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THE EVOLUTION OF FRENCH ECONOMY FROM POSTWAR WWII TO THE PRESENT

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1. ABSTRACT

Since the end of World War II, France had experienced multiple major events that determined its history and destiny. In this paper, I am going to identify and analyse some of the major economic events that made a substantial impact on the French economy. The principal objective of this project is to evaluate each crisis, in order to understand how France has responded on each occasion, so that it can replicate or avoid some of the measures adopted in the past. From the post-war situation to the coronavirus crisis, this paper is going to let us interpret the French economic system through the decades and to provide a clear message; France must learn from its past economic history if it wants to be successful against exceptional events such as those facing us today.

2. INTRODUCTION

This paper aims to analyse the past 75 years of the economic history of France in two parts; the early events (from 1945 to 1968) and the latest events (from 1973 to the present). Here in this graph, we can appreciate the GDP growth through all the years that this paper is going to undertake and analyse.

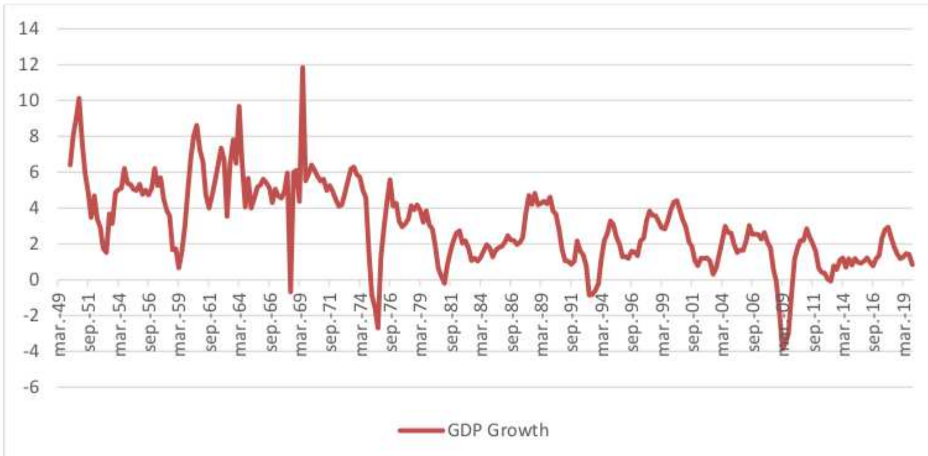

Figure 1 - GDP Growth
Source: Bloomberg

The feedback obtained from these analyses is crucial due to its possible future application in a new crisis coming ahead. The results of successful plans are essential as one of these past procedures can be a viable solution that might solve one of the problems involved in the matter.

Following George Santayana´s statement: *"The one who does not remember history is bound to live through it again"*. We have to learn from our history to not commit the same mistakes. If there is an affinity between crises, we can think of adopting similar measures, if their resolution plan worked successfully. We will replicate our history, but not in the negative connotation like Santayana´s statement, but to **replicate the challenging and positive history overcomes that French economy has experienced**, helping to avoid or reduce the adverse effects that a crisis brings along.

John F. Kennedy remarked; "*When written in Chinese, the word `crisis´ is composed of two characters. One represents danger and the other represents* ***opportunity***". During any type of crisis there is always a bright side, and a good chance to learn and take advantage of it. During this analysis, I am going to highlight the most critical moments

French economic history lived, and try to extract the positive learning, feedback and results of them.

The first part starts with the **post-war economic situation**. The post-war period began with the liberation of the French territory from the German invasion and occupation by the Allies. Even though they won the war, there was neither a sense of glory nor success. The war was devastating for the French population and economy, with massive destruction of human life, property and a cost of a quarter of the nation´s total wealth. (Dormois 1997).From 1945-1973 France lived what it is called the ***Trente Glorieuses***; this period stands for being the period of fastest economic growth in the continent´s history, the reconstruction of the Welfare State and the expansion of capitalism in France. During these 28 years, multiple events occurred during this French version of the European "Golden Age".

After the liberation, the first national assembly of post-war France voted for the **nationalization of key industries and credit**. The aim of this nationalization was the intervention of the national government to support deteriorated private enterprise sector. The **dirigisme model** arose linked to nationalization´s idea. It was an economic doctrine in which the state played a strong directive role and substantial state-directed investment through its primary tool of action; indicative planning.

In 1945 was launched the **Monnet Plan** by Jean Monet. Its intention was the modernization and the reconstruction of the French economy converting the country in the primary producer of iron and coal, taking control over the previous German territories Ruhr and Saar. (Brunet 2018) . The continuation of this plan was carried out by **Robert Schuman**. In 1950, British and Americans asked the French Foreign Affairs Minister to formulate its proposal, putting old rivalries aside and making all Europe nations behave as one for the first time with the joint control of coal and steel production. (Fimisper 2008)
During the same period that Plan Monnet and Plan Schuman were taking place, between 1948 and 1951 **Plan Marshall** was implemented. Apart from rebuilding war- torn regions, its principal goals were the reduction of trade barriers and the modernization of their management system and industries, but above all, to prevent the spread of

communism. The USA mobilized the greatest volume of resources to 16 European countries.

May 68 was an exceptional event that influenced the French economy in the short run. A sociocultural revolution that began with a student protest, and ending up being the biggest strike in French history, with the collaboration of the workers that provoked an economic shock and political uncertainty for less than three months. (Rubin 2018)

In 1973, *The Trente Glorueises* came to an end with the **first oil crisis**, with the oil embargo of the OPEC to the countries supporting Israel in the Yom Kippur War. And the **second oil crisis in 1978,** with the Iranian Revolution and the Iran-Irak war, provoked a shortage of crude and an increase in oil prices. Even though France was not directly affected, it did had a collateral impact, as it caused the slowdown of the economic growth of the country, accelerated unemployment and increasing inflation, causing a stagflation condition.

The **fall of Berlin´s wall** meant the **unification of the two Germanys**, politically and economically. This event had an economic impact on European country neighbours, including France, as it was a challenging task to incorporate a communist economic structure to a capitalist one. However, this unification caused a more significant financial repercussion as it was the trigger of the creation of the European Union with the **Maastricht Treaty in 1993**, which France is a member.

The financial crisis of 2008 was a global crisis that devastated the world´s economy. France was directly affected, causing unemployment, unstable inflation and an overall slowdown of the economy. However, the recession was minimized thanks to stabilization measures and protection policies the state applied, which made France be one of the European countries less damaged by the financial crisis, but at the expense of not having a so drastic and evident recovery on its GDP afterwards. (McCaffrey 2011)

To end up this paper, I am going make an introduction of the **Covid- 19 crisis**, to comment economic measures applied by the state to smooth the recession coming ahead, and to see the similarities with past crises to highlight the intention and objective of this paper; **learn from our past and take advantage of it.**

3. EARLIER EVENTS

3.1 POSTWAR ECONOMIC SITUATION

WWII Context

The horrors of the Second World War are etched into the imagination of public discourse, but what about its aftermath? How a country, at war for six years, recovers and creates peace when so many national ideological and social resentments remain across Europe?

France, for centuries one the most formidable military power in Europe, was utterly obliterated by a German invasion in 1940. After the fall of Paris, was set up a puppet government from the city of Vichy, while a government-in-exile resisted from London. Only four years later the Allies managed to liberate France from German occupation. They then emerged as a victorious ally with a strong army by the fall of Berlin. With this invasion, France was politically reset, but still ahead of a massive global empire, with a new provisional government in place, **deeply affected by the economic and social damage**. Would be France able to recover and face all the new challenges of the XX century? (Graham Royde-Smith and A. Hughes 2019)

Economic situation

After the liberation, the reconstruction plans and prospects looked dim by current and past standards, marked and learnt by the effects of WWI had in the country. Even though the number of deaths was lower than the previous war, the country was bled dry. **They used up and exploited all resources available, nearly exhausting them to deplete**.

The conflict implied a **cost of a quarter of the nation´s total wealth** (three times more than WWI), over a million dwellings had been destroyed, as well as large infrastructures; half of their railways and 80% of the locomotives which possessed in 1939 rolling stock, ports and bridges. (Kyte 1946).

Due to the indemnities, France had to pay to German occupying authorities and plants and equipment seized by them; many production lines had to close. The primary and secondary sectors were also affected, the **agricultural and industrial output declined** from 60% in pre-war times to 44%, with farm production falling in half due to the lack of workers, fuel and fertilizer. Civilians suffered from **shortages and rationing** leading to malnourishment, hostility towards the mismanaged food supply, and the appearance of the **black market**, where food and other goods were sold at high prices, what occasioned less of the same resources in the open market (regular stores). (Diamond 1999)

Large cities where the places affected the most by the shortages, on the other hand, in-country villages, was permitted a better survival because clandestine methods could be better applied (private gardens and slaughtering) (Mouré 2010). **Inflation ran high** due to the imbalance between perceived needs and available resources, the black market mentioned before, and the display of accumulated wealth by specific categories of producers (such us war black market hoarders and profiteers of essential goods and food provisions) made things worse (Dormois 1997)

After the war, it took some time to put things in order, with the help of the **Monnet Plan** that provided a coherent framework for economic policy**, The Marshall Plan** that helped reviving the French economy and its modernization and **the Robert Schuman´s Declaration** rooting for unity and consensus across Europe.

3.2 TRENTE GLORIEUSES

The French economist Jean Fourastié named this period ` *les trente glorieuses´* on his 1979 publication ; *Les Trente Glorieuses, ou la révolution invisible de 1946 à 1975*. This term is derived from *Les Trois Glorieuses*, which were the three days of The Revolution of 1830 on 27-29 of July. (Gordon 2017)

This *Trente Glorieuses* is known for being the **fastest economic period in French modern history**, but this term was not exclusively French. As this was also the fastest period of economic growth in Europe as a whole. In Germany and Italy, they call it *Wirtschaft swunder* and *miracolo economico*, respectively. The continent grew 4.06% on average on GDP per capita in European Countries at constant prices of GK/ international dollars, the base year 1990. (Figure 3) (Crafts and Toniolo 1996)

Country	1950 GDP pc	1973 GDP pc	1950–1973 GDP pc, growth per year
Switzerland	9064	18,204	3,08
Denmark	6943	13,945	3,08
UK	6939	12,025	2,42
Sweden	6739	12,494	3,06
Netherlands	5971	13,081	3,45
Belgium	5462	12,17	3,54
Norway	5430	11,324	3,24
France	**5271**	**13,114**	**4,04**
West Germany	4281	13,153	5,02
Finland	4253	11,085	4,25
Austria	3706	11,235	4,94
Italy	3502	10,634	4,95
Czechoslovakia	3501	7041	3,08
Ireland	3453	6867	3,03
USSR	2841	6059	3,29
Hungary	2480	5596	3,6
Poland	2447	5340	3,45
Spain	2189	7661	5,6
East Germany	2102	5753	4,47
Portugal	2086	7063	5,45
Greece	1915	7655	6,21
Bulgaria	1651	5284	5,19
Yugoslavia	1551	4361	4,59
Romania	1182	3477	4,79
Albania	1001	2273	3,62

Figure 2 - Levels and Rates of Growth of Real GDP/Person in European Countries ($1990GK and average % per year)

Source: Crafts & Toniolo, 1996, pg. 3 and 4

The Trente Glrorieuses also stands for the reconstruction of the Welfare State carried on during these 30 years of history and the confrontation between the two most significant powers at the time, USA and the Soviet Union, in the framework of the Cold War. The dispute was one of the reasons of the expansion of capitalism in France (Marshall Plan).

Reconstruction of the Welfare State

The reconstruction began at the end of the war in 1945. The priority was the recovery; the keywords were *remise en marche* and *redémarrage,* that meant to restart all over again. Their main purpose was to re-establish production (*produire!)* and collective effort and support expressed by this phrases; *bas les vestes et haut les coeurs"* and, *hop, on s'en sortira!* , that means, down the jackets and up the hearts and we will go through this. (McNeill 1998) Knowing what it was said back then among society, we can have a better understanding and a big picture of this reconstruction moment.

The Baby Boom phenomenon

This reconstruction could not have achieved its success without the `baby boom´ phenomenon after the war.

During the First World War, the high death rate between soldiers and the birth deficit (1.7 million) provoked a gender imbalance in the interwar years, which caused a further depressed birth rate. But during the Second World War, France paid a less catastrophic toll; with half of the number of deaths and just 400.000 births forgone approximately. And to this, we have to add the "baby boom" effect. It started in 1942. No one can explain why during the worst moment of Nazi´s occupation, was the beginning of this reversal of fertility. (Dormois 1997)

This miracle caused a lasting and rapid fertility growth for the next 30 years, the fastest rate in natural increase of 0.96 in France but also in the rest of Europe of an average of 0.70. (Figure 3) This caused a decrease in the death rate, especially the infant mortality rate, and the consequent extension of average life expectancy. Even though this was a good phenomenon, it took several years to fix all the damage caused by the war.

Period	France	Western Europe
1870–13	0.18	0.77
1913–50	0.02	0.42
1950–73	0.96	0.70
1973–98	0.48	0.32

Figure 3 - Population growth per annum by periods, 187-1998

Source: Dormois, 1997, page 3

3.3 NATIONALIZATION OF KEY INDUSTRIES AND CREDIT

Nationalizations before the war

France has a long record of government intervention in the industry. This type of response by the state of extending financial assistance to companies related in essential activities is an old settled practice of the French national economic system. It has frequently led to a measure of government ownership and control.

Many industries have been owned by the national government, such as the manufacture of tobacco products, gunpowder and matches, working as the State´s monopolies from 50 to 150 years. This phenomenon is not uncommon in France´s economic history. In times of crisis, nationalization occurs to control and manage the inefficiency and possible failure of different economic sectors, such as in the July Monarchy, or also called the *Three Glorieuses,* (Revolution of 1830) with the nationalization of the railway system, or after WWI, when the State established and operated shipping companies on the Rhine and the Danube and owned and managed the potash mines of Alsace. (Pinkney 1947)

Nationalizations during and after the war

During the war, the Vichy government[1] froze prices and wages, controlled external trade supervised and controlled distribution of raw materials and the manufacturing sector, as well as the aeronautic, utility, oil, and energy sectors among others, for better coordination and management of the war. (Fohlen and Cipolla 1976)

After the war, from September 1944 to May 1946, a large nationalized sector was created mainly because of two reasons; first, the cooperation and collaboration of private companies with the Nazis occasioned a loss of trust and reputation of the private sector. And second, the strategic importance of the reconstruction and growth of France´s economy. (Hughes and Reader 2002). This "attack" to the private sector was in part to satisfy the Resistance movement demand, as it has been already formulated during the Nazi occupation and subsequently adopted by the principal political parties.

[1] The government of France after Germany defeated and occupied it at the beginning of World War II

The industries nationalized were; **banking and credit industry**: Banque de France and four large deposit high-street banks (Société Génerale, Crédit Lyonnais, and two others that merged into the BNP), **industrial firms** (Renault, SNECMA), **transport companies** (Air France and SNFC, train railway system), **energy utilities** (Charbonnages de France, EDF, GDF), and two-thirds of the leading **insurance companies** (Hughes and Reader 2002). At the head of these nationalized companies, the state placed graduated students of engineering schools, young elites and aspirants to social and political progress. (Landes, Mokyr and William 2012)

This nationalization transformed the new "public sector", used as the compelling and driving force for the economic recovery and the re-establishing of the industry´s efficiency. (Fohlen and Cipolla 1976) This process also satisfied "modernizers", who thought that only the state could modernize the economy and the industry after a war.
This nationalization process was emerging and settling in France during the dirigisme regime.

3.4 DIRIGISME REGIME

The **dirigisme model** is an economic doctrine originated by Charles de Gaulle in 1946. This model was against the laissez-fair, supporting a strong and positive directive role for state intervention in fixing and restraining productive inefficiencies and market failures.

This doctrine was implemented because of **four main reasons**: (1) to reinforce and strengthen the French economy. (2) To counteract the socialization of means of production (Stalinist) demanded by the communists and socialists. (3) To create a modern capitalist economy in the absence of a modern capitalist class, since the bourgeoisie economist society and some business sections lost authority as they collaborated with the German occupiers during wartime. (4) To provide a mechanism (pro-capitalist) to negotiate with the United States the future terms of the Marshall Plan, to assure them that would be administered efficiently and safely against communist interests.

This term was born in post-war France, and the way to carry out this model was through **indicative planning,** controlled by the Commission General du Plan (CGP). It was a form of economic planning implemented to solve the problem of imperfect information in market economies. The aim of this concept was the identification of the oversupply, congestions in a product system when workloads arrive too quickly (bottlenecks) and shortages. Thanks to the identification of these events, the state investment behaviour can be prepared to modify market incidences of disequilibrium, taking only endogenous market uncertainty into account and not looking to exogenous variables like foreign trade or technology. Some policy tools used in the indicative planning were tax breaks, R&D funding, to give preference to state-owned banks lending, export subsidies and lower antitrust policies. (Rosser and Rosser 2018)

As Jonah D. Levy declared, the dirigisme model during the post-war period reversed with the labour revolution of 1968. Instead of conducting resources from consumption to investment, it changed to the opposite to protect uncompetitive declining firms. The economic logic turned into a social logic due to this revolution. In the next stage of dirigisme, from 1968 to 1983, was made an effort to put the two logics together; to address the demands of society and the disadvantaged people at the same time of supporting French companies in its modernization and investment. Finally, it didn´t work as planned, but French leaders continued to confront the challenge of agreeing on joint arrangements to make both sides pleased. (Levy 2008)
Dirigisme coincided with the *Trente Glorieuses*, but this economic model did not prevent the slowdown caused by the oil crisis in 1973.

3.5 THE MONNET PLAN AND THE SCHUMAN´S DECLARATION

The Monnet Plan was launched in 1945 by Jean Monet, the Commissioner-General of the French National Planning Board, and was implemented in 1946 by Charles de Gaulle. The intention of this 5-year plan was the **economic reconstruction and modernization of France**, by making the country the largest steel and coal producer in Europe. The way of doing this was to control de rich production areas of coal in the Ruhr and Rhineland, of steel in Saarland and iron in Lorraine. (Brunet 2018)

The main goal was to renovate and restore the French economy **increasing its industrial production** to compete in an international framework and turn it into a competitive country against the products of other countries, especially against German exportations. By the time the plan was launched, the resentments because of the Nazi´s occupation had remained among society, and at the beginning of this plan, we can appreciate that resentment.

This plan turned into unrealistic because it would only work if the German economic rehabilitation would come after the full implementation and functioning Monnet Plan. That would mean that France would control the imports of vital German resources. The still weak Germany will buy France all the production resources they need for their social and economic recovery. However, the interests of the USA and England were the opposite of the French ones. These two countries explained to France that this would have catastrophic effects on the German economy, as they thought that Europe´s recovery would have to come hand by hand with the German industrial rehabilitation. (Fimisper 2008)

Because of this, Jean Monnet in the last year of this plan realized that this wasn´t the right direction to follow (influenced by the Marshall Plan), and came up with the idea of **taking the first steps towards unity among European countries**. He communicated this concern to the French foreign minister Robert Schuman. He made a declaration where he proposed to create a pool of steel and coal, placing its production under a joint high authority opened to the other countries of Europe.

Schuman Plan was a continuation of the Monnet Plan; he proposed joint control of the coal and steel production, the essential raw materials in the arms industry. The idea behind was that as all members would have the same control of these resources, no one could have a competitive military advantage over another country. The Shuman Plan was published on May 9 of 1950, with the famous Shuman Declaration, the date now considered as the **birth of the European Union**. (Fimisper 2008)

"Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity. The coming

together of the nations of Europe requires the elimination of the age-old opposition of France and [West] Germany" Robert Schuman Declaration, 9th May 1950

3. 6 THE MARSHALL PLAN

The Marshall Plan was a plan carried out by the United States from 1948 to 1951; it was announced in 1947 in a speech by George Marshall, the US secretary of state for foreign affairs. The Marshall Plan was created to **help the European countries that were socially and economically damaged by WWII**, in need of external help to recover from the devastating post-war situation. The USA mobilized around 12 billion $ (equivalent to over 128 billion $ as of 2020)[2] . France was the second country receiving the most, after Britain. France received $2.3 billion with no repayment, $4.9 billion grants and credits, and $2 billion on low-interest loans; it ended up being more resources as the United States helped France till 1956. (U.S. Bureau of the Census 1954).

There were many reasons to carry out this plan; the principal one was to help the recovery of the European countries but was not the only goal of the ERP (European Economic Program). The implementation of this plan was also containing Europe of Soviet influence and **preventing the spread of Communism**, as the United States was at the beginning of a long geopolitical tension with the communist Soviet Union (1947-1991). The Americans were pushing for the European unity, free trade and the modernization of the management system to form a bulwark against communism. **The Marshall Plan was the first step of the "Golden Age" of capitalism in Europe**.

There is a third reason for This Marshall Plan, that was the **own economic benefit for the USA.** Part of the money injected in European countries was used to buy goods from the United States. They had to be shipped across the Atlantic Ocean on American merchant vessels (Hogan 1987). The USA wanted to help Europe, in part because it would also cause benefits for their economy, in particular to the maintenance of activity after the end of the war effort.

[2] "$12,000,000,000 in 1948 → 2020 | Inflation Calculator". www.in2013dollars.com.

The USA knew that Europe was a good investment; it had great commercial power potential, among other things. In the end, as countries and continents are connected, the good or bad events that occur are going to have a "domino effect" and it is going to affect them all, sooner or later. So the USA wanted to contribute for the good of all, Europe and themselves.

The Schuman Plan mentioned before was driven in part by the creation of the Marshall Plan, as one of the principal conditions for this money injection was that the European countries should get together with a common and rational plan on how to use the aid, acting as a single economic unit for the first time, and cooperate with each other.
The Marshall Plan was the precedent of the first aim of union among the European nations and helped to forget and forgive the resentments from World War II.

3.7 REVOLUTION MAY 68

The revolution that occurred on May of 1968, what began of a student protest for the reform the authoritarian French University System and against capitalism, consumerism, American Imperialism and traditional and archaic institutions, sparked a general strike followed by workers that electrified economically and socially the country. (Rubin 2018)

Context

May 68 occurred in the context of several events that boosted this revolution; the Cold War, colonial conflicts, the Vietnam War, hippy and sociocultural movements caused a spontaneous movement that left an indelible mark in French history. (Rubin 2018)

All started with student protests asking for a reform of the French University System in the University of Nanterre. As the tension kept growing, the forces of order closed the university, causing a displacement of the protests to the University La Sorbonne. The working class joined to this protests, closing factories, asking for improvements on their contracts, higher pays, less working hours and the ouster of Charles de Gaulle among others.

The barricades started all around the Latin Quartier, after a few days, the Forces of Order carried out a massive offensive to take control of the situation, causing hundreds of wounded and detained strikers. All this caused the **largest general strike ever attempted in France**, and the first nationwide wildcat[3] general strike. The riots reached such a level, that the political leaders feared civil war or revolution. The national government briefly ceased to work after President Charles de Gaulle secretly fled out of France at one point.

Finally the government faced this situation negotiating with trade unions and employers peacefully, making the Agreements of Grenalle, offering salary increases, reduction of labour hours, the dissolution of the National Assembly and the call for parliamentary elections for 23 June of 1968.

Economic impact

As chaos ruled the streets, uncertainty spread across France. People start to go to their banks and try to extract as much money as they could, forcing banks to close as they run out of reserves and liquid cash. Also, people going to buy food massively, causing shortages for limited periods. French economy came to a halt. All seemed to stop in the short run. That is why we can appreciate in Figure 6, the French GDP from May to July of 1968, experienced a huge decline on its quarterly gross domestic product (current prices, euros) in Figure 7, a drop of 7% approximately on the GDP Growth from March to June.

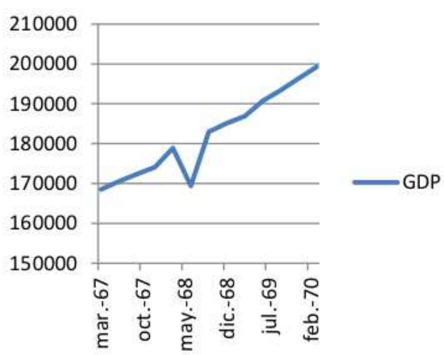

Figure 4 – GDP France

Source: Bloomberg

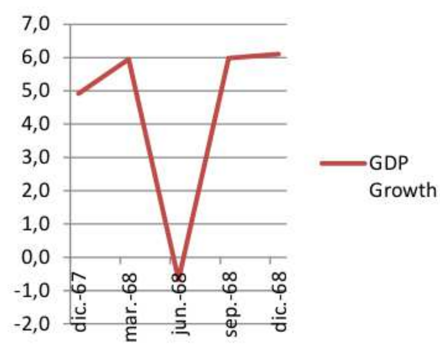

Figure 5 – GDP Growth France

Source: Bloomberg

[3] A strike action carried out by unionized workers without the authorisation or consent of union leadership.

This disparity we observe in the graphs 4 and 5 was caused by the spontaneous revolution. But we can appreciate a fast recovery after all this passed. Violence and uncertainty evaporated almost as soon as it appeared. Workers went back to their jobs and students to the university, and the Gaullists returned more robust than ever when with the June´s elections, the economy was re-established again.

4. LATEST EVENTS

4.1 FIRST OIL CRISIS 1973

The successful *The Trente Glorieuses* came to an end with the first oil crisis in 1973. France experienced the fastest economic growth, around 5%, (Figure 6) during 30 glorious years thanks to all the plans and measures mentioned before, living in the Capitalism Golden Age. However, this notable economic period was determined to come to an end, as this outstanding growth can´t hold forever. So in 1973, the French economy experienced a shock that provoked the **slowdown of its economy**. GDP growth of 5.2% on average before the shock from 1949-4973, compared to 3.2%, after the oil shock (Figure 6).

Figure 6- GDP Growth 1949-1978

Source: Bloomberg

The oil shock occurred in the October of 1973 when the Organization of Arab Petroleum Exporting Countries proclaimed an **oil embargo** on oil deliveries to the nations that were supporting Israel in the Yom Kippur War. These caused a fivefold increase in the barrel of oil price and a severe impact on the Western economies, which depended strongly on oil supplies.

France was not one of the countries most affected as France was not directly subject to embargo, but it did indirectly. "*The French economy is not isolated, nor can it be isolated, it is linked in thousands of ways first to the economies of our European partners and then to the entire planet.*" Mr Giscard d'Estaing (French Finance Minister in 1973)

Oil stations had to close as they were running out of fuel and production cutbacks in the automotive, textile and petrochemical industries. On November 30th, Prime Minister Messmer adopted strict decisions and measures for the reduction of energy consumption, such us; less heating, speed limitation for vehicles and a ban on illuminated advertising among others. (University of Luxemburg 2020)

French economy not only experienced a **drawback on their GDP growth but an increase in inflation**, reaching on December 10th more than 10 % annually, an increase in unemployment and a general strike coming ahead. The main goal for the government was to prevent the "*monsters of inflation and unemployment,*" as Mr Messmer stipulated. The strategy was a more significant reliance on credit restraint and measures to curb the purchasing power. (Farnsworth 1973)

However, this shock brought France and Europe to a more "ordinary" GDP growth, so it was a matter of time this would happen as no economy can grow approximately at 5% GDP growth forever. France lived difficult times in 1973 and after as they have to adjust their economy and industry that it has been rapidly growing and transforming for the past 30 years to the slowdown situation the whole continent was experiencing.

4.2 SECOND OIL CRISIS 1978

In 1979 a second oil crisis occurred. Iranian Revolution caused a **decrease in oil output**. Given the fact that global oil supply just dropped around 4%, it ended up in a widespread panic, driving the price significantly higher. The crude oil price doubled in the next year, and consequences start appearing in all countries, including France, as they had in the oil shock of 1973.

Upon the start of the Iran and Iraq War in 1980, oil production in Iran nearly ceased and in Iraq was heavily reduced causing economic recessions in the United States and other countries. It did not subside until the mid-1980 to pre-crisis levels. (The Association for Convenience & Fuel Retailing 2011)

In France, since the oil shock of 1978, economic growth weakened, inflation accelerated, and unemployment increased, causing the **stagflation phenomenon**. This stagflation condition started to affect France since the first oil shock in 1973, but also the Western Countries, putting an end to the overall post-war economic expansion.

President of the Republic François Mitterrand decided to carry out **a Keynesian[4] inspired policy**, breaking with the capitalist society. During recession times, aggregate demand is unstable, volatile and sometimes it can behave erratically, affecting inflation, production and unemployment, as it has happened during the 70 due to the oil shocks. When a market economy is experiencing inefficient macroeconomic outcomes, one way to mitigate them is the design and the establishment of some **monetary and fiscal policies**.

It was launched a series of measures and reforms with the increase of public and external deficit, followed by three devaluations of the franc between October of 1981 and March 1983. Other reforms were made such us; the significant wave of industrial and banking nationalizations, reduction of working hours and the age of retirement (39 hours, 5th week of vacation, retirement at 60 years) or the introduction of the tax on large fortunes among others. (Cité de l´Économie et la Monnaie 2020)

In response to the two oil shocks and their negative consequences on country´s economy, industrial nations took action on **reducing their dependency on OPEC[5]**

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[4] J. M Keynes in *The General Theory of Employment, Interest and Money (1936)*, created a profound shift in economic thought which defends an active role of the government in smoothing business cycles.
[5] Organization of the Petroleum Exporting Countries

crude, switching from oil to coal, natural gas or nuclear power. They made huge investments on crude exploration projects and research programs to find and develop alternatives to oil. OPEC's market share sank from 50% in 1979 to just 29% in 1985. (Powell 2005)

4.3 UNIFICATION OF THE GERMAN COUNTRIES AND THE MAASTRICHT TREATY

The fall of the Berlin Wall on November 9th of 1989 marked the fall of the Iron Curtain that separated the East and West Germany for more than 28 years. It also entailed the beginning of the fall of communism in Eastern and Central Europe. First elections were held March 18th of the same year, and 15 Deutsche Bundesbank establishments were opened in the eastern region. The reunification of the two Germanys took place in October of the following year.

The political and economic union of the communist and capitalist Germanys created a big concern for Germany, but also for its European neighbours, including France. The principal economic preoccupation was the strength of the D-Mark[6] . President François Mitterand, in order to prevent German hegemony over Europe, claimed that **this currency had to be absorbed into one single European currency**. In 1990 France´s approval of the complete reunification of Germany would depend on this requirement being fulfilled. (Winkler 2011)

The European Union Is Born

The fall of the Berlin Wall and the collapse of the Soviet Union accelerated the push for deeper European integration. This project had begun earlier with the European Coal and Steel Community in 1951 (Schuman's Declaration) and the creation of the European Economic Community (EEC) in 1958. However, thanks to the reunification of the two Germanys, the Maastricht Treaty was created in 1992, to establish a common currency, the euro (€), common defence and security policy, originating the European Union (EU). After that, the Lisbon Treaty (2007) created the current structure we know of EU.

[6] The Deutche mark was the official currency that Germany adopted till de adoption of the euro in 1999.

France did a referendum about the Maastricht treaty, which ended up in a *"petit oui"* with a majority of just 51% of French voters. (Lewis-Beck and Morey 2007)

To become a member of this new European integration was necessary to fulfil some requirements;

1) Annual government budget deficits not exceeding 3% of the GDP,
2) Public debt under 60% of the GDP at the end of the preceding fiscal year
3) A stable exchange rate and not devaluating for two years (ERM II),
4) The long-term interest rate shouldn't more than 2 percentage points higher than in the three lowest inflation member states,
5) Inflation rates shouldn't be more than 1.5 percentage points higher than the average of the three best performing (lowest inflation) member states.

France (Figure 7) failed one of the five convergence criteria the fiscal deficit that was 2.5% above the benchmark, but most of the country members failed in some of these criteria and still became members.

	Fiscal deficit (-) (% GDP)	Public debt (% GDP)	Inflation (%)	Interest rate (%)	Exchange rate
FRANCE	**-5,5**	**50**	**2,1**	**7,3**	**stable**

Figure 7 – Fulfilment of the Maastricht convergence criteria of France for 1994. Shaded area shows the fulfilment of individual convergence criteria.
Source: Bank of Austria Creditanstalt, 2004, p.23.

4.4 LEHMAN BROTHERS´CRISIS 2008

The financial crisis of 2008 devastated the global economy. Financial institutions were giving out high-risk loans (mainly mortgages) which eventually concluded in a massive bailout financed by taxpayers. America's housing market initiated a chain reaction that led to the exposure of cracks in the financial system. This situation was followed by the bankruptcy of the Lehman Brothers firm which had a negative effect on the American and European economy. (Watt 2008)

France also was affected by the financial crisis. However, France did better than other developing countries during the worst part of the crisis (2008-2010). The Eurozone´s overall GDP decreased by 4% (McCaffrey 2011), while France decreased by 2, 2% only (Figure 8).

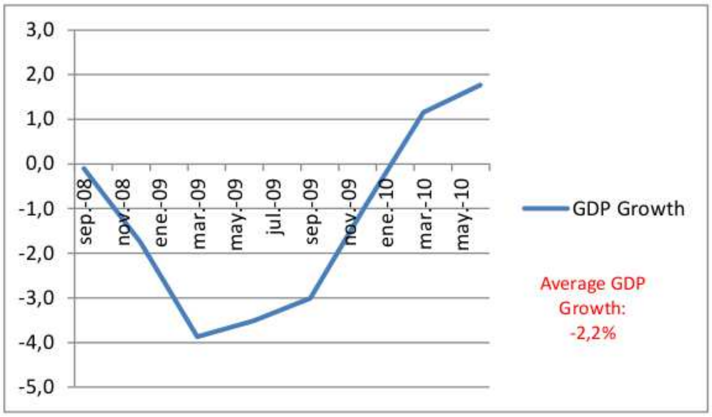

Figure 8- GDP Growth of France, Sept 2008- Jun 2010

Source: Bloomberg

The reason for this performance was its advanced social protection system which equips France **with strong economic stabilizers.** A clear example of the effect of these stabilizers is on the unemployment rates. The labour market was especially damaged by the crisis, leading to increasing unemployment rates in all affected countries. But France **has a rigid and solid labour market** (figure 9) thanks to stabilization measures and the protection policies, so the crisis did not affect so negatively the unemployment rates.

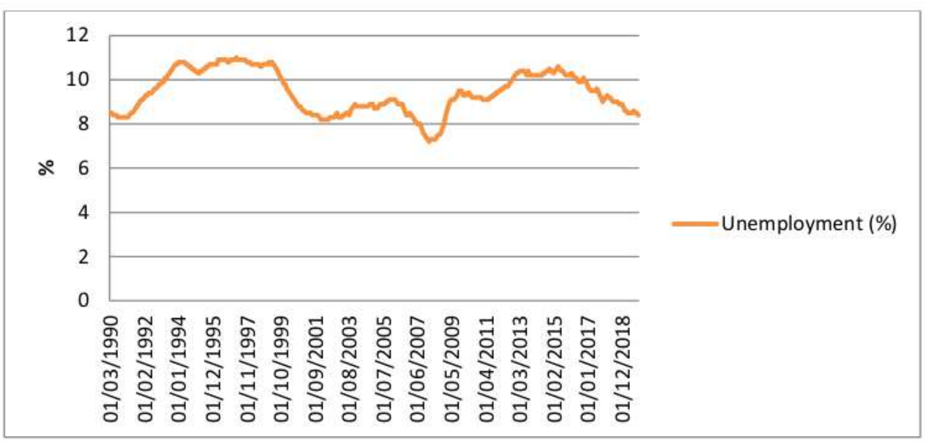

Figure 9- Monthly unemployment of France form 1990-2018

Source: Bloomberg

However, these **stabilizers work inversely in recovery situations**, when other countries in Europe were showing a clear signal of economic recovery, France didn´t show an evident increased growth during this time. We can observe this effect also in Figure x, as the **average unemployment rate remains really static around 9%** for the past 20 years.

This crisis also affected inflation. Since 2000, the total consumption of households showed an average growth of 2.5% p.a. (Gouvernement de France 2008) This exponential increase in consumption meant an increasing market demand, which led prices to keep going up, causing high inflation. But this household consumption remained flat after the crisis began (first half of 2008), the **purchasing power decreased** as households experienced a reduction in their income (unemployment). The negative effect on market demand pushed down the prices, which caused a drastic **decrease in inflation** from the second half of 2008 to 2009 approximately, even going to negative results. Figure (10)

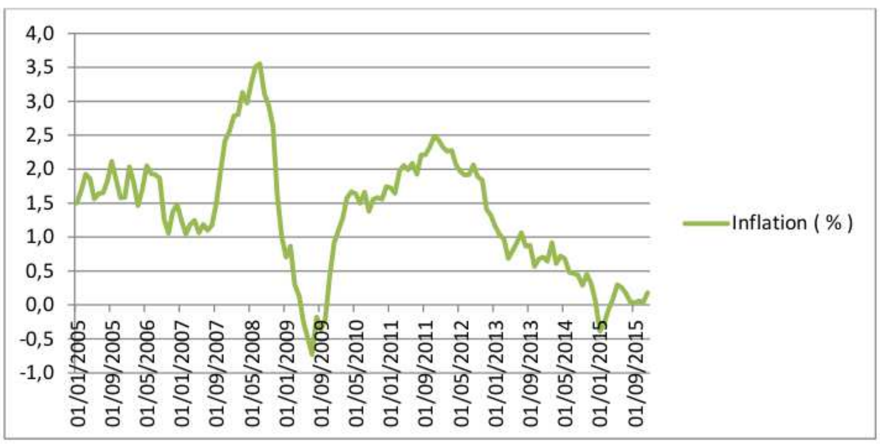

Figure 10- Monthly inflation (CPI) of France form 2005-2015

Source: Bloomberg

The drop in oil prices also contributed to the decrease of inflation. The Act of 4th August, to Promote Consumer-Oriented Competition and the Economic Modernisation, helped to **keep inflation at sustainable levels by encouraging competition among retailers**. Act of 21 August 2007 on Labour, Employment and Purchasing Power **supported household income** aid. These acts and more government measures helped the recovery and stability of inflation. (Gouvernement de France 2008)

What began with a crisis in regards to the subprime mortgage market ended up causing a large scale global financial recession, which caused a loss of trust in the banking system. Nowadays, it has been **restructured towards a more transparent and stable scheme.**

4.5 COVID-19

a) Introduction to the virus

Even though this a recent event, COVID-19 crisis is worth being commented on and taken into account in this evaluation of the French economic history, as it is a remarkable and singular moment for France and the entire world.

We will identify which measures France is going to make to face this notable challenge, and how it is going to maintain the economy stable avoiding the recession as much as possible.

This sanitary crisis started in China in December 2019 and is affecting all countries and continents progressively. It arrived unexpectedly and took all governments by surprise because of how fast the contagion and propagation was among the population. The virus took France very rapidly, being one of the most affected countries with Italy, USA, or Spain in terms of cases. The impact of the coronavirus is much higher than the expected, socially and economically.

Every day is learnt something new. There are actualizations every second on how to fight back this situation and how to face this sanitary crisis in the correct way. But what concerns us in this final degree paper is the economic impact that such a catastrophe can have on the French economy and the world's stability.

b) Measures applied during the emergency state

"We are at war" Macron said on his televised speech the past 16 of March. Exceptional situations demand exceptional measures and unity above all. In our recent history, we haven't faced a sanitary crisis like this one. The French government, like the other

government's affected countries, is making serious statements about how they are going to overcome this future crisis economically. Each state is making their own decisions, but we are going to analyse only the French ones. The actions taken are only the ones applied **under France´s emergency state**; there will be further modifications the next following weeks as the virus will start redeeming.

Facing the Coronavirus Covid-19 epidemic, the government is in **total solidarity with businesses and their employees** and will continue to be fully mobilized in the days and weeks to come. 45 billion euros will be devoted to businesses and employees, 1 billion euros will be dedicated to a solidarity fund, financed by the state and its regions, 300 billion euros in state guarantees for corporate bank loans and 1000 billion euros in bank loan guarantees at Eurozone level. (Gouvernement de France 2020)

There 10 specific measures the state is applying (Gouvernement de France 2020):

1. Payment deadlines for social and / or tax payments (URSSAF, direct taxes)
2. Remission of direct taxes
3. Deferral of rental payments and invoices (water, gas, electricity)
4. Solidarity fund for VSEs, freelancers and micro-entrepreneurs: aid of up to € 1,500
5. State guaranteed loan
6. Credit mediation for the rescheduling of bank loans
7. Partial unemployment scheme
8. Mediator of companies in case of conflict
9. Public contracts: the late penalties will not be applied
10. Support plan for French exporting companies

The main objective of current policies is therefore twofold: to smooth the curve of infections and severe cases (measures not specified in the paper) and to **smooth the curve of the economic recession**. Social and health consequences can also be important in the medium and long term in the economy. The economist Pierre-Olivier (Gourinchas 2020) theorized in mid-Marche this statement. He made a simple schematic representation that connects the two simultaneous challenges. The meaning behind is that we need the intervention of the government and its policies to survive to this crisis and make the recession as smooth as possible. In the graph, he highlights the difference between both scenarios, the best scenario with economic measures applied (blue) and without those measures (red).

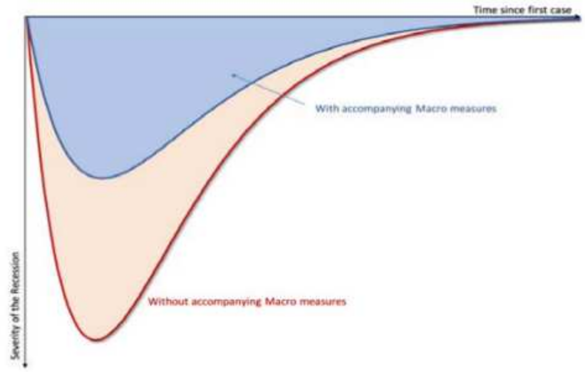

Figure 10 – French recession scenarios with and without economic measures
Source: Gourinnchas (2020)

c) Influence on previous crises

After doing the analysis of the modern French economy and comparing them with the measures taken by the French government, we can appreciate some similarities in some aspects. Here there are some of them:

1. **The possible creation of a new "Marshall Plan."**

"We need unity of action also in the EU, to support our economies, to support the debts that we will be forced to contract, ***to tackle a community Marshall Plan"*** Pedro Sánchez, President of the Spanish Government at 4th of April national televised speech.

European Union Ministers of Economy and Finance agreed on an economic response to the coronavirus crisis on the 9th of April. The aid will rise to half a trillion euros that will benefit workers companies and States. The money will come from the European Stability Mechanism (ESM) instead of what it was thought in the first place, the "coronabonds", which are mutualized European debt securities aiming to finance the European economies that had been damaged by the virus.

As reported in his Twitter account by the French Minister of Economy and Finance, Bruno Le Maire, the EU will make more than 500,000 million euros available to the Twenty-seven (countries) "immediately". (9-4-2020)

2. **OPEC and oil nations cut of production, a possible future oil shock**

OPEC, Russia and other oil-producing nations finalized a production cut of nearly 10 million barrels, 1/10 of global supply. (Associated Press 2020)

Instead of an embargo, or a cessation of production due to war consequences, the oil cut production occurred due to a sanitary emergency. It has occasioned a dramatic drop in crude demand due to the strict confinement laws worldwide.

The world is leaving an unprecedented oil shock caused by the coronavirus. Still, as all economies are managing multiple crises at the same time (health, unemployment, private sector…), the consequences of the cut of oil production have not yet manifested clearly on country's economies (derivatives).

3. **A claim of unity and action of Europe remembering us the Schuman Declaration**

"Europe emerged as a consequence of the lessons we learned after World War II. *Europe has to learn a lesson from this pandemic, the world's first global pandemic. We cannot answer, only and exclusively from the nation-states, we have to give it from a* ***common solidarity*** *point of view"* Pedro Sánchez, President of the Spanish Government at 4th of April national televised speech.

Pedro Sánchez reflects and makes us remember the origins of the European Union and the reasons for that union. As we have seen in the paper, the Monnet Plan ,Schuman's declaration were the preludes of what it was the creation of the European Union and its purpose was the shared joint control of the coal and steel production asking for solidarity among all countries, especially with Germany.

With the coronavirus is happening the same thing, Europe is asking for unity and solidarity and joining economic resources to help all nations to the fight this virus, especially the ones more damaged by the pandemic like Italy, Spain or France.

4. **Temporary shortages of food supply**

This phenomenon has appeared in French history multiple times. The latest one was during May 68. When **uncertainty** rules the streets, one of the most **common reactions of the population is to care about basic needs** and to be prepared for possible drawbacks. (Rubin 2018)
At the beginning of the crisis, the first reaction was exactly like the one of May 68, or like on Gilets Jaunes´ crisis in 2018. France experienced supermarkets shortages for small short periods, of the essential primary need products. (CNEWS 2020)

5. Nationalization of industries

The French government is thinking to nationalize some of its biggest companies if it was necessary as Bruno Le Maire (Minister of Economy and Finance) *"I will not hesitate to use all the means available to me,"* Le Maire said. *"That can be capitalization that can be by taking stakes; I can even use the term* ***nationalization*** *if necessary."*
In this paper, we have seen the nationalization of key industries after WWII, to support deteriorated private enterprise sector. The French government is willing to do it again if the situation would not handle itself. But nowadays they are helping the private sector in many other ways, measures mentioned before, helping to smooth the recession coming ahead.

6. Delays on loan and credit payment

As in the **financial crisis of 2008**, banks were granting too much credit and mortgages to people that didn´t fulfil the minimal requirements. The "perfect storm" was brewing, the financial intermediaries earning money, as they offered credit to people that probably will default, and selling those low-quality loans to other financial intermediaries (shadow banking) as viable loans to the trade of " enough and good quality". That chain of low-quality loans kept going and growing till it reached its breaking point when the financial crisis ensued.
This non-payment situation is happening again, but not because the malfunction of the financial and banking system, but the Covid-19. The virus provoked the **temporary cessation of most of the economic activity**, causing a **lack of the necessary income**, of households and companies, to pay back their debt at maturity.

4. CONCLUSION

As a general conclusion of the past 75 years of economic history, I conclude that France is a country that **trusts and relies on the government and its measures**. But if the state does wrong, French society won't doubt to complain and strike if necessary, to demand the deserved good performance of their leaders. They found it an inherent right that the French population has defended for hundreds of years and still remains in their culture and personality.

France has a **stable financial and economic structure,** with measures and stabilizers that make the country (in terms of its GDP growth), somewhat better off than others when a crisis arises, but slightly worse off when the economy is growing. Cautious and prudent, not taking excessive risks if it is not necessary. Besides, they are really **concerned about their labour market**, so they promote strict protectionist policies around the unemployment rate to maintain it more rigid and inflexible to prevent the excessive rates in recession periods (9% average the past 20 years). They also have a stable inflation rate, 1.5% average the past 20 years, which also means a stable customer price index.

After this exhaustive analysis of French modern history, I can conclude that no crisis can't be defeated with a good performance of the government and a strong **unity among society.** We have observed that when a global emergency emerges, solidarity and collaboration among countries is the best way of approaching a problem and achieving the well-being of all.

Doesn't matter what type of crisis the country is facing; a war, social revolution, an oil shock or a pandemic, **there are always things in common between economic recession periods.** The measures adopted by the government and institutions through the years are going to be related to some point. For that reason, I can extract from this paper that no matter how painful, disruptive or pessimist the crisis is, it is just a crisis, and it can be overcome learning from the past and taking advantage from it.

Only learning from the dark old past will ensure a bright new future, or as Winston Churchill remarked: "*Never let a good crisis go to waste*".

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