The Persistent Failure of French Democratic Socialism*

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November 10, 2022

Abstract

The attempt to implement democratic socialism in France following Francois Mitterrand's election in 1981 is directly responsible for France's economic underperformance since. This paper uses the synthetic control method to assess the causal effects of Mitterrand's election. By 1996 France would have been around 26% richer than if Mitterrand had not been elected. Investment and the labor supply fell substantially while government consumption increased relative to our synthetic counterfactual. These effects are persistent. On the other hand, there is little evidence that Mitterrand's election caused an increase in the average tax rate or inflation. We speculate that the persistence of the negative effects of democratic socialist policies is due to the industrial organization of rent-seeking in France. Rent-seeking in France is centralized and relatively anti-competitive. This implies that the interests of the administrative State take precedence over that of private actors, that incumbents rent-seekers face less competition, and that bad policies tend to persist for longer.

Keywords: Democratic socialism, Synthetic control, Rent-seeking.

JEL Codes: E02, P16

*I wish to thank Mary, Emile, Julien, and Toulouse for their continuous support and Justin Callais and Ennio Piano for providing useful comments on an earlier draft.

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1 Introduction

The election of Francois Mitterrand as President of the French Republic in May 1981 provoked tremendous enthusiasm among his followers. During his campaign, Mitterrand had promised a "rupture with capitalism" and radical reforms which would lead to rapid economic growth through an increase in consumption, a fall in unemployment, and an expansion of "social" policies. Less than three years later, the enthusiasm was all but gone. Unemployment continued to rise rapidly, and growth slowed down. By early 1983, a foreign exchange crisis forced the socialist government to limit the growth of government spending and state intervention in the economy.

Having devalued the Franc three times in 1982-1983, the socialist government panicked as they worried they would be subject to the same humiliation as the British Labor government in the 1970s and be placed under the supervision of the International Monetary Fund. Instead of pursuing a policy of "rupture with capitalism" as was promised during Mitterrand's campaign, the Socialist government was forced to abandon its strategy of government-planned industrial policy and extensive nationalizations. After three years as prime minister, Pierre Mauroy was dismissed and replaced by Fabius who, addressing the National Assembly in July 1984, declared, "the state has met its limits and it should not exceed them." (Maclean, 1998, p.33).

But while the 1983 change in policy objectives largely rolled back state ownership in the economy, it did *not* lead the socialist government to repeal its policies increasing welfare spending and the number of public officials. Neither were the new laws reducing the legal workweek, increasing paid leaves to 5 weeks, restricting freedom of contract in the labor market, etc. Overall, the program implemented during the first Mitterrand presidency was very similar both in tone and content to the preferred policies of modern "democratic socialists." French Socialists wanted greater "democratic control" over the workplace, more job market regulations, a more progressive tax system, etc.

France was not the first country with a left-wing government. Yet the election of a "democratic socialist" president in France had entirely different consequences than the nomination of left-wing prime ministers in other European countries. When a left-wing or "socialist" became the chief of government elsewhere in Europe, it was generally as the arbiter of a politically heterogeneous coalition.[1] In those countries, parliamentarianism generally meant that social (or socialist) reforms were limited in scope. France's political structure after the advent of the fifth Republic (1958) was entirely different. The primacy of the President of the Republic left much more room for Mitterrand, once elected, to enact sweeping reforms.

Evaluating the causal effect of an election leading to major policy changes is a tricky business because we do not have direct access to the counterfactual —in our case, what would France look like without Mitterrand's election. As a result, very few quantitative studies analyze the effects of Mitterrand's election. A few notable exceptions include Sachs & Wyplosz (1986) who give a general assessment of Mitterrand's presidency in its early years, and Crépon & Kramarz (2002) who study the effects of the mandatory reduction in the workweek implemented by Mitterrand's government.

To investigate the effect of Mitterrand's election on the French economy, we use the synthetic control method first used and developed by Abadie & Gardeazabal (2003), Abadie et al. (2015), and Abadie (2021). Mitterrand's election had a sharp, negative, and persistent impact on the French economy. By 1996, French GDP per capita (in 2017 $) was around $7,300 (20.5%) less than that of our synthetic counterfactual. During that same year investment measured by gross capital formation as a percentage of GDP was more than 6 percentage points lower compared to the synthetic counterfactual. The number of hours worked per capita per year declined by 81 hours. The employment rate fell by more than 2 percentage points. Government consumption increased by more than 4 points, as a percent of GDP, by the end of the 1990s. On the other hand, there is little evidence that Mitterrand's election caused an increase in average taxes and inflation.

This paper contributes to the growing literature using the synthetic control method to assess

[1] An exception would be the election of the Austrian Socialist Party in 1970 which led to the first purely left-wing government in Austrian history. However, contrary to France, the communist party in Austria had was almost non-existent politically. Overall, the reforms sought by the French socialists in 1981 were much more ambitious than those of the Austrian socialists in 1970.

the effect of political change on the economy. For instance, K. Grier & Maynard (2016) find that Venezuelan per capita income fell dramatically relative to their synthetic control following Hugo Chavez's election. Similarly, Absher et al. (2020) find that left-populists regimes in Latin America have a sensibly negative impact on economic activity, while Lawson et al. (2019) finds that pro-market reforms in Georgia following the 2003 Rose Revolution substantially improved economic development. Finally, using the synthetic control method, Geloso & Grier (2022) find a small positive and then negative effect of the Quebecois separatist's election on GDP.[2]

This paper also contributes to a large body of scholarship assessing the impact of different approaches to economic policy. For instance, Shleifer (2009) argues that free-market policies were key factors explaining economic growth between 1980 and 2005. Facchini & Melki (2013) try to determine the efficient government size in 20th-century France and finds that it is sensibly smaller than its prevailing size. Similarly, Facchini & Seghezza (2018) find that reducing government intervention would benefit France. Finally, K. B. Grier & Grier (2021) find that policies consistent with the Washington Consensus reliably raise average income by around 16% ten years after their implementation. The results in this paper are consistent with this literature and indicate that Mitterrand's interventionist policies sensibly impoverished France.

Finally, our results are consistent with more "micro" results on the effect of policies reducing incentives. For instance, Crépon & Kramarz (2002) find that the reduction of the workweek in 1982 by the socialists, corresponding to an increase in the hourly minimum wage, decreased employment by between 2% and 4%. Similarly, Prescott (2004) argued that Europeans work less than Americans because of high marginal tax rates in Europe. The socialist government did indeed increase marginal tax rates on labor and capital. Our results suggest that the election of the French Socialists caused a large fall in the labor supply.

Section 2 first describes Mitterrand's election and its political consequences. Section 3 then describes our data and the synthetic control method. Section 4 describes the results, and Section 5 concludes by suggesting that the industrial organization of rent-seeking in France is a likely

[2] For other applications of synthetic controls to politics, see: Peng & Callais (2022) on the implementations of political repression on the Uyghurs.

culprit for the persistent effects of Mitterrand's policies.

2 Mitterrand's election and democratic socialism

From the 1960s until after Mitterrand's election, the French socialist party had little to do with nowadays European social-democratic parties. The French socialist party in the 1980s did not promise incremental reforms to improve capitalism. In 1969, the socialist party issued a "declaration of principles" in which they declared seeking the "socialization of the means of investment, production, and exchange." The party openly admitted its revolutionary tendencies: "the socialist transformation cannot be [...] the sum of reforms correcting the effect of capitalism. It is not a question of adjusting the system, but to substitute to it another." (Socialiste, 1969).

The radicalism of the French socialist party was in direct opposition to the moderation of other left-wing parties elsewhere in Europe. The Socialist International, in its declarations of Frankfurt (1951) and Oslo (1961), had abandoned revolutionary ideals to adopt a pragmatist and reformist attitude instead. On the other hand, Mitterrand won control over the socialist party at the Épinay Congress (1971) by adopting a socialist hard line against moderates such as Gaston Deferre. "Revolution or reform?" Mitterrand asked during this Congress, "I want to say: Yes, revolution! [...] Those who do not consent to a rupture [...] with the capitalist society [...] cannot be a member of the socialist party."

While the 1969 Socialist "declaration of principles" included calls toward substituting the common good for individual profit as a guiding principle, the German social democratic chancellor Helmut Schmidt declared that "today's profits create the investments of tomorrow and the jobs of after-tomorrow."[3] Bruno Craxi, the Italian prime minister from 1983 to 1987, ran on a center-left strategy and formed an alliance with the Christian Democrats. Mitterrand, on the other hand, was elected in 1981 while promising a program of "rupture with capitalism."

Mitterrand knew he would need the communist vote to win a presidential election, as it usually scored around 20% in the 70s. In 1972, the socialist party drafted a joint government

[3]From a speech delivered on 3 November 1974.

program with the communist party. This *programme commun* proposed to increase the minimum wage and retirement pensions, reduce the work week to 39 hours, reduce the retirement age to 60 for men and 55 for women, make all health care services free, expand social housing, etc. This shared government program also planned for massive nationalizations and the "democratization" of the workplace.

Mitterrand and his followers considered themselves "democratic socialists." In 1970, Mitterrand argued that "Democratic socialism must be a great force if we really want to sway the communist party." (Le Monde, 1970). As Stiglitz (2019) recently argued, "American democratic socialists are probably slightly to the right of the center of European social democrats. Forty years ago, France's "socialists" under François Mitterrand disavowed classical socialism as they privatized many of France's government enterprises. But virtually every European politician now recognizes that access to medical care is a basic human right. This new breed of American democratic socialists — or call them what you will — is simply advocating a model that embraces government's important role in social protection and inclusion, environmental protection, and public investment in infrastructure, technology and education."[4]

While French socialists started a program of nationalization of industry and investment, they later reverted part of those policies. Yet the issue is not whether the Mitterrand administration, after 1983, engaged in privatizations. It is whether or not Mitterrand's election led to more or fewer privatizations compared to the counterfactual. Most developed countries in the 1980s privatized some industries. The same problem of comparing to the counterfactual applies to other policies enacted by the socialist party.

We can roughly divide Mitterrand's first presidency into three periods. The first, spanning between 1981 and 1983, was the time of radical reforms increasing government spending and government intervention in the economy. The second period, from 1983 to 1986, was one

[4]The parallels between the modern radical left and Mitterrand's policies are largely acknowledged. For Great Britain, Berry & Guinan (2019, p.79) argue that "the example of the Mitterrand government in France is perhaps the one that cuts closest to the bone for Corbynism, and is therefore worth considering in some detail. Unlike the Wilson and Callaghan governments, Mitterrand actually sought to implement his radical agenda. It is what happened next that should give the movement serious pause for thought." According to the authors, Mitterrand's failure was to reverse some of its program of rupture with capitalism.

of relative budgetary restraint compared to the ambitions of the more radical members of the socialist government. In addition, after 1984, the socialist government implemented some deregulation of the financial system without challenging its public-sector nature. However, the change of direction in policy after 1983 should not be exaggerated. Fulla (2018) shows that Pierre Mauroy, as prime minister between 1981 and 1984, never operated a U-turn by adopting free-market policies. For instance, a key provision adopted by the socialist government to tame inflation after 1982 was a four-month freeze on prices and salaries. Finally, the third period, between 1986 and 1988, corresponds to the Right winning the legislative election of 1986. The new right-wing government —Mitterrand was still the president but the Gaullist Jacques Chirac was prime minister— implemented a policy of privatization and of deregulation of prices and capital controls in line with policies enacted in most other western countries at the time.

In June 1981, after the legislative elections, the new socialist government started implementing their program by raising family allowances by 25%, increasing pensions by 20%, and increasing the minimum wage in real terms. Public employees' wages were increased. In addition, the government created 240,000 public sector jobs between 1981 and 1983 (Daniel, 2017). The progressivity of taxes increased, and a wealth tax for those owning more than 3 million Francs was enacted. Concerning the labor market, the statutory working week was reduced from 40 to 39 hours, and the retirement age was decreased to 60. "The package was an impressive one, yet within a few months it became clear that it had failed." (Maclean, 1998, p.55-56).

Soon after the 1981 election, an intense debate in the Mauroy government erupted between those arguing for the nationalization of large swaths of the French economy and the members of the government who preferred the State buying only 51% of big firms. Mitterrand, believing that limiting ownership stakes to 51% would make it seem that nationalizations are reversible, chose the harder line proposed by Mauroy, Fabius, Chevènement, and the communists against Jacques Delors and the more moderate members of the cabinet (Attali, 1993).[5]

[5]In particular Badinter, Dreyfus, Rocard, and Cheysson (Attali, 1993). Once nationalized, each minister tried to convince President Mitterrand to nominate their men at the head of those banks as mentioned by Attali (1993, p.178).

Nationalized corporations soon operated at a loss. Losses for nationalized firms in the industrial sector amounted to 4.5 billion francs in 1981 (Attali, 1993, p.263). Until 1986 France's financial system was almost completely nationalized. The conflict between the moderates (especially Jacques Delors) and prime minister Mauroy soon extended to the question of the public deficit. The Mauroy government had decided to adopt a Keynesian policy based on a mix of increased public spending and additional popular consumption stimulated by higher wages. Yet very quickly, the 1982 budget became compromised. Jacques Delors, meeting with Mitterrand, argued in July 1981 that "the 1982 budget is threatened. The public deficit will be greater than the 100 billion announced [...]. The stimulus plan in June was reasonable. This one isn't. Mauroy and Fabius couldn't say no to anyone." (Attali, 1993, p.82).[6]

The Keynesian budgetary policy soon turned to disaster. On September 30, 1982, Laurent Fabius, the minister of the budget, offered a 1982 budget with a 27% increase in public spending and a planned deficit equal to 95 billion francs. Markets reacted immediately and the new budget triggered a speculative attack on the Franc. Within a few hours, Fabius' budget proposal was abandoned (Attali, 1993, p.116). A few days later, on October 4, the Franc was devalued by 8.5%.[7] In exchange, Jacques Delors promised the ministers of finance from other European countries to reduce the public deficit from 95 to 70 billion by freezing some public investments (Attali, 1993, p.119). Yet Jacques Delors remained politically impotent in the cabinet. As the projected public deficit increased, so did capital flights. By January 1982, Jacques Delors was warning the President that the deficit would be 150 billion francs as opposed to the 95 projected for 1982. By February, Delors predicted the deficit might reach 220 billion and discussions to raise the income tax arose in the cabinet.

The constant threat of devaluation and the constraints on financing the public debt seem to have stunned the socialist government. Facing a strained budgetary situation, François Mit-

[6]Delors' complaint is consistent with Buchanan & Wagner's (1977) argument that Keynesian policies unleash externalities in "political markets" as it provides justifications for politicians to distribute rents to politically powerful interest groups.

[7]Simultaneously, the Lira and Belgian Franc were also devalued 3%. The Mark and Guilders were revalued by 5.5%.

terrand said, annoyed but somewhat candidly, to his ministers in April 1982: "It was very commendable that the government quickly kept my commitments. Still, it would have been appropriate to measure from the beginning where this would lead us, and to say so." (Attali, 1993, p.246)

The question quickly arose: should the Franc once again be devalued or should the socialist government adopt floating exchange rates? By March 1983, François Mitterrand decided to leave the European Monetary System (EMS) and adopt floating exchange rates. Yet his prime minister Mauroy refused to implement this policy, arguing that if France left the EMS, it "would become a gigantic Portugal" (Attali, 1993, p.246). Mitterrand backtracked, and France remained in the EMS. This constrained the socialist government's continued fiscal largesse. Yet reforms were not fully rolled back, especially in a context where many western countries were liberalizing.

The failure of Mitterrand's policies was obvious to all by 1983. In a 1983 *Newsweek* column, Milton Friedman (1983) suggested that "Mitterrand elected Thatcher" because the former's failed economic policy left the British Labour party intellectually bankrupt. Whatever the merits of Friedman's political analysis, the following analysis shows him right: Mitterrand's economic policies backfired.

3 Methodology and data

Our goal is to estimate the economic impact of Mitterrand's election. We especially focus on GDP per capita but also on investment, government consumption, hours worked per capita, the employment rate, taxes, and inflation. Since we can never rely on randomization to study the effect of some political change, we have to rely on quasi-experimental methods. Since the only country "treated" by Mitterrand's election is France, using synthetic control is the obvious choice.

Abadie & Gardeazabal (2003) first developed synthetic control to develop a credible counterfactual and study the causal impact of a single event —in their case, the effect of Basque terrorism. The synthetic control method relies on the idea that when the data consists of only a few entities such as countries, it is difficult to find any one non-treated unit which offers a credible comparison to the unit experiencing a "treatment." Thus a combination of unaffected units can offer a better comparison than any particular unit on its own (Abadie, 2021).

We first specify a group of potential donor units used to construct a synthetic counterfactual. The synthetic control is a weighted average of the donors' units. Abadie et al. (2015) argue that the effectiveness of the synthetic control method depends on choosing countries with similar features compared to the "treated" country to avoid interpolation biases and overfitting. For this reason, we restrict the donor pool to OECD countries.[8] Our choice does not eliminate the concern that our results may be sensitive to the alternative definitions of the donor pool. Appendix A shows that the results are robust to excluding any particular country from the donor pool.

We also specify a set of indicator variables that are important determinants of the outcome variable studied. The synthetic control created uses weights between 0 and 1 for donor countries which minimize the deviations of the control and treated unit in the pre-treatment period, and the deviations of the control and treated unit with respect to our chosen indicator variables (K. Grier & Maynard, 2016).

Table 1 shows how well synthetic France fit actual France before the treatment as well as our choice of indicator variables. The variable of interest in Table 1 is GDP per capita, but the same indicator variables are used when constructing synthetic controls for other variables of interest. Table 2 includes the full list of country weights used for each synthetic control generated.

Ashok et al. (2015) point out that estimation results using the synthetic control method can change considerably when the usage of outcome lags as predictors is restricted. For that reason, we restrict the number of outcome lags used as indicator variables to only 5 in Appendix C. Our results remain virtually identical.

[8]More precisely, the donor pool consists of the following 23 countries: Austria, Belgium, Canada, Denmark, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States, Japan, Finland, Australia, New Zealand.

Table 1: Predictor Balance and Synthetic Fit for Real GDP per capita

Variable	Synthetic France	France	Donor pool Average
Human capital	2.61	2.95	2.77
Gross capital formation	.267	.286	.285
Hours worked per worker	1784	1869	1829
Trade openness	.204	.252	.313
Government expenditures	.169	.150	.153
Real GDP per capita 1960	11327	11219	11729
Real GDP per capita 1965	14117	14194	14283
Real GDP per capita 1970	17765	17885	17325
Real GDP per capita 1971	18685	18667	17905
Real GDP per capita 1972	19589	19539	18719
Real GDP per capita 1973	20893	20898	19889
Real GDP per capita 1974	21214	21214	19962
Real GDP per capita 1975	21160	21083	19484
Real GDP per capita 1976	22093	22134	20239
Real GDP per capita 1977	22822	22927	20679
Real GDP per capita 1978	23964	23859	21416
Real GDP per capita 1979	24842	24736	22092
Real GDP per capita 1980	24952	25160	22473

A key requirement for the synthetic control method to yield correct inferences is the absence of anticipation (Abadie, 2021). If the treatment is anticipated, then forward-looking agents will adapt before the intervention studied is officially adopted, thus biasing the results. There are good historical reasons to think that Mitterrand's election was largely unexpected. First, the Right seemed to have been stunned by their defeat. Second, many members of the Socialist Party with presidential aspirations (such as Jacques Delors) did not wish to be the nominee in 1981 because they expected the incumbent president Valérie Giscard-d'Estaing to be easily reelected.

Another solution to the problem of anticipation is to backdate the treatment. We do so in Appendix B by choosing 1975 as the treatment date instead of 1981.[9] Our results remain essentially the same. The absence of estimated effects prior to 1981 when backdating provides credibility to our synthetic control estimators as it reproduces the trajectory of the outcome variable before Mitterrand's election.

[9] 1975 corresponds to the Chirac-Barre stimulus package.

Table 2: Country weights.

Donor	GDP per capita	Gross capital Formation	Inflation	Taxes	Working Hours per capita	Employment rate	Government consumption
Australia	0	0	0	0	0	0	0
Austria	0	0.118	.046	.713	0	0	0
Belgium	0	0	.546	0	0	0	0
Canada	.292	0	.02	0	0	0	.112
Denmark	0	0	0	0	.127	.165	0
Finland	0	0	0	0	0	0	0
Germany	0	.122	.006	0	.171	.04	.199
Greece	0	.044	0	0	0	0	0
Iceland	.059	0	-	-	-	0	.105
Ireland	0	0	0	0	0	0	0
Italy	.128	.166	0	.051	.433	.555	.123
Japan	.295	.079	0	0	0	.029	.03
Luxembourg	.016	.046	0	.044	-	0	0
Netherlands	.134	.164	.005	0	-	.044	0
New Zealand	0	0	0	0	-	.059	0
Norway	0	0	0	0	0	0	.053
Portugal	.003	.123	.076	0	0	0	0
Spain	0	0	0	0	.072	.077	0
Sweden	0	.063	0	.116	.197	0	0
Switzerland	0	.045	0	0	0	0	0
Turkey	0	.031	.05	0	-	.006	.121
United Kingdom	0	0	0	.077	0	0	.258
United States	.074	0	.251	0	0	.024	0

The data used in the rest of the paper mostly comes from the "Penn World Table version 10.0" (Feenstra et al., 2015). Real GDP per capita is measured by the "Expenditure-side real GDP at chained PPPs (in mil. 2017US$)" from the Penn World Table. This variable is ideal to compare relative living standards across countries and over time (Feenstra et al., 2015). We also measure the employment rate using the Penn World Table's data on number of workers and population. The Penn World Table also gives data on government expenditures (in % of GDP) and on the indicator variables used such as human capital, hours worked per worker, and Trade openness.[10] On the other hand, the measure of inflation used comes from the World Bank while data on tax rates was collected and published by the OECD.

[10]Trade openness is equal to $(I + E)/2$. Where E and I are respectively exports and imports in % of GDP.

4 The persistent effects of French democratic socialism

We now turn to studying the impact of Mitterrand's policies on the French economy. We start by looking at the effect of his election on GDP per capita. We then look in more detail what the impact of his election had on investment, employment, the size of the government, and both inflation and tax rates. Our results suggest that the election of the socialist government in 1981 had a large and adverse effect on the French economy.

4.1 GDP

The second column in Table 2 shows the weights used to estimate our synthetic control. Canada and Japan together comprise almost 60% of our synthetic France. The pre-treatment Root Mean Squared Prediction Error (RMSPE) for synthetic France is $124. This is considerably less than the RMSPE of the unweighted average of all the countries in our donor pool, which is $1307.

Following the 1981 presidential election, GDP per capita started dropping sharply compared to our synthetic counterfactual as shown in Figure 1. Our synthetic counterfactual (represented by the light grey line in the left panel in Figure 1) consistently outperforms actual France (represented by the darker line).

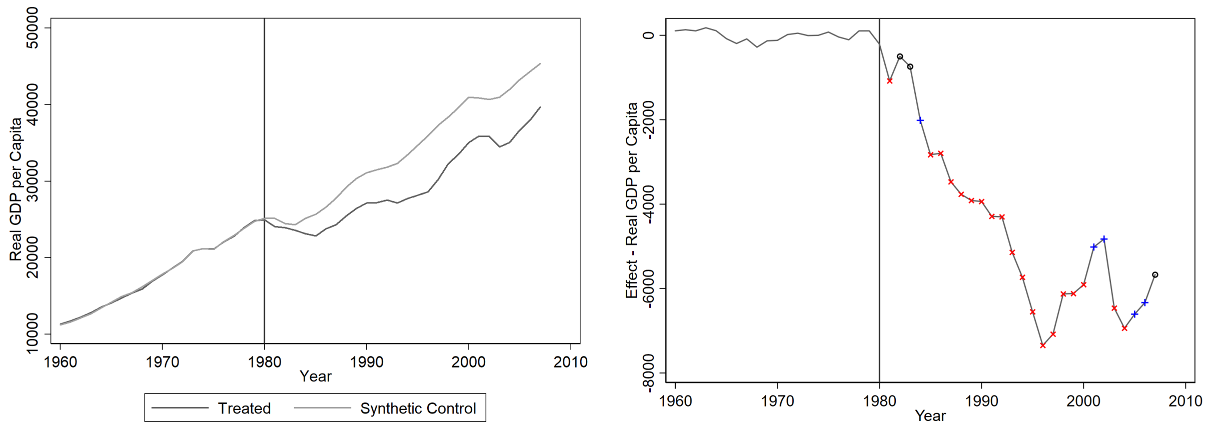
We also calculate p-values for each post-treatment date by running a permutation test. The p-values represent the percentage of placebos with a greater effect than the estimated effect for the treated unit and are standardized by the corresponding pre-treatment match quality.[11] We report the p-values in Figure 1 and all subsequent figures by using black circles when $p > 0.1$, blue crosses when $0.1 > p > 0.05$, and red Xs when $p < 0.05$.

The gap between actual and synthetic France continued to widen until 1996. At that date, GDP per capita was $7347 (in 2017 constant $) higher for synthetic France as opposed to actual France. In other words, France's GDP per capita would have been almost 26% greater without the election of François Mitterrand. Not only did the socialist government's Keynesian impulse fail to stimulate the economy in the short run, but in the long run the policies they enacted

[11]In other words, all effects for the treated unit and the placebos are divided by the pre-treatment RMSPE.

Figure 1: Mitterrand's election and GDP per capita.

Note: In the left panel, "o" dots represent dates where the p-value is greater than 10%; "+" dots represent dates where the p-value is between 5 and 10%; "x" dots represent dates where the p-value is less than 5%.



reduced incentives and led to lower living standards.

President François Mitterrand felt very differently about the effects of his structural policies on economic growth. When Jacques Delors warned him of speculative attacks against the Franc in June 1981, Mitterrand argued that "It's ok. The crisis has been going on for too long, it is not eternal, it will not last seven years and I must make all the structural reforms as soon as possible. The wave of growth will get rid [of these problems]. Not to mention that France is a rich country." (Attali, 1993, p.38). Instead, France embarked on almost two decades of disappointing growth.

The results of the synthetic control method can be sensitive to the choice of units in the donor pool (Abadie, 2021). Hence, in addition to backdating the treatment (Appendix B), we operate a leave-one-out confirmation routine in Appendix A for each synthetic control generated, including for GDP per capita. In each case, our results are robust to dropping one unit out of the donor pool at a time. All our leave-one-out estimates closely track French GDP per capita before 1981, while they closely track our estimate using the entire donor pool after the treatment. Hence our results are robust to the exclusion of any particular country from the donor pool.

4.2 The effect of Mitterrand's policies on employment

The socialist government's most ambitious undertaking was reforming the labor market, especially through the employment legislation called the Auroux laws. Its goal was to create a workers' social democracy by involving citizens in the workplace. In addition, the socialist government largely increased welfare spending, increased the minimum wage, allowed workers to retire at 60 with a full pension, imposed a fifth week of paid leave, and reduced the mandatory workweek from 40 to 39 hours. To fight unemployment, the socialist government put its faith in a mix of work-sharing arrangements and Keynesian policymaking. In March 1981, Mitterrand wrote in a letter to a trade union leader:

> Everything must be done to fight this scourge [unemployment] on a European scale in a sustainable way, in a social environment calmed down by the reduction in working hours [and] consultation with the unions [...]. I intend to rely on the European framework to implement a selective stimulus of popular consumption and support industrial sectors with the best prospects in terms of innovation and job creation. (Attali, 1993, p.59).

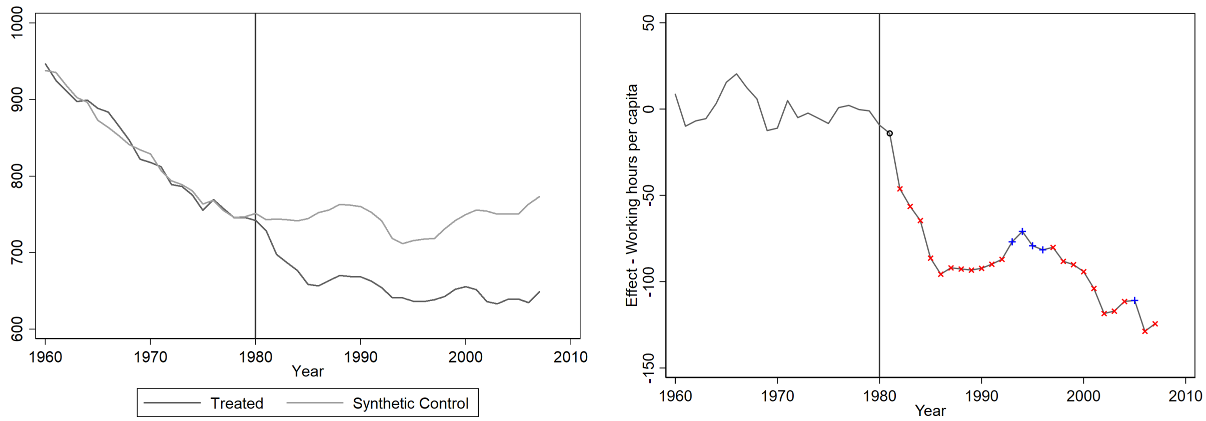
There is a large literature on the differences in the labor supply between Europe and the United States pointing to the effect of taxes, and especially payroll taxes (Prescott, 2004). Related to Prescott's argument, Ljungqvist & Sargent (1998, 2008) argue that differences in employment between the U.S. and Europe can be accounted for by more generous unemployment benefits, higher firing costs, and taxes. In a more turbulent economy with major structural changes, European policies lead to sharper increases in unemployment. Other works put less weight on taxes and more on labor market regulations.[12] For instance, Nickell (1997) explains labor market policies such as generous unemployment benefits, defective education systems, and high unionization with little coordination also account for Europe's high unemployment rate following the oil shock. Similarly, Alesina et al. (2005) argue that marginal tax rates play a lesser role than unionization and labor market regulations in explaining differences in the labor supply.

While we do not seek to adjudicate between different theories of the fall in the number of

[12] Gorry (2013) finds that the large youth employment rate in France relative to the US can be explained by minimum wages.

Figure 2: Mitterrand's election and hours worked per capita.

Note: In the left panel, "o" dots represent dates where the p-value is greater than 10%; "+" dots represent dates where the p-value is between 5 and 10%; "x" dots represent dates where the p-value is less than 5%.



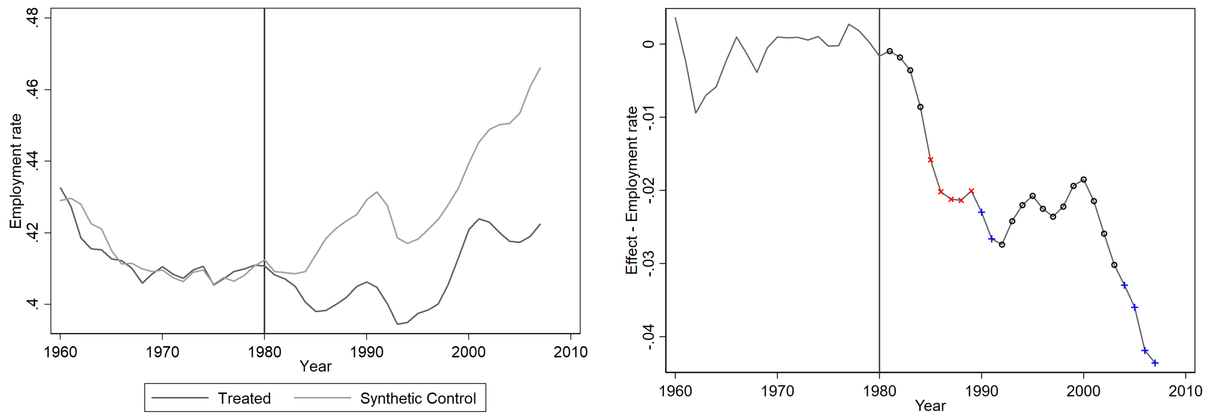
working hours and employment, our results are consistent with the view that labor regulations aimed at "sharing" labor among more workers failed. Without changes in employment, the reduction of the workweek from 40 to 39 hours would account for a 2.5% decline in the number of hours worked. The fifth week of paid leave would account for an almost 2% decline. For comparison, the number of hours worked per capita was 11.4% less than the synthetic in 1996 (Figure 2). This indicates that far from "sharing" work, the policies implemented in the aftermath of the 1981 election did the opposite. This is further corroborated by our results using the employment rate in Figure 3. Compared to our synthetic counterfactual, the French employment rate under-performed and was more than 2 percentage points lower by 1990.

Our results on the labor supply are also consistent with our results on GDP per capita. A lower labor supply mechanically entails less production. The importance of labor markets for economic growth is not unique to 1981 France. For instance, Mulligan (2012) points to the distortions in labor markets, and particularly extended unemployment as well as higher taxes on labor, as likely culprits for the disappointing performance of the American economy after the 2007 financial crisis.

Since leisure is usually valued, however, it is always possible that the French benefited from

Figure 3: Mitterrand's election and the employment rate.

Note: In the left panel, "o" dots represent dates where the p-value is greater than 10%; "+" dots represent dates where the p-value is between 5 and 10%; "x" dots represent dates where the p-value is less than 5%.



the reduction in working hours even though it led to a reduction in GDP per capita.[13] However, notice that our results in Figure 1 and 2 imply that by 1996, the average cost of each hour gained in leisure thanks to Mitterrand's policies was equal to $90 (in 2017 constant $).[14] On the other hand, French GDP per hour worked in 1996 was equal to $44.93. This means that for Mitterrand's policies to have benefited the French population by increasing leisure,[15] the marginal disutility of labor would have had to be twice as much as GDP per hour worked, and more than twice as much as labor income per hour worked.

4.3 The effect of Mitterrand's policies on investment

Maybe an increase in labor costs could have spurred additional capital accumulation as firms substitute the latter for the former. Our results suggest otherwise, and the policies implemented after 1981 also seem to have depressed investment. Maybe private investors became scared of expropriation and progressive tax rates. In 1978, the socialists declared that they would introduce a progressive wealth tax ranging from 0.5% to 2% for those owning more than 10

[13]For this to be true, the consumption of leisure would need to generate a positive externality —for instance because it makes leisure more valuable to others (Alesina et al., 2005; Glaeser et al., 2003).

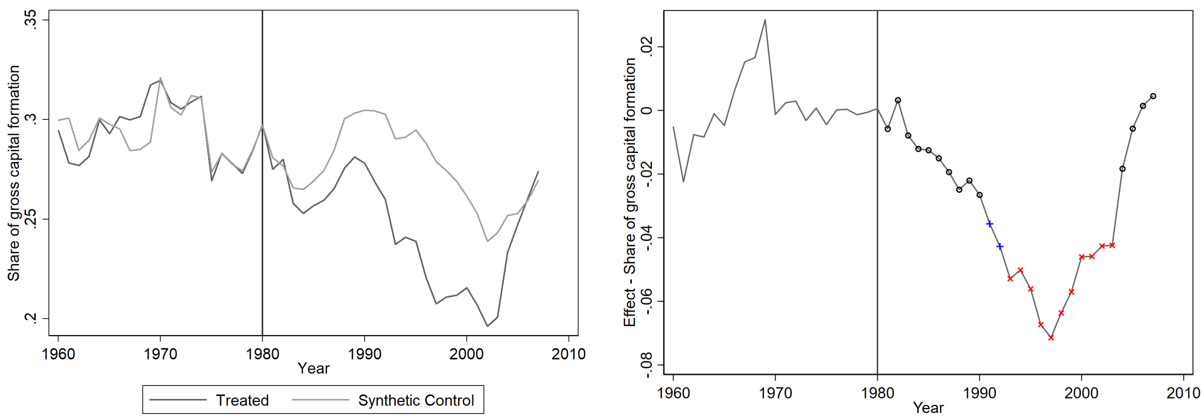
[14]In 1996, GDP per capita and hours worked per capita were respectively $7346 and 81.5 hours lower than for synthetic France.

[15]Mitterrand's government included a "ministry of free time."

million francs, and a special marginal tax rate of 8% on wealth for those owning more than 50 million francs. While this latter rate of 8% was never applied, a wealth tax was indeed enacted.

Figure 4: Mitterrand's election and Investment.

Note: In the left panel, "o" dots represent dates where the p-value is greater than 10%; "+" dots represent dates where the p-value is between 5 and 10%; "x" dots represent dates where the p-value is less than 5%.



The socialist government wished to boost growth through large-scale public investments.[16] Yet starting in 1981, the French government promised to freeze some public investments in exchange for the Franc's depreciation.[17] Overall, the government's policies regarding investment failed. Figure 4 shows that gross capital formation as a share of GDP sharply decreased compared to the synthetic counterfactual until the early 2000s.

4.4 The effect of Mitterrand's policies on the size of government

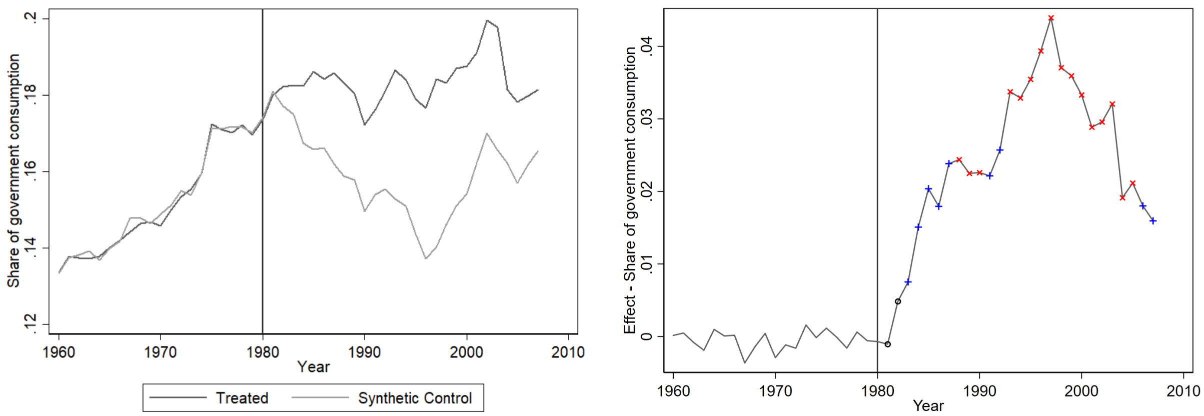
While Mitterrand's policies seem to have depressed investment and employment, they also seem to have boosted the size of the public sector. Figure 5 shows the evolution of the share of government expenditures in GDP relative to the synthetic counterfactual. While before 1981, actual France and its synthetic track each other very closely, they substantially diverge following 1981. By the end of the 1990s, government consumption was 2 percentage points higher than it would have been had Mitterrand not been elected.

[16] See: Attali (1993, p.47,73).

[17] Attali (1993, p.119).

Figure 5: Mitterrand's election and government consumption.

Note: In the left panel, "o" dots represent dates where the p-value is greater than 10%; "+" dots represent dates where the p-value is between 5 and 10%; "x" dots represent dates where the p-value is less than 5%.



The results in Figure 5 are consistent with the evidence regarding the policies enacted by the socialist government, especially as it hired hundreds of thousands of new government employees and raised their wages. While our results do not prove that the rise in government consumption caused a fall in output, it is consistent with the idea that the permanent increase in government consumption failed to promote economic growth.

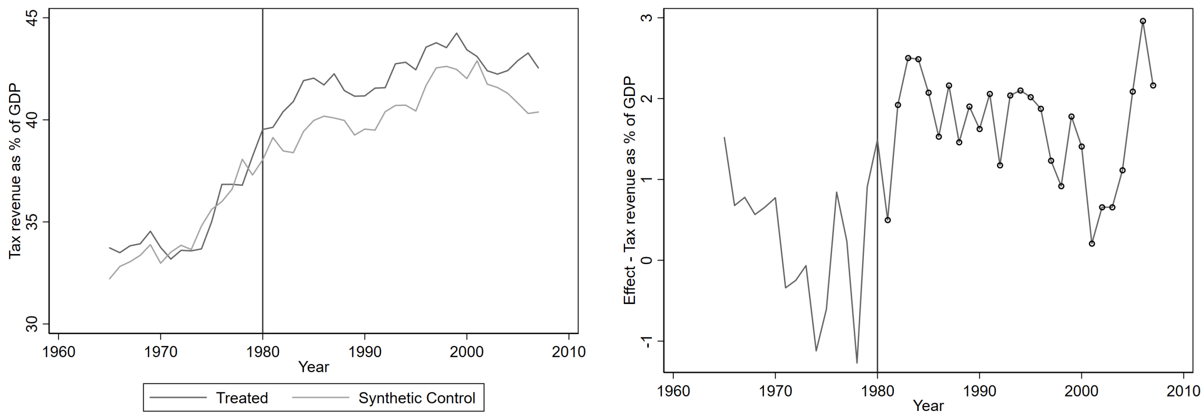
4.5 The effect of Mitterrand's policies on tax rates and inflation

As explained in the previous subsection, government consumption increased following Mitterrand's election. Yet creating a synthetic control with respect to tax rates, we fail to find that Mitterrand's election significantly increased the average tax rate (in % of GDP). Figure 6 suggests that average taxes were higher compared to the synthetic control following 1980, yet our standardized p-values never fall below the 10% threshold in the post-treatment period.

Higher taxes were not the distinguishable feature of France's poor economic performance during the 1980s. Yet the results in Figure 6 are insufficient to deduce that changes in tax policy during that period had no impact on output and productivity. Since the marginal deadweight cost of taxes is usually increasing in the tax rate, the average tax rate does not provide sufficient information to evaluate its economic cost (Wenli & Sarte, 2004). In other words, lower marginal

Figure 6: Mitterrand's election and taxes.

Note: In the left panel, "o" dots represent dates where the p-value is greater than 10%; "+" dots represent dates where the p-value is between 5 and 10%; "x" dots represent dates where the p-value is less than 5%.



tax rates entail fewer tax distortions.

In 1978, the revamped Common Program between the Socialists and the Communists emphasized their intent to increase the progressivity of taxes (socialiste, 1978). The top marginal income tax increased from 60% in 1979 to 70% in 1982 at a time when most other countries were in the process of cutting theirs. For instance, the top marginal income tax rate in the United States during this period fell from 70% to 50% (Piketty, 2014). In addition, a wealth tax was introduced by the socialist government. The increase in tax progressivity after 1980 possibly led to lower economic growth even if Mitterrand's election did not increase average tax rates.[18]

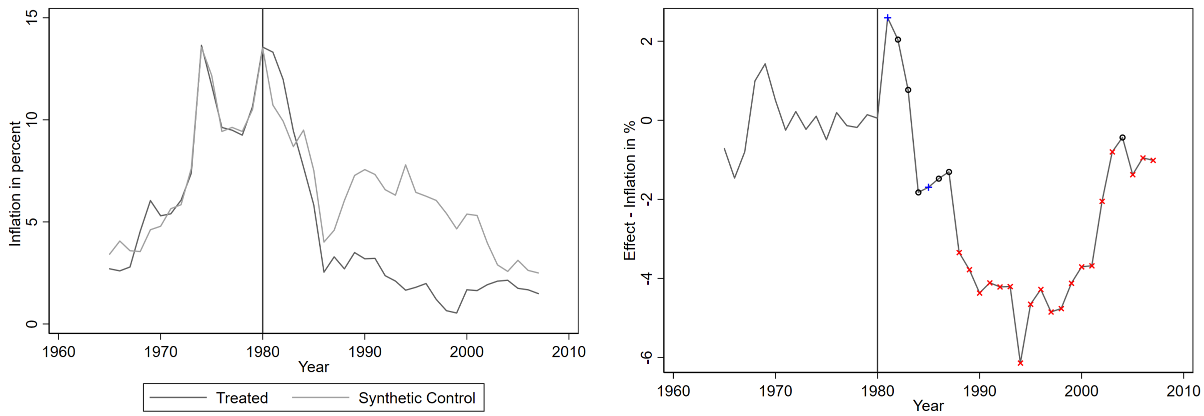
While we fail to show that Mitterrand's election had a causal effect on tax rates, we find that his election led to more inflation initially but to a lower inflation rate after 1983 (Figure 7). In 1981, the inflation rate was more than two percentage points higher than for synthetic France. The p-value for that year is lower than 10%. However, after 1983, the inflation becomes lower for actual France compared to synthetic France. This is consistent with the policy turn occurring in 1983 with the government's refusal to leave the European Monetary System.

One argument rationalizing France's poor economic performance in the 80s was France's

[18]Wenli & Sarte (2004) find that a decrease in the progressivity of the US tax system would increase long-run growth by between 0.12 and 0.34 percentage points.

Figure 7: Mitterrand's election and inflation.

Note: In the left panel, "o" dots represent dates where the p-value is greater than 10%; "+" dots represent dates where the p-value is between 5 and 10%; "x" dots represent dates where the p-value is less than 5%.



adherence to the European Monetary System (EMS) which some argue prevented the devaluation of the Franc at a sustainable level. There are three main reasons why this argument is unconvincing. First, the argument that flexible exchange rates would have been better for the French economy given Mitterrand's policies implies that higher rates of inflation would not have been even more damaging for the French economy. France's inflation in 1981 was above 12%. Higher inflation could have caused substantial economic damage. Second, France's commitment to be part of the EMS implied the commitment not to have an excessive recourse to inflation. Outside the EMS, France's creditors would have required higher interest rates to finance deficit spending. Third, France's contemplation of leaving the EMS was in part a threat to make Germany accept a reevaluation of the Mark (Attali, 1993, p.488,495). On March 21, 1983, Germany agreed to a 8% devaluation of the Franc relative to the Mark in exchange for France staying in the EMS. The EMS was not completely inflexible and Mitterrand's government could gain from the credibility purchased by being a member of the EMS while pressuring France's "partners" to obtain recurring devaluations.

5 Conclusion

The evidence presented in this paper suggests that Mitterrand's brand of democratic socialism had a negative causal effect on the French economy. Not only was this effect pronounced, it was also persistent.

The persistence of economically harmful policies may not, after all, be so surprising. Once distributional rents are given away, transitional gains traps tend to form (Tullock, 1975). The beneficiaries of harmful policies will not earn more than the normal rate of return from their rents once the value of the latter is fully capitalized. Yet those beneficiaries will still have an interest to protect their rents to avoid capital losses.

What is unique about France is the extent to which Mitterrand's policies "stuck" because they were enacted in an institutional environment giving a large incumbent advantage to rent-seekers. As long as the political system does not generate large rent-seeking costs, competition between interest groups will have the tendency to weed out the most inefficient policies (Becker, 1985; Albrecht et al., 2022). On the other hand, the semi-presidential system established with the fifth republic in 1958, combined with the French tradition of government centralization created barriers to entry for interest groups in political markets. These institutional changes had some benefits as they, in theory, reduce rent-seeking. It also had costs as it hampered the tendency of competition among interest groups to weed out socially harmful policies.

Politics under the Third Republic (1871-1940) and the Fourth Republic (1946-1958) was parliamentary and left ample room for private interest groups. The necessity to form a minimum winning coalition in the parliament and the limitations on the powers of the executive incentivized political trades. Because majorities were unstable, interest groups in the parliament needed to manage potential political allies when seeking political rents at the expense of other groups.[19]

Interest groups faced completely different constraints in the Fifth Republic. Under the new

[19] See Buchanan & Yoon (2004) for a theory of how unstable majorities can mitigate the use of extractive policies in parliamentary regimes.

institutions, the executive became prevalent while the parliament and political parties were weakened.[20] For instance, Article 49-3 of the Constitution enables the government to pass bills directly unless the parliament passes a resolution of no-confidence. When a party has the absolute majority in the National Assembly, the government can use article 49-3 to cut short any political debate in the Assembly and speed up the enactment of its preferred reforms. As a result, significant political debates and compromises rarely occur in the National Assembly. Even when article 49-3 is not used, it acts as a latent threat on reluctant parliamentarians. Contrary to the Third and Fourth Republic, interest group politics is much less visible as it is internal to the government administration. While before the Fifth Republic, political parties and politicians were often affiliated with special interests, the incentive to lobby the parliament was greatly reduced under the Fifth Republic.

In addition to having a weak parliament, the Fifth Republic left little room for an effective committee system within the National Assembly.[21] Weingast & Marshall (1988) argue that in the US, within the Congressional committee system, committee seats are assigned to those most interested in the issues at hand. By establishing property rights, the American committee system enables politicians from different committees to trade off policies between themselves. In addition, the committee system tends to minimize political externalities (Wittman, 1989). If, for instance, banking policies have large spillover effects on small businesses, we should expect representatives on small business interests to sit on the Finance and Banking Committee. In a system with higher political transaction costs, the initial distribution of political power will have a greater influence on the final allocation of political power, and harmful public policies are more likely to persist.

The institutions of the Fifth Republic thus give a large advantage to interest groups formed within the government administrations and especially among the different ministries. This is reflected in the fact that most of France's public policy expertise emanates from the *haute*

[20] For a comparison of interest group politics between the Fourth and the Fifth Republic, see Wilson (1987).

[21] Article 43 of the 1958 Constitution limited to 6 the number of standing committees. This number was increased to 8 in 2008. For comparison, in 2022, there are 20 standing committees in the House of Representatives and 16 in the Senate.

administration instead of being generated in a largely decentralized manner through a network of think-tanks as in the United States. In other words, interest group politics is, to a much larger extent than in the United States or the United Kingdom, nationalized. The powerful interest groups in France are either different branches of the government administration or groups relying heavily on the government sector. As Baumgartner (1996, p.1) puts it, "French groups, dependent on a more powerful central state bureaucracy, are often able to achieve their goals by having them adopted by state elites. American organizations, faced with a more diffuse public sector, seek broader access and use a greater diversity of means of influence. They are often less influential, but paradoxically are stronger organizationally because they are forced to be independent from the state."

As Bertrand et al. (2007) show, more than half of the assets traded on the French stock markets are managed by CEOs who were formerly in government. Leaders in both the political and private sectors usually have a similar education background dominated by a set of elite schools, among which the "Ecole Nationale d'Administration," or ENA —a school created to supply the public sector with highly trained civil servants. In the same way that the private sector is highly embedded with the public sector, public policy expertise in France is mostly produced by elite public servants ("haute fonction publique").

Mitterrand's policies stuck to a large extent precisely because they did not challenge, and sometimes served, the interests of powerful groups within the French public sector. In a context where interest groups within the public sector have a large incumbent advantage and competition among interest groups is limited, policies harmful to the private sector have a higher likelihood of being maintained. Democratic socialist policies indeed had deleterious consequences on the French economy. The persistence of those consequences, on the other hand, points to some underlying institutional problems.

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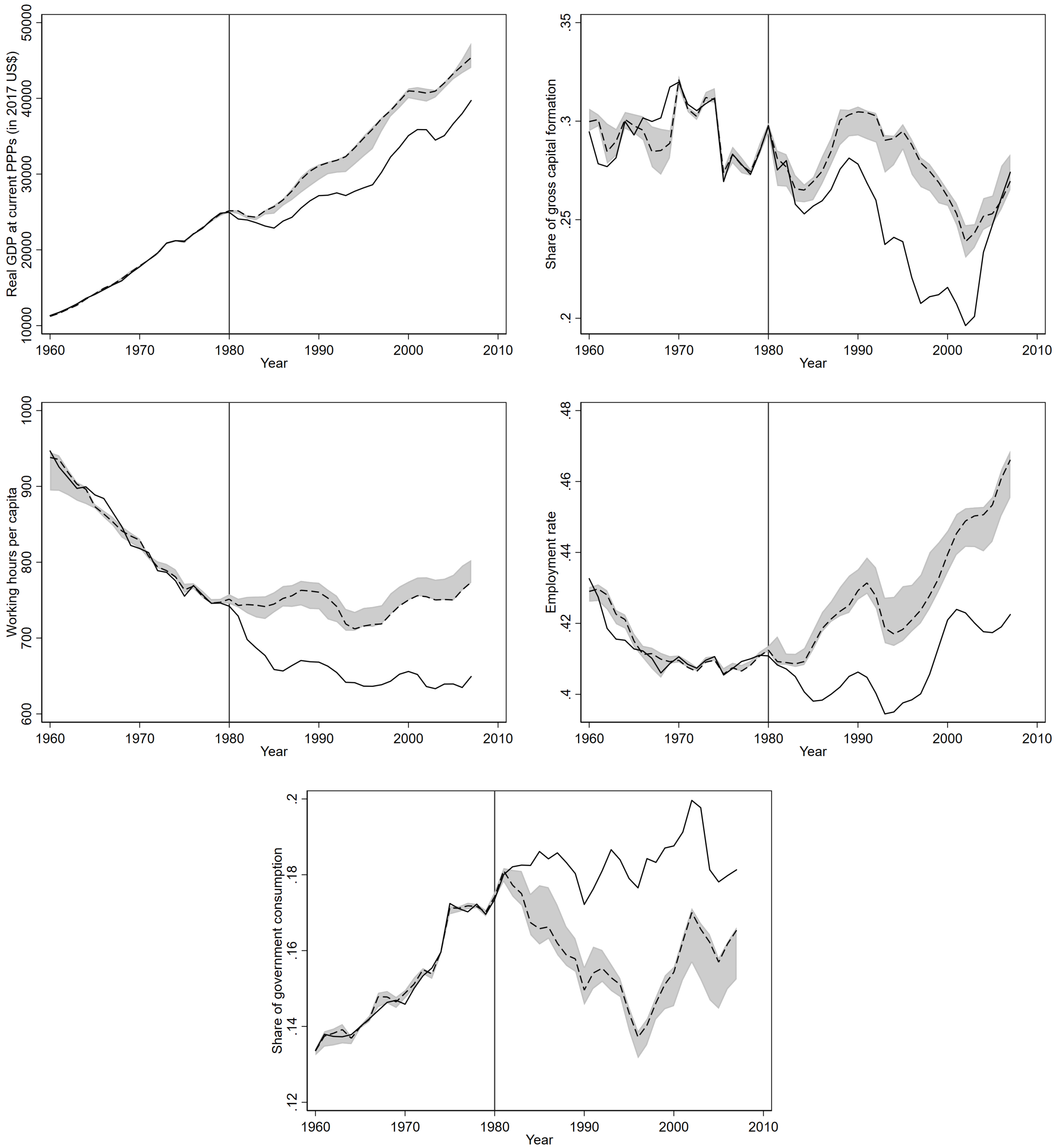
A Leave-one-out

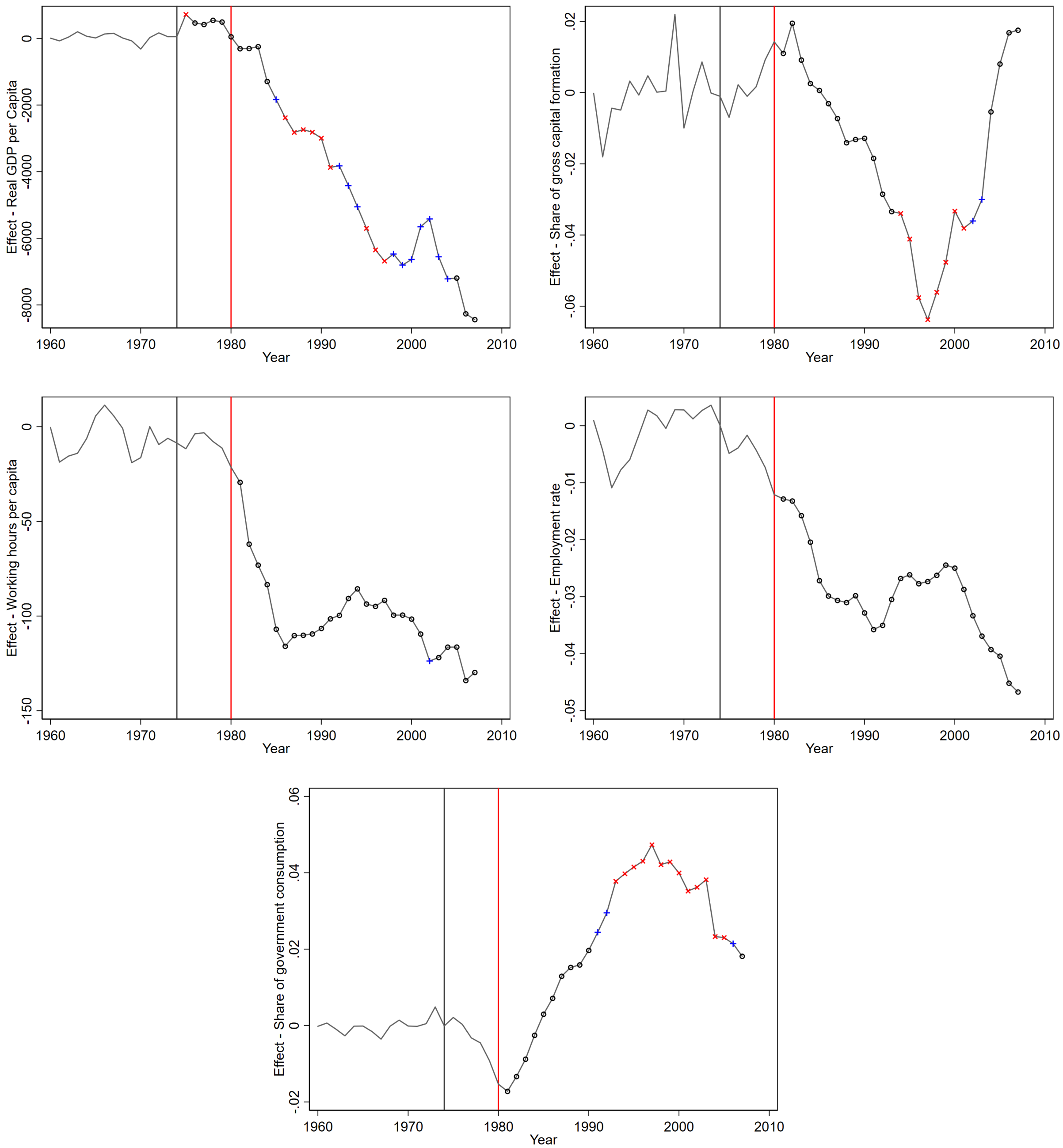
Figure 8: Leave-one-out routine



B Backdating

Figure 9: Backdating

Note: The figures below reproduce the main synthetic controls in the main body of the paper with a different treatment date. The year 1975 is chosen for backdating and corresponds to the Barre-Chirac stimulus package. The vertical black line corresponds to 1974. The red line corresponds to 1980 —the year before Mitterrand was elected.



C Changing the indicator variables

Figure 10: Results with different indicator variables

Note: The graphs below represent the results with different indicator variables for the pre-treatment fit. The indicator variables used for each dependant variable x are: $x(1960)$, $x(1970)$, $x(1975)$, $x(1979)$, $x(1980)$, Human capital, Gross capital formation, Hours worked per worker, Trade openness, and Government expenditures. For inflation and taxes, year 1965 is used instead of 1960.