initially came from shopkeepers, peasants, and employees in the declining sectors, but later from the more modern sectors of the economy which increasingly thought government policies were hostile to their interests. Initially, Fifth Republic politicians had been able to resist these demands because the traditional sector was weak, but by the end of the 1960s, the governing coalition's base of support shifted away from industrial workers and the cadres, and became dependent on these groups (Berger 1980). Once these groups began lobbying the legislature and executive, and expressing their grievances in electoral and parliamentary arena, the conflict became

institutionalised in a division within the majority (Birnbaum 1977).<sup>16</sup> The result was that politicians became increasingly involved in the tutelage of the interests of these groups. State intervention was also encouraged by the fact that unions, workers, and management all consistently turned to the state to break the inherent tendencies towards deadlock in the system (Hanke and Soskice 1994: 10). In this way, the state often intervened in the labour market because only the government was perceived to be able to resolve difficult and enduring industrial disputes.

This piecemeal state intervention often had an enormous social and economic impact on the industrial sector. For example, the state applied pressure to avoid increases in unemployment in pre-electoral periods throughout the 1970s. This resulted in policies such as the 1975 law on collective layoffs which required employers to obtain permission from the *Inspection du Travail* to fire workers and to justify the request by providing information on the financial state of the firm. Moreover, the Comité Interministériel pour l'Aménagement des Structures Industrielles (CIASI), initially set up in 1974 to provide funds for restructuring, began mobilising public and private funds to finance industrial bail outs instead. This appeasement of social opposition continued into the 1980s.<sup>17</sup> For example, the CIASI became CIRI under Mitterrand, and devised rescue plans for eight major industries between 1981-83. However, it became obvious to some that French industry would eventually have 'to pay for the political compromises that, for over two generations, subsidised traditional producers in the name of social peace' (Wright : 152).

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<sup>16</sup> The Planning Commission and the industrial policy makers were on one side, and the politicians who were reliant on votes from the traditional sector were on the other.

<sup>17</sup> The political advantage of supporting declining sectors was that it postponed the difficult task of selecting industries for abandonment, and appeased the PCF and CGT.

Three specific examples from Air France provide evidence in support of this pattern of social unrest and state intervention, all illustrating how the state felt compelled to resolve industrial disputes in the labour market.

- First, there was a strike in June 1960 by flight crews over working conditions and the introduction of new jets which threatened to make life more complicated for the PNT and PNC. This dispute ended only when the government intervened and supported an agreement between the trade unions and management in April 1961. This was one of the first examples of workers striking over changes in technology which they saw as costing jobs, but which were necessary to remain competitive with other international airlines.
- Ten years later, the arrival of new and larger carriers caused problems, and the pilots went on strike again. This time chairmen Galichon (Air France), Vergnaud (Air Inter), and Fabre (UTA), attacked the unions with the full backing of the Chaban-Delmas government, which even supported a lockout of the workers. However, after 26 days of strikes the government backed down without consulting management. The Prime Minister did not even call for negotiations, but called for the end of the strike at any price (Vinçon 1991: 216). The price was huge in the long run because it resulted in *le procès verbal* of 1971 which was the reference for pilot's pay until the mid 1990s, and which transformed the pilots into *les intouchables* within the company. This document was considered unchangeable, and resulted both in pilots being highly paid compared to their rivals, and in an organisational rigidity which proved difficult to reform. Not only did the workforce win this battle with management, but it did not lose a dispute with the government from this date on.
- New technology caused social unrest for a third time in 1981, and again the government felt forced to intervene. This time flight crews opposed the introduction of the Airbus

A320 because it only required two pilots to fly it, rather than three which had been the previous requirement. The strike that followed was the first time in the history of French aviation transport that the president of a company received the full support of the *tutelle* minister (Delebarre) when faced with demands from the pilots. Nonetheless, the unions again attained an accord regulating the use of these planes. According to the Senate Report (1991: 217), this episode showed that it was neither management, nor the Prime Minister who ran the company, but the pilots.

Several important points can be drawn from these three examples. First, periodic state intervention had a long-run effect on Air France's labour policy. For example, *le procès verbal* of 1971 remained in force into the 1990s, and provided one of the toughest obstacles to the implementation of urgent restructuring plans. Moreover, each time management was forced to back down, the harder it was for it to impose other policies designed to modernise Air France. Second, state intervention had a significant effect on the attitudes of Air France personnel. This was because it fostered the widely-held belief that the state would always come to the rescue of Air France. This made it almost impossible in the early 1990s for management to convince the unions and workers of the need to restructure if they were to survive. Third, the examples provide some evidence for the public policy concept of 'punctuated equilibrium.' Whilst labour policy is normally determined by Air France's management and trade unions, in times of crisis and social unrest the state and certain segments of Air France's workforce may become more significant actors. For example, the Transport Minister (1961) and the Prime Minister (1971) often went above the heads of Air France's management, whilst trade unions were often bypassed by direct workforce actions (pilots in 1981). Thus, state-based actors have been important in determining Air France's labour policy, but only at certain moments.

***Routes*** – ultimately the state had the final decision on routes flown by Air France.

The state imposed certain routes on the grounds that they were in the public interest. For example, Air France was forced to maintain flights to Strasbourg, between Corsica and the French coast, and between the Départements Outre-Mers (DOM) and the French capital (Vinçon 1991: 213). The state also imposed certain routes because they raised the prestige of the French state. This was often the case with routes to the colonies. For example, a guarantee of a large colonial network was written into the 1948 statute (*Le Journal du Groupe Air France*, February 1995: 8). This meant for instance, that Air France expanded its network towards the African territories under French rule well before turning its attention to transatlantic routes. From 1949 there were direct routes from Paris to equatorial and western Africa, and by 1955 the colonial network, and in particular routes to Algeria, were predominant in the company. On the eve of decolonisation in 1957, having left Indochina, and in the middle of a war with Algeria, traffic to the former colonies still represented 50% of Air France's traffic. However, having a large colonial network was not just the result of a government-enforced policy, but also the result of the profitable status of these routes compared to other international routes. Thus, the public service mission imposed by the government reinforced a managerial policy based on commercial goals.

*Relations with the French Aeronautical industry – the state often forced Air France to support other French industrial sectors.*

Air France has always insisted that it reserves the right to determine what planes it buys, when it buys them, and from whom (Vinçon 1991: 214). However, once indicative planning had taken hold, the production apparatus at Air France remained strongly centralised and subject to government intervention (Eaton 1993). For example, in 1962, the board of directors was composed of sixteen members; four public servants (active or retired), four persons not associated with the government but appointed by the Ministry of Public works, Transport and Tourism, four non-governmental shareholders, and four staff representatives (Barry 1965: 168). It was easy to see how the state could force Air France to support the French aeronautics industry.

The introduction of Concorde is a good example of this. Supersonic flight had an appeal to the state since it illustrated its technological prowess, yet it was rather less practical for Air France. Air France was forced to order four Concorde on 28 July 1972 for a price which was three times higher than for a Boeing 747 (*Le Journal du Groupe Air France*, February 1995: 19). Concorde also came into operation in 1976, a time when economic constraints and other factors were pushing air transport towards the mass market rather than a return to elitist air travel. A refusal to let Concorde fly overland restricted it to transatlantic routes, and in its first operating year Air France lost £25 million on it. Having been forced to buy the last three Concorde for a nominal one franc each, the company lost £50 million operating the plane in 1979, when seven Concorde accounted for 25% of fleet operating costs. From 1981, the French government was forced to increase the subsidy for Concorde deficits from 70% to 90% (Feldman 1985: 109).

***The Site of the Airport** – the state determined that Air France should build the Charles de Gaulle airport.*

The state took the decision to construct the Charles de Gaulle airport without even consulting Air France's management. Air France was particularly displeased with the facilities, and it could not have happened at a worse time since the oil strike had just hit (Attali 1994: 23). Air France and Aéroport de Paris were in daily negotiations for more than three years, quarreling over the design and management arrangements for the new terminal (Feldman 1985: 40). The biggest problem though, was that Air Inter, which was supposed to feed domestic services to Air France's international flights, remained at Orly. Thus, Air France waited for clients at Roissy, while Air Inter served American Airlines and Continental at Orly.

***Competition** – the state determined the degree of competition faced by Air France*

State intervention was especially significant when it came to competition. Despite being given a quasi-monopoly by the 1948 statute, Air France soon faced fierce competition on both

colonial and domestic flights. On 26 September 1953, the government announced that Air France had to share traffic rights on local African routes equally with private airlines, and on 20 July 1954, the Ministry of Public Works and Transport imposed an accord between Aigle Azur, TAI-UAT and Air France which reduced the flying rights of Air France to Africa. Decolonisation from 1959 weakened Air France's position even further, and from 24 February 1960, long courier flights to the colonies were shared between Air France and UAT on the basis of equal rights.<sup>18</sup> On 23 February 1963, the Ministry for Public Works and Transport signaled the end of Air France's African network altogether. UAT, which became UTA, was given all rights to Australia and the Pacific, and shared rights with Air Afrique in Africa. '*Air France était amputée d'une partie de son réseau*' (Attali 1994: 22). At home, the government gave monopoly rights over the domestic market to Air Inter.<sup>19</sup> However, this was not contested by Air France at the time since they were more interested in prestigious international routes.

## **Conclusion.**

Thus, between 1945-83 there was a strong and overwhelming predilection for state intervention in the air transport sector. Whilst the extent of this intervention has varied from policy area to policy area, elements of state intervention were visible in practically every major decision and policy implemented by Air France in this period (routes, competition, site of airport, choice of planes, labour policy). This *dirigiste* relationship was based on the close 'alliance' between the two actors, and on the state's control of the financial resources in the industrial sector. Moreover, the evidence of state control in the air transport sector was not

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<sup>18</sup> On 13 October 1949 the Chargeurs created l'Union Aéromaritime de Transport (UAT) which specialised in colonial routes. Development was rapid, and it was soon offering strong competition.

<sup>19</sup> It was the creation of a group of transporters (rail, road, sea, air) and bankers, and was designed to promote domestic air transport. Air Inter was given monopoly rights over the domestic market on the

exceptional, but was symptomatic of the high degree of intervention experienced elsewhere in French industry between 1945 and 1983. Few firms, including the national champions like Air France, were able to assert their independence from the state in this period.

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understanding that it would provide the best service at the lowest cost, improve its productivity, and maintain routes to remote regions in France.

## **The Changing Relationship between the French state and Industry: A Case Study of Air France.**

Many commentators have claimed that the failed Socialist experiment of 1981-83 led to a transformation of the traditional *dirigiste* model outlined in the previous chapter (Cohen 1995, Hayward 1995, Sally 1995). They highlight a decline in the ability of the state to guide and control the industrial sector, and an increase in the autonomy enjoyed by individual firms. As a result, they conclude that there has been a tendency towards a neoliberal policy where competition dominates industrial policy (Wright 1995), and state intervention is increasingly uncommon. However, these descriptions of the French industrial environment since 1983 are too generalised, and do not pay enough attention to sectoral differences. For example, Air France remained strongly connected to, and influenced by, the government as late as 1993. In this way, the case of the air transport sector highlights the variable speed at which change occurred amongst industrial firms.

This chapter will compare the changes that have occurred in the relationship between Air France and the state, with the changes that have occurred in the relationship between the state and other industrial sectors. By doing so, it will become apparent that whilst there have been changes in the *dirigiste* relationship in the air transport sector, these changes have occurred much later than elsewhere. Moreover, it is clear that the changes have also been decidedly ambiguous, with state control still exerted in many areas. As a result, this analysis provides support for the argument that the traditional *dirigiste* model of industrial relations has not disappeared, but has simply been reshaped.

This chapter is split into three sections. The first two look at how state-led changes to the financial system and the state-encouraged introduction of more market-oriented policies since 1983 tended to reduce the control exerted by state-based actors over industry, and encourage

firms to be financially independent and more commercially oriented. They also investigate the limited impact these two factors had on Air France. The third section investigates the moderate changes in Air France's relationship with the state that have occurred since 1993. By doing so it highlights how the relative influence of state-based actors and Air France-based actors over air transport policies (routes, suppliers, organisation, products) have changed.

### **Changes to the financial system.**

It was the restrictive financial regulatory system and the state's monopoly control over credit allocation which provided the glue in the relationship between the state and big business. Moreover, it was the state's control of these financial policy instruments which allowed it to impose a *dirigiste* industrial policy in many areas. However, from 1983, government-endorsed changes in the financial system reduced the state's ability to influence the policies of public and private firms. As the level of state intervention declined, individual firms enjoyed increasing independence. Indeed, after Chevènement's (Industry Minister) resignation in 1983<sup>20</sup>, the government seemed to be unwilling, and in many cases unable, to break the staunchly defended idea of managerial autonomy. In many sectors, especially where new financial structures had developed, it was more accurate to speak of a government dominated, or even captured, by the individual firm.

However, it would be wrong to think that there was a sudden change after 1983. In fact, some firms had slowly been gaining in influence relative to the government from the late 1960s, but this trend only accelerated and became obvious after the failed Socialist experiment between 1981-83. Thus, many national champions already enjoyed some autonomy from government

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<sup>20</sup> Chevènement had reintroduced daily intervention in the decisions taken by the heads of public enterprises, and their complaints to the President played a role in his subsequent resignation.

intervention in the 1970s, as well as considerable input into public policy making in many areas (Cohen 1989). For example, the head of CGE in the 1960s was able to prevent the establishment of a new national champion in electronic engineering. Furthermore, EDF in the 1960s and 1970s under Boiteux and Delouvrier (Lucas 1979), Charbonnages de France in the 1950s and 1960s, CFP and Elf-ERAP in the oil sector (Feigenbaum 1985), were all examples of *féodalités* run by powerful bosses who could make decisions without informing the government (cited in Hayward 1986: 35-38). For instance, the government knew little of the merger of Alcatel and ITT which was negotiated by CGE (Wright 1997: 17). Cohen and Bauer (1981) conclude that in many cases, the relationship between the state and big business was merely agency capture by nationalised enterprises, whilst Cohen (1989) later speaks of the ‘predominance of private government in the structure of an industrialised country such as France.’ These examples illustrate the point that despite widespread state intervention before 1983, the state did not always enjoy control over every aspect of industrial policy; much depended on the sector, the policy type and the individuals concerned.

Nonetheless, state-led changes to the financial system in the early 1980s did markedly reduce the ability of the state to influence French industrial policy, and did lead to increasing firm autonomy. These changes became necessary because of the growing financial difficulties faced by many French firms at a time when capital was needed for investment in foreign acquisitions. The Mitterrand government initially tried to remedy this shortage of capital by providing state aid.<sup>21</sup> However, like most other countries, France faced a crisis of public funding. This was not a totally new experience, since even when the state was at its most generous (1981-85), total investment in French industry (48.7 billion francs) did not cover cumulated losses (67.2 billion francs) (Cohen 1985). By 1983 though, high interest payments and growing foreign debt began placing significant constraints on public funding. At the

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<sup>21</sup> In 1982, for example, the newly nationalised industries received nine billion francs, and in 1983 planning contracts with the Ministry of Industry were worth another twenty billion francs (Sally 1995: 154-155).

same time, growing financial demands from the education and social sectors, along with the rejection of tax increases by the population, led to a reduction in the level of state aid handouts. Thus, French firms experienced a substantial fall in state investment, but could not compensate for this by attracting investment on the foreign money markets due to unfavourable ratings caused by investor suspicions of the share-holder state. Hence, by the early 1980s, French firms were facing problems of high capital shortage and heavy debt reliance which had built up over the preceding years due to the constraints of the post-war financial system.<sup>22</sup>

In order to reverse this situation, the government embarked on a series of policies which reduced its power to intervene in management policy. Two policies were particularly significant – reform of the banking system, and a programme of privatisation and deregulation. Reforms of the banking system were designed to strengthen links between banks and firms. Traditionally, it had been thought that French banks enjoyed considerable influence over industry due to above average debt-equity ratios (Hall 1986: 242), but Sally (1995: 148) highlights clear differences with the influential banking system in Germany. For example, he notes how it has traditionally been governments in France who have come to the rescue of firms in financial difficulties, and not the banks as in Germany. As a result, it was natural for the government to try to strengthen firm-bank links in the hope that banks would increasingly provide extra capital, and reduce reliance on the government. The *Loi Delors* in 1983 was designed to increase bank investment in industry. Under Chirac's privatisation programme between 1986-88, the newly privatised banks were supposed to provide fresh capital and take equity positions in newly privatised firms such as CGE. Unfortunately, these policies did not have a great impact in changing bank-firm relations, and the government was still called upon to provide money when times became hard.

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<sup>22</sup> Schmidt (1996: 95) claims that the lack of financial resources 'almost guaranteed the further liberalisation of the economy since, no longer able to stimulate industry through demand, the Socialists had to turn to more supply-side measures to improve the competitiveness of French industry'.

More successful was the deregulation and privatisation programme. The government's '*ni-ni*' policy was designed to defend public ownership<sup>23</sup>, yet the state wanted to encourage private investment at the same time. One of the principal means of achieving this was to increase the power of the underutilised and undersized Paris Bourse. The *Loi Delors* introduced *certificats d'investissements* which allowed private and foreign firms to hold non-voting preferential shares up to 25% in state-run firms (this was later increased to 49%), and *titres participatifs* allowing private firms to hold non-voting loan stock. Firms were later allowed to raise debt capital abroad. It was this state-led deregulation of the financial system that allowed the government to go ahead with full or partial privatisation, despite the constraints imposed by the politically motivated *ni-ni* policy. The result was that between 1988 and 1990, state-run firms received 183.4 billion francs in fresh capital, with only 13.8 billion coming from the government compared to 34.3 billion from financial markets (*Financial Times*, 26 June 1990).

Thus, with increasing levels of private capital available from the government-engendered financial market deregulation, as well as French companies tapping foreign capital markets, firms were no longer so reliant on the Trésor and the Finance Ministry for capital, and could therefore be more independent in their managerial approach. As a result, the state lost much of its control over industrial firms. This was highlighted between 1991-92, when Cresson's massive restructuring plans in the electronics and nuclear sectors fell victim to the nuclear lobby and to obstruction from the heads of nationalised industry who would have been difficult to dismiss. Therefore, it is clear that the financial relationship between the government and industrial enterprises was a major factor in determining government intervention/management autonomy. Financial health and independence proved to be a

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<sup>23</sup> *Ni-ni* was a solemn commitment given by Mitterrand in his *Letter to the French*, that if reelected President in 1988, he would neither proceed with new nationalisations, nor with additional privatisations.

partial guarantor of low levels of government intervention. Hence, the government's financial policy supported the autonomous strategies of the firms, rather than the supposed industrial policies of the government (Cohen 1989).

For a short while in the mid 1980s, Air France seemed to fit this pattern of growing financial independence and state withdrawal, thanks to the moderate rate of profit it achieved. With the introduction of the *contrat de plan* for 1984, Air France became an *entreprise commerciale*, and this was to mark a partial withdrawal of the state (Perri 1994). Indeed, the government did not inject any more money until 1991. From 1986, PDG Friedman began preparing the company for partial privatisation.<sup>24</sup> Whilst the unions would definitely have opposed privatisation and liberalisation, both ideas found widespread support at this time within the company, the government and the public. Thus, while the company achieved a profit in the mid 1980s it was able to maintain some independence from the government.

However, two factors marked distinct differences between Air France and much of the rest of French industry. First, there was never any suggestion to fully privatise Air France. Only 15% of capital was to be sold on the stock market, 10% of which was to go to personnel. Indeed, it was symbolic that Air France was not on the list of companies to be privatised which figured in the annex to the law on privatisation of 2 July 1986. Thomson, Matra, and Elf were there, but not Air France. The state simply wanted to attract private capital for investment purposes, not sell the national flag carrier. It would have been politically unthinkable at this time for the government to sell such a prestigious national establishment. However, even this policy of partial privatisation was not implemented due to the stock market crash of 1987. The decline in the financial fortunes of Air France after 1989 prevented any further suggestion of privatisation. Moreover, the move towards privatisation

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<sup>24</sup> By 1988, a successful attempt had been made to remove company debt in preparation for privatisation.

was actually reversed when Air France bought UTA in January 1990, in a move which was to all intents and purposes a quasi-nationalisation.

Second, Air France was not able to exploit the changes to the financial system in the long run because of falling revenues. Thus, once Air France began to lose money after 1990, heavy state intervention resumed. 1992 and 1993 were the worst years, with Air France losing 3.3 billion francs and 7.81 billion francs respectively (*Le Monde*, 27 June 1996). Air France's debt position was equally alarming. By 1993, it was 36 billion francs in debt, and could not even cover day-to-day expenses (salaries, fuel) with basic income (ticket sales). Many of these problems resulted from the fact that Air France had not covered itself against fluctuations in the price of fuel. Whilst it had benefited from low prices between 1985-89, it suffered when they rose after 1989. It had also benefited from changes in the currency between 1984-88, but suffered afterwards. The fall in profits from 1989 underlined the *'relative vulnérabilité structurelle de la compagnie nationale'* (Vinçon 1991: 17).<sup>25</sup>

Even the preparations for partial privatisation made the financial situation worse. The logic of privatisation had meant that profits became the top priority. Whilst the company had reduced its debts and become profitable by 1988, this had been achieved by minimal investment. Thus, by the end of the 1980s, the fleet was old and increasingly inefficient.<sup>26</sup> At the time this did not matter to the state which hoped to raise private capital to pay for future investment. However, once privatisation was off the agenda, the company had to reverse this policy and invest.<sup>27</sup> This meant borrowing heavily, and Air France became reliant on the state for financial help again. The state channeled money through its intermediaries, with the

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<sup>25</sup> Not only did the financial situation of Air France worsen from the late 1980s, but so did its competitive position. It remained third in the world for freight, but moved from third to fifth for international passengers and seventh to tenth for international and domestic passengers.

<sup>26</sup> The fleet was on average ten years older than its competitors.

<sup>27</sup> In 1989, Air France spent 6 billion francs compared to 2.3 billion 1983-85 and 3.4 billion 1986-88.

Banque Nationale de Paris (BNP) taking a 10% share in Air France in 1991, and the Caisse des Dépôts investing 1.5 billion francs in 1993 in return for 7.5% of the shares.<sup>28</sup> The state itself ploughed another 20 billion francs into Air France in early 1994 as part of a massive restructuring plan. Hence, Air France did have a brief phase in the mid 1980s in which it was not reliant on the government for financial support, yet like several other companies in the face of a severe recession, it reverted to seeking state aid.

Thus, by 1993, reforms to the financial system had had a variable impact on the industrial sector. Most firms benefited from the changes because they had strong financial balances which meant they could attract private investment and cut their ties with the state (Rhône-Poulenc and Elf Aquitaine). However, several firms had financial balances that were so weak that they could not attract private investment (Air France, Bull, Thomson). These firms had little choice but to turn to the state when the recession hit, and as a result, they found themselves more reliant on state subsidies than ever. This financial reliance on the state also translated into persistent state intervention and *dirigisme*. For example, Air France was forced to buy inefficiently large Airbus carriers, and could not replace the obsolete Caravelle with the new Boeing 737 until a European equivalent had been built. The Prime Minister also felt justified in claiming '*j'ai piloté l'opération*' in relation to the purchase of UTA in 1990 (*Europe 1*, February 1990). Moreover, the state refused to provide the injection of 20 billion francs in 1994 unless the state-encouraged restructuring plan was accepted. Thus, the state continued to control the financial resources available to Air France, and as a result, the national flag carrier was not able to exert its autonomy to the same extent that many other French industrial firms were doing.

### **The introduction of more market-oriented policies.**

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<sup>28</sup> BNP stated that it had only agreed to the Air France deal in return for government help with raising the bank's capital the previous year (*Wall Street Journal*, 25 July 1991).

Besides state-led changes to the financial system, the state also encouraged the implementation of more market-oriented policies to help firms become competitive in international markets. It was because the state was no longer able to stimulate industry through demand, that it turned to these supply-side measures (Schmidt 1996: 112). This often resulted in the commercialisation of public sector firms. For example, commercial objectives, such as profitability and efficiency, replaced public service obligations as the principal goals of French industrial firms. These new attributes often formed the central element in a whole host of restructuring plans, the Renault case being the most obvious and arguably the most successful. The government was often vehemently opposed to many of these market-oriented changes, but felt forced to introduce them to enable French firms successfully to adapt to the new international economic environment.

Three policies in particular were introduced to help French firms become competitive in international markets. The impact of these policies, unintended or not, was a decline in the ability of the state to control industrial policy. First, there was a government-sponsored attempt to create international champions. The government's national champions policy had not been exactly successful since its introduction in the late 1960s. Several ventures, notably those involving the steel, chemicals and computing sectors, proved a massive drain on the treasury without achieving the levels of efficiency that would have made them powerful competitors even for the French market (Zysman 1977).<sup>29</sup> Indeed, many national champions of the 1960s became the lame ducks of the 1970s (Berger 1980). However, even some of the more successful national champions faced problems. Whilst they were dominant in their domestic market, they were still no match for American and Japanese firms.

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<sup>29</sup> The steel company's indebtedness for example had risen from 33% of sales in 1952 to 112% in 1978. There was enormous overcapacity, and they were heavily reliant on government subsidies.

In order to improve competitiveness, the French government introduced an international champions policy. By 1983, many French firms were multinational in character, but still lacked the size and economies of scale to compete in world markets without some government support. As a result, the government sponsored a policy of industrial concentration and specialisation on an international scale. Indeed, the mid 1980s saw a whole host of government-approved foreign acquisitions, with the state providing foreign direct investment. A side-effect of this international expansion was that it weakened the links between the state and French industry. It was much harder for the state to influence management policy when subsidiaries or partner firms were not subject to French laws or even located in France (Sally 1995: 125). Moreover, once these international champions created a competitive advantage for themselves by mastering a technology (nuclear electricity), or achieving a high level of productivity (France Télécom), or gaining market share (Airbus Industrie), they began to see intervention as a threat to their cash flow, to their own discretionary power, and as an impediment to building international alliances (Cohen 1996: 32). As a result, they increasingly demanded to be judged by market criteria, not public service obligations.

Second, the state's programme of privatisation and deregulation was supposed to provide funds with which to expand internationally. Whilst the Socialists had nationalised many firms in the early 1980s, there was also a significant, but subtle, transfer of assets and subsidiaries from the public to the private sector.<sup>30</sup> Indeed, the Haut Conseil documented 160 cases of unlawful transfers to the private sector from 1978-1986, including 66 to overseas enterprises.<sup>31</sup> From 1986, this move towards privatisation was accelerated, since the RPR and UDF alliance had been elected on a platform which promised to privatise much of state-

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<sup>30</sup> This transfer to the private sector became known as the 'respiration' of the public sector.

<sup>31</sup> These transfers were unlawful because they were not dealt with by a *loi* as the constitution demanded.

owned industry.<sup>32</sup> Unfortunately, the privatisation programme was hindered by the relatively small Paris Bourse, the stock market crash of 1987, and the re-election of the Socialists in 1988. However, pressure for privatisation did not disappear. Despite the Socialist's '*ni-ni*' policy, many state firms were able to reduce levels of state ownership and attract private investment. On 4 April 1991, the government announced the possibility of formal, partial privatisation since private sector firms could take minority stakes in state-run firms.<sup>33</sup> This input of private funds was used to finance further foreign acquisitions. In this respect, the need to internationalise and to find the financial resources to do this, was forcing parties of both the right and the left to look to diminish the role of the state. The privatisation programme also had the side-effect of reducing the significance of *pantouflage*, thus weakening state-industry contacts even further.<sup>34</sup> This had the added benefit for the government that it would 'result in a more dynamic management. It was very demoralising for top management to know that however well they did their jobs, someone from the civil service would always get the top posts' (*Interview*, September 1996).<sup>35</sup>

Third, the French government looked to European solutions for several sectors once it realised that it was no longer able, financially or legally, to protect its national firms. Financially, EMS membership (1979) meant that it was unable to offset the impact of inflation on exports by devaluing as it had previously done, whilst the demands made by the Maastricht criteria for joining a single currency forced government spending cuts. Legally,

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<sup>32</sup> What differentiated this privatisation with what went before was that it represented a fully-fledged 'programme' of privatisation, which included firms that had been nationalised immediately after the war.

<sup>33</sup> However, this private capital could not be raised on the stock market, and the private sector firms which invested in state-run enterprises had first to reach industrial and commercial agreements with the government.

<sup>34</sup> *Pantouflage* is also coming under attack from tighter regulations. For 18 months now, civil servants have been unable to enter the private sector in an area where they have worked in the last five years. A further result of this is that the civil service will become less attractive.

<sup>35</sup> Interview with the President of Standard and Poors, Paris, a top financial ratings company.

European regulations on competition and state aids were increasingly being tightened and enforced. These factors placed heavy constraints on the French industrial policy. With the increasing threat from Japanese and American companies to sectors of perceived national interest (chemicals, electronics etc.), the French were forced to look for supranational solutions.<sup>36</sup> However, intergovernmental support for this only existed in a few specific sectors (TGV, Airbus, Ariane, EUREKA, RACE, and ESPRIT-style R&D cooperation) (Tsoukalis 1991: 49-51).<sup>37</sup> The failure to impose a European champions policy meant that the French government was forced to look for other solutions to deal with its industrial difficulties, and these tended to be increasingly market oriented in direction (Schmidt 1996: 174). It is particularly significant that the failure of France's Eurochampions policy coincided with a switch to a more liberal economic policy in France, which in turn encouraged the change in EC emphasis from industrial to competition policy.

These three policies had two significant effects on the French industrial sector. First, they encouraged the commercialisation of industrial enterprises. Firms competed in market-dominated sectors where their international competitors had few public service obligations. Traditional protectionist tendencies gradually disappeared with the acceptance of a European competition policy. Moreover, the belief that the state was always there to bail out inefficient firms was steadily eroded. As a result, comprehensive restructuring plans, designed to place commercial goals at the heart of management policy, were implemented in many French companies. Second, these policies reduced the ability of the state to control industrial policy. Whilst sporadic intervention certainly persisted, it was only in rare exceptions that the government used firms as an active instrument of public policy: for example, in Thomson's high definition television programme (HDTV) which was heavily reliant on public financing.

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<sup>36</sup> In a September 1983 memorandum to the European Council, the French government argued for a European protectionist policy to constitute Eurochampions able to compete with America and Japan in high technology sectors.

Indeed, an interviewee stated that ‘the right of initiative and implementation clearly lies in the corporate domain now . . . . It is widely perceived that it is the companies who are competent on industrial matters, not the state’ (Sally 1995: 126). This combination of increased commercialisation and reduced state intervention was a common feature throughout much of the French industrial sector after 1983.

However, Air France was among a handful of firms which continued to experience persistent state intervention and protection into the early 1990s. This was partly because the state never encouraged market-oriented policies in the air transport sector to the same degree as it did elsewhere. Indeed, liberalisation and deregulation of the airline sector were opposed, rather than supported, by the state. Bosson, the Minister for Transport, often spoke out publicly against these trends, writing several times to the European Commission to denounce the ‘*ultra-libéralisme*’ which was sweeping across Europe. He demanded that the size of European fleets be reduced, that a capacity limit be placed on certain routes, and that there be a Europe-wide harmonisation of social costs. He said that ‘*Air France illustre les effets négatifs tant du protectionisme ancien que de l’ultra-libéralisme récent*’ (Letter to the European Commission, 29 November 1993).

By 1993, the relationship between the state and Air France was similar to that before 1983, with the state retaining control over financial resources, routes, airport slots, management appointees, bilateral agreements and strong influence over labour policy, competition and overall strategy. The airline had not evolved into a firm governed by commercial principles. Indeed, plans to restructure Air France along these lines failed (CAP 93), and the company’s culture remained rooted to its public service ethos, rather than commercial success. For example, Air France was forced to maintain links with Corsica, Strasbourg and the DOM, even though these routes were not profitable. Air Inter had to assist the development of inter-

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<sup>37</sup> Most European companies did not see the advantage of continued protection and government

regional links and fly services to isolated areas if it was to retain its monopoly over the domestic market. It had to finance these loss-making routes out of its profits on other services; something which was not always possible. This public service ethos was sustained by a state which was always willing to inject aid to cover losses. This ethos had come under attack in many sectors (Renault), but there seemed little doubt amongst the Air France workforce in 1993 that the state would continue to provide aid every time the ailing flag carrier needed rescuing.

Thus, throughout the 1980s and early 1990s, Air France followed a different evolutionary path to most other French firms. On the one hand, domestic, European and international pressures compelled the French government to reduce state intervention and firms found it necessary to adapt to an international free market based on competition. On the other hand, and despite being subject to these same pressures, the relationship between Air France and the state remained extremely close, at least until 1993.

### **Changes in the relationship between the French state and Air France since 1993.**

However, there have been signs that Air France's *dirigiste* relationship with the state has begun to change since 1993. Whilst the state remains the dominant actor in some areas (financial resources, airport slots, and bilateral agreements), its influence has declined in many others (routes, suppliers, strategy, competition). In this sense, the *dirigiste* relationship with the state has not disappeared, but has simply been reshaped. This reshaping can be characterised by three factors. First, there has been a significant change in the attitudes exhibited by actors within Air France towards the relationship with the state. Since 1993, management, trade unions and the workforce have increasingly accepted the inevitability of competition, the need to restructure, and the futility of always relying on the state for their

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subsidies on a supranational level when this policy had already failed at a national level.

financial security. Second, the state has been more willing to force through changes which it deems necessary for the survival of Air France (restructuring plan). Third, a more market-oriented and commercial air transport strategy has replaced the emphasis on public service obligations. This has resulted in changes to routes, management, the organisational structure, and products. Whilst these changes are as yet moderate in comparison to those in other sectors, they do suggest that Air France will eventually develop along similar lines to the rest of French industry.

Since 1993 all actors involved with Air France have increasingly accepted the need to prepare Air France for global competition, to restructure it along more commercial lines, and to reduce its reliance on the state. For Air France's management and the state, this was nothing new. They had appreciated the metamorphosis of the air transport industry to global competition much earlier. Indeed, PDG Attali had been concerned about the US mega-carriers as early as 1988, and the French state had supported the implementation of the CAP 93 restructuring plan in 1991. This belief in the inevitability of increased competition in the aviation sector explains why attempts to restructure the flag carrier continued, even when domestic opposition forced the withdrawal of CAP 93 in 1993. Bernard Attali and CAP 93 were simply replaced by Christian Blanc and the *Projet pour l'Entreprise* in March 1994.<sup>38</sup> Indeed, the aims of each plan were almost identical. This is, in fact, unsurprising since Transport Minister Bosson had announced the need to alter CAP 93, not withdraw it entirely.

The unions and the workers were much slower to recognise the inevitability of competition and restructuring. This was illustrated by their unwillingness to accept the sacrifices that accompanied CAP 93, and was founded on the widely-held conviction that the state would always step in to support Air France. However, Blanc's *Projet pour l'Entreprise* led to a

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<sup>38</sup> Blanc's plan involved 5,000 voluntary redundancies in three years, a continuation of the two year old freeze on pay, a renegotiation of the 81 conventions concerning conditions of employment, and a 30% increase in productivity.

radical departure from this mindset in early 1994. Blanc's plan gave a central role to 'social dialogue', and he used internal discussion with both the unions and the workers, along with frequent contacts with the *tutelle*, to draw up a restructuring plan which would be socially acceptable. Numerous leaflets, brochures and questionnaires were distributed to workers dramatically describing the financial plight of Air France. They were left in no doubt as to the fact that the future of the company rested on its ability to restructure rapidly. The employees were further encouraged to support change by the promise of twenty billion francs in state aid if the plan was accepted. Thus, by 1994, the workforce were well aware of the financial situation that Air France found itself in, and the employees gradually accepted the need to restructure as overwhelming.

Two points illustrate this change in attitudes. First, the 1994 referendum at Air France. Blanc had consistently stated that no restructuring plan would succeed without the support of the workforce. Once the unions had failed to unanimously support his restructuring plan, a direct referendum involving every employee in the firm took place. 81.26% of the 83.55% of workers who voted, voted in favour of the plan. This was a clear indication of the rapid change in attitudes that had taken place amongst the workforce since Blanc became PDG in late 1993. Social unrest has continued and there have been numerous strikes since the introduction of the plan, most notably by Air Inter employees protesting against their absorption into Air France. However, these have been relatively minor in scale, and have primarily been concerned with how restructuring should take place. None has contested the need to restructure itself.

Second, the growing support for the commercialisation of Air France has been highlighted by the language now used by Air France's management. This is most obviously the case in Air France's draft strategic plan for 1997-2000 (*Pacte de Croissance Compétitive 1997-2000*). Competition is no longer seen as '*un drame, mais une chance . . . la concurrence a été*

*inventée par vous, par nous, bref, par les consommateurs*’ (*Pacte de Croissance Compétitive 1997-2000*, 5 July 1996: 8). Competition is seen as vital for the survival of Air France since this is what consumers, citizens and governments all favour. Nor is liberalisation and deregulation blamed for destroying jobs as they once were. Indeed, the plan states that the opposite is true. Management optimistically notes that between 1980-85, 10,000 jobs a year were lost in America, but since 1985, 20,000 a year have been created (Ibid.: 19). This is expected to be the case in France too. This change of language is symbolic of the change in attitudes that has occurred in Air France since 1993. It also illustrates the belief that relying on the state for financial security is futile, rather it is the consumer and the market which will ultimately determine the fate of Air France.

The second major change that has occurred since 1993 is that the state has been more willing to support and impose changes on Air France that are vital for it to survive in a global and competitive market. Several examples illustrate this. First, the state was prepared to ‘impose’ the March 1994 restructuring plan on Air France by threatening not to provide 20 billion francs in state aid unless the plan was accepted. Second, the state has opened several routes ahead of the schedule set by the European Commission in an attempt to prepare Air France for competition in April 1997 (*Interview*, September 1996).<sup>39</sup> For example, routes between Paris-Toulouse and Paris-Marseilles were opened ahead of schedule (*Nouvelle Observateur*, 3 November 1993). Third, the state attempted to increase the competitive pressures on Air France by supporting the existence of a private French airline pole to compete with the public pole of Air France. This private pole included Air Liberté and AOM who announced a commercial accord on the 24 June 1996. The two companies were pushed together by *les pouvoirs publics*, with the support of President Chirac (*Le Canard Enchaîné*, 7 August 1996).<sup>40</sup> However, the deal between AOM and Air Liberté collapsed two months after it had

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<sup>39</sup> Interview with the President of Standard and Poors, Paris.

<sup>40</sup> Originally, Mark Rochet, head of AOM, had wanted to join forces with TAT, but Chirac had vetoed this. Instead, Rochet was replaced by a close friend of Chirac, Alexandre Couvelaire (he had set up

been signed.<sup>41</sup> Nonetheless, this whole episode highlighted how Air France was no longer guaranteed a privileged position with the state. These examples underline the government's efforts to prepare the company for deregulation and full competition.

The third major change since 1993 has been the increased emphasis on a market-oriented and commercial air transport strategy and a move away from public service obligations. The decline in the public service ethos is illustrated when Blanc stated that the idea of *le service public* had gone, and had to be replaced by *le service de client*. '*Air France est une compagnie nationale. Elle exerce en certaines occasions, à la demande de l'État, des missions de service public.*<sup>42</sup> *Mais c'est une entreprise du secteur concurrentiel*'. Even Pasqua, the Minister for Home Affairs, said in *La Marché du Siècle* on France 3 in January 1994 that the '*service public et rentabilité sont difficilement compatibles, voire contradictoires.*' This decline in the public service ethos has led to a decline in the control exerted by the state over Air France's policies and an increased commercialisation of the airline's strategy.

For example, the state has experienced less influence in the following areas:-

***Routes*** – *the state has lost much of its influence over what routes are flown by Air France.*

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Euralair, an airline which had helped Chirac out in the presidential elections), and the code sharing deal with Air Liberté was given the green light. Chirac's motives can be better understood when we realise that La Banque Rivaud was a 34% shareholder in the financially troubled Air Liberté. The bank was run by Edouard de Ribes, a personal friend of Chirac and someone who had managed the Gaullist's financial affairs for a long time. He had apparently become worried about the state of Air Liberté and sought Chirac's help.

<sup>41</sup> BA, Virgin and Nouvelles Frontières stepped in to buy Air Liberté, with the French authorities deciding that the BA restructuring plan was the most effective. Thus, BA has put an end to the private French air transport pole. However, it does show that increased competition for Air France is becoming more acceptable, and that this is coming from both foreign and domestic carriers.

<sup>42</sup> For example, in cases like the Gulf war the state would be in a position to requisition airplanes and personnel (Vinçon 1991: 213).

- Many unprofitable, but public-service motivated routes have been closed by Air France management. For example, 18 unprofitable services covered by Air France Europe were closed on 27 June 1996.

**Competition** – *the state is no longer able to determine how much competition Air France should face.*

- The European Commission has become the dominant actor in this respect. It has forced Air France and Air Inter to give up their monopoly hold over many of their most profitable routes. For example, Air Inter was forced to give up its monopoly on its routes between Orly-Marseilles and Orly Toulouse. Air Inter had gone to the Court of First Instance to reverse the Commission's decision, but they eventually lost their case. The result was that Air Inter's most profitable routes were opened up to competition from 1 January 1995. Moreover, since 1 January 1996, French airlines have been able to compete on any routes they chose. Thus, by the mid 1990s, Air France was competing with several other airlines, domestic and foreign, in a highly competitive environment.

**Management** – *the state has lost some of its influence over management appointees.*

- The *pantouflage* system which constrained commercialism within the company and allowed the state to exert enormous control over management has declined since 1993. This change was first evident in the appointment of Blanc himself in 1993. Despite being heavily involved in politics<sup>43</sup>, he was renowned for his independence of character. He had illustrated this when he resigned as president of RATP in 1992 having fallen out with Transport Minister Jean-Louis Bianco over concessions to unions. Moreover, before accepting the post of Air France's president, Blanc carefully negotiated his margins of manoeuvre. Once Chirac was elected and Bosson took over as *tutelle* minister, he also obtained the ability to deal directly with Prime Minister Juppé (*L'Éssentiel du*

*Management*, July 1996: 58). In an attempt to further undermine the *pantouflage* system and the old hierarchies which had plagued the decision-making process, Blanc introduced a whole new management team based on relevant expertise. The executive committee was cut from 40 to 25, with the majority of the 25 comprising new people. Moreover, he recruited specialists such as the ex-chairman of United Airlines, Stephen Wolf (29 August 1994), and brought in people with experience from the Trésor, the Cours des Comptes and Thomson.

Air France has also experienced increased commercialisation:-

***Organisation*** – *there has been a reorganisation to improve competitiveness.*

- The actual organisational structure of Air France came under review and was reorganised along more competitive lines. In June 1994, 11 Centres de Résultats (CDRs) were introduced, dealing with geographical regions such as Asia-Pacific, the Americas and logistical sectors such as maintenance and training. Thus, a radical decentralisation took place, with each CDR responsible for running its own services and making a profit. This allowed for a faster decision-making process, and for individual initiative and entrepreneurial skill. In this respect, Blanc was imitating the successful decentralising changes that had occurred in other industries around the world. Despite some recent recentralisation, Air France's organisation and management remains far more commercially oriented than it was before 1993.

***Products*** – *these have become more competitive*

- Air France has introduced new products such as Espace and Tempo in an effort to compete with other airlines. Management has invested heavily in the quality of its service, developing the Club class, *fréquence plus* (the frequent flyer programme), and yield management. Air France has also improved its marketing and sales capabilities by

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<sup>43</sup> Blanc had led Rocard's staff in the presidential pre-campaign in 1981, and had negotiated with New

purchasing the successful Sabre information system from American Airlines in February 1995 to replace the inferior European project, Amadaeus. In order to invest in these new services, private capital was seen as vital. As a result, Blanc offered shares in the company to workers, and in January 1995, 36% of workers chose to become shareholders (mainly the cadres and *navigants*).<sup>44</sup> The long term aim for management and the state is also the full privatisation of the flag carrier. Thus, Air France has definitely attempted to come to terms with its competitive environment, although it is too early to pass judgement on the success of these projects.

## **Conclusion.**

To conclude we can see that the relationship between industry and the state has altered considerably since 1983. There is strong evidence that the state has experienced a decline in its ability to control industrial policy, whilst individual firms have become more autonomous. These changes have been the result of state-led reforms of the financial system and the state-encouraged introduction of market-oriented policies. As a result, there is some evidence for those who claim that 1983 signaled a change in the traditional *dirigiste* model of industrial behaviour in France.

However, it would be misleading to claim that these changes have occurred at the same time, or to the same extent throughout the industrial sector. It would be equally misleading to claim that the state is now without influence in many areas. For example, the relationship between Air France and the state has not changed at the same speed, or to the same extent, as the relationship the state enjoyed with other industrial sectors. Indeed, the *dirigiste* relationship outlined in chapter one was essentially still in place as late as 1993. Moreover, whilst the

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Caledonian separatists.

<sup>44</sup> However, the shares bought by these 36% of workers constituted only 5% of Air France's shares. They were able to buy 20% of the shares if they had wanted.

state is no longer the predominant actor in many policy areas since 1993 (routes, competition, management), it still exerts some influence thanks to its continued control over financial resources. Thus, this chapter highlights the differences between the trends in the air transport sector and those common to much of the rest of French industry. In doing so, it provides evidence to suggest the *dirigisme* has not disappeared, but has simply been reshaped. The next chapter attempts to explain why the relationship between Air France and the state has changed.

## **Why did the relationship between the French state and Air France change?**

The preceding chapters pose two interesting and puzzling questions which this chapter intends to deal with. First, why did Air France retain its traditional relationship with the government throughout the 1980s and early 1990s, at precisely the time that other industrial sectors were restructuring and distancing themselves from the state? The fact that Air France experienced many of the same pressures which reduced state control over other areas of industry further complicates this question. Second, why was there a reversal of this approach after 1993 and a move towards market-oriented competition? The answer to each of these questions is found in the interplay between domestic, European and international pressures.

These three sources of pressure worked in different directions. For example, domestic pressures tended to be violently opposed to the breakdown of the traditional *dirigiste* relationship between the state and Air France, whilst international and European pressures tended to encourage a state withdrawal from the national flag carrier. The relative influence exerted by these pressures also changed over time. For example, the political significance of social unrest and deep economic recession in the late 1980s and early 1990s combined to enable Air France workers and their unions to withstand European and international pressures for liberalisation. However, once European competition policy and trends towards international deregulation had been strengthened in the mid 1990s, it was clear that this traditional relationship would have to change. In this way, the interaction between domestic, European and international pressures explains the changing relationship between Air France and the state. This chapter investigates each of the three sources of pressure.

### **Domestic Pressure.**

One of the principal sources of domestic pressure affecting French industry after 1983 was the growing inability of the state to fund the public sector. As was highlighted in the previous chapter, the state's power to invest in state-run firms was constrained by numerous domestic problems, such as high interest payments and a poor foreign debt position. As a result of this situation, the state increasingly encouraged firms to seek financial support from private sources. This had the side-effect of weakening its links with French industry and reducing its ability to control industrial policy. However, Air France maintained its close relationship with the state, and was one of several companies which were able to call on the state's dwindling reserve of funds. Three factors from the domestic level offer a partial explanation of why the state maintained its traditional *dirigiste* relationship with Air France, and not with the rest of industry.

First, Air France was a conspicuous symbol of the French state abroad. Mitterrand called it '*le porte-drapeau de la France*,' whilst Attali stated that '*l'entreprise tricolore, c'était un peu la France à l'étranger*' (Attali 1994: 31). This, combined with the fact that Air France was in serious financial difficulties in the early 1990s, meant that it was not possible for the French state to allow the image of Air France to be tarnished by social unrest and the possibility of bankruptcy. This would have meant the tarnishing of the French nation itself. As a result, the government always felt compelled to intervene to prevent possible embarrassment. '*La France ne laissera pas tomber Air France*' (Source close to the Prime Minister to *La Liberation*, 23 November 1992). Other industrial firms were not so closely linked to the nation state, and so it was easier for the state to withdraw from these sectors.

Second, social unrest at a time when political support for the government was not guaranteed and the economy was in recession, forced the state to maintain high levels of intervention in Air France. The state had initially tried to force the modernisation of Air France. Indeed, Prime Ministers Rocard, Cresson and Bérégovoy all followed a liberal policy which was

strengthened under Prime Minister Balladur and Transport Minister Bosson (Perri 1994). However, social unrest often obliged it to retreat from this policy. Three cases in particular serve to illustrate this.

1. In 1988, a one hundred day strike saw the government reverse its policy of reducing employment in Air France.

Maintenance workers said they could no longer guarantee the quality of their work since they were being asked to do more and more with fewer resources (no posts had been renewed since 1980). Finally, as the cost of the strike rose to one billion francs, management stepped in at the insistence of the state. The result was the hiring of an extra 1500 people (Perri 1994).

2. In November 1990, the Nice Affair saw the state force Air France to withdraw a policy aimed at increasing workforce flexibility.

Following Air France's direct purchase of UTA, and indirect purchase of Air Inter<sup>45</sup>, attempts were made to integrate the companies to obtain economies of scale. However, due to distinct differences in company cultures this proved extremely difficult. In the Nice Affair, workers were to be transferred from Air France to posts in Air Inter. Despite the fact that they were not to lose out in salary or working conditions, this led to strikes. Management said '*qu'il n'y avait rien à négotier*', yet several weeks later things changed. The government feared that the conflict would spread to other areas in Groupe Air France. Hence, management was forced to back down.

3. In October 1993, a strike initiated by Air France workers, rather than trade unions, led the state to withdraw the CAP 93 restructuring plan.<sup>46</sup>

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<sup>45</sup> By purchasing the remaining 70.95% of capital in UTA, Air France gained control over Air Inter. Prior to this, Air France only had a minority stake in Air Inter.

<sup>46</sup> CAP 93 was the plan proposed by Attali to bring Air France back to financial health by 1993. It involved 1,500 redundancies, a freeze on wages, and a move to part time staff.

Representatives of the Budget, the Trésor, and the DGAC (civil aviation authority) had voted for CAP 93 in a board meeting, whilst the Ministry for Transport, of Employment, and the *cabinet* of the Prime Minister had also given their support to the plan. Thus, the plan not only enjoyed the support of Air France's management, but also important state-based actors. However, the political and economic climate was not particularly conducive to such restructuring. Peugeot, Bull, Thomson, la Snecma and Air France all announced their social plans on 16 September, '*Le jour où 13.317 emplois ont disparu*' (*La Libération*). The Matignon reacted immediately by demanding as few redundancies in the public sector as possible. However, at the same time, the Prime Minister's office intervened and told Attali that the plan was inadequate<sup>47</sup>, and made matters worse by announcing the opening of Orly-Marseilles and Orly-Toulouse to competition.<sup>48</sup> The workforce responded by going on strike. Realising that the strategic decisions in Air France were made at the level of government (Perri 1994), and that it was political decisions made by the state concerning liberalisation which were affecting their jobs, workforce demands were directed at the state, and not Air France's management.<sup>49</sup>

Having publicly supported Attali and his plan by saying '*le plan est irrévocable*' (*France 2*, 20 October 1993)<sup>50</sup>, Transport Minister Bosson withdrew CAP 93. The government was forced to back down for several reasons. First, public opinion wanted him to. Television coverage had managed to convince the public that the strikers were badly paid, and a Sofres opinion poll on 23 October showed that 44% of the people questioned declared solidarity with

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<sup>47</sup> Several *directeurs* had also told Air France's President, Bernard Attali, to reinforce the plan by 25%, despite having been told the social risks of doing this.

<sup>48</sup> An added problem caused by the opening of these routes was that Air Inter had just bought the large Airbus A330 to cover these routes. These planes were unlikely to be used at full capacity due to the extra competition, and this situation cost Air Inter 500 million francs.

<sup>49</sup> This was clearly seen when strikes took place at the Arche de Défense where the Ministry of Transport is situated, and not at the headquarters of Air France.

the strikers, 27% supported them, and only 16% were against them. This support came from across the political spectrum, and made up a large part of the parliamentary majority's (the UDF-RPR) electorate (Perri 1994). Second, it had consequences in relation to the international context. GATT talks were soon to start with the US, in which France was going to oppose certain aspects of globalisation based on market principles alone. France would have lost some of its credibility in those talks if it had forced through this restructuring plan. Third, the government was worried about several members in the majority who were calling for the privatisation of Air France (Perri 1994). As a result, Bosson went on television and announced the need for changes to the plan, and a six month freeze on redundancies in public sector firms.

Each of these three examples illustrate how difficult it was for Air France's management and the state to push through modernising reforms and restructuring plans in the middle of an economic recession. Other firms had restructured in the mid to late 1980s when the economic environment was more conducive to state withdrawal. The possible political repercussions of social unrest in the early 1990s allowed Air France workers to oppose reforms which often had the backing of powerful state-based actors, such as the Prime Minister, the Transport Minister, and the Trésor. It was clear that the state was unwilling to risk social unrest as the price for imposing its modernisation policies.

Third, the relative strength of Air France's trade unions meant that they were able to fully exploit the political difficulties faced by the government at this time. Whilst it was often the workers who reacted first to possible reforms, initiating protests and demonstrations, the unions were influential in attaining concessions from the state during the ensuing negotiations. Union strength came from several sources. They were deeply involved in the policy-making process. For example, management was committed to a permanent dialogue

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<sup>50</sup> Indeed, the newspaper *La Croix* (15 September 1993) stated that the plan '*mérite autant le nom de*

with the unions, with PDG Attali devoting more than 50% of his time to discussions with them. There was also sufficient solidarity amongst the unions to maintain crippling strikes. For instance, the unions may have had different opinions on CAP 93, but they all supported the strikes opposing it. 23 November 1992 was the first time that all the unions had been on strike since 1974 (*Le Monde*, 23 November 1992). Moreover, the unions benefited from a forgotten statute that became significant once Air France had bought UTA. It gave 1/11<sup>th</sup> of the share holding vote and a right to 1/15<sup>th</sup> of the profits after tax to a workers' cooperative.<sup>51</sup> It is clear that the unions were '*véritable contre-pouvoirs dans la compagnie*,' with some people even suggesting that '*les syndicats tiennent la maison*' (*L'Essentiel du Management*, July 1996: 58). The unions were able to use their power to exert enormous influence in negotiations with the state and Air France's management.

This was in distinct contrast to the relative position of unions elsewhere in French industry. Most unions, already weak due to low membership and a legal framework which made collective bargaining difficult, had found their position further undermined in the 1980s by increased internationalisation and modernisation. For example, the modernisation of the shop floor had undercut the social basis of labour unions (Hanke 1994). The social composition of the workforce altered in such a way that the traditional constituencies of unions changed dramatically: the number of low-skilled workers fell, and unions found it considerably harder

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*plan Bosson que de plan Attali*'.

<sup>51</sup> One of the UTA statutes included the foundation of a *société anonyme à participation ouvrière* (SAPO) which dated back to a law in 1917. It meant that 154,898 workers shares were held by a workers' cooperative. These shares gave the cooperative 1/11<sup>th</sup> of the share holding vote and 1/15<sup>th</sup> of the profits after tax. More significantly though, it meant that the unions in UTA were able to demand 700 million francs in compensation for the purchase of UTA by Air France. The absorption of UTA would also need the approval of the workers' cooperative. To avoid this procedure, the SAPO was extended into Air France where 45,000 employees benefited from these worker's shares to the same degree. This *société* was also represented on the administrative council of Air France. This episode highlighted not only the difficulties Air France had with the absorption of UTA, but also the legal requirements faced by the management of Air France to take account of employee opinions.

to organise the newly hired, younger workers. It is also arguable that the Auroux laws (1982), which were supposed to increase the influence of workers and unions by encouraging self-management and worker participation, actually led to their demise (Hanke and Soskice 1994: 32). This was because unions simply did not have the solidarity and organisational strength to exploit the powers they were given by these new laws. However, the unions in Air France were not significantly affected by these changes in the 1980s. For example, the relative power already enjoyed by unions within Air France meant that the Auroux laws strengthened their position further. Historic agreements, such as *le procès verbal* of 1971, also meant that Air France workers were well protected against layoffs. Indeed, Air France never made a job cut until 1989 (*Le Monde*, 16 September 1993). Thus, the relative strength of unions within Air France in the 1980s does help explain why the state found it more difficult to withdraw financial and political support from the national flag carrier, compared to other industrial firms.

However, two factors have led to a decline in the influence exerted by Air France's unions since 1993. First, the unions have been bypassed, with Air France's management increasingly holding direct discussions with the workers. For example, questionnaires and documents detailing the plight of Air France were distributed to every worker by PDG Blanc. He explained that while 'We [the personnel of Air France] think the state will protect us . . . this just is not the case. . . The state is being watched by Brussels and by the taxpayers, a fraction of whom actually use planes. The state budget is too limited to support a company that is structurally deficient' (Report sent to every worker, 15 December 1993: 3). The unions were most obviously bypassed in 1993 when only six out of the fourteen unions accepted Blanc's restructuring plan. Instead of rewriting the plan to satisfy the unions, Blanc demanded a referendum where the workers themselves were asked to vote on the plans. The overwhelming vote in favour of the plan clearly indicated that the workers saw it as the only

way to ensure the future of Air France. In this way, the unions' mandate to speak on behalf of the workers was undermined.

Second, union solidarity was undermined by growing splits between the unions. This was clearly seen in the dispute with the air hostesses and stewards in late 1995. The Berger Report had shown that Air France was still lagging behind its competitors in terms of productivity. In particular, the stewards and hostesses were well behind their agreed productivity target.<sup>52</sup> Blanc attempted to solve this problem by hiring younger people on lower wages, but this resulted in a strike by the PNC. However, the PNC were joined by only five other unions. Indeed, no ground crew came out in support of the strike and the CGT went as far as denouncing it all together. Moreover, only 49% of stewards and hostesses went on strike anyway. With the exception of three years, the previous 23 years had all seen a strike by the PNC. This was the first time that the number of strikers had been less than 50%. As a result, the only concession made was to review the pay of younger workers in four years time (*L'Express*, 16 November 1995). This strike illustrated the growing weakness of unions within Air France. It also suggested that they were increasingly resembling the weak and non-influential unions found in other industrial sectors.

Thus, domestic factors do offer some explanation as to why the state did not distance itself from Air France, and why management experienced limited autonomy before 1993. Pressure to restructure Air France only became overwhelming in the late 1980s, but unfortunately, this coincided with the onset of an economic recession. Air France's workforce and the relatively powerful trade unions were able to play on the company's image as a symbol of the French nation, and exploit political difficulties caused by economic problems, to oppose policies aimed at liberalisation. Therefore, it was the prospect of social unrest in a recessionary period

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<sup>52</sup> The costs of stewards and hostesses were 45% above those in Lufthansa, and whereas productivity had risen 26% and 24% for ground crew and pilots respectively, it had only risen 18% for stewards and hostesses. This was in contrast to the productivity target of 30% for each of these groups.

which ultimately caused the state to maintain close links with Air France. As the unions became weaker after 1993 this prospect became less threatening.

### **European Level Pressures.**

European pressures have encouraged managerial autonomy and have reduced the ability of the state to control industrial policy in two ways – indirectly and directly. Indirect pressure from ongoing European integration has led to increased authority and policy-making power being situated at a supranational level. This has naturally affected the relationship between the state and industry. However, the extent to which indirect pressures have restricted the state's influence over industrial policy varies between sectors. Second, direct pressure on the relationship between the French state and Air France has come from Europe's air transport policy. The significance of this only became apparent in the early 1990s. By the mid 1990s, it was clear that both direct and indirect European pressure had contributed to the reshaping of the state's *dirigiste* relationship with Air France.

#### **Indirect pressure on the relationship between the French state and Air France.**

European integration in the 1980s has indirectly reduced the French state's ability to control industrial policy. This is primarily because it has led to a shift in the arena of French institutional activity. This has had several notable consequences for the state's relationship with industry:-

1. Significant policy-making powers have been transferred to the European level. As a result, France is no longer able to make policy independently of the European institutions and other countries (Schmidt 1996: 229).

2. The growing influence and relevance of the EC to industrial policy has seen an increase in the number of firms lobbying at the European level. This naturally reduces the state's influence over industrial policy.
3. The French administrative culture has not been suited to European policy making. This has made it difficult for France to shape European policies that accord with its perceived industrial interests, and has led to increased sectoralisation, compartmentalism, and coordination problems within the bureaucracy.

In this way, the shift in the arena of French institutional activity has affected the state's relationship with industry.

First, significant policy-making powers have been transferred to the European level. Indeed, in 1992 the Conseil d'État found that 'every year the EC introduces into the French juridical corpus more rules than the French government (approximately 54% against 46%)' (Schmidt 1995: 10). As a result, civil servants are finding that they 'have been obliged to accept the idea that they were becoming in Community matters, instruments of execution as much as of decision' (Mény 1989: 363). European institutions have become especially influential in the area of competition policy. For example, public enterprises operating within the competitive sector which received financial aid have increasingly been subject to investigation by the European Commission (Renault 1985-86, Bull 1991, Air France 1991, 1992, 1994). These firms have also been instructed to set themselves quantitative criteria of profitability identical to those in a private firm. Thus, the consequence of European competition policy is that state-owned firms, such as Air France, are supposed to perform in the same way as private enterprise. By signing up for the Single Market, France 'has implicitly accepted the sovereign consumer model' (Hayward), and as a result, has to accept the competition policy which accompanies it.

Other European policies have reduced the ability of the state to intervene in the French industrial sector. This is most obvious in the context of state aid policies. For example, the 1979 European Monetary System (EMS) was intended to prevent realignments caused by devaluations which were designed solely to enhance competitiveness. This, combined with the deregulation of financial markets and their being opened up worldwide, required tight control over the budget deficit, welfare spending and public sector indebtedness. As a result, the level of state aid that could be ploughed into the public sector was constrained. Later, the convergence criteria in the Maastricht Treaty for a single currency equally restricted the ability of member states to fund industrial policies by means of deficit budgeting or increased indebtedness. Indeed, these policies called into question the very rationale for the maintenance of industrial sectors in public ownership (Dumez and Jeunemaitre 1994: 87-88). In this way, European policies have reduced the state's financial influence over industrial enterprises.

Second, the growing relevance of the EC to industrial policy has led to increased lobbying by firms at the European level (Greenwood *et al.* 1992, Mazey and Richardson 1996).<sup>53</sup> The Commission has become the single most important institution for groups and firms to lobby. This derives primarily from its treaty-based right to initiate policy and its technical expertise. Simply lobbying national governments has become a risky strategy since states have not always been able to deliver on policy preferences (the French state has not been able to maintain Air France's protected position), and because they can be outvoted in Europe (Mazey and Richardson 1996). Thus, firms are increasingly looking to Europe to promote

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<sup>53</sup> The state was not so quick to recognise the importance of the European arena. The French state has consistently underestimated the important role played by the EU administration in formulating policy. For many years, it was not deemed necessary for civil servants to have a knowledge of European policy and law (Lequesne 1993: 55-57). Nor did government ministries maintain a continuous presence in Brussels. However, this had changed a little by the mid 1990s when José Bidegain, the Minister for Industry's main cabinet advisor, stated that he spent 25% to 33% of his time on European affairs.

their interests. For example, it is common for European airlines to lobby at the European level. Air France has a permanent representative in Brussels, and collectively, European flag carriers lobby the EU institutions through the highly effective Association of European Airlines. Air France has also cultivated relationships with the relevant Directorates General DG VII and DG IV, advisory bodies to the Commission, such as the Joint Aviation Committees, as well as the European Parliament, especially members of the European Parliament's Transport and Tourism Committee, and Economic and Social Committee, and permanent representative of their member state (van den Polder 1994).

The growing activity by French firms at the European level has naturally affected the state's ability to control industrial policy. The state has increasingly come to see business as defenders of national interests rather than as a lobby with its own interests at heart. As a result, it has tended to support the objectives of French firms at the European level, rather than alter them to suit its own industrial policy. For example, French members of the European Roundtable, such as Roger Fauroux, CEO of Saint Gobain and future Minister of Industry 1988-91, Olivier Lecerf of Lafarge Coppée and Antoine Riboud of BSN were highly influential actors, not only at the EC level through their close and continuous contacts with top EC officials such as Viscount Étienne Davignon and Delors, but also at the national level through their easy access to the French President and their influence over the top French business group, the CNPF (Green 1993, Weber 1986). These private actors were able to use their influence at the European and national levels to shape government policy. This was particularly the case with the Single Market, where business, encouraged by the Commission, exerted pressure on their national leaders to move in the direction of market deregulation at the European level (Sandholtz and Zysman 1989).

However, it would be wrong to overestimate the influence French firms have gained by lobbying at the supranational level. Indeed, lobbying at the European level is very sectoral.

For example, chemical firms are more heavily cartelised and Europeanised than electronic firms. Moreover, government studies have found that French business in all sectors other than agriculture, remained less active and less efficient at lobbying than those of other countries (Nonon and Clamen 1991) Indeed, Toyota's delegation in Brussels was comparable in number to all of French industry's representatives combined (Ibid.: 215-216). Furthermore, fewer than 100 of the 4,000 lobbyists in Brussels in the early 1990s were French (Commissariat Générale du Plan 1993: 92). Nonetheless, French firms have gained some autonomy in their relationship with the state by improving their links with the European policy arena.

Third, the French administrative culture has not been suited to European policy making (Schmidt 1996: 236-245). For example, France is not used to accepting the legitimacy of technical arguments over political considerations. The administrative model, where making exceptions was the rule by which French civil servants managed to control interests and promote accommodation, has now been replaced by the regulatory model, where exceptions are seen as illegitimate. As a result, the new regulatory model has disturbed the traditional model of policy implementation, and in many cases, weakened the traditional state-industry relationship. The French also perceive lobbying as being illegitimate, despite the fact that this activity plays a vital role in formulating European policy. This naturally places France at a disadvantage when industrial policy is being formulated. These differences in administrative culture have made it difficult for France to shape routine day-to-day policies in accordance with its perceived national interests, despite the fact that it has been extremely prominent in the integration process.

European policy making has also exacerbated divisions within the French administration. This has led to coordination problems which affect the state's ability to control industrial policy effectively. Whilst the SGCI was established to coordinate French policy in Europe, it

has compounded rivalries which already existed in the administrative system. For example, the growing relevance of the SGCI has led to conflicts between the Trésor, the PM's Office, the President's staff, and the Foreign Office as to who is in control of it. This problem is often aggravated by disputes between competing diplomatic corps and ministries. Moreover, the fact that ministers spend more time in Brussels talking with ministers from the same policy area than they do with different ministers within their own government has led to increased compartmentalism and sectoralisation. These problems have often made it difficult for the state to coordinate policy in the industrial sector. All of these factors combined help to explain how indirect pressure from European integration has eroded the *dirigiste* relationship between the state and industry.

How then do we account for the fact that until 1993 Air France did not experience an erosion of this relationship? This is partly explained by the fact that European policies have met with only variable success. Consider competition policy where the European Commission is recognised as having enormous power. Competition rulings such as de Havilland or Perrier have proven the exception rather than the rule.<sup>54</sup> On the whole, the French state has continued to provide state aid to industrial firms. The Commission approved the injection of twenty billion francs into Air France and the 2.5 billion francs given to Usinor-Sacilor by Crédit Lyonnais in 1994. Even when the Commission decided that the 6.68 billion francs given in aid to Bull in 1991 was a subsidy, it still allowed it as part of a radical restructuring plan. Indeed, Competition Commissioner, Karel von Miert, agreed to massive successive bailouts of Crédit Lyonnais in 1994-95, despite objections from French banking competitors. Only Renault was forced to give some money back. It is clear that the Commission has not been able to affect national policies to the extent that would have been expected, even in areas where it enjoys significant authority. The same is true, if not more so, for areas where its

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<sup>54</sup> In the de Havilland case, the Commission prohibited a takeover of the Canadian aircraft manufacturer de Havilland by Alenia and Aérospatiale on the grounds that it would create a dominant position in the market for commuter aircraft of twenty to seventy seats (Laudati 1996: 236-238).

power is not so obvious. This helps to explain why the state has been able to retain control over certain sectors (air transport).

The variable success of European policy can be explained by three factors. Most important is the fact that nation states dominate the decision-making process. Indeed, the crucible of decision making remains the Council, where nation states are the predominant actors. Nation states also play a significant role at the policy implementation stage thanks to the Comitology process which allows national representatives to exert considerable influence (Menon and Hayward 1996: 272). As a result, the Commission is often constrained in what it can impose on a dissenting state.

Second, the Commission is not as strong as it first appears. As Scharpf (1994: 221-2) notes, it lacks three of the crucial attributes which confer a relatively high degree of policy-making authority on the federal German state: a relatively homogenous political culture and public opinion; political parties operational at both levels of governance; and a high degree of economic and cultural homogeneity. In the absence of these resources, the capacity for autonomous action is circumscribed. The Commission is also undermined by its ambiguous and inconsistent industrial policy. Numerous contradictory stipulations abound in the Treaty on European Union and in other documents on industrial policy, such as the 1988 Ceccini report. This ambiguity is often the result of intergovernmental bargaining and compromises which reflect varied national conceptions of the role for, and need of, industrial policy. The Commission is also stricken by internal divisions. This lack of solidarity is caused by the fact that on matters of high political salience, Commissioners rarely vote against the position of their national state.<sup>55</sup> Thus, its inability to impose policy stems partly from the fact that it is not simply a functional, technocratic organisation, but also an enormously political institution.

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<sup>55</sup> For example, Boussac was required to repay a large proportion of aid it had received from the French government. In the collegiate vote, Delors (who as Finance Minister had given the aid in the first place) and Claude Cheysson both abstained (Buchan and Colcester 1990: 43, 150).

Sensitivity to the prevailing political climate has often forced the Commission to be very flexible in its application of competition law.

Third, the power of the Commission is highly dependent on the political mood towards integration – something which is bound tightly to the state of the European economies. The economic boom in the mid 1980s coincided with political support for the Single Market, deregulation and faster integration. The Commission benefited from this public support, and strengthened and flexed its muscles in more areas, especially competition policy. Yet in the early 1990s, support for integration declined, and as a result, the Commission refrained from using its powers to the full. For example, restrictions on state aid policy have not been implemented to the full, with the Commission allowing a ‘one time, last time’ handout to state run airlines. These three factors help explain why European pressures have not necessarily weakened the ties between the French state and industry.

In fact, there is evidence to suggest that European pressures have actually strengthened certain state-based actors in their relationship with French industry. This seems to be the case for the bureaucracy. In contrast to the early 1980s, when top civil servants were reluctant to accept control from an outside body such as the EC, most saw the EC in the mid 1980s as a way to ensure the modernisation of France. Community rules became the means to rationalise outdated internal legislation and even to push through reforms of civil and commercial law that would have been impossible otherwise (Lequesne 1993: 54). Finance Ministries have also been strengthened against domestic constituencies, especially sectoral lobbies, industrial firms, and even industrial ministries. For example, Finance Ministries have been able to use treaty provisions to justify unpopular policies, such as reductions in state aid. Thus, European pressures have not necessarily weakened all state-based actors. Indeed, some may have been strengthened.

From this evidence it is clear that in many areas, indirect European pressure has led to an erosion of the traditional *dirigiste* relationship between the French state and industry. Industrial firms have become increasingly independent of the state, with their formerly close ties with the French bureaucracy loosening as they develop closer ties to the EU bureaucracy and their European business counterparts. However, these developments have been very variable. Much depends on the sector, the policy type and the relative strength of the Commission and the nation state. Indeed, it is not always obvious that European pressure has been to the detriment of state-based actors. These factors help explain why pressure from Europe has often had only a limited impact on certain industrial firms (Air France). However, there are more compelling reasons why the traditional *dirigiste* relationship between Air France and the state endured into the early 1990s once we consider policies specifically affecting European aviation.

### **Direct pressure on the relationship between Air France and the French state.**

Traditionally, airlines and air transport have been dominated by nation states through a bilateral system which endowed them with enormous power and influence. State-run airlines dominated European skies and were subject to high levels of state intervention. In contrast, European institutions had little, if any, regulatory authority over airlines. However, this traditional system has come under enormous pressure since the mid 1980s. First, European institutions became heavily involved in the air transport sector, and the direction of European aviation policy became dominated by a coalition comprising pro-deregulation countries (UK, Netherlands), the ECJ, and the Commission. Second, three air transport packages fundamentally altered air transport in Europe by encouraging liberalisation and deregulation. Third, the implementation of a liberal competition policy in the air transport sector prevented nation states from favouring and protecting national flag carriers, such as Air France. The

effect of these changes should have drastically altered the relationship between Air France and the state.

European aviation had traditionally been dominated by nation states (Doganis 1991, Kassim 1995, 1996). Until 1987, when British Airways was privatised, all major flag carriers in Western Europe were either partly or fully owned by the state.<sup>56</sup> The Chicago Convention and its associated treaties in 1944 had created a bilateral regime where international scheduled services were controlled by governments<sup>57</sup>, who also enjoyed exclusive control over flights within their own territory. As a result, governments were able to determine the rules for market access and the levels at which tariffs were to be set. Further state control was guaranteed by the fact that governments exercised jurisdiction over the right of establishment. States used these extensive powers to support their own airlines, intervening extensively to protect their national aviation markets.

By contrast, European institutions had little authority to intervene in national aviation policy. Despite the fact that airlines contributed enormously to the functioning of the European Community, European aviation policy had been particularly slow to develop compared to policy in most other sectors. Indeed, it was not until 1974 that the European Court of Justice stated that rules concerning competition in the Treaty of Rome did actually apply to air transport. Even then, little substantial policy followed. In 1978, the MEP Kofoed advocated liberalisation, highlighting how inferior European air transport was to that in the US, where liberalisation had recently been introduced. Several other proposals were pushed through the Council by the European Commission's Directorate General for Transport, but the only limited success achieved by this was the July 1983 Council directive on Inter-regional Air Services (CEC 1983). This allowed airlines flying aircraft of 70 seats or fewer to freely

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<sup>56</sup> The French state had owned over 98% of the shares in Air France since 1948.

<sup>57</sup> These treaties were based on the principle that states should enjoy absolute sovereignty over the air space above their territory.

develop air routes between regional airports in the EC. However, this was not particularly influential since few airlines were actually affected. Thus, nation states remained the dominant actors in a highly protected aviation regime.

However, in the mid 1980s, this traditional system came under pressure from three sources – the Commissioners for competition (DG IV) and transport (DG VII) with support from the UK and Dutch delegations, ECJ decisions, and the general momentum of the 1992 project (Kassim 1995: 196). The Commission outlined its own air transport objectives in the March 1984 Civil Aviation Memorandum No. 2 (CEC 1984). This included proposals for a reduction in capacity controls within Europe, and greater price flexibility. The UK also formed an active coalition with the Commission and the Netherlands in the transport working group of the Council of Ministers, and sought through informal contacts to assuage the fears of the French and Germans about liberalisation. The UK also played a major role in securing the commitment of the twelve nation states in 1986 to the creation of the Single Market in air services, and was instrumental in the introduction of the market access proposal that was to form the key component of the first air transport package. However, only the UK and the Netherlands wanted a European aviation policy, and so no real progress was made until the ECJ ruled on the *Nouvelles Frontières* case in 1986.<sup>58</sup> This explicitly confirmed the application of competition rules (Articles 85-90 of the Treaty of Rome) to air transport, thus allowing the European Commission to investigate anti-competitive behaviour.<sup>59</sup> The wider political context of the approaching Single Market also helps explain why the Commission

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<sup>58</sup> The French travel company and tour operator, *Nouvelles Frontières*, took the French government before the ECJ accusing them of ignoring European rules on competition. The court rejected the defense's argument that, because there were no specific EC regulations governing air travel, then the EC's anti-trust rules (Articles 85-90) did not apply to airlines operating in the Common Market. This meant that the French government could not impose fares fixed by a cartel on operators who wanted to offer discounted tickets.

increasingly used its wide-ranging powers to deregulate air transport.<sup>60</sup> For example, the regulation of state aid was vital to the creation of the Single Market so as to prevent a ‘subsidy race’ (CEC 1984). Thus, from the mid 1980s, European institutions became significant actors in determining aviation policy.

The French state and Air France were not successful in opposing the emergence of this liberalised European aviation policy. This is explained by several factors. First, was the strength and skill of countries like the UK and the Netherlands. France suffered from its disdain for lobbying. In contrast, the British and the Dutch proved superior lobbyists, and their views eventually predominated. Second, it was extremely difficult to argue against applying competition to the aviation sector once France had accepted the principles of the Single Market. In this way, French opposition proved unable to overcome the combination of ECJ decisions, the Commission and pro-deregulation countries. Nonetheless, the fact that Air France and the state did try to oppose liberalisation had a large impact on the national flag carrier. It meant that Air France was always one step behind its competitors. For example, Air France’s restructuring started ten years after that of BA, and the idea of building a hub at Charles de Gaulle came only after hubs had already been built in Amsterdam, London, Brussels etc.. Moreover, it only consolidated its domestic market by buying UTA, seventeen years after a similar regrouping had occurred in the UK.

The traditional aviation system was also undermined by three air transport packages. The first package was introduced on 14 December 1987 and included a Council directive (CEC 1987a) on tariffs and a Council decision (CEC 1987a) on market access and capacities. It

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<sup>59</sup> This verdict was especially welcomed by the Competition Commissioner, Sutherland, who had told a business conference in Paris that ‘there was something rotten in the European air transport sector’ (*The Economist*, 12 July 1986).

<sup>60</sup> Pressure to deregulate came from two sources within the Commission. First, the Directorate General for Transport (DG VII) which is concerned with air transport policy, and second, the Directorate General for Competition (DGIV).

meant that governments could no longer restrict the number of carriers serving their territories from other EC countries, and it allowed airlines to offer promotional fares. The second package on 27 July 1991 simply extended these measures, and capacity constraints were reduced. The third package on 23 July 1993 was qualitatively different and sought to complete the Single Market in air services. Thus, it was more wide ranging and radical in its objectives, bringing the relationship between the state and its flag carrier within the purview of EC regulations for the first time. States could no longer use licenses as a mechanism for protecting favoured airlines. Market access was liberalised, with full cabotage rights available to all EC countries from 1 April 1997. This was combined with the introduction of free pricing on tariffs, whereby airlines set their own rates according to their commercial judgement. These three packages seriously limited the powers by which states intervened in their flag carriers.

The state's ability to control national air transport policy was also undermined by the implementation of a liberal competition policy in the aviation sector.<sup>61</sup> The application of competition policies had already affected state aid and merger policies in other sectors. Since the mid 1980s, the Commission had progressively tightened its control over state aid and had proven willing to actually implement competition law.<sup>62</sup> In large part, this was the direct result of the push towards a single internal market. For example, firms were reluctant to compete in a single market if they also had to compete with the Finance Ministries of other

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<sup>61</sup> Articles 92-94 prevented states from granting aid that distorts or threatens to distort competition, and that affects trade between member states.

<sup>62</sup> For example, the Commission has had the power to demand the repayment of aid illegally granted, but it was not until 1983 that the Commission announced its intention to make use of this possibility. The prime example of a case where the Commission used this power is Renault. The Commission required the immediate payment of FF 3.5 billion, and the treatment of the remaining FF 2.5 billion as long-term debt.

member states.<sup>63</sup> The Commission was also able to manipulate the so-called market investor principle to suit its own objectives.<sup>64</sup> Indeed, several cases point to the fact that the Commission has substituted its own opinion for that of the investor. For example, the Commission found that capital investment by the French government in Boussac constituted state aid, even though this investment was made on the basis of a favourable report by an independent financial consultant, and in association with banks and private investors. In 1987 the first air transport package applied these competition rules to the French state and Air France. As a result, it should have become much harder for the government to provide state funds to its flag carrier.

The application of competition policies in the air transport sector also affected mergers. In December 1989, the Council of Ministers approved a regulation which established a threshold for mergers which would be subject to investigation by the Commission and not by national authorities as well.<sup>65</sup> This had an immediate impact on French aviation, since Air France was trying to reach an agreement on the purchase of UTA at the time. Air France wanted to complete the deal before the Commission gained its authority over mergers. Seydoux, the PDG of UTA, used this to force Air France into a corner and raise the price of his company (Air France bought UTA for 7 billion francs as compared to its valuation on the Bourse of only 4.8 billion). Unfortunately, the deal was not completed before the Commission gained its new powers, and the Commission was able to impose several restrictive conditions as well.

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<sup>63</sup> Nonetheless, Leon Brittan said that in 1988 the total annual volume of state aid still amounted to 100 billion ECU, which represented about 10% of public expenditure and 3% of GDP on average

<sup>64</sup> According to this principle, the provision of funds to a company constitutes aid if the company would not have been able to obtain the funds on the same terms from private capital markets (cited in *Belgium v. EC Commission* ('Boch') 1986 ECR 2321 at p. 2345 (para. 13)).

<sup>65</sup> Any merger involving a joint turnover of at least 5 billion ECU, or one where the turnover of each company was at least 250 million ECU would be subject to investigation by the Commission. Mergers

Thus, the traditional model of air transport came under enormous pressure from the mid 1980s. It would be natural to have expected the three air transport packages and the implementation of a liberal competition policy to European aviation to have significantly affected the relationship between the state and Air France. However, it was not affected to the same degree as those in other sectors for several reasons. First, the French government was able to circumvent many of the European competition rules. For example, the conditions imposed on Air France's purchase of UTA in 1990 seemed to force the withdrawal of the state from its regalian powers over Air France, and yet the way the accord was implemented undermined the competition objectives of the European Commission. The metropolitan and international routes were duly opened, but they were allocated to the competing companies in a highly political manner. The accord presaged equal access to the two Paris airports, and yet TAT and Air Littoral, which had nearly all their activity at Orly, were given six international routes from CDG. This made it extremely difficult for them to run profitable services. The French authorities also denied access to foreign operators wishing to begin services between Toulouse and Brussels on the grounds that the French airport was congested and that the environment would be adversely affected. In this way, the French state made it difficult for other French airlines to compete successfully with Air France. *'Les pouvoirs publics, Le Groupe Air France, mènent contre ces courants profonds une guérilla juridique, institutionnelle'* (Vinçon 1991: 123). As a result, the French state was often able to avoid implementing many of the liberalising measures imposed on it by the Commission.

Second, the Commission often felt unable to implement competition policies to their full extent due to political factors. For example, it followed a very flexible approach to state aid policy despite enjoying wide-ranging powers under Articles 92-94 of the EEC Treaty. Unlike Articles 85-86 which are aimed at private sector firms, Articles 92-94 are primarily concerned

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meeting these thresholds, but where each partner had at least 2/3 of its turnover in one state would be exempt from direct Commission investigation.

with public sector firms and do not prohibit state aid outright.<sup>66</sup> Rather article 92(1) indicates that only state aid which is ‘incompatible’ with the common market is illegal. This shift in tone reflects the politically sensitive nature of state aids (Competition Law of the EC: 827). The political nature of state aid policy in the air transport sector is highlighted by the fact that it falls into the remit of the Commissioner for Transport and not the Commissioner for Competition. This has meant that decisions on state aid to airlines are strongly influenced by political and social concerns, while aspects relating to market forces have often taken a back seat. Significantly, while DGIV opposed the recent aid cases involving Air France, its decisions were overruled by DGVII (*Management Today*, April 1993).

It is because the Commission is a political institution that it has been forced to be pragmatic in the cases it has treated. For example, in two controversial cases concerning Air France in 1991 and 1992, it decided that state aid was not at issue, and issued no formal decision (CEC 1991a, 1992a, 1992b). The Commission explained that Air France was a good investment opportunity. In a later case (CEC 1994a), where Air France was awarded 20 billion francs, the Commission concluded that state aid was at issue, but approved the operation anyway. Aid was granted on a ‘one time, last time’ basis, since the Commission took the view that airlines should be given a last chance to correct their financial problems.<sup>67</sup>

Much of the Commission’s inability and unwillingness to use its competition powers on Air France can be explained by the fact that the cases were brought in the early 1990s. At this time, Europe was experiencing a huge economic recession and moves towards integration were highly unpopular. The deep economic recession was not conducive to Commission

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<sup>66</sup> Subsidies are permissible if they promote economic development in particular regions affected by underemployment, or when the project concerned is of Community interest (Woolcock and Wallace 1995: 278).

<sup>67</sup> Aid was granted to Olympic Airways on a ‘one time, last time’ basis too, yet they were later allowed to receive another installment of state aid. This further highlighted how the Commission was not able to impose competition regulations on a government determined to support its flag carrier.

activism. By contrast, the economic boom in the mid 1980s had coincided with a strengthening of the Commission's powers, but the air transport sector was not then subject to European competition policy. The early 1990s also saw a decline in the support for European integration and European institutions, and this undermined the political legitimacy of the European Commission in relation to national governments. It feared that an uncompromising crackdown on state aid policy could provoke a backlash, with Brussels being blamed for bankruptcies and job losses. Both these factors help explain why the Commission was not willing to refuse state aid injections into Air France when the French government was faced with high unemployment, public sector strikes, and a referendum on the Maastricht Treaty. Thus, despite the enormous powers held by the European Commission, it was not always in a position to use them.

However, it would be highly misleading to claim that pressure from the European Commission had no impact on the state's ability to control Air France. Indeed, in two cases, the Commission significantly affected the relationship between the airline and the state. In its anxiety to have its takeover of UTA approved by the EC Competition Commissioner who had delayed it for nearly a year, Air France accepted several conditions imposed by the Commission. It was forced to dispose of its 34% stake in the French independent carrier, Transport Aérien Transrégional (BA took 50% stake in it less than two years later), to give up its rights and freeze its capacities on specified domestic routes, and it was not allowed to invest capital in any other French airline for four years. More significantly, it was forced to liberalise its domestic market, which meant opening eight metropolitan and forty international routes. Nine companies were able to take advantage of this – Air Liberté, Air Littoral, AOM, Corse Air, EAS, Euralair, Minerve, TAT, and TEA France. Thus, the French state was not

able to prevent *franco-française* competition; something which the French state had been avoiding for many years.<sup>68</sup>

The second case concerns the injection of 20 billion francs of state aid in 1994. Several conditions were imposed before the green light was given. Air France had to give back the 1.5 billion francs it had received in 1993, and was not allowed to buy any new planes. It had to lift all restrictions on the number of flights by other European airlines into Orly South, sell the Méridien hotel chain, and separate from Air Inter organisationally.<sup>69</sup> More significant though, was the condition that the French government had to prepare Air France for privatisation as soon as possible. Thus, direct European pressure did have an impact on the relationship between the state and Air France, even though it was not as great as would have been expected.

## **Conclusion.**

Thus, indirect and direct European pressures did affect the relationship between the state and Air France. Nonetheless, it is clear that, in many respects, the state was able to retain control of air transport policy. Indeed, the fact that the principal objectives of Air France's restructuring plans were not particularly driven by European pressures illustrates the relatively minor impact that European pressure had had by 1993. For example, Attali's restructuring plan (CAP 93) had four goals – to buy UTA, create a hub at CDG, reduce costs,

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<sup>68</sup> It was surprising that the French state was willing to accept the introduction of *franco-française* competition when it stated that the principal reason for Air France buying UTA was to avoid such competition. The Senate Report states that the takeover of UTA had less to do with this competition or the possibility that UTA might be bought by a foreign carrier, and more to do with the historical belief that UTA should always have been a part of Air France.

<sup>69</sup> The Commission made it clear that none of the 20 billion francs could be used to cross-subsidise Air Inter. In order to comply with this demand, Air Inter was separated from Air France, although it remained in Le Groupe Air France.

and create a network of international alliances. Blanc's plan in early 1994 called for productivity gains of 30%, attacked the organisational bureaucracies, and called for a radical decentralisation of management. Few of these objectives can be linked directly to European pressures. Rather, they were an inevitable response to the changing international environment. It is now necessary to turn to an investigation of these international pressures.

## **International Pressures**

Expansions in foreign trade, and the ever increasing economic linkages that tie states together, have enhanced the influence that international pressures exert on national industrial policy. Indeed, the ability of the state to turn its preferences into policy without favourable international conditions is more and more questionable (Menon & Hayward 1996). The most often cited example of this is Mitterrand's U-turn on macro-economic policy in 1983. The air transport sector has been especially subject to these international pressures during the 1980s. Indeed, they have provoked significant changes in the nature of airlines and their relationship with national governments. These international factors have tended to come in two varieties. First, pressures from ephemeral events such as the Gulf War and economic recession, and second, pressures from more permanent trends such as deregulation and liberalisation. As a result of these changes, the relationship between Air France and the state has been modified, and the flag carrier has attempted to become more commercially oriented. In practice, this has meant a reduction in the ability of the state to control all aspects of air transport policy.

The Gulf war in 1991 and the worldwide economic recession in the early 1990s had an enormous influence on Air France. Indeed, the Gulf war had an immediate impact on airlines around the world. It led to a sharp rise in oil prices, caused a collapse in the number of people traveling to and from the Middle East, and led to a reduction in the level of passengers

traveling elsewhere because of the increased fear of terrorist attacks. Moreover, Air France was especially affected by the conflict, since Algeria and the Gulf countries represented 22% of the company's activity (Attali 1994: 103).<sup>70</sup> The effect of the worldwide recession in the early 1990s was even more significant, since the financial success of airlines is bound tightly to the economic health of the world economy.<sup>71</sup> Thus, the world recession of the early 1990s led to a sharp fall in airline receipts and the number of passengers traveling. Admittedly, Air France was not the only company to face financial difficulties at this time, but it was one of the worst affected.

The effect of these pressures on Air France was very similar. They led to heavy financial losses, huge debts, and a reduction in the ability of the company to invest in new aircraft. As a result, Air France sought state aid to help the company survive the economic downturn. At the same time, the political constraints imposed by rising unemployment (3.2 million in 1993) meant that the state felt compelled to inject state aid into national champions, such as Air France. However, the world recession also reduced the level of government funds available for investment in the public sector, and Air France had to compete for these dwindling reserves with a whole range of other equally deserving state-run firms (Vinçon 1991). Therefore, there was social pressure to continue to provide state aid, at the same time as there was financial pressure for the state to distance itself from Air France. Until 1993 the government proved unwilling to distance itself too much for fear of causing social unrest.

International pressure for deregulation proved more enduring and harder to ignore. Formally-legislated airline deregulation began in the US in 1978, although Singapore Airways, Malaysian, Cathay Pacific and Thai International can be considered as the first deregulators, having been the first to break away from the International Air Transport Association's

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<sup>70</sup> Attali claims that Air France lost 3.5 billion francs because of the war.

<sup>71</sup> Rising world GDP translates into increased air travel because rising household income makes air travel more affordable.

(IATA) fare-fixing. By 1993, deregulation had spread around much of the world, and few airlines remained unaffected by it, including Air France. Deregulation spread in several ways. Most obviously, this was through the re-negotiation of US air service agreements with a number of bilateral partners, including some European states. The US was able to give away one or two new gateway cities to foreign airlines in return for minimum fare controls, multiple designation, the elimination of capacity controls, and the liberalisation of charter rules.<sup>72</sup> Second, the US challenged IATA to show cause why it should be exempted from US anti-cartel legislation (Doganis 1991: 61-63). The result was the gradual reduction in the scale of tariff fixing. Third, the US experiment with deregulation profoundly affected attitudes to the regulation of air transport around the world. In June 1984, the UK and the Netherlands mirrored developments in the US when they signed a bilateral agreement which effectively deregulated air services between them. Other European governments gradually concluded that commercial aviation could be exposed to market pressures, and that strict regulation was not a *sine qua non* for the existence of a reliable air services network. This gave impetus to Commission efforts to deregulate the European air transport system. In this way, US deregulation gradually became accepted by more and more states, even though some countries like France remained vehemently opposed to it.<sup>73</sup>

Deregulation had an enormous impact on foreign airlines and their relationship with the state. First, it led to increased competition. This came from American carriers on the North Atlantic routes, and Singapore Airlines, Thai International and Cathay Pacific in South East Asia.

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<sup>72</sup> America was in a far better bargaining position than most other countries since its domestic market accounted for 25% of the airline transportation market worldwide (on a tonned per kilometre basis) (*Standard and Poors* 1995: 17). This was obviously a very attractive market for foreign airlines. France has been one of the leading countries arguing for the Commission to be able to bargain with the US on behalf of the whole of Europe. This would give Europe similar influence as the US in bargaining.

<sup>73</sup> France thought '*la déréglementation est une des armes de l'arsenal américain*' in their attempt to dominate the global economy (Perri 1993: 49).

This latter group of airlines were relatively new and dynamic, benefiting from very low costs of production and a high level of productivity which came from their ultra-modern fleets. Thus, European airlines found their highly regulated and controlled markets being opened up to increased competition, both from scheduled airlines and charter operators. Indeed, on the North Atlantic route, the number of American companies serving France rose from two to eight in the 1980s. Moreover, these new competitors also had an incentive to undercut established airlines in order to capture market share.

Second, it led to an international price war. This seemed to favour the American airlines, since they were not so reliant on transatlantic routes as European airlines, they had favourable bankruptcy laws to fall back on, they benefited from computerised reservations systems which favoured their own airlines, and they did not have to compete with other forms of transportation such as the TGV. Indeed, the advantages for American companies seemed to be borne out by the fact that the US saw their share of North Atlantic passengers rise from 43.9% in 1978 to 49.2% in 1988, whereas that of Europe fell from 50% in 1978 to 47% in 1988 (*US International Air Travel Statistics*, US Department of Transportation). The effect of the price war was a fall in yields and huge losses for practically every airline, especially Air France. However, the overcapacity which was causing the price war never ended, because governments tended to intervene and prevent their airlines from going bankrupt and leaving the market.

Third, growing constraints on government funds meant that airlines such as Air France had to cut costs, improve efficiency, and focus on commercial objectives in order to compete successfully with this price war. It was the drive to cut costs which formed the central element of Air France's restructuring plans in the early 1990s. Costs were cut in several ways. It gave up many of its unprofitable international services in favour of a smaller, but more efficient, set of routes. This also involved cutting deficit lines to the regions, thereby

putting public service obligations under pressure. CAP 93 also focused on developing a hub at CDG<sup>74</sup>, and linking this with the TGV network. This provided feeder services to its international routes, allowing an increase in the frequency of some services and a fall in unit costs. Unfortunately the move to secure domestic services and create a fortress hub at Roissy has been vitiated by BA's mergers with TAT and Dan-Air which now have slots at Orly and Roissy.

Whilst Air France introduced policies designed to reduce costs, they met with only partial success. The fact that fixed costs amounted to 70-80% of total costs, indicated that significant reductions in cost could come only from cuts in labour costs (*Airline Business*, December 1993). Indeed, labour costs were cut drastically in many other airlines. This was achieved by increasing productivity, cutting staff, and introducing differentiated pay.<sup>75</sup> For example, British Airways, with the support of the British government, closed dozens of routes, sold almost 100 planes, and sacked 20,000 employees (*Pacte de Croissance Compétitive 1997-2000* 1996: 22). However, Air France was not able to reduce labour costs significantly. CAP 93 only called for a freeze on wages, and 3,000 voluntary redundancies. Attempts to strengthen this in 1993 by demanding 1,500 more redundancies led to a strike in which the government and management were forced to back down. Thus, Air France's labour costs remained higher than those of its competitors.<sup>76</sup> This meant that the airline remained uncompetitive and reliant on the state for financial aid.

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<sup>74</sup> Hubs had proven extremely successful in America and had led to sharp increases in the number of passengers on each flight.

<sup>75</sup> In 1983, American Airways had introduced a double-wage system whereby new hires received wages lower than previous employees. United introduced a similar policy in 1985.

<sup>76</sup> The Berger Report commissioned by Air France stated that at the beginning of 1994 labour costs were significantly higher than for its competitors. For example, the cost of hostesses and stewards were 45% higher than for those in Lufthansa.

Deregulation also meant that airlines had to be global in scope, as well as having low costs. US deregulation had shown that size was crucial to success, not because of economies of scale, but because of marketing benefits of scope (Doganis 1991: 95). To be successful, an airline had to be active in virtually every marketplace.<sup>77</sup> Air France was acutely aware of this, and initially concentrated on ensuring total dominance of its home market. This strategy was helped by the government policy statement of November 1988 which reconfirmed that the government would only designate one airline per route. As a result, UTA was precluded from gaining access to Air France's more lucrative international routes.<sup>78</sup> Air France also formed several transnational alliances in Western and Central Europe, and the Americas. It took a 37.5% share-holding in Sabena, and a 40% equity holding in the Czech carrier, CSA, with the Caisse des Dépôts and the European bank for Reconstruction and Development. It already had stakes in Middle East Airlines and Air Afrique, and had entered marketing alliances with Continental, Aeromexico and Air Canada. These alliances gave Air France and its customers access to a global network which was essential in a deregulated air transport sector. Thus, deregulation has encouraged the commercialisation of Air France and impacted on its relationship with the state.

## **Conclusion**

Thus, the interplay between the national, European, and international pressures explains the changes that have occurred to the relationship between Air France and the state. Both the French government and Air France management appreciated the metamorphosis of the air transport industry to global competition. Indeed, Attali was concerned about the US mega-

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<sup>77</sup> Attali drew attention to the dominance that computerised reservation systems gave American airlines over global marketing.

<sup>78</sup> This decision was denounced by the Commission, who in 1989 were on the point of bringing a procedure, not against Air France, but against the French state. However, before anything was done, Air France had bought UTA.

carriers in 1988, and the French state supported restructuring plans which placed commercial objectives above public service obligations (1991, 1994). They realised that these international pressures were only going to become stronger. Moreover, these pressures were reinforced by the introduction of a European aviation policy in the late 1980s and the application of a liberal competition policy to the air transport sector.

Until 1993, the state was unwilling to push ahead with the restructuring that these pressures demanded. Instead, the state retained control over many aspects of Air France's policies. This can be explained by the fact that the state was worried about social unrest and public opposition. In 1993, the public and Air France's workforce did not comprehend the urgency of the need for changes, nor did they believe that the French government would forsake its national flag carrier in the name of competition. As a result, the state intervened and provided state aid. However, this was seen as a temporary measure. Once the workforce and trade unions began to realise the gravity of the situation in early 1994, the state encouraged Air France's management to pursue a radical restructuring plan. It was from this moment that the relationship between Air France and the state began to change significantly.

## Conclusion

What light does the relationship between Air France and the French state throw on the debate about *dirigisme*? At the aggregate level it seems clear that Air France has experienced increasing autonomy, whilst the level of state intervention has declined. However, if we disaggregate the relationship between the state and Air France the story becomes more complex. In some areas, the level of state control has remained constant (slots, bilateral agreements) or has even increased (financial resources).<sup>79</sup> In other areas, Air France has asserted its right to decide policy (routes, suppliers, overall strategy). However, there are also areas where the state and Air France both make important contributions (restructuring plan, labour policy, management personnel). Therefore, whilst it would be wrong to say that state guidance or control has come to an end, the *dirigiste* model has certainly been reshaped. The state is not as dominant as it once was, but it remains a significant and pervasive actor.

	1945-1993	1993-
<b>Routes</b>	State	Air France
<b>Suppliers</b>	State/Air France	Air France
<b>Slots</b>	State	State
<b>Financial Resources</b>	State	State
<b>Bilateral Agreements</b>	State	State
<b>Restructuring Plan</b>		Air France/State
<b>Labour Policy</b>	Air France/State	Air France/State
<b>Competition</b>	State	Europe
<b>Management</b>	State	State/Air France
<b>Strategy</b>	Air France/State	Air France

There seems little doubt that the traditional *dirigiste* model in the air transport sector has been reshaped, but has it been reshaped in the way that Wright (1997) has recently proposed? In other words, does it provide evidence for the claim that the contemporary French economy is characterised by four tendencies – a reduction in state autonomy, an increasing emphasis on state guidance instead of control, the dismantling of some aspects of the *dirigiste* model, and the shift to a preoccupation with the supply side of the economy? We shall consider each in turn.

**1. The erosion, but not the disappearance, of both external and internal state autonomy, as a result in part of state volition or the unintended consequences of state policies.**

Across the French industrial sector, two factors in particular have led to the erosion of external and internal state autonomy since 1983. First, the public spending crisis which has reduced the ability of the state to utilise the financial system to control or guide industrial policy. Second, the impact of European institutions and legislation which have restricted the state's influence over the industrial sector. Indeed, these factors are not entirely independent, with European integration aggravating the public spending crisis (EMS, Maastricht convergence criteria). These pressures have limited the ability of the state to control industrial policy.

Indeed, there is evidence to support this argument in the air transport sector. For example, European integration has had a huge impact on the relationship between the French state and Air France:-

- The increased importance of the European arena is illustrated by the shift in lobbying activities to Brussels (Mazey and Richardson 1996). Air France has established its own

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<sup>79</sup> Since Air France has been stricken by huge debts and faces the urgent injection of funds in order to

office in Brussels, it participates in the Association of European Airlines, and it has a director on its board who coordinates Air France's relationship with the European Commission. This indicates that the national level is no longer as important as it once was.

- The three air transport packages (1987, 1991, 1993) have put pressure on nation states to distance themselves from their national flag carriers. They have also encouraged the liberalisation of the air transport sector and the substitution of public service obligations for more market-oriented policies.
- The European Commission was able to set conditions for accepting Air France's takeover of UTA (1990). Thus, Air France was forced to open some of its most profitable routes to competition, even though this was actively opposed by the French government.

Therefore, it is clear that European pressures did affect the state's relationship with Air France.

However, to simply state that there has been a reduction in the ability of the state to control industrial policy, is to oversimplify the situation greatly. For example, it is important to differentiate between sectors and specific components of the state-industry relationship. For example, the financial relationship between the state and industry has varied between sectors. In most sectors, the state has increasingly been unable to use the financial system to control or guide industrial policy. It has recognised that it can no longer provide the new investment that is urgently needed by French industry. As a result, it has introduced policies aimed at reforming the financial system (privatisation, deregulation), and has reduced (willingly) the amount of aid that is given to declining sectors and lame-duck firms. The unintended consequence of these reforms is that the autonomy of individual firms has increased at the expense of the state. It is clear that the government's own financial policy has tended to

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survive, the state's ability to provide financial resources gains increased importance.

support the autonomous strategies of industrial firms, rather than the supposed industrial policies of the government.

However, this has not been the case with Air France, which was unable to take advantage of the financial reforms because its heavy debts (36 billion francs in 1993) prevented it from attracting private investment. The state remained the only source of capital. Moreover, the state felt unable to withdraw financial support from the national flag carrier, partly for symbolic reasons (Air France was a symbol of the French state at home and abroad), and partly because the state feared the effects of social unrest at a time of economic recession. However, the fact that the state retained control of the financial resources of Air France meant that it was able to impose policies on the airline. This was most clearly seen when the restructuring plan was forced on Air France in 1993. The state refused to provide 20 billion francs in state aid unless the plan was accepted. The fact that the aid was divided into three installments over three years, and was to be handed out only if specific targets had been met, means that the state continues to enjoy enormous influence over Air France's policies.

However, the state's financial power in relation to Air France will be eroded in the future for several reasons:-

- The only reason why the injection of 20 billion francs in state aid was allowed by the European Commission was on the grounds that it was a 'one time, last time' payment. Thus, the state will no longer be able to impose policies on Air France by threatening to withdraw future state aid handouts.<sup>80</sup>
- One of the conditions imposed by the European Commission for accepting the restructuring plan was that Air France would eventually be privatised.

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<sup>80</sup> However, this does assume that the European Commission will prevent future injections of state aid into the air transport sector. In the case of the Greek government and Olympic Airways, this was not the case.

- In 1996 Air France made an operating profit. If this profitable situation can be maintained, the financial leverage enjoyed by the state will be eroded.

Thus, the state remains the dominant actor in terms of financial resources in 1997, but it is not clear how long this will remain the case.

It is also important to look at which state-based actors have had their influence over industry reduced the most and why. At an aggregate level, European institutions and legislation have led to a reduction in the ability of state-based actors to control industrial policy. However, it is possible to argue that European integration has reduced the importance of industrial ministries, such as the Transport Ministry, more than that of the Finance Ministry. For example, the Finance Ministry now enjoys more power against domestic constituencies since it has an excuse for limiting state aid to declining sectors. On the other hand, interventionist ministries have been disadvantaged by European competition regulations and the convergence criteria.

Thus, it does seem clear that the ability of certain state-based actors to influence industrial policy has been reduced in certain areas. This has been the result of national, European, and international pressures. However, whilst the state's influence over industry has been eroded, it has not disappeared altogether. For example, in the air transport sector, the state retains control over bilateral negotiations with other states, and it has a strong influence on how airline routes and airport slots are to be divided up.

## **2. An emphasis placed increasingly on state guidance and less on control.**

Throughout the economy there has been an increasing emphasis on state guidance rather than control. This does not deny, however, that there are occasional reminders of the latter. For

example, state enterprises have been forced to buy stakes in bankrupt and under-capitalised public companies. Crédit Lyonnais was 'asked' to buy a 10% stake in Usinor-Sacilor and BNP was 'asked' to take a 10% share in Air France (Schmidt 1996: 186). Moreover, the state has rejected plans to sell part of Thomson to a Korean company as part of Thomson's privatisation (*Financial Times*, February 1997). However, these examples of the state imposing its policies on the industrial sector have increasingly become exceptions.

Indeed, there does seem to be an increased emphasis on guidance in the state's relationship with Air France. This can be seen in terms of the restructuring plan. Whilst the state has encouraged this plan, it has provided little input into its specific content. Instead, strategies have been left to Blanc and his advisors. Guidance rather than control also seems more suited to describing the relationship between Air France and the state when it comes to determining aircraft manufacturers. This was clearly seen in late 1996 when Transport Minister, Bernard Pons, explained to the National Assembly that Air France was studying the organisation of its long-haul fleet, but had not decided whether to buy planes from Boeing or Airbus Industrie. He said that the eventual choice would depend 'not only on the interests of the company, Air France, but also on the interests of the economic sectors of our country'. This comment was bitterly attacked by actors within Air France. Even the SNPL (pilot's union) stated that the fleet renewal strategy should be dictated solely by economic criteria. Moreover, they claimed that this episode highlighted the ambiguity of role of the state shareholder (*Financial Times*, 9 November 1996). Air France eventually bought twenty long-haul aircraft, split equally between Airbus Industrie and Boeing. This decision was widely recognised as underlining the authority of PDG Blanc (*Financial Times*, 21 November 1996). The days when ministerial pressure could force the national flag carrier to buy a certain type of plane from a certain manufacturer are gone. Thus, there has been a move away from control to guidance. However, the state's budgetary capacity does give it the capacity for sporadic intervention.

### **3. The dismantling of several features of the traditional *dirigiste* model but the tenacity of others.**

*Dirigisme* is made up of several components – ambition, will, institutions, agents, and legitimacy. It is clear that many of these components are being dismantled, but others have shown a remarkable tenacity. For example, it is clear that the state retains the will and ambition to play a significant role in the air transport sector. However, this does not mean that it will play the same role – the state is no longer willing to bail out Air France every time there are financial difficulties. This change in attitudes was not immediately recognised by the workers at Air France, since in 1993, they demonstrated outside the Ministry of Transport in protest against the state-encouraged restructuring plan. Only since then have the workers and trade unions recognised the futility of relying on the state to preserve the existence of the national airline indefinitely.

Nonetheless, the state does retain the will and ambition to play a significant role. For example, the state continues to lobby the European Commission on behalf of Air France and has written several times to the Competition Commissioner complaining about the effects that liberalisation is having on French air transport. The French state has also been willing to divide up airport slots and airline routes in a way which favours Air France. For example, the state has denied access to foreign operators wishing to begin services between Toulouse and Brussels on the grounds that the French airport was congested and that the environment would be adversely affected. In practice, this is highly advantageous to Air France. Moreover, it was the state which encouraged Air France to introduce a restructuring plan in the first place. Thus, the state is willing to intervene in order to make Air France a competitive airline.

The agents and institutions have also begun to change to some extent. This is because the *pantouflage* and *tutelle* systems have been partially eroded. Air transport experts have been brought in from outside the state apparatus. For example, Stephen Wolf, who had previously been in charge of United Airlines, became Blanc's key advisor during the initial period of restructuring. Blanc was also able to choose his own executive committee without too much interference from the Transport Minister or Prime Minister. Whilst Blanc himself was appointed by the state, he had already illustrated his independence during his time as president of RATP and he had negotiated his margins of manoeuvre before accepting his position as chairman of Air France. The radical decentralisation of Air France's organisation has also undermined the centralising effects of the *tutelle* system. When asked how the *tutelle* affected the operation of Air France in 1996, an official at the Siège Sociale replied that 'Air France was now no different to any other private company in France' (*Interview*, September 1996), thus illustrating the declining significance of the *tutelle* system. Hence, it does seem that agents and institutions have changed to some extent.

Thus, there is evidence of the dismantling of several features of *dirigisme* in the air transport sector, but the tenacity of others.

- 4. A decided shift from demand-led macro-economic management to a preoccupation with the supply side of the economy, and from creating and protecting national champions to providing the conditions in which those champions can flourish in an internationalised and Europeanised competitive environment.**

The principal and most visible change that has occurred in the *dirigiste* model since 1983, has been the retreat from the dominant Keynesian paradigm towards a more neoliberal economic orthodoxy. Part of this new economic orthodoxy includes an increasing emphasis on the supply side of the economy. This includes a shift towards greater education (improvements in

training and research capacity) and a more flexible labour market. It is also pertinent to note that many of these supply side changes requires intervention by the state.

This increasing preoccupation with the supply side can also be discerned in the air transport sector. There has been an increasing emphasis on:-

- *Workforce flexibility* – Air France has attempted to increase the flexibility of its workforce by employing younger people on lower wages, by asking pilots to work longer hours for less pay (8 March 1996), by freezing wages in the 1994 restructuring plan (they had already been frozen for two years), and by asking Air Inter stewards and stewardesses to work on occasion for Air France.
- *Organisational flexibility* – There has been an attempt to decentralise the organisation in order to make it more market and competition oriented. This has resulted in the Centres de Résultats which deal with geographical regions and logistical sectors. This has encouraged speed of decision making and has allowed decisions and responsibility to be taken at a lower level.
- *Commercialisation* – The outlook of the company has changed, with an increasing emphasis placed on the need to be marketable and attractive. This has involved the introduction of new products such as Espace, Tempo, the Club Class, a frequent flyer programme, yield management and the sabre computer system.

Moreover, the state has also intervened in an attempt to help Air France compete more effectively in the internationalised and Europeanised environment. For example, Air France has concentrated its strategy on building a hub at CDG to improve its passenger loads. The state has attempted to aid this policy by protecting Air France's slots and terminals at the airport. The state has also opened up certain routes to competition ahead of schedule in order to prepare Air Inter and Air France for European 'open skies' in April 1997. Chirac went further in encouraging Air France to become more competitive when he 'sponsored'

(unsuccessfully) the formation of a private French airline pole to compete with Air France. Thus, there does seem to be evidence that there has been an increased preoccupation with the supply side of the economy and a move towards creating the conditions in which the national flag carrier can flourish.

In conclusion, there does seem to be good evidence that the traditional *dirigiste* system (state control or guidance) has been transformed in the air transport sector, but has not disappeared. Whilst Air France has enjoyed increased autonomy in many areas (especially since 1993), the state remains a significant actor in many others. On the whole, the *dirigiste* system seems to have been reshaped in the way suggested by Wright, but it is important to take account of sectoral differences. The transformation of the *dirigiste* system has also been accompanied by a transformation of air transport policy itself. Air transport policy is composed of three types of policy – trade, competition, industrial.<sup>81</sup> Only when considered as a national industrial policy does the state represent the dominant actor. What has occurred since the late 1980s has been an increasing emphasis on air transport, not as an industrial policy, but as a trade and competition policy. As a result, the state's ability to guide and control air transport policy has necessarily declined compared to other actors. The fact that Wright claims that the contemporary French economy is characterised by the four tendencies we have seen in the air transport sector suggests that the *dirigiste* model is being reshaped as a result of this increased emphasis on trade and competition. However, many elements of trade and competition policy require the state to take action. As a result, *dirigisme* will not disappear.

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<sup>81</sup> It is a trade policy since it is connected with the drive towards liberalisation and deregulation in the European and international economy. It is a competition policy, as illustrated by the fact that the European Commission regulates the European air transport market on the basis of competitive criteria. It is an industrial policy because it has been used to support the employment objectives of the government and has supported other national industries by buying their products.

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