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Public Spending and Austerity: The Two Faces of the French

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Abstract:

This article delves into the paradoxical nature of post-2008 fiscal policies, where there is a simultaneous emphasis on valuing public investment on the one hand, and maintaining austerity on the other. It sheds light on the paradox through the concept of “Investor State”, which refers to contemporary states’ goal to redefine their role in the economy by no longer limiting themselves to a regulatory role but rather seeking an active role as “investor”. We argue that this redefinition of the state's role is of piece with the elevation of investment as a new standard for legitimizing state actions. On the flipside, this shift towards investment as the primary criterion for policy legitimacy simultaneously delegitimizes spending that is not deemed an investment. Because the adopted economic definition of investment is limited to traditional “productive investment” related to industrial policy, other policy sectors – that is the majority of state intervention – are subject to spending cuts. Thus the Investor State suggests an evolution of the fiscal order that Streeck described as the “consolidation state”: the primary goal is no longer to reduce public debt and deficits. But the neoliberal objective to reduce the “size” of the public sector in the economy absolutely remains. Drawing on the case of France, the article shows how the French right-wing government started placing investment at the core of its fiscal policy in 2008, in the aftermath of the financial and economic crisis. It did so from the outset by opposing it to so-called “current” spending mainly related to the welfare state and civil servants’ wages, which were vilified. The article then highlights the continuation of this dual fiscal policy discourse to date despite changes in government leadership and the emergence of the pandemic crisis.

Key-words: fiscal policy, public spending, austerity, public investment, French economic policy, consolidation state, Investor State

Introduction

As noted by many researchers, the post-2008 period was characterized, especially in Europe, by a return to austerity policies. Across all countries, these involved, to varying degrees, freezes or cuts in public sector wages, pension reform, and strict limitations on healthcare spending (Blyth, 2013; Schäfer and Streeck, 2013; Kickert and Randma-Liiv, 2015). But the 2010s were also characterized by a gradual reevaluation of “public investment” spending, apparent both in the evolution of mainstream economic doctrine (Ban, 2015) and in policy programs. At the EU level, the Investment Plan for Europe adopted by the Commission in 2015 and the "European Green Deal" in 2019 reflected this logic. Member states followed a similar path. For example, France responded to the 2008 crisis by establishing the Investment Programs for the Future and a new public development bank. Even Germany launched a public investment program at the end of the decade.

These two types of measures – austerity and public investment – partly followed a chronological order over the 2010 decade: in most cases, the investment programs came after and in response to austerity measures, which were increasingly criticized as an economic mistake responsible for weak European growth (Eggertsson *et al.*, 2016). However, the latter did not always perfectly follow and replace the former: as mentioned, France adopted investment programs as early as 2009, but these programs did not sweep away austerity. Until the end of the decade, European governments had not reversed the structural austerity measures (Steinebak *et al.*, 2018), especially in the welfare sector (De la Porte and Heins, 2016; King and Le Galès, 2017). There was also no adjustment in hiring and wages for civil servants, who were, along with the poor, the most affected by the fiscal restrictions (Streeck and Mertens, 2013). Fiscal pressure eased in some European countries, but fiscal policy mainly consisted of tax reductions (OFCE, 2019: 149). As we will see, even the Covid crisis did not transcend this tension.

How to understand the promotion of public investment and spending on the one hand, and the maintenance of austerity on the other – what I call a dual discourse about fiscal policy? This paradox does not feature in research highlighting greater state economic interventionism (Alami and Dixon, 2020) or the revival of industrial policy (Wade, 2012; Bulfone, 2022) since 2008. But it is crucial to understanding the shape of the state that is emerging.

The purpose of this article is to explore this paradox and explain it using the concept of “Investor State”. This concept refers to the contemporary state’s quest to redefine its role in the economy beyond a limited regulatory role (Majone, 1997) in order to play an active role as “investor”. Drawing on the logic and the activity of private investors, “as investor” means “with the purpose to produce future measurable economic gains” (Chiapello, 2017). We argue that this redefinition of the state’s role is of a piece with the elevation of investment as a new means to legitimize state action in general: anything labeled as an investment is considered to be good and wise public spending, and even worth borrowing for. On the flipside, anything not deemed an investment is delegitimized as it is considered to be “current” spending. Of course, the range of policy areas likely to be delegitimized varies depending on the definition of investment. In the 2010s the definition used for investment policy programs was narrow: it covered “productive investments” traditionally associated with industrial policy, including mainly support for innovation and new technology industries, energy production, and research conducive to innovation. Other policy sectors, such as social, health, primary education, defense, and justice, were not considered as investment and fell into the discredited “current spending” category to be minimized. Furthermore, even for “productive investments”, the Investor state follows “*faire faire*” logic (Schmidt, 2009) that consists of funding private actors

that will carry them out. The goal is to avoid increasing the state administrative staff, especially those with civil-servants contracts, which fall in the category of ineffective current spending.

The distinction in fiscal policy between “investment” and “current” (or consumption) spending was not new in the 2010s. It initially referred to old accounting categories. In the 1990s and 2000s it was at the heart of a debate about the merits of the fiscal “Golden Rule”. Economists were important players in this debate, which already displayed confusion about the definition of investment – accounting or economic – that was used. The new element in the Investor state logic that developed in the 2010s was the integration of this opposition into general economic policy discourse: the promotion of investment was no longer only a matter of good fiscal management; it was associated with a new state role in the economy – more interventionist in industrial policy in order to stimulate economic growth, while maintaining austerity and seeking to reduce the state’s size in other policy areas.

In contrast to the “consolidation state” (Streeck, 2015), it is striking that public debt reduction is no longer the undisputable top priority in the Investor state regime. In his paper, Streeck mentions that financial creditors make two demands of state debtors that are very hard to achieve at the same time: to reduce deficits and debt while attaining a sufficiently high growth rate. In a way, the Investor state can be seen as a means to achieve both goals. The public investments, which must stimulate economic growth, are also an argument to justify cuts in “current” spending, in order to create more fiscal space for investment. But even the public investments are developed in a way that does not require more administrative capacity. The goal of reducing the size of the public sector while symmetrically expanding the market – typical of the consolidation state and of neoliberalism in general – remains a top priority. The Investor State can thus be considered a new adaptation of neoliberalism, demonstrating its resilience (Schmidt and Thatcher, 2013).

This article develops the argument through the case of France. The case is explored using a political and administrative elite-based approach and a qualitative survey (30 interviews with top civil servants in government cabinets and administration, analysis of political speeches and administrative reports). The French case is interesting because the promotion of an investment policy emerged in 2008, clearly earlier than the calls from ECB, the European Commission and other international organizations (IMF, OECD) to make more public investments. In the following years, French governments pushed for the dissemination of this logic and the implied reevaluation of fiscal policy at the European level. An assessment of France’s actual role in the changing position of the ECB and Commission in favor of investment in the mid-2010s is outside the scope of this article and would require EU-level research, but we can highlight the strong support from the French government and administration. At the same time, successive French governments carried out austerity measures to limit the growth of consumption and social transfer public spending (Kickert et al. 2015; Bezes et Le Lidec, 2015; Lartigot-Hervier, 2021). France is therefore a significant player to consider in the dissemination of investor-state logic in Europe. The French promotion of public investment and fiscal policy could easily be interpreted as the “new clothes” of the old traditional French economic policy characterized by state interventionism and demand-based growth, which both require active fiscal policy (Schmidt, 2003). However, as we will see, this “reinvention” (Thiemann and Volberding, 2021) did not usher in any deviation of French economic policy elites from neoliberalism.

One could object that France still has the highest ratio per GDP of public spending in general and of public social spending in particular among OECD countries, and that these ratios has increased over the past few years¹. One also could object that spending related to successive investment plans since 2008 are small compared to the total French state budget. Indeed, as

¹ OECD, Social Expenditure Database (<https://www.oecd.org/social/expenditure.htm>)

Paul Pierson shows (2001), there is strong path dependency in state budgets and in particular in welfare spending, with significant mandatory spending related to past commitments. But that is also why the fiscal policy of a country must be evaluated in relation to choices made for marginal “discretionary” spending and to incremental evolutions. In France fiscal policy trends since 2008 have clearly been to reduce the administration’s consumption spending (their rate of growth decreased to less than 0.8% per year over the decade²) and social spending (Lartigot-Hervier, 2022). In this context the 57 billion euros of the first three PIA (2009, 2014, 2017), the 57 billion euros of the “Great Investment program” (2017) and the 54 billion of “France 2030” (2021) are a study of contrasts (and they often correspond to the fiscal efforts announced to reduce public spending and deficits).

The article is organized as follows. The first section shows how in the aftermath of the 2008 crisis, the French right-wing government, which had been elected on a platform of reducing the administration’s size and public spending, justified huge recovery plans by developing a discourse based on the opposition between bad (“current”) and good (“investment”) spending. It also shows how this duality, which was frequently discussed among economic policy experts but new to French policymakers’ political economic discourse, involved a redefinition of the notion of investment and of the economic role of the state in the economy. The second section highlights how this logic continues to drive French economic policy to this day, despite government turnovers and the pandemic crisis.

1 – Genesis of the French Investor State: The initial opposition between good and bad spending

By the time of the 2008 crisis, the opposition between “good” investment spending and “bad” current ones was not new. In the 1990s and 2000s, it had been at the core of a debate among economists and fiscal policy specialists about the merits of the fiscal “Golden Rule”, according to which borrowing should be allowed only for investment spending (Perotti, 2004)³. The UK embraced the idea in 2003. In France, the Senate Finance Commission introduced it for the first time in a report in 2000⁴. During the debate about TSG reform in 2003, most of the economists on the French Economic Council advocated for such a Golden Rule in the European Treaty⁵. The argument was economic: investment is worth borrowing for because it will increase future growth. But it inserted in a fiscal debate and the register of definition of investment was accounting. It referred to durable goods (in France at least one-year duration) that are added to state’s assets, as opposed, to “operating” spending in accounting terms, which refers to immediate consumption, most often repetitive and without impact on assets.

The objective of the Golden Rule’s supporters was not necessarily to discredit “current” spending. But the arguments about the long-term positive effects of investment spending on growth and wealth compared to short-lived current spending tended to create a hierarchy between them. This hierarchy was especially striking in the opposition between bad and good debt (respectively for current and investment spending). This was common sense among right-wing policymakers, who have always tended to favor investment spending over current

² Fipeco (2023) La croissance des dépenses publiques (<https://www.fipeco.fr/fiche/La-croissance-des-d%C3%A9penses-publiques>)

³ Such a Golden Rule had existed in Germany since 1946.

⁴ Lambert, 2000, *Rapport d’information au nom de la Commission des finances*, Sénat.

⁵ CAE, 2004, *Réformer le pacte de stabilité et de croissance*, Paris, La documentation française.

spending⁶. Thus, over the 2000s characterized in France by the “dramatization” of public debt (Lemoine, 2016), this rationale was used by fiscal conservatives as an argument in their crusade against public spending and deficits. It appeared in an influential report to the Prime Minister in 2005 that argued the limitation of public spending was all the more necessary that it focused on current spending and prevented investment spending⁷.

However, during the 2000s, the debate was limited to economic and fiscal policy expert circles. This period was generally characterized by an alarmist discourse on public debt by political leaders (Lemoine, 2016) who made no distinction between the different types of spending. During the 2007 presidential campaign, the distinction was never mentioned. Consistent with the views of his political party, Nicolas Sarkozy was elected on a platform that called for broad reductions in public spending (Bezès and Le Lidec, 2015). The 2008 crisis marked the turning point when the value of investment spending and its opposition to other types of spending took root among right-wing political leaders and economic policy elites in France, including those who were a priori most hostile to increases in any kind of public spending. This is why we argue that the “Investor State” logic started developing in France in response to the 2008 economic crisis. It unfolded in two phases. The first one was during the first recovery plan, when the President developed the dual fiscal discourse between investment and current spending. The second one was during a second plan initially called “Great Loan” and then renamed Investment Plan for the Future. The latter changed the definition of investment and made it a specific public policy and a central element of an economic and industrial policy strategy.

1.1. The 2008 stimulus plan: the dual fiscal discourse as a means for a right-wing government to justify massive public spending

During the presidential campaign of 2007, the right-wing candidate Nicolas Sarkozy abandoned the topic of the dangers of public debt increases (Lemoine, 2016). But he had a very offensive discourse denouncing the inefficiency of the public administration and the excessively high public spending and taxes on households and firms. Once elected, his first policy action was a large tax cuts program (TEPA Act). He also quickly launched a project of “rationalization” of the administration, which was implemented two years later in a broad administrative reform (Lolf Act). However, on December 3, 2008, like many heads of states and governments over the world, President Sarkozy announced a €28 billion stimulus package for the French economy. Although this sum may nowadays appear modest compared to the recovery plans of the 2020 Covid crisis, it was at the time the largest stimulus plan France had seen since 1945 and was perceived as huge. This was a reversal of the governmental program on public spending.

Contrary to most other Western countries that sought to stimulate demand and consumption, the characteristic of the French plan was to be based on investment spending (in accounting terms) (Kickert et al., 2015). Direct aid to households was very limited, since only an “active solidarity premium” of 200 euros for minimum subsistence income recipients was initially included in the recovery plan⁸. Most of the direct spending was concentrated on the

⁶ This partisan differentiation is not specific to France. Bremer et al. show the same by comparing fiscal policies of German localities (Bremer et al., 2022).

⁷ Pébereau Michel, *Rompre avec la facilité de la dette. Pour des services publics au service de notre croissance économique et de notre cohésion sociale*, Paris, La documentation française: 59-60.

⁸ Cour de comptes. 2010. *Rapport sur la mise en œuvre du plan de relance*. Communication à l’Assemblée nationale, July. Under strong international pressure, 2.6 billion euros of provisions were added at the Social Summit of February 18, 2009.

construction and renovation of infrastructure and public buildings (€4 billion), and on encouraging investment by public companies (€4 billion) or local authorities (€3.5 billion)⁹. The members of political cabinets and the directors of economic administrations who we met agreed on the relevance of this choice. They consensually justified it by three arguments based on what they called “French specificities”: First, the high level of redistribution policies and free public services in France would ensure the maintenance of greater household consumption than elsewhere. Second, the high risk in a consumption-based economy that a consumption-directed plan would benefit countries exporting consumer goods. Third there was a need for public investment in a country that had perpetually cut investment spending in order to maintain current spending¹⁰. But more generally, as is clear in the President’s speech announcing the recovery plan, the focus on investment was justified by the opposition between investment spending and current spending:

Our response to the crisis is investment. What is crucial is the nature of spending. When it involves investment spending, it can be partly financed by borrowing. Our children will inherit not only the liabilities but also the assets. (...) But when we finance current spending through deficit financing, then we leave our children with nothing but debts.¹¹

In accounting, “current” spending refers to both redistributive spending and so-called operating spending. The former are social transfer expenditures, which in France represent two-thirds of public spending¹². The latter mainly consist of civil servants’ wages, which represent a quarter of public spending¹³. The President’s reasoning drew on arguments already present in the Golden Rule rationale but doubled down on critiques of current spending: investment spending was good spending because it did not only create debt to be repaid (“liabilities”) for future generations, but also goods that would serve them (“assets”). They are therefore justified and worth increasing the public debt for. Meanwhile, operating and redistribution spending, which represent the vast majority of public spending, continued to be vilified as a bottomless pit, which only created debt for future generations and were therefore irresponsible. Thus, for the President, who was elected on a platform of public spending reduction, this distinction between investment and current spending enabled justifying the announcement of extraordinary public spending, while maintaining an anti-public spending discourse:

Increasing investment spending is not contradictory to the desire to reduce current spending. On the contrary, it is complementary, because the more we reduce current expenses, the more margins we free up for investment. The goal is to put an end to the bureaucratic State, paralyzed by the heaviness of its administrative apparatus, and wasteful of the taxes of the French.¹⁴

As the President’s speech made clear, the promotion of investment spending was even used to justify cuts in current spending. As this quote by a deputy director of the Budget Directorate shows, the distinction between types of spending allowed to launch spending programs, while maintaining a policy that can be described as austere in many areas, especially social policy:

⁹ The rest of the stimulus plan (13 billion) consists of tax advances for companies.

¹⁰ This idea was for instance conveyed in the report “Pébereau”, already mentioned.

¹¹ Speech by Nicolas Sarkozy, December 4, 2008, Douai.

¹² Caisse des dépôts, *Conjoncture*, mai 2014.

¹³ Caisse des dépôts, *Conjoncture*, May 2014.

¹⁴ Speech by Nicolas Sarkozy, December 4, 2008, Douai.

There has always been a discourse throughout the decision-making process which was: now we are spending on investment, but in substance we have stringent controls on state spending and stringent controls on social spending.¹⁵

Indeed, as noted by Bezes and Le Lidec (2015), even during the recovery phase, the French government never gave up on the goal to reduce administrative costs and social spending, and continued to implement reforms to this end. The Minister of Economic affairs, Christine Lagarde, coined a term for this dual economic policy – the “rilance” – by combining the French words for austerity (*rigueur*) and stimulus (*relance*)¹⁶. The opposition between different types of spending thus enabled the President to remain consistent with his initial plan and convictions, which involved reducing public debt and deficits by more than the administration’s spending and social redistribution.

Within the government, this distinction also helped reassure the most fiscally conservative, especially those in the Prime Minister’s cabinet (*Matignon*), the Ministry of Budget, and, to a lesser extent, the Treasury Directorate, because these were considered more reversible than current spending:

There was a doctrine {about the recovery plan}, which was very strongly pushed by Matignon at the time, which was to make: 1/ investment spending and 2/ non-repeatable spending. In other words, we did not want to launch a mere stimulus plan, considering that administration’s current spending in general had reached a level in France that we did not want to go beyond.¹⁷

Thus, the dual fiscal policy discourse also helped the government to keep cohesive.

1.2. The 2009 “Investment Plan for the Future”: when “investment” is redefined and placed at the heart of an economic and industrial policy strategy

A few months later, in June 2009, Nicolas Sarkozy announced a new public spending plan – initially called “Great Loan” and then recalled “Investment Plan for the Future” – that was even higher than the first and also exclusively oriented towards public investment. However, the “Great Loan” marked a change in the definition and the valuation of investment: it was no longer simply the flipside of current spending in accounting terms. It now mainly referred to an economic definition of investment. It became the object of a specific public policy that was part of an economic and industrial policy strategy. For this reason, it marked a crucial second step in the development of the Investor State logic.

The objectives and nature of the investments in this second plan were indeed quite different from those in the first recovery plan. As mentioned, the first plan’s investment spending referred to a public accounting definition of investment: it consisted of material spending on state infrastructure and assets. The goal was to quickly spend a lot of money to maintain the country’s economic activity. The Great Loan, on the contrary, sought long-term spending to promote the economic growth of the country over the long term – what was usually called “potential growth” in administrative circles. This conception of investment mobilized a second definition, based on economics, that defines investment on the basis of the expected

¹⁵ Interview n°7 with a senior civil servant of the Treasury Directorate.

¹⁶ Measures included new fiscal rules (called « zero volume »), hiring and pay freeze of civil servants, as well as a large administrative reform (RGPP). According to the Budget Directorate, this administrative reform (RGPP) implemented at the beginning of Sarkozy’s term saved 11,9 billions Euros between 2007 and 2011 (Bezes and Le Lidec, 2015).

¹⁷ Interview n°13, with a member of the office of the Prime Minister, François Fillon.

effects of the consumed goods on economic growth over the more or less long term (Villieu, 2019). Investments were therefore considered here as a long-term economic policy tool.

The idea of a new public spending plan did not initially garner consensus in the French government. It was supported by a special adviser to the President, Henri Guaino, who had an unusual profile among the cabinet members. He was not a senior civil servant and did not share common liberal views. On the contrary, he conveyed preferences for strong state interventionism in the tradition of the French statist – and social – right wing, which still enjoyed support among parliamentarians but was completely marginalized among members of the administration. Despite his isolation inside the government, he managed to convince the President of the political relevance of such a plan. The Prime Minister, the Minister of Economic Affairs, the Minister of Budget and their cabinets, as well as the leading economic bodies (Treasury and Budget) completely disagreed with the President’s decision. Remembering the moment when they heard about it, interviewees who served in the Presidential, Budget, or Prime Minister cabinets and administration, confessed to feeling real panic, like this member of the President’s cabinet:

I remember that sometime at the end of April, beginning of May, we learned that Henri Guaino wanted to take out a large loan. (...) I remember that we (*reference to the other economic policy advisers*) were devastated! Really devastated.¹⁸

The President’s political acumen – and compromise – resulted in setting up a special commission to design his investment policy and asking two former French Prime ministers coming from the economic high administration to head it (*Juppé Rocard Commission*). The former ministers named senior civil servants from the Treasury as reporters and orthodox economists as members. This structure helped quickly break down opposition to the Plan. First the Commission reduced the investment to 35 billion euros instead of the 100 billion euros initially suggested by Henri Guaino. But members of the French economic policy elite whom we met primarily rallied around the idea of “investment” as a productive economic tool distinct from other public spending:

We tried, I would say, to limit the exercise a bit to ensure that it was really effective public spending. That meant investment spending, not current spending.¹⁹

The term “efficiency” was even associated in other interviews with the “profitability” and “productivity” of the spending, which, following the “investor’s gaze” (Chiapello, 2017), were to result in future gain and therefore the only ones worth borrowing for.

Finally the investments recommended by the Commission and then acted by the government mainly covered research and higher education (€19 billion), R&D and support for innovative projects in the fields of energy transition, electric vehicles, and digital technology (€9.5 billion), as well as aid to SMEs and industrial sectors (€6.5 billion). For example, with regard to energy transition, funding was planned for all stages of industrial development, from basic research (e.g., the “Institutes of Excellence in Decarbonized Energies” program), to R&D (e.g., the program to improve the performance of photovoltaic cells in the Ecological Transition Institutes), prototyping (e.g. demonstrations on “positive energy districts”), and support for start-ups (e.g. start-up developing solar-powered electric vehicle charging stations). Following the Commission’s recommendations, the government created a new structure – the General Committee for Investment – to implement the programs.

¹⁸ Interview n°15.

¹⁹ Interview n°23 with a member of office of the Prime Minister, François Fillon.

The Investment Plan for the Future was therefore part of an economic and industrial development policy. It was a sign of the government's desire to recast the state's role in the economy. From the fall of 2008 to the summer of 2009, political leaders all over the world, and notably the French President, spoke widely of the need for change in the regulation of capitalism and in the re-legitimization of state intervention in the economy. The "investment policy for the future" was part of this repositioning of the role of the state to reaffirm its influence on the economy and not simply overseeing compliance with competition rules. It was also in this logic that the Strategic Investment Fund was created on December 19, 2008 with a budget of 6 billion euros that rose to 20 billion euros in 2011. The objective of this sovereign fund was to help French companies – primarily SMEs and so-called "strategic" companies – to finance their development projects through loans and temporary equity investments. This type of activities was already partly carried out by the historical French public developmental bank (CDC), over which the government has little control²⁰. The creation of the fund was a sign of the government's will to strengthen these activities and get more direct control over them. It marked "the entry of the state into the world of investment, which had previously been delegated to the CDC"²¹.

Despite the redefinition of investment, the President's justification for this second plan remained the same. As exemplified in his speech announcing the "Great Loan", it was still based on the opposition between good investment spending and bad current spending:

Yes, we have a problem with public finances. Yes, we have a problem with deficits. But we will not solve it in this way. We have to radically change how we define the problem. There is bad deficit. The one that finances bad spending, waste, excessive bureaucracy, high operating costs. (...)

There is the deficit that is due to the crisis, to the decrease in revenue, to the increase in social spending. (...) After the crisis, it will have to be reabsorbed by dedicating growth revenues to it.

Finally, there is the deficit which finances future spending. It is not abnormal to finance investments through borrowing. There can be a good deficit only if it enables good investments to be financed.

The central issue is the quality of public spending. The logic of austerity conceals it because it leads us to question only the short-term budgetary consequences of the decisions we take.²²

Thus, the redefinition of investment did not weaken the distinction between the two types of public spending. Yet, according to its economic definition, investment spending is not necessarily opposed to current spending. As one of the three rapporteurs in the Juppé-Rocard Commission pointed out, "the salaries of researchers, for example, are current expenses in accounting terms, but in reality, we can say that they are investment in human capital."²³ To him, the distinction between current and investment spending was no longer relevant in the context of the Commission's discussions, and was no longer used.

²⁰ The CDC was created in 1816 with an autonomous status vis-à-vis the state. In 2021 its internal capital totaled €62 billion, and its balance sheet, €1 311 billion. It has historically served as the main development bank in France.

²¹ Interview n°24 with a previous CDC employee who participated in the creation of the FSI, currently on the management team of Bpifrance.

²² Sarkozy's speech at the Versailles Congress, June 22, 2009. In this speech, Sarkozy recognized the value of redistributive spending. This was unusual and conflicted with many other speeches. In reality, his government's austerity measures affected not only the administration (Bezes and Le Lidec, 2015), but also social benefits since it involved two reforms of the pension benefit system (2008 and 2010) and more severely limited healthcare spending than any other previous government (Lartigot-Hervier, 2021; Hassenteufel and Palier, 2015). This suggests that his key target was the administration more so than the social insurance system.

²³ Interview n°18.

However, all the measures imagined by the Commission – that the executive later took up for the most part – were designed to avoid increasing the state's wage bill, i.e. current spending. Research funding that included the employment of personnel, whether in the Laboratory of Excellence program (Labex, €10 billion) or more restricted programs, was designed as project-based funding that funded researchers for the duration of the project, on fixed-term contracts, generally for doctoral or post-doctoral researchers (author, 2019). The scientific management of this staff relied on the existing permanent staff, but the latter was not expanded. On the contrary, the recruitment of tenured public researchers kept slowing²⁴. The same trend can be observed in the administrations – generally agencies – in charge of implementing investments with an industrial dimension, such as the Ademe or the Anru: although they were in charge of implementing increasingly large investment programs, no increase of their staff was planned except for short-term contracts (s. Ducastel et al., this issue).

We also note that the policy area covered by the “Great Loan” was relatively limited compared to what could have been envisaged from the economic definition of investment in “human capital”. Indeed, they were limited to research and higher education, considered from an applied perspective. To increase “potential growth”, many economists have emphasized the need for massive investment in education at the earliest ages²⁵. Others have put a broader emphasis on “social investment” (Morel et al., 2012) and the need for ambitious social and health policies. These areas – education, health, social welfare – were, however, completely excluded from public discourses on strategic investment policy in France (Palier, 2014).

Moreover, the IPF was the subject of an unprecedented budgetary mechanism: it was conceived as a multi-year budget distinct from the state budget and voted on independently. For its designers, this was a way to “sanctuarize” the program and avoid its misappropriation, especially for funding current state spending.

Thus, while investment was no longer necessarily conceptually opposed to current spending, the opposition was maintained in practice because the objective of reducing public service and social policies remained unchanged. Choices about the definition of investment primarily reflected the political priorities of the government and its preference for supply policies. The cost of it was a certain conceptual fragility of the opposition between current and investment spending, since it mixed two definitional categories: accounting and economics, which only partially overlap.

2 - The pursuit of investment policy after Sarkozy's Presidency

2.1. Hollande's Presidency: few changes and strong continuities

The socialist candidate, François Hollande, was elected in 2012 in response to voters' rejection of President Sarkozy's style and policy, and especially austerity policy. During the campaign he promised not to sign the Stability and Growth Pact that was promoted by the European Commission and the German chancellor Angela Merkel. As a socialist, he also defended public services and civil servants, who were an important part of his party's electorate.

²⁴ MESRI, 2020, *L'Etat de l'emploi scientifique en France*, Paris.

²⁵ Among the main “new growth theories”, the “Lucas model” is the first to put forward human capital as a factor of infinite growth. See R. Lucas, On the Mechanisms of Economic Growth, *Journal of Monetary Economics*, 22(1), 1988, pp. 3-42.

Consequently, the government's discourse about public spending and fiscal policy changed compared to the previous period: it no longer emphasized the distinction between good and bad spending and the inefficiency of public administration. The administrative reform to improve the "efficiency" of the central administration (RGPP) was reconsidered and one of its main pillars – not to replace half of the civil servants who retired – was abandoned.

However, the Investor State logic did not completely vanish. First, the investment policy initiated under President Sarkozy was maintained. The Investment Plan for the Future (IPF) was not only pursued but actually increased twice: first in 2014 (IPF 2), with 12 billion euros of supplementary budget, and next in 2017 (IPF 3), with 10 billion euros. Thus, the total budget of the IPF increased from 35 to 57 billion euros during Hollande's presidency. These new programs were managed and implemented by the same institutions: the General Committee for Investment and several operationally independent agencies. They also kept the same type of selection modalities (call for tenders with international juries) and funding (a mix of subsidies, equity, and non-consumable grants, plus loans, refundable advances, and guarantees). Some focus was given to new specific industrial domains (defense, aeronautics, health), but the priorities remained the same: research, new technologies, and industry²⁶.

Moreover, one of the government's first actions was to create a new public investment bank, called Bpifrance. This project, which had already been announced during the presidential campaign, was an area of agreement among the two candidates. The idea was to resolve coordination problems in the governance of the Strategic Investment Fund created in 2009, but to pursue its fundamental logic, that is to give to the state new tools to support and guide the economy. Thus, the new entity Bpifrance was owned 50/50 by the state and the historical French public development bank (CDC). The government quickly entrusted the new bank with managing new programs designed to target specific policy goals: that was the case for instance of the "French Tech" program launched in 2013 by the Minister of digital economy, Fleur Pellerin, to promote the development of start-ups in the digital sector (€200 million). Some parts of the IPF2 and IPF3 were also managed by the bank. Headed by a CEO with a public/private career typical of the French economic elite (Clift, 2012), the bank quickly expanded its activities: in 2017, its balance sheet totaled 72 billion euros, and its profits, two billion (Thiemann and Volberding, 2021). For the government, it became a policy tool but also a showcase of its "investor" activity.

At the European level, the French government actively promoted the Juncker plan. In their inaugural speeches before the National Assembly, the Prime Ministers Manuel Valls and Michel Cazeneuve referred to it as one of the pillars of their economic strategy²⁷. After the failure to impose economic governance over the Eurozone or refuse the Growth and Stability Pact, it was presented as the way to "reorient Europe" towards an economic path more compatible with French interests. In 2016, Prime Minister Michel Cazeneuve even presented the extension of the Juncker plan as a French victory.

At this time the French discourse on investment drew on changes in mainstream economic doctrine, which was reevaluating the role of fiscal policy and public investment in the macroeconomic policy mix. This change was apparent in academic circles²⁸, but also in international organizations, especially the IMF and the OECD. Beginning in the mid-2010s the latter organizations published an increasing number of papers, reports and statements in favor

²⁶ <https://www.gouvernement.fr/le-programme-d-investissements-d-avenir>

²⁷ See the inaugural speeches before the National Assembly of Emmanuel Valls (September 16, 2014: <https://www.vie-publique.fr/discours/192177-declaration-de-politique-generale-de-m-manuel-valls-premier-ministre>) and Michel Cazeneuve (December 14, 2016: <https://www.vie-publique.fr/discours/201464-declaration-de-politique-generale-de-m-bernard-cazeneuve-premier-minis>).

²⁸ Furman Jason (2016), *The New View of Fiscal Policy and Its Application*, paper for the conference: *Global Implications of Europe's Redesign*, New York, NY, October 5.

of public investment²⁹. French government institutions that produce economic policy expertise, such as the *Conseil d'Etat* and *France Stratégie*, developed the same type of rationale and referred to the evolving international consensus³⁰.

At the same time, although the fiscal discourse had changed and condemnation of “operating” spending softened, the objective to reduce public spending did not disappear. All the successive socialist Prime ministers stated that they were “against austerity” but “for fiscal responsibility”. Public debt as a problem to solve was even the first issue in Jean-Marc Ayrault’s inaugural speech. The Prime Minister also stated that the President’s priorities (young people, security and justice) would “necessitate choices in all the other policy sectors”³¹. He carried out a new reform of the pension benefit system motivated by fiscal savings; pressure on the health system remained the same (Lartigot-Hervier, 2021). The concern to reduce public spending strengthened during Hollande’s mandate, moving his Presidency towards the center-right. In 2014, Jean-Marc Ayrault’s successor, Emmanuel Valls, announced 50 billion euros in savings between 2015 and 2017. Even if the number of civil servants was no longer the main target, reforming the administration to improve its “efficiency” and reduce “operational” spending was still a priority³². The government also continued to put a strong pressure on local authorities, which were accused of not taking part in the savings effort made by the state and the social security administration (Le Lidec, 2020).

It is revealing that the local authorities defended themselves by highlighting their role in public investment (since, referring to the national accounting definition, they carried out 70% of the French public investment spending) and developing a fiscal discourse typical of the French Investor State. Through the voice of their representative organization, they argued that a distinction should be made between their operational and their investment spending. They agreed to reduce the former but not the latter, which, again, should be “sanctuarized”. They referred to reports and statements by the OECD, IMF and ECB promoting public investment spending³³.

2.2. *Macron’s presidency before the Covid crisis: the promotion of investment to serve the “start-up nation”*

President Macron, who had been the first secretary of the President and then the Minister of Economy during Hollande’s term, was elected in 2017 on a “neither right nor left” discourse. However, his economic program was clearly liberal: deregulation of the job market, tax cuts especially for firms and for financial capital owners, and decreases in public spending and social transfers (especially for retirement and unemployment insurances). From a fiscal perspective, he revived a very offensive discourse against public spending, speaking of a “French addiction”,

²⁹ For instance: IMF (2014) *World economic outlook. Recovery Strengthens, Remains Uneven*. Washington. April; Boone Laurence (2019), Editorial: Policy changes to turn the tide. In *OECD Economic Outlook 2*. Paris: OECD publishing. On the evolution of the IMF, see Ban, 2015.

³⁰ Speech by the vice-president of the Conseil d’Etat, October 2017, <https://www.conseil-etat.fr/actualites/discours-et-interventions/les-grands-investissements-publics>; France Stratégie, *Mieux investir au service de la croissance*, report, February 2017.

³¹ Inaugural speech of Jean-Marc Ayrault before the National Assembly (July 3, 2012: <https://www.vie-publique.fr/discours/185387-declaration-de-politique-generale-de-m-jean-marc-ayrault-premier-minis>)

³² The reform of the state administration enacted under President Sarkozy (RGPP) was not dropped but transformed. It took the name of Modernization of State Action (MAP).

³³ https://www.adcf.org/files/Finances-et-fiscalite/Note-AdCF-investissement-NP_sept_14.pdf

and clarifying: “this is not French people who must be detoxed, this is the State itself”³⁴. At the same time, following the logic of the dual fiscal policy discourse, he lauded public investment. In September, his Prime Minister Edouard Philippe explained: “On the one hand, we decrease our operational spending. Massively. On the other hand, we invest. Massively too.”³⁵ Thus, his government planned the same amount of money for the reduction in public spending (3% of French GDP, €60 billion) as for the increase in investment programs (€60 billion) during the 5 years of the term. Consequently, since the government also planned significant tax cuts (€20 billion), the government bet on the supplementary growth caused by its economic policy (and a favorable international context) to reduce the public deficit below 3% – another announced goal. Thus, it seems that the priority was not to decrease public debt so much as to cut “operating” and recurrent public spending that financed the non-market sector – in line with the pro-market liberal (but in fact not fiscally conservative) program of the President.

President Macron continued to use the theme of investment policy at the European level to reorient the economic policy. More so than for his predecessor, Macron could make his case by pointing to the evolution of international and European organizations in favor of public investment, especially for countries with “enough fiscal space”. Thus, the French government used and took part in the increasing pressure at the end of the 2010s over North European countries, and especially Germany, that came from international organizations (Ban, 2015), as well as an increasing number of German economists (Puehringer and Beyer, 2020).

In continuity with his predecessors, President Macron used public investment policy to advance his industrial policy, which he oriented towards start-ups (the “start-up nation”). It consisted first in a “Great Investment Plan” of 50 billion euros (including the 10 billion of the IPF3). The policy priorities remained the same (research, new technology, industry, digital and environmental transition) as did the financing (mix of subsidies and financial instruments).

A second program was announced: the creation of the “Funds for innovation and industry” (FII) of 10 billion euros, with the objective of investing in French firms, and especially in start-ups. Especially interesting is that its capitalization was financed by the privatization of stocks in large French firms. The chief of cabinet of the Minister of Economic affairs articulated the argument very well:

The State is a very bad shareholder. It does not know what to do. And fundamentally its role is not to receive dividends. Its role is to invest and take risks in areas where the market fails to do so.³⁶

This argument is typical of the Investor State logic: the vocation of the state is not to be a long-term shareholder in large, profitable and established firms. Its role in the economy is to invest in risky firms with high economic potential. Its intervention would thereby not only be useful but also legitimate, because it would solve what economists have identified as a market failure: the lack of private investment in risky industrial projects (the “investment gap”). This was also how the government justified the emblematic privatization of very profitable national firms, the French lottery operator and the Parisian Airports company.

The use of “funds” as a policy tool had been characteristic of post-2008 policies, but was strengthened by Philippe’s government. In addition to the FII, several other funds were created, such as the Deep Tech Funds and the French Tech Seeds Funds. All of them were managed by Bpifrance. The latter continued to play an increasingly central role in French

³⁴ Speech by Emmanuel Macron before both assemblies, Versailles, July 3, 2017, <https://www.vie-publique.fr/discours/203049-declaration-de-m-emmanuel-macron-president-de-la-republique-devant-le>

³⁵ Speech by Edouard Philippe, September 15, 2017, <https://www.vie-publique.fr/discours/203599-declaration-de-m-edouard-philippe-premier-ministre-sur-les-grandes-or>

³⁶ Interview n°16 with the chief of cabinet of the Minister of Economic Affairs, Bruno Lemaire.

economic policy and continued to develop (Thiemann and Volberding, 2021). Its model was very much appreciated by Emmanuel Macron, who was among those who had pushed for its creation. It conformed to a private business model and was subject to the rules of economic profitability, which was considered a guarantor of efficiency. It was also mostly self-funded, what was a huge advantage for public finances.

2.3. The Covid crisis: the dual fiscal policy discourse shaken but not fallen

The Covid crisis was a new impulse for public investment policy, which nonetheless remained aligned with actions initiated after the financial crisis. First, it is striking that the two plans created by the government to support the economy followed the same playbook as 12 years earlier. The first one, named “France Relance”, was a huge (€100 billion) but classic recovery plan aiming to quickly inject money in the economy³⁷. As in 2008, its specificity compared to other national plans was that it almost exclusively included investment spending and support for businesses (supply policy), with very few provisions for households’ consumption. The same arguments were used to justify this choice: high level of social transfers in France, risk of funding foreign exporter countries, and underinvestment. Exactly like in 2009, a second plan of 54 billion euros, named “France 2030”, was announced one year later, in September 2021. As for the “Great loan”, it was presented as long-term public investment to boost long-term “potential growth” of the French economy by guiding it in strategic and economically promising directions³⁸. To implement it, the government used the institutions created after the 2008 crisis. First, a large part of the loan (€20 billion) consisted of a fourth extension of the Investment Plan for the Future (IPF4) decided at the same time as the first recovery plan. The Strategic Committee for Investments was the administration in charge of overseeing the implementation of the plan by the same governmental agencies as in preceding years, especially the ANR, Adem, Anru and Bpifrance³⁹.

The Covid crisis could have questioned the narrow definition of investment and shaken the opposition between good public spending for “investment” and bad current spending (funding for social transfers and the daily operations of public services). Indeed, public debt skyrocketed in every Western country even more so than in 2008, and political leaders as well as economists changed their discourse about it. In Europe in particular, where the 60% debt-to-GDP had been presented for decades as the only acceptable limit, they developed arguments to explain that there was no danger to be close to 120% in a country such as France, and even praised the advantages of debt in a context of low-interest rates. With these arguments President Macron could justify his “Whatever it takes” policy. The dramatization of public debt seemed to have vanished. Moreover, the crisis also highlighted the significance of public services, obviously in health, but also in education and all other services revealed as “essential” during the crisis. It gave new visibility to the spending cuts, especially for hospitals with low staffing levels, low wages, and difficult work conditions⁴⁰. One of the effects of the crisis was consequently a dialing down of the critical discourse about public services and the excessively high public spending to fund them. The French government decided to increase a bit wages for all hospital nurses, nursing assistants, and doctors. Recently, in the context of inflation, it did

³⁷ <https://www.economie.gouv.fr/plan-de-relance>

³⁸ <https://www.elysee.fr/emmanuel-macron/france2030>

³⁹ <https://www.bpifrance.fr/nos-actualites/plan-de-relance-tout-ce-qui-faut-en-retenir>

⁴⁰ The deterioration of work conditions in French public hospitals since the 2000s has been extensively studied by social scientists (Juven et al. 2019).

so for all civil servant wages, and planned a separate raise for teachers⁴¹. In the Stability Program sent to the European Commission in July 2022, the government also planned a 1.3% increase in public spending for the Social Security (mainly for hospitals)⁴².

However, there were at the same time many contradictory signs. As soon as March 2021 the government appointed a fiscally conservative senator, Jean Arthuis, to head a commission on the future of the public spending. Arthuis picked other members as fiscally conservatives as he to set up the commission. The commission quickly called for spending cuts, except for investment spending, which should be “sanctuarized”⁴³. As in 2010, pension system reform was presented as a priority. The pre-Covid logic of the Investor State was still intact in this report. In the presentation of the Program “France 2030”, the economic policy view that Emmanuel Macron developed was unchanged compared to the pre-Covid crisis. He recognized that the French social model was a “strength” but immediately contrasted it with the country’s inability to fund it because of lackluster production and productivity. This justified the reform that he had undertaken since 2017 (labor market, social pension, unemployment system, as well as tax cuts) and sought to continue⁴⁴. He also emphasized the importance of public investment as entirely distinct from operational spending. This was also present in the inaugural speech by Prime Minister Jean Castex in July 2021.

In July 2022, the President again announced the return to “fiscal seriousness” and made clear that it would not involve tax increases. On the contrary, he called for more tax cuts. The 2022 French Stability Program also planned cuts in the state and local authorities’ budgets (-0,4 % and -0,5% per year) and emphasized planned reforms of the pension and the unemployment systems. Moreover, measures to boost wages in the private sector were based on reductions in payroll contributions, which jeopardized the Social Security budget. The recent reform of the unemployment insurance system, obstinate drive to pass a new pension benefits reform and its justification using fiscal arguments mark a clear return to the austerity logic for social transfer spending. This contrasts with the government’s continued fiscal support for firms to the tune of an estimated 157 billion euros in 2019 alone (the state budget was 330 billion euros this year⁴⁵) without real evidence of their effectiveness in keeping jobs and industry on the French territory (Abdelsalam et al., 2022). This support has increased even more since the Covid crisis.

Conclusion

In this article, we showed how French governments promoted public investment in the aftermath of the 2008 crisis, but at the expense of the other public spending not deemed as investment and called “current” spending. The distinction between the two types of public spending – the good ones and the bad ones – perennially marked President Sarkozy discourses and were used as a justification of his fiscal policy 360° reversal. The accounting definition of investment evolved into the economic definition, but the two remained mixed – a useful

⁴¹ However, these increases were far to catch up years of wages freezing and did not solve the “hiring crisis” in French public services, such as hospitals or schools.

⁴² <https://www.budget.gouv.fr/reperes/budget/articles/programme-de-stabilite-pstab-2022-2027>

⁴³ <https://www.vie-publique.fr/rapport/279092-commission-sur-lavenir-des-finances-publiques>

⁴⁴ Speech by Emmanuel Macron, Presentation of France 2030, October 12, 2021.

⁴⁵ Cour des comptes, *Le budget de l'Etat en 2019. Résultats et gestion*. April.

confusion in avoiding any growth of the public sector. Although the distinctions softened during Hollande's socialist presidency as well as during the Covid crisis, the dual fiscal policy discourse never disappeared. It has been especially potent in President Macron's statements, and was confirmed in his recent post-pandemic economic discourses. During this period, investment has not just been used as an economic policy tool. It has become a principle for legitimizing state action in general. According to this principle, what justifies state action – and public spending – is the future economic gains that it produces. Public policy and spending that are not aligned with this principle are considered inefficient and wasteful. This extension of the “investor's gaze” on public policy (Chiapello, 2017) illustrates the “economicization” of the state (Muniesa and Linhardt, 2011).

In its economic definition, to which contemporary investment policies refer, investment is a very broad notion with many possible interpretations. Consequently, the way policymakers define it results from a political process. We highlighted that the definition endorsed by the French government is narrow and more or less limited to classical industrial policy. For example, social and educational policies were excluded. This resulted from political preferences favoring supply policies, even by socialist governments. Furthermore, using (knowingly or not) the confusion between the economic and the accounting definitions of investment, French governments designed their investment policy program to maximally reduce what public accounting nomenclature also calls “operating” spending, that is, mainly civil servant wages. Following a classical neoliberal logic (Mudge, 2008), these programs aim to support the market, not to do anything in its stead. The administration's remit is to strategically allocate funds to private actors and to oversee their use, but without administrative staff increases. New staff is hired on short-term and/or private-law contracts.

The Investor state points to an evolution from the “consolidation state” era (Streeck, 2015): reducing public debt to reassure financial creditors is no longer the top priority. Following Streeck's analysis, the evolution to the Investor state can be interpreted as an attempt to reconcile the objective of reducing debt with a second objective, which is generally considered antonymic to the first but which is also requested by states' creditors, that is, supporting growth. But the neoliberal objective to reduce the “size” of the public sector in the economy and decommodification has absolutely remained.

This led us to comment on the evolutions of French capitalism. Despite a deep process of liberalization since the 1980s, most authors consider that state interventionism has remained stronger in France than in most other North-American and European countries (Schmidt, 2003; Clift, 2012). In addition, France belongs to the consumption-led countries (Baccaro and Pontusson, 2016) and EU member states demanding more fiscal flexibility (Warlouzet, 2018). To some extent, the French Investor State can be interpreted as the “new clothes” cloaking this long-term economic orientation. However, it is important not to misinterpret this continuity. The promoted state interventionism is limited to providing strategic guidance and supporting private initiatives. As highlighted by Ben Clift (2012), contemporary French economic policy elites favor state intervention limited to “facilitating dominant market position for French international champions” (p. 586) through measures like strategic mergers or financial support. They otherwise generally strongly believe in the superiority of the private sector to bring prosperity to the nation. Likewise, the use of fiscal policy is limited to specific types of public spending that correspond more to supply-side policy than demand-side policy.

Finally, while this analysis is based on the French case, the features of investor-state logic that we underscore – the narrow definition of investment, the valuation of “return on investment”, the principle of “*faire faire*” or “*faire avec*” the market, the effort to limit the number of civil servants – are common to investment policy programs across the EU. It is therefore very likely that the political implications of investor-state logic that our analysis reveals apply beyond the French state, calling for further research.

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