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Whither Indicative Planning?
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Introduction

- France is an advanced market capitalist economy that has most publicly and prominently engaged in indicative planning.
- Use of indicative planning has coincided with considerable economic success.
- France has now downgraded indicative planning and is allowing greater laissez-faire in policy.

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Introduction

- Like Japan, France is also a land of paradoxes.
- France has received multiple waves of migration from many directions. Its national unity has been strengthened by these people, there is no natural tendency to homogeneity; indeed, in France it is just the opposite.
- The French drive to national unity led to a strong centralized state, one that intervenes in or "directs" the economy, a practice known as dirigisme in French.

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- Simultaneously there has been vigorous resistance to this dirigiste tradition.
- The term political economy was first introduced in France in 1665 to argue for dirigiste mercantilist policies of state intervention in the economy.
- But the term laissez-faire was also first introduced in France in 1751 by the Marquis d'Argenson to oppose such entrenched interventionist policies.

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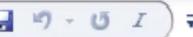
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- These contrasting traditions of economic policy and thought have intersected complexly with other French conflicts.
- French revolutionaries especially had fought in France, a fact seen as a central cause of "the trouble with France."
- French conservatives had resisted change and deeply conservative in France, especially in rural areas. This tradition supports *dirigisme* as a protective device preserving old ways of doing things.

6

Introduction

- Yet, France has been a fountainhead of radicalism with a history of major revolutionary outbreaks in 1789, 1830, 1848, 1870, and 1968.
- Although some of these had laissez-faire orientations, the later movements were clearly socialist and supported dirigisme.

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- The revolutionary tradition in France also reflects its deeply rooted class conflict. Karl Marx conceived of the class struggle while thinking about France and the French Revolution.
- The term communism is of French origin. Although this split has moderated recently, France's strong class divisions show up in sharp differences among political parties traceable to the French Revolution.

8 Introduction

- The French Communist Party is among the most orthodox Marxist political parties in the world and, despite considerable loss of influence after World War II, still retains a presence in certain neighborhoods of metropolitan Paris (the *Arrondissements*) and in other major cities.
- Key figures of the French revolutionaries were strong supporters of the revolution. In 1799, and in their streets named not only for Marx and Lenin but also for Robespierre, who led the Reign of Terror in 1793.

9 Introduction

- Despite these conflicts, French nationalism is a powerful force and a source of division in French politics.
- Indicative planning was introduced in 1950 after France's national humiliation in World War II, with the hope of rebuilding the French economy so that France could return to its glorious past when it was the dominant power in Europe.
- This last goal was not achieved, but the postwar economic performance of France has been generally impressive, with a 12th place position globally in 2000 of its human development index.

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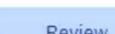
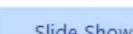
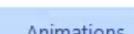
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- The heyday of indicative planning in France was the 1950s and 1960s, when its economy was rapidly rebuilt and then moved into high-technology development.
- Its credibility was permanently damaged by the first oil price shock of 1973, which knocked plans and projections awry.
- Since then indicative planning has been a politicized football, being taken less seriously when conservative parties are in power and more seriously when the Socialists are in power.

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HISTORICAL AND POLITICAL BACKGROUND

- According to some estimates, around 1500 French entrepreneurs claimed as the nation with the world's largest GDP in 1660, held until about 1830, when Britain surpassed it.
- In the late 1600s this economic lead underlay the military and political preminence of the centralizing regime of Louis XIV, the "Sun King".
- From 1661 to 1683 his Minister of Finance was Jean-Baptiste Colbert, father of dirigisme, also known as *Colbertism*.

12

HISTORICAL AND POLITICAL BACKGROUND

- Colbert pursued industrialization through dirigiste policies.
- Entrepreneurs in favoured firms or industries were given numerous gifts, pensions, interest-free loans, tax breaks, exemption from military obligations, grants of royal power, and protection from imports and guilds.
- After state enterprises were established, the most famous being the Cotalens textile producer in 1667, the state became the dominant employer in France.
- Colbert also instituted detailed industry-specific regulations to improve the quality and international competitiveness of French products.

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HISTORICAL AND POLITICAL BACKGROUND

- The physiocrats, French economists, notably François Quesnay and the Marquis d'Argenson, criticised Colbertism.
- Under their influence, Jacques Turgot, Minister of Finance for Louis XVI, tried to deregulate internal agricultural markets and eliminate internal monopolies and guilds in 1774.
- But Turgot was forced from office in 1776 after bad harvests and riots.

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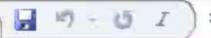
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HISTORICAL AND POLITICAL BACKGROUND

- The French Revolution was the endlessly controversial watershed event that defined the modern French state, its subdivisions, its currency and its class conflicts.
- In economics the Revolution began on a *laissez-faire* note but then moved in a dirigiste direction, culminating in Napoleon Bonaparte's military dictatorship and attempted world conquest.

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HISTORICAL AND POLITICAL BACKGROUND

- After Napoleon's defeat in 1815, France followed Britain and Belgium as one of the first countries to industrialize. But between 1830 and 1930 France went from having the world's largest GDP to being fourth behind the United States, Germany, and Britain.

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THE THEORY OF INDICATIVE PLANNING

- Although French openness to indicative planning came from its dirigiste tradition, indicative planning in its ideal form is not dirigiste.
- Dirigisme, or dirigisme, implies some coercion or control.
- Ideal indicative planning is purely voluntary. It is successful because those affected have been involved in its formulation, view it as credible, and act on its projections, thereby making it into a self-fulfilling prophecy.

17

THE THEORY OF INDICATIVE PLANNING

- The fundamental argument for indicative planning involves providing information.
- This argument was first expressed by John Maynard Keynes in his 1936 book *Employment, Interest and Money*. "The economic evils of our time are the fruits of risk, uncertainty, and ignorance," he argued.
- He argued that "the scope lies outside the operation of the individual" and called for "the collection and dissemination of information, and for the creation of some appropriate organ of action" in what he called "a directive intelligence", but which he privately identified as a "merely unorthodox" interventionist government.

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- This argument was first expressed by John Maynard Keynes in his book *A Tract on Unemployment* in 1933. He argued that "the economic evils of our time are the fruits of risk, uncertainty and ignorance."
- He argued that "the cure lies outside the operation of the individuals" and called for "the collection and dissemination on a great scale of data relating to the business situation" and for the creation of "some appropriate organ of action" that would "exercise directive intelligence" but would "leave private initiative and enterprise unhindered".

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THE THEORY OF INDICATIVE PLANNING

- Information Pooling, Concertation, and Coherence
- The French planner and theoretician Pierre Massé further developed Keynes's argument, drawing on experience with French indicative planning.
- He introduced the concept of information pooling. Planners carry out "generalized market research" allowing a common view of the future.

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THE THEORY OF INDICATIVE PLANNING

- This research involves consulting with leading actors in the economy for their input, a process called concertation.
- According to the theory, the elements of the plan are adjusted to ensure coherence and to guarantee policy coordination.
- The goal is *l'économie concertée*, or concerted economy, which operates like a symphony, simultaneously meeting the extremes of command planning and laissez-faire.

20

THE THEORY OF INDICATIVE PLANNING

- Massé also stressed the *extensive aspect* of indicative planning. Not only is information about investment possibilities made available to firms, but firms are encouraged to explore what other possibilities are really achievable.
- Thus a higher rate of investment might come about through indicative planning.
- Extensive planning may have worked in France in the 1920s after a long period of low growth, when the planners may have broken through the entrenched hyper-conservative resistance of business.

21

THE PRACTICE OF FRENCH INDICATIVE PLANNING

- Three motives inspired de Gaulle's adoption of indicative planning in January 1946.
- One was to avoid another hyper-inflating deficit such as the one seen in 1940, which was widely attributed to a "decadent" and weak economy. Military strength requires national economic strength.



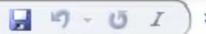
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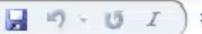
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- This research involves consulting with leading actors in the economy for their input, a process called "consultation".
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- Massé also stressed the **exhortive aspect of indicative planning**. Not only is information about investment possibilities made available to firms, but firms are encouraged to believe that the possibilities are really achievable.
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- Second motive was to offset the power of the three Communist members of the cabinet.
- They supported a Stalinist command type planning and had supported a 1944 attempt to revive Léon Blum's all-powerful Ministry of National Economy.
- In May 1945, on the surrender of Germany, de Gaulle sided with the Ministry of Finance and eliminated the Ministry of National Economy. The Commission Général du Plan (CGP, General Commission of Planning), established in 1946, was made subordinate to the Ministry of Finance and given no command authority.
- But it coopted the Communists in their demand for a central planning apparatus.

23 THE PRACTICE OF FRENCH INDICATIVE PLANNING

- The third motive was to provide a mechanism for economic recovery after the war. The First Plan did not offer assurance that such aid would be administered intelligently.
- However, the First Plan (1946-1952) had a more dirigiste command character than other plans because the CCP played an important role in distributing Marshall Plan funds.
- The founder of the CGP is first director, and the developer of the First Plan was Jean Monnet, who was also the founder of the European Coal and Steel Community, the predecessor of the EU.

24 The Plans and Their Performance

- Plans were initially more microeconomically focused, becoming macroeconomic later.
- Forecasting failures arose after 1970 due to exogenous shocks, and the plans became less influential.
- After 1980 the plans focused increasingly on growth associated with EU integration, still today the focus of the remnants of the national planning apparatus.

25 The Plans and Their Performance

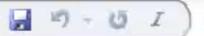
- The First Plan (1946-1952):
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26 The Plans and Their Performance

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THE PRACTICE OF FRENCH INDICATIVE PLANNING

- The third motive was to provide a mechanism for negotiating with the United States over Marshall Plan aid and offered assurance that such aid would be administered intelligently.
- Indeed, the First Plan (1946–1952) had a more *dirigiste/command character than later plans* because the CGP played an important role in distributing Marshall Plan monies based upon it.
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- Seize and manage was often at the power of the three Command members of the government.
- They supported a Stalinist command type planning and had supported a 1948 attempt to revolutionise the economy by the Communists.
- In May 1948, on the surrender of Germany the Gauleiter allied with the Ministry of Finance and eliminated the Ministry of National Planning. The General de Gaulle Plan (CGP) General Commission of Planning was created. It was given the task of coordinating the Ministry of Finance and given no command authority.
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THE PRACTICE OF FRENCH INDICATIVE PLANNING

- The third motive was to provide a mechanism for economic recovery after the Second World War and offered assurance that such aid would be administered intelligently.
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The Plans and Their Performance

- The Second Plan (1953–1957):
 - Introduced concertation and the Modernization Commissions.
 - They introduced macroeconomic forecasting and produced growth close to their high targets (5.2 percent actual compared to the 4.4 percent target for the Second Plan, 4.5 percent actual compared to the 4.9 percent target for the Third Plan).

27

The Plans and Their Performance

- Fourth Plan (1963–1965):
 - Included social goals such as expanded social infrastructure investment and emphasis on regional planning.
 - Development of French nuclear power industry was targeted.
 - Growth exceeded forecasts (5.3 percent actual compared to 5.5 percent planned).

28

The Plans and Their Performance

- The Fifth Plan (1965–1970):
 - contained detailed non-economic elements but had a macroeconomic focus, particularly on international competitiveness and controlling inflation, which was not met.
 - Growth exceeded the target for the last time in a French plan (5.8 percent compared to 5.5 percent).

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The Plans and Their Performance

- The Sixth Plan (1970–1975):
 - placed more of a supply-side emphasis on rapid industrial expansion. This plan fell far short of its goal after the first oil price shock hit. In 1973 (3.8 percent compared to 5.9 percent).
 - The Seventh Plan (1976–1980):
 - ignored macroeconomic aspects entirely and sought to achieve macroeconomic balance alone.
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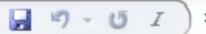
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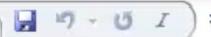
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 - 1.2 percent actual growth compared to a planned range of 2.7 to 3.2 percent.
- The Ninth Plan (1984–1988):
 - expanded participation in the concertation process, with greater emphasis on regional planning
 - It failed to meet its target range (1.1 percent compared to 1.6 to 2.2 percent)

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The Plans and Their Performance

- The Tenth Plan (1989–1992):
 - Focused on European integration and preparing France for the complete removal of market barriers in the EU on January 1, 1993. Elements included upgrading education

32

Industrial Policy

- In comparing French and Japanese industrial policies, the French have more frequently nationalized industries than the Japanese.
- Another difference is that French policy has been less consistent than Japanese policy, probably reflecting the greater power of MITI compared to the French Ministry of Industry

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Industrial Policy

- After World War II a wave of nationalizations occurred:
 - the Bank of France, the four largest commercial banks, our leading group of insurance companies, all electric power and gas producers, the coal mining industry, Air France, and the Renault car company
- In early 1982, under the Socialist/Communist government of Mitterrand, another wave of nationalizations occurred, the last such in any major world economy.

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- After 1986, the Giscard-Dorval government initiated a series of privatizations, reverse nationalization

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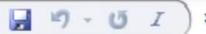
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 - had a microeconomic emphasis, pushing high-technology development and coinciding with a wave of nationalizations in 1981 and 1982.
 - 1.2 percent growth compared to a planned range of 2.7 to 3.2 percent.
- The Ninth Plan (1984–1988):
 - expanded participation in the concertation process, with greater emphasis on regional planning.
 - it failed to meet its target range (1.1 percent compared to 1.6 to 2.2 percent).

31

The Plans and Their Performance

- The Tenth Plan (1989–1992):
 - Focused on European integration and preparing France for the complete removal of market barriers in the EU on January 1, 1993. Elements included upgrading education.

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Industrial Policy

- In comparing French and Japanese industrial policies, the French have more frequently nationalized industries than have the Japanese.
- Another difference is that French policy has been less consistent than Japanese policies, probably reflecting the greater power of MITI compared to the French Ministry of Industry.

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Industrial Policy

- After World War II a wave of nationalizations occurred:
 - the Bank of France, the four largest commercial banks, the four leading groups of insurance companies, all electric power and gas producers, the coal mining industry, Air France, and the Renault group.
- In early 1982, under the Socialist/Communist government of Mitterrand, another major wave of nationalizations occurred, the last such in a major world economy.

34

Industrial Policy

- After 1986, the Giscard-Dorval government initiated a series of privatizations, some quite massive.

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Industrial Policy

- After 1986, the Gaullist Chirac government initiated a gradual privatization program involving sales of shares of some of these enterprises to the French public.
- After defeating the Socialists in March 1993, the Gaullist government began privatizing 21 companies.
- After 1997 the socialist government of Jospin continued the privatization program, although it slowed in 2000 to include only sell-offs required for international mergers.

35

Labor and Management

- Governments in France have long sought to bring about harmonious labor-management relations.
- But in contrast to Japan, harmony has proven to be difficult to achieve because class conflicts run deep in France.
- Although French labor-management relations continue to be marked by many strikes and general strikes relative to other countries, nothing has been achieved recently there has been somewhat greater peace than in the past.
- Rigid labor law and high unemployment.

36

Regional Planning

- An aspect of French planning not found in Japanese planning is an emphasis upon developing less developed regions.
- This extends the long process of nation building and absorption of peripheral zones in France.
- But it also arose from an anti-Paris sentiment outside of the capital, which is far ahead of the rest of the country in per capita income.

37

Regional Planning

- Starting in 1954, policies were adopted to reduce regional inequalities, although at first, these policies were disconnected from the indicative planning.
- These policies included restrictions on industrial development, investment grants and other subsidies for less developed sectors, setting up a Critical Zone, and the division of the country into 22 planning regions.

38

France and the European Union

- Many important issues face the EU, including the addition of new members from Central and Eastern Europe.

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- After 1997 the socialist government of Lionel Jospin had a policy of "partial privatisations", though it slowed in 2000 to include only sell-offs required for international mergers.

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Industrial Policy

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- After defeating the Socialists in March 1993, the right-wing government began privatising 21 companies.
- After 1997 the socialist government of Jospin continued the process of privatisation, although it slowed in 2000 to include only sell-offs required for international mergers.

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- Governments in France have long sought to bring about harmonious labor-management relations.
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- Although French labor-management relations continue to be marked by many strikes and general strike, alternative to other countries, nothing seems to change. However, recently there has been somewhat greater peace than in the past.
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- After defeating the Socialists in March 1993, the Chirac government began privatizing 23 companies.
- After 1997 the socialist government of Lionel Jospin decided to sell off state-owned companies. It allowed in 2000 to include only sell-offs required for international mergers.

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France and the European Union

- Many important issues face the EU, including
 - the addition of new members from Central and Eastern Europe;
 - the adoption of new members from Central and Eastern Europe;
 - the balance between France and Germany, which have adopted the euro (Euroland) and those that have not;
 - the future of regional aid and development policies (CAP);
 - the balance of power between the various countries within the EU, with Germany trying to gain more power and France strongly resisting this move;
 - More generally, there is the issue of whether or not the EU will move more in the direction of federalism, toward becoming a "United States of Europe," as envisioned by its father, the Frenchman Jean Monnet.

39

France and the European Union

- To the extent that the desire to end the ancient Franco-German rivalry was the political driving force behind the creation of the EU, that has been a great success.
- But it has also been a smalld success economically, such that most non-member nations are now trying to join.
- The primary competitive hypothesis to the alleged benefits of indicative planning for successful postwar French economic growth is the benefits of integration into the free-trading EU.

40

France and the European Union

- The argument that free trade in the EU has driven postwar French economic growth is strong.
- Exports have grown more rapidly than the economy as a whole, and they have increasingly gone to the rest of the EU.
- Exports have always been somewhat more volatile than GDP but exports as a percentage of GDP have increased over time, from 17 percent in 1979 and to 25.1 percent by 1990 in 1980 prices, with this percentage drifting down slightly in more recent years.

41

The Persistence of French Protectionist Tendencies

- France continues to carry out protectionist policies.
- Protectionism has led France to prevent the EU from

France and the European Union

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 - the future of the very expensive Common Agricultural Policy (CAP);
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France and the European Union

- Many important issues face the EU, including:
 - The addition of new members from Central and Eastern Europe.
 - The euro has been adopted and the dollar has adapted to it.
 - The euro has replaced the Deutsche Mark.
 - The Euro has replaced the Common Agricultural Policy (CAP).
 - Integration of power between the various countries within the EU, with members trying to gain more power and control over the EU.
- More generally, there is the issue of whether or not there will be more rules than the rules of free trade, toward becoming a superstate.

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France and the European Union

- To the extent that the desire to end the ancient Franco-German enmity was the political driving force behind the creation of the EU, it has been a great success.
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France and the European Union

- Many important issues face the EU, including:
 - The addition of new members from Central and Eastern Europe.
 - How to manage the budget.
 - How to deal with the economic and monetary union.
 - What role of the European Commission Agricultural Policy (CAP).
 - The balance of power between the various countries within the EU, with Germany trying to gain more power and France trying to maintain its influence.
 - More generally, there is the issue of whether or not there will ever be a true union of the EU, with France, Germany and Italy being the main supporters of a federal Europe.

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France and the European Union

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France and the European Union

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France and the European Union

- Many important issues face the EU, including:
 - The division of new members from Central and Eastern Europe
 - development of relations between the countries that have adopted the euro (especially France and Germany)
 - the future of the Common Agricultural Policy (CAP)
 - the balance of power between the countries within the EU, with Germany trying to gain increasing influence
 - more generally, there is the issue of whether or not there will ever be a "United States of Europe". As mentioned by its father, the Frenchman Jean Monnet.

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France and the European Union

- To the extent that the desire to end the ancient French-German hostility has been partially a diplomatic driving force for the creation of the EU, it has been a great success.
- But it has also been a smouldering success because the two most non-western nations in Europe now want to join.
- The principal competing hypothesis to the alleged benefits of indicative planning for successful postwar French economic growth is the benefits of integration into the free-trading EU.

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The Persistence of French Protectionist Tendencies

- France continues to carry out protectionist policies
- Protectionism has led France to prevent the EU from allowing easy entry of Eastern European commodities, much to the chagrin of the Germans
- Protection of French agriculture has also been a cause of French reluctance to allow in new countries, with the argument that the EU's agricultural programs are under the influence of the French.
- The French are moving away from their traditional national sovereignty in the EU.
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