

**The Politics of Tax Reform:
Britain and France in the 1980s**

Scott S. Shaughnessy
Faculty of Economics
Ph.D.
London School of Economics
and Political Science

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Abstract

The 1980s were hailed by many as the decade of tax reform. A number of different countries were caught by a neo-liberal tax reforming wave which saw rates of personal and corporate income taxes reduced, tax allowances restricted, tax bases broadened, the incidence between direct and indirect taxation shifted and tax structures simplified. Policy makers were driven to change tax systems for a number of reasons. There is a tendency, however, to point to economic factors as the cause, but this presents only part of the picture. Moreover, it tells us little about the process. How did tax reform come about? Where did the impulse come from? How did it emerge on political agendas? Tax reform measures were the outcome of positive political decisions to make a policy change. Therefore, it's primarily to the political context we must look for an explanation. While considering a broad range of competing models of politics, this paper will ultimately show that the complex of factors which constitute the tax reform process can best be explained by reference to problems, policies, politics and open windows in a given institutional setting. This hypothesis will be considered in light of the French and British experiences in the 1980s.

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List of Key Abbreviations and Acronyms

ALEPS	Association pour la Liberté Économique et le Progrès Social
APCCI	Assemblée Permanente des Chambres de Commerce et d'Industrie
CBI	Confederation of British Industry
CDS	Centre des Démocrates Sociaux
CERES	Centre d'études de recherches et d'éducation socialistes
CFDT	Confédération Française Démocratique du Travail
CGPME	Confédération Générale des Petites et Moyennes Entreprises
CGT	Capital gains tax
CGT	Confédération Générale du Travail
CNPF	Conseil National du Patronat Français
CNRS	Centre National de la Recherche Scientifique
CPC	Conservative Political Centre
CPS	Centre for Policy Studies
CRD	Conservative Research Department
csg	cotisation sociale généralisée
CTT	Capital transfer tax
DGI	Direction Générale des Impôts
EEC	European Economic Community
EC	European Community
ERTA	Economic Recovery Tax Act
EU	European Union
ENA	Ecole Nationale d'Administration
ESSEC	Ecole des Sciences, Sociales, Économiques et Commerces
FN	Front National
FO	Force Ouvrière
GATT	General Agreement on Tariffs and Trade
gdp	Gross domestic product
GRAL	Groupe de Recherche et d'Action Libérale
GRECE	Groupement de Recherche et D'Études pour la Civilisation Européenne
IEA	Institute of Economic Affairs
IFS	Institute for Fiscal Studies
IGF	Impôt sur les grandes fortunes
IGR	Impôt général sur le revenu
INSEE	Institut National de Statistiques et Études Économiques
IOD	Institute of Directors
IR	Impôt sur le revenu
IR	Inland Revenue
IRPP	Impôt sur le revenu des personnes physiques
IS	Impôt sur les sociétés
ISF	Impôt sur la fortune
MP	Member of parliament
NICs	National insurance contributions
OECD	Organization for Economic Cooperation and Development
PCF	Parti Communiste Français
PDG	Président directeur général
PEPs	Personal equity plans
pib	produit intérieur brut
PMes	Petites et moyennes entreprises
p.o.	Prélèvements obligatoires
PR	Parti Républicain
PS	Parti Socialiste
PSBR	Public sector borrowing requirement
PSU	Parti Socialiste Unifié
RPR	Rassemblement pour la République
SLF	Service de la Législation Fiscale
SMIC	Salaire minimum interprofessionnel de croissance

List of Key Abbreviations and Acronyms

SNPME	Société Nationale des Petites et Moyennes Entreprises
TGA	Taxe générale sur les affaires
TIPP	Taxe intérieure sur les produits pétrolières
TP	Taxe professionnelle
TRA	Tax Reform Act
TUC	Trades Union Congress
UDC	Union des Démocrates du Centre
UDCA	Union de Défense des Commerçants et Artisans
UDF	Union pour la Démocratie Française
UDR	Union pour la Défense de la République
US	United States of America
USA	United States of America
VAT	Value added tax
WWI	World War I
WWII	World War II

Preface and Acknowledgments

Since the mid-1980s I have taken a keen interest in developments in international taxation. Even before then, tax reform had moved to the top of governmental agendas in many countries. During the course of the 1980s several reforms were decided and enacted, which on the whole represented notable departures from previous tax policies. While the outcomes dominated headlines, I grew curious about the processes at work in different countries that gave rise to apparently similar phenomena. If different countries were considering and implementing similar policies, what did this say about the inputs or processes? I hypothesized that similar processes could indeed underlie the similar policy outputs observed. The processes were what most intrigued me and, working through them, the array of ideas, actors and institutions.

I decided to limit what was originally a much broader comparative study to two countries: Britain and France. I thought comparing the cases of Britain and France would be instructive given the different policy paths taken initially, followed by a move towards the British model by France in the mid- to late 1980s. By looking at these two countries during the 1980s, the apotheosis of neo-liberal tax reform, I would have the benefit of testing the hypothesis against a period of policy divergence and then policy convergence, so to speak. The United States offers another case study which is examined cursorily and compared intermittently with the cases of Britain and France for purposes of additional leverage. It should be noted, however, that while the thesis title - "The Politics of Tax Reform: Britain and France in the 1980s" - implies equal treatment of the British and French cases, the British case, particularly the facts thereof, does receive less attention vis-à-vis the French for a number of reasons, including the plethora of existing English-language material on British tax reform - detailed in footnote 5 and later references - obviating the need to describe in this thesis the evolution of British tax reform. Consequently, I have been provided ample space to devote to the French case, which is largely underexamined in both the English and French languages.

The research for this thesis and its actual production have been aided through the kind cooperation of numerous individuals. Among those individuals, making up the hidden and visible clusters of relevant actors, are those knowledgeable and experienced men and women I interviewed in 1991 and 1992. They embodied a breadth and depth of information without which this thesis could not have been written. These people are mentioned in the Appendix. I am also indebted to my supervisors Gordon Smith and Howard Machin of the London School of Economics Government Department and the School's European Institute, whose guidance and encouragement were critical and sustaining. Their thoughtful ideas, comments and suggestions were instructive and provocative. I am also grateful to Claire Wilkinson, Marian Clarke and Marion O'Connell of the London School of Economics Government Department, whose administrative assistance was above and beyond the call of duty. I'd also like to express my gratitude to the administrative staff of the European Institute. Tom Field, at Tax Analysts, has inspired and cheered me in the final stages of this thesis. Finally, I wish to acknowledge the love and support of my family and, especially, the invaluable assistance, patience and support of my partner, Franck Fleury, without which this project may never have come to fruition.

Naturally, there exists a substantial number of other individuals, classmates, colleagues, and experts from whom I sought advice and with whom I frequently exchanged ideas. They helped me to better shape and direct this work. Suffice to say, however, that only I am responsible for errors and the opinions contained in this thesis.

CHAPTER ONE

CHAPTER ONE

"Tax reform - and in particular lowering income taxes - is the vogue in international economics. Governments as far apart as Australia and Denmark, New Zealand and Belgium have jumped on the bandwagon."

- Financial Times, March 9, 1987

Tax reform has become an all-pervasive feature of the industrialized world in the 1980s...Is there a common thread?"

- Financial Times, March 13, 1987

- Introduction and Reviewing the Terrain -

The 1980s were hailed by many as the decade of tax reform.¹

During that period, politicians and governments of various political colors were considering, advocating and/or pursuing tax reform. Australia, Great Britain, the United States, New Zealand, Belgium and France were just some of the countries which, during the 1980s, succumbed and contributed to this

¹ For the purpose of this thesis, tax reform signifies an attempt to alter or 're-form' a given tax system with the aim or aims of enhancing the system's equity, efficiency, and/or simplicity. Several books and articles have been written about tax reform generally in the 1980s. Only a partial list is provided here: B.G. Peters, *The Politics of Taxation, A Comparative Perspective*, (Oxford: Basil Blackwell, 1991); J.A. Pechman, ed., *World Tax Reform, A Progress Report*, (Washington, D.C.: Brookings Institution, 1988); J.A. Pechman, *Tax Reform, the Rich and the Poor*, 2nd ed., (Washington, D.C.: Brookings Institution, 1989); T. Gandillot, *Le Grand Cirque Fiscal*, (Paris: Hatier, 1988); C. Sandford, *Successful Tax Reform, Lessons from an Analysis of Tax Reform in Six Countries*, (Bath: Fiscal Publications, 1993); M. Boskin and C. McLure, Jr., eds., *World Tax Reform*, (San Francisco: ICS Press, 1990); J. Plender, "Another Wave of Change Ahead", *Financial Times*, March 13, 1987, p.24; J. Owens, "Tax Reform: An International Perspective", *National Westminster Bank Quarterly Review*, May 1987; R. Hagemann, OECD Department of Economics and Statistics, Working Paper, *Tax Reform in OECD Countries*, (Paris: OECD, August 1987). Several others have appeared which are generally concerned with tax reform and/or more country specific and will be cited throughout the course of this thesis.

phenomenon to some degree. The reforms had a markedly neo-liberal² flavor and show a more or less common pattern: reducing rates of personal income and corporate taxes, restricting tax allowances and broadening tax bases, simplifying rate structures and shifting the incidence of taxation between direct and indirect.

This interest in tax reform which has characterized the fiscal strategies of Western governments in the 1980s has been expressed in a range of policies reflecting a distinct mix of actors, ideas and institutions. In Britain, in 1979, the new Conservative government of Margaret Thatcher initiated the wave

²

A definition of neo-liberalism has been loosely adapted from the *McGraw-Hill Dictionary of Modern Economics: a Handbook of Terms and Organizations* (1983) and the *Dictionnaire Économique et Sociale* (1981). Neo-liberalism is the modern adaptation of the laissez-faire doctrine of the 1800s. Among its twentieth century proponents are Ludwig von Mises, F.A. von Hayek and Milton Friedman. The commonly expressed preference is for a minimum of governmental intervention in the economy and society and the strengthening of economic competition through the free play of market forces. Neo-liberal and new right economists (not always one and the same) advocated lower and simpler taxation as a means of realizing neo-liberal principles: less government intervention and more decision-making according to market mechanisms. Supply-side economics, a reaction and response to the perceived failure of Keynesian economics was embraced by some neo-liberal politicians and economists in the 1970s and 1980s. Harkening back to the classical tradition of Adam Smith and Jean-Baptiste Say, supply-side economics prescribes, among other things, tax cuts, as a way of slowing inflation, creating incentives and stimulating production. Some of the measures devised by policy makers owed their inspiration to a California economist, Arthur Laffer who maintained that marginal tax rates, if too high, discourage work, risk and investment. However, if taxes were reduced, people would consider work and savings more worthwhile than leisure, which consequently would have a buoyant effect on government revenues. Laffer's theory has antecedents in the thinking of Baron de Montesquieu and Adam Smith. It is interesting to note that J. Dubergé (*Les Français Face à l'Impôt: essai de psychologie fiscale*, Paris: LGDJ, 1990) and G. Bélanger ("Le Fédéralisme Fiscal ou Comment Concevoir l'Harmonisation", *Revue Française de Finances Publiques*, no.20, 1987) assert that Laffer's theory was not at all novel. In fact, it has its roots in French public finance thinking, "discovered" first by an engineer of the Ponts et Chaussées, Jules Dupuit in the 19th century, and developed by Jean-Marcel Jeanneney in the 1930s. These two Frenchmen, according to Dubergé and Bélanger, long before Laffer came along, had turned their attention to the links between tax rates, incentives and tax revenues.

of reform by lowering marginal rates of taxation, particularly for high income earners, and shifting the incidence of taxation from direct to indirect taxes. The election of Ronald Reagan in 1980, was the impetus for the 1981 Economic Recovery Tax Act of 1981 which lowered income tax rates over a three year period for individuals, cut corporate taxes and created new tax expenditures or renewed old ones. These two administrations, elected in part on their promises to cut taxes and simplify their nations' respective tax systems, set the tone for other governments for the rest of the decade. Even France, under Francois Mitterrand, was soon to acknowledge the efficacy and appeal of tax reform. Less than two years following the left's victory in the 1981 elections, the Mitterrand government was giving serious consideration to lowering taxes and a small but symbolically significant exploratory effort was realized in the 1985 Budget.

The focus here is on the evolution of tax reform in Britain and France. These countries have often pursued different policy paths in the face of the economic problems which emerged and undermined their economies from the 1970s.³ This divergence was also evident in the tax policies pursued by each country; although by the mid- to late 1980s, some convergence was evident as France moved closer to the British "model". Despite the apparent divergence, a common thread can be detected in attitudes

³

For an excellent comparison and analysis of French and British economic policies in the post-war period see, P. Hall, *Governing the Economy: The Politics of State Intervention in Britain and France*, (Cambridge: Polity Press, 1986).

and approaches to tax reform in the 1980s. Policy makers were driven to change tax systems for a number of reasons. However diverse the policies chosen, similar rationales lay behind the changes or proposed changes, among which: the need to meet the challenges of stagflationary economies, ideology (ie. "neo-liberalism"), similar changes underway in other countries, and the need to maintain and encourage economic competitiveness.

At first glance, it appears tax reform could be explained largely in economic terms. In other words, the sort of tax measures enacted during the 1980s were, for example, deemed necessary to stimulate the economy and to keep capital from finding more attractive locations. However, attributing tax reform to changes in the economic environment and to economic forces is not entirely convincing and, therefore, unsatisfactory. We learn little about the process. How did tax reform emerge on the political agenda? Where did the idea come from? How did tax reform evolve from idea to government policy? These questions as well as others arise from consideration of this phenomenon and to answer them begs a review of the form and development of tax reform and an attempt to explain its emergence as an important feature of government policy during the 1980s. One purpose of this paper will be to explain the evolution of tax reform in Britain and France and thereby illuminate the influence and effect of politics on that evolution. The United States will intermittently be added to the analysis in order to enhance the comparative features of this paper and provide extra leverage

over the issues treated therein.

This effort requires a contextual framework which considers the factors that influenced this important government policy. Given that tax policy is subsumed under the rubric of economic policy making, and that taxation has traditionally been seen as a tool of economic management, the temptation to see tax policy as simply a response to prevailing economic conditions is hard to resist. However, an economic explanation on its own terms is not entirely convincing. Economic policy, and more particularly, tax policy, is made by governments. Governments are made up of politicians, among other things. It is therefore reasonable to expect that political variables play an integral part in the tax policy making process. The impact made by these variables and their relative importance is oftentimes difficult to assess. Still, this paper maintains that they exist and, furthermore, have a decisive impact on the character and direction of tax reform. Tax reform and the tax policy making process must therefore be seen as a highly political process.

Tax reform measures were the outcome of positive political decisions to make a policy change. While economic forces played a part in the emergence of tax reform on political agendas in the late 1970s/early 1980s, it is to the political context that we must look for an explanation of tax reform. Of course, how one conceptualizes that political context is very important, and an attempt will be made to assess the politics of tax reform in light of competing models of politics.

This thesis will approach this public policy change by combining empirical and theoretical material. The focus will be on the political dimensions of tax reform. It will show how politics, and to a certain extent economics, affected the evolution of tax reform from idea to government policy. Consequently, this thesis is primarily about the political dimensions of tax reform. It contends that political variables have been central to the character and direction of tax reform. This contention, however, begs certain questions. What sort of political variables are involved? How does one conceptualize the range of political factors that influenced the tax reform process? Several important lines of analysis have been developed to explain the policy making process in general, and the tax policy making process in particular. The approach here will demonstrate how such elements as interest groups, public opinion, culture, political parties, policy activists, institutions and the international environment influenced the tax (reform) policy processes up to the point of setting the government's agenda. We will discover how these and other elements were important in shaping and defining tax reform in France and Britain.

The first part of this thesis will seek to explain, by reference to existing models of politics, the process of tax reform. As we have noted, a complex of factors accounts for the emergence of this issue on the government's agenda. Our ultimate purpose is to illustrate and to identify the complex of factors relevant to the political dynamic. In order to do this we must

understand the policy process with the help of appropriate analytical tools. This undertaking will entail a review of the existing literature in the field, ranging widely across various models, theories, frameworks and approaches whose assumptions will be considered in some depth in the first part (Chapter 2) of the thesis, and then more briefly later (Chapters 7 and 8) as we set some of these assumptions against the facts presented in the second part (Chapters 3 through 6). This review will ultimately show that the complex of factors which constitute the tax reform process in France and Britain can best be explained by reference to three process streams - problems, policies and politics - the opening of windows and the role of ideas, actors and institutions.

The second part is concerned with describing events and circumstances leading up to the appearance of tax reform on the government's agenda. This account will stick to the facts and provide the socio-economic and political contexts in which tax reform evolved. Our focus is on France and Britain, which for a number of reasons, lend themselves to comparative discussions.⁴

⁴ Among these reasons are: 1) France and Britain are categorized as unitary states; 2) the geographical proximity of the two countries; 3) the inclination of each country to scrutinize political and economic developments in the other; 4) their status as "intermediate economies"; 5) the centralized control over fiscal policy exercised by the Treasury in Britain and the Ministry of Finance in France, and 6) the similar trends in taxation exhibited by the mid-1980s. See e.g.: P. Hall, 1986, *op.cit.*; P. Cerny, "State Capitalism in Britain and France and the International Economic Order" in P. Cerny and M. Schain, eds., *Socialism, the State and Public Policy in France*, (London: Frances Pinter, 1985); R. Sturm, "Budgetary Policy-Making Under Institutional Restrictions: The Experience of Britain, France, West Germany and the United States", *Government and Opposition*, vol.21, no.4, Autumn 1986; N. Lawson, *The View From No.11, Memoirs of a Tory Radical*, (London: Bantam Press, 1992), pp.272,274; J. Henig, C. Hamnett and H. Feigenbaum, "The Politics of Privatization: a Comparative Perspective",

However, given limitations of space, and the availability of a plethora of material treating British tax reform in the 1980s, the Anglo-French comparison will rely on an elaborate study on French tax reform and a cursory study on British tax reform.⁵ Rather than a detailed account, as has been done with France, the case of Britain will be selectively and carefully incorporated into the analysis.

The final part (Chapters 7 and 8) of this thesis will attempt to synthesize the first two parts and advance an appropriate analytical framework for an explanation of the processes and activities observed. It is particularly concerned with conceptualizing the interaction of ideas, actors and institutions. Hopefully this enterprise will offer an improvement on existing political explanations of tax reform and

Governance, vol.1, no.4, October 1988; D.E. Ashford, "The British and French Social Security Systems: Welfare States by Intent and by Default" in D.E. Ashford and E.W. Kallet, eds., *Nationalizing Social Security in Europe and America*, (Greenwich: JAI Press, 1986); W. Coleman, "Policy Convergence in Banking, a Comparative Study", *Political Studies*, vol.42, no.2, June 1994; P. Pierson and M. Smith, "Bourgeois Revolution? The Policy Consequences of Resurgent Conservatism" and J.S. Keeler, "Opening the Window for Reform: Mandates, Crises and Extraordinary Policy-Making", *Comparative Political Studies*, vol.25, no.4, January 1993; P.J. Katzenstein, ed., *Between Power and Plenty*, (Madison: University of Wisconsin Press, 1978).

⁵ On British tax reform see: A. Robinson and C. Sandford, *Tax Policy-Making in the United Kingdom*, (London: Heinemann, 1983); A. Dilnot and J. Kay, "Tax Reform in the United Kingdom: The Recent Experience" in M. Boskin and C. McLure, Jr., eds., op.cit.; J. Kay and M. King, *The British Tax System*, (Oxford: Oxford University Press, 1986, 1990); S. Steinmo, *Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State*, (New Haven: Yale University Press, 1993); C. Sandford, 1993, op.cit., ch.3; B. Sabine, "Life and Taxes 1943-1992, Part III 1965-1992: Reform, Rossminster and Reductions", *British Tax Review*, no.6, 1993; J. Leape, "Tax Policies in the 1980s and 1990s: the Case of the United Kingdom" in A. Knoester, ed., *Taxation in the United States and Europe*, (London: St. Martin's Press, 1993); T. Gandillot, op.cit., ch.3; N. Lawson, op.cit. Additional literature pertinent to British tax reform will be cited later in this study.

help us to better understand how and why tax reform emerged on the French and British governments' agendas in the 1980s. This analysis, furthermore, may prove to be of use beyond the limited scope considered here. That will be for the reader to decide.

Reviewing the Terrain

Despite institutional, political, economic/budgetary and other constraints, neo-liberal tax reform found its way onto the agendas in Britain and France (some of the principal reforms introduced in France and Britain in the 1980s appear in Appendix B). Faced with the evidence of tax reform in these two countries, how do we explain its appearance? How do we explain why and how this issue emerged on the agendas in Britain and France in the 1980s? How and why did the French and British governments come to consider and adopt tax reform? Such questions will be briefly addressed in due course. The questions are, however, related to the larger issue of how governments choose the policies they do. A range of factors come into play. But how should we conceptualize this range of factors? On the answer to this question, there is little agreement.

The study of taxation is typically the domain of economists. They tend to see taxation policy as a tool of economic management that responds to prevailing economic conditions. This is, in part, true. But this view provides us with only part of the picture. Tax policy is developed, written, and decided by governments. Furthermore, it is enacted, implemented and evaluated by governments. As tax decisions are among the most

political that a government can make, and as governments are themselves political creatures, it seems only natural that conceptualizing the tax reform process should rely on a model of politics. The appropriate model should adequately stress policy innovation and account for and explain the interaction of actors, ideas, and institutions in a given context. Moreover, these interactions need to be studied in the light of the motives, methods and opportunities which impel them.⁶

As the issues of interest here are how and why tax reform rose on the governmental agendas in Britain and France rather than how authoritative decisions on tax reform were actually made and implemented, and rather than assessing the effectiveness of that process, the focus will be on the early stages of the policy process: problem recognition, agenda setting and to a lesser extent, policy formulation. By focusing thusly, we will hopefully come to understand not only how and why tax reform emerged on the agenda, but also if, how, and why, the agendas in these countries did indeed change to accommodate the rise of this item.

Political scientists and economists have put forward a variety of tools to help us better understand how and why we get the policies we do. Appropriately conceptualizing the policy process by ascertaining those factors that most influence it is no small challenge. Thankfully, there are a number of different

⁶ See, S.B. Hansen, *The Politics of Taxation*, (New York: Praeger, 1983), ch.2.

theories and models available which help us identify, organize, and understand the range of factors involved in different public policy areas and which help us to make predictions. The astute student will be wary of any model that claims to be 'the model to end all models'. It would be foolhardy to assume that there is only one way in which policy can be made. Most political scientists couch their models in tentative terms; in other words, 'if X conditions are present then Y is (highly) (im)probable or (un)likely'. When dealing with the vague and imprecise phenomena which make up the tax policy making process, it is more fruitful, perhaps, to think in probabilistic, rather than absolute, terms.

In uncovering and examining the evidence which describes the events and activities germane to tax reform in the 1980s, it is important to consider a range of models. The standard theories and explanations which we will examine shortly reveal important and interesting aspects of the tax policy process in general, and the tax reform process in particular. Several competing models are available: rational-comprehensive, incremental, public choice, cultural, group, elite, state-centric, learning-diffusion, institutional and garbage can/process streams.⁷ We

⁷ Immediately I am setting aside theories of inertia and incrementalism, although I do devote some attention to the latter. While they are generally helpful in explaining parts of the policy process, they are not appropriate as explanations of agenda change. As Kingdon (1984, p.87) points out, agenda change appears quite discontinuous and non-incremental (see, J. Kingdon, *Agendas, Alternatives and Public Policies*, Boston: Little, Brown, 1984). Both theories are inappropriate for our discussion here because they de-emphasize the ability of policy makers to: 1) act decisively, and 2) introduce measures that depart from the norm and which are likely to have important financial, economic, social and/or political consequences. Moreover, they largely ignore the role of ideas, policy entrepreneurs and institutional change. Why and how tax reform emerged on the French

will briefly describe these models and test their validity against the data below.

Each model calls forth and focuses attention on a variety of - and in many cases distinct - elements in the policy process. But while each may contain some element of truth, none, but one or two, takes us very far in trying to understand the range of factors that determined tax reform in Britain and France in the 1980s. By the end of this review of existing theoretical and empirical material, it should be apparent that the 'process streams and windows' approach developed by John Kingdon (1984), in combination with institutional arguments, seems to optimally capture and explain the range of factors involved in the early stages of the tax reform process. Moreover, the synthesis of these two frameworks provides common ground for considering the processes that took place in Britain and France. Although, as with other models it may demonstrate certain limitations, the Kingdon approach seems to explain in the most comprehensive, systemic and empirical manner, the events and activities associated with tax reform in Britain and France in the 1980s.

This approach, however, is no doubt incomplete. Nevertheless, this study will hopefully prove helpful in fostering a greater understanding of the pre-enactment processes

and British governments' agendas cannot be accounted for in terms of incrementalism or inertia. However, as constructs for analyzing the activities and policies generated by agenda change, incrementalism and inertia are not without some validity (see: J. Witte, *The Politics and Development of the Federal Income Tax*, Madison: University of Wisconsin Press, 1985; R. Rose and T. Karran, *Taxation by Political Inertia*, London: Allen and Unwin, 1987).

particular to the politics of tax reform in France and Britain, as Kingdon's did for the health and transportation policy areas in the United States. And if the ideas derived from this study should facilitate or enhance analysis in this or other policy areas within one country or across countries, then this work will have exceeded the scope of its limited aims.

The approach undertaken here is influenced by the first two of Jones's (1977) five systems of action: problem identification and policy formulation. Both these activities are essential to the agenda-setting process which is our focus. Jones (1977) quotes Layne D. Hoppe's definition of agendas,

"'Agenda' [comes] to have meaning in terms of specific patterns of action in government - particularly those in the early stages of policy development. An analysis of agenda-setting processes [becomes] an analysis of how problems developed, how they were defined, the courses of action formulated to act on these problems, the legitimation of one course of action over another, the emergence of policy systems designed to act on such problems on a continuing basis. The result [is] that it [is] most difficult to isolate an agenda-setting process as an identifiable, one-time, discrete process."⁸

Our purpose will be to identify a pattern, or patterns, of action in the early stages of the policy process, particularly those stages which led to the setting of the neo-liberal tax reform agenda.

Why focus on agenda setting? It is a critical stage in the

⁸ Layne D. Hoppe, "Agenda-Setting Strategies: Pollution Policy," unpublished Ph.D. dissertation, University of Arizona, 1969, p.2, quoted from Charles Jones, *An Introduction to the Study of Public Policy*, (North Scituate: Duxbury Press, 1977), p.39. Brackets are Jones's.

policy process. As B. Guy Peters writes, "Agenda setting is crucial, for if an issue cannot be placed on the agenda, it cannot be considered and nothing will happen."⁹ In order for an issue or a proposal to become government policy, it must first earn a place on the governmental agenda.¹⁰ This is the first major hurdle in the policy process. If an issue or proposal is receiving serious attention from key decision makers in and around government, and it is deemed viable - by which I mean, it passes certain criteria which make it viable, i.e. technical and budgetary feasibility, no widespread political opposition, etc. - then it is very likely that it will become government policy.

Tax reform is a case in point. Several governments, for a number of reasons, considered and investigated the issue of tax reform in the late 1970s and 1980s out of ideological, political and economic concerns. Reacting to perceived problems, participants in the governmental and non-governmental policy communities proceeded to develop solutions and policies, many of which are subsumed under the rubric of neo-liberal tax reform.

⁹ B.G. Peters, *American Public Policy: Promise and Performance*, Third edition, (Chatham: Chatham House Publishers, Inc., 1993), p.41.

¹⁰ John Kingdon (1984) distinguishes between a *governmental agenda*, which represents the array of items which are receiving serious attention by a broad range of people both in and around government, and a *decision agenda*, which is a more 'advanced' stage of the governmental agenda, when a more selective set of proposals or policies are being reviewed with the aim of taking a decision concerning future enactment. This stage is generally dominated by an authoritative decision-maker, i.e. a member of cabinet or a prime minister or president. The decision taken may be positive or negative. Kingdon also refers to a *specialized agenda*, which comprises a narrower set of subjects receiving serious attention by a particular interested party, i.e. a political party, an interest group, a policy community. I will be using Kingdon's conceptions of 'agenda' throughout the course of this paper (see, J. Kingdon, 1984, op.cit., pp.3-4, 174).

In some cases, the policy, was considered, but no action was taken. But in other cases, the policy was adopted and prepared for enactment.

Neo-liberal tax reform swept onto the agendas in Britain from 1979 and in France, from the early 1980s. Given the dramatic and sweeping manner in which this issue appeared on governmental agendas - and in France in particular where the issue rose onto the agenda against many odds - I was led to question why. Why did tax reform emerge when it did? What made it an idea whose time had come? What forces were at work which made actors, both inside and outside government, attend to this idea? As already indicated, these questions necessitate focussing on the pre-enactment stages of the policy process. What is being looked at here is not how the issue was authoritatively decided by the executive or the legislature, but rather how tax reform came to be an issue in the first place.

The inspiration for this study was John Kingdon's work on agenda processes embodied in his *Agendas, Alternatives and Public Policy* (1984). His examination of the dynamics of the agenda setting processes in the United States spurred me to undertake my own examination of the extent to which such dynamics were, or were not, present in Britain and France with respect to one of the most significant political issues and economic policy developments in the 1980s. Pre-enactment - or agenda setting - processes, and the politics of tax reform in the 1980s, are both relatively under-examined areas in West European politics (as

opposed to the economics and administration of tax reform); moreover, in terms of France, English language literature on the subject is practically non-existent. This study will hopefully make these waters less unfamiliar.

The activities of the agenda setting process are not clearly discernable and identifiable. There are no firm boundaries. As Kingdon (1984) notes, "In contrast to many areas of study in the social sciences, this one is particularly untidy."¹¹ Many problems, ideas, proposals, actors and institutions are involved in often times hard to predict and haphazard ways. There is rarely a neat and orderly sequence of events. Various models attempt to make the process less untidy and more comprehensible. Indeed, there are a number of theoretical approaches to the study of public policy which focus on the process in a fairly precise and orderly way. Apart from the models referred to above, other public policy models focus on the policy itself. In such studies the output and how it is arrived at are of primary concern. Rational and incremental decision making theories and inertia theories are important here. However, I intend to concentrate on the process rather than the output. The thrust therefore is descriptive rather than prescriptive, process-oriented rather than output-oriented. In the next chapter, we will briefly examine and assess the theoretical landscape and try to determine to what extent it is capable of explaining tax reform in Britain and France in the 1980s.

¹¹ J. Kingdon, 1984, *op.cit.*, p.2.

CHAPTER TWO

CHAPTER TWO

- Explaining Tax Reform: the Models -

Introduction

During the 1980s neo-liberal tax reform found its way onto the governmental agendas in Britain and France. In Britain, tax reform was ushered in under the Conservative governments led by Margaret Thatcher from 1979. In France, tax reform became government policy first under a Socialist government, then a conservative one whose ideological predisposition, heightened the priority given to the issue. The emergence of tax reform in Britain and France, as well as other countries, and the variations in approach, have provoked a reconsideration of conventional models of tax politics and policy making. While I will not endeavor to elucidate all the theories proffered as explanations of the tax policy making process some of the more important lines of analysis will be treated here.

The tax reform process has something to tempt every theoretical taste and it would be misleading to assert that tax reform came to the governmental agendas in Britain and France in only one way. The data is, of course, open to differing interpretations. Other models may lead to different conclusions. There are, however, some common patterns discernible. I will strive to show how the emergence of the tax reform issue and its translation into policy was an interactive process of politics and economics, ultimately shaped by institutional factors. The approach used here, by presenting a different perspective on the

tax reform agenda setting process, should be seen as an enhancement, rather than a replacement, of existing models. It will focus attention on a new - in some cases - and greater range of elements relevant to the politics of tax reform in the 1980s.

To begin, we will briefly examine and assess the viability of the aforementioned models, especially for the purpose of explaining tax reform.

Rational-Comprehensive

A natural starting point is to consider tax policy making in terms of rational decision making. A model of rational decision making represents a technique devised by economists to explain how decisions are made. We will look at how it might be applied to the tax policy making process. Basically, the theory holds, that when a decision or choice must be made, the assumption is that an objective has been identified, and a clear set of alternatives has been developed and considered. And once the chooser - who may be an individual, a group or a government - takes into account all the constraints and assesses the costs and benefits of those alternatives, he chooses the one alternative that will help him achieve his goal, consequently maximizing his utility at least cost.¹²

The rational comprehensive model seeks to explain policy making in terms of deciding (taxing) policies in light of clearly stated goals and after consideration of all possible

¹²

See e.g., J. Tinbergen, *On the Theory of Economic Policy*, (Amsterdam: North-Holland, 1952).

alternatives. However clear and logical the arguments may sound, they do not aptly describe reality. And in the case of tax reform in the 1980s in Britain and France, while rational decision making is the ideal, it is not entirely operative.

In the sphere of public policy making the limits to this sort of rationality have already been well documented.¹³ For example, governments do not always clarify their (tax) policy goals and the means by which they intend to achieve those goals. Oftentimes they are vague and contradictory. Neither do governments allocate the time, energy and other resources necessary to examine all the possible alternatives and their consequences. Furthermore, the conflicting attitudes and behavior of politicians, civil servants and affected interests frustrate any attempt at rational comprehensive decision making. In the end, the outcome of any decision is usually different from the original intent, and the results achieved represent a "next best" solution.

¹³

See e.g.: H. Simon, "A Behavioral Model of Rational Choice", *The Quarterly Journal of Economics*, vol.69, no.1, February 1955; A. Downs, *Inside Bureaucracy*, (Boston: Little, Brown and Co., 1967); K. Renwick, ed., *The Economic Approach to Politics: a Critical Reassessment of the Theory of Rational Action*, (New York: Harper Collins, 1991); R. Bauer and K. Gergen, eds., *The Study of Policy Formation*, (London: Collier-Macmillan, 1968); P-M. Gaudemet and E. Zoller, "Les Limites à la Rationalité des Choix Budgétaires" in K. Roskamp, ed., *Public Choice and Public Finance*, (Paris: Editions Cujas, 1980); C. Lindblom, *Politics and Markets*, (New York: Basic Books, 1977), p.323; J. Kay, "Tax Reform in Context: A Strategy for the 1990s", *Fiscal Studies*, vol.7, no.4, November 1986; A. Robinson and C. Sandford, 1983, op.cit; A. Peyrefitte, *Le Mal Français*, (Paris: Plon, 1976); G. Thompson, *The Political Economy of the New Right*, (London: Pinter Publishers, 1990), p.33; C. Heckly, *Rationalité Économique et Décisions Fiscales*, (Paris: LGDJ, 1987); J. Saint-Geours, *Pouvoir et Finance*, (Paris: Fayard, 1979).

Incrementalism

Charles Lindblom was instrumental, though not alone, in developing a theory of policy making which some claim more aptly fits the processes we are examining. The very limits of rational comprehensive (or synoptic) decision making, in fact, find expression in a pattern of policy making which is incremental.¹⁴ As opposed to rational decision making where problems and potential solutions are comprehensively reviewed, incremental decision making considers problems individually on an ad hoc basis and with little regard for long term consequences and often ignoring any relation with past decisions. What results are small, marginal, incremental changes in policy or behavior. Consequently, incrementalism has been described as a process producing "decisions effecting small changes."¹⁵

Aaron Wildavsky (1975) demonstrated the viability of this model in terms of the U.S. budgetary process.¹⁶ Any changes to budgetary policy are made upon consideration of the current base budget, whereupon participants in the process add or subtract small increments to or from the base. It is interesting to note that other scholars and authors have found incrementalism useful

¹⁴ See e.g.: C. Lindblom, "The Science of Muddling Through", *Public Administration Review*, no.14, Spring 1959, pp.79-88; D. Braybrooke and C. Lindblom, *A Strategy of Decision: Policy Evaluation as a Social Process*, (London: Collier-Macmillan, 1963); Otto Davis, M. Dempster and A. Wildavsky, "A Theory of the Budgetary Process", *American Political Science Review*, no.60, September 1966, pp.529-547.

¹⁵ D. Braybrooke and C. Lindblom, 1963, op.cit., pp.62+.

¹⁶ A. Wildavsky, *Budgeting: A Comparative Theory of Budgetary Processes*, (Boston: Little, Brown, 1975).

as a description of fiscal policy making in the United States.¹⁷

The incrementalist model has been useful in explaining tax policy making in, Britain and France, as well as the United States.¹⁸ Given an established set of taxing commitments, politicians - constrained by institutional forces - will do no more than to add or subtract small increments therefrom. However apt it may be as a description of the broader patterns of tax policy making, when one considers tax reform and the abrupt, large scale and non-incremental changes it often implies, incrementalist models which treat small, marginal changes, or even those which allow for large changes, are not suitable.¹⁹ Moreover, the way tax reform appeared on governmental agendas cannot be explained in incremental terms.

Items often appear on agendas because they 'get hot', 'take

¹⁷ See e.g.: J. Witte, op.cit.; G.L. Bach, *Making Monetary and Fiscal Policy*, (Washington, D.C.: the Brookings Institute, 1971); I. Sharkansky, *The Politics of Taxing and Spending*, (Indianapolis: Bobbs-Merrill, 1969).

¹⁸ See e.g.: G. Clayton and R.W. Houghton, "Reform of the British Income Tax System", in B. Crick and W. Robson, eds., *Taxation Policy*, (London: Penguin, 1973); J. Kay and M. King, *The British Tax System*, 4th ed., (Oxford: Oxford University Press, 1986); A. Robinson and C. Sandford, op.cit., p.231; C. Heckly, 1987, op.cit., p.6. Several French interviewees described the outcome of French tax reform in incrementalist terms. Jean-Pascal Beaufret mentioned that the Socialist government of Francois Mitterrand decided to effect changes in gradual steps and, at some length, he described how tax reform represented a number of small steps over many years (Jean-Pascal Beaufret, interview in Paris, France, May 14, 1992). Commenting on the nature of the tax reforms in France in the 1980s, Philippe Lagayette said, "C'etait vrai qu'elles sont partiellement ad hoc et conjoncturelles... on a une fiscalité qui a évolué par petits bouts...." Lagayette cited the example of the incremental changes in value added taxes from 1987 to 1992. (Philippe Lagayette, interview in Paris, France, May 20, 1992).

¹⁹ J. Kingdon, 1984, op.cit., pp.83-88.

off' or 'catch on'.²⁰ Certainly, this was the case in France; perhaps less so in Britain, where neo-liberal tax reform has deeper roots and a longer history. Yet, if one looks at the appearance of tax reform on the Conservative governments' agenda from 1979, compared to the previous government's agenda, then the agenda change which neo-liberal tax reform represented was remarkable.

Even if one does find an incremental explanation useful, it can only be so in part. This is as true in Britain and France, as in the United States. Given this limited applicability, an essential part of the process remains unexplained - the part which includes the shift points characteristic of tax reform.

Group models

In order to conceptualize the role of groups, group (or pluralist) models of politics are available to guide the way. Such models overlap somewhat with public choice and some of the other models examined here. According to the general (and popular) model of groups, the appearance of an issue and its translation into policy, as well as how that policy is enacted and implemented, are all explained in terms of the operation of group politics and political bargaining.²¹ This school maintains

²⁰ See, J. Kingdon, *op.cit.*, p.85. Many of the interviewees in France and Britain described the emergence of tax reform in similar terms. Tax reform had become a 'hot' issue or "à la mode" and became the focus of much attention.

²¹ See: A. Bentley, *The Process of Government*, (New York: Harper and Row, 1908); D. Truman, *The Governmental Process*, (New York: Alfred Knopf, 1951); E. Latham, *The Groups Basis of Politics, A Study in Basing-Point Legislation*, (Ithaca: New York, 1952); R. Dahl, *Polyarchy*, (New Haven: Yale University Press, 1971); R. Macridis, "Groups and Group Theory" in R. Macridis and B. Brown, eds., *Comparative Politics*, (New York:

that interest groups and the conflict between groups are present in all stages of the policy process. As R. Macridis (1977) maintains,

...power configuration is basically the configuration of competing and struggling interests organized into groups. Ideology, values, the state, the formal organization of political decision making, and the content of decisions are determined by a parallelogram of group forces.²²

In such a scenario, elected politicians and administrative elites are malleable and passive, conforming to the prevailing pressures.²³ Governmental actors and institutions referee the group struggle, and the predominant interest is then ratified and adopted by government.²⁴

Some observers of the tax policy making process see tax decisions as outcomes resulting from group competition and political bargaining.²⁵ Grahame Thompson (1990) goes so far as

Dorsey, 1977); G.D. Garson, *Group Theories of Politics*, (Sage: Beverly Hills, 1978); P. Dunleavy and B. O'Leary, *Theories of the State*, (Cambridge: Polity Press, 1987).

²² R. Macridis in R. Macridis and B. Brown, eds., op.cit., p.322.

²³ P. Dunleavy and B. O'Leary, op.cit.

²⁴ The group or pluralist model is often considered in conjunction with the incremental one. The relationship is made in that the competing demands made by opposing groups constrain decision makers from making anything but marginal adjustments to a given base.

²⁵ See e.g.: B.G. Peters, 1991, op.cit.; A. Robinson and C. Sandford, op.cit.; M. Gammie, *The Enactment of Tax Legislation: an Analysis of the Consultative Process and Tax Legislation 1978 to 1987*, (London: Law Society, 1988); S. Surrey, "The Congress and the Tax Lobbyist: How Special Tax Provisions Get Enacted", *Harvard Law Review*, vol.70, May 1957; S. Mazey "Public Policy-making in France: the Art of the Possible", *West European Politics*, vol.9, no.3, July 1986; The Rueff Commission Report, "Report on the Financial Situation of France", distributed by The United States Council on the International Chamber of Commerce, New York, 1959; J.C. Martinez, *Le Statut de Contribuable*, Tome I, (Paris: LGDJ, 1980), p.74,179; M. Allais, *Pour la Réforme de la Fiscalité*, (Paris: Clement Juglar, 1990), p.30; C. Heckly, op.cit., pp.217-53.

to say that tax policy making in Britain has been traditionally propelled by group politics.²⁶ C. Heckly (1987) offers numerous examples of the means and results of group influence on the tax policy process in France.²⁷ While, clearly, there is some evidence of interest group activity in the tax policy making process in both Britain and France, it is generally agreed, that this activity is greatest after policy choices have been made, rather than before.²⁸ Kingdon (1984) claims that interest groups do not often function as a source of policy or set agendas on their own, "...lobbies often don't begin the push for legislation or the push for agenda status."²⁹ Groups are responding to government proposals rather than "promoting a potential agenda item." In the course of our interview, Baron Cockfield, for example, commented on the agenda influencing roles played by such groups as the Institute of Fiscal Studies (IFS), the Institute for Economic Affairs (IEA) and the Centre for Policy Studies (CPS), but explained that "many of these organizations, as well as other groups, were reactive instead of constructively proactive."³⁰ In addition, because of the secrecy which surrounds

²⁶ G. Thompson, 1990, op.cit., pp.30-35.

²⁷ See especially, C. Heckly, op.cit., pp.210-253.

²⁸ See: J. Hayward, *The State and the Market Economy*, (Brighton: Wheatsheaf, 1986), pp.64+; S. Mazey, 1986, op.cit., p.421; P. Hall, "The State and the Market", in P. Hall, J. Hayward, and H. Machin, eds., *Developments in French Politics*, (Basingstoke: Macmillan, 1990), pp.194-5; J. Kingdon, 1984, op.cit., ch.3; J. Kay, November 1986, op.cit., p.4; A. Robinson and C. Sandford, op.cit., p.228, ch.7; G. Thompson, 1990, op.cit., p.33; M. Gammie, 1988, op.cit..

²⁹ J. Kingdon, op.cit., pp.52-3).

³⁰ Baron Arthur Cockfield, interview in London, England, June 11, 1991.

the Treasury and Ministry of Finance budget making processes and the ideologically driven goals of the Conservative and (to a lesser degree) Socialist and RPR-UDF party leaders in government, the effects of pluralist activities are hard to identify.³¹

Furthermore, while in practice consultation is part of the tax policy process in both countries, the government remains firmly in control and cedes little, if it so chooses, to group demands.³²

In instances where group influence is observable (i.e. the CNPF and *visiteurs du soir* in France, or the oil companies in Britain), it is with difficulty that one relegates the state to a passive and reactive role as groups models are wont to do. In the final analysis, problems arise in assigning a primary, if not solitary, role to groups in determining British and French tax reform agendas.

Public choice

The public choice school makes the case that "macro-

³¹ See e.g.: B.G. Peters, 1991, op.cit., p.12; L. McQuaig, *Behind Closed Doors*, (Markham: Viking, 1987); R. Plant, "The Resurgence of Ideology" in H. Drucker, ed., *Developments in British Politics*, (London: Macmillan, 1983).

³² John Kay, for instance described the role of interest groups, in the tax policy process, as "negligible" (John Kay, interview in London, England, July 2, 1991). Another interviewee, Hermione Parker remarked, "Consultation is a farce... there has been less and less occasion under Mrs. Thatcher. The government has been very selective in terms of when and who it consults, and even then it is difficult to say what has come out of it." (Hermione Parker, interview in London, England, June 11, 1991). On the assertion of governmental independence vis-à-vis interest groups, see e.g.: N. Lawson, op.cit.; P. Hall, 1986, op.cit.; V. Wright, "Socialism and the Interdependent Economy: Industrial Policy-making Under the Mitterrand Presidency", *Government and Opposition*, vol.19, no.3, Summer 1984; S. Berger, "The Socialists and the Patronat" in H. Machin and V. Wright, eds., *Economic Policy and Policy-making Under the Mitterrand Presidency 1981-84*, (London: Frances Pinter, 1985).

political phenomena must have micro-foundations in the behavior of individuals."³³ It starts from a deductive reasoning of the behavior of human beings and its consequences. A number of different lines of analysis have emerged from this school: median-voter, political business cycle, budget maximization, rent-seeking, log-rolling, fiscal illusion, to name some. Common to all is the assumption that individuals are "rational, utility-maximizing, self-interested, and (often) perfectly informed."³⁴

Public choice analysis has been applied to the tax policy area with some success. As evidence of self-interested utility maximization, one can point to the prominence of taxation as a political issue during elections and its importance in election manifestos, or the myriad tax reliefs that riddle tax systems, or the efforts by governments to raise and lower taxes at various points in the so-called electoral - or political business -

³³ P. Dunleavy and B. O'Leary, 1987, op.cit., p.91. See also: A. Downs, *An Economic Theory of Democracy*, (New York: Harper and Row, 1957); A. Downs, "Why the Budget is too Small in a Democracy", *World Politics*, vol.12, no.4, July 1960; J. Buchanan and G. Tullock, *The Calculus of Consent*, (Ann Arbor: University of Michigan Press, 1962); J. Buchanan, *Public Finance in Democratic Process*, (Chapel Hill: University of North Carolina Press, 1967), ch.10; M. Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, (Cambridge: Harvard University Press, 1971); G. Becker, "A Theory of Competition Among Pressure Groups for Political Influence", *Quarterly Journal of Economics*, vol.98, no.3, August 1983; W. Niskanen, *Democracy and Representative Government*, (Chicago: Aldine, 1971); J. Buchanan and R. Tollison, *Theory of Public Choice*, (Ann Arbor: University of Michigan, 1973); R. Wagner, *The Public Economy*, (Chicago: Markham, 1973); J. Buchanan, *The Limits of Liberty: Between Anarchy and Leviathan*, (Chicago: Chicago University Press, 1975); K. Roskamp, ed., *Public Choice and Public Finance*, (Paris: Editions Cujas, 1980); E. Tufte, *Political Control of the Economy*, (Princeton: Princeton University Press, 1978); R.E. Wagner, "Revenue Structure, Fiscal Illusion and Budgetary Choice", *Public Choice*, vol.25, Spring 1976; P. Van Doren, *Politics, Markets and Congressional Policy Choices*, (Ann Arbor: University of Michigan Press, 1991); G. Tullock, "A Simple Algebraic Logrolling Model", *The American Economic Review*, vol.60, no.3, June 1970; J. Frerejohn, *Pork Barrel Politics*, (Stanford: Stanford University Press, 1974).

³⁴ P. Dunleavy and B. O'Leary, 1987, op.cit., p.88.

cycle.

Tax reform emerged on governmental agendas because parties and party officials, in opposition or in government, sought to attract voters who appeared to demonstrate a growing predilection for tax cuts and other reforms. Moreover, the advocacy of tax reform by encompassing groups like political parties, peak associations, presidents and prime ministers, stemmed from their inherent positions and concern for the productive nature and welfare of society as a whole.³⁵ Indeed, to an extent, Mancur Olson's (1982) argument has some value for our analysis, but it doesn't really provide us with an understanding of the process(es) by which tax reform emerged on political agendas. It is concerned with micro-level foundations or motivations, whereas we are concerned with micro-level activities and processes. Of course, the two cannot be entirely separated, but for the moment we will try first to explain how it happened and in the process, try to understand why.

Public choice arguments have not been universally proven or agreed, either in general, or with respect to explaining tax policy.³⁶ Problems arise particularly with political business

³⁵ See: M. Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation and Social Rigidities*, (New Haven: Yale University Press, 1982); G. Mucciaroni, op.cit.

³⁶ See e.g.: J. Diamond, "A Note on the Public Choice Approach to the Growth in Government Expenditure", *IMF Working Paper* WP/88/93, (Washington, DC: IMF, October 21, 1988); D. Cameron, "The Expansion of the Public Economy: a Comparative Analysis", *American Political Science Review*, vol.72, no.4, December 1978; A.O. Hirschman, *L'Économie comme Science Morale et Politique*, (Paris: Gallimard, 1984); Y. Mény and J.C. Thoenig, *Politiques Publiques*, (Paris: Presses Universitaires de France, 1980); P. Hall, 1986, op.cit., pp.10-13; W.W. Pommerehne, "Public Choice Approach to Explain Fiscal Redistribution" in K.W.

cycle, rent seeking and median voter models. Firstly, tax reform did not necessarily follow the concerns and patterns predicted by political business cycles.³⁷ Tax cuts and tax reform did not always take place at predicted points in the electoral cycle. Secondly, it was not clear where the median voter was positioned with respect to the tax issue, and even less clear when opinion on taxation was set against opinion on spending.³⁸ Moreover, there was no clear evidence that should a vote seeking politician find the most 'popular' position, that he/she would derive any benefit. Finally, one of the outstanding features of tax reform in the 1980s was its elimination or reduction of special tax privileges. Thus, many proposals resulted in concentrated costs and diffuse benefits.

More fundamentally, problems exist with the assumptions made by public choice writers. Many critics see individuals as more

Roskamp, ed., op.cit.; G. Mucciaroni, op.cit.; S. Hansen, 1983, op.cit., chs.1, 2; A. Rabushka, "The Tax Reform Act of 1986: Concentrated Costs, Diffuse Benefits - an Inversion of Public Choice", *Contemporary Policy Issues*, vol.4, October 1988; M. Schwarz and M. Thompson, *Divided We Stand: Redefining Politics, Technology and Social Choice*, (London: Harvester Wheatsheaf, 1990); D. North, K. Cook and M. Levi, *The Limits of Rationality*, (Chicago: University of Chicago Press, 1990).

³⁷ K. Monroe, "A French Political Business Cycle?" in P.G. Cerny and M. Schain, eds., *French Politics and Public Policy*, (London: St. Martin's Press, 1980); J. Hayward, *The State and the Market Economy*, (Brighton: Wheatsheaf, 1986), pp.221-2; A. Cowart, "The Economic Policies of European Governments", Parts I and II, *British Journal of Political Science*, July 1978 and October 1978.

³⁸ See e.g.: J. Dubergé, 1990, op.cit., p.308; R. Rose and T. Karran, 1987, op.cit., pp.95-6, 145, 167; T. Romer and H. Rosenthal, "The Elusive Median Voter", *Journal of Public Economics*, vol.12, no.2, October 1979; *L'Express*, no.1735, 5-11 Octobre 1984, p.22.

than bundles of given tastes and preferences.³⁹ Self-interest is not the only motivating force. However, even if it is one among several, it isn't sufficient to accept it as given. How does one come to know what one's self-interest is (or any interest)? We must be prepared to account for the complex actions of individuals by accepting that a wide range of interests and motives explain human behavior. However, these interests and motives, as well as the strategies that guide human actions, must be considered endogenously and not outside of an institutional context.

While some lines of public choice thought have some virtue in furthering our understanding of the micro-level foundations of human behavior, as noted before, our undertaking here is concerned with the processes of tax reform. The neglect of an active institutional role in public choice analysis, moreover, means that we must look elsewhere for an appropriate explanation.

Elite and state models

Given the centralized nature of tax policy making in Britain and France, and the elitism which characterizes the tax policy making cadres in both countries, the temptation to describe the

³⁹ See: A. Wildavsky, "Choosing Preferences by Constructing Institutions: A Cultural Theory of Preference Formation" in A.A. Berger, ed., *Political Culture and Public Opinion*, (New Brunswick: Transaction Publishers, 1989); A. Wildavsky, "Why Self-Interest Means Less Outside a Social Context", *Journal of Theoretical Politics*, vol.6, no.2, April 1994; M. Taylor, "Structure, Culture, and Action in the Explanation of Social Change" in W. Booth, P. James and H. Meadwell, eds., *Politics and Rationality*, (Cambridge: Cambridge University Press, 1993); K. Thelen and S. Steinmo, "Historical Institutionalism in Comparative Politics" in S. Steinmo, K. Thelen and F. Longstreth, eds., *Structuring Politics, Historical Institutionalism in Comparative Analysis*, (Cambridge: Cambridge University Press, 1992), pp.7-10.

tax reform process in state-centric or elitist terms is hard to resist. But, neither model presents an accurate picture of reality.

In reaction to the society-centered models of pluralism some authors have returned to an analysis of the state and its capabilities. Naturally how one defines the state, and how one identifies and explains its autonomy, establishes important parameters for one's analytical framework. Some state-centric scholars offer related but competing visions. Rather than undertake a full review here, I shall refer the reader to their works.⁴⁰

France, and to a lesser extent Britain, have been the subject of state-centric analysis.⁴¹ Furthermore, tax policy

⁴⁰ See: E. Nordlinger, *On the Autonomy of the Democratic State*, (Cambridge: Harvard University Press, 1981); E. Nordlinger, with T. Lowi and S. Fabbrini, "The Return of the State: Critique", *American Political Science Review*, vol.82, no.3, September 1988; G.A. Almond, "The Return to the State", Symposium, *American Political Science Review*, vol.82, no.3, September 1988; S. Krasner, "United States Commercial and Monetary Policy: Unravelling the Paradox of External Strength and Internal Weakness" in P.J. Katzenstein, ed., 1978, op.cit.; S. Krasner, *Defending the National Interest*, (Princeton: Princeton University Press, 1980); S. Krasner, Review Article, "Approaches to the State: Alternative Conceptions and Historical Dynamics", *Comparative Politics*, vol.16, no.2, January 1984; P.B. Evans, D. Rueuschemeyer and T. Skocpol, *Bringing the State Back In*, (Cambridge: Cambridge University Press, 1985); J. Hall and J. Ikenberry, *The State*, (Milton Keynes: Open University Press, 1990).

⁴¹ See e.g.: K. Dyson, *The State Tradition in Western Europe: A Study of an Idea and Institution*, (Oxford: Robertson, 1980); P.J. Katzenstein, ed., 1978, op.cit.; M. Harrop, ed., *Power and Policy in Liberal Democracies*, (Cambridge: Cambridge University Press, 1992); J.P. Nettl, "The State as a Conceptual Variable" in L.J. Cantori and A.H. Ziegler Jr., eds., *Comparative Politics in the Post-Behavioral Era*, (Boulder: Lynne Rienner Publishers, 1988); W. Andrews and S. Hoffman, eds., *The Fifth Republic at Twenty*, (Albany: SUNY Press, 1981); J. Hayward, *Governing France*, 2nd ed., (London: Weidenfeld and Nicolson, 1983); E. Suleiman, "State Structures and Clientelism: the French State Versus the 'Notaires'", *British Journal of Political Science*, vol.17, part 3, July 1987; P. Cerny, "State Capitalism in France and Britain and the International Economic Order" in P.G. Cerny and M. Schain, eds., *Socialism, the State and Public Policy in France*, (London: Frances Pinter, 1985); J. Hayward, 1986, op.cit.; J. Simmie and R. King, eds.,

making appears to be one area in which the state is in full control. However, the evidence shows that such assertions are more apparent than real.

In terms of this study here, state-centric analyses prove faulty in large part because they assume the state is autonomous in developing its tax preferences and acting on those preferences. While in some cases this may be true, with respect to the cases under study here - neo-liberal tax reform in Britain and France - such assumptions are less than watertight.

In both countries, state actors and institutions were not always in agreement on the shape and direction of tax policy. Serious divisions, resistance and policy over-rides characterized the state's preference development and policy formation processes.⁴² Moreover, at some stage, societal actors were able to make their influence felt, as we learned in a previous

The State in Action: Public Policy and Politics, (London: Pinter, 1990); P. Dunleavy, "The United Kingdom, Paradoxes of an Ungrounded Statism" in F. Castles, ed., *The Comparative History of Public Policy*, (Cambridge: Polity Press, 1989); A. Gamble, "Privatization, Thatcherism and the British State", *Journal of Law and Society*, vol.16, no.1, Spring 1989; J. Wolfe, "State Power and Ideology in Britain: Mrs. Thatcher's Privatization Programme", *Political Studies*, Vol.39, no.2, June 1991.

⁴² See e.g.: J. Attali, *Verbatim*, (Paris: Fayard, 1993); C. Heckly, op.cit., esp. ch.4; F. Giroud, *La Comedie de Pouvoir*, (Paris: Fayard, 1977); P. Favier and M. Martin-Roland, *La Decennie Mitterrand*, 1. *Les Ruptures*, (Paris: Seuil, 1990), 2. *L'Epreuve des Faits*, (Paris: Seuil, 1991); E. Dupin, *L'Après Mitterrand*, (Paris: Calmann-Levy, 1991); N. Lawson, op.cit.; M. Thatcher, *The Downing Street Years*, (London: Harper Collins, 1993); J. Bruce-Gardyne, *Ministers and Mandarins, Inside the Whitehall Village*, (London: Sidgwick and Jackson, 1986); J. Bruce-Gardyne, *Mrs. Thatcher's First Administration: the Prophets Confounded*, (London: Macmillan, 1984); M. Moran, "Financial Markets" in J. Simmie and R. King, eds., op.cit; M. Holmes, *The First Thatcher Government 1979-1983*, (Brighton: Wheatsheaf Books, 1985), p.44.

section.⁴³ Business groups, particularly in France, were important in helping set the agenda. Moreover, these and other groups, frequently sought, with varying degrees of success, to obstruct reforming efforts. Such activity and its consequences, appear to undermine claims of state autonomy in the case of tax reform.

Furthermore, as we have seen, the processes with which we are concerned, problem recognition and agenda setting, took place largely outside the state.⁴⁴ If tax reform appeared on governmental agendas, it did so because of the ideas, efforts and choices of actors outside the state. The press, policy experts and others conspired to place neo-liberal tax reform, first on specialized agendas - the opposition agendas of Chirac and the RPR and Thatcher and the Conservatives. Elections helped transform these specialized agendas into governmental agendas for both opposition parties, first the Conservatives led by Thatcher in Britain, and later, the RPR-UDF coalition led by Chirac in France. Finally, especially in the case of France, developments in the international environment, especially economic and tax developments tied to political developments in Britain and the United States, made an impact on the French government's tax

⁴³ See e.g.: previous footnote; J. Wolfe, *op.cit.*; P. Cerny in P. Cerny and M. Schain, eds., 1985, *op.cit.*; E. Suleiman, 1987, *op.cit.*; S. Mazey, 1986, *op.cit.*; C. Sandford, 1993, *op.cit.*, ch.3; A. Robinson and C. Sandford, *op.cit.*; M. Gammie, 1988, *op.cit.*, pp.2, 5.

⁴⁴ See, J. Wolfe, *op.cit.*

agenda.⁴⁵ Especially with economic and tax policies, the state is 'hemmed in', 'constrained', 'dependent', 'interdependent' and less than omnipotent. These and other problems reduce the weight of state-centric arguments as explanations of the emergence of tax reform on governmental agendas in Britain and France.

Elitist doctrine posits that in any society there may be a minority of the population which takes the major decisions. Government is removed, therefore, from control by the majority, regardless of the mechanisms.⁴⁶ It is held that in the agenda setting process, elites play the critical role of determining which items to include on an agenda and which to keep off.⁴⁷ They act together as a group based on some shared purposes, notions and values. The elite constitute a coherent, unified and self-conscious group bent on exploiting their positions so as to

⁴⁵ See: S. Mazey, 1986, op.cit., p.422; P. Hall, 1986, op.cit., pp.198-226; V. Wright and H. Machin, eds., 1985, op.cit.; J. Hayward, "Conclusion" in P. Hall, J. Hayward and H. Machin, eds., 1990, op.cit.; M. Loriaux, *France After the Hegemony, International and Financial Reform*, (Ithaca: Cornell University Press, 1991); J. Hayward, 1983, op.cit., p.280; P.G. Cerny and M. Schain, eds., 1985, op.cit. Cerny (in Cerny and Schain, eds., 1985, p.208) ties in the constraints of the organization of private capital with the openness of the economy and asserts "...in an open, liberal democratic mixed economy, the capitalist state is limited to a role which forecloses the possibility that the state itself, particularly in recessionary conditions, can act in a truly autonomous fashion, which might mean challenging or replacing private capital in creating self - sustaining economic growth." We'll look at other resources which make more specific references to the international influences on the French tax agenda in the forthcoming discussion on learning.

⁴⁶ For a discussion of elite theory see: P. Dunleavy and B. O'Leary, 1987, op.cit., ch.4; J.H. Meisel, *The Myth of the Ruling Class: Gaetano Mosca and the Elite*, (Ann Arbor: University of Michigan Press, 1958); G. Parry, *Political Elites*, (New York: Praeger, 1970); P. Bachrach, *The Theory of Democratic Elitism*, (Boston: Little, Brown and Co., 1967); R. Putnam, *The Comparative Study of Political Elites*, (Englewood Cliffs: Prentice-Hall, 1976); C. Wright Mills, *The Power Elite*, (New York: Oxford University Press, 1956).

⁴⁷ B.G. Peters, 1993, op.cit., p.46.

preserve their domination. The unity of the elite can be explained in terms of the group's common socio-economic background and/or in terms of their organizational socialization and position or role which define their common situation, interest and action.

Rather than reviewing the different strands of elite theory our discussion here will begin with the premise that bureaucratic politics has become the dominant theatre of decision making in the modern state.⁴⁸ According to J.D. Auerbach, R. Putnam and B. Rockman (1988), skilled and experienced bureaucrats have gained a predominant influence over the agenda and hence play a substantive policy role.⁴⁹ Dunleavy and O'Leary (1987) put the case thusly,

They outsay, outnumber and invariably outmanoeuvre the elected and less intellectually endowed political elite, should the latter even contemplate acting against the "powers that be."⁵⁰

In this strand of elite theory, higher level administrators or bureaucrats are seen as "dominant within the political directorate of the liberal democratic state."⁵¹

A substantial body of literature exists which examines the

⁴⁸ F. E. Rourke, *Bureaucracy, Politics and Public Policy*, (Boston: Little, Brown, 1976), p.184.

⁴⁹ J.D. Auerbach, R. Putnam and B. Rockman, "Introduction to Bureaucrats and Politicians in Western Democracies" in L.J. Cantori and A. Ziegler, Jr., eds., *Comparative Politics in the Post-Behavioral Era*, (London: Lynne Rienner Publishers, Inc., 1988), p.288.

⁵⁰ P. Dunleavy and B. O'Leary, 1987, op.cit., p.174.

⁵¹ Ibid.

impact of administrative elites on public policy in Britain and France.⁵² Public policy making in Britain and France is often described as elite driven. In both countries, arguments have been put forward which point to the control of the policy process by a cohesive group of elite technocrats, in the case of France, and elite generalists, in the case of Britain, who share common socio-economic backgrounds, attitudes, ambitions and goals.

Elite arguments are problematic, however, for some of the same reasons mentioned above in our discussion of the weakness of state-centric theory: absence of unified vision and uniform approach, the impact of actors and events external to elites, etc. There is a long tradition of attributing public policy to elites, but various problems have surfaced to undermine elite

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See e.g.: E. Suleiman, *Politics, Power and Bureaucracy in France, the Administrative Elite*, (Princeton: Princeton University Press, 1974); T. Pfister, *La République des Fonctionnaires*, (Paris: Albin Michel, 1988); F. de Baecque and J.-L. Quermonne, eds., *Administration et Politique sous la Cinquième République*, (Paris: Presses de la Fondation Nationale des Sciences Politiques, 1982); C. Debbasch, *L'Administration au Pouvoir*, (Paris: Calmann-Levy, 1969); M. Crozier, *The Bureaucratic Phenomenon*, (Chicago: The University of Chicago Press, 1964); M. Crozier, et.al., *Où Va l'Administration Française?*, (Paris: Les Éditions d'Organisation, 1974); F. Ridley and J. Blondel, *Public Administration in France*, (London: Routledge and Kegan Paul, 1969); F. Burdeau, *Histoire de l'Administration Française du 18e au 20e Siècle*, (Paris: Montchrestien, 1989); R. Rose, "Higher Civil Servants in Britain" in E. Suleiman, ed., *Bureaucrats and Policy Making*, (New York: Holmes and Meier, 1984); Royal Institute of Public Affairs, *Policy and Practice, the Experience of Government*, (London: RIPA, 1980); P. Hennessy, *Whitehall*, (London: Secher and Warburg, 1989); W. Plowden, *Ministers and Mandarins*, (London: Institute for Public Policy Research, 1994); L. Pliatzky, *Getting and Spending Public Expenditure, Employment and Inflation*, (Oxford: Basil Blackwell, 1982); A. Ham, *Treasury Rules, Recurrent Themes in British Economic Policy*, (London: Quartet Books, 1981); M. Gordon, "Civil Servants, Politicians and Parties", *Comparative Politics*, vol.4, no.1, October 1971; R. Tames, *People and Politics*, (London: Charles Knight and Co. Ltd., 1975); A. Robinson and C. Sandford, op.cit., pp.86-87, 105-6; C. Hood, "British Tax Structure Development as Administrative Adaptation", *Policy Sciences*, vol.18, March 1985; F. Willson, "Policy Making and the Policy Makers" and S. Brittan, "The Irregulars" in R. Rose, ed., *Policy Making in Britain*, (London: Macmillan and Co., 1969); H. Heclo and A. Wildavsky, *The Private Government of Public Money, Community and Policy Inside Britain*, 2nd ed., (London: Macmillan, 1981).

explanations. In Britain, as in France, administrative elites not only feature some non-elite traits - i.e. lack of cohesion, conflicting goals and attitudes, disagreements and differing socio-economic backgrounds - but also, they turn out to be more important in terms of their advisory and 'fine-tuning' capacities rather than in terms of their purported control of the policy process.

When looking at the role played by administrative elites in the tax reform process, elite explanations are inadequate. For instance, those elites relevant to the tax policy-making process issue from different socio-economic backgrounds, they are different ages and they do not, in fact, all share the same ideological and policy orientations.⁵³

Furthermore, tax reform generally entails important decisions (perhaps incremental in the short term, but cumulatively significant), departures from the norm, that have potential and detectable political consequences. Such decisions

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See e.g.: L.J. Edinger and D.D. Searing, "Social Background in Elite Analysis: a Methodological Inquiry", *American Political Science Review*, vol. LXI, June 1967; D.D. Searing, "The Comparative Study of Elite Socialisation", *Comparative Political Studies*, vol.1, no.4, January 1969; J-F. Kesler, *L'ENA, la Société, l'État*, (Paris: Berger-Levrault, 1985), pp.388-396; C. Grémion, "Le Milieu Décisionnel Central", in F. de Baecque and J-L. Quermonne, eds., op.cit.; E. Suleiman, "Sur les limites de la mentalité bureaucratique: conflit des rôles entre cabinets ministériels et directeurs", *Sociologie du Travail*, Octobre - Décembre 1972, pp.388-409; V. Wright, "Politics and Administration Under the 5th Republic", *Political Studies*, vol.XXII, no.1, March 1974, pp.52-55; A. Stevens, "Politicization and Cohesion in the French Administration", *West European Politics*, vol.1, no.3, October 1978, pp.68-80; E. Suleiman, 1974, op.cit.; F. Giroud, 1977, op.cit.; F. Dupuy and J-C. Thoenig, *L'Administration en Miettes*, (Paris: Fayard, 1985); D. Mairey and P. Peugeot, "Les Ministres et les Directeurs: qui commande?", *Pouvoirs*, no.53, 1990, p.23; R. Tames, op.cit., pp.179-80; R. Rose, "Higher Civil Servants in Britain", in E. Suleiman, ed., op.cit., p.145; S. Eldersveld, *Political Elites in Modern Societies, Empirical Research and Democratic Theory*, (Ann Arbor: University of Michigan Press, 1989), pp.55-67.

are unlikely to be made by administrative elites in the Treasury or the Ministry of Finance, or other bureaucratic bodies.⁵⁴

These decisions remain very much with members of government such as prime ministers, presidents, and more likely, in the case of taxation, the Chancellor of the Exchequer in Britain, and the Ministers of Finance and Budget in France.⁵⁵ Other key players in the agenda setting process will issue from the political milieu (party members, politicians and/or political appointees) rather than the administrative. This does not exclude the possibility that administrative elites can initiate reform proposals, but for most of the major tax reforms of the 1980s, such was not the case.⁵⁶ If anything, they were more likely to

⁵⁴ See e.g.: B. Gournay in F. de Baecque and J-L. Quermonne, eds., op.cit.; F.F. Ridley, "French Technocracy and Comparative Government", *Political Studies*, vol.14, February 1966; A. Ham, op.cit.; Heclo and Wildavsky, 1981, op.cit.; R. Rose, ed., 1969, op.cit.; R. Rose in E. Suleiman, ed., 1984, op.cit.; M. Gordon, op.cit.; RIPA, 1980, op.cit.; D. Frost and A. Jay, *To England With Love*, (London: Hodder and Stoughton, 1970); W. Plowden, 1994, op.cit.; M. Holmes, 1985, op.cit.; L. Pliatzky, 1982, op.cit.; R. Rose and T. Karran, 1987, op.cit.; G. Thompson, 1990, op.cit.; C. Sandford, 1993, op.cit., ch.3.

⁵⁵ As Nigel Lawson (1992,p.333) states, "...tax reform is the one major branch of supply-side reform which is unequivocally under the direct control of the Chancellor."

⁵⁶ Indeed, most of the interviewees in Britain and France, referred to the dominant roles played by key political actors and advisers in setting the tax reform agenda, with secondary or tertiary roles played by administrative actors in Britain's Inland Revenue and Treasury and in France's Service de la Legislation Fiscale, Direction Générale des Impôts, and the Ministry of Finance, more generally. However, the role of civil servants was broadly acknowledged. For example, John Biffen noted that although the early Thatcher policies were well-prepared in opposition, "As time went by - of course all that diminished because you then became more and more beholden to your civil servants to produce your ideas: but the early, and in many ways, decisive changes...really did reflect the extent to which we came into office determined to be radical..." (John Biffen, interview in London, England, June 20, 1991). One French interviewee saw, in some of the changes to French tax policy, the work of elites, particularly *énarques*. Georges Egret commenting on the company tax reductions in France, "Il faut l'expliquer essentiellement par l'influence de quelques hommes pragmatiques comme M. Bérégovoy... qui était influencé par toute l'énarchie qui était autour de lui." (Georges Egret,

be important in terms of generating alternatives than in agenda setting.

While state-centric and elitist arguments are frequently marshalled to explain policy developments in Britain and France, even a less than rigorous testing of such models in the case of tax reform agenda setting as has been undertaken here, suggests their limited viability.

Culture

From culturalists we learn that a given set of beliefs, values and attitudes determine political ideas, human behavior and public policy.⁵⁷ Individuals are socialized in and infused with culture, which predisposes them to hold certain fundamental beliefs and act in certain ways. Much evidence, some esoteric, has been called upon to substantiate the causal nature of political culture.⁵⁸ The emergence of neo-liberal tax reform on governmental agendas in France and Britain can be explained by

interview in Paris, France, May 7, 1992).

⁵⁷ See e.g.: T. Parsons and E. Shils, eds., *Towards a General Theory of Action*, (Cambridge: Harvard University Press, 1951); G. Almond and S. Verba, *The Civic Culture*, (Princeton: Princeton University Press, 1963); G. Almond and S. Verba, *The Civic Culture: Political Attitudes and Democracy in Five Nations*, (Boston: Little, Brown and Co., 1965); L. Pye, *Political Culture and Political Development*, (Princeton: Princeton University Press, 1965); A. King, "Ideas, Institutions and the Policies of Governments: a Comparative Analysis", *British Journal of Political Science*, vol.3, parts 3 and 4, July 1973 and October 1973.

⁵⁸ See e.g.: G.A. Almond and S. Verba, 1963, op.cit.; G. Sartori, *Democratic Theory*, (Detroit: Wayne State University Press, 1962); L. Pye and S. Verba, eds., *Political Culture and Political Development*, (Princeton: Princeton University Press, 1966); G.A. Almond and S. Verba, *The Civic Culture Revisited*, (Princeton: Princeton University Press, 1980); R. Dahl, *Political Oppositions in Western Democracies*, (New Haven: Yale University Press, 1966); G. Hofstede, *Culture's Consequences*, (London: Sage, 1980); A. King, July 1973, October 1973, op.cit.; D.E. Ashford, *British Dogmatism and French Pragmatism*, (London: Allen and Unwin, 1982).

culturalists, for example, in terms of the 'low tax' or 'anti-tax' attitudes prevalent in both Britain and France and the 'free market' sentiments of the masses, but more importantly, the policy makers.⁵⁹ However, studies and opinion surveys reveal ambiguous and ambivalent attitudes towards taxing and spending, government intervention and the role of the state in the economy and society.⁶⁰

Culturalists are not all of one mind and the existence of uniformly held cultural paradigms has been largely disproved.⁶¹

⁵⁹ For evidence supporting and refuting these assumptions see: G. Ardant, *Théorie Sociologique de l'Impôt*, Livre IV, (Paris: S.E.V.P.E.N., 1965), première partie; J. Dubergé, 1990, op.cit., pp.167-318; J. Rivoli, *Vive l'Impôt*, (Paris: Editions du Seuil, 1965), pp.5-7, 13-17; SOFRES, *Opinion Publique, Enquêtes et Commentaires 1984*, (Paris: Gallimard, 1985), pp.202-7, 216-7, 273; M. Ullmann, "Vos Impôts en 1984", *Paris Match*, no.1786, 19 Août 1983, pp.58-60; L. Mehl, "Avant-propos", D. Borne, "'Vive le Roi Sans Gabelle' Les Révoltes Contre l'Impôt en France du XVIIe au XXe Siècle", J. Dubergé, "Résistance Comparée à l'Impôt et aux Cotisations de Couverture Sociale" in *Revue Française de Finances Publiques*, no.5, 1984; R. Rose and T. Karran, 1987, op.cit., ch.8; A. Lewis, *The Psychology of Taxation*, (Oxford: Martin Robertson, 1982); A. Lewis and D. Jackson, "Voting Preferences and Attitudes Toward Public Expenditure", *Political Studies*, vol.33, no.3, September 1985; A. Robinson and C. Sandford, op.cit., ch.7; C. Sandford, 1993, op.cit., pp.209-211; B.G. Peters, 1991, op.cit., ch.5.

⁶⁰ Surveys regularly show voters prefer expanding, or at least maintaining welfare services to cutting income taxes, if cutting taxes means reductions in services (see e.g.: BBC Radio 4 survey cited by M. Cassell, "Labour Takes Offensive in Attempt to Raise Morale", *Financial Times*, March 16, 1987, p.10). The same ambiguity is evident in France (see e.g.: J. Dubergé, 1990, op.cit.; M. Ullmann, 1983, op.cit., p.59). Also see previous footnote.

⁶¹ On some of the problems with cultural arguments, see e.g.: B. Barry, *Sociologists, Economists and Democracy*, (London: Collier-Macmillan, 1970); R. Fagen, *The Transformation of Political Culture in Cuba*, (Stanford: Stanford University Press, 1969); F. Greenstein, "A Note on the Ambiguity of 'Political Socialization': Definitions, Criticisms, and Strategies of Inquiry", *Journal of Politics*, vol.32, November 1970; R. Chilcote, *Theories of Comparative Politics*, (Boulder: Westview Press, 1981), ch.6; M. Needler, *The Concepts of Comparative Politics*, (New York: Praeger, 1991), ch.7; L.C. Mayer, *Redefining Comparative Politics*, (London: Sage Publications, 1989), ch.6; P. Hall, 1986, op.cit., pp.8-10; B.G. Peters, 1991, op.cit., pp.6-7, 286; D.J. Elkins and R. Simeon, "A Cause in Search of its Effect, or What Does Political Culture Explain?", *Comparative Politics*, vol.11, no.2, January 1979; C. Pateman, "Political Culture, Political Structure and Political Change", *British Journal of Political Science*, vol.1, part 3, July

Moreover, values, beliefs and attitudes are not simply formed during childhood socialization, but continue to be shaped by one's life experiences. This appears to undermine any attempt to attribute a causal nexus to culture; but, perhaps not. Rather it may help to surmount one of the major dilemmas confronted by cultural arguments, that is, the dilemma of change.⁶²

If culture stays the same, it is with much difficulty that we explain policy changes. On the other hand, if culture changes, according to the changing kaleidoscope of peoples' values, beliefs and attitudes, then policy change is more easily explained. The problem, however, is in distinguishing between transitory changes in public opinion and fundamental cultural changes. Also how one ascertains that cultural change and its causal force raises other problems. In other words, is the cultural change 'self-generated' or is it 'responding' to some forces in the environment?

What has emerged to renew the culturalist school is a conception of multiple cultures co-existing in a polity and

1971; W. Booth, P. James and H. Meadwell, eds., *Politics and Rationality*, (Cambridge: Cambridge University Press, 1993); S. Peterson, *Political Behavior, Patterns in Everyday Life*, (London: Sage Publications, 1990); G. Almond and S. Verba, eds., 1980, op.cit.; P. Warwick, *Culture, Structure, or Choice? Essays in the Interpretation of the British Experience*, (New York: Agathon Press, 1990).

⁶² See e.g.: P. Warwick, op.cit., ch.5; C. Webber and A. Wildavsky, *A History of Taxation and Expenditure in the Western World*, (New York: Simon and Schuster, 1986); D. Kavanagh, "Political Culture in Great Britain: the Decline of the Civic Culture" in G. Almond and S. Verba, eds., 1980, op.cit.; D. Kavanagh, *British Politics, Continuities and Change*, (Oxford: Oxford University Press, 1990), p.61.

competing against one another for dominance.⁶³ The established norms and precepts in a polity are accepted as dominant as long as they are effective. Once they lose their effectiveness, the game is up and other cultures or sub-cultures vie with one another to gain the dominant position. The discrediting of the standing culture may dislodge it from its dominant position while another is empowered by its adherents and supporters. Applying such concepts to the events of the late 1970s - for example, the discrediting of the collectivist and egalitarian cultures, provided an opportunity for individualistic and market cultures to assert themselves and spread their values.⁶⁴ Once they overtook the collectivists and egalitarians as the dominant culture, controlling the levers of power, they acted to implement their program, which included neo-liberal tax reform.

Such an argument is a powerful one. And there is certainly something of value to be learned from it. However, it leaves unanswered the questions of why cultures compete, and how they perpetuate and evolve. There must be certain incentives in-built

⁶³ See previous footnote, especially C. Webber and A. Wildavsky, *op.cit.*, chs.9,10. Also see, P. Hall, "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain", *Comparative Politics*, vol.13, no.1, April 1993.

⁶⁴ John Biffen alluded to the struggle for dominance by various ideas and values and their advocates. He explained, "... the intellectual dominance gained by Chicago over the kind of modified Keynesianism which was otherwise in place, that all gave quite a big impetus to philosophically what the government was trying to do. And suddenly you found that what had been calculated on fairly straightforward political principles was being elevated into something highly respectable, now was beginning to win the intellectual argument. That was something which hadn't been altogether expected. It did mean that the Labour Party became in increasing difficulty to sustain the case for high levels of protective spending which had been at the heart of their Keynesian approach. It began to go out of fashion." (John Biffen, interview in London, England, June 20, 1991).

in the particular institutional setting which condition the perceptions and expectations of individuals existing within it.⁶⁵ Furthermore, such arguments lead us to wonder whether culture is inherited, or alternatively, if it is learned or transmitted and how. If it is learned or transmitted, who and what is instrumental in this process? Some culturalists have found it difficult to maintain culture's independence outside of an institutional framework.

These and other dilemmas have weakened the standing of cultural arguments. As Paul Warwick (1990) tells us, "The fact that an idea or cultural trait had its origins in a certain society or type of society may mean that at some point it was useful in achieving a particular goal, but its standing as an independent causal force is essentially nil."⁶⁶ Culture, therefore, while a convenient "catch-all" framework, is deficient when called upon as an explanatory tool, particularly for the process of agenda change that gave rise to tax reform; however, it does help us to understand a number of elements relevant to that process.

Learning

Tax reform in the 1980s, while not necessarily a policy innovation in itself (very few 'new' policies are innovations but old ideas re-combined and re-constituted), was certainly an idea

⁶⁵ See, P. Hall, 1986, op.cit., ch.1, pp.230, 279.

⁶⁶ P. Warwick, op.cit., p.55.

whose time had come.⁶⁷ As we have already argued, Britain was the acknowledged leader in the neo-liberal tax reform movement which swept many countries in the 1980s.⁶⁸ The tax reform agenda which Mrs. Thatcher and her Chancellor Geoffrey Howe brought with them from opposition to government in 1979, was the work of domestic actors and domestic ideas. So too were many of the reforms introduced under Nigel Lawson's chancellorship. The same cannot be said of France. Policy makers there did not formulate tax reform proposals in a self-induced 'flash of insight'.⁶⁹ The inspiration came from elsewhere. Where did the inspiration, or rather the idea, come from? Here, identifying the source is not

⁶⁷ Tax reform, however, did not make its debut from 1979. In fact, the idea, had earlier roots. As Kingdon (1984, p.77) remarks, "You'll always find that things have their start somewhere else. People don't sit down and think up whole new approaches in a flash of insight. They borrow from somewhere else." Several of the British interviewees, for example, commented that the tax reforms enacted under Mrs. Thatcher's premiership, could trace their origins at least to ideas and policies devised or considered by the Conservatives in the late 1960s and early 1970s. As Cedric Sandford noted, the tax reforms enacted under Thatcher "grew out of a lot of Conservative thinking that had gone on for a long time." (Cedric Sandford, interview in Bath, England, June 6, 1991).

⁶⁸ See e.g.: J. Frenkel, A. Razin, and E. Sadka, *International Taxation in an Integrated World*, (Cambridge: MIT Press, 1991), p.5; J. Kay, November 1986, op.cit., p.2; N. Lawson, 1992, op.cit., p.360; G. Thompson, 1990, op.cit., p.31; C. Sandford, 1993, op.cit., pp.40-1; J. Plender, "Another Wave of Change Ahead", *Financial Times*, March 13, 1987, p.24. Although, one author I read assigns both the United States and Great Britain leading roles in the tax reform movement (N. Glazer, "Ideas and Politics in Britain: an American View" in J.C.D. Clark, ed., *Ideas and Politics in Modern Britain*, London: Macmillan Press, 1990).

⁶⁹ As we have already noted, to a certain extent the same could be said of Britain, where many of the ideas which appeared on Thatcher's tax agenda had been in the pipe-line for some years. For example, when asked why tax reform was such an important part of the Conservative program in the late 1970s and post-1979, Arthur Cockfield replied that "It had been for a long time. Much of the language used to rationalize the reform proposals of the late 1970s/early 1980s, hearkened back to the last Conservative government and before... many of the same principles had been enunciated by Ted [Heath] and Iain [MacLeod] before 1970." (Baron Arthur Cockfield, interview in London, England, June 11, 1991).

as important as understanding neo-liberal tax reform as a largely 'foreign' idea or input and how it came to take hold in the mind of French policy makers. However, even in the case of Britain, some doubts are cast on the characterization of Thatcher's tax reforms as 'flashes of insight'. There are some intriguing lines of analysis on such questions, which we will consider below.

Understanding the causes of policy change have perplexed many students of public policy. Whether one sees the state or groups pursuing their respective interests as the driving force behind policy change, we are left wondering, "Where do the ideas come from which give substance to those interests?" How do those interests come to be defined? This hearkens back to a similar question raised in our earlier discussion of public choice theory: do groups or the state experience flashes of insight and themselves originate the ideas which eventually get worked into viable policies? In some cases, yes. In other cases, the idea may not have domestic sources, but rather originates in developments taking place outside the borders of the polity. State officials and groups act on their preferences which have often been shaped and guided by external forces.

Some would have us believe that past policies largely dictate how actors in the policy process define their interests.⁷⁰ Others make assumptions about individual level

⁷⁰ See e.g.: P. Hall, 1993, op.cit., p.277-8; P. Sacks, Review Article, "State Structure and the Asymmetrical Society: an Approach to Public Policy in Britain", *Comparative Politics*, vol. 12, no.3, April 1980, p.356; M. Weir and T. Skocpol, "State Structures and the Possibilities for 'Keynesian' Responses to the Great Depression in Sweden, Britain and the United States" in P. Evans, et.al., 1985, op.cit., p.119; R.

preferences which are endogenous. Individuals act out of a self-regarding calculus of utility maximization. We have looked at such arguments already. Another approach looks at the relationship of the state and society in the international system. How do international level variables affect domestic politics and policy making?

New directions in understanding the causes of policy - or agenda - change are found in schools of thought that look to the international environment and learning and diffusion processes.⁷¹ Policy change or innovation results from learning and diffusion, which may be an international or domestic phenomenon; although it was largely on the international system that we focused. Rapid technological advances, increasingly interdependent economies and markets, and the ease with which actors cross borders and exchange ideas are all components of the phenomena which contribute to the (national) mimicking or emulation of ideas and policies developed and applied elsewhere.⁷²

Rose and T. Karran, 1987, op.cit.,; H. Heclo, *Modern Social Politics in Britain and Sweden*, (New Haven: Yale University Press, 1974), p.5.

⁷¹ See: G. Almond, *A Discipline Divided: Schools and Sects in Political Science*, (Newbury Park: Sage Publications, 1989); P. Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics", *International Organization*, vol.32, Autumn 1978.

⁷² See e.g.: K. Kaiser, "Transnational Politics: Toward a Theory of MultiNational Politics", *International Organization*, vol.25, Autumn 1971; R. Cooper, *The Economics of Interdependence: Economic Policy in the Atlantic Community*, (New York: McGraw Hill Book Co., 1968); R.B. Farrell, ed., *Approaches to Comparative and International Politics*, (Evanston: Northwestern University Press, 1966); C. Adler, "Comparison of Intranational and International Politics", *American Political Science Review*, vol.57, no.2, June 1963; J. Rosenau, B. Vincent Davis and M. East, eds., *The Analysis of International Politics*, (Glencoe: Free Press, 1971); R. Keohane and J.S. Nye, *Power and Interdependence: World Politics in Transition*, (Boston: Little, Brown, 1977); G. Breton, "Mondalisation et Science Politique: la fin d'un imaginaire

According to Hugh Heclo (1974) policy innovations are the result of diffusion or "political learning." In his investigations of the evolution of the welfare state in European countries, in particular Britain and Sweden, and the development of social policy, Heclo advocates "viewing politics through the concept of learning."⁷³ Political learning takes place in a number of ways - i.e. learning from experience, learning from diffusion, etc. It is on the latter which we will focus our attention here, although it should be noted that each form of learning impinges on the other.⁷⁴

Authors David Collier and Richard Messick (1975) developed a similar line of argument to Heclo's (1974) upon analyzing the causes of social security development within and across nations. They make a strong case for learning and diffusion, with respect to the adoption of social security.⁷⁵ The authors detected a clear pattern of diffusion of social security ideas and policies

théorique?", *Revue Études Internationales*, vol.XXIV, no.3, Septembre 1993; R. O'Brien, "The End of Geography. The Impact of Technology and Capital Flows", *The AMEX Review*, May 17, 1990; J. Rosenau, ed., *Linkage Politics: Essays on the Convergence of National and International Systems*, (New York: Free Press, 1969); J. Rosenau, *Turbulence in World Politics: a Theory of Change and Continuity*, (London: Harvester Wheatsheaf, 1990); S. Brown, *International Relations in a Changing Global System*, (Boulder: Westview Press, 1992); J. Whitman, *Copying Other Nations' Policies: Two American Case Studies*, (Cambridge: Schenkman, 1980); OECD, *Taxation and International Capital Flows*, (Paris: OECD, 1987); M. Loriaux, op.cit..

⁷³ H. Heclo, 1974, op.cit., p.306.

⁷⁴ Ibid., p.307.

⁷⁵ D. Collier and R. Messick, "Prerequisites Versus Diffusion: Testing Alternative Explanations of Social Security Adoption", *American Political Science Review*, vol.69, no.5, December 1975.

down a hierarchy of modernization.⁷⁶ Collier and Messick claim, "...the diffusion approach views social security adoption as taking place within an international system of communication and influence."⁷⁷

Learning is the acquisition and assimilation of knowledge and information applied to subsequent actions. Behavioral and policy change generally result from responses made "in reaction to some perceived stimulus."⁷⁸

Learning can take place within the confines of national frontiers. However, in our modernizing and increasingly interconnected world, learning takes place in a much broader context as Collier and Messick (1975) and Heclo (1974) demonstrate. No state exists in splendid isolation.⁷⁹ Looking at the development of social policy, specifically state income maintenance programs, Heclo (1974) determines that such policies spread internationally, in most cases by a process of diffusion and emulation.⁸⁰

Agents of change (Heclo, 1974) aware of ideas and policies being considered and/or tried elsewhere, diffuse their acquired

⁷⁶ Modernization refers to the social and economic transformation associated with the transition from primarily agricultural to industrial economies (D. Collier and R. Messick, op.cit., p.1303).

⁷⁷ D. Collier and R. Messick, op.cit., p.1305.

⁷⁸ Ibid., p.306; also see, P. Hall, 1993, op.cit., p.278.

⁷⁹ V. Rys, "The Sociology of Social Security", *Bulletin of the Social Science Association*, vol.17, no.1, January-February 1964, quoted in D. Collier and R. Messick, op.cit., p.1305.

⁸⁰ H. Heclo, 1974, op.cit., pp.10, 14.

knowledge and information within a domestic policy community or in the public arena more generally.⁸¹ Or they may transmit what they have learned to important decision-makers who act either by rejecting the 'foreign' ideas/policies or by developing them - or having them developed - into appropriate policies for the 'home market'.

Ardant (1972) noted similar processes at work in the creation of progressive tax systems in various countries during the late 19th/early 20th centuries.⁸² Michael Boskin (1990) in explaining the new directions in tax policies in the 1980s observed that "ideas tried in one country then spread to others."⁸³

Several authors credit international technological and policy developments for the changes in domestic tax policy.⁸⁴

⁸¹ Also see, C. Bennett, "Review Article: What is Policy Convergence and What Causes It?", *British Journal of Political Science*, vol.21, April 1991, p.221.

⁸² See, G. Ardant, *Histoire de l'Impôt, Livres I et II*, (Paris: Fayard, 1972).

⁸³ M. Boskin and C. McLure, eds., *World Tax Reform, Case Studies of Developed and Developing Countries*, (San Francisco: International Center for Economic Growth, 1990), p.3.

⁸⁴ See e.g.: G. Ardant, *Livre II*, 1972, op.cit., pp.372+, 425-6; A. Jack, "Long Arm of the Revenue Collectors", *Survey*, "World Taxation", *Financial Times*, May 20, 1994, p.1; D. Brean, "Policy Perspectives on International Taxation" in C. Sandford, ed., *Key Issues in Tax Reform*, (Bath: Fiscal Publications, 1993); OECD, *Tax Information Exchange Between OECD Member Countries*, (Paris: OECD, 1994); P. Stevens, "Lawson Rides the Wave of International Tax Reform", *Financial Times*, March 9, 1987, p.6; P. Solal, "France: the Necessary Reform", *Tax Planning International Review*, vol.14, no.7, July 1987; OECD, *Why Economic Policies Change Course*, (Paris: OECD, 1988); V. Tanzi, "The Response of Other Industrial Countries to the U.S. Tax Reform Act", *National Tax Journal*, vol.XL, no.3, September 1987; V. Tanzi, "The IMF and Tax Reform", IMF Working Paper no.WP/90/39, (Washington, D.C.: IMF, 1990); D.W. Lee and R.B. McKenzie, "The International Political Economy of Declining Tax Rates", *National Tax Journal*, vol.XLII, March 1989; J. Slemrod, "Tax Principles in an International Economy" in M.J. Boskin and C.E. McLure Jr., eds., op.cit.; J. Whalley, "Foreign Responses to

Many have attributed the emergence of neo-liberal tax reform on governmental agendas in Britain and France to such processes.⁸⁵ However, I believe that modernization and globalization facilitated the exchange of information, the observations and interactions of agents of change and served more as catalysts to the process of policy change rather than the causes of policy change.

Although France - as will be shown - is a more obvious example of the impact of learning and diffusion in an international setting, a weaker case can be made for explaining, in similar terms, the emergence of neo-liberal tax reform on the British government's agenda in the period from 1979.⁸⁶ In fact,

U.S. Tax Reform" in J. Slemrod, ed., *Do Taxes Matter?*, (Cambridge: The MIT Press, 1990).

⁸⁵ Indeed, several of the French interviewees referred to developments outside France's borders as having an impact on the change in French tax policy. Although this factor was cited by none as the only or major factor. Responding to a question on the role of international developments Patrick Careil said, "... Indirectment...pas directement, mais je pense que indirectement dans le mesure ou s'influencer les medias et les decideurs francais qui ont augmenter les pressions en disant... "Voyez notre revendication est legitime puis que en tous les autres pays on fait comme ca..." (Patrick Careil, interview in Paris, France, May 25, 1992). Georges Egret felt that the shape of tax policy in France during the 1980s was to a certain extent influenced by outside factors. He spoke at length of how early Socialist fiscal policies resulted in excess and particularly in terms of the costs imposed on businesses and the effects on the franc. Membership in the EC and the franc's role in the European monetary system obliged a major change in policies on the Socialist government. He concluded, "... maintenant le problème essentiel c'est l'Europe; que nous soyons compétitif dans le domaine fiscal et que par consequent si nos voisins baissent leurs taux, nous baissions aussi, et je crois que la réforme américaine, qui s'est répandu un peu en l'Europe a été un élément considérable et qui fait comprendre beaucoup des socialistes qu'ils doivent falloir aussi - en matière de l'impôt sur le revenu - baisser." (Georges Egret, interview in Paris, France, May 7, 1992).

⁸⁶ Some of the literature hinted that in the 1979 to 1989 period tax policy makers in Britain were (or could have been) influenced by developments outside Britain's borders. See e.g.: C. Sandford, 1993, op.cit., pp.40-1; P. Stevens, March 9, 1987, op.cit., p.6; A. Dilnot and J. Kay in Boskin and McLure, eds., 1990, op.cit., p.155; M. Prowse, "The CBI Gives Lawson Some Food for Thought" and "CBI Group Call for

the British experience suits a domestic model of learning (Heclo, 1974) better than an international one. The neo-liberal tax reform agenda was determined more clearly, not so much by international developments as by the trials and errors of previous British governments, policy makers, policy experiments and legacies.⁸⁷

However interesting and useful learning approaches appear to be, they are undermined by important shortcomings. Certain questions can be raised which learning and diffusion do not adequately or convincingly address. Who learns? From what? From whom? Under what circumstances? And with what effect? Learning does not make clear what is learned, who learns, under what conditions learning takes place, why people learn and what determines the effect learning has on the domestic policy making

Tax Reform", *Financial Times*, December, 17, 1985, pp.19, 36; G. Thompson, 1990, op.cit., pp.120-2; *The TUC Report 1980*, Report of 112th Annual Trades Union Congress, (London: Trades Union Congress, 1980), p.262. Although, many of the British interviewees were aware of developments elsewhere with references made to the Chicago School, Arthur Laffer, events in California in 1978, the United States, Denmark and Australia. For example, when asked why tax reform was such an important part of the Conservative agenda John Biffen remarked, " I think there were a number of reasons. One was that one looked at California or one looked at Denmark, and you saw societies where the burden of tax was beginning to break the political structure. So we were in a situation where we thought that as prudent politicians we had better be on the side of lower taxes and more particularly lower taxes and I think that was more important than any Laffer-style supply theory..." (John Biffen, interview in London, England, June 20, 1991). Even the *Conservative Campaign Guide of 1987* devoted a few paragraphs to the American tax reforms of the 1980s and how these were observed with "great interest" but that the "American precedent" was "not regarded as fully applicable to the UK." (*Conservative Campaign Guide 1987*, London: Conservative and Unionist Party, 1987, p.49). The impact of outside developments on British tax thinking, albeit indirect, was alluded to by Douglas French, who spoke of the "mood of the times", the "intellectual dominance of Chicago" and the affirmation of the sensibleness of neo-liberal tax reform by virtue of its consideration and enactment in other countries (Douglas French, interview in London, England, July 2, 1991).

⁸⁷ See, P. Hall, 1993, op.cit.

environment. If one applies learning cross-nationally, and one assumes that the pool of (tax) knowledge is more or less universally accessible, why do some countries pursue policies different from others? Moreover, are we confident enough to assert that tax reform was not at all a 'homegrown' response to similarly and simultaneously perceived problems? Who is to say that tax reform developments in Britain and France were not simultaneous but separate manifestations of 'homegrown' responses to 'homegrown' problems? The inability to adequately treat such questions and marshal responses into a coherent framework which enjoys a consensus, makes learning/diffusion models unwieldy and clumsy.

An additional problem exists. With respect to Britain and France, we are unable to frame discourse on the tax reform agenda setting processes in identical terms. France was allegedly influenced by outside developments and learned therefrom. Its tax agenda was inspired by ideas and developments taking place elsewhere, even though the specific measures were devised by domestic policy makers. Britain, on the other hand, learned largely from domestic experiences and experiments.

The inability to similarly frame the processes of tax reform in both Britain and France presents an obstacle. Nevertheless, models of learning and diffusion point us in a promising direction and offer valuable insights into a broader circle of factors that make up the policy process. However, in ranging so widely, these models become subject to accusations of incoherence

and unmanageability.

Institutionalism

Several prominent models of politics have been reviewed and examined in this section. None seem entirely appropriate for explaining the course of tax reform in either Britain or France during the 1980s. However, two models, yet undiscussed, point us in the right direction. Institutionalism, and process streams and windows appear to provide more appropriate frameworks for conducting discourse on the complex of actors, ideas and institutions and the dynamic processes which engendered neo-liberal tax reform in France and Britain in the 1980s. They are more comprehensive and systemic and deftly accommodate many elements of the models already discussed.

By now, it has been pointed out a number of times that the theories examined so far have failed to adequately consider the role of institutions. Earlier scholars like Almond and Coleman (1960) and Bauer and Gergen (1968) referred frequently to formal organization and the structure of governmental decision making as an important variable in the policy process in so far as it determines the interactive behavior of groups.⁸⁸ A number of scholars in recent years have taken individual actors with their concomittant preferences, interests and resources, as the unit

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R. Bauer and K. Gergen, eds., 1968, op.cit.; G. Almond and J. Coleman, eds., *The Politics of Developing Areas*, (Princeton: Princeton University Press, 1960).

of analysis and then examined how institutions affect behavior.⁸⁹ This school views individual actors as a function of both the attributes of the individual (values and resources) and the attributes of the decision situation. The attributes of the decision situation are a product of the design and organization of the physical structures, formal rules, compliance procedures and standard operating practices, as well as the nature of the relevant good. Institutionalism insists on a more autonomous role for political institutions without denying the importance of both the social context of politics and the motives of individual actors; hence it acts as a bridge between state and society centered approaches by examining the impact of the institutional setting on both.

Institutionalists emphasize the notion that if an actor is abstracted from his particular institutional setting, not only will how that actor defines his role and interests change, but consequently his very actions will be different as well.⁹⁰ Thus,

⁸⁹ See: T. Lowi, "American Business, Public Policy, Case Studies and Political Theory", *World Politics*, vol.16, July 1964; R. Bauer and K. Gergen, eds., op.cit.; T. Lowi, "Decision Making Versus Policy Making: Towards an Antidote for Technocracy", *Public Administration Review*, vol.30, May-June 1970; D.E. Ashford, "Political Science and Policy Studies: Towards a Structural Solution", *Policy Studies Journal*, vol.5, special issue 1977; D.E. Ashford, ed., *Comparing Public Policies: New Concepts and Methods*, (Beverly Hills: Sage, 1978); L. Kiser and E. Ostrom, "Three Worlds of Action" in E. Ostrom, ed., *Strategies of Political Inquiry*, (Beverly Hills: Sage, 1982); J. March and J. Olsen, "The New Institutionalism: Organizational Factors in Political Life", *American Political Science Review*, vol.78, September 1984; P. Hall, 1986, op.cit.; J. March and J. Olsen, *Rediscovering Institutions*, (New York: The Free Press, 1989); J. Olsen, "Modernization Programs in Perspective: Institutional Analysis of Organizational Change", *Governance*, vol.4, no.2, April 1991; S. Steinmo et al., eds., 1992, op.cit.

⁹⁰ Bauer and Gergen (1968, p.174) explained that institutional rules and roles had a defining effect on actors in the polity and that "within any given political arena the variations may be patterned to conform

institutions provide the context in which politicians, interest groups, bureaucrats and policy entrepreneurs define and attempt to realize their policy preferences. To understand policy processes and outputs, an examination, therefore, is required of a country's political, social and economic institutions - formal and informal, domestic and international - and how they shape and determine the policy preferences and actions of actors in the polity. Such an examination, as unwieldy as it may be, has been attempted in a number of policy areas, like health, railroad, economic, foreign economic and taxation.⁹¹

Hall's (1986) approach - which seems to draw some inspiration from John Zysman (1977, 1978) - for example, identifies five sets of variables as important determinants of economic policy in Britain and France: the organization of labor, the organization of capital, the organization of the state, the organization of the political system and the structural position of the nation in the international economy.⁹² The variations in social, political and economic organization from one country to another account for why different countries pursue different

to the particular role structures and rules of the subsystem."

⁹¹ See e.g.: E. Immergut, "The Rules of the Game: the logic of health policy-making in France, Switzerland and Sweden" in S. Steinmo et.al., eds., 1992, op.cit; C. Dunlavy, "Political Structure, State Policy and Industrial Change: early railroad policy in the United States and Prussia" in S. Steinmo et.al., eds., 1992, op.cit.; P. Hall, 1986, op.cit.; P.J. Katzenstein, 1978, op.cit.; S. Steinmo, "Political Institutions and Tax Policy in the United States, Sweden and Britain", *World Politics*, vol.61, July 1989; S. Steinmo, 1993, op.cit.

⁹² See especially, P. Hall, 1986, op.cit., ch.9; J. Zysman, *Political Strategies for Industrial Order*, (Berkeley: University of California Press, 1977); J. Zysman, "The French State in the International Economy" in P.J. Katzenstein, ed., 1978, op.cit.

policy paths. Nevertheless, these five variables are the most important for the course of economic policy; although, Hall does not rule out the operation of other explanatory variables, i.e. the free will of personalities and policy makers, and ideology.⁹³ These, however, tend to be sporadic and lack the consistency and continuity of the five principal variables. Hall has chosen to give such variables scant consideration and devote his study to the five principal variables which help him to distinguish the broad patterns in the economic policies of Britain and France.

In a similar vein, although less wide ranging, Steinmo (1989, 1993) explains tax policy making in Britain, Sweden and the United States in terms of each country's constitutional and electoral structures as they are designed and re-designed in light of political and economic developments, both domestic and international. Tax policy is a function of these critical political variables.

It is through the interaction of political variables that Steinmo attempts to discern broad patterns in tax policy making and tax policy. For example, he finds that the fragmented and open political system in the United States, the strong and disciplined majoritarian government in Britain and the neo-corporate decision making institutions in Sweden were instrumental in shaping "both the conceptual and policy horizons" in those countries.⁹⁴ These particular institutional settings

⁹³ P. Hall, 1986, *op.cit.*, p.258.

⁹⁴ S. Steinmo, 1993, *op.cit.*, p.206.

impacted the interests, attitudes and behavior of actors in a particular way. Thus is tax policy, and tax reform, in Britain, Sweden and the United States explained.

The institutional approach is not without its problems.⁹⁵ The main complaints are that the framework rests on shaky foundations. March and Olsen (1984) question its empirical testability and seem ready to dismiss it as merely a good argument that "the organization of political life makes a difference."⁹⁶ Furthermore, institutionalism is too broad and ambiguous and there is no agreement about what it means. Different scholars define 'institutions' differently. But in most cases, they define institutions broadly, making their arguments difficult to refute. The failure to 'tighten up' institutional analysis appears to undermine its utility as an analytical framework, as almost everything can be explained in institutional terms. While this may be a valid criticism, in part, it does not diminish the usefulness of the construct in advancing our understanding of what goes on in a polity.

Another important criticism focuses on institutionalism's uncomfortable treatment of preferences which may be exogenous to the political system or actions which are choice based rather than determined by institutions. For instance can

⁹⁵ See: J. March and J. Olsen, 1984, op.cit.; G. Jordan, "Policy Community Realism Versus 'New' Institutionalism Ambiguity", *Political Studies*, vol.38, no.3, September 1990; Paul Sabatier, "Toward Better Theories of the Policy Process", *PS: Political Science and Politics*, vol.XXIV, no.2, June 1991; S. Steinmo et al., eds., 1992, op.cit., pp.14-22.

⁹⁶ J. March and J. Olsen, 1984, op.cit., p.74.

institutionalism explain why Mrs. Thatcher so strongly held her monetarist and neo-liberal convictions? Can it explain why Mitterrand felt it was necessary to "faire payer les riches"? The role of such beliefs and actions place limitations on the extent to which what takes place in the polity can be attributed to institutional forces.

Another problem surrounds institutionalism's neglect of individual level processes - the interactions between actors and ideas, the manipulation of information, how problems and solutions come to the attention of policy communities, policy entrepreneurs and decision makers. Finally, institutionalism, with its basis in rules, roles and physical structures, has an inherent bias against change and innovation.⁹⁷ It is better suited to explaining long-standing patterns.

Both Hall (1986) and Steinmo (1989, 1993) employ an institutional approach to explain the persistence of national patterns of policy. Historical continuities within individual countries and cross-country differences, rather than policy departures - which many claim, more often than not represent a blip on the policy continuum - are the focus of these studies. However, when it comes to explaining shift points in traditional patterns - important policy changes - then institutionalist

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Lawrence Dodd (1986) found this to be the case with the American Congress, for example. The physical organization and organizational rules of Congress imparted a 'conservative bias' in that institution and the effect on policy was such that there was a "tendency to adapt slowly to the rise of new societal problems and new policy agendas" (L. Dodd, "A Theory of Congressional Cycles: Solving the Puzzle of Change" in G. Wright, Jr., L. Rieselbach and L. Dodd, eds., *Congress and Policy Change*, New York: Agathon Press, Inc., 1986, p.19).

arguments falter.⁹⁸

Steinmo's (1989) framework and his reliance on political institutions, which change rather slowly, is not particularly well suited to policy change. Indeed, Steinmo focuses more on the extent to which apparently radical governments, like Reagan's and Thatcher's were unable to accomplish many of their plans due to institutional constraints (echoing Ikenberry's (1988) assertion that institutional approaches better explain what is not possible in a given institutional context than what is).⁹⁹ Although Steinmo does admit that policy change occurred and explains it in terms of the structure of the political process, he is not entirely convincing, nor is he entirely convinced that policy change did indeed take place. Moreover, Steinmo's analysis is less useful in explaining how tax reform ideas were developed, by whom and why and why they were adopted by Mrs. Thatcher and the Conservative Party or by Reagan and the Republicans (and the Democrats).

With respect to the 1986 Tax Reform Act in the United States, Steinmo explains this departure in policy with reference

⁹⁸ However, both Steinmo (1993, and in Steinmo, et al., eds., 1992) and Hall (1986; P. Hall, "The Movement from Keynesianism to Monetarism: Institutional Analysis and British Economic Policy in the 1970s" in S. Steinmo, et al., eds., 1992, op.cit.; P. Hall, 1993) have sought to compensate for the 'stable' approaches of their respective institutional analyses. They have slightly modified their models to accommodate the international and domestic social, political and economic changes which have affected institutions and been affected by institutions.

⁹⁹ G.J. Ikenberry, "Conclusion: an Institutional Approach to American Foreign Policy" in G.J. Ikenberry, D. Lake and M. Mastanduno, eds., *The State and American Foreign Economic Policy*, (Ithaca: Cornell University Press, 1988), p.242.

to America's peculiar political institutions - fragmented, open, pluralistic - just as he explains the policy continuities.

America's political institutions and the incentives they create, we are led to believe, would prevent reform of any kind, except perhaps, cosmetic.¹⁰⁰ To be precise, he refers to the 1986 reform as reinforcing the already complex, burdensome and particularistic trends which have characterized the U.S. tax system in the post war period.¹⁰¹ This analysis, I believe, is deficient in that it ignores, or glosses over, important changes in policy and both the domestic and international politico-economic contexts, which, to a certain extent, alternatively reflected and impacted special relations among relevant ideas, actors and institutions.

By 1993, Steinmo appeared more generous in terms of the significance of the 1986 Tax Reform Act, if only slightly. In *Taxation and Democracy* (1993), he attributes the success of this policy change - only in some respects - in part to America's fragmented government, and the committee system in Congress particularly. The fragmentation and dispersal of power is seen,

¹⁰⁰ S. Steinmo, 1993, op.cit., p.165.

¹⁰¹ Steinmo's perspective contrasts to a certain extent with that of Eugene Steuerle who worked at the Treasury Department and was the Department's Economic Coordinator for the 1984-6 Project for Fundamental Reform and the Deputy Assistant Secretary of the Treasury for Tax Analysis. According to Steuerle (1991, ch.8), the Tax Reform Act of 1986 "represented one of the most sweeping tax code changes in the history of the country..." with lower, fewer and more equal tax rates and brackets and an annual net reduction of expenditures in the tax code equal to \$193 billion in 1988. Despite this, Steuerle does admit that "many inefficient and inequitable differentials" remained and even some new problems created (p.143). (E. Steuerle, *The Tax Decade*, Washington, D.C.: The Urban Institute, 1991).

in part, as a consequence of the congressional reforms of the 1970s, which decentralized and opened the work of Congress, causing a multiplication of efforts to pursue the pork and bring back the bacon. A second major factor has to do with the electoral incentives in the United States which oblige congressmen to look and act on the short-term interests of their constituencies, even when this compromises the longer term interests of the nation.¹⁰²

These institutional variables are employed to explain the very different tax bills of 1978, 1981, 1982, 1984 and 1986. With this line of argumentation, the 1986 tax bill should have looked little different, say from the 1981 tax bill. However, one institutional variable was different. This was the relationship of business interests to policy makers and the position of those interests in the international economy. During the formulation and debate of the 1986 bill, Steinmo (1993) contends that the business community was divided. This division arose due to the changed matrix of incentives caused by the altered position of U.S. industries in the international economy.¹⁰³ If we are to believe Steinmo, barring any structural changes in the Congress, the position of American business interests had changed to such an extent in the four year period between 1981 and 1985 that the enactment of two very different

¹⁰² S. Steinmo, 1993, op.cit., p.205.

¹⁰³ "...as the world economy has internationalized, the tax policy preferences of America's corporate sector have diverged" (S. Steinmo, 1993, op.cit., pp.166-7).

tax bills in 1981 and 1986 should come as no surprise.

However, did the position of American businesses in the international economy change so significantly between 1981 and 1985? It seems doubtful. In which case, the 1986 tax bill should have been little different from the 1981 bill. Steinmo seems to interpret the evidence to suit his thesis. His institutional arguments seem to be all-encompassing - able to explain anything, persistent patterns, as well as change. However, he really only manages to half-explain the change in policy and then not very satisfactorily, because he largely focuses on explaining what the 1986 reform did not achieve. Furthermore, he avoids discussing the interactions which occurred between ideas, actors and institutions - in the late 1970s/early 1980s - and how those interactions produced tax reform.¹⁰⁴ For instance, he makes no mention of such important actors as Don Regan, the Treasury's Office of Policy Analysis, Bill Bradley, Jack Kemp or William Roth, Robert McIntyre, the ideas they promoted and how they related to one another and to institutions.

Failing this, what Steinmo does do is demonstrate how an institutional construct can explain policy change despite the largely static quality of institutions. It is suggested that institutional changes in Congress and the organization of capital

¹⁰⁴ In fact, R. Strahan (1988, p.194) shows that observed tendencies and expected patterns in the post-congressional reform tax policy process did indeed change in the mid-1980s. The variation is attributed, however, to party "political conditions associated with issues on the committee's agenda" which themselves appear, in part, as a result of changes in the socio-economic environment (R. Strahan, "Agenda Change and Committee Politics in the Postreform House", *Legislative Studies Quarterly*, vol.XIII, no.2, May 1988).

in the international economy shaped and defined the ideas, goals, relations, strategies and behavior of actors in the American polity leading to a series of tax reforms in the 1980s. However, as I mentioned above, the role played by policy entrepreneurs and activists, their ideas, goals and strategies, are generally obscured. It is left to the reader to fit the pieces of the tax reform puzzle into Steinmo's framework. While Steinmo's analysis raises some questions, the basic tenets are sound and point us in an interesting direction in our search for a model.

After analyzing Steinmo's arguments as they apply to American tax reform, how valid are they with respect to explaining tax policy change in Britain and France? In *Taxation and Democracy* (1993), the author notes the changing social, economic and political context by the late 1970s, made the time "ripe for some kind of tax reform."¹⁰⁵ He maintains that changes in public attitudes regarding the role of government and the onerous burden of taxes, particularly on the lower and middle classes in a period of high inflation, prompted a political response. Changes in elite attitudes also had an impact. Political elites frustrated with politics as usual and the inability of the Keynesian inspired consensus to resolve the prevailing economic problems, looked about for new solutions. They appeared to have found them in the ideas of the New Right. Moreover, French and British business elites were concerned about the effects of stagflation on productivity and profits and

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S. Steinmo, 1993, op.cit., p.157.

casting a wary eye on the rise of the Asian tigers¹⁰⁶ and the visibly superior position of their American, Japanese and German competitors. They called for measures - tax cuts and/or tax incentives - which would help them lower their costs and enhance their competitive positions. Changes in the economic and technological environment, with the increasing mobility of capital and flexibility of location and investment strategies of multinational corporations, required re-thinking the design of taxation.

The changing domestic, but mostly international, political, economic and social contexts, obliged tax policy makers to rethink their systems and adapt them to the changing needs and attitudes of citizens, investors and businessmen. It is in such terms that Steinmo (1993) explains the change without really going into specifics. He reminds us that how those changes were perceived, their effects on tax policy makers and the outputs produced, depend on the configuration of institutions in each country. However, he treats the role of institutions on two levels in his approach to the thorny issue of policy change: dynamically, with the (in)ability of institutions to effectively process issues and statically, with the basic structural features of government.¹⁰⁷

Steinmo (1993), for example, citing Heclo (1974), explains that the persistence of economic and budgetary norms

¹⁰⁶ The newly industrializing countries in Southeast Asia and Japan.

¹⁰⁷ S. Steinmo, 1989, op.cit., p.528.

institutionalized in the Bank of England and the Treasury prevented the Labour governments in the late 1920s/early 1930s from making any radical economic policy departures, despite the availability of new ideas.¹⁰⁸ However, new ideas eventually were wielded when the "orthodox economic convictions" proved unsatisfactory.

Established norms and procedures institutionalized in British economic policy making bodies were proving ineffective to meet new challenges. Steinmo, referring to Middlemas (1979), explains that the eventual change in approach came not because it was imposed from above, but because of "multiple responses to circumstances...of the governing institutions."¹⁰⁹

However, the institutions didn't change or even drive the change, at least not initially. It was their inability to cope with new problems which opened a window for new actors, new ideas and new methods. Policy adaptation, therefore, can be seen as the product of resourceful and entrepreneurial men and women, brandishing new ideas and challenging established orthodoxies, working through institutions and according to certain rules, perhaps modifying them and/or creating new ones along the way. Nonetheless, inefficient institutional responses to the problems at hand, and the formulation of preferences and new policies, and their implementation within and through a given institutional

¹⁰⁸ "...the major roadblock to any policy adaptation was a continuing adherence to old truths rather than any lack of political power" (H. Heclo, 1974, p.118 quoted in S. Steinmo, 1993, p.113).

¹⁰⁹ K. Middlemas, *Politics in Industrial Society*, (Thetford: Andre Deutsch, 1979) quoted in S. Steinmo, 1993, op.cit., p.115.

setting, attest to the role of institutions in this process of policy change. But the impulse for change, and the pursuit of it, was in the hands of convinced and committed individuals, albeit operating in a particular institutional environment.¹¹⁰

This leads us to another level of institutional analysis put forward by Steinmo (1993). The Tories equipped with a radical economic agenda were elected to lead the country in 1979. The government, peopled largely by committed reformers was supported by a large and relatively disciplined parliamentary majority. It had at its disposal an economic decision making apparatus that was highly centralized and largely independent of societal pressures, but which was familiar with certain constraints, those institutional and policy related. This institutional setting paved the way for the tax reforms of the 1980s. If Mrs. Thatcher's government was able to enact the program it did, the reasons are to be found in the framework of Britain's political institutions.

Perhaps this analysis can be adapted for France (a country which Steinmo does not examine). We could argue that the neo-liberal tax reforms enacted by the Socialist government from 1982-86, for example, were made possible by the ineffectual

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M. Mullard (*Understanding Economic Policy*, London: Routledge, 1992, p.12) points out that governments committed to a perspective and program which are at odds with established norms, i.e. the Treasury view, may import their own economic advisers (as the Thatcher government did with Alan Walters, Terry Burns, Peter Middleton, Peter Cropper and Adam Ridley) into the Treasury in the hopes of creating a pluralist tension, which would set the ideas held by the government against the conventional wisdom of the Treasury. The competition of ideas, would naturally be settled in favor of the government.

institutional responses to the economic crisis of the late 1970s/early 1980s. We can also look at the policy (economic, tax) commitments of key decision makers in government, especially President Mitterrand, as well as the Prime Minister (first Mauroy, then Fabius) and the Finance Minister (first Delors, then Bérégovoy). The adoption of tax reform by the Socialist government and its enactment by Parliament was assured by a number of institutional variables related to the political system: the unequivocal decision-taking role of the government, supported by a centralized, competent and (theoretically) politically neutral economic and finance administration, which can easily resist the entreaties of special interests, and the negligible economic policy-initiating role played by Parliament. Moreover, the government saw its tax agenda passed, because it enjoyed a large and disciplined (though less so than in Britain) parliamentary majority.

In both cases, therefore, a strong majoritarian government, assisted by centralized, competent and neutral economic policy-making institutions, confronted by a powerless and divided parliamentary opposition and supported by an acquiescent and disciplined parliamentary majority acted to implement its tax reform agenda.

In order to accommodate changes which break the broad policy patterns that Steinmo is more comfortable explaining, he adapted his institutional framework by setting domestic institutions and policy makers in a broader international context. His 1993

analysis considers the interaction of domestic political institutions and policy makers with international level variables, especially economic ones, and concludes that this interaction generates responses that result in policy change. The only problem I find, in the context of this study, is how the agenda changes. What forces conspire to change the agenda?

From Steinmo's 1989 study we learn that Britain has the policies it does because of its special institutional setting. From his 1993 work, we learn that the impact of international developments on domestic actors and institutions may lead to changes in policy. But questions remain. Why are those domestic actors and institutions affected and how? In what way(s) did this impact lead to neo-liberal tax reform? How did neo-liberal tax reform come to appear on political agendas? These questions, for example, are not adequately treated by Steinmo. What is going on between ideas, actors and institutions in the evolution of tax reform from idea to agenda? The focus, which seems to be, on the forest, obscures the trees. We need to understand, as well, the micro-activities that bring issues onto a government's agenda. It will be our task to fill in these pertinent pieces of the puzzle.

Peter Hall's (1986) work, which preceded Steinmo's (1989, 1993), deals with the issue of policy change somewhat more convincingly. His broader institutional analysis, which attempts to identify international level variables and their impact on the domestic policy processes makes Hall's study more eclectic but

also more thorough. Hall begins by positing that institutions, while largely static, are not immune to change.¹¹¹ He explains that his is not an entirely static analysis; he notes, "The economic strategies of Britain and France changed to some degree over the post-war period."¹¹² For example, Hall argues that changes in policy may be due to shifts in a country's international position - say, France's entry into the EEC and the moves to integrate economies and liberalize trade - and the organization of the political system - for instance, the divisions within a party and its effects, a change in electoral laws or even an election which brings a new party, new leaders and policies to office.¹¹³ We will focus briefly on the latter.

While Hall observes that "...the organization of the political system...seems to have played only a subsidiary role in economic policy-making", when assessing the factors responsible for economic policy changes - as opposed to continuities - this variable, more susceptible to change than the others, seems to play an important role indeed.¹¹⁴

¹¹¹ A perspective Steinmo comes to share in his later works (S. Steinmo et al., eds., 1992, op.cit. and Steinmo, 1993, op.cit.).

¹¹² P. Hall, 1986, op.cit., p.266.

¹¹³ By acknowledging the capacity for change wrought by these two variables, Hall's analytical framework is more flexible and more successful than Steinmo's (1989), as it proves to be more comfortable with the notion and fact of policy change.

¹¹⁴ "Perhaps this organizational space is more subject to change than others," writes Hall (1986, p.271). Hall also notes that other institutional configurations like the state, capital and labor may change depending on such things as the dynamics of the relationship between state and society or circumstances like wars and long recessions (P. Hall, 1986, op.cit., pp.256-8, 271-280).

...political action is not only a matter of constraint. There is a dynamic element to state-society relations; and from time to time a measure of innovation in economic policy breaks through some of the conventional constraints. At such moments the political system is also revealed as one of the principal sources of innovation in economic policy.¹¹⁵

While a political system is generally historically developed, slowly evolving and conducive to persisting policy patterns, it is indeed capable of change and innovation. Parties, elected officials and candidates vie against one another to offer a unique and appealing set of ideas and policies. They may be responding to perceived signals emanating from the public or changes in the domestic and/or international environments. It may be asserted, therefore, that the competition between parties drives innovation and change to a large extent.¹¹⁶

Hall (1993) expands his thesis of policy change by adapting a model of learning to explain Britain's move from Keynesian to monetarist and supply-side modes of policy making. Relegating the state to a largely subordinate role, Hall continues to emphasize the role of politicians competing in the political/electoral arena; but what's more, he identifies other supporting but essential variables which had considerable impact on the changing political discourse, i.e. the press, financial markets and think tanks. A formerly 'exclusive' and 'closed' policy process was opened to accommodate a broad debate of ideas

¹¹⁵ P. Hall, 1986, op.cit., p.273.

¹¹⁶ The innovative role of parties in the tax policy area has been noted by C. Heckly (1987), Robinson and Sandford (1983), G. Thompson (1990) and Steinmo (1993).

which, in a certain respect, broadened support for, gave greater credence to, and heightened the saliency of political actors and the alternative solutions to perceived problems which they championed.

James March (1988) supports the view that institutions are not altogether rigid and inflexible,

Organizations change in response to their environments...There is considerable stability in organizations, but the changes we observe are substantial enough to suggest that organizations are remarkably adaptive, enduring institutions, responding to volatile environments routinely and easily, though not always optimally...Many of the most stable procedures in an organization are procedures for responding to economic, social and political contexts.¹¹⁷

March discusses six processes of organizational adaptation, among which are conflict, regeneration and contagion. Though treated separately, these 'perceptives' are not mutually exclusive. Conflict refers to the action which results from the mobilization and competition between diverse interests. Changes result from "shifts in the mobilization of participants or in the resources they control."¹¹⁸ Should the CNPF assert its influence and power *vis-à-vis* smaller and traditionally less privileged groups who have temporarily gained the favor of government, or if the center-right opposition is drawing increasing political support which had been captured by the Socialists only a few months

¹¹⁷ J. March, *Decisions and Organization*, (Oxford: Basil Blackwell, 1988), pp.168-171.

¹¹⁸ Ibid., p.170.

prior, then organizational action resulting in change may ensue. The party which stands to lose from these changes, namely the Socialists, will be compelled to act.

Regeneration refers to action which is caused by a turnover in personnel. Changing the mix of participants has the effect of bringing new people with different attitudes, interests, abilities and methods into an organization. Changing the mix of actors can take place through new appointments, elections, etc. The resignation of Mr. Delors as Finance Minister and Mr. Mauroy as Prime Minister in 1984 brought Laurent Fabius and Pierre Bérégovoy, both keen tax reformers, to positions which enabled them to pursue their interests and change tax policy in accordance with the President's wishes and their own preferences. The appointment of Nigel Lawson to replace Geoffrey Howe as Chancellor of the Exchequer set the train in motion for an unprecedented period of radical tax reform. Also, the coming to power of a center-right government in France with its blatant neo-liberal program, created an opportunity for organizational change.

Finally, contagion is a concept which has to do with ideas and actions that spread from one organization to another. Increased contacts between organizations and actors within those organizations, as well as an awareness of developments going on outside an organization, lead to the diffusion of ideas. Learning takes place, which may lead to emulation. The growing contacts between members of the tax policy community in France,

including civil servants, party members, and academics, and their counterparts abroad and the interest with which people in and around government pay attention to policy developments elsewhere, facilitated and contributed to the diffusion of neo-liberal ideas like tax reform in France.

These processes of organizational change are reflected in Hall's (1986) account of policy change in institutional settings that are normally predisposed to persisting patterns and policy continuities. He observes that while "many of the most fundamental organizational features of society are not readily susceptible to change" they can and do, though usually in subtle ways.¹¹⁹ It's in the organizational spaces of the political system, and the position of a country in the international economy, that processes of change occur, which lead to (tax) policy change.

Political parties competing for electoral support search for and offer new solutions, they build coalitions and if elected may bring about policy change. Kavanagh (1990) notes that along with the politics of economic decline "the abandonment of the consensus must also be connected with the internal dynamics of the two main political parties" and the search for a "politically acceptable answer to the problems of inflation and trade union power."¹²⁰ Thompson (1990, p.32) and Robinson and Sandford (1983) agree that political parties, as they compete against one another

¹¹⁹ P. Hall, 1986, op.cit., p.266.

¹²⁰ D. Kavanagh, 1990, op.cit., pp.55-6.

in the electoral arena or are driven by ideological concerns, are the primary causes of tax reform in Britain.

But confronting political parties and leaders are "obstacles rooted in the international system and longstanding organization of capital, labor and the state" not to mention the organization of state-society relations.¹²¹ While these longstanding institutional variables constrain departures from established policy patterns some policy departures overcome the constraints and succeed, to a greater or lesser degree. Success depends on the relative bearings of the other variables, the opportunities and resources at hand and the political will to make a change. While Hall admits that the political system - and political parties and leaders in particular - is the most important source of policy innovation, he is not too much concerned with who 'invents' an idea - it could be an economist, a bureaucrat etc. - but with how and why it spreads and how that idea is translated into policy.¹²²

He credits politicians, who largely exercise responsibility for and control of this important evolutionary step. For example, tax reform was initially an idea which developed largely outside the French party system, but was adapted and advocated by political advisers and adopted by politicians driven by electoral concerns. It was Jacques Chirac, a party leader with

¹²¹ P. Hall, 1986, *op.cit.*, p.258.

¹²² Hall writes, "...the crucial step here is the one which popularizes a new economic idea and translates it into policy" (P. Hall, 1986, *op.cit.*, p.275).

presidential ambitions, who made the decision to adopt the idea and translate it (or have it translated) into policy. Hall is thus obliged to reconcile the role of ideas in politics with his institutional analysis.

Hall (1986) accommodates the role of ideas by two means. Firstly, actors hold and promote ideas/preferences/interests not exogenously, but endogenously - they are a component of the actor's rational choice and action as circumstances and situations dictate. But that choice and action, and to a certain degree, the circumstances and situations, are subject to an institutional dynamic. For example, if Chirac took up the cause of tax reform, it was because he was persuaded that by adopting the issue and pledging himself to tax reform policies, he would not only distinguish himself from the collectivist (or crypto-socialist) policies of the Giscard-Barre government and the radical socialist policies of the left, but also forge a new social coalition (much as Reagan and Thatcher had done) which would warm to his message and propel him to the presidency. Chirac's roles as political leader and presidential candidate, the character of the political parties and the nature of the French electoral system, created a matrix of incentives which affected Chirac's perceptions, calculations, ideas and actions.

The same has been said about Mrs. Thatcher, whose strident neo-liberalism set her apart not just from Labour's professed principles and policies, but also from Heath, whose U-turns and

resort to collectivist solutions she so despised.¹²³ Her promises to reduce taxes and general campaign rhetoric were conceived and expressed in a manner attractive to so-called center or floating voters as well as Labour voters.¹²⁴ These voters cast a majority of their votes along with Conservative voters to give the Conservative Party an overwhelming victory at the polls in 1979. Heading the new Conservative government and with a large parliamentary majority to support her, Mrs. Thatcher and her Chancellors began the reform of Britain's tax system. The organization of the political system therefore, was an important factor, not just in terms of its effect in pushing tax reform to the front of the political agenda, but also in determining the evolution of the tax reform idea into policy.

While institutionalism is useful in understanding tax reform in France, where tax reform came to the political agenda due to primarily pragmatic and astute political considerations, the case for applying similar arguments in Britain is less clearcut. When

¹²³ See: R. Levitas, ed., *The Ideology of the New Right*, (Cambridge: Polity Press, 1986), p.48; D. Kavanagh, 1990, op.cit., pp.67-70; J.J. Richardson, "Britain: Changing Policy Styles and Policy Innovation in Response to Economic Crisis" in E. Damgaard, P. Gerlich and J.J. Richardson, eds., *The Politics of Economic Crisis, Lessons from Western Europe*, (Aldershot: Avebury, 1989), pp.14-15; M. Thatcher, 1993, op.cit., pp.13-15; P. Cosgrave, *Margaret Thatcher, A Tory and Her Party*, (London: Hutchinson and Co., 1978), pp.89-90.

¹²⁴ See: D. Kavanagh, 1990, op.cit., pp.51,54-55,58,85; M. Holmes, 1985, op.cit., pp.15-16. Although a number of authors argue that in fact no new coalition was formed around Thatcherite policies (see e.g.: B. Cooper, A. Kornberg and W. Mishler, eds., *The Resurgence of Conservatism in Anglo-American Democracies*, (Durham: Duke University Press, 1988), pp.50, 264, 279, 287-9, 297; I. Crewe, February 1990, op.cit., pp.2-6). While no doubt many cast their votes for the Conservative Party, due to 'positive' reasons, i.e. the appeal of the various messages enunciated by the Conservatives, many also cast their vote due to 'negative' reasons, i.e. the Winter of Discontent, economic mismanagement by Labour, etc.

considering, for example, the ideological nature of tax reform, as it was espoused by the likes of Margaret Thatcher (and Ronald Reagan), a Hall-ian institutional analysis is not entirely appropriate.¹²⁵

From about 1980 in France - if not earlier - neo-liberal tax reform was catching on. The idea was establishing itself as viable, attracting the attention of economists, academics, tax experts, the press, civil servants and certain center-right politicians. However, tax reform emerged on the political or specialized agenda of the center-right from 1981 for two reasons primarily: firstly, the idea's persuasiveness as a viable solution to many of the fiscal and economic problems facing France and secondly, its political utility as an opposing ideology - with popular appeal - to the then dominant 'leftist' ideology. Many center-right politicians and sympathetic societal actors were converted to tax reform, only after the issue had begun to prove itself a political talisman elsewhere, i.e. in Britain and the United States.

While Mrs. Thatcher, Keith Joseph and others were gripped by an ideology which included tax reform as a means of altering the economic and social structure of Britain, in France the likes of Jacques Chirac, Philippe Auberger, Edouard Balladur, Alain Juppé, Jacques Attali, Jacques Delors, Laurent Fabius, Pierre Bérégovoy

¹²⁵

Several of the British interviewees referred to Mrs. Thatcher's tax-cutting instincts and her profound belief that there was too much government and that people should be allowed to keep more of their own money to spend it as they see fit.

and Francois Mitterrand gripped elements of this ideology and pragmatically applied them, when the opportunity availed itself, to the French situation. The emergence of tax reform on the French political/specialized and governmental agendas had little to do with ideological convictions. Rather it had more to do with a moderate, prudent search for alternative methods in response to the failure of reflationary, socialist economic policies enacted to revive the French economy.¹²⁶

The British case, which so clearly demonstrates how ideological convictions were the motor for policy change, presents some difficulties for institutionalists like Hall. It is in such instances that Hall admits the limitations of institutionalism. Since ideology sits uncomfortably within his framework. The reasons actors - like Thatcher, Joseph, Howe, Lawson and Reagan - hold their particular convictions cannot be entirely attributed to "their organizational position in society or the state."¹²⁷ What concerns us here, particularly in the British case, are those attitudes and beliefs motivating political actors which Hall defines as "exogenous in character in the sense that they derive from fundamental beliefs about politics or economics whose origins are not to be found in any

¹²⁶ Roland Sturm (1986, op.cit., p.447) in his study of economic and budgetary policy making under institutional restrictions comments, "The Socialist French government seemed to prefer West German Conservative pragmatism to the more ideologically committed Anglo-American version of a politique de rigueur."

¹²⁷ P. Hall, 1986, op.cit., p.278.

immediate institutional situation."¹²⁸

Certain politicians conduct politics from the standpoint of a coherent, comprehensive set of beliefs.¹²⁹ These beliefs are also known as ideology. Shils (in D. Sills, ed., 1968) observes that ideological propensities are "heightened" when "prevailing elites fail and are discredited and when the central institutions and cultures with which they associate themselves seem unable to find the right course of action."¹³⁰ We can therefore understand the potentiality of a Mrs. Thatcher or a Keith Joseph emerging on the political stage in Britain, in light of the ineffectualness with which established elites, norms and institutions confronted economic, social and political challenges in the 1970s.

Hall (1986) attests to the power of ideology and the importance of politicians who maintain and promote their fundamental beliefs. He concedes that the role of political ideas limits the extent to which the attitudes of political actors can be explained by institutional arrangements.¹³¹ The ideological orientations of actors like Mrs. Thatcher - but unlike Chirac and Mitterrand - cannot be associated with any given institutional location. The role of such ideologies and

¹²⁸ P. Hall, 1986, op.cit., p.277.

¹²⁹ Edward Shils (in D. Sills, ed., 1968) claims that ideological politics are alienative politics. He explains that ideological politicians shun the dominant creeds and contemporaneous outlooks and the central institutions of the prevailing society and oppose established political and social arrangements (E. Shils, "The Concept and Function of Ideology" in D. Sills, ed., *International Encyclopedia of the Social Sciences*, New York: The Macmillan Company and The Free Press, 1968).

¹³⁰ Ibid., p.75.

¹³¹ P. Hall, 1986, op.cit., p.277.

why they are held with such conviction by some politicians, cannot always be explained in institutional terms.

Hall makes an effort to reconcile ideology with his institutional analysis. He addresses the above discussed limitation by explaining that institutions are indeed involved.¹³² Who is to say these actors would not have shed their convictions were it not for the sounding boards and incubators provided by think tanks, central banks, the press and political parties? While institutions may not create ideas they are to a large degree responsible for their nurturing, dissemination and diffusion.

Apart from finding resonance for her instincts and ideas in institutions like the IEA, the Bow Group and later the Centre for Policy Studies, and in corners of the Conservative Party, these and other institutions helped shape and refine Mrs. Thatcher's 'Grantham shopkeeper's daughter' and 'housewife' notions about budgeting, individual initiative and responsibility.¹³³ In time the Conservative Party, like the Centre for Policy Studies and the IEA, became a ready vehicle for the dissemination of

¹³² Katherine Teghtsoonian (1992) considers the effects of ideology in her institutional analysis of child care policies in Canada and the U.S. However she discusses the roles of ideology and institutions as distinct variables impacting policy outputs and does attempt to not couch ideology in an institutional framework as Hall (1986) does (see, K. Teghtsoonian, "Institutions and Ideology: Sources of Opposition to Federal Regulation of Child Care Services in Canada and the United States", *Governance*, vol.5, no.2, April 1992).

¹³³ See e.g.: N. Lawson, 1992, op.cit., pp.8-9,13-14; M. Holmes, 1985, op.cit., pp.51-52; P. Cosgrave, 1978, op.cit., pp.84-88; H. Young, *One of Us, A Biography of Margaret Thatcher*, (London: Macmillan, 1989), ch.7.

monetarist and neo-liberal economic ideas.¹³⁴ These ideas acquired a force and appeal that helped propel the Conservatives and Mrs. Thatcher to victory in May 1979.

The point here is to demonstrate that the role of ideas in politics can be accommodated - if somewhat loosely - in an institutional analysis, thus reaffirming Hall's central tenet that institutions are important in the shaping of ideas and their translation into policy. Hall puts forward an analytical framework, which for the most part succeeds in explaining not only policy continuities, but also policy changes over time within and across countries, particularly Britain and France. He does so largely by focusing on the innovative capacity of the political system.

The institutional framework has a number of advantages and points us in interesting directions, if we can overcome its deterministic inclinations. "Institutions constrain and refract politics, but they are never the only cause of outcomes."¹³⁵ The policy process is a complex one. Many variables are involved. As Hall (1986) observes, political outcomes depend, in large part, but not entirely, on political interactions which themselves are mediated by institutions.¹³⁶ Basically, whatever

¹³⁴ Someone like Enoch Powell, who was Thatcherite before Mrs. Thatcher was, though espousing similar ideological and economic beliefs, in the late 1960s/early 1970s, found himself a lone voice as there was no institutional home to bear, shelter, nourish, diffuse and express his ideas.

¹³⁵ S. Steinmo et al., eds., 1992, p.13.

¹³⁶ P. Hall, 1986, op.cit., ch.10, pp.255-58.

happens in the policy-making process, happens because of institutions, but not to the exclusion of other factors.

Again, this eclectic framework is vulnerable to accusations of explaining everything, that it is too broad and all-encompassing. Moreover, like Steinmo's approach we have an explanation of the forest, without an understanding of what part the trees play. What exactly happens, who is involved and how, are not really accounted for. For example, who is involved in identifying and acknowledging problems? How does that process take place? Who formulates and selects solutions and translates them into policy and how do these processes take place? As David Caputo (1977) argues,

The decision-making process, if it is to be fully understood, must include a thorough understanding of the individual processes and procedures by which the different institutions reach agreement on different policy issues.¹³⁷

We need to take a closer look at those interactions between ideas and actors in the polity, in particular those that gave rise to tax reform on the governmental agendas in France and Britain. We aim to understand what goes on in that "black box". After all, institutions did not develop, advocate nor place tax reform policies on the governmental agenda, individuals did. We must therefore look at those individuals, their ideas, interests and activities. Then we can employ an institutional approach to help us better understand how institutions affected their preferences,

¹³⁷

D. Caputo, ed., *The Politics of Policy Making in America*, (San Francisco: W.H. Freeman, 1977), Conclusion.

strategies and interactions - and vice versa - in such a way as to change the tax agendas in Britain and France. Institutions can help us put the many variables involved in the tax reform process in context.

Certainly, no discussion of the tax reform process can take place without a consideration of context dependency; in other words, without referring to the particular institutional setting in which tax reform evolved from idea to government policy. The beauty of institutionalism is that it can be blended with other approaches to help us make sense of the complex relationships and interactions in a given political situation. Moreover, institutionalism brings us much closer to a framework which can explain the emergence of tax reform in Britain and France in similar terms. It can help us to conduct discourse on the similarities in the approaches and policy outputs in both countries as well as the differences.

While up to now the institutional model seems the most viable as a frame of reference for the discussion of tax reform, it rather awkwardly accomodates the ideological element that was instrumental - in the British case, at least - in moving tax reform to a high position on the government's agenda from 1979. For although this exogenous element played a central role in the development of tax reform in Britain, it was virtually absent in the French case, at least in its incipient stages between 1982

and 1986.¹³⁸

In the search for a common thread linking the tax reform process in Britain and France, it is with hesitation that an institutional framework is wholeheartedly endorsed, because of the weak link of ideology, it's greater utility in explaining differences rather than similarities, and its focus on macro-level as opposed to micro-level activities. In searching for a model which accommodates several features of this and previously examined models and thereby make up for their shortcomings, this analytical enquiry must be pursued further.

Process Streams and Windows

Our main purpose here is to explain how neo-liberal tax reform became an agenda item in France and Britain during the 1980s and to evaluate the process(es) by which tax reform made the transition from idea to government policy. We hope to discover or elaborate a framework which will allow us, if possible, to discuss the processes of tax reform on similar terms. So far we have looked at a number of different approaches which have drawn attention to varied aspects of those processes. Each approach has had some analytical purchase in explaining tax reform, but has fallen somewhat short of the mark. The wide-ranging discussion undertaken up to this point has called up interesting and useful information and insights, essential to our primary task, but has not proven entirely satisfactory in terms

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There were very few individuals who shared the ideological convictions of Reagan and Thatcher in France, and these generally were not in a position to set the agenda or make authoritative decisions.

of providing an appropriate framework for analysis.

It is worth reminding, that this study is concerned with a limited phase of the policy process, how public problems are identified and solutions devised; how these come to the attention of public officials and key decision makers; and how the agenda is set.¹³⁹ What problem(s) was/were present and acknowledged (and by whom) to which neo-liberal tax reform could be deemed an appropriate solution? Where did the solution come from? Was it a case of neo-liberal tax reform looking for a problem? Or the problem looking for the solution? Who advocated the solution? What and/who determined when and how neo-liberal tax reform should be considered and placed on the governmental agenda? The answers to these questions are essential to an identification of the relationships and interactions of diverse variables at play in this particular issue area. The heretofore considered 'models' help us only in part.

In the attempt to discover an appropriate conceptualization of the tax reform pre-enactment decision processes, a review of some of the recent literature on tax policy making and tax reform has been undertaken. In the course of this review I was particularly struck by an observation made by Ann Robinson and Cedric Sandford (1983) in the conclusion of their book *Tax Policy-Making in the United Kingdom*; they said,

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We will only deal superficially with how policy is formulated and decisions made from a number of alternatives. The latter stages of the policy process, policy enactment - involving authoritative decisions by an executive or legislature - implementation and evaluation, are excluded from this analysis.

...there are many interwoven strands in the progress of any one tax from its inception in the mind of academic or politician to its actual operation in the economic and social systems.¹⁴⁰

If I substitute 'tax reform' for 'any one tax', I have the premise for my examination of the tax reform processes in France and Britain; in other words, tax reform resulted from the interweaving of various strands, not only in Britain, but in France as well. Of course, this is no great revelation. But the notion of interweaving strands focused my attention on models which attempt to accomodate a variety of factors that make up a decision or policy. The concept of interweaving strands recalls the work of Cohen, March and Olsen (1972) and their 'garbage can model' of organizational choice. Their process streams flowing through an organization in largely haphazard and unpredictable ways captures the sense of Robinson's and Sandford's "interwoven strands".

Michael Cohen, James March and Johan Olsen (1972) put forward a model which attempts to account for the complicated and oftentimes unpredictable "generation of problems in an organization, the deployment of personnel, the production of solutions, and the opportunities for choice."¹⁴¹ Their model features four streams flowing through a decision-making organization. In the garbage can model of organizational choice

¹⁴⁰ A. Robinson and C. Sandford, 1983, op.cit., p.218.

¹⁴¹ M. Cohen, J. March, and J. Olsen, "A Garbage Can Model of Organizational Choice", *Administrative Science Quarterly*, vol.17, no.1, March 1972, p.2.

a decision is an outcome of four independent "streams" flowing within an organization: problems, solutions, participants and choice opportunities.

Briefly, problems are raised prior to and/or during a choice situation and attract the attention of key actors and decision makers. The perceived problems may or may not generate solutions. The solutions, on the other hand, are devised or already available and may pertain to a particular problem or group of problems, or they may not. Participants are involved in problem raising and solving and advocating their positions *vis-à-vis* problems and solutions. They will come and go depending on a number of factors, i.e. time, relevance, effort, expertise, etc. Choice opportunities occur when decisions have to be made.

According to Cohen, March and Olsen, these streams flow largely independently of one another. However, it is the fortuitous confluence of these streams that results in organizational choice, optimally when the best solution solves the most problems relevant to the particular choice opportunity. They come together as a result of being simultaneously available. It would be instructive to take a moment and illustrate the four streams in a basic way: at our university our dean is resigning and after a given date will cease to carry out his responsibilities (problem); a new dean must be appointed (choice opportunity); the new dean should have years of experience in administration and public relations and have the ability to teach theology and philosophy and should be well known in the academic

community with extensive contacts in many walks of life (more problems and also viability criteria); many people inside and outside the university raise problems, relevant or not to this situation, and work on solutions (participants); several qualified candidates are put forward (solutions).

Although the impression may be otherwise, these streams of problems, solutions, participants and choice opportunities generally do not float about randomly. They are affected by organization. They are "channelled and regulated by organizational and social structure."¹⁴² The authors point out that elements of structure influence outcomes of a garbage can decision process by: a) affecting the time pattern of the arrival of problems, choices, solutions or decision makers, b) determining the allocation of energy, attention and activity by potential participants, and c) establishing linkages among the various streams.

What do March and Olsen mean by organizational and social structure? Basically, they are referring to the rules, procedures and arrangements, written and unwritten, formal and informal, which define and organize roles, hierarchy, specialization, distribution of information and allocation of authority.¹⁴³ These may act as constraints or impetus in the choice process. While those organizational and social structures

¹⁴² J. March and J. Olsen, *Amgiguity and Choice in Organizations*, (Bergen: Universitetsforlaget, 1976), p.27. This recalls the issue machine of David Braybrooke (see D. Braybrooke, *Traffic Congestion Goes Through the Issue Machine*, London: Routledge, 1974).

¹⁴³ J. March and J. Olsen, 1976, op.cit., pp.31-2.

are subject to change, sometimes incrementally, sometimes quite drastically, they provide the context in which the choice process occurs.

What is the garbage can and how does it relate to decision making? Briefly, the authors posit the existence of a garbage can - their choice opportunity - into which the participants dump various problems and solutions.¹⁴⁴ The decision made depends on which garbage cans are available at the time, the type of garbage the cans contain, the rates at which the cans are emptied and filled, etc. Moreover, the decisions produced can be incremental, but also non-incremental. Such a model involves complicated and oftentimes unpredictable variables: the generation of problems in an organization, the deployment of personnel, the production of solutions and the opportunities for choice.

Through their studies, Cohen, March and Olsen sought an explanation of organizational behavior when confronted with unclear goals, technology and fluid participation - a theory of organized anarchy. They identified a number of common elements in organizational behavior from the cases they examined. Firstly, they identified three properties characteristic of organizations: problematic goals (preferences), unclear technologies and fluid participation.

Of these three properties the first, problematic goals, refers to the inconsistent and nebulous nature of preferences

¹⁴⁴ A choice opportunity is the situation which leads to a decision.

which determine the behavior of participants within an organization, but as well may be determined by the participant's behavior. Goals are often not clearly defined - an observation echoed in studies of tax policy making.¹⁴⁵ The second of these properties, unclear technology, characterizes an organization's processes as only partly comprehensible by its participants. Although it manages to take decisions and produce outcomes, oftentimes the individual parts do not understand one another or the larger purpose which drives the organization. What usually transpires is the result of trial and error, learning from past experience or pragmatic adaptations to given conditions. As to fluid participation, the third property, Cohen, March and Olsen observed activity which seemed to contradict the purposiveness of traditional organization theory. Rather than demonstrating stable activity by relevant, interested participants over the course of a choice (as assumed in traditional theory), these authors agreed that considerable variation among individuals exists in terms of the degree and form of attention and action. Participants varied in the amount of time and effort devoted to decisions, problems and choice situations, in general, such that who was involved was seen to change from one time to another. Cohen, March and Olsen (1972) noted that the three properties of organized anarchies - problematic goals, unclear technology and

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See e.g.: Charles Lindblom, 1977, *op.cit.*; A. Robinson and C. Sandford, *op.cit.*; C.L. Schultze, *The Politics and Economics of Public Spending*, (Washington, D.C.: The Brookings Institution, 1968); C. Heckly, *op.cit.*.

fluid participation - were to be found in any organization in part, part of the time. They claimed these properties are "particularly conspicuous in public, educational and illegitimate organizations."¹⁴⁶

It was because of these ambiguous properties that Cohen, March and Olsen sought a conception of organizational choice distinct from the standard conception of the model. The ambiguity they identified is not accommodated well within that standard conception. Organizations which featured these three properties were known as organized anarchies.¹⁴⁷ Although the organized anarchies which the authors observed were in fact educational institutions, the authors admit that other decision-making institutions would undoubtedly show similar properties; for example, parliaments, businesses, political parties, the executive branch of government.¹⁴⁸

To adapt this theory of choice to my own purpose I choose to consider government as a form of public organization. This is

¹⁴⁶ Cohen, March and Olsen, 1972, op.cit., p.1.

¹⁴⁷ The organizations are referred to as 'organized anarchies' because they exhibit an absence of clear and purposive policy goals and directives, because policy makers do not always know what they want, what they are supposed to do, what is expected of them or how what they are doing is related to what others are doing. Moreover, policy makers bring different resources time, knowledge and energy and levels of commitment to the choice situation. Organizations such as Cohen, March and Olsen have described, are characterized by three general properties: problematic preferences, unclear technology and fluid participation; hence, the term organized anarchy.

¹⁴⁸ This theory of organizational choice developed from studies of decision making in educational institutions in Norway, Denmark and the United States.

not a novel definition by any means.¹⁴⁹ A government - whether it be British, French or other - is a complex organization with problematic goals, unclear technology and fluid participation. These properties are characteristic of governments in part, part of the time.

Generally speaking, governments often do not clarify goals and objectives. Usually they are limited in terms of their capacity to spell out in any substantive detail, their goals, the alternatives available, how they expect to accomplish those goals and what the consequences may be of achieving them. Even if they manage to somehow clearly state goals, after considering all the alternatives available, they will either, not know exactly how to achieve them, or what the consequences of success or failure will be.¹⁵⁰ For example, a government may state it wants to simplify the tax structure, but will be unable to elucidate what specifically it means by this rather broad policy goal and how it intends to accomplish it. This was the case with Francois Mitterrand in September 1983 when he made his announcement to reduce the tax burden by one percent in 1985, but in fact had no clear ideas about how to achieve that goal.

Moreover, a government or party (or any other organized

¹⁴⁹ See: F.W. Riggs, "Bureaucratic Politics in the U.S.: Benchmark for Comparison", *Governance*, vol.1, no.4, October 1988; P. Anderson, "Deciding How to Decide" in G. Edwards, S. Shull and N. Thomas, eds., *The President and Public Policy Making*, (Pittsburgh: University of Pittsburgh Press, 1985).

¹⁵⁰ To illustrate, a major charge leveled against the Reagan administration's 1981 tax reform proposals was that the solutions proposed were simple, unstudied, unclarified in terms of effects and relied on misleading information (see C.E. Steuerle, 1991, op.cit., pp.39-54).

anarchy) may articulate a number of different goals which, in fact, may conflict. For example, as Cedric Sandford pointed out in a conversation with the author, Lawson, as Chancellor of the Exchequer, advocated the principle of tax neutrality, although several of his policies (i.e. helping charities, VAT reliefs and exemptions, reliefs to pension funds and PEPs) did not bear out this principle.¹⁵¹ The articulation of contradictory goals may occur because of the failure to coordinate between different areas of government and disagreements within government over concrete objectives.¹⁵² In the case of Lawson's reforms, the frequently conflicting policy preferences and policy inputs of the Prime Minister, the Secretary of State for Health and Social Security, and business groups made precise and consistent goal articulation difficult. It is no surprise that the plans drawn up by the Chancellor reflected internal disagreements and cross-purposes. On the French side, an example of this is provided by the French government's promise to reduce taxes while simultaneously pledging itself to filling the deficits in the social security accounts - a pledge it could keep only by raising taxes and/or *cotisations sociales* (which amounts to the same thing anyway).

Robinson and Sandford (1983) observed this lack of clarity in the British system when an attempt is made to enunciate goals

¹⁵¹ Cedric Sandford, interview in Bath England, June 6, 1991. Also, see: N. Lawson, 1992, *op.cit.*, pp.334-44,362,378,380; C. Sandford, 1993, *op.cit.*, pp.46-7.

¹⁵² See, C. Heckly, *op.cit.*, p.148.

concerning tax policy,

...there's something of a policy vacuum between the articulation of broad and general goals by parties and the establishment of well worked out schemes by which those goals can be attained.¹⁵³

While Robinson and Sandford give British governments, parties and oppositions some credit for attempting to articulate and clarify tax goals and objectives, they question the criteria and the means by which those goals and objectives are decided.¹⁵⁴ The authors noted that both the Labour and Conservative parties expressed general but fairly clear goals: Labour to reduce taxes for those on modest incomes and increase taxes for the well-off; the Conservatives, to reduce taxes and simplify the system. These goals, and the policies decided to fulfil them, 'fitted in' with each party's general ideological stance: equality and redistribution of wealth for Labour; and encouraging enterprise, individual responsibility and less government, for the Conservatives.¹⁵⁵ Winning elections also entered into the picture with each party proposing policies that it felt would appeal to the greatest number of voters.

However, choosing goals based on ideological and/or electoral considerations, while in the latter instance perhaps politically rational, presents some problems. Firstly, can workable policies actually be designed to fulfil lofty goals and

¹⁵³ A. Robinson and C. Sandford, *op.cit.*, p.224.

¹⁵⁴ *Ibid.*, p.220.

¹⁵⁵ *Ibid.*

principles? Secondly, if workable policies can be formulated, how will they be accepted and applied by other actors in the policy process?¹⁵⁶ Robinson and Sandford, through their analysis of Labour party speeches and documentation, discovered the extent to which party decision makers had "failed to develop a clear, coherent philosophy of what they sought in advocating a reduction in the unequal distribution of wealth."¹⁵⁷

Other observers of the British tax policy process have pointed to problems of goal articulation and/or the problems confronted when British governments try to translate goals into actual policies. The Conservatives, from 1979, according to John Kay (1986), were without "substantial plans", and that in comparison with the previous Conservative government (1970-1974), had bungled any meaningful realization of tax reform.¹⁵⁸ Malcolm Gammie (1993) intimates that the process of tax reform in Britain creates a situation where tax reform policies are not "formulated

¹⁵⁶ Robinson and Sandford (1983, p.221) note that, "If objectives are insufficiently considered and clarified by the party proposing the tax, the policies are more open to influence from the bureaucracy and from affected interest groups."

¹⁵⁷ Ibid.

¹⁵⁸ J. Kay, November 1986, op.cit.. A majority of the British interviewees agreed that the Conservatives were less prepared in terms of their tax program in 1979 than they were in 1970. According to some like Cedric Sandford (interview in Bath, England, June 6, 1991) and John Kay (interview in London, England, July 2, 1991) apart from the goals of reducing taxes and switching the incidence from direct to indirect, there was no clearly worked out program when the Conservatives came to power in 1979. As Arthur Cockfield remarked, "A lot of the work was done 'on the hoof'." (Baron Arthur Cockfield, interview in London, England, June 11, 1991). However, Cockfield was contradicted by claims made by Adam Ridley that "a very great deal was worked out beforehand, and what we had as background documentation was quite unprecedented." (Adam Ridley, interview in London, England, May 30, 1991).

against clear and well-researched policy objectives."¹⁵⁹

Although, it may be argued that policy achievements fell somewhat short of objectives, it is difficult to fault the Conservatives for absence of goal specification (although, no doubt, one can find specific examples, i.e. the poll tax). One only has to read *The Right Approach to the Economy* (1977), the Conservative Party Campaign Guides, the November 1979 White Paper on the Government's Expenditure Plans 1980-81 (Cmnd.7746), Geoffrey Howe's and Nigel Lawson's speeches at Conservative Party Conferences, Lawson's January 1984 memorandum to the Prime Minister, various budget day speeches and Lawson's CPC pamphlet, "Tax Reform. The Government's Record" (1988).¹⁶⁰ Nevertheless, in many cases, while general goals were articulated, substantive detail of how the government expected to accomplish its goals and the possible consequences of policies were not.

Heckly (1987) has observed problems with goal specification in the case of French tax policy. For instance, in France there has always been a strong notion of tax fairness - or *la justice fiscale*. This was often expressed in terms of "égalité devant l'impôt" or "égalité par l'impôt". Parties of all political colors expressed this goal in common. Difficulties however, arose over how best to achieve it. Should taxation be neutral? Or should it be the instrument of an active policy of reducing

¹⁵⁹ M. Gammie, February 1993, op.cit., p.100.

¹⁶⁰ On the January 1984 memorandum see, N. Lawson, 1992, op.cit., pp.334-335.

income inequalities? And in the case of the latter, what was to be the optimal level of taxation to achieve a given level of redistribution - if even that could be ascertained? On these questions, little agreement was evident.

Tax policy reflected disagreements between the parliamentary groups, the government, the civil servants and the public. As Heckly (1987) points out, "...l'égalité devant l'impôt constitue donc un idéal accepté par tous, mais difficile à atteindre en pratique..."¹⁶¹ Whether it be a party in government, or in opposition, the charge of problematic goals holds for either; though, admittedly, for a party in government, with the wealth of resources, and particularly information, at its disposal, clarifying goals and objectives ought to be less problematic. In the case of France, however, with respect to taxation, the disagreements and divisions which frequently characterize relations between and within the economic policy making actors and institutions, as we have seen already, make goal definition and policy coordination difficult.¹⁶²

We now move on to examine the issue of unclear technology. While members of a political system or a government department may understand their job and have a vague notion of its purpose in relation to the whole, given the size and scope of government today, it would be hard to believe that every member of a

¹⁶¹ C. Heckly, *op.cit.*, p.33.

¹⁶² See, e.g.: H. Machin and V. Wright, eds., 1985, *op.cit.*, pp.15+; S. Mazey, 1986, *op.cit.*, p.420.

government department, let alone a political system, understands their organization, their purpose in that organization and their relation to one another. Even considering the rather hierarchical chain of command in British and French governments there is often overlap in policy jurisdictions between the departments, especially when one looks at both sides of the policy process: formulation and implementation.

For instance, in Britain, although the decision structure is ultimately hierarchical, with tax policy firmly in the hands of the Chancellor and the Treasury, there do exist other important players that contribute to the process, like the Prime Minister, special adviser(s) to the Chancellor, the Inland Revenue, Customs and Excise, other government departments, the research departments of the political parties, various think tanks and interest groups, and international, especially European, developments. Some play a very limited role, others a more extensive one. Certainly, the potential exists for overlap and limited understanding of the part each is playing or the part its members are playing in relation to the larger scheme. As Jock Bruce-Gardyne (1986) has commented, "Occasionally the demarcation lines become confused."¹⁶³

In France, some have detected poor vertical communication and control, as well as narrowness within the French executive.¹⁶⁴

¹⁶³ J. Bruce-Gardyne, 1986, *op.cit.*, pp.31-2.

¹⁶⁴ See: M. Crozier and E. Friedberg, 1974, *op.cit.*; M. Crozier, *La Société Bloquée*, (Paris: Editions du Seuil, 1970).

Jack Hayward (1983) has characterized French ministries as "compartmentalized aggregations of divisions...confederations of autonomous bureaux" where coordination (between ministries and divisions) is sorely lacking.¹⁶⁵ Also the observation has been made elsewhere that overlap and conflicting goals are not uncommon in French government.¹⁶⁶

To complete our analysis of the characteristics of French and British governments which qualify them as organized anarchies, we turn to the final property, fluid participation. Fluid participation is observable in any government decision process. Participation will change from one decision to another or even in one decision area. The amount of time and energy people in government devote to particular issues and problems fluctuates. As various aspects of a decision arise - i.e. new problems and solutions - so too will new participants come into play. This is furthermore complicated by turnover in government personnel.¹⁶⁷

Once again, using the example of the tax policy making

¹⁶⁵ J. Hayward, 1983, op.cit., p.127.

¹⁶⁶ See e.g., S. Mazey, 1986, op.cit., p.420.

¹⁶⁷ Several of the British interviewees referred to the changing cast of characters involved in Conservative tax policy making pre- and post-1979. For example, Adam Ridley recounted that while from 1975 to 1983 Geoffrey Howe was certainly a constant figure in Conservative tax policy making other "individuals came and went - Peter Cropper went off at one stage and was replaced by Douglas French... and ministers came and went... it has been a slightly more collective process with a variety of people coming in and leaving, pushing the main stream of thought a little bit this way, a little bit that way. So it hasn't had a single coherent mind shaping every aspect of it." But Ridley also asserted that approximately 60 to 70% of those involved in tax policy making "had been involved in that stream of discussion for quite a while, so that you had great insurance of continuity." (Adam Ridley, interview in London, England, May 30, 1991).

process in Britain, the Chancellor, or even a senior minister, cannot devote himself entirely to any one decision concerning the tax system and will delegate to, or enlist, junior Treasury ministers, special advisers, and civil servants in order to help him. Heclo and Wildavsky (1981) refer to personnel and time problems in the Treasury decision making system, despite overall coherence and effectiveness. In addition, Inland Revenue and Customs and Excise officials, as well as - though less often - other cabinet members, civil servants, select committees and their witnesses, academics etc. will be party to the process, moving in and out of the picture as necessary. Robinson and Sandford (1983) note,

...at every stage of tax policy making - as policy is developed in the political parties, shaped in the departments and scrutinized in Parliament - external influences of various sorts are brought into play and may have some effect.¹⁶⁸

The external influences may include representative bodies, pressure groups, experts, and ad hoc working parties. While the process may not be as open and pluralistic as in the American system of tax policy making, fluid participation is undoubtedly a feature of decision making in British government, as it is with most governments, the differences being a matter of degree.

The same trait applies to the process of French policy making. Although, as in the case of Britain, tax policy making is largely concentrated in the hands of the Ministry of the Economy and Finance, particularly in the Service de la

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A. Robinson and C. Sandford, op.cit., p.189.

Législation Fiscale (SLF) and the Direction Général des Impôts (DGI), two of its component agencies, other actors inside and outside government play a role, to a greater or lesser extent, including the president, prime minister, other government ministers and bureaucrats, ministerial cabinets, interest groups, think tanks, and international developments.¹⁶⁹ Different actors with different interests, mandates and representing different constituencies enter and exit the tax policy process on an irregular basis. The changing of the guard in mid-July 1984 during the critical stages of the much-hyped 1985 budget offers one example of changing tax policy actors.¹⁷⁰ Also, one can point to the issue of social security finance and the rise to agenda prominence of the *cotisation sociale généralisée* (CSG). Over the course of almost ten years, a number of different actors across several governments (from Socialist to RPR-UDF and back to Socialist), in different ways, contributed to the process which eventually placed the CSG on the Rocard government's agenda.¹⁷¹ Heckly (1987) notes that during the life cycle of a tax - that is from idea to publication in the *Journal Officiel* - the inputs of

¹⁶⁹ Conversations with the French interviewees revealed a number of different actors with a stake in the tax policy process - in the Ministry of Finance, the Elysée, Matignon, other government ministries, etc. - and the fluidity of their involvement in that process.

¹⁷⁰ The crucial actors in the tax policy making process were changed: the Prime Minister, the Minister of Finance, the budget minister and their cabinets.

¹⁷¹ See, S. Shaughnessy, "The Cotisation Sociale Généralisée, An Idea Whose Time Had Come", *Modern and Contemporary France*, vol.NS2, no.4, 1994; Also see, C. Heckly, op.cit., ch.4, for an account of the processes which created the capital gains tax (*l'imposition des plus-values*) - another illustration of fluid participation in the French tax policy process.

different actors and the "changements des rapports de force entre les différents actants" accounted for the different stages of the process and the changing shape of tax policy.¹⁷²

To sum up, the Cohen, March and Olsen conception of an organized anarchy is quite suitable as a description of modern government - for our purposes here, British and French governments.¹⁷³ Both feature all the identified properties of an organized anarchy: problematic goals, unclear technology and fluid participation. Now that we have successfully characterized the British and French governments as organized anarchies, it should be easier to understand how well-suited a garbage can framework should be as an analytical tool to help us make sense of the decision making processes which occur within those governments.

The tax policy making processes in both Britain and France appear to be well-suited to a garbage can analysis. However, rather than testing the Cohen, March and Olson model against the evidence, we will use a modified version of it. The concept of an interactive, branching and contextual set of connections among participants, problems and solutions in an organization was

¹⁷² C. Heckly, *op.cit.*, p.347.

¹⁷³ Sonia Mazey (1986, p.420) describes French government in such a way that the organized anarchy attribution is readily inferred. She characterizes the French politico-administrative system as "disjointed and disparate" and the policy making process as "time consuming and cumbersome...involving large numbers of people and conflicting interests." These characteristics, in one respect or another, aptly describe French government some of the time (see: J. Hayward, 1983, *op.cit.*, p.127; J. Hayward, 1986, *op.cit.*, pp.23-25; C. Heckly, *op.cit.*, pp.32-33,148; M. Crozier and E. Friedberg, eds., 1974, *op.cit.*; H. Machin and V. Wright, eds., 1985, *op.cit.*, pp.9-17.

adopted by John Kingdon (1984) and deftly adapted to agenda setting and policy formulation processes in the United States at the federal level - Kingdon's broadly defined organized anarchy. He concentrated on the health and transportation policy areas. (In my review of the tax reform literature, I frequently came across Kingdon's name, and several times he was cited by various authors, though not necessarily as a paradigmatic reference).¹⁷⁴

In Kingdon's revised model, the author identifies three (rather than four) largely independent streams - problems, policies and politics - flowing through his organization, the federal government. Problems are raised, occur or exist. Drawing attention to and defining problems is achieved by a number of means - i.e. indicators, focusing events and feedback - and a number of different ways - values, comparisons and categorizing.¹⁷⁵ Although agendas may be set for reasons other than the need to solve problems, Kingdon notes, "...linking a proposal to a problem that is perceived as real and important..." enhances the agenda prospect of that proposal.¹⁷⁶ There may be

¹⁷⁴ For example see: G. Mucciaroni, "Public Choice and the Politics of Comprehensive Tax Reform", *Governance*, vol.3, no.1, January 1990; D. Beam, T. Conlan and M. Wrightson, "Solving the Riddle of Tax Reform: Party Competition and the Politics of Ideas", *Political Science Quarterly*, vol.105, no.2, Summer 1990; J. Verdier, "The President, Congress and Tax Reform: Patterns Over Three Decades", *The Annals of the American Academy of Political and Social Science*, vol.499, September 1988.

¹⁷⁵ For a fuller discussion of this stage of the policy process see, J. Kingdon, 1984, op.cit., ch.5; also see: F.R. Baumgartner and B.D. Jones, *Agendas and Instability in American Politics*, (Chicago: University of Chicago Press, 1993), ch.2; B.G. Peters, 1993, op.cit., ch.3; J.E. Anderson, *Public Policy Making*, (London: Nelson, 1975), ch.3.

¹⁷⁶ J. Kingdon, 1984, op.cit., p.121.

concern about high taxes, a concern provoked, for example, by the effect of inflation on tax brackets and disposable income. This may spark attention to other problems, i.e. the quality and scope of government services, declining productivity and investment, etc.. People may recognize these 'conditions' as problems or they may choose to regard them as 'conditions' to be endured or minor problems that need no immediate attention or solution.

Regardless, as is often the case, proposals have been devised in anticipation of such problems or are soon devised in order to solve the problem(s) at hand. Policy activists or entrepreneurs affect the attention given to problems, and devise, or at least link, solutions to problems.¹⁷⁷ They are not necessarily found in any location in the policy community.¹⁷⁸ However, it is from the policy community that proposals issue. Policy communities consist of civil servants, consultants, specialists, interest groups or academics. They may be associated with government or not. In any case, they are busy generating proposals, linked or not, to particular problems. They may devise different solutions for one or more problems or various solutions for various problems which have appeared simultaneously.

Specialists in the policy community and policy entrepreneurs (they may or may not be one and the same) must persuade other

¹⁷⁷ Kingdon (1984) prefers to use the term 'policy entrepreneur' to 'policy activist' to refer to people who invest their time, energy, reputation and frequently money, to promote and advocate an idea or proposal; but here they are interchangeable.

¹⁷⁸ J. Kingdon, 1984, op.cit., p.129.

members of the policy community, the public and most importantly, decision makers in government, that their proposal is viable and appropriate for solving a given problem. According to Kingdon (1984), persuasion, and diffusion of a proposal, are key elements in the policy stream. Persuading, publicizing, 'spreading the word' and educating are, to various degrees, parts of this process stream. Furthermore, an idea with something to recommend it, which meets certain conditions or criteria of acceptability - value, public, cost, technical - and which enjoys a large degree of acceptance and diffusion, stands a reasonable chance of making it onto the governmental agenda.¹⁷⁹ The idea is talked about and brought to the attention of people in and around government, who consider it and decide whether or not to act upon it.

Simultaneously, but apart from the problems and policy streams, there flows a political stream which is composed of political campaigns, elections, pressure group lobbying, changes in an administration, changes in an administration's political and/or economic objectives and changes in the public mood. Agendas are critically affected by changes in the political stream (but also by developments in the problems stream). Decision makers - or more precisely, Kingdon's so-called "visible cluster of actors"- weigh the balance of forces in the political stream, judge whether action is called for or not, and then make a decision.¹⁸⁰ This decision will determine the agenda status of

¹⁷⁹ Ibid., p.148.

¹⁸⁰ Ibid., p.208.

the idea or issue. Alternatively, they may not make a decision - for instance due to a lack of interest or the urgency of other problems - or make a negative decision. In such cases the idea usually fades and dies.

Kingdon observes a process of coalition building in the political stream, not too unlike that which occurs in the process of consensus building in the policy stream. However, the dynamics are different. While the process in the policy stream is characterized by persuasion, education, diffusion and softening up, support and acceptance in the political stream is achieved largely through negotiation, bargaining and compromise. The policy activist builds consensus by demonstrating how a particular actor will benefit from supporting a proposal or how he/she will lose by not doing so. Moreover, the activist may offer something in return for his/her support.¹⁸¹ Here, is where

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In both the Mucciaroni (1990) and the Beam, Conlan and Wrightson (1990) articles, the authors found evidence of such activity - what Kingdon (1984, chs.6,7) calls "bandwagons and tipping" - in the process of consensus building for the 1986 Tax Reform Act in the U.S.. However, in France, and to a lesser extent in Britain, bargaining was a much less prevalent feature of the political stream. The organization of the political system characterized by the existence of responsible party government, with a strong head of government (and in France, head of State) and a large, unified and disciplined parliamentary majority in both countries during the 1980s supported by the institutional devices of the three line whip in Britain and article 49-3 in France, which enabled each government to impose its policies over dissenting voices, significantly reduced the need to assiduously build support in the political stream. The situation changed somewhat in France from 1988 when Rocard, head of a minority faction in the Socialist Party, was chosen as prime minister to head a minority government. From 1988, in France, negotiation and compromise was a much more prevalent feature of the political stream. It should be noted that the 1986-88 Chirac government did not enjoy a large majority (only two seats) and itself was a coalition of parties. However a number of factors mitigated the need for bandwagons and tipping: the combined effects of the honeymoon period and the 1988 presidential elections, plus the almost unanimous consensus on tax policy built during the period of center-right opposition, meant the government's majority was more or less unified and disciplined, if not large.

one is most likely to observe log-rolling activities taking place. Decision makers choose a policy, or several, for consideration, in light of certain criteria, i.e. technical feasibility, value acceptability, public acceptability and anticipated constraints. Others will be discarded or ignored. In the meantime, people engage in political activity - i.e. lobbying or campaigning - or capitalize on a given political situation - i.e. a swing in national mood, a change in administration, electoral (un)popularity. This can lead to the promotion of problems and/or solutions on a government's agenda.

Common to each of these processes is the action and interaction of actors - governmental and non-governmental - in the context of a particular institutional setting. The three streams - like those of Cohen, March and Olsen (1972) - develop and operate largely independently, although this independence is not absolute. The actors and processes can overlap and can operate as an impetus or constraint on one or more of the other streams. For example, an academic could propose a community charge to replace domestic rates, and win selection by a constituency party organization as a candidate at the next election. If his idea has since been adopted as party policy, he may find himself engaging in political activity to advance this policy based on his own original idea.

Let's look at another example, a proposal to lower taxes which seemed opportune during an election campaign may be ignored, put on the back burner, or diminished, because a more

urgent problem has arisen requiring immediate attention. The other, more pressing problem - say inflation or the budget deficit or both - has been recognized, which pushes other items like higher interest rates or spending cuts into prominence on the government's agenda.

Despite these hints of connection, Kingdon (1984) - like Cohen, March and Olsen (1972) and March and Olsen (1976) - maintains that the streams remain, for the most part, independent and are subject to various structural factors. The institutional setting of the choice opportunity mediates the problems and solutions and affects the attitudes, perceptions, behavior and relations of the actors in the three streams. How a polity is organized will also have an effect on the rate and flow patterns of the streams and how they come together. Institutions regulate and channel the streams and thereby help explain the nature and appearance of those items which rise on the agenda and those which do not.¹⁸²

Once these process streams are understood, the key to understanding policy, or agenda, change is their coupling. The coupling of these streams is a highly contextual event dependent on a complex of factors largely related to the rules, procedures, practices and physical arrangements that structure the relationships and interactions of the actors. Coupling takes place when a choice situation exists. Kingdon calls this a

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See: J. Kingdon, 1984, *op.cit.*, p.217; J. March and J. Olsen, 1976, *op.cit.*, p.11.

policy window.¹⁸³ Policy windows are only open for a short time. This is an opportunity for an actor to push his/her proposal(s) into agenda prominence and even into enactment. This is the time when an issue becomes 'hot', 'catches on' or 'takes off'. For example, a taxpayers' revolt in an important area of the country focuses attention on high taxes and spiraling and wasteful government spending; however, it leaves unanswered the questions raised concerning these issues. An actor with detailed proposals to solve such problems may use such an event to push his/her own ideas to the fore.

Policy windows open and close for a variety of reasons. When they open, it is usually because of a change in the political stream - i.e. a change in administration or partisan composition in the legislature, a shift in the national mood - or because a new problem - often a crisis, for example a currency crisis or a national disaster - captures the attention of government officials.¹⁸⁴ Kingdon tells us that there are problem windows and political windows. For instance, if a major defense contractor is on the verge of collapse, the government may cast about for ways to save it. This is a problem window. Or perhaps a politician decides that home ownership may be a convincing and popular theme to campaign on, then he/she will reach into the policy stream for ideas on how to promote home ownership. This is a political window.

¹⁸³ For a full discussion of policy windows see, J. Kingdon (1984, ch.8).

¹⁸⁴ J. Kingdon, 1984, op.cit., p.176.

Coupling of streams depends on the opening of a policy window. Nevertheless, coupling is oftentimes attempted even before a policy window opens. Actors try frequently to link problems, policies and politics in a number of different ways before a window has actually opened. Still, items rise most effectively, dramatically and probably on the agenda when windows are open, according to Kingdon. If a window opens and one of the three elements is absent, then it becomes highly unlikely that a decision or choice will take place. The agenda will remain unchanged. It is the fortuitous confluence of the three streams that produces a decision and agenda change. This confluence generally occurs when a window is open.

Again, it would be a mistake to assume that these processes are strictly random. It should be borne in mind that each of the three streams, their rates and flow patterns, are affected by institutional features - physical arrangements, rules, procedures, etc.. March and Olsen (1976) remind us that organizations are more than just "neutral reflections of exogenous environmental forces or neutral arenas for the performances of individuals driven by exogenous preferences and expectations."¹⁸⁵ They maintain,

An organization is not simply a vehicle for solving given problems or for resolving conflict through bargaining. It is also a collection of choices looking for problems; issues and feelings looking for decisions-in-process through which they may be mediated; and solutions looking for questions. An organization is not only an instrument, with decision

processes related to instrumental, task directed activities. It is also a set of procedures by which participants arrive at an interpretation of what they (and others) are doing, and who they are.¹⁸⁶

In analyzing the operation of the process streams, institutional structures, arrangements and procedures, therefore, cannot be ignored. Policy is not merely the outcome of group pursuits nor state forces. Institutions imprint a certain dynamic on those pursuits, pressures and forces.¹⁸⁷

Policy does not occur in a vacuum. Any institution which is engaged in decision making imposes a particular structure or organization which creates a particular matrix of incentives. The impact of institutions has implications for the shape and definition, not only of preferences and actions, but ultimately of the outcomes as well. What happens, then, in terms of the inputs and outputs of the policy making process is influenced, sometimes conspicuously, sometimes subtly, by the institutional setting in which politics and policy making occur.

Now it's time to return to an examination of tax reform and to apply this serendipitous framework to our case studies. By doing so, we can ascertain its comparative explanatory power. It is interesting to note that other authors have identified similar

¹⁸⁶ Ibid., p.84.

¹⁸⁷ As James March (1988) tells us organizational attributes influence the outcomes of a garbage can decision process '1) by affecting the time pattern of the arrival of problems, choices, solutions or decision-makers, 2) by determining the allocation of energy by potential participants in the decision, and 3) by establishing linkages among the various streams' (J. March, *Decisions and Organizations*, (Oxford: Basil Blackwell, 1988), p.300.

processes at work in the agenda setting and policy formulation stages of tax reform in the U.S. in the mid-1980s. While there is no systematic attempt to analyze events using Kingdon's framework, James Verdier (1988), Gary Mucciaroni (1990), David Beam, Timothy Conlan and Margaret Wrightson (1990) have discussed tax reform - especially in the United States - with reference to Kingdon, or at least, in 'Kingdon-esque' terms.

Beam, Conlan and Wrightson (1990) explain the TRA in terms of "the new politics of reform" with its emphasis on the roles of ideas and policy entrepreneurs in shaping policy. The entrepreneurs "simplify and distill" complex ideas and "link them to values accepted by and familiar to the broader public."¹⁸⁸ While the authors credit the policy entrepreneurs - like Bill Bradley and Richard Gephardt - with a central role in placing tax reform on the governmental agenda, they admit that without the commitment of the President to make tax reform an agenda item of top priority and his fervent support, the reform would probably have failed.¹⁸⁹

In addition, the energetic commitments of Dan Rostenkowski, chairman of the House Ways and Means Committee, and Bob Packwood, chairman of the Senate Finance Committee, were essential elements

¹⁸⁸ D. Beam, T. Conlan and M. Wrightson, op.cit., p.208.

¹⁸⁹ Joseph Pechman (1989, p.81) called Reagan's support for tax reform "crucial" and that without it, the bill "would never have emerged from Congress."

in the survival of the TRA.¹⁹⁰ These actors, their ideas, strategies and circumstances, Beam, Conlan and Wrightson show, interacted in a mostly unpredictable manner and came together in a complex, yet fortuitous combination which produced dramatic change. Their 'model' of ideational-entrepreneurial politics shares many similar characteristics with Kingdon's process streams and windows approach. Kingdon, in fact, is referred to twice: as an inspiration for a discussion of the role of ideas and policy entrepreneurs.

James Verdier (1988) considers the U.S. tax reform in terms of "political and economic forces" offering tax policy experts (the policy entrepreneurs) a "window of opportunity" which produced the right circumstances for these entrepreneurs to "create links between the prescriptions of experts and the needs and concerns of politicians and the public." Verdier attributes the success of the 1986 tax reform to the collaboration between policy experts in and outside government, to the policy entrepreneurs - like Bradley and Gephardt - to partisan politics and to the agenda setting power of the President. In a 'Kingdon-esque' reference, Verdier tells us, "Favorable circumstances came

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Beam, Conlan and Wrightson (1990, pp.210-11) also note the favorable press given the issue. They insist this was critical and that without the media support the TRA would have foundered. This is debatable as public opinion seemed largely disinterested by the issue (see: Jeffrey Birnbaum and Alan Murray, *Showdown at Gucci Gulch: Lawmakers, Lobbyists and the Unlikely Triumph of Tax Reform*, New York: Random House, 1987; J. Verdier, 1988, op.cit., pp.119-120). Still, the role of the media was not unimportant, especially considering the role they played educating and 'softening up' the specialized and more general publics and helping to build a pro-reform coalition.

together..." in 1986.¹⁹¹

In Mucciaroni's (1990) article, the author looks at the viability of public choice arguments in explaining U.S. tax reform in the mid-1980s. He largely discounts, but not entirely, the purchase such arguments have for his case study, the 1986 Tax Reform Act. Rather he identifies three kinds of reform politics: entrepreneurial, interest group and majoritarian. In the course of his description of what transpired and in his analysis, Mucciaroni makes references to public discontent, problem definition, policy entrepreneurs, presidential politics, party competition, resolutions, policy windows, "mobilizing a significant proportion of the population behind issues", "building a pro-reform majority" and "getting reform on the agenda." Mucciaroni describes how the problems created by the 1981 ERTA and the attention drawn to those problems by activists like Charles McIntyre of the lobbying group, Citizens for Tax Justice, helped open a "policy window". With this window open, tax reform advocates could attempt to push their ideas and proposals and link them to the problems at hand.¹⁹² In the end they were successful and the agenda was changed.

Here was an example of a problem in the public spotlight - a

¹⁹¹ J. Verdier, 1988, op.cit., p.123. Verdier cites Kingdon in his footnote (no.10, p.120).

¹⁹² In describing this process, Mucciaroni (1990, p.10) cites Kingdon as a reference. Senator Bill Bradley and Congressman Richard Gephardt produced a solution in 1982 which drew on years of research and proposal making by tax experts outside of government, like Joseph Minarik of the Urban Institute, and on the Joint Committee on Taxation. The bill they introduced (H.R.3271) would find many of its principles incorporated into the Tax Reform Act of 1986. The Bradley-Gephardt bill was followed by other bills, like Kemp-Kasten.

punitive and unfair tax system created in part and aggravated by the 1981 ERTA - capturing the attention of government officials - Bradley, Gephardt, Reagan, Kemp, Kasten, officials at the Treasury Department, etc.. A policy window opened which incited reformers and policy entrepreneurs to either design and advocate new proposals, or advocate proposals already available that would address the problems inherent in the U.S. tax system, and in part aggravated by the 1981 ERTA. Policy activists like McIntyre created an atmosphere that raised consciousness about the defects of the U.S. tax system, particularly drawing attention to its less equitable features. In such a context and confronted with the undeniable evidence, politicians were persuaded that "reform was an idea whose time had come."¹⁹³ Bradley's "intellectual contributions" and "tireless advocacy" made it possible "to build a broad, bi-partisan, pro-reform coalition."¹⁹⁴ Once again, the adoption by President Reagan of this idea - which was already part of the legislative agenda - and its place of importance on his agenda, not to mention the President's own lobbying efforts, were instrumental for the success of the TRA.¹⁹⁵ The commitments made to tax reform by Packwood, Rostenkowski, Don Regan, the Secretary of the Treasury and his successor, James Baker, were also important. As with the study by Beam, Conlan and Wrightson (1990), Mucciaroni's study of the 1986 Tax Reform Act, is even

¹⁹³ G. Mucciaroni, *op.cit.*, p.12.

¹⁹⁴ *Ibid.*

¹⁹⁵ *Ibid.*, p.15.

better suited for 'testing' against Kingdon's 'model'; although, that will not be attempted here, as our focus is on Britain and France.

These authors, in their efforts to expose different aspects of the tax reform process, while providing a different 'spin', avoid explicitly analyzing their data using Kingdon's approach. However, their language recalls and, in some cases, mimics Kingdon's and their conceptualizations have strong 'Kingdon-esque' features. It was this reading of such scholarly efforts that persuaded me to consider the tax reform processes elsewhere in light of Kingdon's work. I felt that if a process streams and windows model could be tentatively and implicitly valid in the case of United States tax reform, how would tax reform, say, in Great Britain or France measure up? The evidence revealed, in fact, similar processes at work in both France and Britain.

CHAPTER THREE

CHAPTER THREE

- Tax Reform: The French Context, History and Institutions -

Introduction

During the 1980s tax reform was ushered into France under the auspices of a Socialist President heading two philosophically different governments, one leftist and the other, conservative. Tax reform took two rather diverse paths during the 1980s - one governed by socialist doctrine and rhetoric from 1981-1982 and the other by neo-liberalism and free-market economics from 1983-89. Oddly enough, both tax reform strategies were instigated by a Socialist government. Tax reform, in the period 1983-89, received further impetus and was pursued with even greater conviction and vigor during the two years of conservative government under the premiership of Jacques Chirac from 1986-88. As opposed to Britain therefore, where neo-liberal tax reform was driven by a single party in government, the evolution of tax reform and the conditions under which it moved from intellectual debate to government policy in France are somewhat more complex.

The claim of greater complexity *vis-à-vis* the British experience is certainly a valid one given the change of governments, the ideological transformations of the major political parties from the late 1970s to the late 1980s, the fluidity and variety of the actors integral to tax policy making, as well as the special economic circumstances confronting French policy makers. The process streams are more numerous and difficult to identify, particularly because the issue soon became

a cross party concern - as opposed to the British case where one political party dominated the issue - differentiated not so much by philosophy, as by the extent and degree to which tax reform was pursued and applied.

This section will recount the evolution of the tax agenda in France and the environment in which it evolved from the late 1970s to the late 1980s. The emphasis will be on the various ideas, actors and institutions that were central to the tax policy process. It should become obvious, as this descriptive effort proceeds, that tax policy in France is the product of several interweaving strands of problems, policies, and politics. Integral to these tax policy processes were the preferences and activities of participants, especially policy entrepreneurs.

The period prior to the Socialist victories of May/June 1981 will be examined briefly in order to set the stage upon which neo-liberal tax reform appeared in France in the 1980s. However, the main focus will be on the shape and direction of tax policy during the 1980s. By the end of this examination, it should be clear that tax policy was determined by a political dynamic. That dynamic had multiple features, which for the most part can be organized into a limited number of process streams flowing through and impacted by the institutional configuration of the French polity.

Before an examination is undertaken of tax reform policies in the 1980s, it is important to understand the nature of the French tax system and how it evolved. This background is

necessary in order to effectively manipulate appropriate terminology and conduct discourse on the topic of tax reform in the 1980s. An understanding, however cursory, of the tax system in France as it developed prior to the 1980s, can only serve to help us better understand the how, why, what, where and who of the French tax system in the 1980s.

Chapter Three, therefore, will look at the evolution of the nature and structure of the tax system from the French Revolution onwards. It will also investigate the changes to the tax system in light of political, economic and social developments. This is a necessary exercise as the policy legacies of previous governments have an important effect on tax policy makers as they consider what they can and cannot do. Chapters Four, Five and Six will bring us up-to-date, with an examination of the tax agenda, as it evolved under the Giscard and Mitterrand presidencies. Here, we will take a closer look at the ideas, actors and institutions that shaped and determined the French tax agenda from the mid-1970s onwards. The focus, however, will be on the 1980s, the period of France's liberal renaissance and the emergence of neo-liberal tax reform. With the background provided by these four chapters we should be well-equipped to analyze the processes which gave rise to neo-liberal tax reform on the agenda in France and devise an appropriate framework to explain them.

The Spirit of 1789 and the History of French Taxation

The history of tax reform in France has been more or less

inspired by the credo of "liberté, égalité, fraternité." At least this has been true in theory.¹⁹⁶ The tax system created by the *ancien régime* was abolished during the French Revolution. The principle of equality before taxation was proclaimed by Article 13 of the 1789 Declaration of the Rights of Man and Citizen, "la contribution doit être également répartie entre tous les citoyens, en raison de leurs facultés."¹⁹⁷ The Declaration proposed - though never adopted - by M. Robespierre in 1793, reiterated this sentiment but was explicitly socially progressive,

Les citoyens dont les revenus n'excèdent point ce qui est nécessaire à leur subsistance, sont dispensés de contribuer aux dépenses publiques. Les autres doivent les supporter *progressivement*, selon l'étendue de leur fortune.¹⁹⁸

Taxation was to be a means of eroding the privileges and protections enjoyed by the upper bourgeois and aristocratic classes prior to the Revolution (and even some time after). However, deciding a new tax system posed genuine problems for the revolutionaries, who while wanting to make French society more egalitarian, were hostile to any dramatic changes in the economic organization of French society.

¹⁹⁶ As C. de Brie and P. Charpentier (1973) declare, "pour l'opinion, l'égalité devant l'impôt, la juste répartition de la charge publique...sont réputées fonder le système fiscal." (C. de Brie and P. Charpentier, *L'Inégalité par l'Impôt*, Paris: Editions de Seuil, 1973, p.94).

¹⁹⁷ C. Debbasch and J-M. Pontier, *Les Constitutions de la France*, (Paris: Dalloz, 1983).

¹⁹⁸ M. Gauchet, *La Révolution des Droits de l'Homme*, (Paris: Gallimard, 1989), p.329.

In January 1793, a delegate to the Convention claimed that the only way to conciliate the twin concerns of maintaining the structure of society and reducing inequalities was by introducing progressive direct taxation.¹⁹⁹ There was an attempt to move away from the odious indirect taxes, which bore disproportionately on the poor, to direct taxation. Whereas in 1788, indirect taxes - i.e. *traites, gabelles, aides* and *droits* - represented 43% of the state's revenues, in 1809 their part had dropped to 23%. Moreover, the Convention decided to allow the communes to impose extraordinary taxes on the rich which "would provide for the needs of numerous families and correct the revolting injustice between the material abundance of the rich and the excessive deprivation of the poor."²⁰⁰

The Directory and the Consulate soon put an end to this practical - and abused - application of tax justice and took the power to tax away from local governments. The financial cost of defending the revolution's gains and spreading its ideals beyond the borders of France caused the governments of the late 18th century much concern. They soon reversed the socially progressive, as well as the decentralizing, aspirations of the Jacobins. Direct taxes, the so-called "*quatre vieilles*" - *taxe foncière* on the rental value of property, *contribution des portes et fenêtres*, *contribution des patentes* on all non-agricultural

¹⁹⁹ G. Ardant, *Histoire de l'Impôt*, Tome II, (Paris: Fayard, 1972), p.189.

²⁰⁰ J. Rivoli, *Vive l'Impôt*, (Paris: Editions du Seuil, 1965), p.13. The translation is mine.

businesses, *contribution mobilière* on the rental value of residences - created in the 1790s, were intended to iron out the discrepancies between rich and poor *vis-à-vis* the tax system as objectively as possible. This system of taxation, although undergoing periodic modifications, enjoyed remarkable tenacity and longevity.

However, even before the turn of the century, indirect taxes were gradually making a comeback, overturning the revolutionary tax rationale. They were less painful (in other words, less visible) than direct taxes and so, less resented, in addition to being more lucrative. One untiring defender of indirect taxes was the respected parliamentarian and later first president of the Third Republic Adolph Thiers, who wrote in 1848,

L'impôt indirect est l'impôt des pays avancés en civilisation tandis que l'impôt direct est celui des pays barbares...En un mot, pays pauvre, pays esclave et impôt direct. Pays riche, pays libre et impôt indirect.²⁰¹

Throughout the course of the 19th century, as the liberalism/mercantilism of Jean-Baptiste Say (1767-1832),²⁰² Frederic de Bastiat (1801-50),²⁰³ Joseph Garnier (1813-1881)²⁰⁴ and

²⁰¹ G. Ardant, Tome II, 1972, op.cit., p.350.

²⁰² The foremost liberal economist in France. He was responsible for introducing and promoting the ideas of Adam Smith.

²⁰³ An eminent and respected economist and parliamentarian who wrote to a friend in 1848, "Il suffirait pourtant de diminuer les taxes. Simple, curieux, je verrai le mat de cocagne sans y monter, la liberté y perira." (quoted from *La Grande Encyclopedie*, Tome V, Paris: H. Lamirault & Co., 1947, p.663).

²⁰⁴ A professor at the École des Ponts et Chaussées, editor of the *Journal des Économistes* and author of *Traité d'économie politique, Eléments de l'économie politique* (Paris, 1846), which was reprinted ten times and translated into many different languages. He was an ardent anti-

Leon Say (1826-96)²⁰⁵ swayed economic policy, indirect taxes were increasingly relied upon to provide the state with necessary resources.²⁰⁶ (see Appendix A, Figure 3A).

Successive governments, supported by the bourgeois classes, sought to limit the imposition of direct taxation. The revolutionary concerns for equality and justice, therefore, had quickly dissipated and were replaced by class, war and empire. Indirect taxes, which bore more heavily on the lower and middle classes than on the upper classes, provided the state with more than 50% of its total tax receipts by the end of the 19th century. As Jean Bouvier wrote, "Du point de vue fiscal, la Révolution française n'a été qu'un accident."²⁰⁷

The Spirit of 1789 Revisited

Gabriel Ardant writes, "Le système fiscal français du XIXe siècle était l'expression presque parfaite des intérêts d'une classe... L'ensemble de ce système favorisait de façon évidente la fortune acquise ou en voie de formation et les revenus élevés."²⁰⁸ While it may be true that for most of the 19th century,

socialist, believed in free trade and competition, and was opposed to excessive state intervention in the economy.

²⁰⁵ Grandson of J-B Say, he was an economist and several times Minister of Finance in the Third Republic. Leon Say was a strong believer in free trade, low spending and low taxes.

²⁰⁶ For further information on France's liberal economic heritage see, Y. Breton and M. Lutfalla, eds., *L'Économie Politique en France au XIXe Siècle*, (Paris: Economica, 1991).

²⁰⁷ J. Bouvier, "Le Système Fiscal Français du XIXe Siècle", in J. Bouvier and J. Wolff, eds., *Deux Siècles de Fiscalité Française, XIXe-XXe Siècle*, (Paris: Mouton Editeur, 1973), p.242.

²⁰⁸ G. Ardant, Tome II, 1972, op.cit., pp.350, 353.

the tax system in France seemed to discriminate in favor of the bourgeois and upper-bourgeois classes, by the turn of the twentieth century, attitudes towards the tax system and its many faults were rapidly changing. The *immobilisme* which had characterized the system, and the decision makers, for most of the 19th century gave way to a more democratic - and more leftist, if you will - element which not only sought to redress the injustices in the system, but also the imbalances which saw the state collect more than 50% of its revenues in 1881 from indirect taxes and around 20% from direct taxes.²⁰⁹ In the last two decades of the 19th century, democratic elements in French political life, sought to broaden the debate on the state of French taxation and called into question long-held assumptions and habits related to taxation.²¹⁰

Already, by the end of the Franco-Prussian war many political leaders were impressed by the need to tap new resources. The costs of waging this war (and any future war) and the costs of reconstruction and reparations inspired several tax reform proposals. In 1872, Leon Gambetta proposed to the Assembly a general tax on income. Given President Thiers's predilection for the current tax regime - which relied on indirect taxation - the President vigorously resisted the idea, and managed to persuade supporters and foes alike of the need and

²⁰⁹ T. Gandillot, 1988, op.cit., p.128.

²¹⁰ The movement of the second half of the nineteenth century saw liberal and republican parties allying with socialist forces. This phenomenon was inextricably linked with tax reform (see, G. Ardant, Tome II, op.cit., p.241).

efficacy of a special tax on income derived from capital gains.

In 1872 the government brought in the first "income" tax on income derived from transferable securities.²¹¹

Gambetta, however, got a second chance when as leader of the Republican opposition and President of the Commission du Budget in the Chamber of Deputies, he proposed a reform of the tax system in 1877, which would entail the institution of a progressive income tax. He was then confronted by a hostile President MacMahon and his ultra-conservative cabinet. In addition, many members of his own Republican group, particularly the eminent former President, Adolph Thiers - who had called income tax "le socialisme fiscal" - and conservative elements in the Senate opposed Gambetta's reform.

From 1895 some 200 projects on direct taxation were put forward and subsequently rejected. Then in 1907, the Minister of Finance, Joseph Caillaux, encouraged by the victory of the Socialists and Radicals in the 1906 election, tabled his project for a global income tax (the *impôt général sur le revenu*, IGR) modeled on the British and Prussian systems.²¹² It was passed by the Chamber in 1909. After lengthy debates and much ferocious resistance from parliamentary forces, especially in the Senate,

²¹¹ Apparently this tax was first introduced as a *projet de loi* during the Second Republic by M. Garnier-Pages who claimed its purpose was less to raise revenue than to "introduire dans le système fiscal les principes d'équité et de justice distributive qui doivent présider à nos lois fiscales comme à tous nos actes politiques" (quoted from G. Ardant, Tome II, 1973, op.cit., p.371).

²¹² Caillaux, as Minister of Finance in Waldeck-Rousseau's cabinet, had tabled a project for a general income tax in 1900, but it was defeated.

the project was adopted in 1914. There is no doubt, the forceful advocacy of the Minister of Finance and a tense international situation on the eve of World War I contributed to the project's adoption.²¹³ Moreover, similar efforts in other countries had been underway since the 1890s and developments in those countries affected the attitudes, positions and policies regarding the income tax reform.²¹⁴ Finally, the victory of the parties of the left - who had included the creation of a progressive income tax in their party programs - in the April/May 1914 legislative elections was a crucial factor in the project's successful

²¹³ "...que les besoins du réarmement, en attendant ceux de la guerre, furent le moteur évident des réformes fiscales de cette époque..." (quoted from G. Ardant, Tome II, 1972, op.cit., p.426).

²¹⁴ Germany, beginning with Prussia in 1891/93, the U.S. in 1892 - declared unconstitutional in 1894 - and again in 1909 (the 16th amendment) and 1913, Spain in 1900, Denmark in 1903, the Netherlands in 1892/93, Austria in 1909, and Britain which had had an income tax - more or less continuously - since 1799, planned to enhance its progressivity in 1909. G.Ardant (1972, p.425) writes that France, like the U.S., Great Britain and other countries, was in the habit of closely scrutinizing tax developments elsewhere: "Toutes ces réalisations avaient été confrontées, comparées, analysées dans une série d'études faites par des commissions de techniciens ou de parlementaires...en France avec les grandes enquêtes administratives qui servirent de base aux commissions parlementaires..." Legislation in other countries, tax and other, was published in the Ministry of Finance's *Bulletin de Statistique et de Législation Comparée*. The influence of external events prompted M. Cavaignac to argue in 1894, "Lorsque l'État - ce qui ressemble bien à du socialisme - prélève le cinquième du revenu de tous les citoyens, on ne peut méconnaître qu'il est possible, en modifiant cette répartition, d'apporter quelque satisfaction à la passion de justice sociale qui agite la nation française...Toute l'Europe est à l'heure actuelle entraînée par ce mouvement. L'Angleterre développe, à l'heure même où je parle, le caractère progressif de son impôt sur le revenu. Les Pays Bas ont adopté un impôt personnel et progressif sur le revenu et sur le capital. Ajoutez-y toute l'Allemagne, toute l'Autriche, les cantons suisses" (quoted from G. Ardant, Tome II, 1972, p.408). Even Joseph Caillaux, in 1907, on presentation of his tax reform, told the Chamber of Deputies, that his ideas had evolved from his research on the subject (see G. Ardant, Tome II, 1972, p.429).

passage.²¹⁵ Evidently, a number of factors came together to change the tax agenda in France in the period just prior to World War I. Perhaps most crucial however were the parts played by Caillaux, international developments, and above all politics.²¹⁶

In order not to incite popular opposition, and painlessly accustom the French people to a new type of imposition, these taxes were devised simply, progressively (in the case of the IGR), at low rates and easily collected. Not only was the IGR a new and important means of raising revenue, it also expressed Caillaux's concern for "la justice fiscale". In addition to its progressive features it introduced a system of personal allowances which varied depending on family situation. Social justice and equality, therefore, (re)assumed their places as guiding principles for tax policy makers and since the early 20th century have motivated several reforms to the tax system.

Continuity and Change

While the French tax system is notable for its continuity - several of the main taxes, the "quatre vieilles", and many excise duties for instance, date back to the 18th century - it has undergone some significant changes. The IGR and the *impôts*

²¹⁵ For this election the Socialists had granted their local party organizations the freedom to cast their vote for republican candidates (in those races where their own candidates were unlikely to win) who would offer guarantees "against the danger of war, for secularism and tax reform" (quoted from G. Ardant, Tome II, 1972, p.406). In the end, socialists and radicals won over half the seats in the National Assembly.

²¹⁶ Another law, passed in 1917, created the *impôts cédulaires proportionnels* which hit separately seven categories of income. They replaced the *contributions directes* and hit salaries (*traitements et salaires*), property and other capital income, and agricultural and commercial profits.

cédulaires, already mentioned, are two examples. Income tax was reformed in 1948 and again in 1959 when it became known as the *impôt sur le revenu des personnes physiques* (IRPP).²¹⁷ With the demise of the Fourth Republic and the onset of the Fifth, reform of France's tax system was among a number of reforms the new Gaullist government foresaw. The Rueff Committee Report of December 1958 intended to make tax reform "one of the chief means of rehabilitating France's economic institutions."²¹⁸ The new IRPP abolished the duality of the old IGR and *impôts cédulaires*.²¹⁹ It was a global progressive income tax which took family situation into account.²²⁰ It also sought to equalize the tax burden of different categories of taxpayers, who for one

²¹⁷ Impôt sur le revenu (IR) from 1971.

²¹⁸ "Report on the Financial Situation in France" with an introduction by Jacques Rueff, distributed by the United States Council of the International Chamber of Commerce, (New York: 1959). This committee was set up under Jacques Rueff in September 1958 and was responsible for examining the financial situation of France.

²¹⁹ From 1948 the former was known as the *impôt sur les personnes physiques* which consisted of a *surtaxe progressive* (a revised IGR with varying rates applied proportionally and the quotient familial, which reduced the amount of taxes owed depending on family situation) and the *taxe proportionnelle*. The *taxe proportionnelle* was a modified version of the old *impôts cédulaires*, which treated *traitements* and *salaires* more favorably than other income - these income sources enjoyed a 5% reduction in taxes, and continued to do so from 1959, when the *taxe proportionnelle* became the *taxe complémentaire*, until 1970.

²²⁰ The IRPP was imposed at 8 rates varying from 5% to 65% (previously 10-70%) and by 1965 represented 17% of total tax receipts. While the 1959 reform had the effect of slowing the progression of the income tax burden initially, between 1963 and 1969, revenues from this tax outpaced the growth in gdp. From 1959 to 1969 income tax revenue increased more than three and a half times while gdp grew only slightly more than two and a half times. As a percentage of gdp, *prélèvements obligatoires* (the tax burden) rose from 35.4% in 1959 to 38.1% in 1965 to 37.8% in 1967 to 38.5% in 1969. Another feature of the income tax system was the failure by government to index tax brackets fully with the increase in prices. While between 1959 and 1968 prices rose more than 37%, tax brackets were raised only between 20% and 28%. The first bracket was raised only 13.6% over this period (see, J-Y. Nizet, *Fiscalité, Économie et Politique, L'Impôt en France, 1945-1990*, Paris: LGDJ, 1991, pp.178-9).

reason or another experienced gross differences in their relative tax positions - a demand instigated in part by the Poujadiste movement which surfaced in the mid-1950s.²²¹

Apart from the desire to rejuvenate the French economy, another factor influencing the 1959 reforms was the desire to conform the structure of French income taxation with the systems operating in other Common Market countries. As a French Ministry of Finance document declared,

...Finally the European Economic Community requires that the tax structure of our country be comparable to that of competing nations. A tax reform should be the occasion of a harmonization of the principal aspects of the legislation and not the pretext for the establishment of a tax moat.²²²

Membership of the European Economic Community (now European Union) had implications concerning the future structure of the French tax system, as articles 9-27, 95-100 of the Treaty of Rome and various subsequent Council directives, explicitly or implicitly, committed Community members to harmonize their tax systems, especially their systems of customs duties and indirect taxation, including value added taxes. Moreover, with the exposure to a wider market, entailed by membership of the Community, French policy makers were concerned about adapting the tax system in order to ensure the competitiveness of French industry and prevent capital from seeking more attractive

²²¹ See: G. Tournié, *La Politique Fiscale sous la 5e République*, (Toulouse: Privat, 1985, 1985), pp.83-84; G. Ardant, Tome II, op.cit., pp.641-669; or for a full account of the Poujadist phenomenon see Stanley Hoffmann, *Le Mouvement Poujade*, (Paris: A. Colin, 1956).

²²² "La Réforme Fiscale", *Statistiques et Études Financières*, no.136, Avril 1960, p.349. The translation is mine.

locations.

The same reforming spirit which had captured the first government of the Fifth Republic and led to the reform of income tax in 1959 was responsible for the planned reform of local taxation. An ordinance issued in January 1959 decided the future reform of local taxation which would entail a reassessment of property values in order to establish a more accurate tax base. This reform would not only "modernize" local taxes, but was meant to effect a fundamental restructuring of local government finance.²²³ However, this was very much a long term project which did not come to fruition until the 1970s.

Over the course of many years, local governments had assumed exclusive responsibility for a business tax (*patente*), residence and property taxes (*contribution mobilière, contributions foncières*)²²⁴ - the descendants of the "quatre vieilles". As the state increasingly became aware of the anachronistic and unjust character of these taxes and diminished their part in the state's tax take, local governments "adopted" them.²²⁵ The 1959

²²³ The Rueff Committee report proposed the "planned modernization of the system of direct taxation by local communities, which is no longer adapted to present economic conditions" ("Report on the Financial Situation in France", op.cit., p.29).

²²⁴ There were two taxes *foncières*, one on constructed property the other on non-constructed property.

²²⁵ Local governments came increasingly to rely on these and other taxes. In 1961, taxes provided local governments with resources worth FF9.2 billion which ballooned to FF45.5 billion in 1974. Further evidence of the explosion of local taxes is provided by their part in total taxation: 9.3% in 1959 and 11.6% in 1983. For an in depth study of the system of local taxation see, Jacques Sylvain-Klein, *L'Explosion des Impôts Locaux*, Notes & Etudes Documentaires, (Paris: La Documentation Française, 1986).

recommendations for reform of local taxation were based on earlier proposals put forward by another committee studying the issue in 1952.²²⁶ However, it wasn't until the 1970s that any substantive reform was enacted: property values were reassessed at 1970 prices and made effective from 1974; the *taxe d'habitation* (a furnished dwelling tax) and the *taxes foncières des propriétés bâties/non bâties* (developed and undeveloped property taxes) replaced respectively the old *contributions mobilières* and *foncières* from 1974 without really changing very much.²²⁷

In 1975 a more fundamental reform took place when the *taxe professionnelle* (TP) was created in place of the old *patente*. The *taxe professionnelle* is a trade/business tax levied locally. It was - like the old *patente* - based on the rental value of the premises occupied by the business. However, the rental value of the plant and equipment used in a business is also taken into account. But in terms of labor, rather than hitting the number employed and their productive capacity as was the case with the *patente*, the TP was applied to salaries - one-fifth of the salaries and wages paid by the business or if companies had under five employees, it was applied to receipts. The TP resulted in lowering by 50% the burden of the former *patente* on 1,400,000 small businesses, while increasing it by between 30-500% for

²²⁶ See, J. Sylvain-Klein, *op.cit.*

²²⁷ For a detailed description of these and other taxes mentioned see: J-Y. Nizet, *op.cit.*; J. Sylvain-Klein, *op.cit.*

500,000 others. However, the tax was so poorly devised and implemented, and hence so much resented, that between 1976 and 1988 several "reforms" were deemed necessary.²²⁸

In 1959, corporate income taxation (*impôt sur les sociétés*, IS) was also reformed.²²⁹ However, the main recommendations emanating from the Rueff Report on company taxation involved a mitigated attack on the numerous special exemptions accorded to businesses, agriculture and other "private interests" by the tax system.

French finance is honeycombed with special exceptions and exemptions. The burgeoning of exemptions results from the surrender of public authorities to pressure from private interests, always in the guise of the public interest.²³⁰

Consequently, the Rueff Report recommended many of the exemptions be discontinued. It also recommended an increase in the IS rate to 50% from 47.6%. The December 1959 tax law permitted companies to revalue their capital assets, investments and bad debts and employ degressive amortizations over five years - a form of accelerated depreciation - on plant and capital purchases,

²²⁸ For example, between 1976 and 1985 the TP was "reformed" 7 times. Several of the interviewees commented on the much maligned tax. For instance, Philippe Lagayette maintained, "Les entreprises ont furieusement protesté contre la taxe professionnelle... parce que cette réforme avait été malfaite." (P. Lagayette, interview in Paris, France, May 20, 1992). Also Patrick Careil commented, "... la réforme de 1975 sur la taxe professionnelle avait complètement échoué et elle avait entraîné des mouvements et des protestations violentes..." (P. Careil, interview in Paris, France, May 25, 1992). Beginning his commentary on the TP, Raymond Barre exclaimed, "C'était la pire des stupidités..." (Raymond Barre, interview in Paris, France, June 2, 1992).

²²⁹ The *impôt sur les sociétés* was first created in 1948 and taxed all corporate profits regardless of origin or nature and reemerged more or less intact from the 1959 reform, but at a rate of 50% (previously 47.6%) as suggested by the Rueff Report.

²³⁰ "Report on the Financial Situation of France", op.cit., p.15.

instead of the old linear method. This reform was deemed necessary and expedient for two main reasons. Firstly, inflation had eroded the value and efficiency of the old system. Secondly, degressive amortizations deducted from company profits was practiced by other Common Market countries.

Indirect taxes were reformed chiefly through the institution of a tax on business transactions in 1920 called the *taxe générale sur les affaires* (TGA). Complaints from consumers, exporters, merchants and economists led to the TGA's reform in 1925 transforming it into a single tax hitting a product only once, instead of at every stage of transaction. Several other modifications in 1936 and 1948 preceded the institution in 1954 of a value added tax (VAT), the brainchild of Maurice Lauré. The VAT would permit a greater degree of control, from an administrative point of view. It was applied at each transaction stage to the difference between sale and purchase. Each producer could deduct from his tax the tax that he paid at the previous stage - the tax that was part of his invoice. The Rueff Report recommended reform of VAT entailing reducing its complexity and the multiplicity of its rates, and its application to a variety of goods then enjoying exempt status.²³¹ A modified version of the Rueff recommendations was adopted in the *loi de finances* for 1959.

Beginning in the 1960s, right up to the late 1980s, VAT has been gradually extended to a wider range of products and

²³¹ The Report suggested four rates instead of seven.

activities, and its rates modified.²³² These reforms were impelled by concerns for economic regulation, revenue raising, social justice and alternatively, levelling the playing field, and, of course, the Common Market.

Succession and gift taxes (*droits de succession* and *taxe spéciale sur les biens transmis à titre gratuit*) were also reformed by the December 1959 tax law. Prior to 1959, upon death, two taxes applied, a succession tax and an estate tax. This system was abolished in favor of one succession tax at new rates levied on the amount received by each beneficiary, with large reductions in the rates applied to transfers between spouses or in the direct line of descendants.²³³

The 1960s witnessed a few important reforms.²³⁴ Some of these reforms had been envisaged by the Rueff Report or the later Rueff-Armand Report.²³⁵ Others were hatched by planners, civil servants in the tax administration, or they originated in the political milieu. The reforms were guided by concerns for greater equality and social justice, as well as increasing

²³² For example, VAT was increased in December 1968 from rates of 6%, 13%, 16.66%, and 20% to 7%, 15%, 19%, and 25%; beginning in 1968 VAT was extended to trade, services and artisanal sectors. More will be said on VAT reforms later.

²³³ Before 1959 succession tax was levied at rates of 20%, 25% or 30%. After, the rates were changed to between 5% and 15%.

²³⁴ For example, the 1963 reform of taxation of individuals' capital gains realized through real estate/immovable property transactions; the 1965 reform of company taxation; the 1966 and 1968 reforms of VAT; also see J-Y. Nizet, *op.cit.*, pp.161+.

²³⁵ The Rueff-Armand Report is otherwise known as the *Rapport sur les Obstacles à l'Expansion Économique*, published in July 1960 (Paris: La Documentation Française).

revenue. Modernizing was also a persistent theme with policy makers throughout the decade of the 1960s.

The early governments of the new Fifth Republic saw the need to bring the tax system up to date in order to adapt it to changing social and economic circumstances and to meet the growing revenue needs of the state.²³⁶ With the growing competition between France and its European Community partners and between the E.E.C. and the United States, the tax reforms of the 1960s and 1970s were concerned with making French enterprises more competitive in the European and world markets. This had the effect of shifting the burden from enterprises onto income earners and consumers. As Dominique de la Martinère, a former Chef de Service de la Législation Fiscale and Directeur Général des Impôts told students at the École Supérieure des Sciences Économiques et Commerciales in February 1968,

...au cours des dernières années de nombreux changements sont intervenus. Pour l'essentiel, la politique fiscale s'est résumée en un transfert massif et nécessaire de charges fiscales au profit de l'entreprise et aux dépens des particuliers, des personnes physiques ou des consommateurs.²³⁷

Indeed, throughout the 1960s personal income tax evolved much more rapidly and at a higher rate than the growth in gdp compared with the IS, which throughout the 1960s grew less rapidly than

²³⁶ As Mr. Valéry Giscard d'Estaing, then a Secretary of State for the Budget, said in the National Assembly in March 1961, "Nous entendons faire de la fiscalité une arme nouvelle dans la lutte pour la modernisation et l'expansion économique." (quoted from M. Redjah and J. Rodrigue, *Pourquoi Nous Payons Trop d'Impôts: La Fiscalité Giscardienne*, Paris: Editions Sociales, 1976).

²³⁷ Quoted from J-Y. Nizet, *op.cit.*, p.156.

gdp.

The reforming process called forth new problems requiring urgent attention. With the "unification" of income taxes (*surtaxe progressive* and *taxe proportionnelle*), the inequality between various categories of taxpayers became even more evident. New questions emerged to trouble reformers as well as taxpayers. For example, should all revenue be treated and taxed identically? Should all taxpayers, regardless of income sources, be treated equally? An illustration of the discrimination practiced by the French tax authorities was the favorable treatment which continued to be given to salaried workers - who accounted for 11.5 million out of 15 million taxpaying households: as opposed to other income earners, this category of taxpayers could deduct 10% of their income from tax (justified by virtue of the professional fees incurred by this category) or deduct the actual fees from taxes. They furthermore benefitted from an exemption of 20% (*l'abattement de 20% sur le impôt sur le revenu*). And until 1970, they enjoyed a tax reduction of 5% of their salaries. This privileged treatment incited resentment and complaints of unequal treatment before the law by other categories of taxpayers, i.e. the self-employed, artisans, liberal professions and small merchants. With the help of new institutions like the Conseil des Impôts,²³⁸ the government spent much time and effort

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The Conseil des Impôts was created in 1971 and is an arm of the Cour des Comptes. It is comprised of eleven members who regularly examine the operation of the tax system and its effects, economic and social. Periodically and at the request of the Finance Minister, the Conseil publishes reports on the feasibility of certain tax proposals and problems with the system.

during the 1970s, redressing this discriminatory regime - a renewed policy, "*à revenu égal, impôt égal*", was launched.

In any event, as in most other western industrialized countries, growing state intervention, and the consequent "adaptation" and "modernization" of the tax system, had serious implications for the tax burden. Over the 14 years from 1949 to 1963, *prélèvements obligatoires* rose from 28% to around 35% as a percentage of gross national product. Apparently, however, this rise in the tax burden was of minimal concern as long as the economy, standards of living and personal disposable incomes continued to enjoy buoyant growth, which they did, during a period which has come to be known as the "trentes glorieuses" - the thirty years of the French economic miracle.

Taxes by Another Name

So far, discussion has centered on certain major taxes, direct and indirect, that comprise a large part of the French tax system. But these make up only a part of the total tax burden. There exist other taxes which are not directly politically devised and controlled - these taxes form what the French call "parafiscalité".²³⁹ These include the myriad social charges - taxation by another name - which have cropped up since the end of World War II. The assumption by the state of various welfare activities has brought important changes to the French tax

²³⁹

They are "percues dans un intérêt économique ou social au profit d'une personne morale de droit public ou privé autre que l'Etat, les collectivités territoriales et leurs établissements publics administratifs (Ordonnance of January 2, 1959, art.4, line 3).

system.

The *cotisations sociales* (social charges), a relatively recent feature of the French tax system, are theoretically tied to specific welfare benefits provided by the state. For example the *cotisation maladie* corresponds to health care benefits; the *cotisation vieillesse*, retirement pensions.²⁴⁰ The general regime provides sickness insurance, maternity insurance, old-age pension insurance and, death and survivors' insurance. Separate regimes exist for family allowances and workers compensation (i.e. unemployment).

Social charges, or *cotisations sociales*, are levied on employers and employees, up to a certain level of salary/income. These 20th century social taxes, like those taxes already mentioned above, have had the effect of casting the net more widely, and some would say, more equitably, thereby imposing on a very broad base of taxpayers. Their contributions help pay for the various social welfare schemes. These schemes are semi-autonomously supervised by the social partners - i.e. employers, employees, professional associations, Chambers of Commerce etc. - who more or less freely determine the rates, collect the contributions and manage the funds. The *cotisations sociales*, with a few exceptions do not come under parliamentary scrutiny. In the post-war period social charges have grown to represent an

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For more information on the French social security system and its financing see: J-Y. Nizet, op.cit.; T. Gandillot, op.cit., ch.10; S. Shaughnessy, op.cit.; J. Berzia, *Le Régime Général de la Sécurité Sociale*, (Paris: J. Delmas et Cie., 1986).

ever larger share of the total tax burden (see Appendix A, Figure 4A).²⁴¹ In the 1980s they ranged between 18-20% of the total tax burden as a percentage of gdp.

The other form of *parafiscalité* is comprised of numerous extra-statal taxes devised by various organizations and associations in conjunction with the tax administration and applied to limited groups and selected activities - usually members who use the services offered by those organizations and associations.²⁴² Generally these taxes are imposed on transactions of particular products, i.e. books, watches etc. with the proceeds directed towards an organization set up to encourage the particular activity or trade in question.²⁴³ These taxes are voted by Parliament, but may be imposed by decree issuing from the Council of State (Conseil d'Etat) at the urging of the Ministry of Finance and the particular ministry concerned with that particular area.

Two other areas of indirect taxation which contribute sizeable sums to the French fisc include excise duties, and much less significantly, customs duties. As already mentioned earlier, French governments have had a predilection for indirect

²⁴¹ As the welfare state has grown, so too have *cotisations sociales*. These have risen from 7.6% of national income in 1950 to 11.6% in 1954 to close to 20% in 1969.

²⁴² A list of *taxes parafiscales* is included in every *loi de finances*; for example, see, *Journal Officiel*, Débats, Assemblée Nationale, no.102, 13 Novembre 1979.

²⁴³ For further information see, Harvard Law School International Tax Program, *Taxation in France*, World Tax Series, (Chicago: Commerce Clearing House, Inc., 1966), pp.260-2.

taxes (on the balance of taxation, see Appendix A, Figure 5A). Traditionally, taxes on particular goods and services, like tobacco and alcohol, and more recently gasoline and automobiles have been relied upon to bring in much needed revenue. From the mid-1980s, French governments introduced tax reforms that were largely revenue neutral. For example, while lowering income taxes on one side, they were raising excise taxes on the other.

France is a country which has long protected its domestic industries from foreign competition. It has done this largely through the erection of high tariff barriers. Therefore, customs duties contributed a significant portion of total government tax receipts. However, since World War II, France's membership of GATT (now World Trade Organization) and the E.E.C. (now European Union), receipts from customs duties have fallen as tariff reductions have been agreed. Today the relative contribution of customs duties to government tax revenues is one of the lowest in the world.²⁴⁴

Conclusion I

This review of the history of French taxation has provided not only a glimpse of the nature and structure of French taxation, but also some insight into the complex of factors that, driven by a political dynamic, combined to contribute to the evolution of the system. Of course, this brief review does not exhaust the number and variety of taxes that make up the total

²⁴⁴ Ibid., p.236. In 1989, customs receipts, along with the taxe intérieure sur les produits pétroliers (TIPP) and VAT collected by customs, represented around FF300,000 million.

tax burden in France, but those discussed are among the most significant contributors to the fisc. Moreover, with the exception of some, the above mentioned taxes will be the focus of the forthcoming discussion of the evolution of tax reform in France in the 1980s.

Some of the taxes examined have long roots in French political and economic history. Others are more recent vestiges of proximate political, and to a lesser extent, economic choices. While the French tax system has evolved largely without major transformation in the last 200 years or so, perhaps emphasizing the constraints imposed by political culture or inertia, there have been some noteworthy changes. As will be shown, during the 1980s the French tax system and attitudes towards it did undergo important changes, although perhaps not on the same scale witnessed in other countries like the United States and Great Britain.

It is essential to appreciate the shape and evolution of the French tax system before attempting to describe and explain the policy changes which took place in the 1980s. Tax policy change is unlikely the result of a 'clean slate' consideration of optimal taxation. The policy inheritance exercises an important constraint on policy makers and is not easily ignored. In the absence of a clean slate reform, therefore, an examination of the evolving state of French taxation will provide an important marker in the evaluation of tax reform in the 1980s, and at the very least a convenient reference source for the reader.

An examination of tax reform in the 1980s will be preceded however by a brief discussion of the institutional environment relevant to tax policy making. This exercise is necessary, if only to familiarize the reader with the important players in the tax policy process and further our understanding of the roles played by certain actors and institutions in that process and how they interact to produce tax policy. In the course of this review, the reader will be briefly acquainted with some important features of the neo-liberal tax reforms of the 1980s, which will be more fully discussed in subsequent sections.

The French Approach to Tax Reform

An array of actors and institutions comprise the tax policy process in France. Some are critical to the process, others are marginal. This discussion will not attempt to survey all of them, in the interest of time and space. However, the most important will surely come under the purview of this effort. Even among those examined, tax policy making (including tax policy-influencing) actors and institutions reflect a variety of skills, qualities and contributions that help to give shape to the French tax code. We will begin by looking at the Plan, which has played such a major role in the political economy of France. We will consider its economic policy role and its tax policy role. This will be followed by a brief look at other governmental and societal institutions, groups and individuals that have a stake in the tax policy process, such as Parliament, the executive, European institutions. By analyzing the

institutional environment in which tax policy is made we will be better equipped to conduct discourse on the subject of French tax reform in the 1980s.

* The Plan and the Economy

French economic policy in the post-war period has emphasized industrial modernization and economic growth. Since the end of World War II successive governments extended the state's control over key sectors of the economy: banking, coal, steel, shipbuilding, chemicals, information technology etc.. In order to promote the goals of modernization and growth, several institutions were created at the outset of the Fourth Republic, i.e. the Planning Commissariat, the Economic and Social Council, INSEE, and ENA among others.²⁴⁵ The French government, armed with new institutional capabilities and financial resources (i.e. Marshall Aid and private American financial assistance), pursued *dirigiste* policies of Keynesian-inspired economic growth and expansion of public services. Major elements of the new strategy included a system of regulatory controls - price, credit, exchange - nationalizations of basic and not-so-basic industries, as well as a large part of the financial sector, support of the franc and French exports, and a highly developed system of

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For a discussion of French economic policy making institutions see: C. Stoffaes, *Politique Économique de la France*, (Paris: Institut d'Études Politiques, 1982); W.A. Spivey, *Economic Policy in France 1976-81*, (Ann Arbor: University of Michigan, 1982); S. Estrin and P. Holmes, *French Planning in Theory and Practice*, (London: Allen and Unwin, 1983); J. Fourastié and J. Courthéoux, *La Planification Économique en France*, (Paris: Presses Universitaires de France, 1968); P. Cerny and M. Schain, eds., 1985, op.cit.; P. Hall, 1986, op.cit.; V. Lauber, *The Political Economy of France*, (New York: Praeger, 1983).; G. Tournié, op.cit.

planning which pulled all these elements together.²⁴⁶

The planning process, headed by the Commissariat Général du Plan, involved the participation and contribution of other governmental bodies like, INSEE, the government's economic research and statistical arm, the Ministry of Finance and the so-called Modernization Commissions comprised of business leaders, trade unionists, academics and experts to discuss problems and recommend solutions.²⁴⁷ Following its consultations with the government, the planning staff integrates the reports and recommendations from the various commissions and then submits a statement of options to the Economic and Social Council and the National Assembly for debate. It is then formalized into a final plan and again given to the Economic and Social Council for comment and to the National Assembly for approval.

In the early Plans, targets for investment and output for various sectors of the economy were determined and projections for each year of the Plan estimated. As the 1960s progressed, social themes and concerns for improving the quality of life were figured into the Plans. While economic growth and the twin trends of urbanization and industrialization were transforming the socio-economic fabric of the country, new problems were

²⁴⁶ P. Cerny, "From Dirigisme to Deregulation? The Case of Financial Markets" in Paul Godt, ed., *Policy Making in France*, (London: Pinter Publishers, 1989), p.144.

²⁴⁷ Trade unionists have traditionally been hostile to the planning process seeing in it little benefit (see e.g., P. Hall, 1986, ch.6). The Confédération Général du Travail (CGT) and the Force Ouvrière (FO) in particular, have regularly abstained from participating on planning commissions.

emerging that the government was obliged to address. The Plans "de modernisation et d'équipement" became the Plans "de développement économique et social."

The importance of planning was not so much in the policies themselves, which in later years were of questionable importance, but in its concertation and coordination of various actors with the objective of achieving a consensus on the framework and direction of economic policy.

The normalization of concertation is perhaps the biggest claim for the Plan, and its effect is most difficult to assess. Certainly, in the 1950s the planners were breaking new ground in this respect, and by the 1980s consultations with the social partners had become part of the ordinary policy-making process in most ministries, agencies and local governments.²⁴⁸

Tax policy making is, to some extent, a part of this concertative planning process. Among other things, planning is a means by which the government can 'test the waters' for its own proposals and consider the needs and demands of socio-economic groups, on whose expertise and cooperation the government relies for developing and implementing policy.

* Tax and the Plan

L'intégration de la fiscalité dans les expériences françaises de planification est significative de la place dévolue à la variable impôt dans la macro-économie appliquée de moyen terme.²⁴⁹

The planning process provided an important arena for tax policy

²⁴⁸ C. Stoffaes, "Industrial Policy and the State, from Industry to Enterprise", in Paul Godt, ed., 1989, op.cit., p.138.

²⁴⁹ B. Bobe and P. Llau, *Fiscalité et Choix Économiques*, (Paris: Calmann-Levy, 1978), p.190.

making. However, generally, it was the economics of taxation rather than the politics which preoccupied the planners. In other words, taxation, was above all a tool of economic management. The social and political implications were not the concern of the planners.

As far as Jean Rivoli²⁵⁰ was concerned, there was, at the height of the Plan's prestige, little worth criticizing as long as the tax system was conceived and applied as an effective means of realizing the Plan's goals. In examining some of the tax reforms or adjustments considered or legislated in the short life of the Fifth Republic (Rivoli was writing in 1964), Rivoli saw the hand of politics at work, which he deemed less efficient and rational than those reforms which adhered to strict economic criteria.²⁵¹ If any reform were to be undertaken, the primary criterion must be the success of the Plan. Other criteria were certainly worth considering - i.e. increasing state revenues, reducing the tax burden, harmonization of tax regimes in the E.E.C. - in order to make the system as painless and acceptable as possible. Nonetheless, "...en faisant du Plan le critère prioritaire de toute réforme fiscale, on n'élude aucun problème: simplement, on remet chacun à sa place véritable."²⁵²

Consequently, tax reform in the post-war period has largely

²⁵⁰ Jean Rivoli is the pseudonym given to the author(s) of a series of books published by Editions du Seuil whose provenance was the Finance Ministry, rue de Rivoli.

²⁵¹ See, J. Rivoli, *op.cit.*

²⁵² *Ibid.*, p.121.

been characterized by periodic modifications to the tax code intended to incite particular forms of behavior with respect to consumption, investment and production, three chief areas of concern for the planners. While Rivoli acknowledged other objectives, i.e. political, health and most importantly the reduction of inequalities, - which themselves had indirect effects on the economy - the fulfilment of economic objectives decided by politicians, planners and social partners was the principal determining factor.

During the preparation of a plan, a working group on taxation (known as the Groupe Fiscalité) is set up and meets for about a two year period. The participants include government officials, business representatives, trade unionists, academics and tax experts. These participants raise and discuss various tax questions and strive to formulate a coherent policy. This Groupe Fiscalité is part of the Commissariat's Finance Committee. It has primary responsibility for assessing the current situation, addressing problems and making recommendations.²⁵³ Theoretically, the work of the Fiscal Group has only a purely consultative value. By no means is its work automatically or completely incorporated into the Plan.

Ils constituent pour le gouvernement et les différents agents du développement économique et social une source d'information et un guide précieux pour l'action.²⁵⁴

²⁵³ Though it doesn't have exclusive responsibility, as other groups and committees, i.e. agriculture, deal with fiscal questions also.

²⁵⁴ *Rapports des Comités du 6e Plan 1971-1975, Rapport du Groupe Fiscalité, Comité du Financement, Commissariat Général du Plan, (Paris: La Documentation Française, 1971), p.3.*

Even the members of the Fiscal Group themselves acknowledge their work as a "source of information" and a "guide" for action.

Parallel with this group, the Modernization Commissions - like the commission d'habitation and the commission d'agriculture - can also deal with questions of taxation related to their specific areas. In fact, as Christophe Heckly (1987) writes, such fiscal concertation has a much bigger practical scope - "une plus grande portée pratique" - than one is led to believe given the emphasis on consultation.²⁵⁵ Many groups and individuals have, or feel they have, a stake in the tax policy making process. In France, official means of participating exist which enable a variety of actors and interests to express their preferences. Such concertation serves the interests of both government policy makers and concerned groups.

One of the first tasks of the planners with respect to taxation was to determine, given current legislation, how much revenue and savings would be available to finance the Plan's programs. The planners would calculate, based on various equations, the amount of revenue, from all sources, necessary to fulfill the Plan's production, consumption and investment goals.²⁵⁶ Not only was the amount of tax revenues determined given existing legislation and calculations based on various economic scenarios assuming certain behavior on the part of

²⁵⁵ C. Heckly, *op.cit.*, p.252.

²⁵⁶ For more information see, B. Bobe and P. Llau, 1978, *op.cit.*, pp.190-207.

businesses, households and the administration, but also the amount required from certain types of taxes necessary to realize the objectives of the Plan.

Planners could and did make suggestions for modifications to the tax code in order so that they might obtain the required revenues, but rarely did they cut, abolish or create taxes. More than anything else, they were tinkerers rather than reformers. Because of their concern with rates of investment and savings, the planners were responsible for a slew of measures which supported and accelerated the accumulation of capital contributing to the financing of public as well as private sector activities. Their contributions, however, are far from insignificant and many of the suggestions made concerning tax and published in the Plan, have become government policy.²⁵⁷

The Fiscal Group, in its preparatory work for the Sixth Plan 1970-75, recommended a gradual reduction in the 23% VAT rate to the intermediate rate of 17.6%. And in the preparation for the Seventh Plan 1975-81, the planners called for a reduction of VAT. The government eventually adopted this policy and adjusted downward the normal rate of 23% to 20%, and the lower rate from 7.5% to 7% on January 1, 1973. Under Raymond Barre, the normal rate of 20% was merged with the 17.6% intermediate rate on January 1, 1977. The reasoning behind these similar moves by two different governments and in two different economic contexts was

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Heckly (1987, p.252) claims that almost all the recommendations made by business interests participating in the Fiscal Group for the Fifth Plan were in fact legislated by the government between 1965 and 1970.

twofold: 1) the tendential *rapprochement* of French VAT rates with those of its Common Market partners; 2) the desire to dampen inflationary pressures in the economy. How much of an impact the decisions of the planners had on the governmental decision agenda is hard to say. Neither proposal was exclusive to the planners. Consequently, no causal nexus can be definitively established. But one can assert the likelihood, at least, that the planners' preferences did have some effect.

There exist a number of other official and semi-official bodies that contribute to the planning process and play a part in tax policy making. Another aspect of the planning process involves the activities of the Economic and Social Council and its impact on the tax policy making process. The Economic and Social Council is another arena for the discussion of tax questions and the promotion of policies dear to the various actors that participate on the Council.²⁵⁸ The debates, hearings and reports of the Council and its review of government legislation offers another means for societal actors and government officials to come together in a cooperative dialogue. The Council, again, gives the government the opportunity to canvass for new ideas as well as "test the water" for its own proposals.

Another tax policy making arena, rather independent of the planning process, is the fiscal committee of the Mission

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Georges Egret identified the Economic and Social Council as an occasional source of tax ideas and a useful sounding-board for the government (Georges Egret, interview in Paris, France, May 7, 1992).

d'organisation administrative, created in 1971.²⁵⁹ Located at 10 rue d'Anjou, where the fiscal service of the Conseil National du Patronat Français (CNPF) has its offices, the committee is composed of various business leaders, accountants, tax advisers and civil servants. Its primary purpose is to offer the participants of the group a permanent dialogue between business interests and the civil service, especially with regards to the implementation phase of tax legislation.

At the end of this apparently loosely coordinated concertative process the Plan is drawn up. Once the Plan is approved by the Economic and Social Council and finally by Parliament, it is up to the Ministry of Finance and its tax administration services, the Direction Générale des Impôts (DGI) and the Service de la Législation Fiscale (SLF) to define the tax measures necessary to achieve the Plan's and the government's goals.

Since the mid-1970s, however, as implied earlier in this discussion on the role of the Plan in the tax policy making process, planning has played a much less important role, despite all the intentions to revive it during the early 1980s under the Socialists.²⁶⁰ The importance of the Plan in French economic

²⁵⁹ For further information see, C. Heckly, 1987, op.cit., p.253.

²⁶⁰ P. Hall (1986, ch.7) writes of the "evisceration of planning" which, made necessary by changes in the international and domestic economies, was not an accidental phenomenon, but a strategic and philosophical decision made during the *septennat* of Valéry Giscard d'Estaing. For political reasons, as well as economic, it was acknowledged that the state had to de-responsibilize itself from the planning and management of the economy over which it seemed to have less and less control. A conscious effort was made, therefore, to reduce the dependency of French industry on the state for economic resources and direction. The idea

decision making was eroded for a number of reasons, among which: economic conjuncture, a growing predilection for the free market and the hostility and jurisdictional jealousies of other governmental and non-governmental institutions, i.e. the Budget Ministry and the trade unions.²⁶¹ Government tax policy continues to be guided by the planners, to some extent, and indeed some new ideas have "bubbled-up" from the planning process and found a place on the governmental agenda. But with increasing economic uncertainty and the breakdown of the *consensus progressiste* - of which more will be said later - tax policy making became subject more to short term concerns and political instincts than economic rationality and cooperative dialogue.

* The Role of Parliament

Parliament has a much reduced role in the tax policy making process compared to its Third and Fourth Republic counterparts. In another comparison, it's role is more akin to that played by its British counterpart, as opposed to the American. With decision making power focused in the government, legislators, in most circumstances, are compelled to play "second fiddle". That is generally the nature of a semi-presidential regime such as exists in France.

The removal of financial powers from the hands of the sovereign was one of the first real manifestations of democracy.

was to free the economy and thus shift the burden of responsibility away from the state.

²⁶¹ For an informed and well-conceived explanation of the decline of French planning see, P. Hall, 1986, op.cit.

As early as the revolutionary Constituent Assembly, the legislature was responsible for voting tax and expenditure legislation. Although even during the Bourbon monarchy, the representative body, the États Généraux, possessed the authority to refuse or approve tax measures decided by the King or his ministers. However, this had little practical effect as the King often arrogated tax policy making.

The Charter of 1814 conferred on the National Assembly responsibility for voting tax legislation. According to article 48, "Aucun impôt ne peut être établi ni perçu s'il n'a pas été voté par les deux chambres et sanctionné par le roi." With the exception of occasional absolutist interludes, Parliament's supremacy with regard to taxing and spending matters was unquestioned until the advent of the Fifth Republic.

Under the Third and Fourth Republics little power was accorded to the President and his government. Governments were usually made up of a coalition of various parties which were more beholden to their own parliamentary groups than to the President or prime minister. The government, MPs and the President (in the Third Republic) had the "initiative des lois". Under the Fourth Republic particularly, the government was constrained from proposing laws whose intent was to diminish receipts or to create expenditure (article 14 of the 4th Republic's constitution). Deputies possessed the "initiative des dépenses" (article 17) and the National Assembly was to review and vote the budget (article 16). If and when the government proposed new tax measures, these

usually reflected the position of one or more parliamentary group(s), and if not, they were certain to meet defeat or worse, could even threaten a government's stability.

In practice much government legislation was decided in parliamentary committees. During the Third and Fourth Republics parliamentary committees were "virtual counterministries, sufficiently powerful and knowledgeable to kill or to maim the government's legislative proposals and to keep the ministers in mortal fear for their political lives."²⁶² While many committees were authorized by the governments of the Fourth Republic to examine the issue of tax reform, little was in fact accomplished with the outstanding exceptions of the income tax reforms of 1948 and the introduction of VAT in 1954.

During the Fifth Republic, the use of committees (commissions or comités d'experts) to review various aspects of the tax system was revived. However, such committees, while perhaps composed in part of parliamentary representatives, were nominally independent and not formed under the aegis of either the Senate or the National Assembly. They served as a means of divesting the government of decision making responsibility (often on controversial issues) and circumventing parliamentary scrutiny.

With the institution of the Fifth Republic, Parliament's scope and powers were much reduced. Still, Parliament retained

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J.S. Ambler and L. Scheinman, *The Government and Politics of France*, (Boston: Houghton Mifflin Co., 1971), p.160.

its traditional responsibilities for tax matters, at least theoretically. Article 34 of the 1958 constitution consigns to Parliament, the determination of the base, the rates, and the methods of collecting taxes of all types. In practice, it is the government which in fact makes these determinations. Parliament debates the decisions made by government and presented to the legislature as a *projet de loi*. Following this, Parliament makes amendments and then votes on the *projet de loi*, or in the case of a finance bill, votes several times, first on its general principles and then several times on its various parts.

Parliament's freedom of maneuver, however, is constrained by constitutional innovations like article 66 - which gives the Constitutional Court the right to judge the constitutional conformity of laws passed by Parliament - and article 40 - which prevents MPs from introducing bills and amendments which decrease revenues or create/increase expenditures. Articles 38, 44, 45 and 49 further constrain Parliament's freedom to take decisions and fulfil its legislative role. Moreover, the *cotisations sociales*, which for the most part do not figure as part of the state's budget - Parliament exercises control over only 40% of the financing of the "Social Budget" - are removed from parliamentary scrutiny.

Another constraint on Parliament's once formidable tax decision making powers is the predominance of the executive, an indelible feature of the Fifth Republic, made possible by the Constitution's rationalization of parliament, the direct election

of the President, and the assertion of presidential primacy by the Fifth Republic's first president, General de Gaulle. The assertion of the president's authority in almost all areas of decision making has persisted, and even been expanded, under de Gaulle's successors. The interviewees were in general agreement that the government, in conjunction with the bureaucracy, was the major source of tax initiatives. Although, Parliament still exercises important amendment and blocking functions, it rarely initiates tax policy.²⁶³

Gerard Tournié (1985) offers conflicting perspectives on the role and power of Parliament. He asserts rightfully that Parliament has two key powers with respect to taxation: determining and consent. While the latter is a given since Parliament, as the legislative branch, enacts laws, the former

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Several of the interviewees confirmed the absence of parliamentary initiative in the area of taxation. Jean Choussat, for example, said, "... dans le domaine fiscal il est rare que les réformes prennent naissance au parlement. C'est très rare. Ça vaudrait la peine de prendre les 10, 12, 15 dernières réformes fiscales et en face de voir qui a pris l'initiative. Encore que parfois c'est de déterminer qui a eu l'idée le premier...Mais je dirai tout de même que dans neuf cas sur dix les réformes fiscales sont d'origine gouvernementale." (Jean Choussat, interview in Paris, France, May 12, 1992). Patrick Careil admitted that from time to time tax proposals are made by Parliament but "... les plus importantes venaient quand même d'un dialogue entre l'administration et le ministre." Reflecting on Parliament's amending powers in the context of the reforms made prior to 1986, Careil commented, "On a jamais laissé le parlement modifier beaucoup les projets en matière de la réforme fiscale en 1981/1982...On avait le souvenir du désastre qui avait conduit les débats parlementaires de 1977/1978 sur la taxe professionnelle... et donc on savait que les modifications initiées par le parlement...conduisaient à des catastrophes. Donc, le parlement a joué un rôle que très en marge... la plupart des réformes ont été votées - les grandes réformes, l'impôt sur la fortune, c'est le texte du gouvernement pratiquement qui était voté, les plus values... Laurent Fabius a dit au parlement qu'il n'accepterait pas de modifications de la part des parlementaires... Les droits des succession c'est un projet entièrement du gouvernement. Quelques grandes réformes fiscales ont été faites sans que le parlement puisse les modifier." (Patrick Careil, interview in Paris, France, May 25, 1992).

power escapes Parliament due to the increasing technical nature and sophistication of taxation and the assertiveness of the executive in this domain.

...en fait le pouvoir fiscal du parlement n'est jamais initial. En présence d'impôts de plus en plus sophistiqués, il est nécessairement actionné par le gouvernement et ses projets de loi.²⁶⁴

Heckly (1987) confirms this,

On tax matters, parliamentary initiative is practically non-existent, the quasi-totality of laws adopted being by government initiative.²⁶⁵

However, Tournié contradicts himself and "l'opinion générale des observateurs" by claiming Parliament is "le seul maître de la politique fiscale."²⁶⁶ He makes this claim on the basis that once government *projets fiscaux* are tabled, Parliament engages in serious amending or obstructing which can have a profound effect on the *projet*. Tournié, moreover, characterizes the relationship between the executive and Parliament as one of associates on tax matters, rather than superior-inferior.

However indisputable in theory Tournié's argument may be, in practice it is full of holes. As Heckly (1987) points out,

Si le principe de la souveraineté du Parlement en matière fiscale est toujours posé, conformément à la tradition républicaine, en pratique, les prérogatives gouvernementales apparaissent de plus en plus importantes. Le législateur a commencé par laisser au pouvoir exécutif le soin d'assurer l'application de ses textes, puis il lui a confié l'élaboration des projets de loi, lui permettant ainsi d'exercer une influence déterminante sur le contenu des textes fiscaux.²⁶⁷

Given the practice of executive initiation, formulation and implementation in tax matters, reinforced by the imposing powers granted to the government by articles 38, 40 and 49 of the Constitution, Parliament's role seems unarguably subordinate. Of course this is not a universal rule, and particularly in times of

²⁶⁵ C. Heckly, op.cit., p.254. The translation is mine.

²⁶⁶ G. Tournié, op.cit., p.22.

²⁶⁷ C. Heckly, op.cit., p.254.

slim government majorities or minority government, Parliament does play a more active role. This was exemplified in the reforms of the TP in 1976 and 1977 and budget debates of 1979 when the government was forced to make concessions on taxation and spending to the parliamentary groups which made up its majority. Another illustration was provided during the premiership of Michel Rocard, heading a minority Socialist government from 1988: after a meeting with Pierre Mehaignerie and Jacques Barrot, the president and secretary of the CDS respectively, the government decided to lower VAT from 33% to 28% on a number of products previously taxed at the higher rate, and ultimately to further pursue the reform of VAT. The idea to reduce VAT and align France's rates more closely with those of its European partners was one dear to Raymond Barre and other members of the CDS, part of the government's unofficial parliamentary coalition on which it depended for occasional support. Another example is seen in the autumn of 1990 when Socialist MPs drew up a reform of the *taxe d'habitation* and obliged the government to assent to this reform.²⁶⁸ Furthermore, in the late 1980s, the Socialist group in Parliament forced the government to concede higher rates for the ISF (wealth tax) in return for its vote for lower company tax rates.

While the impact of Parliament may generally be almost non-existent in terms of initiating tax policy, it is quite clear

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Ironically, this reform had been one of Mitterrand's 1981 110 Propositions.

that at the amendment stage, its influence is greatly felt. It's at this point, also, where pressure group activity is readily observable.

L'intervention auprès du Parlement est moins discrète que l'intervention auprès de l'Administration... Dans la mesure où la législation fiscale appartient essentiellement au domaine de la loi, il est normal que les pressions des organisations professionnelles s'exercent sur les parlementaires... le parlementaire a tendance à privilégier les groupes de pression les plus influents... Les propositions de loi et les amendements aux projets de loi sont souvent préparés par les services juridiques des groupes professionnels. Ces propositions d'amendements ou de lois sont remises aux parlementaires accompagnées d'exposés des motifs et d'arguments à développer au cours de la discussion.²⁶⁹

Parliament's ability to amend *projets fiscaux* is not without significance. Amendments can cripple a government-sponsored reform proposal.²⁷⁰ This was vividly illustrated during the debates on the capital gains tax, introduced in 1976, which saw the government's original package emasculated by over 600 parliamentary amendments. Heckly (1987) notes that 15-30% of tax-related amendments introduced in the National Assembly are adopted, even despite the government's prerogatives and wishes.

During the budget debates in the autumn of 1989, the Socialist parliamentary group was ready to oppose the government's proposal to lower IS from 39% to 37% unless it considered other measures of a more egalitarian nature, particularly an increase in the taxation of wealth. The

²⁶⁹ C. Heckly, op.cit., pp.162,239-41.

²⁷⁰ Raymond Barre spoke at length to the author about the successful blocking and amendment strategies engaged by Parliament on tax matters during his premiership (Raymond Barre, interview in Paris, France, June 2, 1992).

government acquiesced and accepted a more burdensome ISF with a top rate at 1.5% instead of the government's proposed 1.3%.

While Parliament has suffered a curtailment of its decision making powers in the tax field, and has taken a back seat to the government on the initiation of tax proposals, it can still be a formidable power once a government *projet de loi* has been tabled. Its amendment and blocking powers have often compelled governments to negotiate the fate of its own bills. Generally, however, in the context of tax reforms, the government, in conjunction with the *administration*, tends to take the lead.

Since the general consensus points to the primacy of the government - that is, the executive - in formulating and implementing tax policy, a brief examination of the role played by various actors at this level is necessary.

* The Role of the Executive

Generally, it is at the executive level that most tax proposals originate. Recommendations can and do come from various quarters - some already mentioned like the Economic and Social Council, party officials and manifestos, the Fiscal Group, pressure groups; others come from tax experts, business representatives, ministerial *cabinets*, the tax administration, and more rarely the Cabinet (*Conseil des Ministres*) and the President.

Usually, however, the grand orientations for the tax system will be enunciated by the President, as when de Gaulle in late 1968 ordained a lower rate of *prélèvements obligatoires*.

President Mitterrand did the same in 1982-86.²⁷¹ They may bring pet proposals to the agenda. Often, these have formed part of a campaign manifesto. Mitterrand's 110 Propositions of 1981 which called for the institution of a wealth tax and his April 1988 "Lettre à Tous les Français" which called for no further changes in income tax and sanctioned the re-institution of the wealth tax (known as the ISF from 1988), are two obvious examples. However, the President may also call for specific measures, for example, as Mitterrand did when he pledged to abolish the TP and lower income taxes by 8% in the summers of 1983 and 1984. Generally, while the President may "call the shots", it remains the responsibility of his advisers and ministers - especially the prime minister, the finance minister and the budget minister, working with their advisers and civil servants - to come up with plans that will satisfy the President's goals and objectives.

Other important initiatives can come from the prime minister. The influence of the prime minister will depend, to a large extent, on his or her expertise, the dynamics of his or her relations with the party, the president, and the finance minister, and the configuration of his parliamentary coalition, among other things. Raymond Barre, was ceded much authority by then President Valéry Giscard d'Estaing, especially in economic

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Philippe Lagayette refers to Mitterrand's defining major parameters with respect to taxation and spending, "... il a pris deux décisions clés, M. Mitterrand: la première c'est la réduction des prélèvements obligatoires et la deuxième c'est la limitation des déficits budgétaires à 3% en 1983...Ca c'était clé... deux barrages...et après ça tous les gens qui s'occupaient de la fiscalité, des finances publiques étaient obligés de rester dans cette barrière." (Philippe Lagayette, interview in Paris, France, May 20, 1992).

decision making. Barre proposed a number of reforms, for example, of the *taxe professionnelle* in 1979/1980 and reductions in VAT in 1977. But a hostile coalition partner and opposition made the achievement of some of the government's reforms difficult, and in some cases, impossible.

Laurent Fabius, leading a large parliamentary majority, enjoying the favor of the President and sharing a vision of taxation similar to that of his finance minister (Bérégovoy), was a prolific tax decision maker. Patrick Careil, who worked closely with Fabius, spoke at great length about Fabius's leading role in the tax decision making process as budget minister and as Prime Minister. When asked who set the tax agenda in France between 1981 and 1986, Careil (and other interviewees) alternatively mentioned Mitterrand and his 1981 program and 1982 and 1983 pronouncements, Prime Minister Mauroy, the Service de la Législation Fiscale, pressure groups, especially the cadres, and Bérégovoy. But above all, Careil emphasizes the key role played by Fabius. Fabius was behind a number of reforms: the *droits de succession*, capital gains, and lowering company charges. Careil asserts,

L'essentiel des mesures était concerté entre Laurent Fabius et son cabinet, c'est-à-dire moi, et le Service de la Législation Fiscale... Donc, c'était un dialogue entre le ministre du budget et le président et quelque fois avec le premier ministre pour déterminer ce qui sera mis sur l'agenda.²⁷²

Careil 's discussion of Fabius's role, however, largely centered

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Patrick Careil, interview in Paris, France, May 25, 1992.

on the early tax reforms; in other words, those made before the neo-liberal reforms of the mid- to late 1980s.

Fabius's conservative successor, Chirac, cohabiting with a Socialist President but leading a cohesive parliamentary majority, exercised tremendous decision making power and authority, even if he was not particularly expert in economic matters. He called for an 8% income tax reduction and "un allègement substantiel" of the TP (by 25%) in 1986. Another example of prime ministerial decision making was evident in Michel Rocard's decision in 1989 to institute the *cotisation sociale généralisée* in 1990.

The Minister of Finance is an important source of reform proposals, and generally, with some exceptions, the most important decision maker,

Dans la plupart des cas, c'est du ministre des finances que dépendra en définitive l'acceptation ou le refus d'une disposition fiscale donnée.²⁷³

In order to function effectively in this capacity, Heckly (1987) believes the Minister of Finance must possess two qualities: 1) sufficient technical competence; but this quality is insufficient unless the Minister of Finance has 2) the skill and persuasive force necessary to make his will prevail. According to Heckly, Valéry Giscard d'Estaing epitomized these qualities.

Ironically, M. Giscard d'Estaing was from 1959 alternatively Secretary of State for the Budget, then Minister of Finance and sometime President of the Finance Committee in the National

²⁷³ C. Heckly, op.cit., p.170.

Assembly before becoming President of the Republic in 1974. His impact on the shape and direction of the French tax system is undeniable. M. Redjah and J. Rodrigue (1976) referred to him, if rather sardonically, as "un des grands artisans du système fiscal tel qu'il est actuellement."²⁷⁴ The significant role played by Giscard d'Estaing in the evolution of the tax system of the Fifth Republic is further cited by C. Heckly (1987),

Il semble que M. Giscard d'Estaing, qui exerça les fonctions de ministre des finances de 1962 à 1965, et de 1969 à 1974...montrait un intérêt particulier pour les questions fiscales. Comme l'indiquent C. de Brie et P. Charpentier "il préside les séances de travail, inspire les études, arrête les projets, se charge d'emporter l'adhésion du Parlement et des groupes de pression. En matière fiscale, il développe une activité plus intense qu'un habituel ministre des finances. C'est un peu son 'domaine réservé'."²⁷⁵

And G. Tournié (1985) wrote of Giscard's role,

... de 1959 a 1981, M. Valéry Giscard d'Estaing a été pendant plus de dix-huit ans aux affaires. Si une paternité devait être recherchée, ce serait certainement celle-la, car M. Giscard d'Estaing a eu la responsabilité technique ou politique, partagée ou exclusive, des problèmes fiscaux...²⁷⁶

All this to say, that M. Giscard d'Estaing, is recognized as a perfect example of the impact of the finance minister on tax policy.

However perfect an example found in M. Giscard d'Estaing, several reforms to the French tax system saw the light of day due to the decisiveness and convictions of other finance ministers,

²⁷⁴ M. Redjah and J. Rodrigue, op.cit., ch.1.

²⁷⁵ C. Heckly, op. cit., p.170.

²⁷⁶ G. Tournié, op.cit., p.18.

for example: M. Debré and the 1968 changes in VAT; René Monory and the loi Monory in 1978; M. Bérégovoy and the reductions in personal and corporate taxes and VAT between 1984 and 1986, and 1988 and 1993. While these finance ministers may have been lacking in technical competence, a key element according to Heckly, they did command sufficient skill, persuasiveness and support to make their decisions prevail.

The importance of the finance minister in the economic policy decision making process is further illustrated by Edouard Balladur who, commenting on the decisions made during 1986-1988, wrote,

Durant ces deux années, les grandes orientations ont toujours été arrêtées par lui [Jacques Chirac], en plein accord avec moi, et en général sur ma proposition. Je n'ai pas souvenir d'une décision importante de politique économique qui m'ait été imposée ou que je n'aie pas acceptée volontiers.²⁷⁷

During the cohabitation of 1986-88, on economic policy, the prime minister largely assumed the role of the president and pronounced the grand orientations. It was up to the finance minister to define policies and make proposals that satisfied as much as possible the goals set down by the Prime Minister.

Finance ministers, however, are not always successful in making their will prevail. Such was the case with Jacques Delors and his proposal to replace the temporary 1% levy on incomes intended to help finance social security, with a more permanent solution in the summer of 1983. He favored a 2% tax on all

²⁷⁷ E. Balladur, *Passion et Longueur de Temps*, (Paris: Fayard, 1989), p.148.

incomes to finance a social security "solidarity fund" and accompanied by a reduction in *cotisations sociales* for businesses. Part of this reform also entailed an eventual negative tax in place of family benefits. The project was well-conceived and presented. However, it incited the opposition of Pierre Bérégovoy, the Minister for Social Affairs, and Lionel Jospin, the first secretary of the Socialist Party. This opposition was explained largely by antipathy towards Delors himself, and the fact that Delors's plan treated every one equally without taking into account the position of those on more modest incomes. Although, Bérégovoy later moderated his opposition to the idea, Jospin rallied the parliamentary group as well as the President against the idea. The Delors tax reform project was thus still born.

Budget ministers can also be important definers of tax policy. Maurice Papon in the second Barre government, Laurent Fabius from 1981-83, and Alain Juppé from 1986-88, exemplify ministers who, by virtue of their expertise, experience and convictions, and/or their close relations with the president or prime minister or parliamentary party, wielded important influence on tax policy. Papon's resistance to further tax reform after the capital gains tax debacle of 1976-79, put pause to any fundamental reform the Prime Minister, or anyone else may have wished to implement. Fabius, of whom much has already been said, was an instrumental figure in deciding the shape of the wealth tax, the institution of the 65% tax bracket and the change

in approach to the corporate tax burden. During the cohabitation government of 1986-1988, Juppé's contributions were obscured - but no less real - by the involvement of the Minister of Finance and the Prime Minister. Juppé, as Budget Minister, was to translate the joint RPR-UDF platform's tax planks - which he was instrumental in designing - into government policy.²⁷⁸ It was Juppé, along with Philippe Auberger and others, who designed the conservative government's tax agenda prior to its accession to power in March 1986. Among the policies which formed part of this agenda, were a reduction in the top rate of income tax from 65% to 50%, and a cut in the IS from 45% to 34%.²⁷⁹ He worked in close collaboration with the Finance Minister and others in drawing up important tax measures in the 1986 to 1988 period, for example the restructuring of value added taxation.²⁸⁰ Juppé was

²⁷⁸ See e.g., A. Juppé et le Club 89, *La Double Rupture*, (Paris: Economica, 1983); also see, the joint RPR-UDF platform, "Gouverner Ensemble".

²⁷⁹ Under Juppé's stewardship, the top rate of income tax fell to only 56.8%, and company tax was lowered to 42%.

²⁸⁰ E. Balladur, 1989, op.cit., pp.39, 111-113. The rumour circulating at the time was that the idea did not originate with Juppé or Balladur, or even the rue de Rivoli. It was widely suspected that the government's coalition partner, the CDS - particularly pressure from its President, Pierre Mehaignerie and its secretary, Jacques Barrot, and encouraged by Raymond Barre - had persuaded the government of the necessity and benefits of reducing value added taxes in a meeting at the end of July 1987 (see e.g., *Le Monde*, 5 Septembre 1987, p.8). The idea was evidently not exclusive to the center-right as Laurent Fabius in an article appearing in *Le Monde* on July 21, 1987 (p.11) wrote, "Comme la France a une TVA beaucoup plus élevée que les autres pays européens, il faudra la baisser sur un certain nombre de produits. Si nous ne le faisons pas par choix, nous le ferons par obligation." Indeed, it seems the streamlining of VAT was considered even earlier, as Yves Mansion told the author that the reduction in the number of VAT rates was being planned as early as 1984. (Yves Mansion, interview in Paris, France, June 2, 1992). He revealed that the Socialist Party was opposed to this idea and that it would take eight years for the Socialist government to achieve the rationalization of VAT it desired. VAT rates were gradually combined, reduced and eliminated. In January 1992, the higher rate of 22% was abolished leaving two rates of 5.5% and 18.6%.

instrumental in the moves to lower value added taxes and limit the rate structure, which began, albeit tentatively, in late 1987.²⁸¹

Other ministers - i.e., Agriculture, Housing and Social Affairs, even Culture - can also be advocates of reform and have an important part to play in ensuring that "pet" ideas are placed on the government's agenda. For instance, the Minister of Agriculture, Christian Bonnet, lobbied hard for the *impôt sécheresse* in 1976, whose funds were directed to drought-stricken farmers. Francois Léotard, culture minister from 1986 to 1988 announced a reduction in VAT on records in early 1987 without first consulting the budget minister, Alain Juppé. The Minister for Solidarity, Health and Social Protection, Claude Evin, during Michel Rocard's premiership, was to a large degree responsible for undertaking the consideration, formulation and advocacy of the *cotisation sociale généralisée* in 1989/90, a 1% tax on all incomes intended to finance the deficits in the Social Security

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accounts.

Supporting ministers and their positions are the ministerial cabinets, that usually count among their members at least one tax expert and/or economic adviser.²⁸² These individuals tend to form part of the hidden cluster, in contrast with the actors discussed above, who make up what is known as the visible cluster.²⁸³ In the cabinet, the tax expert is known colloquially as "le fiscal", examines all questions of a fiscal nature and liaises with the tax administration, the civil servants in the ministry as well as outside interests, who may have brought a tax idea or problem to the cabinet member's (or even the minister's) attention in the first place. "Le fiscal" formulates a policy often with the help of the aforementioned actors and attempts to persuade the *directeur de cabinet* and/or the minister of the appropriateness of the policy. The ministerial cabinets are often overlooked as policy initiators, due to the relative anonymity of their members, and the secret, multitudinous nature of their activities.²⁸⁴

John Gaffney (1991) speaks of these politico-administrative bodies as key to the policy process. They are "sources of political reflection and the promotion of ideas in policy

²⁸² See, C. Heckly, *op.cit.*, p.171.

²⁸³ J. Kingdon, 1984, *op.cit.*, ch.3.

²⁸⁴ Important players in the tax policy making process and some-time cabinet members between 1979 and 1989 were Pierre Bilger, Patrick Careil, Yves Mansion, Jean Pascal Beaufret, Hervé Hannoun, Frédéric Saint-Geours, Jacques Attali, Francois Xavier Stasse, Francois Heilbronner, and Christian Sautter.

elaboration."²⁸⁵ Gaffney furthermore describes cabinet members as involved in the "elaboration of legislation at all levels of the process."²⁸⁶ Francois de Baecque (1973) supports the important role Gaffney assigns to cabinet members when he remarks that it is not unusual for the cabinet to devise the principles of a new policy virtually without consultation, and even for it to take on almost unaided the drafting of the texts which embody the policy.²⁸⁷

Presidential advisers, also on occasion, may be the source of policy initiatives. Examples can be found in the 1974 proposal for a *prélèvement conjoncturel* made by Jean Serise, an adviser to President Giscard d'Estaing and, as some allege, Jacques Attali's role behind Mitterrand's 1983 announcement for a reduction in *prélèvements obligatoires*. Attali was a special adviser to the President for most of the 1980s. Given the secrecy which surrounds policy formulation at the executive level however, it is difficult to ascribe with certainty the origins and originators of tax reforms and other proposals.

Other branches of the executive that play an important role include the Direction Générale des Impôts (DGI) and the Service

²⁸⁵ J. Gaffney, "The Political Think-tanks in the UK and the Ministerial Cabinets in France", *West European Politics*, vol.14, no.1, January 1991, p.7.

²⁸⁶ Ibid.

²⁸⁷ F. de Baecque, *L'Administration Centrale en France*, (Paris: Armand Colin, Collection 'U', 1973), p.189.

de la Législation Fiscale (SLF).²⁸⁸ These are the two principal bodies of the tax administration in the Ministry of Finance and come under the jurisdiction of the Budget Ministry. They are, for the most part, concerned with the economic, administrative and behavioral implications of tax decisions. While the DGI is more concerned with administrative matters, the SLF is very much involved in policy making.²⁸⁹ With collaboration from the DGI, the SLF provides the detailed analysis of the feasibility of tax proposals and the operation of implemented measures. The SLF draws up the detailed proposal which will serve as a precursor to a legislative or regulatory text, which it also draws up. Indeed, prior to an election, the SLF will draw up tax proposals based on the manifesto pledges made by that party most likely to win the election.

In their policy making role, the DGI, and more often the SLF, make decisions according to financial - as opposed to political - criteria. Their role is primarily technical.

On trouve donc à tous les niveaux de la hiérarchie cette même conception selon laquelle tout problème comporte une seule solution, qui n'est pas dictée par des considérations politiques mais par des

²⁸⁸ The SLF was hived off from the DGI in 1977. The Direction des Douanes also draws up legislative texts on tax measures concerning its jurisdiction.

²⁸⁹ Several interviewees, including Patrick Careil, Michel Taly, Raymond Barre, Georges Egret and Pierre Bilger referred to the important role played by the *administration fiscale* in the tax policy making process, particularly the SLF. For a brief, but straight-forward discussion of the role of the SLF see, "Les Bonnes Recettes", *Échanges*, no.5, Novembre 1991, pp.19-20; and on the role of the DGI and the SLF see, Ministère de l'Économie, des Finances et du Budget, Direction de la Communication, "Les Directions et Services du Ministère", Paris: 1991, pp.32-35.

considérations techniques.²⁹⁰

These agencies are staffed by selected civil servants, specially trained in accountancy, statistics, economics and tax writing. They are among the competent and technically expert "elites" on whom succeeding governments depend for sound and accurate advice and policies.

Given the less burdensome and less fragmented structure of the SLF, this streamlined agency is encharged with the conception and formulation of legislative and regulatory texts regarding taxation. In the preparation, formulation, deliberation, negotiation and modification of tax policies, agents of the SLF liaise closely with the DGI, and the *cabinets* of the Budget and Finance Ministers as well as with the Ministers themselves (SLF agents frequently attend interministerial committee meetings), MPs and interest group representatives. Particularly as taxation has become a more complex and technical matter, the civil servants of the tax administration have come to play an increasing role. Regardless of the origin of a tax proposal, however, it remains the responsibility of the SLF, in collaboration and consultation with its interlocutors, to prepare the texts and make sure all the 't's are crossed and the 'i's dotted.

Routinely, it is the SLF which proposes and prepares the tax measures which form part of the annual *projet de loi de finances*.²⁹¹ These measures are for the most part routine,

²⁹⁰ C. Heckly, *op.cit.*, p.173.

incremental changes downward, upward, outward or inward. After the proposal is drawn up, it is then reviewed, and if necessary modified, by the Budget Minister, who takes on board political considerations and economic forecasts. It is then discussed, perhaps further modified, and decided in an interministerial committee, a process which may more or less be repeated subsequently in *conseil restreint* with the President in attendance. The final stage before tabling the budget in Parliament, is its evaluation by the Conseil d'Etat, which plays only a consultative role at this stage. Following this, the budget is presented and discussed in the Council of Ministers, which must give its approval if the budget is to proceed. Normally, however, the Council of Ministers wastes no time in giving its approval.

When texts drawn up by the administration and approved by the Council of Ministers are submitted to Parliament, they generally pass in their original form, to a greater or lesser degree. Firstly, this is because of the influence and strong advocacy of civil servants in the administration who work diligently to ensure that their work is not tampered with. Secondly, it is due to the extreme *technicité* of the tax measures concerned, and the inability of politicians to understand the nature and consequences of the tax measures proposed.²⁹²

In Parliament, however, amendments to tax measures put

²⁹¹ See, C. Heckly, *op.cit.*, p.259.

²⁹² See, J.C. Martinez, *op.cit.*, pp.82+.

forward by the government, are a frequent occurrence, as we already learned. Nevertheless, they affect a very small part of the expected revenues.²⁹³ J.C. Martinez (1980) looking at parliamentary amendments to the *loi de finances* for 1980 noticed that Parliament had not varied the total amount of expected revenues to be generated by proposed tax measures by more than .02%.²⁹⁴

While amendments to the *loi de finances* would seem to be a sufficient measure of parliamentary influence on the tax policy process, they are not an entirely accurate measure. Looking at amendments tabled in 1978, for example, of the total 2,110 amendments tabled in the finance committee or in full debate in the National Assembly, 284 were government amendments. After withdrawals and 'out of orders' (article 40), 84% of government amendments were adopted against 39% of parliamentary amendments.²⁹⁵ Moreover, many of the parliamentary amendments are merely symbolic; for example, they may change the name of a tax. Therefore, amendments are often more indicative of the potential influence of Parliament than they are representative of Parliament's real and effective influence in the tax policy process.

²⁹³ As already discussed, Parliament's amending powers are curtailed by articles 40 and 44 of the Constitution and article 42 of the *ordonnance organique* of 1959. For a reproduction of this *ordonnance* and information on the budgetary process see, M. Baslé, *Le Budget de l'Etat*, (Paris: Éditions la Découverte, 1989), pp.8-22.

²⁹⁴ J.C. Martinez, *op.cit.*, pp.91-2.

²⁹⁵ *Ibid.*, pp.91-2.

When tax decisions emanate from outside the administration, these usually concern matters of a non-routine nature - veritable tax reforms. Such reforms are often motivated by political considerations. Less often are economic and financial considerations the triggering factor. Usually, the reform idea or decision is impelled by an external event or force, the E.E.C., for example, with changes to VAT; or the CNPF with the lightening of company social charges and the reform of the TP. The reform will be announced by any one of the principal decision makers, the President, the Prime Minister, the Minister of Finance or the Budget Minister. Before committing itself to a decision however, the government may establish a committee of experts - *groupe d'étude* or *commission à composition mixte* - to study a proposal, consider alternatives, interview interested parties, and make recommendations.²⁹⁶ Some examples include the Commission d'étude sur la politique foncière in 1976, Commission d'étude d'un prélèvement sur les fortunes in 1978, Comité d'études sur la fiscalité agricole in 1980, the Groupe de Travail CNPF-Administration in 1983 (studying the evolution of charges on French businesses) and the Commission d'étude sur l'évolution de la taxe professionnelle (Commission Ballayer) and the Comité des Sages (examining social security finance) set up in 1987.

Finally, in terms of the executive, the Conseil des Impôts, created by the government in 1971, is another important body (see

²⁹⁶

Parliament will also occasionally set up its own study groups with similar functions.

footnote 238). Under the jurisdiction of the Cour des Comptes, it keeps tabs on the division of the tax burden among different categories of taxpayers with an eye on issues of justice and fairness. By 1990 it had published about ten reports pertaining to certain perceived problems with the tax system - i.e. inequalities and tax evasion - or the feasibility of new proposals under consideration - i.e. alignment of the regime for non-salaried workers with that of salaried workers and changes to VAT. The Conseil's opinion is solicited, by the President, the Prime Minister or the Finance Minister and given due attention. In some cases, it has had a determining effect on decisions taken, as was the case for the plan to align the regime of non-salaried workers with that of salaried workers in the late 1970s. This plan had to be abandoned when the Conseil's report found gross misrepresentations of declared income by non-salaried taxpayers.²⁹⁷

Other institutions and actors, like the Conseil d'Etat, the European Commission, interest groups, ministers of agriculture or housing, also play a part in the tax policy making process. In some cases, instances of their roles have already been given or will be given. In other cases, little or nothing has been said because their roles are largely non-determining, marginal or not directly pertinent to this author's discussion of tax reform in the 1980s. The intent here is to provide as concisely as possible a glance at the main institutions involved in the tax

²⁹⁷

See, G. Tournié, *op.cit.*, p.88.

policy making process and not to offer an exhaustive analysis of the roles and functions of all the relevant players, major and marginal.²⁹⁸

* Europe

A final word, however, should be made concerning the impact of the European dimension on the French tax policy process. Directives emanating from the European Commission have had a significant impact on the shape and direction of tax policy in France. We have already seen how the European dimension affected the decision to reform income tax in 1959 and VAT in the late 1960s and 1970s. The Sixth Directive of the European Council on VAT harmonization of May 1977 strongly influenced the government towards a modification of the base and rates of VAT. Other examples of policy initiatives affecting French tax policy decisions included: the 18th and 19th Directives on indirect taxation, put before the Council in August 1987;²⁹⁹ the 1985 decision by member heads of government to forge a single European market by 1993; the early 1989 proposals of the European Commission on a common "deduction" - a sort of withholding tax -

²⁹⁸ For a more detailed look at institutions and actors, see: C. Heckly (1987); J.C. Martinez, 1980, *op.cit.*; P.M. Gaudemet, *Finances Publiques*, (Paris: Editions Montchrestien, 1977).

²⁹⁹ Among the directives' proposals was one for the common institution of two VAT rates ranging, one from 4-9%, and the other from 14-20%. See e.g., Commission of the European Communities: "Draft Directive Completing the Common System of VAT and Amending the Sixth VAT Directive: Approximation of VAT Rates", (Brussels: 1987), COM(87)321; "Draft Directive Instructing a Convergence of Rates of VAT and Excise Duties", (Brussels: 1987), COM(87)324; "Completion of the Internal Market and Approximation of Indirect Taxes", (Brussels: 1989), COM(89)260.

of 15% on non-residents' earnings from savings instruments.³⁰⁰ Such initiatives launched extensive debates in French academic, administrative, business and political circles and affected government decisions on changes to value-added, savings and corporate taxation.³⁰¹

As has already been mentioned, the Treaty of Rome envisages the eventual harmonization of taxes among member countries (see earlier discussion on page 137). The European Commission and the European Council have taken decisions in the interest of forging a more harmonized tax regime in the European Union. Directives emanating from Brussels with respect to taxation oblige member governments to comply by introducing into national legislation, the measures and principles stipulated therein.

The Constitution of the Fifth Republic, like that of 1946, recognizes the supremacy of international treaties over domestic law (article 55). Some questions remained, however, over the extent to which member governments were obliged to comply with European directives and court decisions, especially on important

³⁰⁰ The European Commission, in the run-up to January 1993, has sought to play a more involved role in promoting tax harmonization. See e.g.: Council Directives of December 16, 1991 (91/680/EEC) and October 19, 1992 (92/77/EEC); Commission of the European Communities, "Report of the Committee of Independent Experts on Company Taxation" (Ruding), (Brussels: 1992).

³⁰¹ See e.g.: P. de Freminet, "L'Europe se Trompe de Réforme Fiscale", *Le Monde*, 12 Décembre 1988; P. Achard, "Le Marché Unique de 1992: perspectives pour les banques, les assurances et le système financier français", rapport présenté au Conseil Économique et Social, (Paris: Décembre 1987); M. Laure, "Marché Unique et TVA", (Paris: Institut du Commerce et de la Consommation, Juin 1987); M. Lazare, D. Maillard and T. Pujol, "Les Propositions Communautaires d'Harmonisation de la TVA", *Économie et Statistique*, Mars 1989; J.H. David, "Fiscalité des Entreprises et Marché Unique Européen", report of a working group chaired by J.H. David for the Commission Économique et Financière du CNPF, (Paris: Octobre 1987), mimeo.

matters of national economic sovereignty like taxation. In France, the question was put to rest by the Conseil d'Etat, which in February 1989, issued a decision on the matter (C.E. 3 Feb. 1989, Alitalia Rec. p. 44). The Conseil ruled, in this case, that certain provisions of the French tax code were incompatible with the Sixth Directive on VAT. The code provided for a restricted deductibility of VAT on certain goods and services (used exclusively in the conduct of business), while the Directive allowed for deductibility under broader terms (if used for taxable transactions). The Conseil determined that the national provision was inconsistent with the objectives of the Directive and therefore, had become "illegal" from the date of entry into force of the Directive. The Conseil d'Etat recognized the *invocabilité* of European tax directives. As one author put it, "Le déclin de l'empire du Ministère des Finances paraît en définitive amorcé."³⁰²

The prospect of a single European market did much to awaken French policy makers to the need to adjust France's tax system in order to ensure the country's competitiveness *vis-à-vis* its European partners. A majority of interviewees felt that, in the late 1980s (and early 1990s), tax reform in France was largely the product of moves towards a single European market, and the need to remain competitive and offer an attractive location for

³⁰²

C. Lovit, *Le Système Fiscal Français et La Construction Européenne*, (Aix-en-Provence: Presses Universitaires d'Aix-Marseille, 1989), p.6. For other examples in which French tax law has been impacted by decisions at the European level, see P. Roseren, "The Application of Community Law by French Courts from 1982 to 1993," *Common Market Law Review*, vol.31, no.2, April 1994.

capital. Efforts by the European Commission to harmonize VAT, savings taxation and company taxation were also noted. As Philippe Lagayette commented,

... Et puis le troisième élément, un petit peu tardif, et qui a commencé à faire évoluer la mentalité, c'est l'Europe. C'est le fait que, pour un certain nombre de domaines de la fiscalité on ne pouvait plus...faire ce que l'on voulait faire. On était juridiquement autonome, mais en fait la France, comme les autres pays, ne pouvait plus s'écarter des autres... Petit à petit, ce fut le cas pour la TVA...c'est plutôt vers la fin des années 1980 que c'est visible... Il y a eu également la fiscalité des intérêts... vers...la fin des années 1980.³⁰³

Europe, from the late 1980s and into the 1990s has become an increasingly important factor in the tax policy making process.

Prior to the mid-1980s however, Europe appeared to have had little impact on French tax policy.³⁰⁴ The Socialists, for most of the 1980s, approached tax policy making with little regard for Europe.³⁰⁵ Jean Dubergé (1990) points out that in 1985 public officials had done nothing to prepare French tax legislation so that it would take into account European tax harmonization decisions and orientations. He noted,

³⁰³ Philippe Lagayette, interview in Paris, France, May 20, 1992.

³⁰⁴ Appearances, of course, could be deceiving. As J.C. Martinez (1980, pp.310-11) points out, even if tax policy makers often fail to mention the European source or inspiration of their reforms, the extent of harmonization in the tax field due to the European dimension is really quite significant, if not always blatant.

³⁰⁵ Of course, for economic policy, this is not entirely true since French policy makers were concerned with the effects of domestic and foreign economic policies on its own economy, and especially on the franc. Also, with reference to the impact of European and "international" developments, French policy makers were certainly keeping a wary eye on tax developments in Britain, the United States, Germany and elsewhere. However, Europe was not the concern that it would become in the late 1980s and early 1990s.

...c'est seulement un an après mon enquête, en février 1987, que les pouvoirs publics ont commencé à s'intéresser à ces problèmes.³⁰⁶

It was in February 1988 that the committee headed by Marcel Boiteaux to study the implications of the single market submitted its report (*Rapport d'Étape*) to the Minister of Finance.³⁰⁷ The importance of the European variable in the French tax policy process grew in the late 1980s. This fact was remarked upon by Raymond Barre in an interview with *Les Echos* in April 1988,

...De plus, la perspective du grand marché intérieur nous fait obligation de revoir notre fiscalité indirecte, notre fiscalité de l'épargne et le poids global de la fiscalité des entreprises.³⁰⁸

It seems that the more and more the French economy becomes integrated with the economies of its European partners, and more generally, as the French economy becomes more open and interdependent with respect to other economies around the world, tax developments and policies originating outside France's borders, to an ever larger degree, will influence French tax policy makers.

Raymond Barre provided further insight into not only the effect of Europe on French tax policy, but the way in which European decisions are used by governmental decision makers. He

³⁰⁶ J. Dubergé, 1990, op.cit., p.277.

³⁰⁷ Commission présidée par M. Boiteux, "Fiscalité et Marché Unique Européen", rapport au Ministère de l'Économie, des Finances et de la Privatisation, (Paris: La Documentation Française, 1988); other official reports on issues of European tax harmonization included: P. Achard, 1987, op.cit.; D. Lebegue, "La Fiscalité de l'Épargne dans le Cadre du Marché Intérieur Européen", 2 tomes, (Paris: Conseil National du Crédit, 1988).

³⁰⁸ Quoted in *Le Monde*, 12 Avril 1988, p.9..

commented on the series of reforms to savings taxation in the late 1980s/early 1990s. He claimed that it was against socialist ideology and practice to have implemented these reforms, but that, nevertheless, the Socialist government was compelled to make these reforms and if anyone was unhappy about this undertaking, the governmental decision makers would pass the buck to Brussels,

...la série des réformes en matière de fiscalité de l'épargne est contraire à l'idéologie socialiste, mais la libération des mouvements de capitaux, l'harmonisation au sein de la communauté européenne imposaient de tels aménagements, si on voulait éviter des mouvements de délocalisations de l'épargne.³⁰⁹

Barre continued,

Les gouvernements français ont souvent pris l'argument de ce qui se passe dans la communauté européenne, pour faire passer des mesures qui autrement n'auraient pas été acceptées ou considérées comme politiquement acceptables. Par exemple, la gauche n'aurait pas accepté les mesures sur la fiscalité de l'épargne; pourtant elle s'en arrange, parce qu'elle savait bien qu'elle ne pouvait pas prendre le risque de poursuivre une autre politique.³¹⁰

The European dimension of French tax reform emanated from the decisions and directives emanating from Brussels, and the policies being enacted elsewhere in Europe, and became manifest by the "scapegoating" of Brussels for any difficult or unpopular measures the French government was obliged to introduce.

Notwithstanding, the organization - both horizontal and vertical - of the tax policy making process, including the

³⁰⁹ Raymond Barre, interview in Paris, France, June 2, 1992.

³¹⁰ Ibid.

regular consultation of economic and social partners, it is undeniable that the boundaries which circumscribe that process have become fuzzier over the years. Tournié (1985) and Heckly (1987) offer similar observations,

Si la politique fiscale...se définit aisément par sa finalité, les conditions qui président à sa mise en oeuvre sont plus difficiles à cerner, car elles sont inévitablement multiples et de différentes natures.³¹¹

Il ne s'agit donc pas d'un processus purement rationnel...Les décisions ont donc un caractère ambigu et conflictuel...l'action fiscale des pouvoirs publics n'obéit pas forcément à une répartition verticale des tâches...En fait, l'influence des différents centres de décision varie beaucoup d'un texte à l'autre. Il est donc difficile de déterminer des règles générales en ce qui concerne les processus d'élaboration des textes fiscaux.³¹²

The fragmentation and ambiguity of the process has no doubt occurred as the state, because of its international relationships and commitments, has come to be influenced by, and ceded some decision making authority to, bodies like the European Union, the United Nations, the GATT/World Trade Organization and the OECD.

Conclusion II

This review suggests that in order to understand the state of French taxation and the political dimensions of French tax reform, we must appreciate the historical, constitutional and institutional "cadres" of the evolution of the French tax system. The reforming instinct has long historical roots in France dating back to 1789 when revolutionary themes of "liberté, égalité et

³¹¹ G. Tournié, op.cit., p.15.

³¹² C. Heckly, op.cit., pp.145-6,260-1.

fraternité" served as guiding principles for reforming the system devised by the *ancien régime*. These themes were enshrined in constitutional texts which also designated the representative body, Parliament, as the master of taxation. However, as the bourgeois and wealthier elements in society reemerged from the revolutionary rubble to dominate the National Assembly, they sought to promote their own class interests. This political development rendered the revolutionary reforms negligible and imposed a system of taxation - heavy indirect taxation, light direct taxation - which has largely survived intact to this day.

While new social and political forces sought to revive and actualize principles of social justice and equality in the form of direct taxation of income, their efforts bore little substantive fruit. Behind the noble rhetoric, the introduction of direct taxes on income seemed little more than token efforts. The imbalances and disparities in French taxation reflect the conflicting objectives embodied by the system: equality and liberty; the right to property and redistribution; the maintenance of the economic and social structure and social justice; regulating the economy, raising revenue and reform. However, it can be asserted that they also reflect the growing fragmentation and ambiguity of the tax policy process, as the state stakes a greater role in the economy and society, and as it becomes increasingly vulnerable to decisions and developments occurring outside its borders.

New constitutions, new institutions and new actors could do

little to resolve these contradictions. However, as long as low inflationary economic growth continued, politicians could continue to leave unresolved these contradictions, paying lip service to noble principles on the one hand and continuing to ratchet the tax burden upwards on the other. In the next chapter we will examine how these issues were aggravated and addressed in France during the Giscard presidency.

CHAPTER FOUR

CHAPTER FOUR- Tax Reform: the French Context, the Giscardien Septennat -Introduction

The economic difficulties of the 1970s posed new problems for policy making and policy makers. Economic policy, had assumed a sort of "stop-go" rhythm following the budgetary and monetary expansions and contractions of government as it sought to stimulate or cool down the economy. Taxation was an oft-used tool of government in economic management.

L'impôt a été essentiellement utilisé comme instrument de régulation conjoncturelle.³¹³

L'utilisation des prélèvements obligatoires comme instrument de développement ou de régularisation de l'économie...³¹⁴

The recourse to taxation in order to manipulate the economy was part of two interrelated dictats: 1) Keynesian theory concerning the relationship between savings and investment and 2) the technocratic vision of tax as one instrument among several at the disposal of planners and civil servants to promote economic growth and social objectives. Economic policy makers applied these dictats with some degree of success in the 1950s and 1960s. However, such policies ceased to have their intended effects during the 1970s.

...le système fiscal français actuel parait en définitive doté d'une aptitude certaine mais limitée à contribuer efficacement à la régulation conjoncturelle, les conjonctures stagflationnistes s'avérant par

³¹³ G. Tournié, op.cit., p.19.

³¹⁴ J. Rivoli, op.cit., p.87.

ailleurs beaucoup plus difficiles à maîtriser que les conjonctures récessionnistes ou inflationnistes des années précédant la crise récente de l'économie française...³¹⁵

It was becoming ever clearer that budgetary policy was, to a degree, at the mercy of fluctuations in the international and domestic economy. What government could do to control la conjoncture économique via the tax system was of limited success.

This chapter will continue to examine the period prior to the neo-liberal tax reforms of the 1980s. Compared with the previous chapter, Chapter Four will provide a more detailed look at the events and personalities that featured in this crucial period. They laid the groundwork for the appearance of neo-liberal tax reform in the 1980s. Economic and political circumstances, the changing attitudes towards the role of the state, influenced, in part, by ideas and approaches advocated elsewhere, and the ascendancy of new ideas and the actors promoting them, made this period a crucial one in the evolution of neo-liberal tax reform.

The Economy and Government Economic Management

By the mid-1970s the French economic miracle was running out of steam. The productivity gains of the post-war period were emasculated by the increases in prices and labor and capital costs. While productivity progressed at a robust 4.5% on average before 1973, between 1973 and 1979 it fell to an increase on average of 3.7% per year. Unemployment was on the rise, doubling

³¹⁵

B. Bohe and P. Llau, op.cit., p.186.

between 1969 to April 1975 from about 2% to 4% and rising to 6% in 1980. Strikes increased: with 4.4 million working days lost in 1971 compared with 1.7 million days in 1970. Corporate profits began to fall from 1969, but plunged after 1973 and in 1980 were at 24% of value added, a 20% fall from 1973 levels. Corporate investment fell from just over 20% of gdp in 1970 to 15-16% of gdp in 1979/80. The number of business failures increased by about 60% from mid-1973 to mid-1975. The Seventh Plan's (1976-81) prediction of growth rates between 5.5%-6% was never realized.

In order to come to grips with some of the problems besetting France, President Giscard d'Estaing (1974-1981), in true French fashion, commissioned various committees to study the problems in the French economy and society and make recommendations.³¹⁶ In many cases, these committees' recommendations were never actualized, partly because of political opposition, partly because new problems were constantly emerging demanding immediate attention and resolution, and partly because there was little elaboration on the means to achieve the

³¹⁶ These committees included: the Commission Barre in 1975 on housing and finance; the Commission Sudreau in 1975 on business reform; the Commission Wisner in 1976 on labor; the Commission Giraudet in 1976 on manual workers' wages; the Commission Chaigneau in 1976 on labor; the Commission Hannoun in 1978 on state aid to industry; the Commission Giraudet in 1980 on working hours; the Commission Bloch-Lainé in 1980/81 on the government's record. Committees set up primarily or otherwise to study tax issues included: the Commission des Inégalités (The Rapport Meraud) in 1974/75; the Commission Chavanon to study the introduction of a *prélèvement conjoncturel* in 1974; the Commission Monguilan to analyse the taxation of capital gains in 1975; the Commission de Développement des Responsabilités Locales (the Rapport Guichard) in 1976; the Commission Ventejol-Blot-Meraud on wealth and patrimony taxation in 1978.

ends suggested by the reports.³¹⁷ Moreover, given the political constraints imposed by local (1976, 1977, 1979), legislative (1978), European (1979) and presidential (1981) elections, short term solutions were preferred to the medium-to-long-term solutions proffered by the special committees. Finally, one cannot overlook the motivations behind the setting up of these groups and commissions, which may as likely be found in their constitution as in their reports. To put it succinctly, in some cases the government may have authorized these study groups to satisfy demands for reform issuing not only from the executive but from other elements of the government majority. By consenting to set up a group to study this or that question, the government gave the impression that it was being sensitive to the demands and needs of its coalition partners, and others clamoring for reform.³¹⁸

Valéry Giscard d'Estaing came to the Elysée in 1974 intent on redressing the economic conjuncture by administering a dose of liberal, market-oriented medicine to the sickly, though not yet morose, French economy - not unlike Edward Heath in the United Kingdom in 1970. Shortly after Giscard assumed office, the French economy, while still expanding, began experiencing

³¹⁷ Françoise Giroud (1977, p.95+), "Il y a des rapports sur tout en France... La caractéristique de ces rapports est qu'ils sont superbes dans le choix des fins, faibles dans le choix des moyens. Minutieusement descriptifs de la situation qu'il conviendrait de modifier, et de celle qu'il faudrait atteindre, les voies pour passer de l'une à l'autre en sont absentes ou à peine esquissées. Parfois elles sont indiquées mais dans un mépris total du contexte politique, économique, social, psychologique dans lequel il faudrait opérer."

³¹⁸ See, P. Hall, 1986, *op.cit.*, p.176.

problems in the aftermath of the oil price increases of 1973 - rising inflation and unemployment, declining investment and exports, a balance of payments deficit, etc.. The first few months of the Giscard presidency saw policies implemented, in the first Fourcade plan, consistent with the president's ambivalent liberalism.³¹⁹

The Fourcade plan, modeled somewhat on a similar German plan launched in the autumn of 1974, was a rather confusing array of measures intended to deal with the trade deficit and rising inflation. It sought to reduce household consumption and business investment (considered by the government to be primary causes of inflation and the trade deficit). Tax changes featured prominently (and painfully) as part of the plan: increased taxation on gas and oil, exceptional increases in income tax of 5%, 10% and 15% depending on level of tax paid (to be partially reimbursed), a special capital gains tax on non-renewable real estate profits (*profits immobiliers non reductibles*), a stepped up fight against tax fraud, an exceptional tax on companies equal to 18% of taxes paid by them in 1973, and a more restrictive degressive amortization regime. As part of this package the government created a new tax on businesses in October 1974, the *prélèvement conjoncturel*, meant to help fight inflation.³²⁰

³¹⁹ Named after the Minister of Finance (1974-1976) Jean-Pierre Fourcade.

³²⁰ It was to apply to firms with a turnover of more than FF10million and over 150 employees with reduced numbers for service industries. This levy, at 33-1/3% was to be applied to the inflationary increase in gross profit (which comprised the sum of salaries, amortization,

The 1974-75 recession, troubled industries, high (but declining slowly) inflation, rising unemployment, and a worsening social climate, forced the government to abandon its rather ambivalent turn to liberal economics - not unlike the Heath U-turn in 1972. The Fourcade plan, and the tax measures in particular, revealed that if there had been any long term vision it had yielded to short term considerations designed to react to these new and threatening problems.

The second Fourcade plan (also known as the Chirac plan) commenced in February 1975; it was launched following pressure from the Conseil National du Patronat Français (CNPF) and the Confédération Générale des Petites et Moyennes Entreprises (CGPME), which were none too happy with the government's economic policies.

It was a *plan de relance* meant to fight unemployment, in the best Keynesian tradition, in the belief that a strong global recovery would come in 1976. In pursuit of economic competitiveness and growth, the government, headed by Prime Minister Jacques Chirac, attempted to stimulate the economy with

transfers to provisions and profit or loss) of the period over the gross profit of a standard period. It would be refunded if the increase in the index of prices of manufactured products was less than 1-1/2% for three consecutive months. The intent was to penalize firms whose prices were rising faster than the rate of inflation. There was much opposition to this proposal from business groups and elements of the government's majority; nevertheless, after being subjected to over 100 amendments, the *prélèvement conjoncturel* was approved. Ironically, though, it was only applied by the Chirac government from January 1975 to August 1975, as inflation showed signs of slowing and the government's attention turned to the worsening employment situation. Although renewed by the *loi de finances* for 1976 and 1977, the conditions for its application never materialized and this very illiberal tax was abrogated in the 1981 *loi de finances*.

reflationary and demand management policies. The stimulus package included increases in old age pensions, family allowances, SMIC (the minimum wage) and agricultural subsidies, to assist those people worst affected by "la crise", new monies for housing and public works projects, increased subsidies and favorable loans for struggling industries, and fiscal aids to investment. These selective measures targeting specific sectors and social categories was known as the policy of "petits paquets". In September, this phase culminated in the announcement of a "*programme d'ensemble*" or rather, more officially, "*un programme de développement de l'économie française*" which would involve an injection of FF21 billion in public credits into the economy complemented by tax reliefs for businesses totalling FF9.6 billion. In 1976, selective tax relief and incentives had the effect of diminishing tax revenues by FF11.4 billion.

Despite this tax tinkering activity, the government also undertook important tax reforms: for example the *patente* became the *taxe professionnelle* (TP) in July 1975, a reform envisioned by a January 1959 ordinance. In additions, a preoccupation with promoting the cause of social justice led to the July 1975 report of the Monguilan Commission to study the imposition of capital gains. This report launched the hotly debated process which led to the introduction of the much-amended generalized capital gains tax in July 1976. The original objective was twofold: 1) to tax all capital gains realized by an individual on the disposal of an

asset forming part of his/her fortune and, 2) to revise the taxation of capital gains on assets disposed by businesses.³²¹ However, numerous amendments limited the scope of the reform, exempting various categories of assets and levying different rates depending on the type of asset disposed. A project to create an *impôt foncier*, to accompany the President's plan to reform property law was introduced in Parliament in the second half of 1975;³²² however, the government was hostile and MPs attached over 500 amendments, hence hastening the demise of this reform.

The reforms notwithstanding, as tax revenue was declining, the government financed the *relance* measures through deficit spending. Consequently, the budget deficit ballooned to 3% of gdp in 1974 from next to zero the year before. The plan actually did little to improve matters: imports surged, assuming a greater importance of the home market - for industrial products they rose from 21.6% to 27.3% between 1973 and 1978; household equipment imports rose from 33.65% to 42.5% and textile imports from 16% to 26% over the same period³²³ - aggravating the trade deficit; businesses continued to fail in alarming numbers - increasing 23% over 1974; inflation continued to rise to over 10%; the franc

³²¹ For a detailed account of the debates and events surrounding the CGT reform see, C. Heckly, *op.cit.*, ch.4.

³²² M. André Fanton (Paris-UDR), rapporteur of the Commission des lois in the National Assembly for the President's project, was the author of this proposal.

³²³ Groupe de Recherche sur la Régulation de l'Économie Capitaliste, *Giscard, le Destin de la Crise*, (Grenoble: Presses Universitaire de Grenoble, 1981), p.147.

came under speculative pressure and had to leave the European monetary serpent in March 1976; and unemployment rose from 2.8% in March 1974 to 4.5% in March 1976.

The failure of this plan to achieve its objectives - lower unemployment and increased competitiveness - seemed to highlight the impotence of Keynesian inspired solutions in a world of rising prices for raw materials and increasing economic interdependence - a lesson the Socialists would ignore in 1981. With recovery proving elusive, the government changed course. This change of course was vividly marked by the dramatic resignation of Prime Minister Chirac and his replacement by Raymond Barre in August 1976. The economy, in the hands of the competent and widely respected economist Raymond Barre, underwent a policy U-turn, this time towards austerity.

Barre's tenureship as prime minister and as de facto finance minister, was seen by some as a golden opportunity for the implementation of liberal economic policies à la Chicago School, in place of Keynesian inspired dirigisme. However, the prime minister, realized the inappropriateness of such policies for France. French inflation had sociological and structural, as well as monetary, sources particular to France, which limited the utility of a strictly monetary solution in the French context.

To address some of the structural causes of inflation, Barre introduced a variety of policies including, wage moderation, stabilization of companies' social charges, lowering the VAT rates, modernization of product distribution and credit channels,

reinforcement of the stock market, encouraging share ownership, and selective aid to industry and deplanification. In fact, the latter trend, already discussed, was eulogized by the Confédération Française Démocratique du Travail (CFDT) in 1978, "il y a abandon de la planification au profit d'une politique libérale d'adaptation de l'économie française."³²⁴

These policies, plus the partial decontrol of prices in 1978-80 were - in a French context - not only liberal, but also supply-side. Raymond Barre (1981) set the record straight for any who would credit Ronald Reagan with the introduction and application of supply-side economics. He wrote in *Une Politique pour l'Avenir*,

"les actions proposées par l'Administration Reagan ne constituent en rien une innovation par rapport à celles qui sont mises en oeuvre en France" and affirms his own supply-side credentials "...le gouvernement a pratiqué en France depuis 1976 une authentique politique de l'offre..."³²⁵ If M. Barre is to be believed, supply-side policies in France, then, predated those introduced in the United States and Britain.

The new prime minister's plans at first sought to attain three objectives: 1) raise revenue, 2) control inflation, and 3) introduce a greater degree of fairness. In setting out these objectives, the Barre government differed little from its

³²⁴ Profil Société, *L'État et la Politique Économique depuis 1945*, (Paris: Hatier, 1982), p.34.

³²⁵ R. Barre, 1981, op. cit., pp.167-8.

predecessor. Furthermore, tax strategy differed slightly under Chirac's successor. Among the new measures of the first Barre government (1976-77) were: a supplementary tax on average and high incomes; new brackets for income tax; a *contribution exceptionnelle* for companies of 4% of taxes paid in 1975. Barre admitted in an interview with the author that these and other measures were necessary in light of the economic, political and administrative constraints that he faced.³²⁶

The strategy was altered after the majority's losses in the 1977 municipal elections. With a reconstituted government under M. Barre (1977-78), the prime minister sensed the urgency of reconstructing governmental unity and standing ahead of the 1978 legislative elections. Discussions among the parties of the government majority had become increasingly acrimonious, partly due to the growing rivalry between Chirac and President Giscard d'Estaing. The unity of the governing majority had been more or less shattered ever since Chirac had resigned as prime minister. A good portion of the RPR acted as an opposition within the majority and often antagonized the government over various aspects of its policies. It was the Prime Minister's responsibility to patch up differences among the governing parties. Often this meant making concessions to the RPR group in the National Assembly. Also as part of this effort to restore unity, Barre hoped to win back the support of the majority's traditional constituents - particularly French industry - who had

³²⁶

Raymond Barre, interview in Paris, France, June 2, 1992.

been put on the defensive by the government's economic and tax policies.

The fiscal choices made since 1974 had imposed a heavy cost on French industry. This sector was bearing the principal costs of the recession. Between 1975 and 1981, the share of company value added going to taxes increased from 2.7% to 4.3%.³²⁷ This increase took place despite government efforts to contain the corporate tax burden - focussing on IS and *cotisations sociales*³²⁸ - and selectively lower it.³²⁹

Local taxes and specific company taxes must bear the blame to a large degree for the rise. As a percentage of total direct local taxation, for example, the TP rose from 48% in 1976 to 52.5% in 1979 falling to 52.2% in 1980 and 1981, representing an increase to 1981 of 15-20% per year. The global average rate of

³²⁷ P. Hall, 1986, op.cit., p.197.

³²⁸ Although by 1980, French employers still paid more social charges as a percentage of gdp than their counterparts in the U.K., the U.S., West Germany, Italy and Japan.

³²⁹ Taxes on corporate income, as a percentage of total taxation were:

1973.....	5.94%	1977.....	5.57%
1974.....	7.90%	1978.....	4.67%
1975.....	5.29%	1979.....	4.77%
1976.....	5.76%	1980.....	5.04%

Employers social security contributions as a percentage of total taxation were:

1974.....	27.87%	1977.....	29.62%
1975.....	29.58%	1978.....	29.77%
1976.....	28.77%	1979.....	29.29%
		1980.....	29.03%

Payroll taxes as a percentage of total taxation were:

1970.....	1.25%	1977.....	2.15%
1974.....	1.64%	1978.....	2.28%
1975.....	1.90%	1979.....	2.11%
1976.....	1.91%	1980.....	2.12%

Source: Revenue Statistics of OECD Member Countries 1965-1981

the TP increased 18% from 1976 to 1981.³³⁰ The amount of TP collected by the various authorities doubled between 1976 and 1980 from FF19.4 billion to FF39.7 billion.³³¹ Since 1976, the TP has been the fourth heaviest tax borne by companies, after social charges, the IS and VAT. The non-indexation of diverse taxes to account for inflation applied to businesses, i.e. the *taxe sur les frais généraux* and the *taxe sur les salaires* also contributed to the increased fiscal burden.

Consequently, in order to curry favor with this disgruntled constituency, the government deferred and limited the application of the *prélèvement conjoncturel*, and the capital gains tax. In the case of the TP, the government amended it, first by assuming itself part of the burden, then by lowering the rates and promising fundamental reform.

Barre had wanted to further reform the TP.

... à l'Assemblée Nationale, j'ai demandé la constitution spéciale pour modifier notamment l'assiette de la taxe professionnelle, parce que je trouvais complètement stupide de faire payer les entreprises qui accroissaient leurs investissements et qui accroissaient l'emploi... Je n'ai jamais pu obtenir la constitution... les députés maires et les sénateurs maires se sont ligüés pour que cette réforme ne passe pas... on ne pouvait pas faire cette réforme.³³²

Unable to proceed further on reform of the TP, the government expended much time and effort trying to stabilize and in some

³³⁰ Commission d'Étude présidée par René Ballayer, *L'Évolution de la Taxe Professionnelle*, (Paris: La Documentation Française, 1988), p.32.

³³¹ J-Y. Nizet, *op.cit.*, p.385.

³³² Raymond Barre, interview in Paris, France, June 2, 1992.

cases lighten companies' social charges and income tax.³³³ In addition, VAT was lowered (from 20% to 17.6%) and share ownership and investment encouraged by allowing tax deductions of FF5000 for share purchases on the Bourse (Loi Monory).³³⁴

In the Blois Program - the government's manifesto for the 1978 legislative campaign - to a large extent the work of Mr. Barre, the Prime Minister, had communicated his ideas concerning taxation,

L'accroissement des charges fiscales réduit l'investissement des entreprises et la consommation des ménages...pour favoriser l'emploi, l'investissement et la consommation, les charges sociales et fiscales des entreprises et des particuliers ne seront pas augmentées au cours des années 1978 et 1979.³³⁵

The Prime Minister, an economist by profession, was all too aware of the damaging effects of ever higher taxation on profits, investment, employment and consumption. However, given the state's financial needs, an overall reduction of taxes was out of the question. Nonetheless, the need to do something about the rise in the tax burden, and its connection with the economic problems facing the country, was astutely recognized by Barre, even if a variety of constraints prevented him from acting on his

³³³ For example, companies hiring under 25 year olds were temporarily exempted from paying social charges. Moreover, the institution of tax exemptions - i.e. for new companies - and reliefs, lowered the IS for many. Also, see footnote 329 for a record of the government's success.

³³⁴ Many of these tax policies, favoring businesses and investors, were designed, in part, to curry favor with the government's RPR coalition partners, as well as the business and financial communities. Barre is most proud of his efforts to lower VAT, although he admitted he had wanted to reduce it to 15% (Raymond Barre, interview in Paris, France, June 2, 1992).

³³⁵ R. Barre, *Programme de Blois: Objectifs d'Action pour les Libertés et la Justice*, (Paris: Fayard, 1978), p.39.

ideas.

The Blois Program did not promise tax reductions. Barre, ever the realist, could not justify such a commitment, bearing in mind the economic and financial situation and other demands placed on the government.

...les circonstances dans lesquelles ce gouvernement se trouve, c'est-à-dire, le deuxième choc pétrolier, la nécessité de sauvegarder l'équilibre et la situation budgétaire aussi saine que possible, la nécessité de remettre en ordre la sécurité sociale par le seul moyen disponible, c'est-à-dire, la hausse des cotisations, faisaient que l'objectif était plutôt la stabilisation des prélèvements, plutôt qu'une baisse des prélèvements.³³⁶

The special circumstances in which Barre found himself placed constraints on the Prime Minister's freedom of maneuver on the fiscal front.

Nevertheless, the tax commitments of the Blois Program - most of which were carried out - and the ideas behind them, testified to the supply-side orientation, albeit cautious, of the Prime Minister. In the Blois Program there were stated commitments to maintain corporation tax, income tax and VAT (which had recently been reduced) at their current rates. But some selective tax reductions or exemptions were promised: for example, an abatement, for small and medium sized enterprises of a certain size, equal to 50% of *cotisations sociales* for any new employees hired between the ages of 18 and 26; and for new companies, an exemption from tax on profits if those profits were reinvested. Moreover, at the departmental level, special

³³⁶

Raymond Barre, interview in Paris, France, June 2, 1992.

committees, known as *comités Fourcade*, set up from June 1974, could continue to authorize exemptions from local taxes and social charges for "dynamic" firms undergoing difficulties due to credit restrictions.³³⁷ These decisions represented an important element in the government's supply-side strategy meant to "donner à nos entreprises de plus grandes capacités d'investissement et d'innovation, pour leur permettre de créer des emplois plus nombreux et d'exporter davantage."³³⁸ But at best, the strategy was merely "bricolage", tinkering that is, rather than the result of any long term thinking.

In addition, the Blois Program envisaged local tax reform. Among other things, it promised to give local governments the ability to freely determine, within government defined limits, the rates of local taxes, plus a restructuring of the *taxe d'habitation* in order to make it fairer. The government's plans to reform local taxation, met with fierce resistance from local representatives and MPs who, also, simultaneously held local office.

Despite the apparently limited vision with respect to taxation evidenced by some of the tax measures already discussed and the Blois strategy, some important tax reforms did feature in the first (1976-1977), second (1977-78) and third (1978-81) Barre governments. Some of these have already been mentioned, for

³³⁷ See, S. Berger, "Lame Ducks and National Champions: Industrial Policy in the Fifth Republic" in W. Andrews and S. Hoffmann, eds., 1981, *op.cit.*, pp.304-5.

³³⁸ R. Barre, 1978, *op.cit.*, p.36.

example: the loi Monory of 1978, which offered generous tax deductions on new share purchases; the occasional changes in capital gains tax and the *taxe professionnelle*. Additionally, there was the adoption of the *projet de loi* on the restructuring of direct local taxation by the National Assembly in late 1979.³³⁹

Based on the Voisin report,³⁴⁰ the reform of local taxation foresaw, among other things: 1) permitting local governments a limited freedom in setting the rates of local taxes from 1981; 2) making a company's value added the basis for the TP from 1982 or 1983 after a period of reflection and experimentation; 3) reducing the ceiling on the amount of TP a company had to pay from 8% to 6% of a company's value added; 4) placing a ceiling on the rate of TP a local authority could apply to 2.5 times the national average rate; 5) the creation of a TP fund (*perequation*), to which the wealthier communes would contribute a portion of their TP to be redistributed to the poorer, disadvantaged communes; and 6) reforming the base of the departmental portion of the *taxe d'habitation* by applying it to income rather than rental value (a reform which would wait ten years before rising onto the Socialist government's agenda).³⁴¹

Moreover, significant moves were made to simplify and

³³⁹ *Projet de loi portant aménagement de la fiscalité directe locale*, no.1406, Assemblée Nationale, November 1979.

³⁴⁰ See, *Rapport no.1043, Assemblée Nationale*, by André-Georges Voisin on the *projet de loi portant aménagement de la fiscalité directe locale*, May 1979.

³⁴¹ Neither the reform of the *taxe d'habitation* nor most of the TP reforms (nos. 2 and 5) were realized in the *projet de loi* which became law on January 10, 1980.

harmonize the value added tax. From January 1977, VAT was reformed eliminating the 20% rate, leaving only three rates, 7%, 17.6% and 33.3%. From January 1979, VAT was more widely applied, particularly targeting agricultural activities and those of the liberal professions, with certain exceptions. In fact, the extension of the VAT base was legislated in late 1978 in order to comply with the Sixth Directive of the European Council of May 1977 instructing member governments to enlarge the base of application of VAT - although this move was compensated by new exemptions.

Looking at the Giscard *septennat* as a whole, the tax reforms legislated between 1974 and 1981 did not represent any wide-ranging vision, with the exceptions of perhaps the loi Monory and the aborted local tax reform. The loi Monory was important because it indicated a shift in the government's position towards the stock market, corporate self-capitalization and profit-making.³⁴² Any fundamental and needed reforms that disturbed too many powerful interests like local notables or civil servants, were fated to meet with defeat. Otherwise, tax remained a tool by which the government could achieve its objectives of fighting inflation and unemployment, supporting the franc and investment, and encouraging economic competitiveness.

Many of the measures were *ad hoc*, reactive and sometimes

³⁴² The loi Monory offered a tax incentive to encourage share ownership and investment, which had the effect of doubling the number of small shareholders in France within three months (P. Hall, 1986, *op.cit.*, p.188).

contradictory responses to the problems in the French economy. Despite the rhetoric to the contrary, even during Raymond Barre's "liberal" tutelage, long standing attitudes and habits concerning the tax system persisted and prevented the government of the day from considering the tax system more comprehensively and enacting more fundamental reforms. Tax, under Barre, continued to be one of several policy instruments available to the government in order to control inflation (ie. lower VAT), regulate consumption (lower VAT, raise allowances and benefits or underindex tax brackets), investment (loi Monory and various tax incentives) and industrial competitiveness (tax incentives, lower TP, reduce social charges). As Barre affirmed, "Personne ne pensait utiliser la fiscalité comme on l'a fait pendant les années 1980."³⁴³

If the government failed to consider fundamental reform, old-fashioned attitudes and techniques and economic conjuncture were not only to blame. Political constraints - i.e. the antagonism of the RPR and the parties of the left towards the government and the difficulty of achieving consensus on fundamental reform - and the budget - the need to ensure adequate revenues - also complicated the picture. As Barre, the realist *par excellence* admitted,

Pourtant, il ne m'a pas paru possible de mettre en oeuvre cette politique, car elle ignorait les contraintes économiques, politiques et sociales dont le

³⁴³

Raymond Barre, interview in Paris, France, June 2, 1992.

responsable politique doit tenir compte.³⁴⁴

While a number of constraints prevented the realization of many of Barre's ideas in the late 1970s/early 1980s, it is important to understand what changes took place, which removed or minimized those constraints. What made the climate more receptive to neo-liberal tax reform in the 1980s?

As a first step we should examine the availability of new ideas and solutions. What was floating around in the policy soup? Who were the advocates and what were their proposals? We will now turn to the policy community to investigate the proposals that were being developed, advocated and considered. Later we will consider other contextual factors, for example politics and economics, that helped propel tax reform onto the political agenda in France in the 1980s.

Advocates and Proposals: the left

It is important to investigate the sort of ideas and policies being touted by policy entrepreneurs in France in the late 1970s/early 1980s in order to understand the shape of the tax agendas promoted by governments of the left and right during the 1980s. Tax reform, as it was considered and implemented by governments of the left and right during the 1980s, did not appear out of thin air. This policy change was not innovative, in the true sense of the word, although aspects of it were indeed

³⁴⁴ R. Barre, 1981, op.cit., p.118. Several of the interviewees, including Pierre Bilger, Georges Egret, Patrick Careil, Yves Mansion and Francois Xavier Stasse referred to the economic, administrative and especially political obstacles faced by Barre.

new. Many - if not most new - policies are not as new as they appear; they have antecedents. As mentioned before, the proposed reform of the *taxe d'habitation* which had formed part of the Barre government's 1979 *projet de loi* on local tax reform, re-emerged on the governmental agenda in the late 1980s/early 1990s. And the reductions in VAT rates and the compression in the number of VAT rates, first undertaken by Barre, surfaced again in the late 1980s/early 1990s.

Generally, policy changes do not appear as spontaneous flashes of insight. The ideas on which the policy changes are based emerged at some indeterminable point in the past. They were conceived, considered, tried or shelved, resurrected and modified and reconsidered. An examination of possible antecedents will provide important insight into the shaping of governmental tax agendas in the 1980s. Where did the policies which made up tax reform in the 1980s spring from and how did they come to the fore? Our concern will be, for the most part, with ideas and proposals circulating and promoted prior to 1981 by political actors or societal actors with close ties to politics.

* 89 Réponses aux Questions Économiques

Prior to 1981, the main opposition group, the Socialists, had ideas of their own regarding the shape of France's tax system. A number of actors and policy experts associated with the left were responsible for designing and promoting various worthy tax proposals. For example, in *89 Réponses aux Questions*

Economiques (1977), a publication largely written by Michel Rocard, Jacques Attali and André Boulloche, the Socialists set out the general lines of their tax strategy. In addition to revenue raising, the strategy was governed by the twin objectives of reducing inequalities and improving social justice, "...les socialistes attachent tant d'importance à la réforme de la fiscalité afin que celle-ci soit plus juste et plus rentable..."³⁴⁵

Social justice was the overriding concern. The economic consequences of the proposals were given little attention. Francois Xavier Stasse admitted that the philosophy behind the Socialist tax program had political, rather than economic, underpinnings. Social justice, not economic efficiency, inspired the proposals. He said, "Il n'y avait pas de soucis européen ou l'efficacité économique comme s'est rendu compte le PS en 1983."³⁴⁶

The reform proposals were not very ambitious and in essence represented a certain continuity, albeit somewhat more amplified in comparison with the policies of the Giscard government.³⁴⁷

³⁴⁵ M. Rocard et al., *89 Réponses aux Questions Économiques*, (Paris: Flammarion, 1977), p.31.

³⁴⁶ Francois Xavier Stasse, interview in Paris, France, June 2, 1992.

³⁴⁷ Indeed, many interviewees, among them, Philippe Lagayette, Francois Xavier Stasse, Patrick Careil and Raymond Barre, commented on the similarities in fiscal policy between the Socialists' and the governments of Valéry Giscard d'Estaing, both prior to and after 1981. M. Stasse recalled, "Au fond la gauche dans les deux premières années de son pouvoir a fait la même politique économique que la droite pendant la crise de 1973/1974, et de Barre et de GdE...Donc il y avait la même nécessité absolue que M. Barre - bien vu que il n'avait pas les moyens politiques de le faire - soit d'arrêter l'augmentation des salaires, soit d'arrêter l'augmentation des cotisations sociales qui

Primary to the party's strategy was a stronger effort to combat tax fraud - which it estimated cost the Treasury around FF60 billion - a wealth tax, and the expectation of strong economic growth, which would engender higher tax revenues.

In addition, the left's proposals, as embodied in 89 *Réponses*, covered a number of other different areas. According to 89 *Réponses*, the PS planned a "réforme d'ensemble des cotisations sociales."³⁴⁸ The intention was to harmonize the regimes for salaried and non-salaried workers and gradually diminish the rate of *cotisations sociales* paid by those salaried workers under the fixed ceilings while increasing them for those above. As part of this reform, it planned to transfer the old age regime from the social security budget to the state budget. In an attempt to shift the incidence of taxation from indirect - which bears more heavily on low-income earners - to direct, the PS also promised a decrease in VAT, particularly on goods of first necessity, which would enjoy a zero rating, down from the

pésent en France sur les entreprises, soit de diminuer le taux d'impôt sur les bénéfices des sociétés. Jusqu'en 1983, on a rien fait de tous celà. Ni sous Giscard d'Estaing, ni sous Francois Mitterrand. C'est pourquoi je dis que de 1974 à 1983 la politique économique était la même." (Francois Xavier Stasse, interview in Paris, France, June 2, 1992). Patrick Careil remarked, "Mais dans les années 1970-1980 il y avait l'idée que la fiscalité était injuste, que les gros ne payaient pas, que seuls les petits payaient; il y avait un fort consensus - d'ailleurs...même la droite proposait des réformes fiscales pour lutter contre l'injustice, puisque Giscard a fait la réforme des plus values, Giscard avait même voulu faire un impôt sur la fortune...mais c'est Barre qui y était opposé. Mais donc, même à droite il y avait l'idée qu'il fallait lutter contre l'injustice avec l'impôt sur le revenu..." (Patrick Careil, interview in Paris, France, May 25, 1992). Also, on a comparison of Giscardian tax policies and the early Mitterrandian tax policies, see: C. Borromée, "Les Réformes Fiscales Envisagées Impliquent-Elles le Changement... ou la Continuité?" *Le Monde*, 11 Août 1981; P. de Freminet, "Majorité d'Hier, Majorité d'Aujourd'hui: une étonnante convergence," *Le Monde*, 24 Mai 1984, p.34.

current 7%, and envisaged a decline of all rates because they were "les plus élevés d'Europe."³⁴⁹ It sought to make income tax more progressive for the higher brackets, thereby permitting a decrease in the burden of taxation borne by those on more modest incomes.

As already mentioned, the PS promised to introduce a wealth tax, to be applied to fortunes over FF2 million. They also planned to reform inheritance and succession taxes by easing them on low and average incomes while making them more burdensome for the wealthy. The corporate tax structure was to be reformed via a redefinition of taxable income; this would also entail eliminating many tax deductions and other privileges. Rather confusingly however, while they intended to finance their program in part by an increase in charges on companies, they pragmatically refused to "put into question the good health" of industry "by an excess of charges" - "...il est notamment indispensable de préserver les capacités d'investissement qui sont à la source du progrès économique et social."³⁵⁰ These reforms, moreover, would be paid for from the revenues generated from anticipated economic growth.

In terms of local taxation, given the party's plans to decentralize, a reform of local government finance was inevitable. For the Socialists, this would entail allowing local authorities to raise more revenue by raising taxes. This would

³⁴⁹ Ibid., p.92.

³⁵⁰ Ibid., pp.30-1.

be offset by a reduction in the state's tax take - "...l'État qui devra, de son côté, diminuer sa propre pression fiscale."³⁵¹ A reduction in state financing of local government activities would occur gradually as the ability of local authorities to finance their own activities grew. Among other local tax reforms planned were: 1) the creation of an *impôt foncier* to replace the *taxes foncières* which would be more attune to the real value of buildings and property; 2) reform of the TP and the *taxe d'habitation* in order to reduce the imposition on disadvantaged businesses and households; and 3) the creation of a "*fonds de péréquation*" to which the wealthier communes, which collected more in tax revenue, would contribute to the benefit of the communes with a poorer tax base. The aims of the Socialist's tax program in *89 Réponses* did have merit, but one was left wondering how they would achieve those aims. The ends were neatly spelled out, but the means were conspicuously omitted.

Although the Socialists apparently attached great importance to tax reform, it was a strategy, contingent upon the expectation of economic growth. Its overall objectives were equity and justice, and of course, increased revenue. This latter objective was essential in order to help a Socialist government finance its costly social and economic program. It was an ideological strategy, as well, meant to make the rich - a loosely defined

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Ibid., p.99.

group - individuals and companies pay.³⁵² To the Socialists' credit, many of these promises were made good, if not to the letter, then to the spirit. Indeed, many of these reforms were enacted in the 1981 to 1984 period.

As opposed to the British Conservatives in opposition during the late 1970s, the French Socialists in opposition, prior to 1981, did not use the rising rate of *prélèvements obligatoires* (as a percentage of gdp) - already at 40% in 1977, compared to 35% in Britain - as a clarion call that the burden was too high and immediate reductions necessary. In *89 Réponses*, the authors recall Valéry Giscard d'Estaing's remark when Minister of Finance, that "au-delà de 40%, c'est le socialisme."³⁵³ But rather than call for a gradual reduction in that figure, the Socialists, in their 1978 electoral program, foresaw a rise to around 43% in 1980, which the implementation of their own socio-economic plans would entail. And instead of alarm, the Socialists welcomed the evolution in the rate of *prélèvements obligatoires* as a necessary consequence of a modern society with increasing social and economic needs. Ironically, during the 1981 campaign, in an attempt to attract centrist voters and dispel fears that the Socialist party would raise taxes across the board once in power, candidate Mitterrand promised not to let

³⁵² "Le financement de notre programme se fera premièrement en demandant aux plus favorisés un effort de redistribution..." (M. Rocard et al., 1977, op.cit., p.31).

³⁵³ M. Rocard et al. 1977, op.cit., p.89.

them rise above 42%.³⁵⁴

* Michel Rocard

Before his contributions to *89 Réponses*, Michel Rocard, when leader of the Parti Socialiste Unifié (PSU) put forward a number of ideas, which were published in *Propositions pour Sortir de la Crise* (1974). In this work, Rocard also had recalled Giscard d'Estaing's concern about the rising tax burden, but offered a somewhat different perspective. He criticized the government's predilection for raising public tariffs to contain the rise,

C'est dire que le postulat de la saturation de la pression fiscale se traduit, dans les faits, en fiscalité supplémentaire déguisée, et supportée par les travailleurs.³⁵⁵

Rocard, as head of the PSU, also had criticized the French tax system, claiming that taxes meant to finance expenditures and iron out income inequalities were not serving their purposes. He furthermore pointed out how inflation was pushing salaries higher and higher in nominal terms, and thereby elevating taxpayers to ever higher tax brackets.

However, rather than reducing the tax burden, Rocard sought to redirect and raise it by: 1) implementing new methods to combat tax fraud and evasion, 2) increasing company tax rates and increasing taxes on the wealthy, as well as 3) eliminating tax

³⁵⁴ Although, many interviewees did not remember this promise, a few did and confirmed the political motivation behind this pledge. Yves Mansion believed that Mitterrand made the commitment not to allow p.o. to rise above 42% in order to attract moderate voters and to draw attention to Giscard's poor record on this issue. (Yves Mansion, interview in Paris, France, June 2, 1992).

³⁵⁵ Michel Rocard et la Commission Économique du PSU, *Propositions pour Sortir de la Crise*, (Paris: Edition de Serf, 1974) p.70.

reliefs for capital gains and other "unearned income", i.e. the *avoir fiscal* and the *prélèvement libératoire*.³⁵⁶ The receipts from these measures would be used to finance investment in business and public works and social programs administered by newly created government agencies. M. Rocard also envisioned shifting the incidence of taxation from indirect to direct and went so far as to consider the possibility of a negative tax to ease the VAT burden borne by low income earners.

* Francois Mitterrand

The leader of the Parti Socialiste, Francois Mitterrand, was not without his own views on taxation. Some of these views can be gleaned from a compilation of his speeches in Bernard Pingaud's *Mitterrand: l'Homme, les Idées* (1974) and from conversations with Guy Claisse in *Ici et Maintenant* (1980) authored by Francois Mitterrand. For example, like Rocard, Mitterrand was ready to point out the center-right governments' failure to achieve their tax objectives, particularly with respect to correcting inequalities. He believed the tax system

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The *avoir fiscal*, created in 1965, was a tax credit of 50% intended to eliminate the double imposition on company profits and allowed that a shareholder receiving income dispersed as dividends to pay less tax than one whose income was "earned". For example, if a shareholder received FF100, his tax credit of 50% provides him with an 'extra' FF50. If his tax liability is 40%, then 40% of 150 is 60, then subtract the *avoir fiscal* of FF50 which gives the individual a tax liability of FF10, leaving him with a net income of FF90 (see: G. Tournié. op. cit., pp.92-3; L. Halpern, *Taxes in France*, 2nd ed., London: Butterworths, 1976, pp.50-1). It was considered one of the most popular forms of tax avoidance. The *prélèvement libératoire*, was a tax applied originally at 25%, but then modulated at different rates depending on "unearned" income sources (from 25% to 42%). It was applied to income earned from bonds and other fixed income financial products and for which the taxpayer may legally opt in lieu of being subject to the IRPP at possibly a higher rate (see: G. Tournié, op.cit., p.91; J-Y. Nizet, op.cit., pp.330-1).

had not gone far enough in accomplishing this objective. "Chaque année, avant le vote du budget, le gouvernement se flatte de justice fiscale. Ce bavardage n'a jamais rien changé et ne changera rien...", Mitterrand said in a 1974 speech.³⁵⁷

He also expressed a vague wish to see a shift in taxation from indirect to direct. The privileged position of companies due to tax avoidance/evasion and generous tax reliefs was also under attack by the Socialist Party leader. He proposed the elimination of reliefs on capital gains and a new capital gains tax (CGT) as well as an increase in company taxation. Other proposals included the restructuring of VAT, consisting of a zero rating for goods of first necessity, reform of the TP, the reform of inheritance taxes and the introduction of a wealth tax on fortunes over FF3 million. He also advocated a unification of the various social security regimes. Above all, echoing the promises in the 1972 Programme Commun, he sought to make the reduction of injustices a function of the French tax system, in addition to its revenue raising function.

* Pierre Uri

Pierre Uri, as the principal tax expert for the Socialist Party during the 1970s, was responsible for many of the ideas and proposals contained in the party publications and leadership speeches. Uri, a long-time observer and critic of the French tax system, published in 1981, an erudite and well-conceived book

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B. Pingaud, *Mitterrand: L'Homme, les Idées*, (Paris: Flammarion, 1974), p.81.

entitled *Changer l'Impôt pour Changer la France*. In it he attacked the social injustice and inefficiency engendered by the French tax system. In pursuit of efficiency and equity his proposals included: 1) indexation of the tax system; 2) exempting all SMIC and below wage earners from income tax; 3) tax relief for savings; 4) extending the 20% *abatement sur les salaires*; 5) combining CGT with income tax; 6) a wealth tax for fortunes over FF2.5 million with rates from .5% to 3%; 7) corporate tax on real assets; 8) eliminating deductions for VAT; 9) reform of local taxes including a redefinition of the *taxe foncière*, the *taxe d'habitation* and the *taxe professionnelle*; and 10) reform of the taxation of husband and wife. These proposals, elaborated upon by Uri in his book and in other publications, were to guide part, if not all, of the Socialist Party's tax reform agenda.³⁵⁸

Uri's tax strategy sought to install a tax system more ingenious than the defrauders, and favorable to savings and to the redistribution of resources and powers. However, he did not envision nor advocate a reduction in the fiscal burden. While he admitted that *prélèvements obligatoires* had risen, he attributed the growth in that burden (relative to gross domestic product) to the stagnation of production and the spread of unemployment, rather than to deliberate increases in taxation and public

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See: P. Uri, *Changer l'Impôt pour Changer la France*, (Paris: Ramsay, 1981); Rapport présenté au nom du Conseil Économique et Social, *Journal Officiel du C.E.S.*, no.4, 29 Janvier 1976; Interview with M. Chauvière, *Le Nouvel Économiste*, no.31, 17 Mai 1976; "Tarir la Fraude Fiscale", *Le Monde*, 19-20 Décembre 1976; "La Détaxation de l'Épargne", *Le Monde*, 22 Juin 1978; "Les Points Forts du Débat Fiscal", *Revue Française de Finances Publiques*, no.1, 1983; "Un Plafond pour les Prélèvements Obligatoires a-t-il un Sens?", *Pouvoirs*, no.23, 1982.

expenditure. And, in spite of that burden, of which *cotisations sociales* formed the largest part, the return in terms of state provided goods and services was just recompense, according to Uri.

While Uri did not call into question the level of *prélèvements obligatoires*, he did highlight the serious weaknesses in the French tax system and sought to reform the system in such a way as to lessen inequalities, heighten local autonomy, encourage savings and investment, and discourage fraud. Uri's was certainly a comprehensive vision, but one which would founder on the shallow shoals of French politics and administration.

* Jacques Attali

In a similar stream of thought, Jacques Attali, an academic at the Ecole Polytechnique, a prolific author and member of the Socialist Party's *comité directeur*, in his widely-read and well-regarded *La Nouvelle Economie Francaise* (1978) put forward some interesting ideas of his own. He treated taxation in the wider context of the role of the state in the economy, explaining how until 1972 economic policy had primarily been "a succession of transfers to businesses via tax deductions (ie., VAT deductible on investments, the *avoir fiscal*, other tax credits for investments, research and various social charges) and of subsidies, direct or indirect."³⁵⁹ But economic problems after

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J. Attali, *La Nouvelle Économie Française*, (Paris: Flammarion, 1978), p.94. The translation is mine.

1972, compounded by growing income inequalities with important implications for demand, he concluded, rendered this economic policy ineffective.

Attali's proposals for the changed economic environment in the post-1972 period are interesting, forward-looking and represent a unique vision. He made several proposals. Firstly, he wanted to simplify and unify all taxes on income (personal, unearned, capital gains and social charges) as the distinction and itemization of taxes was a pointless and deceptive exercise by government to relate tax payments to benefits received. In keeping with this strategy, he insisted on progressivity and the taxation of real income, which meant indexing thresholds and brackets for inflation. Secondly, Attali felt it was important to amalgamate wealth taxes and retirement contributions in a single wealth tax (or "prélèvement sur la fortune"), with exemptions permitted under certain conditions. Thirdly, any reform of the French tax system would have to include a reform of inheritance taxes. Finally, and no less important, would be a reform of corporation tax based on real, rather than paper profits. This would involve an *impôt sur le résultat*, combining all corporate income taxes and social charges, and an *impôt sur l'actif net* (dividend tax) deductible from the *impôt sur le résultat*. This proposal, Attali assured, would lighten corporate tax burdens, particularly those labor intensive, and encourage innovation and entrepreneurship. In an interview in the February 1978 edition of *L'Expansion*, Attali, acting in his capacity as a

member of the *comité directeur* of the PS, envisaged a fundamental reform of *cotisations sociales patronales* whereby they would be reduced and applied to a company's value added and not to salaries. Together, these recommendations, represented a radical vision of using the tax system to alter institutions and hence, transform society.

Most of the innovative ideas for reform of the tax system, during the 1970s, were generated by individuals and groups associated with the left. Since the left had been in opposition for so long, its adherents had found much that was wrong with the French tax system and developed a range of proposals to redress perceived problems. Above all, the privileges accorded to the wealthy, and generally, the inequities of the system came under attack. There was evidently much overlap with respect to the ideas advocated by various policy activists on the left and, as we will later see, some of these ideas emerged onto the governmental agenda once the left came to power.

Advocates and Proposals: the right

The tax reform proposals discussed above, coming from organizations and authors colored by a "leftist" ideological vision, bear little in common with the type of reform proposals gaining popularity in the United States and Great Britain in the late 1970s. The tax reform proposals which carried Ronald Reagan and Mrs. Thatcher to office, were for the most part antithetical to the particular vision of society nurtured in French "leftist" circles - and indeed the majority of "rightist" circles. This

vision embraced the need for social welfare and a strong role for the state.³⁶⁰ Rather, it is in the liberal tendencies of the center-right parties, increasingly evident by the turn of the decade - between 1979 and 1981 - that tax reform, in its American and British forms and internationally popularized during the 1980s, found a stimulating, if not entirely stable, incubator. Nevertheless, the right was somewhat less prolific in its generation of new ideas, partly because of its dominance of the governmental machine since 1958 and the myopia which affects any party or government in power for a significant period of time. Moreover, by the mid-to-late 1970s, given the ideological climate, the tax ideas emanating from the left were given greater attention. This put the right in a reactive position. In fact some of the reforms considered by Valéry Giscard d'Estaing, like a capital gains tax and a wealth tax, were in essence "leftist" ideas.

This section will not so much look at the sources and advocates of tax reform ideas on the right, as done with the left in the previous section. Indeed, such a review was already begun in our earlier discussion of Raymond Barre and the tax reforms undertaken by the governments of Valéry Giscard d'Estaing. Moreover, very shortly, in Chapter Five, we will be looking at a number of ideas put forward by individuals and groups

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Of course, tax reform proposals emanating from the French left were not merely a function of the party's ideological position, but also, less obviously, were a function of the particular structure of the French tax system which relied less on income taxes and more on indirect taxes and social charges.

affiliated, to a greater or lesser degree, with the right. These were the planters of the seeds and the tillers of the soil. In this section we will primarily focus on influential governmental and political actors on the right that sought to shape the evolving debate and indirectly, if not directly, impact the tax agenda.

In Raymond Barre's Blois Program we already caught a glimpse of the attitudes and strategy supported by some timid policy proposals which would prefigure 1980s-style tax reform. Since much has already been said about Barre's tax ideas, we will turn to consider proposals emanating from other actors associated with the right. This examination will first focus on the tax ideas put forward by the RPR, which in many respects was acting like an opposition party, although it formed part of the government's majority coalition. In Chapter Five, we will consider other groups and individuals who were largely peripheral to the tax policy process, but whose ideas, nonetheless, would move into the mainstream in the early 1980s.

* The "Statist" RPR

Neo-liberal tax reform featured as one of the principal elements in the center-right's economic strategy in the 1980s. We know already, that despite government rhetoric, tax policy in the 1970s, under the center-right government of Giscard d'Estaing, was not driven by neo-liberal impulses.... So how did neo-liberal tax reform come to appear on the center-right's agenda in the 1980s and replace twenty-odd years of Keynesian tax

tinkering and attitudes about the tax system? The answer to this question begs an examination of the role of Jacques Chirac, the former Prime Minister and head of the RPR, as well as those who advised him.

Chirac was the leading neo-liberal light of the 1980s. But, in fact, he was a recent convert to the cause, unlike Mrs. Thatcher and Ronald Reagan, to whom the credo "cut taxes" was not just an expedient vote catcher, but, rather, an article of faith. Indeed, Chirac's record on taxation as Prime Minister is testament to his profligate high-spend, high-tax orientation. During his premiership, the tax burden rose from 36.3% of gdp in 1974 to 39.4% in 1976. His 1975-76 Keynesian-inspired attempt to spend his way out of the recession set off a rise in inflation and taxes.³⁶¹

Chirac, throughout his life as a public servant - at least until 1980 - had had a penchant for a strong, active, interventionist and provident state. Bernard Rideau, in *La Fiancée Chauve* (1987), writes that as a candidate for the Correze in the elections of 1967 Chirac "mania la langue radicale-socialiste avec un art convaincu. Sincère, il était."³⁶² His own Finance Minister, Jean-Pierre Fourcade, in an interview given to *Le Figaro* (30 Avril 1975) said of him,

Nous avons des conceptions différentes de la société.

³⁶¹ Chirac in his interview for Franz-Olivier Giesbert's biography, *Jacques Chirac*, (Paris: Editions du Seuil, 1987, p.251) renounced his paternity for the September 4 plan de relance. "'Le président de la République l'a voulu. Jean Pierre Fourcade l'a conçu'."

³⁶² B. Rideau, *La Fiancée Chauve*, (Paris: La Table Ronde, 1987), p.83.

Il est, au fond, beaucoup plus interventionniste et dirigiste que moi. C'est un homme qui a été marqué par la sociologie de sa circonscription.³⁶³

As late as 1980, Chirac's Keynesian roots were still apparent. While across the Channel, Mrs. Thatcher and Geoffrey Howe were calling for reductions in inflation, the PSBR and taxes, and across the Atlantic the mood of the American press, Congress and the country was shifting - rapidly highlighted by the 1978 tax revolts - in favor of neo-liberal tax cuts of the kind advocated by Congressman Jack Kemp, Senator William Roth and the former governor of California, Ronald Reagan, Chirac was still giving first priority to employment and state intervention in the economy.³⁶⁴ In fact, using language which would horrify his conservative counterparts in Britain and the United States, in his book which came out in December 1978, *La Lueur de l'Espérance*, Chirac vented his hostility to insidious liberalism,

S'abandonner au seul jeu de la liberté économique et de la concurrence internationale, c'est renoncer à contrôler l'avenir, c'est s'abandonner à l'imprévisible. Raymond Barre aime citer Frédéric Bastiat...Cet auteur est trop oublié...il écrivait dans la première moitié du XIXe siècle et il accordait une confiance religieuse aux harmonies providentielles de la nature. Depuis lors, on est devenu beaucoup plus méfiant sur les conséquences du laisser-faire et du laisser-passer, qui ne sont pas toutes nécessairement

³⁶³ Quoted from F-O. Giesbert, 1987, op.cit., p.258.

³⁶⁴ Congressman Jack Kemp (R-NY) was co-author with Senator William Roth (R-DE) of the Kemp-Roth 3-year 33% tax cut, first proposed in 1978 in the debate on the 1978 Revenue Bill. Reagan, in June 1980, on the steps of the Capitol, promised to enact the Kemp-Roth tax plan if elected. It became the model for the 1981 Reagan budget and the Economic Recovery Tax Act.

favorables.³⁶⁵

In this work, Chirac vigorously argues his case against liberal ideas and solutions, both past and present. He attacks both Bastiat and Florin Aftalion. He rejects "le libéralisme conservateur" as weak and irresponsible and in the interests of an elite class. The former Prime Minister proceeded to reject liberal solutions for the economic crisis and venerated the positive role of the state in stabilizing and renewing the economy. Throughout *La Lueur de l'Espérance* (1978), one gets a clear idea of Chirac's *étatiste* and *dirigiste* nature.

Such hostility towards liberal solutions hardly bears witness to Chirac, the supply-side tax cutter of the 1980s. Although the former Prime Minister often made reference to remaking the instruments of a free (*volontariste*) economy, liberated from useless constraints, it was always the state, and not the free market, that served as the guiding and directing force. As late as April of 1980, when Chirac launched his idea of a "*plan de redressement économique*", Keynesian-inspired tax and spend solutions, rather than liberal, low tax and low spend solutions, were still driving the RPR leader's economic policy

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J. Chirac, *La Lueur de l'Espérance, Reflexion du Soir pour le Matin*, (Paris: La Table Ronde, 1978), p.107. It is interesting to note that Raymond Barre responded to this unveiled criticism in an interview with Jean Boissonnat which appeared in a September 1978 issue of *L'Expansion* and was reprinted in Barre's book *Une Politique pour l'Avenir* (1981, p.107). In his reply, the Prime Minister challenged his critics to look at the sorry state of affairs in the east of Europe and compare that with those economies that were at the time the best performing in the west. A brief analysis of the different methods of economic management applied would certainly support and vindicate the liberal measures the Barre government was advocating and, in some cases, implementing.

prescriptions.³⁶⁶

Why did Chirac cling to the old rhetoric and solutions? Perhaps it was his experience in Gaullist governments, indoctrinated with old *étatiste* methods and solutions. Perhaps it was his still questioned leadership of the party and the prominence of old party barons like Michel Debré and Jacques Chaban-Delmas. Perhaps it was the unshakable influence of Chirac's reactionary, national-Gaullist advisers Pierre Juillet and Marie-France Garaud, who found suspect any new ideas which called into question traditional party policies and tenets.³⁶⁷ Perhaps it was the ghost of de Gaulle, always suspicious of free-market liberalism which prevented Chirac from promoting policies

³⁶⁶ This plan involved massive public investment in public and private industries - especially construction, agriculture, chemicals, shipping and steel - and public works programs, costing a total FF30 billion extra per year over the level of spending in the government's current budget. This would be financed through budgetary savings, such as reducing the number of civil servants hired, smaller subsidies to public companies and increases in public tariffs, as well as taxation on wealth and on speculative capital and a renewed effort to combat tax fraud. Ironically, in the interview accorded to Gilbert Mathieu in *Le Monde*, 15 Avril 1980, when he unveiled this plan, Chirac let it be known that the state needed to reduce its "train de vie". This apparent incompatibility in the plan's objectives reflected not only, the inconsistency of Chirac who changed his mind like he changed his shirts (F-O Giesbert, 1987, op.cit., p.250) but also the fundamental ambiguity of the RPR up to then undergoing a tug of war over its future direction between a reformist wing of the party led by Bernard Pons, Jerome Monod, Anne Marie Dupuy and Alain Juppé and a conservative wing led by Pierre Juillet, Marie-France Garaud, Charles Pasqua and Yves Guena; also see, P. Fysh, *Gaullism and the Liberal Challenge*, Ph.D. thesis for the London School of Economics, London: 1991, pp.111+).

³⁶⁷ Alain Juppé, in the late 1970s head of research for the RPR and the budget director for the city of Paris, said of Juillet and Garaud, "Le seul mot de réforme les rendait fous. Dès qu'on essayait de faire avancer une idée nouvelle, ils parlaient, avec mépris, de 'salmigondis technocratiques'." (Quoted from Franz-Olivier Giesbert, 1987, op.cit., p.289).

that were not deemed Gaullist.³⁶⁸

Another plausible explanation for Chirac's anti-liberalism can be found in the (occasional) liberal attitudes and policies of the government and Chirac's desire to distance himself and his party from the President and his government. As there was little to be gained politically from positioning himself to the right of the government, given the climate of opinion and the swing of the political pendulum, staking out a position between the liberal center-right and the socialist-communist left seemed to offer the most promise from an electoral perspective. According to Chirac's biographer, Franz-Olivier Giesbert (1987), "En ce temps-là, Jacques Chirac n'hésite même pas à ranger les gaullistes à gauche."³⁶⁹ This posturing was blatant in an interview for *Le Monde* (4 Mars 1978) in which the RPR leader was still situating the Gaullists on the left. He said,

Il y a la tradition d'une gauche nationale...Elle est chez nous...Il y a dans notre histoire la tradition d'une gauche qui revendiquait avec fermeté l'autorité de l'état républicain contre toutes les formes d'anarchie, de désordre, d'incivisme, de délinquance...Elle est chez nous."³⁷⁰

Chirac, the Bonapartist and crypto-socialist, was evidently still some ways off from the neo-liberal conversion which would make

³⁶⁸ Chirac made constant reference to de Gaulle in almost all his speeches and perhaps this constrained the RPR leader from departing dramatically from attitudes and policies for which the General had stood.

³⁶⁹ Quoted from F-O. Giesbert, 1987, op.cit., p.305. In fact, this orientation saw its apotheosis in Chirac's October 3, 1976 Egletons speech when he called for concertation with trades and professional organizations, taxation of capital and an alliance of Gaullist values with the "...aspirations d'un véritable travaillisme à la française." (F-O. Giesbert, 1987, op.cit., p.290).

³⁷⁰ Quoted from F-O. Giesbert, 1987, op.cit., p.305.

him the leading mini-Statist free-marketeer of the 1980s.

Indeed, the RPR's tax policies appeared more "gauche" than "droite" and reflected Chirac's true *dirigiste* orientation and combined the traditional French concern for social justice and the right's preoccupation with its business clients. For example, in its 1978 electoral program the RPR proposed: to remove SMIC and below income earners from the tax net, to exempt 10% of retirement pensions from taxation, to modify VAT rates, to exonerate certain stock/share earnings (*plus values mobilières*) from capital gains tax, and to introduce a wealth tax, applied to wealth over FF2 million, at rates of between .5% and 1%, deductible from income tax. The proceeds from the wealth tax would be directed to local governments. The RPR also proposed heavier local taxation, with the creation of new taxes on property (*impôt foncier assis sur la valeur vénale des biens*) and on businesses (*impôt professionnel annuel assis sur la valeur vénale des immobilisations et éléments mobiliers situés dans la commune*).³⁷¹

The RPR's tax program seemed at times to have conflicting aims - for example, it sought to provide a conducive climate for business creation and expansion, yet aimed to apply new taxes on businesses and wealth. Overall the goals of its program, social justice, equity, investment and expansion, were themselves, in trying to be all things for all people, potentially conflictual.

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For more details on the RPR's tax proposals for 1978 see: Rassemblement pour la République, *La Démocratie du Quotidien*, no.1, Décembre 1977.

The party's contradictory tax policies and objectives, as already mentioned, reflected the RPR's fundamental ambiguity; that is, caught between its commitment to its traditional business clients, while trying to undercut the center-left, with its expressed concerns for equity and social justice. By the same token, the proposals demonstrated a noteworthy continuity, in a certain sense. That is to say, they were more or less consistent with the long standing habit of viewing taxation as a tool to be used selectively to incite particular forms of economic behavior and to redistribute wealth.

Conclusion

We see in this review very little evidence of the neo-liberal tax agenda that became prominent in France in the mid- to late 1980s. Public opinion favored the left. The Socialists and Communists, throughout the 1970s, continued to draw growing support. The right, hoping to keep in step, recognized the political unpopularity of neo-liberal ideas and took on board many of the ideas put forward by the left, i.e. wealth tax, a capital gains tax, and lower indirect taxes. None of the major parties of the right were prepared to carry the neo-liberal standard, although dissenting elements in the UDF and the RPR did exist.

Remember, it has been asserted that Chirac was the leading neo-liberal activist in French political life in the 1980s. So far, we have seen little evidence of that. With this insight into the impulses and policies that undergirded the tax program

advocated by Chirac and the RPR, how do we account for their neo-liberal conversion in which tax reform would feature as an important element? Answering this question requires an examination of the ideas, proposals and activities of several key individuals and groups, who either directly or indirectly played a part, not only in changing the ideas and strategies of certain center-right parties and politicians, among which, Chirac and the RPR, but also helped to make the soil fertile for tax reform.

CHAPTER FIVE

CHAPTER FIVE

- The Tillers of the Soil -

Introduction

Evidently, in 1978, the RPR's neo-liberal spring was still some ways away. While New Right economic theories prescribing a reduced role for the state were gaining political adherents in conservative parties and circles in the United States and Great Britain, the largest "conservative" party in France, the RPR, continued to dance to the same old tune. And while the party leader, Jacques Chirac preached the need for tax reform - "Il y a des domaines où il faut procéder à une refonte complète du système: c'est le cas de notre système fiscal, trop complexe, insuffisant et injuste"³⁷² - his proposals would have been equally welcomed by the interventionist and redistributionist left.

On the other hand, Raymond Barre, the hope of the Chicago School and liberal economists and politicians, faced difficult economic, political, social and institutional obstacles that prevented him from acting freely on his liberal, market-oriented instincts. Consequently, he was unable to bring neo-liberal tax reform onto the government's agenda. Furthermore, as Barre himself has admitted, the economic liberalism of the Conservative Party in Britain and the Republican Party in the United States was not the economic liberalism of Valéry Giscard d'Estaing or Raymond Barre, and certainly bore no relation to anything Chirac

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From the October 1976 Eggletons speech quoted from F-O. Giesbert, 1987, op.cit., p.290.

was calling for at the time.³⁷³ France, given its Colbertiste heritage and its state dominated institutional environment, was a case apart.

So, where did the inspiration for tax reform in the 1980s come from? It did not just appear out of thin air. Identifying the roots of neo-liberal tax reform is a difficult, and often futile, exercise whether in France, Britain or elsewhere.

However, a brief discussion of the individuals and groups that contributed to the nurturing and promotion of neo-liberal tax reform ideas would be instructive, even though it may lack in specificity. That is, we cannot attribute, with any degree of certainty, a cause and effect relationship. Nonetheless, it can be confidently asserted that, even if those groups and individuals did not influence the policies directly, they did so indirectly, by creating a climate of opinion receptive to such policies. It is important, therefore, to bear in mind two critical things in reading this section: 1) it is not so much where the seed comes from that matters, but what makes the soil fertile and then, 2) what makes the seed germinate, grow and flourish.³⁷⁴ In this chapter, we will look at the seed planters and the tillers of the soil.

Was the Soil Fertile?

Comprehensive and fundamental neo-liberal tax reform gripped

³⁷³ J. Frears, *France in the Giscard Presidency*, (London: Allen and Unwin, 1981), p.20. See also, T. Grjebine, ed., *Recession et Relance*, (Paris: Economica, 1984).

³⁷⁴ J. Kingdon, 1984, *op.cit.*, p.81.

political and economic circles and engendered wide-spread debate in Australia, Great Britain and the United States during the 1970s. It accompanied serious doubts about the size and scope of the state. Such notions were still politically and economically marginal in France in the late 1970s and not part of mainstream thinking. By then, in countries like the United States, Great Britain and Australia, "conservative" politicians, responding to citizen unrest and the new economic thinking regarded tax cuts as a necessary panacea to slow economic growth and an over-sized state. It was rare for conservative politicians in France - and certainly anathema to those on the left - to entertain the idea that the scale of government activity should be reduced.³⁷⁵

The ideological ambiguity of liberalism, the inconsistency of free markets, and the lack of direction and guidance inherent in the "invisible hand", had left a void filled by Keynesian and Colbertiste principles in France during the depression of the 1930s and the deprivation and devastation of the immediate post-war period. The *trente glorieuses* - France's period of economic growth following World War II - confirmed the appropriateness of Keynes and the economic prescriptions of the technocrats. Nevertheless, as the economic difficulties of the 1970s shook governments and citizens out of their complacency - although the vast majority still felt that more state intervention and

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See: J. Hayward, *The One and Indivisible French Republic*, (London: Weidenfeld and Nicolson, 1973), p. 152; J. Frears, 1981, op.cit., pp.20-23,128-37.

assistance was necessary - the voices on the fringe preaching a different message were ringing increasingly louder and truer. Indeed, some of those voices came from within the government of President Giscard d'Estaing.

Two RPR members of the government, Alain Peyrefitte and Michel Giraud, and Albin Chalandon, head of Elf-Aquitaine, the state-owned oil company, did not shrink from criticizing the excesses of government intervention and providence. However, their positions in government or in state-owned enterprises mitigated the tone and effect of their criticisms. In terms of the RPR, they had no following, and collectively made no effort to win over party opinion or build a new consensus. As Peter Fysh (1991) tells us, these senior Gaullists, at odds with Chirac's strident *étatisme* and left-of-center economic orientation, "...seemed neither to have tried hard nor to have made much effort in swinging the party to their point of view."³⁷⁶ We cannot, therefore, credit these lonely Gaullist voices with a liberal turn in the RPR or the advent of neo-liberal tax reform. But, at least, one could maintain, that these neo-liberal Gaullists kept the debate alive.

However, other voices on the political and economic fringe were making a more significant impact. Their arguments against the *consensus progressiste* were made initially in localized venues, academic symposia, thinking clubs and discussion groups as well as organizational publications. In the late 1970s, their

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P. Fysh, *op.cit.*, p.325.

arguments were given even greater validity, however, by the British and American experiences. The neo-liberalism personified by Ronald Reagan in the United States and Margaret Thatcher in Britain and their electoral successes, lent credibility to ideas and arguments which had long been marginalized or forgotten. Soon however, New Right and neo-liberal ideas espoused by these marginal groups in France were receiving national attention.

In Britain and the United States, the New Right - a vague collection of sociologists, clerics, economists and conservative politicians - had become the vehicle for attacks on the economic, social and political status quo which had dominated since World War II. Whereas Milton Friedman and Friedrich von Hayek had long sustained the critique of the role of the state and popular Keynesian economic policies, and later became the gurus of the New Right, in France they were virtual unknowns.³⁷⁷

The economic crisis of the 1970s was the catalyst which gave rise to the undermining of the state and statist principles and induced the formation of tax reform movements and popularized tax cutting. France was no less immune to the economic problems

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Hayek's and Friedman's ideas were disseminated and debated through occasional translations of their works (Hayek's *Price and Production* was translated only in 1975 and *Law, Legislation and Liberty*, a fundamental work written between 1973 and 1979 appeared in France in three volumes between 1980 and 1983) and the Society of Mont Pelerin, a discussion group which organized conferences and on which the likes of Jacques Rueff often participated. Friedman's and Hayek's theories were also discussed and circulated by intellectuals and academics at the Institut d'Études Politiques de Paris, the École Supérieure des Sciences Économiques et Sociales, the Universities of Dauphine, Aix-en-Provence and Orléans and economists like Jean-Jacques Rosa, Florin Aftalion, Pascal Salin, Henri Lepage, Guy Sorman and Emile Claessen (see article in *Le Monde*, 25 Juillet 1979, by M. Duverger, "L'Illusion de la Science") and their group, the Association pour l'Économie des Institutions, which organized seminars and published scholarly works.

suffered by other countries in the late 1970s, but while tax reform was by then on the lips of every leading French politician, it was conceived in the same old terms: economic regulation and redistribution. The old consensus on the use and purpose of the tax system was still largely intact.

Although, in the 1978 election campaign, all the parties were preaching reform of one kind or another, no one was proposing how to make the system simpler or calling for reductions in the overall tax burden or general "tax cuts" - except in the case of the disadvantaged and poor, which was consistent with the traditional French concern for social justice. Even with the liberal credentials of Giscard d'Estaing and Raymond Barre the words "tax cuts" - which so often graced the lips of Margaret Thatcher and Ronald Reagan - were nary to be heard.³⁷⁸ No leading politician had emerged by 1979, who dared advocate the cause of neo-liberal "Lafferian" tax reform.

The reason for this is partly tied to the debate on the role of the state - or absence thereof. This debate had been underway for some time in the United States and Great Britain, and was not simply confined to academic circles. The role of the state, although perhaps coming under hard scrutiny by elites in France

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Nowhere in Valéry Giscard d'Estaing's *L'État de la France* (Paris: Fayard, 1981), his pre-election manifesto, does the President refer to reducing income taxes on individuals or companies or undertaking fundamental reform of the tax system. The same can be said of Raymond Barre's 1978 *Programme de Blois*, where the closest the Prime Minister got to tax reductions was a promise that taxes and social charges would remain stable for businesses with selective strategic tax reductions to incite investment, business and job creation. For (wealthy) individuals, taxation was to be made heavier on wealth and capital gains.

during the late 1970s was still largely unquestioned at the political and mass levels. The French people continued to look to a more provident, more active state, to solve the problems France was facing, regardless of the higher taxation implied.

Philippe Auberger (1984) reveals that the majority of French people polled in the early 1980s favored an increase in taxes when faced with the option of lower taxes but the prospect of reduced welfare benefits and social services. Auberger remarked,

L'idée de 'l'État providence' est désormais bien ancrée dans l'esprit de nos concitoyens et il est difficile de les amener à y renoncer.³⁷⁹

Several of the interviewees supported this perception. For example Jean-Pascal Beaufret maintained that the French generally accepted a high level of social contributions, and consequently a high level of p.o., because they are attached to a high level of social protection.³⁸⁰ The French, for a number of reasons, not only their attachment to *la Sécu*, were not receptive to the idea of tax reform. As Auberger and others noted, in France there was an "allergie fiscale". Therefore, in the late 1970s/early 1980s, the odds seemed stacked against the diffusion of neo-liberal ideas in France. A long tradition of social justice, egalitarianism and state intervention stood in the way. And, as we have noted, there were few politicians ready to take on the consensus and espouse a 'new orthodoxy'.

Electorally, the left's fortunes improved during the course

³⁷⁹ P. Auberger, *L'Allergie Fiscale*, (Paris: Calmann-Levy, 1984), p.128.

³⁸⁰ Jean-Pascal Beaufret, interview in Paris, France, May 14, 1992.

of the 1970s, culminating with the 1981 presidential and legislative election victories, while those of the right declined. As the left's political star ascended so did public opinion follow it, showing strong inclinations for the theses of the left. On economic matters this translated into increased state intervention in the forms of income redistribution, public investment and nationalizations. On tax matters SOFRES, the polling organization, consistently showed large majorities in favor of a wealth tax and increases in inheritance taxes. On the other hand, rightist, or conservative, values - authority, security, profit, private enterprise, free markets - were suspect. The ideological battle - really a one-sided battle - was being won by the left. The tax reform program advocated by the left and favored by a large part of the electorate intended not to cut taxes - except on the poorest segments - but to raise them and "faire payer les riches". Raymond Barre commented, "...c'était de la fiscalité redistributrice...c'était l'idéologie des années 1970 avec un taux...des impositions plus élevées."³⁸¹

The right and centre-right, in power since 1958, had become too complacent and seemed to have too few answers to the problems the country was facing. Too concerned with the task of governing in increasingly uncertain times and fighting amongst itself, the centre-right, in effect, unwittingly ceded the high ground to the left. Even as it attempted to retake it following the 1978 elections (in 1980-81 for the RPR), with a greater emphasis on

³⁸¹ Raymond Barre, interview in Paris, France, June 2, 1992.

the appropriateness of neo-liberal solutions to France's problems, the commitment to such principles and solutions was unconvincing and incomplete, and in any case was out of step with public opinion.³⁸²

Opinion polls in France until the 1980s were very sparse on questions related to tax. When they were available, the questions generally pertained to specific taxes or higher taxation. The only authoritative and comprehensive work on public opinion *vis-à-vis* the tax system prior to the 1980s was authored by Jean Dubergé.³⁸³ The few odd surveys of public opinion however which did surface, showed most people concerned with income inequalities and tax unfairness.³⁸⁴ When confronted with the possibility of higher taxes as a measure necessary to combat inflation, at least half, or more than half favored recourse to higher taxes. But as Raymond Barre pointed out, the French favored higher taxation, as long as it was levied on higher incomes. However, even here there was a qualification. The French believed in higher taxation on higher incomes as long as they were not considered among that privileged group, "faire payer les riches sans me compter parmi les riches."³⁸⁵

³⁸² See, F. Bourricaud, *Le Retour de la Droite*, (Paris: Calmann-Levy, 1986), p.116.

³⁸³ See e.g., J. Dubergé, *La Psychologie Sociale de l'Impôt dans la France d'Aujourd'hui*, (Paris: PUF, 1961). Gabriel Ardant in *Théorie Sociologique de l'Impôt*, (Paris: S.E.V.P.E.N., 1965) takes a more sweeping and historical look at the evolution of tax systems and their sociological effects.

³⁸⁴ See, *Sondages*, nos. 2 and 3, 1978.

³⁸⁵ Raymond Barre, interview in Paris, France, June 2, 1992.

However, as Dubergé recognized in his new book, from 1973, the income tax system became increasingly resented and less and less tolerated by the French public.³⁸⁶ This was due, he explained, to a number of factors: the deteriorating economic and social climate, the steady rise in *prélèvements obligatoires* and increasing controls and verifications by the tax administration. Remarkably, despite the growing resentment, there was no extraordinary pressure from the electorate to reduce taxes, the tax burden or tax verifications, as had been the case in the 1950s with the Poujadist movement. To a large extent, the ground appeared insufficiently fertile for the cultivation of neo-liberal tax ideas.

The Tillers of the Soil

The voices in France advocating reform of the tax system à la mode américaine ou britannique, were few and far between pre-1979. France had no Tax Policy League, Propositions 13 or 2-1/2 or National Association of Taxpayers, as in the United States. There was no Centre for Policy Studies or major political party with a long standing position on tax reform to give resonance to and disseminate such ideas, as in Britain. That is not to say that there weren't any advocates or fora for such ideas in France, because there were; among them, for instance, economists like Maurice Allais, Jacques Rueff, Henri Le Page, Pascal Salin, Jean-Jacques Rosa and later Guy Sorman; intellectuals and academics like Raymond Aron and Alain de Benoist; independent-

³⁸⁶ J. Dubergé, 1990, op.cit., pp.13,177.

mindful politicians and businessmen like Alain Peyrefitte (UDR), Albin Chalandon (UDR) and Louis Armand; civil servants and party advisers like Yvan Blot and Philippe Auberger; philosophical/thinking clubs like GRECE (Groupe de Recherche et d'Études sur la Civilisation Européenne) and the Club de l'Horloge; and the press, particularly the Figaro Magazine under the directorship of Louis Pauwels.

All these individuals and groups contributed, in one way or another, to making the soil fertile for the tax reform idea. They were not lobbyists as such, and in many cases were not closely affiliated with any particular political party. Their ideas and efforts to educate both narrow and broad publics were far from negligible and indeed, with time, helped to create a receptive climate for tax reform - or, in other words, make the soil fertile. Either they devised and/or advocated particular reform ideas or they questioned and/or attacked the *consensus progressiste* which made people receptive to tax reform ideas and policy entrepreneurs. These individual and organizational actors propagated among many ideas, those favorable to diminishing the size and scope of the state, liberalizing the economy and reducing taxes. These individuals and groups planted the tax reform seed and tilled the soil.

The *consensus progressiste* entrenched after World War II, as in Britain and elsewhere, espoused certain fundamental tenets, among which, full employment, the welfare state, Keynesian economic policies, were the most sacred. These tenets were

promoted and guaranteed by an elite and allegedly ubiquitous technocratic class. The success and prosperity which followed the end of World War II and launched by parties of the centre-left in countries like France, Britain and the United States, vindicated the consensus and helped legitimize it. However, although a social democratic ethos emerged triumphant from the rubble of World War II, its acceptance was not unanimous. Concomitant was a small but influential intellectual lobby, who found their *raison d'être* in the challenge to social democracy. Their ideas were promoted as an alternative to communism, socialism and fascism.

In the United States and Great Britain, the New Right was the conceiver of and incubator for neo-liberal economics. Over the decades since World War II, it sustained the attack on Keynesian, social-democratic and socialist prescriptions for the economy and society. Moreover, the liberal emphasis of its economic prescriptions, developed and advanced by economists and academics like Friedrich von Hayek, Milton Friedman and others, captured the imagination and support of a new generation which came into its own in the decades after the Second World War.³⁸⁷ In France, however, the New Right faced an uphill battle against Colbertiste, social-democratic and Keynesian ideas and traditions. We will now turn to look at the impact of some of

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Proposals to cut taxes, eliminate reliefs and broaden bases, shift from direct to indirect taxation, though not necessarily the exclusive domain of the New Right, figured prominently in the fiscal prescriptions of that movement.

the so-called tillers of the soil.

* Raymond Aron

Raymond Aron, one of the most important thinkers of this century according to Stanley Hoffmann,³⁸⁸ had long sustained a critique of the post-war Keynesian-driven state-dominated French economy and society. Early works like *L'Opium des Intellectuels* (Paris: Calmann-Levy, 1955) vilified the myths of the left, the revolution and the proletariat and received lots of attention and publicity, albeit much of it negative. In this publication, Aron made recommendations which he believed necessary to reshape France in the post-war period. His participation in economic debates, his classes at the Sorbonne, his association with *Le Figaro* and *L'Express*, and his numerous books and scholarly articles sustained a broader economic debate; one which questioned the ruling economic consensus in France. He had little patience with "Intellectuals who, half a century behind the thought of their time, continue to condemn the mechanisms of the market or private ownership for philosophic reasons..."³⁸⁹ Although not a prophet of the New Right, his opinions broadened the climate of political and economic thinking during the 1950s, 1960s, and 1970s.

In *Polémiques* (1955), Aron criticized the effects of a high tax burden on the middle classes, the unjustifiable protection

³⁸⁸ D.J. Mahoney, *The Liberal Political Science of Raymond Aron*, (Lanham: Rowman and Littlefield, 1992), back cover.

³⁸⁹ R. Aron, *The Century of Total War*, (New York: Doubleday, 1954), pp.354-5.

France's tax regime afforded agriculture, and the lack of dynamism in the economy.³⁹⁰ Nevertheless, he professed his belief that a synthesis of the welfare state and economic dynamism could best resolve the questions of the nation's prosperity. In his publications of the 1970s and 1980s, Aron recognized the dangers of "an unproductive redistributionist social democratic polity that discouraged the initiative and incentives necessary for a healthy liberal order."³⁹¹

During the socialist experiment of the early 1980s, Aron was a reasoned critic of the *gauchiste* policies because of their counterproductive effects and threat to entrepreneurial freedom and individual initiative. In an article he wrote for *L'Express*, he questioned the government's tax decisions and their consequences for the economy,

...une tranche de 65%...encore faut-il ajouter les 10% supplémentaires de 1982, les 10% d'épargne forcée de 1983, les 1% pour la sécurité sociale. Les taux pour les tranches supérieures doivent se rapprocher des anciens taux anglais...une considération économique ne doit pas être oubliée: le dynamisme des entreprises doit davantage aux ingénieurs, aux cadres, aux dirigeants qu'aux syndicalistes. Bien qu'il soit malaisé de saisir des phénomènes psychologique de cet ordre, il semble bien que l'ardeur de produire, de vendre, de gagner des marchés ait été atteinte par les mots d'ordre (front de classe), par les mesures fiscales, par l'idéologie du loisir.³⁹²

For Aron, the government's punitive tax measures were misguided

³⁹⁰ R. Aron, *Polémiques*, (Paris: Gallimard, 1955), pp.221-225.

³⁹¹ D.J. Mahoney, *op.cit.*, p.62.

³⁹² *L'Express*, no.1663, 20 Mai 1983, p.79.

and inappropriate. They stifled savings and investment, and attacked those taxpayers most likely to invest and engage in risk-taking, both essential for a healthy economy.

Throughout most of his lifetime, Aron continued to keep the door from slamming shut in France on liberal notions and solutions. His reasoned critiques and propositions gave liberalism a respectable face and paved the way for later advocates.

* Maurice Allais

Maurice Allais, a liberal economist writing prolifically since the 1940s, was heralded by *France Observateur* in 1956 as "le théoricien français le plus systématique du capitalisme" and "le grand prêtre du libéralisme et de la concurrence à l'état pur."³⁹³ Allais had long argued for a reduced role for the state and a reform of the French tax system, particularly capital taxation, which he advocated as a replacement for direct taxes. The Nobel Prize winner's views on taxation were respected but paid little attention by political leaders. Nevertheless, his views presented a vision of the tax system - appreciated at the time by the likes of Milton Friedman and the Société du Mont-Pelerin - which would become part of the mainstream in the 1980s.

Allais did not have a very high opinion of the French tax system. He opined,

Excessive, compliquée, coûteuse, inefficace,
discriminatoire, injuste, génératrice de mauvais choix
économiques et de fraude, souvent arbitraire et

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France Observateur, 31 Mai 1956.

incohérente, démoralisante, anti-sociale et anti-démocratique, la fiscalité d'aujourd'hui est un boulet que traîne la nation.³⁹⁴

Allais wrote frequently of how the concern with social justice and equality had actually multiplied the inequalities and injustices in society and distorted economic decisions and hence, the economy.

L'impôt ne doit pas être défavorable au plein développement de la personnalité de chaque citoyen selon ses propres aspirations... Dans toute la mesure du possible, le citoyen doit être laissé libre de ses choix et de l'emploi de ses revenus... cela signifie que la fiscalité ne doit pas avoir pour objectif de fausser les choix individuels que feraient autrement les citoyens pour satisfaire leurs besoins tels qu'ils le ressentent effectivement.³⁹⁵

Ironically, these very words and ideas would be echoed with renewed force in the liberal revival of the late 1970s/early 1980s in France.

Allais's ideas about the role and function of taxation predate, by 15 to 20 years, political concern regarding the effects of high personal and corporate taxes on economic decision making, individual freedom, incentives and entrepreneurship. The economist broadened his critique by praising the virtues of an economy founded on decentralized decision making, competitive markets and private property. In his 1966 article for *Droit Social* he expressed consternation at the largesse of the state's tax take - 48.1% of national income. He wrote,

³⁹⁴ M. Allais, *L'Impôt sur le Revenu et la Réforme Monétaire*, (Paris: Hermann, 1977), p.50.

³⁹⁵ M. Allais, "L'Impôt sur le Capital", *Droit Social*, no.9, Septembre-Octobre 1966, p.474.

Un pourcentage aussi élevé n'est pas loin d'être excessif. L'Etat contrôle d'ailleurs directement environ le tiers du capital national. Le moins qu'on puisse dire, c'est que la décentralisation du pouvoir et des décisions nécessaires à la fois pour l'exercice effectif des libertés politiques et l'efficacité du système économique est singulièrement compromise.³⁹⁶

For Allais, such imposition and intervention on the part of the state was a serious threat to political liberty and economic efficiency. Many works authored by Allais, many appearing in newspapers and scholarly journals like *Combat*, his published speeches delivered in various fora, expressed the economist's convictions on such matters clearly and abundantly.³⁹⁷ His participation on various government committees and councils, including the Economic and Social Council, ensured his opinions were communicated outside academic circles to a wider, if not entirely receptive, audience.

Despite Allais's notoriety - he won the Nobel Prize in 1988 - his ideas, on tax reform and free market economics, were not wholly welcomed by political and administrative decision makers and found little support among the general public. The reforms were too radical, and worse, untested. They would have, according to some, undesirable economic and sociological effects. Moreover, they allegedly posed innumerable

³⁹⁶ Ibid., p.478.

³⁹⁷ See e.g.: *La Conciliation du Libéralisme et du Socialisme par l'Impôt sur le Capital* (published from a conference of the Groupe de Recherches Économiques et Sociales, January 4, 1949); *Manifeste pour Une Société Libre* of December 1958; "Les Conditions Économiques d'une Société Libre in *Revue des Travaux de l'Académie des Sciences Morales et Politiques*, 4e série, 1959; *La Politique des Revenus de l'Avenir: les Principes Généraux de la Fiscalité d'une Société Libre et l'Impôt sur le Capital*, a report given to the Stresa Congress of the Société du Mont Pelerin, August 20, 1965.

administrative problems. The climate of opinion was not receptive to Allais's ideas.

Instead, the way forward was signalled by de Gaulle and the planners, not the free market and a bunch of academics. The state was to be the leading force. The advocates of tax reform and market economies were largely anti- or mini-statist. In a society being fed and nurtured by an ever more provident state, which also took responsibility for ensuring continued economic growth, such views were out-of-place, unwelcome and, consequently fell on infertile ground.

* Jacques Rueff and Louis Armand

De Gaulle, however, was not immune to liberal influences. Other notable figures, closer to the political milieu, who considered and promoted liberal solutions in France included people like Jacques Rueff and Louis Armand.³⁹⁸ They, like Aron and Allais, helped prepare the ground for the ideological flowering of neo-liberalism in the 1980s.³⁹⁹ Both men, but particularly Rueff, advocated the superiority of an economic regime founded on the free play of market forces, minimal intervention by the state, tight control of money and balanced

³⁹⁸ See e.g., J. Rueff, *L'Ordre Social*, (Paris: Librairie du Recueil Sirey, 1945).

³⁹⁹ In fact, a book published in 1989, F. Bourricaud and P. Salin, *Présence de Jacques Rueff*, (Paris: Plon, 1989) was inspired by one of the authors' - Francois Bourricaud - interest in examining the origins and impacts on the neo-liberal movement in the post-war era. Bourricaud singled out Jacques Rueff as one of the principal liberal lights in France. Louis Armand is also given 'honorable' mention.

budgeting.⁴⁰⁰ Their ideas defined the parameters of their examination of the state of the French economy in 1960, when, under their joint chairmanship, was constituted a government committee to investigate the obstacles to economic expansion.

Jacques Rueff had a decisive influence on the economic policy of the nascent Fifth Republic as an economic adviser to Antoine Pinay, Wilfrid Baumgartner and President de Gaulle. His "Report on the Financial Situation of France" published at the end of 1958, served as a program for major financial and economic reform to be undertaken by the French government from December of that year. The report prescribed strict financial discipline and identified those areas in which the state was intervening - i.e. via subsidies, trade restrictions, wage and price controls etc. - and was distorting the operation of the free market and thus holding back the country's economic growth potential.

Rueff's recommendations met with cool and even hostile reception on the part of many economists and ministers in de Gaulle's government. But, in the end, with the President's firm but unenthusiastic support, they became official government policy. The ensuing success of these measures, in terms of their positive effects on the French economy, pleased de Gaulle and vindicated Rueff, who wasted no time in drawing the government's attention to other problems and deficiencies in the economy.

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"Jacques Rueff, s'imposa aussi parce qu'il était un homme de doctrine et de conviction...L'assurance inlassable avec laquelle, pendant cinquante ans, il a plaidé pour sa version de l'économie libérale tient à ce qu'il la jugeait conforme aux exigences de la réflexion, de l'analyse et de la vérification" (from F. Bourricaud and P. Salin, op.cit., p.12).

In a letter to General de Gaulle, in the summer of 1959, Rueff posed some very poignant questions, and urged the general to undertake a thorough review of the economy and identify what was holding back productivity, investment and consumption. Only a few months after the publication of his first report, Rueff was seeking to stoke up, what he thought was a fading reformist flame. The result was the Comité Armand-Rueff. Its report, published in September 1960, was a cornucopia of structural and financial reforms covering a wide variety of socio-economic sectors; however, it avoided the tax system and social security finance. In the end, many of the recommendations were adopted, but as Rueff noted in his autobiography, as of his writing in April 1976, much still was left to be done.⁴⁰¹

Rueff's co-chairman on the committee, Louis Armand, hailed from the nationalized railways and was one-time President of Euratom. His impact was less important than Rueff's on the nation's economic thought and policies, however his liberal convictions were no less strong. Evidence of his liberal credentials were demonstrated in 1969 when Armand presented an exposé on structures, mentalities and efficiency ("Structures, Mentalités et Efficacité") in a debate sponsored by the Académie des Sciences Morales et Politiques.⁴⁰² Other participants at this meeting were, Raymond Aron, Jean Fourastié, Wilfrid Baumgartner,

⁴⁰¹ J. Rueff, *De l'Aube au Crépuscule*, (Paris: Plon, 1977), p.256.

⁴⁰² Published as *La France dans la Compétition Économique*, (Paris: Presses Universitaires de France, 1969).

Edmond Giscard d'Estaing, and Jacques Rueff among others.

In his speech, Armand lamented that France offered a hostile environment for businesses because of the permeation of Marxist-like doctrine that had encouraged domination by the state - i.e. planning, nationalization and bureaucratization - and an egalitarian ethic evident in both attitudes and policies. He called for less state control and intervention and more policies - and a change of mentality - conducive to free enterprise. As Armand said,

Ce qui est fondamental pour nous est l'épanouissement de l'individu. Il faut faire un effort pour montrer ce qu'un régime d'économie libérale peut obtenir dans ce domaine, ce qui n'exclut pas du tout...que l'État puisse avoir des idées.⁴⁰³

Interestingly, what Armand was advocating was a challenge to the *consensus progressiste*. He offered up liberalism, as the only ideology capable of confronting the ascendant ideology of Marxism and the social democratic hegemony. The 'new' economist, Henri Lepage, almost ten years later, would issue a similar call. However, in Lepage's case, circumstances as they were, the call was received by a more sensitive public. It would fall then to the *nouveaux économistes* of the 1970s to pick up and reignite the torch of liberalism, heralded and carried by the likes of Aron, Allais, Rueff and Armand.

* The New Economists

The "coming out" of the new economists occurred in 1977/78, just before the legislative elections and was heralded by the

⁴⁰³ Ibid., p.78.

appearance of two books, *L'Economique Retrouvée* (Paris: Economica, 1977) and *Demain le Capitalisme* (Paris: Collection Pluriel, 1978). The impact of the new economists and the importance of their work, in terms of the effect they would have on the climate of economic opinion and debate in France, was aptly assessed by Stephen Rial in his review which appeared in *Contrepoint* and is reproduced at length here,

Henri Lepage, dans *Demain le Capitalisme*, nous offre un recensement très exhaustif d'une littérature jusqu'ici d'accès difficile pour un public plus large que celui des spécialistes. Son livre présente un immense intérêt de ce fait: car les propositions des nouveaux économistes américains intéressent autant les historiens, les juristes, les sociologues ou les démographes que les économistes de profession... En doctrine économique, le vent souffle depuis longtemps déjà d'Amérique: mais ces temps-ci, il nous apporte un autre air. Le mouvement de renouvellement de la pensée a pris là-bas une ampleur considérable, même s'il n'est pas exempt de divergences entre maximalistes, les "libertaires" ou "anarcho-capitalistes" et minimalistes, dont le discours nous est plus familier. Le mouvement a même atteint nos universités françaises puisqu'une poignée de jeunes économistes nés entre 1936 et 1946, Jean-Jacques Rosa, Florin Aftalion, André Fourcans et quelques autres se sont récemment illustrés par une publication collective qui a fait un certain bruit (*L'Economique Retrouvée*, Economica, 1977) et par une prise de position collective d'une particulière netteté lors des dernières élections.⁴⁰⁴

These young economists referred to by Rials, initially constituted no more than a dispersed minority of academics and journalists: Rosa was at Sciences Po and Paris-Dauphine; Aftalion was at the École des Sciences Sociales Économiques et Commerciales (ESSEC); Fourcans was also at ESSEC; Jacques Garelli, was at the Université d'Aix-en-Provence; Pascal Salin

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Contrepoint, 3e trimestre, 1978, no.20, p.150.

was at Paris-Dauphine; while Henri Lepage was a journalist.

By the mid-1970s this group found they shared a keen interest in conceptual developments in Britain, and more substantially, in the United States. Occasionally they would come together, participating in seminars convened for the purpose of discussing these developments. *L'Economique Retrouvée* (1977), with contributions from Rosa, Aftalion and others, captured the essence of many of the debates undertaken at these seminars. From 1978, the new economists began their annual colloquiums known as the Université d'Été de la Nouvelle Économie headed by Jacques Garello. These conferences attracted neo-liberal, free-market enthusiasts from all over France, Europe and the United States, as well as those who were merely curious as to what all the "noise" was about. French politicians and civil servants like Charles Millon, Alain Madelin and Philippe Auberger, were no strangers to these meetings.

Ideas emanating from the Chicago School and universities in Virginia, like the University of Virginia and Virginia Polytechnic Institute, had caught the attention of the young French economists. Among the new generation of neo-liberal *afficionados* was a journalist/economist, Henri Lepage. After a series of interviews and some months of research in the U.S. familiarizing himself with the "new economics" then sweeping American academic - and to a lesser extent, political - circles, Lepage returned to France and wrote his account of this

experience.⁴⁰⁵ His book, *Demain le Capitalisme*, published in 1978, received wide-spread publicity and became a best-seller in France. Before long it was followed up by new editions and an English translation (*Tomorrow, Capitalism*, La Salle: Open Court Publishing Co., 1982). Its significance cannot be understated.

James Buchanan, one of the principal proponents of the public choice school, writing the forward for *Tomorrow, Capitalism*, classed Lepage's book with Hayek's *The Road to Serfdom*, Friedmans' *Capitalism and Freedom* and *Free to Choose*, and Simon's *A Time for Truth* as one of those "rare" books that "places its economics squarely in a philosophical setting, that offers the reader the big picture, that synthesizes disparate arguments, that makes economic theory relevant."⁴⁰⁶

The impact Lepage's book had in France, particularly in academic, intellectual and political circles, was immodestly summed up by Jacques Garelo, writing in *Contrepoint* some years later,

On ne dira jamais assez le rôle déclencheur joué dans notre pays par l'ouvrage d'Henri Lepage qui, dès 1978 faisait connaître aux Français que les esprits changeaient radicalement outre-atlantique...sans doute à l'origine de la création du groupe des nouveaux économistes en France.⁴⁰⁷

Of course, the book in and of itself was not solely responsible

⁴⁰⁵ The new economics included monetarist theory, public choice theory, theory of human capital and household production, property rights theory and supply side theory.

⁴⁰⁶ H. Lepage, *Tomorrow Capitalism*, (La Salle: Open Court Publishing Co., 1982), p.ix.

⁴⁰⁷ *Contrepoint*, no.48, 1984, pp.155-161.

for the diffusion of new economic ideas in France. It did, however, capture the attention of many who were looking for an alternative to the *consensus progressiste*. The book's popularity was enhanced by the media exposure shrewdly used by the new economists to draw attention to themselves, and more importantly, to their ideas. Shortly before the parliamentary elections in 1978, the self-styled new economists hired advertising space in a Paris newspaper and on television.⁴⁰⁸ Other books preaching the virtues of more capitalism and free market economics hit the stands as well, capitalizing on this publicity.⁴⁰⁹

In addition to the universities and summer colloquiums, some of the new economists established their own influential organizations, or instead used their positions of influence, to articulate and disseminate, by means of seminars or publications, liberal and free market ideas. For example, Jacques Garello set up his Association pour la Liberté Économique et le Progrès Social (ALEPS); Pascal Salin set up the Institut Économique de Paris (IEP) and Florin Aftalion was at the Presses Universitaires de France.⁴¹⁰

Looking to the American example, these economists railed against left-wing collectivism and the distortion of capitalism

⁴⁰⁸ See, P. Fysh, *op.cit.*, p.292.

⁴⁰⁹ These included: M. Roy, *Vive le Capitalisme*, (Paris: Plon, 1978); P. Salin et al., *L'Occident en Désarroi*, (Paris: Plon, 1978); J. Medecin, *Le Terreau de la Liberté*, (Paris: Presses de la Cité, 1978); M. Poniatowski, *L'Avenir n'est Ecrit Nulle Part*, (Paris: Albin Michel, 1978).

⁴¹⁰ P. Fysh, *op.cit.*, p.293.

by interventionist policies. But more than criticizing and attacking, they believed that an education of the public should be undertaken - not unlike that in Britain spearheaded by Keith Joseph and the Centre for Policy Studies. This education - or "softening up" - would strive to persuade the public that capitalism - "not current state capitalism, but tomorrow's true capitalism..."⁴¹¹ - offered better solutions (to the crisis France was then suffering). The public needed to be shown that left-wing policies, and not capitalism, were the cause of France's social and economic problems.

However, Lepage, sensitive to public opinion and to political realities, was neither advocating a return to the *laissez-faire laissez-passer* capitalism of the 19th century, nor a complete retreat of the state.

I am not pleading for the abolition of public intervention. As I have said from the first, there is a demand for the state to intervene, whether to build roads or reduce poverty. This real demand is legitimate and must be satisfied. I do not propose that we return immediately to "zero" state but that we recognize the counterproductivity and the perversities of many public mechanisms and many current policies. Society must be encouraged to adopt better techniques for revealing collective preferences and more effective ways of translating their real desires into action. As regards the welfare state, our objective should not be to cast doubt on the ethical basis of concern about social evils but to question the efficiency of the techniques presently employed to remedy these evils.⁴¹²

Those better techniques Lepage alludes to, developed largely in the United States by economists and academics for the economic,

⁴¹¹ H. Lepage, 1982, op.cit., p.206.

⁴¹² Ibid., p.208.

social and political reform of American capitalism, were adopted, adapted and advocated by the new economists in France. They included full or partial deregulation of a variety of industries (ie. food, drug, transport); partial or full privatization, or opening up to competition of public monopolies like the postal service, utilities, telecommunications; rolling back the state's welfare responsibilities in the areas of income redistribution, social security, agricultural and housing subsidies, minimum wage and affirmative action; replacing "free" universal education with a voucher system - state provided education credits awarded as a function of family income; replacing the spider's web system of welfare handouts with a negative income tax - households below a given income threshold would be paid a fraction of the difference between their income and the threshold by the government; and cutting taxes.

These remedies, associated with the New Right in countries like Britain and the United States, were not among the prescriptions of the *nouvelle droite* in France.⁴¹³ It is important to point out here that the *nouvelle droite's* economic

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In France the *nouvelle droite* comprised such groups as GRECE (Groupe de Recherche et d'Études pour la Civilisation Européenne) headed by Alain de Benoist and the Club de l'Horloge, headed by Yvan Blot and others. The *nouvelle droite* in France is not entirely synonymous with the Anglo-saxon New Right, the latter being more generally associated with an economic movement sympathetic to rolling back the state and the free market. The new economists were, therefore, more akin to the Anglo-saxon New Right, than groups like GRECE. On GRECE and the *nouvelle droite* see e.g.: A-M. Duranton-Crabol, *Visages de la Nouvelle Droite: Le G.R.E.C.E. et son Histoire*, (Paris: Presses de la Fondation Nationale des Sciences Politiques, 1988); P. Fysh, *op.cit.*, ch.7; M. Vaughan, "Nouvelle Droite: Cultural Power and Political Influence" in D.S. Bell, ed., *Contemporary French Politics*, (London: Croom Helm, 1982); P. Vial, ed., *Pour Une Renaissance Culturelle*, (Paris: 1979); *Le Monde*, 22 Juin 1979, p.8 and 24 Mars 1981, p.14; *Le Matin*, 31 Juillet 1979.

views, in contrast with those of the new economists, were not only anti-liberal, but also anti-American.⁴¹⁴ In fact, Jean-Jacques Rosa, quoted in *Le Matin* of July 31, 1979, went to great lengths to defend the distinction between the new economists and the *nouvelle droite*,

Il y a chez elle [la nouvelle droite] une incompréhension totale du fonctionnement de l'économie. Elle reste attachée à une défense de l'État-nation qui n'a plus grand sens à notre époque où l'économie devient de plus en plus transnationale. Nous, nous sommes de notre temps: mondialistes.⁴¹⁵

The narrow economic vision and the attachment to the state attributed to the *nouvelle droite* by Rosa, was even more vividly emphasized by Jacques Garello in a 1984 issue of *Contrepoint*,

La "Nouvelle Droite" a tellement horreur du marché, de la liberté individuelle, et cultive un tel amour pour la raison d'état, qu'elle apparait aujourd'hui pour ce qu'elle a toujours été; la nostalgie d'un étatisme de droite, un socialisme national en quelque sorte.⁴¹⁶

The campaign to clearly distinguish the new economists from the *nouvelle droite* was not merely one sided. Confronted by the challenge of the new economists and the ascendancy of their ideas, GRECE⁴¹⁷ devoted its 13th annual colloquium in 1978 to an

⁴¹⁴ "...the term New Right in Europe refers to a group which is different from what is called the New Right in the U.S.A.. In the U.S., New Right means the gospel that 'man is born Friedman but everywhere he is Keynes.' The New Right in Europe, on the contrary, is the absolute enemy of laissez-faire capitalism and the state of society it produces" (from Franz Gress, "The New Right in France and the Federal Republic of Germany" in The Runnymede Trust, *The New Right, Image and Reality*, (London: The Runnymede Trust, 1986), p.52.

⁴¹⁵ Francois-Henri de Virieu, "Les Nouveaux Économistes", *Le Matin*, 31 Juillet 1979, p.12.

⁴¹⁶ *Contrepoint*, no.48, 1984, p.158.

⁴¹⁷ A brief introduction to GRECE and the *nouvelle droite* is also provided in footnotes 412 and 413.

exhaustive attack on liberal theory.⁴¹⁸

We will now turn to consider GRECE, very briefly, and the Club de l'Horloge, two groups that went to great lengths to promote alternative ideas and solutions.

* GRECE and the Club de l'Horloge

As our discussion centers on the emergence of a neo-liberal agenda in France - one that included tax reform - the Club de l'Horloge is much more relevant than GRECE. In terms of the critique of the *consensus progressiste* and the emergence of neo-liberal tax reform, the Club de l'Horloge is much more significant. The Club was founded in 1974 by Yvan Blot, Jean-Yves le Gallou, Michel Leroy and Henri Lesquen.⁴¹⁹ All were educated at elite civil service training institutions like ENA or the Ecole Polytechnique. And all were affiliated, either from the beginning, or later, with a political party: the RPR, the PR, or the FN. The Club counted around 200 dues-paying members, but saw interest and participation rise to four times that by 1980-81. Most of its members belong to a political party, but the Club does not affiliate itself exclusively with any one party.

In the period prior to 1980-81, the Club's *raison d'être*, in addition to ideology, was, like GRECE, infiltration. Thierry

⁴¹⁸ See, P. Fysh, op. cit., p.298. A record of this colloquium was published in *Éléments*, Mars 1979, nos.28-9, under the title "L'Économie Totalitaire."

⁴¹⁹ Of these four, two were important government/party figures. Yvan Blot was in the cabinets of Poniatoski and Bonnet, both Ministers of the Interior during the Giscard presidency and from 1978-84 Blot was *directeur de cabinet* for two RPR general secretaries, Devaquet 1978-79 and Pons 1979-1984. Michel Leroy was a member of the cabinets of both Poniatoski and Bonnet between 1977 and 1981.

Pfister unveiled this aspect of the Club's nature,

...une présence plus immédiatement politique à travers le club de l'Horloge. Présenté par le Figaro Magazine comme le réservoir des futurs cadres politiques de la majorité, cet organisme est présidé par M. Yvan Blot.⁴²⁰

Yvan Blot, was the chief infiltrator. Dubiously associated with GRECE, he had worked in the cabinets of Giscardien interior ministers Poniatoski and Bonnet before becoming the *directeur de cabinet* for Alain Devaquet and Bernard Pons, both secretaries general of the RPR between 1979 and 1984. To what extent Blot and the Club de l'Horloge succeeded in influencing decision making circles will be investigated, if not ascertained later.

As well as encouraging its members to participate and present themselves as candidates in elections, the Club published articles in *Le Figaro Magazine* and printed its own review from 1980, *Contrepoint*.⁴²¹ Peter Fysh (1991) writes that *Contrepoint* was later used "as a platform both for reactionary American supporters of the Reagan revolution and for a concerted liberal onslaught of the newly-elected French Socialists."⁴²²

Initially it had been alleged that the Club de l'Horloge was nothing more than a political front for GRECE.⁴²³ This may have been true, but from 1980, the Club's enthusiasm for American neo-

⁴²⁰ T. Pfister, "La Nouvelle Droite S'Installe", *Le Monde*, June 22, 1979, p.8.

⁴²¹ S. Bauman, "Le Renouveau des Clubs?", *Revue Politique et Parlementaire*, May-June 1982, no.898, pp.63+.

⁴²² P. Fysh, *op.cit.*, p.339.

⁴²³ See: P. Sigoda, "Les Cercles Extérieurs du RPR", *Pouvoirs*, 1984, no.28, p.48; *Le Monde*, 22 Juin 1979; P. Fysh, *op.cit.*, p.338.

liberalism and new economic ideas and its increasing political nature distinguished it quite clearly from its more reactionary, subversive and "cultural" cousin. The Club de l'Horloge acquired a more mainstream political respectability than GRECE and functioned almost as a think tank for conservative politicians and parties. It is important to understand what was behind the Club's economic/philosophical transformation. This transformation was not spontaneous and was attributed, to a great degree, to the influence of the new economists.

Originally, the Club de l'Horloge espoused a vision of the economy not unlike GRECE's. From its inception in 1974, the Club de l'Horloge criticized liberal *laissez faire* economics, which it found responsible for the crash of 1929 (in contrast, the new economists blamed excessive state meddling). A clearer view of the Club's economic philosophy can be gleaned from its first major publication, *Les Racines du Futur, Demain la France* (1977, 1984). The Club expressed a predilection for some state regulation of the economy, a minimum wage and an antipathy for "la société marchande", which it felt fostered an undesirable ethic, more concerned with owning and acquiring than with 'being' and one's own spiritual needs. In the Autumn 1980 issue of *Contrepoint*, Michel Leroy, a member of the Club, went so far as to attack the concept of *homo economicus*, the fundamental liberal tenet which considers man as a rational individual who makes coherent decisions as a function of the problems of choice

imposed upon him by the scarcity of resources in his universe.⁴²⁴

However, *Les Racines du Futur* (1977, 1984), in addition to its critique of liberalism, saw its alternatives, fascism and Keynesianism, as they had developed in the second half of the 20th century, equally reprehensible: fascism, because it subordinated two of the state's principle functions, law-giving and production/consumption, to the third, defense - order and security were paramount concerns;⁴²⁵ Keynesianism, because the state in correcting deficiencies in the domestic economy, soon became the center of economic decision making, substituting itself for private actors, thereby eroding personal and economic freedom. Moreover, in taking on economic functions, which entailed the frequent need to "negotiate" economic and personnel decisions, the state suffered a loss of authority. This paradoxical development left the door open for the Club de l'Horloge to contribute, tentatively and gradually at first, and then wholeheartedly, to the emerging liberal critique of the social democratic state. Already, evident in *Les Racines du Futur*, the Club had indicated its antipathy to price controls, while highly esteeming enterprise and initiative. It insisted on the substitution of private for public insurance, and went some way to identifying those activities for which the state should or

⁴²⁴ M. Leroy, "L'État et la Fonction Souveraine", *Contrepoint*, no.34, Autumn 1980, p.110.

⁴²⁵ This tripartite classification of state functions was developed by George Dumézil, a French historian and linguist, much admired by the *nouvelle droite*. See: P. Fysh, op. cit., pp.281-2; D.S. Bell, op. cit., p.61.

should not be responsible.⁴²⁶

While GRECE continued to entrench itself behind dirigism and planning, the Club de l'Horloge became increasingly enamored of the "new economic" ideas. The election of Ronald Reagan in 1980 provided the stimulus to marry the liberalism of the new economists with the conservatism of the Club de l'Horloge. While this cooptation of free market prescriptions was not initially welcomed by the new economists because of the undisguised political motive and the suspect socio-cultural views attached to the Club, the Club de l'Horloge quickly established itself, with its oracle, *Contrepoint*, as the principal platform for the promotion of neo-liberal values and ideas.⁴²⁷ It was not long before the new economists realized that the Club de l'Horloge was not a usurper, but could be used as a vehicle for spreading their ideas. New economists like Henri Lepage and Jacques Garello were invited to write articles for *Contrepoint* and attend roundtable discussions on various economic themes.

While the Club's political goals were initially ambiguous, its principal *raison d'être* was to debate, propose and propagate a new blueprint for society, one intended to confront and replace the socialist blueprint. After the Socialist victory in 1981, the confrontation - mostly one-sided as the left virtually denied

⁴²⁶ See, J-Y. Le Gallou et le Club de l'Horloge, *Les Racines du Futur, Demain la France*, (Paris: Albatross, 1984), pp.156-174.

⁴²⁷ Initially the Club's membership was small - around 200 members compared with 3,000 for République et Démocratie and 30,000 for the Giscardian Perspectives et Réalités (see S. Bauman, 1982, op.cit.). It soon grew, as its seminar audience expanded from 200 to around 800-900 by 1981 (see P. Fysh, op.cit., p.342).

the existence of the New Right in France - became a crusade.⁴²⁸

As matters became more politically charged, the Club's *raison d'être* soon became equally political as ideological. The Club sought to "préparer l'après socialisme en contribuant au renouvellement de la pensée politique de l'opposition qui est la condition de l'alternance."⁴²⁹ It even encouraged its members to stand in local and national elections.

Essential to the renewal of the opposition's (post-1981) political rethink was the dissemination and inculcation of new economic ideas. By the end of 1980, Philippe Baccou, a young ENA graduate, one of the co-authors of *Les Racines du Futur*, and head of the Club de l'Horloge's committee on the economy, published a book entitled the *Grand Tabou* (1981). This work offered a re-examination of the concept of egalitarianism in French society and proceeded to expose it for the myth (or the mirage) he and others contributing to the book believed it to be. They stripped contemporary notions of egalitarianism of their purported revolutionary associations and demonstrated how the desire to "lutter contre les inégalités" had engendered a massive, overweening bureaucracy, stifled personal liberties, undermined fraternity, discouraged individual initiative, provoked emigration and weakened the nation. It was a blatant attack on

⁴²⁸ This was symbolically illustrated by the removal from *Contrepoint's* title page of a vaguely liberal de Tocqueville quotation and its replacement by a stridently anti-socialist one. The new quote read as follows: "De toutes les idéologies de masse, le socialisme est la plus dangereuse car elle libère l'homme de toute responsabilité" - Vladimir Bukovsky (from *Contrepoint*, no.39, Autumn 1981).

⁴²⁹ S. Bauman, 1982, op.cit., p.78.

the welfare state and offered as an alternative a new blueprint for society, one open to "la concurrence pluraliste et méritocratique."⁴³⁰

Baccou advocated policies that would encourage private enterprise, entrepreneurialism, individual initiative and greater choice. Among the recommended solutions were: more stringent selectivity for school admissions; specialized attention and privileges for different categories of students - particularly those who show special skills and talents; state cash disbursements to parents for the purpose of helping them pay for their children's education - thereby removing the state from near total provision of "free" education; and permitting parents to decide where their children should go to school.

Other suggestions of a more explicitly fiscal nature included: reducing tax on corporate profits by one-third for the first four years of a company's life, and total exemption for the

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P. Baccou et le Club de l'Horloge, *Le Grand Tabou*, (Paris: Albin Michel, 1981), pp.205+. It is interesting to note that Lepage (1982) had spoken of the need to confront socialism with a new (capitalist) vision of society, "The left, however, has succeeded in spreading the belief that passage to new systems of values is incompatible with the survival of a capitalist social system and that the necessary preliminary to such a transformation is socialism...Confronted with this assertion, our objective should be to show that, on the contrary, socialism will ensure that we never accomplish this social transformation (unless at a colossal cost, not only in degradation of the material standards of living but in depriving people of fundamental individual freedoms). We must also show that capitalism is not at all incompatible with the transition to a society founded on a new system of values." He also insisted on the need to, "...make a gigantic effort to develop a new economic language and dialogue that defends capitalism by confronting the left on its own ground, i.e., in the controversy about how society can be changed for the better" (H. Lepage, 1982, op.cit., pp.205-6).

first three years if the profits are reinvested;⁴³¹ lower social charges; increasing the rate of the *prélèvement libératoire*; instituting the *avoir fiscal* at 100%; and other fiscal incentives to encourage private investors; the institution of a negative income tax; and phasing out income tax and replacing it with an extended and increased VAT.⁴³²

The Club's tax proposals evolved further in the next couple of years and echoed ideas - and the rationale behind them - put forward and put into practice in Britain and the United States.⁴³³ Simultaneous with the publication of Guy Sorman's, *La Révolution Conservatrice Américaine* (1983), the Club de l'Horloge made Arthur Laffer and his famous curve the new "sacred cow".⁴³⁴ American ideas began to permeate the Club. Articles were solicited from such American New Right scholars and disciples as George Nash, Irving Kristol, and Jack Kemp. The Club even established contacts with the Heritage Foundation and the American Enterprise Institute, conservative American think tanks which were then supplying much of the ideological fodder for the

⁴³¹ This suggestion and others relating to businesses, reflected the wishes and proposals of the CNPF, and Baccou, in his book, refers to Yvon Gattaz (Baccou et le Club de l'Horloge, 1981, pp.212,214) on several occasions.

⁴³² P. Baccou et le Club de l'Horloge, 1981, op. cit., pp.205+.

⁴³³ See: *Contrepoint*, no. 39, December 1981; no.46, Autumn 1983; no.47, Winter 1984.

⁴³⁴ This very popular book, G. Sorman, *La Révolution Conservatrice Américaine*, (Paris: Fayard, 1983), is a blow-by-blow account of the conservative revolution led by Ronald Reagan underway in the United States and all its implications, political, economic, and social.

Reagan revolutionaries.⁴³⁵ However, the Club gallicized the American conservative revolution by evoking the spirit of the French Revolution - which was not so much about "égalité" - a concept much abused and distorted over the years - as about "la responsablité de citoyen" ("la vraie conception républicaine"). It was the latter which was deemed the true republican ideal.

The recommended solutions for taxation were neo-liberal and echoed many of the ideas and proposals circulating in the U.S. and in Britain: lowering personal and corporate taxation, raising indirect taxation, offering tax incentives to encourage risk-taking, introducing a negative income tax, etc.. In order to roll-back the state, it was necessary to reduce the tax burden, which due primarily to the heavy reliance on social contributions gave France "un poids supérieur à celui qui est consenti par l'Allemagne fédérale et même la Grande Bretagne."⁴³⁶ This message, which had been spread in the United States and Great Britain and used to justify supply-side and tax-cutting measures in the Reagan and Thatcher economic programs, not only appealed to, and was echoed by, academics, intellectuals and economists in France, but found adherents among the French political class.

Among those politicians who were either contributors to *Contrepoint*, sympathizers, or outright members of the Club de l'Horloge were, Jacques Godfrain (RPR), Jacques Toubon (RPR), Bruno Bourg-Broc (RPR), Daniel Meraud (RPR), Michel Aurillac

⁴³⁵ P. Fysh, op.cit., p.348.

⁴³⁶ P. Baccou et le Club de l'Horloge, 1981, op.cit., p.255.

(RPR), Yves Lancien (RPR), Alain Madelin (UDF-PR) and Charles Millon (UDF-PR). Many of these same politicians - Madelin, Millon, plus Edmond Alphandéry (UDF-UDC) and Pascal Clement (UDF-PR) - moved into the ambit of the new economists.⁴³⁷

By the late 1970s/early 1980s discussion and reflection groups were mushrooming. One such group, the Groupe de Recherche et d'Action Libérales (GRAL) served as a forum for debate and policy formulation in which the likes of Jacques Gareello, Florin Aftalion, Henri Lepage and Pascal Salin came face to face with politicians who shared their predilection for British and American New Right economic theories and policies. Later, some of the new economists, would lend their talents to whatever political party seemed most sympathetic to their cause; for example, André Fourcans became a member of the *conseil national* of the UDF, was co-chairman of the UDF's economic committee and co-editor (*corédacteur*) of the 1986 joint platform.

The new economists and their Université d'Été, and the Club de l'Horloge, were fresh and active intellectual forces, and as such, had an appeal, particularly for the new generation of politicians - the cadets - born during and after World War II. Although the Club de l'Horloge was alleged to have dubious

⁴³⁷ Clement was one of the co-founders of the "Cercle" (the Centre d'Études et de Recherches Constitutionnelles Législatives et Économiques) along with Michel Noir, Philippe Seguin, Francois d'Aubert and Francois Froment-Meurice. This was a parliamentary 'research laboratory' created in 1981 for the center-right. It invited MPs, civil servants, business executives, academics etc. to come and exchange and debate ideas. It's *raison d'être* was to challenge the socialists on the ideological battleground and prepare MPs with arguments and dossiers to face down their Socialist counterparts in the National Assembly. Jacques Fremontier in *Les Cadets de la Droite*, (Paris: Editions du Seuil, 1990, p.196) calls it "l'instrument majeur de la droite junior".

connections with GRECE, it was recognized by many to be, in comparison with the new economists, the better organized - with its regular meetings, colloquiums and publications - and financed institutional home for France's neo-liberals. Its political orientation - pro-Reagan and anti-socialist - of increasing importance from 1980, made it an attractive launch pad and ideological home for the neo-liberal attack on the state and the socialists.

In his interviews with Yvan Blot, Peter Fysh (1991) commented on Blot's accreditation of a number of factors which made the RPR and Jacques Chirac amenable to neo-liberal arguments and solutions: i.e., the RPR's business clients, the Reagan victory, the growing unpopularity of the Socialist and collectivist ideas, the shifting to the right of public opinion. However, Fysh asserts, "Despite all this, Blot probably underestimated his role and that of the Club in the transformation of the party's economic policy."⁴³⁸ While Fysh acknowledges the significance of these other factors, he assigns to the Club de l'Horloge, the principal conciliating, shaping and articulating role. Indeed, it performed this role with aplomb.

This was the service which the Club de l'Horloge, despite its quirky mystical and fascistic pedigree, performed for a section of the RPR, and which Blot himself performed with his memos to Chirac and his lectures to party workers.⁴³⁹

As Blot recognized, despite the relevance of all these factors,

⁴³⁸ P. Fysh, op.cit., p.352.

⁴³⁹ Ibid., p.352.

ideas do not spread on their own, actors and organizations are above all responsible.⁴⁴⁰ This admission supports the assertion that, to a significant degree, the Club, like the Centre for Policy Studies in Britain during the 1970s, was a significant agent of change.

As the winds of change blew into France from the United States and Britain, elements inside France, advocating neo-liberal ideas and solutions, harnessed those winds and used that force to help propel themselves into the French mainstream. Long consigned to the margins of French political, economic and social debate, groups like the new economists and the Club de l'Horloge successfully utilized whatever means available - the press, colloquia, university classrooms, contacts in political *milieux* - to publicize and popularize their messages. As the messages spread, the social-democratic consensus, long dominant in France, was faced with a veritable challenge that it could no longer ignore. As the neo-liberal message infiltrated political parties like the RPR and the UDF, the ideological battlefield became intensely political. In a moment we will examine how the ideological and political battle between social-democracy and neo-liberalism changed the terms of political debate and behavior in France. But before we do, it is instructive, first, to give due credit to the role played by external factors - particularly the effect of the United States - in bringing about change in the French political agenda, and consequently the French tax agenda.

⁴⁴⁰ Ibid., pp.352, 343.

* The Impact of the United States

As we have shown, factors internal to France were very important in effecting a change in the political and economic debate from the late 1960s: the Club de l'Horloge and the new economists were instrumental here. However, the impact of external factors, has been hinted at, and in no uncertain terms were very important, either indirectly or directly, in pushing France to question heretofore unquestioned premises and principles. Indeed, the American experience was no negligible factor in terms of its impact on new economic thinking - which has already been dealt with - and on conservative politicians in France.

The United States represented a major source for the ideological renovation of the generation which came of age politically after de Gaulle. Jacques Fremontier in *Les Cadets de la Droite* (1990) reveals that one in three of the post-1945 generation had visited the United States prior to 1984,

La pensée de tous en revient comme fascinée par le mirage de l'esprit d'entreprise et par la nostalgie d'une "société civile" non investie par l'État.⁴⁴¹

Many members of the French center-right had been exposed, in one way or another, to the American experience. According to Fremontier, Alain Devaquet (RPR), and Edmond Alphandéry (UDF-UDC), studied for some time in the U.S.. The latter was at the University of Chicago in the late 1960s, an experience which he

⁴⁴¹ J. Fremontier, 1990, op.cit., p.198.

called an "électrochoc intellectuel".⁴⁴² Jacques Toubon (RPR), Francois d'Aubert (UDF-PR), Francois Fillon (RPR), Alain Madelin (UDF-PR), Bruno Bourg-Broc (RPR), Michel Noir (RPR), Yvan Blot - all in their turn made the pilgrimage, observing first hand the dynamism, the entrepreneurialism, and the competition which characterized the American economy and society.⁴⁴³

Alain Juppé (RPR) went to California in 1978 at the height of the campaign for Proposition 13, and again in 1980, when he was in the U.S. to observe first hand Ronald Reagan's election campaign, as was Jacques Toubon. Later, the *Financial Times* would surmise that these American visits influenced Juppé's new found enthusiasm for free market economics.⁴⁴⁴ Philippe Auberger journeyed to California in 1979, in the aftermath of the tax revolt which enabled him to observe its repercussions in state and national politics.

All these "cadets" were, to one degree or another, impressed by their experiences. One RPR deputy enthusiastically exclaimed, "On ne peut plus faire de politique si on ne connaît pas les États-Unis," and exalted "le goût des responsabilités, la libération du risque."⁴⁴⁵ Upon their return to France, many of

⁴⁴² Ibid., p.199.

⁴⁴³ For more information on the careers and ideology of these and other party members see: J. Fremontier, 1984, 1990, op.cit.; B. Lecomte and C. Sauvage, *Les Giscardiens*, (Paris: Albin Michel, 1978); T. Desjardins, *Les Chiracquiens*, (Paris: La Table Ronde, 1986); J-L. Remilleux, *Les Barristes*, (Paris: Albin Michel, 1987); M. Chamard and J. Mace-Scaron, *La Galaxie Barre*, (Paris: La Table Ronde, 1987).

⁴⁴⁴ *Financial Times*, June 26, 1985, "France Survey", p.3.

⁴⁴⁵ J. Fremontier, 1990, op.cit., pp.201-2.

those who had been fascinated by what they saw, heard, and generally experienced in the U.S., could find organized groups of like-minded individuals with whom they could exchange and develop ideas. Apart from the longstanding *clubs de réflexion* like the Giscardien Perspectives et Réalités, new fora were now available for seminating and incubating neo-liberal ideas, some of which have already been mentioned.

The American experience of many of the party cadets was critical. Without that, the Club de l'Horloge may well have remained a *club de réflexion* of minor importance. Although it is difficult to assert with any degree of certainty, the American experience was as integral as the Club de l'Horloge to the penetration and diffusion of neo-liberal ideas among the parties of the center-right. As we shall see, political rhetoric, party programs and government policies gradually incorporated many of these ideas.

* Agents of Change in the RPR

For the moment our focus remains on the RPR, due to the fact that neo-liberal tax reform was introduced into French political debate by the RPR. It is important, therefore to understand how this came about, particularly in light of the traditional *étatiste* impulses of the party. Up to this point we have focused on the RPR's pre-1981 thinking and position, as well as the forces of change that conspired to transform the RPR's economic thinking and political strategy. In this section, we will continue to examine the factors that were responsible for the

RPR's embrace of neo-liberalism and the emergence of neo-liberal tax reform on the RPR's agenda, and more to the point, Jacques Chirac's.

Prior to 1981, Yvan Blot, Philippe Auberger and Alain Juppé were well placed to influence their superiors and colleagues.⁴⁴⁶ Through them, to some degree, the party and the party leaders were "persuaded" of the virtues of new right economic and social policies. Yvan Blot, as already mentioned, through his positions in the cabinets of the Giscardian interior ministers, Poniatowski and Bonnet, as *directeur de cabinet* of RPR general secretaries Devaquet and Pons, and as a member of the RPR's executive committee, was in an enviable position for influencing people and policies. During his tenureship as a high ranking party official Fysh (1991) reports that Blot wrote 40 or 50 papers for Chirac concerning "ideological orientation...and he gave scores of lectures on various subjects to provincial party officials, as part of the training courses organized by Mancel."⁴⁴⁷ Fysh, however contends that Blot was not the lynchpin in Chirac's turn to liberalism, although he did play

...a crucial role in conciliating conservative and liberal ideas in the party and channeling them into what he called 'national liberalism', in a way which helps explain the near unanimity with which the party fell into line behind the 1986 programme of government.⁴⁴⁸

⁴⁴⁶ P. Fysh, op.cit., p.326.

⁴⁴⁷ Ibid., p.340.

⁴⁴⁸ Ibid., p.339.

Blot's importance in the RPR's conversion is undeniable, and his probable impact on Chirac is difficult to refute. However, there were others, with a stronger claim on the party leader's ear, who, it could be asserted, made a greater impact.

Alain Juppé, as Chirac's speechwriter, economic adviser, head of RPR research and one of the co-founders of Club '89,⁴⁴⁹ was one who had a stronger claim. Juppé, as one of Chirac's closest assistants from the mid-1970s, had been (and still is) in an optimal position to secure the RPR leader's ear. As a privileged member of Chirac's inner circle, no one could be better placed in 1979-81 to turn Chirac on to American neo-liberalism and Ronald Reagan. Following his trips to the United States in 1978, to investigate the seismic rupture of the California tax revolt, and the furor which resulted from it, and again in 1980 when he returned as an attentive observer of the Reagan presidential campaign, Juppé was among those who supported Chirac in his bid to run for president in 1981. Not coincidentally, Chirac ran on a quasi-Reaganite platform in a campaign managed by Juppé, who was serving as *directeur adjoint*. Solan and Christian Gras (1991) said of Juppé's role,

Dans le domaine du libéralisme économique, le RPR de tradition plutôt étatiste et colbertiste se trouve en port a faux. Mais il y a loin de sa théorie à la pratique de ses partisans. L'influence de Juppé permet de combler le fossé, et Chirac trouve une formule

⁴⁴⁹ The RPR's semi-independent think tank created in the fall of 1981 and which rivalled the Club de l'Horloge in terms of its assault on the ideological highground and its organization. It surpassed the Club de l'Horloge in terms of its political relevance.

reconciliatrice: "Moins d'État, mieux d'État."⁴⁵⁰

The Gras note that the RPR had done an about face in terms of its philosophical outlook and policy approach in a very short period. They attribute this change, in part, to the influence of Alain Juppé.

Others too share the view that Juppé was a key figure in the Chirac inner circle. The collective opinion of those who know Juppé is, claims Thierry Desjardins (1986), that he, more than anyone, was best able to "faire du Chirac".⁴⁵¹ However, Desjardins marginalizes Juppé's influence on Chirac's turn to neoliberalism. Contrary to the impact many - like the Gras - have attributed to Juppé, Desjardins contends that Chirac evolved naturally - "imposé par les circonstances" - as would have de Gaulle, given domestic and international developments, to become the resolute neo-liberal he is today.

In any case, the point is not to ascertain who converted Chirac, but merely to highlight those people who were best placed to influence him. As Chirac's speech writer during the 1981 campaign Juppé framed the expenditure cuts, tax cuts and supply-side proposals - which would have made the new economists proud - articulated by the RPR leader. From the autumn of 1981, as general secretary of the Club 89, Juppé was a principal force in

⁴⁵⁰ Solange et Christain Gras, *Histoire de la Première République Mitterrandienne*, (Paris: Robert Laffont, 1991), p.124.

⁴⁵¹ T. Desjardins, 1986, op.cit., p.50.

the RPR's neo-liberal conversion and policy rethink.⁴⁵² The pre-1986 party program, "Libre et Responsable", reflected to a large degree the ideas and proposals found in Juppé's *La Double Rupture* (1983). Moreover, Juppé himself, was directly involved in the drafting of the joint RPR-UDF platform, "Gouverner Ensemble" (1986). In the run-up to the 1986 elections and as budget minister in the new conservative government, Juppé remained an ardent advocate of free-market and neo-liberal solutions. Moreover, as budget minister, he had a decisive influence on the new government's tax reform program, an important item on the agenda.

Philippe Auberger is one of the unsung heroes of the RPR's conversion to neo-liberalism. Peter Fysh (1991) places him, along with Blot and Juppé, as one of the main infiltrators of new right economic ideas in the RPR, primarily ideas related to taxation. As opposed to Juppé, Auberger appeared less interested in satisfying political ambitions and more concerned with the promotion and advocacy of ideas. As a former civil servant at the Conseil des Impôts and *chargé de mission* for economic and social affairs in Chirac's cabinet while Prime Minister from 1974-76, Auberger had a keen interest in fiscal matters. As already mentioned, his trip to the United States in 1979 brought him face to face with the anti-tax movement in California, and which was spreading to other parts of the country.

Although declining an offer to be head of research at RPR

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See, Jean-Louis Bourlanges, 1988, op.cit., p.115.

headquarters, Auberge was to assume an important role as an unofficial tax adviser. Fysh (1991) explains,

But on his return from the USA he did transmit to the party leader directly the fruits of his experience, sending him, at his request, monthly briefing papers on economic questions.⁴⁵³

Fysh's interview with Auberge quotes him as saying,

"...so those elements were used, if you like, in the platform (of 1981) in which Chirac began to say that we had to reduce taxes and that state expenditure was too high."⁴⁵⁴

Auberge's contributions went beyond notes and papers to Chirac. He also was involved in the drafting of party programs and platforms. Between 1981 and 1986, Auberge served as the RPR's expert on tax affairs, and many of the party's tax proposals were generated by him. He was also asked to participate on one of the committees set up to draft the joint RPR-UDF platform for 1986, "Gouverner Ensemble".⁴⁵⁵ So, as Chirac's unofficial tax adviser, and then as official RPR tax expert, it was under Auberge's auspices that Chirac's rather cavalier and ambiguous approach to taxation was honed and became an obsession with tax cuts and reductions in the *prélèvements obligatoires*. Auberge's book, *L'Allergie Fiscale* (1984), prefaced by Chirac himself, though revealing the author's more subdued enthusiasm for a Reaganite approach to fiscal matters, is a balanced and intelligent case

⁴⁵³ P. Fysh, op.cit., p.327.

⁴⁵⁴ Ibid.

⁴⁵⁵ Ibid., p.327.

for neo-liberal tax reform in France.⁴⁵⁶

* Conclusion

The impact of these actors and organizations is indubitably difficult to measure. Although France's liberal heritage and its 20th century adherents like Aron, Allais, Rueff, Armand and others had certainly helped prepare the ideological terrain - much as Enoch Powell, Iain McLeod, the Institute of Economic Affairs and the Bow Group had done in Britain - it was a new generation, influenced by developments outside their own country and eager to promote ideas and policies best able to resolve the economic, political and social uncertainties faced by France at the end of the 1970s, which was largely responsible for the emergence of free market economics and promoting tax reform onto the political agenda. Together they tilled the soil, sowed fresh seed and tended the crop.

While a new generation of politicians - the so-called cadets - emerged as promoters and advocates of neo-liberal solutions in the 1970s and 1980s, they were by no means 100 per cent agreed on philosophy, approach, specific policies or intended effects. Their differences betrayed their particular individual experiences, ideological dispositions, institutional frames of reference and ambitions. Yet, it can be cautiously asserted that each, in their own way, to one degree or another, played a role in channeling, articulating and promoting ideas which led Jacques Chirac to take up the cause of free market economics, which led

⁴⁵⁶ See, P. Auberger, *op.cit.*

the RPR to transform its economic policy, and eventually obliged the socialist government of Francois Mitterrand to reconsider the direction and efficacy of its own economic policies from 1982.

Chirac, the Center-right and the Liberal Renaissance

Beginning with the campaign for the 1981 presidential elections, tax reform moved from the debating fora of intellectual circles to a central and very public position in French political debate. The successful manipulation of this issue by Ronald Reagan and Margaret Thatcher in their respective election campaigns and its apparent popular appeal could not be ignored in France. One candidate in particular, Jacques Chirac intended to capitalize on this issue and make neo-liberal tax cuts a chief plank in his manifesto.

The failure of economic policies introduced by Giscard and Barre, which helped propel the left to power in 1981, opened the window for an opportunistic Chirac to step in and fill the policy and political vacuum. It was Jacques Chirac, the one-time crypto-socialist who adopted and advocated neo-liberal solutions with a conviction worthy of a Reagan or Thatcher. The tax message enunciated by Chirac during his bid for the presidency in 1981 consisted of simplification, incentives for investment, tax cuts and shifting the incidence of taxation from direct to indirect.⁴⁵⁷ In a speech at Marseilles on February 24, 1981, Chirac made reference to the alarming growth in *prélèvements*

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Interestingly, a majority of interviewees had no recollection that Chirac had campaigned on a Reaganite tax cuts theme in 1981.

obligatoires (p.o.) and outdid all the other candidates in his promises to cut taxes.⁴⁵⁸ By the spring of 1981, Chirac was promising a reduction in p.o. from their current level of 42% to 40% in two years' time. He even backtracked on his earlier enthusiasm for a wealth tax, a particular reform very popular with the public.⁴⁵⁹ Chirac pledged to encourage the liberation of productive forces through tax cuts and a reduction in state administrative controls.

The other candidates were not as forthcoming as Chirac, and the best they could do was to promise to hold p.o. steady.⁴⁶⁰ They ignored or avoided the free market debate, thus leaving the ideological terrain wide open for Chirac to exploit,

L'économie de l'offre est devenue depuis l'élection de Ronald Reagan un thème à la mode. Dans la plupart de ses raisonnements, M. Giscard d'Estaing tourne superbement le dos à cette petite révolution intellectuelle. Le mérite de la nouvelle école est de rappeler que le moteur de l'activité économique, c'est la production offerte sur le marché dans des conditions de rentabilité normale. M. Chirac a incontestablement

⁴⁵⁸ He proposed reducing the tax burden by FF30 billion primarily by exonerating from income tax those taxpayers earning less than FF5,000 per month, and a 5% cut for all the others (see: *Le Matin*, 6 Avril 1981; *Le Figaro*, 6 Avril 1981).

⁴⁵⁹ When asked about the possibility of such a tax during his presidency, he answered, "Sur le capital, certainement pas. Sur les grosses fortunes, cela pourrait se discuter, mais aujourd'hui je ne le propose pas." (*Le Figaro*, 6 Avril 1981, p.4). Opinion polls consistently showed around 80% in favor of a wealth tax.

⁴⁶⁰ Indeed, many interviewees asserted that taxation was not a major issue in the 1981 campaign. For example, Philippe Lagayette remarked "...ce n'était pas une question majeure...je ne conserve pas de souvenirs que c'était une question importante pendant la campagne..." (Philippe Lagayette, interview in Paris, France, May 20, 1992). However, other writers and my research, as well as comments from a few interviewees proved that the opposite was true. As Patrick Careil noted, "Le thème de la réforme fiscale a été un des thèmes très importants de la campagne électorale de 1981." (Patrick Careil, interview in Paris, France, May 25, 1992).

marqué un point en axant son propre programme (d'autre part fort imprécis) sur ce thème mobilisateur, ce que Giscard d'Estaing a dû reconnaître dans son émission télévisée (quand il s'est agit de la diminution des charges pesant sur les entreprises).⁴⁶¹

In some academic and political circles neo-liberal economics had become the new paradigm. Chirac had made the paradigm his own, while the other candidates chose to ignore what was seen as a 'little' and 'foreign' intellectual revolution. Unable to turn a blind eye to the facts of the electoral victories enjoyed by Ronald Reagan and Margaret Thatcher, and Chirac's steady rise in the opinion polls, President Giscard d'Estaing was compelled to poach on neo-liberal territory, at the very least, in order to prevent Chirac drawing away support on the right. Indeed, towards the end of the campaign, the President adopted some of Chirac's rhetoric and ideas much to Chirac's consternation. Despite the President's 'last-minute' acknowledgement of the political gain to be won from neo-liberal posturing, this did come rather late in the game to do him any good.

Given what we know about Jacques Chirac, his Gaullist, dirigist and Keynesian tendencies, it seems almost impossible to believe he of all people should become the standard bearer for neo-liberal tax reform. We have put forward some possible causes for his conversion, including the role of policy entrepreneurs and politics. Some authors attribute Chirac's conversion to a

⁴⁶¹ *Le Monde*, 1 Avril 1981, p.11. For an insightful look at the supply-side theory debate in the United States, its application by the Reagan administration and the French perspective see Jean Louis Syren, "États-Unis: l'Émergence de l'Économie de l'Offre", *Revue d'Économie Politique*, no.5, Septembre/Octobre 1981.

natural evolution (T. Desjardins, 1986) and others to his innate political instincts (F-O Giesbert, 1987). I will not attempt a review of the explanations concerning the causes of Chirac's neo-liberal conversion, as others have already done so quite substantively.⁴⁶² Furthermore, we have already delved into a number of factors that could be identified as instrumental to that conversion.

In light of international political and economic developments as well as domestic developments which discredited the political consensus, raised the spectre of a left in power, and gave impetus to groups and individuals with "unconventional" ideas, some of whom were in prime positions to influence Chirac, it seems natural that Chirac should indeed recognize the appeal of the neo-liberal discourse. Moreover, given Chirac's ideological malleability, the Reaganite/Thatcherite mantle was assumed without remorse.⁴⁶³ As his biographers, Pierre Jouve and Ali Magoudi (1987) point out,

Jacques Chirac est le contraire du doctrinaire...Ce tacticien pragmatique est capable de retournements complets...Il est aux antipodes de l'idéologie pure bien qu'il puisse saisir provisoirement des bribes, voire des pans entiers à une idéologie d'emprunt. Au

⁴⁶² See e.g.: Peter Fysh, op.cit.; *Pouvoirs*, no.28, 1984; F-O Giesbert, 1987, op.cit.); Bernard Rideau, op.cit.; Jean Badouin, "Le Moment Neo-Liberal du RPR: Essai d'interprétation", *Revue Française de Sciences Politiques*, vol.40, no.4, Décembre 1990; P. Jouve and A. Magoudi, *Chirac Portrait Total*, (Paris: Carrere, 1987).

⁴⁶³ Raymond Aron once characterized Chirac as, "toujours en quête d'un slogan électoral qu'il abandonne quelques jours après l'avoir inventé." (Raymond Aron, *Mémoires*, Paris: Julliard, 1983, p.574).

libéralisme reaganien si nécessaire.⁴⁶⁴

Equipped with this analysis it is easier to understand Chirac's conversion from social-democratic dirigiste to radical neo-liberal. He was not firmly anchored to any one ideology or politico-economic philosophy. But what compelled Chirac to shed his *étatiste* past and become a neo-liberal?

Franz-Olivier Giesbert (1987), another Chirac biographer, reasons thusly,

L'étatiste est devenu libéral. Que s'est-il passé pour qu'il mette ainsi au rancart le Chirac des années soixante-dix? Comme Zorro, Ronald Reagan est arrivé. Et, avec son verbe, il a tout changé. Le maire de Paris a tiré les conclusions du raz de marée électoral qui, l'année précédente a deferlé sur les États-Unis. Il a compris que les solutions planificatrices étaient passées de mode; il s'est donc empressé de célébrer les recettes libérales. Il a triqué les manuels de Keynes pour ceux de Frédéric Bastiat... Son libéralisme est un rôle de composition mais il le tient comme s'il n'en avait jamais eu d'autres.⁴⁶⁵

According to Giesbert and others, it was the appearance of Reagan and the neo-conservative (neo-liberal) revolution in the United States that profoundly affected Chirac. Ironically, only a few years earlier, Chirac had disparaged Bastiat and the "erreurs du libéralisme". In early 1981, however, he was *homo-liberalis*.

Although the campaign speeches and pledges clearly indicate a change prior, some attribute Chirac's neo-liberal conversion to

⁴⁶⁴ Pierre Jouve and Ali Magoudi, *Chirac Portrait Total*, (Paris: Editions Carrere, 1987) p.161. Alain Juppe, commenting on Chirac's ideological flexibility during the tutelage of Juillet-Garaud acerbically remarked, "Il se laissait tellement materner qu'il n'avait plus guère de prise sur ses idées. Et chaque fois qu'il prenait une initiative, on lui faisait comprendre qu'il n'y connaissait rien et ne disait que des conneries" (Franz-Olivier Giesbert, 1987, op.cit., p.291).

⁴⁶⁵ F-O. Giesbert, 1987, op.cit. p.335.

after the elections of 1981.⁴⁶⁶ Roger Priouret in an article for *Le Nouvel Observateur* attributes the change in strategy and the hasty shelving of *Atout France* (the RPR manifesto published in 1980) to Chirac's marketing men.⁴⁶⁷ In this Elie Crespi, a marketing specialist from the private sector who was signed on to conduct research and advise Chirac on his image, probably played an important role. He was soon made *secrétaire national* for communications and a member of the RPR's executive committee. Fysh (1991) cites Crespi as one of those men closest to Chirac with the most influence.⁴⁶⁸ His interview with Yvan Blot also revealed that Crespi was an influential advocate of liberalizing economic policies, which could corroborate the assertion made by Roger Priouret.

Jacques Chirac, learning from the lessons taught by Reagan and Thatcher and intent on distancing himself from the President and his policies as well as the Socialist candidate, Francois Mitterrand, readily adopted the credo of the neo-liberals: less state intervention, more private initiative, more individual

⁴⁶⁶ Maurice Szafran in *Chirac ou les Passions de Pouvoir* (Paris: Grasset, 1986) puts Chirac's conversion to after the 1981 presidential elections, although he quotes Edouard Balladur as saying, "Moins d'état, en économie par exemple? Mais Chirac n'a cessé de défendre cette thèse pendant la campagne présidentielle" (p.290). P. Fysh (1991) quotes Jacques Boyon, *délégué national* for local government at the Rue de Lille from 1981-84, as denying that Chirac's 1981 campaign was based on a liberal theme (p.222). As already noted, many interviewees expressed surprise when confronted with the fact of Chirac's neo-liberal campaign theme in 1981. "As early as that?" exclaimed one.

⁴⁶⁷ Roger Priouret, "Haro sur l'Étatisme", *Le Nouvel Observateur*, 23 Février 1981, pp.30-31.

⁴⁶⁸ P. Fysh, *op.cit.*, p.97.

responsibility, competition and free markets, and lower taxes.⁴⁶⁹

Sa campagne présidentielle contre la 'socialisation rampante' de notre économie et la bureaucratie de l'État, pour des économies budgétaires et un allègement de la pression fiscale, bref un 'reaganisme à la française'...⁴⁷⁰

Although Chirac's message continued to attract increasing support particularly among business executives, farmers, the liberal professions, small shopkeepers and artisans, he managed to place third overall in the first round of the election, winning a respectable 18% of the vote.⁴⁷¹ However, whether seduced by Chirac's campaign or disenamored of Giscard d'Estaing and Giscardien policies, the former Prime Minister's electorate was very narrowly based. The large majority of voters, senior citizens and blue and white collar workers, were less than impressed with Chirac's new-found liberal message.

This apparent disinterest in liberal themes was not lost on André Fanton, the *délégué national* for communications at the Rue de Lille from 1979. After conducting several in-depth opinion polls on issues and candidates, he was persuaded that a Chirac

⁴⁶⁹ Alain Leroux, *Grands Économistes et Partis Politiques*, (Paris: La Table Ronde, 1983) asserts that the adoption of neo-liberal themes for his election campaign was done rather precipitously, "Le temps manque pour affûter correctement les batteries" (p.64).

⁴⁷⁰ Jean Charlot, "Les Consultations d'Avril-Juin 1981", *Pouvoirs*, no.20, 1982, p.43.

⁴⁷¹ Chirac was the preferred candidate over his rivals for a majority of farmers, business executives and liberal professionals (Olivier Duhamel and Jean-Luc Parodi, "Chronique de l'Opinion Publique", *Pouvoirs*, no.18, 1981, pp.165-6). For further information on the 1981 vote see Olivier Duhamel and Jean-Luc Parodi, "L'Évolution des Intentions de Vote, Contribution à l'Explication de l'Élection Présidentielle de 1981", *Pouvoirs*, no.18, 1981 and Jerome Jaffre, op.cit., *Pouvoirs*, no.20, 1982.

candidacy, particularly one run on a neo-liberal platform, was ill-advised. In his interview with Peter Fysh (1991), Fanton asserted that deep down, the French are not liberal.⁴⁷² He warned that liberal themes à la Reagan or Thatcher would not be popular with a public still firmly attached to progressive taxation and a comprehensive social security system.⁴⁷³ Apparently, though, Chirac's marketing men thought otherwise.⁴⁷⁴ Needless to say, his warning was prophetic, at least for the short term.

Chirac, with 18% of the vote, came in third on the first ballot behind Valéry Giscard d'Estaing and Francois Mitterrand. Significantly, throughout the campaign, Chirac attracted growing support, particularly among industrialists and professionals,

⁴⁷² P. Fysh, *op.cit.*, p.250-2.

⁴⁷³ *Ibid.*, p.252. A poll conducted for *L'Expansion* in early 1982 showed 48% of French people interviewed recommended an increase in income taxes in the case where the state needed additional receipts (*L'Expansion*, no.187, 19 Fevrier 1982). Similarly, a BVA poll conducted for *Paris Match* in early June 1982 revealed that in order to reduce resource inequalities a majority felt that the government should raise income taxes (51% v. 39%) and to maintain social security benefits it should raise social security contributions (59% v. 32%) (*Paris Match*, no.1727, 2 Juillet 1982). Even as late as 1985 when the opposition was robustly embracing liberalism and Fabius and Beregovoy were attempting to reconcile socialism with the free market, SOFRES polls were showing a clear majority of people disapproved of any disengagement of the state in social matters, i.e. welfare and unemployment benefits, SMIC and the retirement at 60 (SOFRES, *L'Opinion Publique en 1985*, Paris: Gallimard, 1985, pp.95-7). A SOFRES poll conducted in January 1985 posed the question, "Since the arrival of the left to power, in what areas are you particularly satisfied with the action of Francois Mitterrand and his government?" Of most importance to the public was the reduction in the age of retirement to 60 (cited by 45%); next was the fifth week of paid vacation (40%); this was followed by defense of human rights (36%); then the creation of the wealth tax (27%); and in sixth place behind the 39 hour work week was the decision to reduce taxes by 5% in 1985 (22%). (SOFRES, *L'Opinion Publique 1986*, Paris: Gallimard, 1986, p.38). These polls reveal that while the French remain strongly attached to their *acquis sociaux*, they show little enthusiasm for tax cuts/reform.

⁴⁷⁴ For more information on Chirac's marketing men see e.g., J. Charlot, "The Fall of Giscard" in H. Penniman, ed., *France at the Polls 1981 and 1986*, (Durham: Duke University Press, 1988), p.58, fnnt.83.

small shopkeepers, farmers and the self-employed.⁴⁷⁵ A core base of support was there. It just wasn't broad enough. However, the fact that Chirac's candidature and message appealed to 18% of those voting should not be underrated. Not only did this represent a core of Chirac loyalists but the message conveyed would become increasingly attractive to a larger public as time passed.⁴⁷⁶

Dès sa campagne présidentielle de 1981, Jacques Chirac avait réussi à capter à son profit un courant d'hostilité à la puissance publique, encore largement souterrain mais que les débordements socialistes en matière de prélèvement fiscal et d'extension du secteur public allaient brutalement libérer dans l'opinion.⁴⁷⁷

Chirac would have to wait for a more congenial alignment of forces that would make the time right for his neo-liberal message.

While Chirac's ideas were presented in a similar economic climate to that confronting both Reagan and Thatcher, one apparently conducive to a neo-liberal message, the broader social

⁴⁷⁵ See, J. Charlot in H. Penniman, ed., op.cit., pp.48-49. Also, see, C. Ysmal, "D'une droite en sursis à une droite défaite, 1974-81", in A. Lancelot, ed., 1981: *Les Élections de l'Alternance*, (Paris: Presses de la Fondation Nationale des Sciences Politiques, 1986), pp.161-163.

⁴⁷⁶ The message became more widely diffused and popular thanks to the leadership and advocacy offered by Chirac, as well as the training and 'indoctrinating' efforts of RPR general secretary, Bernard Pons and his directeur de cabinet, Yvan Blot. Other political figures like, Raymond Barre and cadets of the center-right like Alain Juppé, Alain Madelin and Charles Millon also were important 'agents of change'. Moreover, a number of organizations had been created to promote discussion and diffusion of free-market ideas in addition to the Club de l'Horloge and the new economists, i.e. Club '89, le Cercle and GRAL. For further information on the role played by these individuals and groups see: P. Sagoda, "Les Cercles Extérieurs du RPR" and J. Fremontier, "Les Jeunes Élus du RPR: des héritiers ou des parricides?", *Pouvoirs*, no.28, 1984; S. Baumann, 1982, op.cit.; J. Fremontier, 1990. op.cit.; P. Fysh, op.cit., chs.4,5,8.

⁴⁷⁷ J-L. Bourlanges, 1988, op.cit, p.125.

ground was largely fallow.⁴⁷⁸ The call for less state and lower taxes fell on unappreciative ears. The attachment to the welfare state and egalitarian policies and the preoccupation with social justice had far deeper roots among the French public than perhaps Chirac and the RPR leadership were aware.⁴⁷⁹ Any notions, proposals or policies even remotely associated with the center-right stood little chance of success compared to those put forward by the left.

Unlike the American election of 1980 and the British election of 1979, neo-liberal tax reform was not a significant issue in the French presidential or legislative elections of 1981, even if Chirac had hoped to make it one. Of most concern to voters, according to an April 1981 poll conducted by SOFRES, was unemployment followed by foreign affairs and institutions. The public, anxious for new solutions to the problems which plagued France, looked to the Socialists and their vision of France's economic and social future. The call for less state and

⁴⁷⁸ Public opinion polls showed an electorate which classed itself on the left (42%) as opposed to on the right (31%) and a significant minority (27%) considered themselves as neither (by 1985 those sympathizing with the values expressed by the right were in the majority). Moreover the voters viewed Francois Mitterrand and his policies as most apt for solving the problems of principal concern to them, including fighting unemployment, inflation and social injustices (see, D. Lindon, *Le Marketing Politique*, Paris: Dalloz, 1986, pp.21-22). For further commentary on the state of public opinion around the time of the 1981 campaign, see, E. Cohen, "Les socialistes et l'économie" in E. Dupoirier and G. Grunberg, eds., *La Drôle Défaite de la Gauche*, (Paris: Presses Universitaires de France, 1986), pp.78+; R. Cayrol, "The Electoral Campaign and the Decision-Making Process of French Voters" in H. Penniman, ed., 1988, op. cit., pp.141-142.

⁴⁷⁹ Ironically, a Louis Harris - France poll in mid-April 1980 showed that of all the complaints levelled against President Giscard d'Estaing, the largest majority of respondents (64%) mentioned heavy taxes, followed by aggravated social inequalities (35%) (from *L'Express*, 10-16 Mai 1980, cited by J. Charlot in H. Penniman, ed., 1988, op.cit., p.26).

lower taxes fell on unappreciative ears. Moreover, the attachment to the welfare state and egalitarian policies presented a problematic terrain for the introduction of neo-liberal ideas and solutions. The electorate rejected Giscardien/Barrist methods and solutions in 1981 in favor of the left. However, as disaffection and disillusion with Socialist economic management grew, Chirac's call for less state intervention, lower taxes and greater individual responsibility took on a new saliency within two years of the Socialists' assumption of the reins of power. The Socialists were unwittingly helping to prepare the ground for neo-liberal ideas and solutions.

Nonetheless, whatever the outcome of the 1981 elections and the climate of opinion, the tax question was "out of the closet" and on the table for debate. Chirac had obliged the other candidates in the presidential election to stake out positions on the issue. Even Mitterrand made his own promise that the tax burden would not rise above 42% under a Socialist government, and emphasized his plans to lower taxes for those on modest incomes.⁴⁸⁰ He was even heard to declare "...conduire ces prélèvements au-delà de 42%, ce serait ruiner l'initiative."⁴⁸¹ It has been said that the tax proposals in Mitterrand's "110 Propositions", published in January 1981, represented a retreat

⁴⁸⁰ T. Gandillot, op.cit., p.79.

⁴⁸¹ *Le Point*, no.622, 20 Août 1984, p.37.

from the radical proposals of the 1970s.⁴⁸² Some interviewees denied that Mitterrand had softened the Socialists' "faire payer les riches" message. Others, like Patrick Careil, in contrast, asserted that Mitterrand had indeed dropped the more radical overtones of the Socialists' messages, in part, because of the changed economic climate by 1981 - this was also confirmed by Jean Choussat, another interviewee - compared with 1972, 1974 or 1978, and the need to rally the support of the "grands acteurs économiques et des groupes internationaux."⁴⁸³ Raymond Barre contended that Francois Mitterrand was merely pandering to a certain element in the electorate suspicious of politicians who sought to raise taxes.⁴⁸⁴ Yves Mansion and Jean Choussat felt the this adroit maneuver was political for a number of reasons: 1) in order to respond to claims made by the right that a left government would raise taxes; 2) to attract moderate voters; and 3) to embarrass Giscard over his management of the tax burden, which had risen during his septennat by one percent per year on average (see Appendix A, Table 1A).⁴⁸⁵

⁴⁸² "Le programme fiscal du candidat socialiste aux élections présidentielles de 1981 apparait en retrait, non seulement par rapport au Projet socialiste, mais même par rapport au programme de 1978" (C. Heckly, op.cit., p.157).

⁴⁸³ Patrick Careil, interview in Paris, France, May 25, 1992. Careil, however, insisted that Mitterrand had made no pledge on stabilizing or reducing p.o. during the campaign. That pledge came later instead, he said, "Si ma mémoire est bonne, ce n'est pas pendant la campagne de 1981 qu'il a fait des promesses sur les taux de prélèvements obligatoires, mais en 1983 ou 1984."

⁴⁸⁴ Raymond Barre, interview in Paris, France, June 2, 1995.

⁴⁸⁵ Yves Mansion, interview in Paris, France, June 2, 1992; Jean Choussat, interview in Paris, France, May 12, 1992.

Put on the defensive by both Chirac and Mitterrand, President Giscard d'Estaing changed tack late in his campaign. He went further from his promise to "limit" the charges borne by companies. He was now going to "reduce" them. Also rather late in his campaign, he promised to reform capital taxes, simplify the system and reduce p.o.. Trying to regain the offensive, he warned taxpayers about the threat to them posed by the Socialist program, "Messieurs les contribuables, bonne chance, car qui paiera?"⁴⁸⁶ Whether these developments could be interpreted as poaching on Chirac's ideological terrain or as a nod to the electoral successes of neo-conservative politicians and taxation policies in the United States and Britain, or merely as typical, tactical campaign rhetoric remains debatable. Certainly, the rate of p.o. in relation to gdp presented a problem for Giscard d'Estaing and Mitterrand as well as Chirac. It had become an important indicator for various reasons. But common to all was the idea of a "threshold" or a "limit", based on economic, sociological and psychological criteria.⁴⁸⁷

Despite his defeat in the presidential election, Chirac held firm to his new-found ideology. Ignoring the opinion polls and warnings of senior party figures, he continued to vaunt the virtues of the free market and individual initiative. Following the legislative elections of June 1981 and the Socialists'

⁴⁸⁶ *Le Matin*, 7 Avril 1981, p.4.

⁴⁸⁷ Pierre Rosanvallon, "L'État-providence a-t-il un Avenir?", *Faire*, nos.70-1, Septembre/Octobre 1981.

overwhelming victory, the RPR and the UDF in opposition commenced a serious rethink of strategy and policy. As already noted, existing groups like the Club de l'Horloge, or new ones, like GRAL, le Cercle, and Club 89 served as incubators and conduits for the ideological rejuvenation of the two major political organizations of the center-right, the RPR and the UDF.

Neo-liberal themes caught on quickly and proved more enduring than many would have imagined. Chirac led the march towards neo-liberalism with the sort of conviction worthy of Reagan and Thatcher. Chirac said in an interview with Marc Ullmann for *Paris Match* in early 1982,

...pour le moment le danger est de voir un État tentaculaire réduire les espaces de liberté...la production exige qu'un maximum de liberté soit laissé à l'initiative et à la responsabilité des individus. Il faut diminuer les contraintes, en particulier sur les petites et moyennes entreprises, artisanales, commerciales, agricoles, libérales et bien entendu, industrielles...la priorité doit être donnée à la réduction de la pression fiscale. Elle atteint en France des niveaux paralysants. J'ajouterai que les cotisations sociales perçues sur les travailleurs ne doivent pas être perpétuellement augmentées. Le gouvernement actuel paralyse le pays.⁴⁸⁸

During this interview, Chirac in his enthusiasm proposed reducing the total tax burden to 36% from the level of 45% which he was predicting for the end of 1982. Later in the year, on the occasion of the sixth anniversary of the RPR at the floral park at Vincennes, Chirac promised to protect the *acquis sociaux*, but he insisted the state should be a guarantor (*garant*) and not a

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Paris Match, 5 Mars 1982, p.68.

manager (*gérant*).⁴⁸⁹

A more pragmatic tax strategy was devised soon thereafter. Promises were made to reduce p.o. to 40%, as opposed to the ambitious (and unrealistic) figure of 36% pledged in the Ullman interview. He promised to lower the tax burden, reduce state spending - particularly on the civil service and subsidies - and abolish any controls "qui paralysent l'initiative et la responsabilité."⁴⁹⁰

Chirac's discourse, neo-liberal to the core, borrowed a page from Mrs. Thatcher's strategy - couching economic principles in populist terms by appealing to basic human instincts, i.e. liberty, individual responsibility and initiative, "more money in your pockets" etc. Mrs. Thatcher's policies and rhetorical approach were made Chirac's own. The RPR leader employed popular language to strike a sympathetic chord among the public. However, he used terminology more soothing to the French ear, like "renouveau républicain" and "rassemblement". He unashamedly vaunted duly neo-liberal values but tied them to French sensibilities and traditions.

The themes articulated by Chirac were further developed by Alain Juppé in a book written under the aegis of the Club 89 called *La Double Rupture* (1983). This book was a testament to the appropriateness of neo-liberalism as a remedy for the

⁴⁸⁹ These very words were used by Philippe Baccou (1980) in his book for the Club de l'Horloge, *Le Grand Tabou*, op.cit.

⁴⁹⁰ *Le Monde*, 7 Decembre 1982, p.10.

economic and moral crisis in France brought on by the progressive "socialisation" of the economy and the "étatisation" of daily life. The book's author called for "Moins d'État, plus de liberté." The growth in p.o. was cited as evidence that "plus d'état" and "moins de liberté" had become the norm in France and the cause of its problems.

Pour notre part nous sommes convaincus que le développement économique et par conséquent social de la France est freiné et à la limite étouffé par le poids global des prélèvements...Il est évident à nos yeux que...l'impôt tue l'impôt...la réduction des prélèvements obligatoires est une condition nécessaire du redressement économique.⁴⁹¹

The author self-righteously drew attention to the acknowledgement by the Socialist government itself of the alarming growth in p.o. and the need to stabilize the tax burden. *La Double Rupture* made it clear that a break with past trends and habits was imperative. Tax reform would be a major means of achieving that break.

While Juppé's book advocated a reduction in taxes, and in fact made very specific recommendations for company taxation, it cited the Reagan administration and the Laffer theory - despite speaking Lafferian language, "l'impôt tue l'impôt" (see above quote) - as flawed examples to follow. In effect, the author was challenging both the supply-side and Keynesian prescriptions.⁴⁹² They denied the existence of a magic potion and admitted that taxes could not be reduced without reducing expenditures. The

⁴⁹¹ Alain Juppé et le Club 89, op.cit., pp.58-61.

⁴⁹² "Nous récusons ce genre de chimère et renvoyons dos-à-dos les économistes de l'offre et les Keynesiens" (A. Juppé et le Club 89, op.cit., p.66).

model, it seems, was Thatcher rather than Reagan. Public expenditure must be controlled and reduced. The double rupture with policies practiced since WWII and since 1981 would come about by: 1) re-establishing budgetary and economic equilibrium, and 2) reducing spending and taxes.

Many of the measures proposed by *La Double Rupture* were incorporated in the 1984 RPR program, "Libres et Responsables - Projet pour la France" (Paris: Flammarion, 1984). This RPR tract would serve as a pre-manifesto for the 1986 legislative elections.⁴⁹³ It toned down the almost Hayekian stridency of *La Double Rupture*, but remained faithful to its central tenets. The tract was a compilation and elaboration of ideas and proposals discussed at the RPR extra-ordinary congress in January 1983. The main theme of its approach was summed up in its commitment to diminish the power of the state, and to liberalize and decentralize France's productive capabilities. Among the economic priorities spelled out were denationalization of state-owned banks and industries and a roll-back of trade union powers.

Significant attention was given to the issue of tax reform. While short on specifics, the tax pledges made included reducing company tax and social charges, lowering the burden on individuals, and exempting new share purchases from income tax. Tax reductions were deemed urgent and necessary because the

⁴⁹³ Although its authorship was unspecified, André Fanton in an interview with Peter Fysh revealed that the RPR's 1984 manifesto was in fact written by Jean-Louis Bourlanges (author of *Droite, Année Zéro*, op.cit.), a one-time member of Chirac's hotel de ville team (see, P. Fysh, op.cit., p.204).

continual rise in the tax burden posed a threat to democracy. To justify its tax proposals, "Libres et Responsables" cited the example of the tax revolt in California and the world-wide trend to lower taxes in response to citizen unrest over the intolerable levels of taxation.

Trop vite qualifiés de néo-poujadistes, les mouvements de protestation anti-fiscale qui ont à des titres divers affecté, outre les États-Unis d'Amérique, la plupart des opinions de l'Europe de l'Ouest, sont le signe d'une inquiétude générale devant la progression d'une fiscalité aux effets d'autant plus ressentis...⁴⁹⁴

Whereas other countries had been marching along the path of neo-liberal tax reform for some time, France was characterized as the odd man out. It was time that the level of p.o. be recognized as a real threat and that action be taken.

In its discussion of the situation at home, "Libres et Responsables" credits Jacques Chirac with bringing tax reform to the center of political debate during the 1981 election campaign. It contends that Mitterrand owed his election in part to his promise not to raise the level of p.o., a promise which he broke. The commitment to tax reductions became an essential feature of the RPR's program. However the issue had caught on and the other parties of the center-right were soon hooked. Both Raymond Barre and Valéry Giscard d'Estaing endorsed the notion of tax reform, although there was some disagreement among the parties of the center-right over the priority which should be given to tax cuts versus deficit reduction. In any event, all parties were agreed

⁴⁹⁴ Rassemblement pour la République, *Libres et Responsables, un Projet pour la France*, (Paris: Flammarion, 1984), p.44.

that tax reform should be made a central plank in any future manifesto, whether joint or individual.

The manifesto, "Plate-forme pour Gouverner Ensemble", signed by Jacques Chirac for the RPR, and Jean Lecanuet for the UDF, was published on January 16, 1986.⁴⁹⁵ It had been put together by a team led by Edouard Balladur (RPR), Alain Juppé (RPR), Alain Madelin (PR) and Gerard Longuet (PR). It pledged to liberate individual initiative, to reinforce the values of responsibility and effort, and to redefine the state's role. Encouraged by the much publicized economic recovery in the United States which had created over one million jobs and the tax reform bill under debate in Congress, the right's program acquired a certain saliency.⁴⁹⁶

Thierry Gandillot (1988), writing about the tax reform movement in France and elsewhere, confirmed the effect of the American tax reform on the French public and policy makers,

La réforme fiscale américaine fut à cet égard l'occasion d'une remarquable cacophonie hexagonale. L'idée dominante qui en ressortit, au moins pour le grand public, fut que les Etats-Unis baissaient leurs

⁴⁹⁵ Raymond Barre and many *Barristes* taking issue with some of the platform's less pragmatic promises, but above all because of their hostility towards the idea of cohabiting with a Socialist head of state, refrained from associating themselves with the manifesto.

⁴⁹⁶ This American tax bill proposed three individual tax rate brackets between 15% and 35%, the elimination of various "tax expenditures" benefitting individuals and groups, the repeal of the investment tax credit and other corporate "tax reliefs" and the institution of a flat 33% corporate tax rate. The Tax Reform Act of 1986: lowered corporation tax from 50% to 34%; substituted two tax rates - 15% and 28% - for the earlier 14 rates, whose top rate had been 50% (this eventually and effectively was modified to four rate brackets at 15, 28, 33 and 28 per cent); made capital gains taxable as ordinary income; removed 4,800,000 people from the tax rolls by doubling personal exemptions and raising the standard deduction; eliminated or reduced numerous individual and corporate tax reliefs and expenditures.

impôts de façon spectaculaire alors que les nôtres restaient très élevés. Conclusion logique de la pseudo-démonstration: il faut baisser les taux français de l'impôt sur le revenu pour rester compétitif.⁴⁹⁷

Gandillot's sentiments had been expressed even earlier in several articles which had appeared in the press assessing the American tax reform and its consequences for France.⁴⁹⁸ One article which appeared after the elections of 1986 confidently proclaimed, "Et l'exemple des États-Unis semble bien prouver que les baisses d'impôts, ça marche."⁴⁹⁹

The impact of the American tax reform, psychologically or politically, was evidently not lost on the opposition. With respect to some of its objectives, the RPR-UDF manifesto specified the measures a future right government would implement. Featuring prominently were the commitments to reform or lower: *cotisations sociales patronales*, the *taxe professionnelle*, double taxation of dividends, high marginal rates of income tax,⁵⁰⁰ income tax brackets, and the wealth tax (IGF). Certainly by 1986, almost all RPR and UDF members had jumped on board the neo-liberal bandwagon. Tax reform had become the center-right's 'call to arms'.

In speeches and interviews, Jacques Chirac and other RPR

⁴⁹⁷ T. Gandillot, op.cit., p.114.

⁴⁹⁸ See: *L'Express*, no.1701, 10 Février 1984; *Paris Match*, 7 Juin 1985, pp.122-3; *Le Point*, no.727, 25 Août 1986, pp.59-60; *Le Nouvel Observateur*, 29 Août 1986, pp.43-46; *L'Express*, no.1827, 11 Juillet 1986, pp.18-25.

⁴⁹⁹ *L'Express*, no.1827, 11 Juillet 1986, p.19.

⁵⁰⁰ A reduction to 50% was planned for the highest rate of 65%.

leaders were promising to reduce the p.o. by 1% a year, thereby bringing it down to 40%.⁵⁰¹ There were also promises to generally reduce income taxes by 8% per year, to enact measures reducing taxes by FF20 billion for households and the same amount for businesses, to lower the top rate from 65% to 50%, to cut the IS "par paliers successifs" from 45% to 34%, and to reduce the TP by 20-25% in two or three years before reforming it entirely by basing it on value added.⁵⁰²

Philosophical and policy developments in the center-right parties, underway even prior to the Socialist victory of 1981, gathered force in the early 1980s. Economic mismanagement by the Socialists and their growing unpopularity turned attention to the ideas and solutions advocated by the center-right. Borrowing ideas and rhetoric originally wielded with such success by conservative political leaders in Britain and the United States, the center-right grew increasingly confident that the political pendulum was swinging back their way. With socialist and *dirigiste* techniques and solutions to a large extent discredited, the Socialists were compelled to play a game whose rules were being set by an ascendant neo-liberal ideology. Jacques Chirac and the center-right parties were changing the terms of political debate in France. Rather than get caught in the neo-liberal wake, Mitterrand and the Socialists, at first grudgingly, and

⁵⁰¹ *L'Express*, no.1759, 22 Mars 1985, p.22.

⁵⁰² See: *L'Express*, no.1827, 11 Juillet 1986, p.25; *L'Express*, 19 Juillet 1985, pp.18-21 and no.1823, 13 Juin 1986, pp.26-7; *Le Point*, no.727, 25 Août 1986, p.60.

then with an aplomb that won the respect of many opposition members, picked up the baton and ran with it.

Conclusion

Tax reform, as a political issue in the 1980s, was not simply determined by a presidential or ministerial declaration or a vote in the legislature. The processes which gave rise to the issue in the first place are more complex than that. Tax reform first emerged on the political agenda in France in the early 1980s, springing from the liberal critique of the *consensus progressiste* to the birth of new groups which gave institutional expression to that critique and incubated ideas. Those ideas found advocates in French political circles by the beginning of the decade. The evolution was lengthy, and often coincidental and random.

The evolution of the tax reform idea in France has been recounted at such length, so that we may understand those institutions, groups and individuals that have been either directly or indirectly responsible for tax reform's emergence in French political debate. Furthermore, this description is necessary in order to provide us with the material that will help us to understand the processes which gave rise to the idea and helped bring tax reform onto the governmental agenda.

Understanding the conditions under which it evolved is essential to any discussion of tax reform as a real political issue in the 1980s. Why did the idea rise to the fore at all? Did it endure? If so, why? What problems existed which the idea

reasonably addressed? Who nurtured the idea, who advocated it, and for what reasons? These are some of the questions that Chapters Three, Four and Five have attempted to address, albeit at the expense of somewhat lengthy description. The next chapter will continue to describe the evolution of tax reform from the specialized agendas of the center-right to the governmental agendas of President Mitterrand and the Socialist governments, and later the government led by Jacques Chirac. This section will attempt to explain why the time was ripe for tax reform, who was responsible for ensuring its place on the governmental agenda, and how the agenda item was itself transformed.

CHAPTER SIX

CHAPTER SIX

- Tax Reform on the Governmental Agenda: Mitterrand and Co. -

Introduction

To say the Socialists intensified the *étatiste, dirigiste* character of the French state is admittedly only a partial truth. The double rupture planned by the right during their period in opposition, by 1986 when they assumed the reins of government, represented a much less drastic break than originally anticipated. It was under a Socialist government that tax reform was first implemented in the 1980s. It was not under Chirac's auspices that tax reform became government policy in France, but under Francois Mitterrand's. Granted, for the Socialists, tax reform had a more problematic evolution from idea to government policy, in part due to the inconsistency of neo-liberal notions and policies with long-cherished socialist attitudes and values.

By the mid 1980s, however, advocacy had become a cross-party phenomenon, not limited to a single political current or party - the center-right in France - as was the case in Britain with the Conservatives. The major differences between the left and the right, lay in the structure of the policy agenda and the extent to which tax reform would be implemented. But by the middle of the decade both left and right were extolling the virtues of neo-liberal tax reform. In this chapter we will examine how the Socialist government came to adopt the tax reform issue.

The Economy and Socialist Economic Management

Initially, the Socialists set out to implement tax reform of

a character rather different from that being considered by governments in the United States or Great Britain. Its ends were revenue raising and social justice. The means for achieving those ends consisted of higher taxes on the wealthy and businesses, exoneration from taxation for taxpayers on modest incomes, lower indirect taxes for items of first necessity but higher for everything else. Faced with a stagnating economy and rising unemployment, the Socialist government opted for a strategy of Keynesian pump priming, while its neighbors and major competitors had abandoned Keynes for monetarist, supply-side and austerity policies.

The Socialists' program of social reforms and reflationary measures were costly and necessitated additional revenues. The recourse to higher taxation and bigger budget deficits were deemed the price worth paying. After all, wasn't this what the electorate had mandated? The Socialists with their slogans of "changer la vie" and "faire payer les riches" had successfully mobilized not only the progressive forces in the country, but also parts of the electorate traditionally close to the right and the center. Furthermore, the Socialists believed that the defeat of Valery Giscard d'Estaing, not to mention the social and economic problems which Mrs. Thatcher was then facing, demonstrated quite vividly that the monetarist policies and fiscal rectitude of the former regime and the current British government were unenforceable in the long run because of the

unacceptably high economic and social strains imposed.⁵⁰³ And so they proceeded with their plans to alter the political, economic and social landscape of France, just as Margaret Thatcher and Ronald Reagan were bent on doing in their own countries.

However, in France it was to be a transformation of socialist design, not neo-liberal. Its spiritual fathers were Marx, Keynes and Schumpeter, not Burke, Hayek and Friedman. As with his American and British homologues, the French President's first budget envisaged changes intended - according to numerous Socialist experts - to change the general physiognomy of French society within the space of a generation. The tax system would be key in effecting this change.

The Socialists' tax program was to a limited extent inspired by Pierre Uri whose proposals sought to attack the institutional, structural and political causes of social and economic inequality. Moreover, for Uri, as for the Socialists, the state had commitments to society which precluded any possibility of an overall reduction in taxation. These commitments were manifested in such policies as the nationalization of 9 industrial groups and 36 banking and financial institutions, generous increases in SMIC, old age pensions, family and housing benefits, the creation of over 100,000 public sector jobs, new public housing construction, and other social measures, like reducing the working week to 39 hours, the retirement age to 60, and the

⁵⁰³ *Financial Times*, October 1, 1981, p.26.

introduction of a fifth week of paid vacation.⁵⁰⁴

The ambitious program of "redistributive Keynesianism" comprised (and necessitated) several reforms to the tax system.⁵⁰⁵ Jacques Delors at the Ministry of Finance and, to a greater extent, Laurent Fabius at the Ministry for the Budget, began to implement their tax strategy which, in part, reflected Uri's vision, if not his actual design.⁵⁰⁶ Among the tax measures eventually written into legislation were the *impôt sur les grandes fortunes* (IGF),⁵⁰⁷ full indexation of all brackets,

⁵⁰⁴ These and other measures saw the budget deficit balloon from around FF51 billion in May of 1981 to around FF76 billion for 1981 overall and over FF100 billion in 1982.

⁵⁰⁵ The term "redistributive Keynesianism" is borrowed from P. Hall, 1986, op.cit., p.194.

⁵⁰⁶ Patrick Careil, who worked closely with Laurent Fabius at this time, divulged that he had examined many of Uri's proposals, and after some consideration determined that they were not feasible. He advised Laurent Fabius of his opinion, "Il y a eu à cette époque un livre important qui est sorti qui est le livre de Pierre Uri... "Changer l'Impôt pour Changer la France"...et c'est par rapport à ce livre que ce sont positionnés les problèmes des actions du gouvernement... J'avais besoin de rédiger des notes...en 1980...pour lui [Laurent Fabius] dire il ne pouvait pas faire de la réforme Uri. La réforme Uri, c'était de remplacer tout le système fiscal pour avoir une cohérence dans l'ensemble...Oui, j'avais fait une analyse pour Laurent Fabius du livre de Pierre Uri qui était extrêmement intelligent mais dans laquelle je disais que les bouleversements qu'il introduisait dans le système fiscal français étaient inconcevables et provoqueraient des désordres très grands. Et il y a eu un débat dans le printemps 1981 et finalement Laurent Fabius a choisi de ne pas suivre les propositions de Pierre Uri de tout réformer...et on a décidé que plutôt que de faire ça on allait procéder à une série de réformes ponctuelles dans des domaines différents. Dès le printemps 1981, on avait écarté l'idée de faire une réforme complète du système fiscal... qu'avait proposée Pierre Uri..." (Patrick Careil, interview in Paris, France, May 25, 1992).

⁵⁰⁷ The IGF was modified from its original version. Fabius lowered the upper rate from the promised 8% to 1.5% on wealth over FF3 million. Based on taxpayers self-declared *patrimoine*, this tax was expected to accrue FF4.5 billion. In the end, it brought around FF3 billion, partly due to exemptions for art and antiques. Mitterrand had decided, after listening to those around him who foresaw a flight of art and antiques from the country in order to escape the tax, to allow this exemption - it is interesting to note that Fabius's father was an art dealer. Also exempted was plant and machinery (*l'outil de travail - les biens individuels affectés à un usage professionnel agricole*,

increases in VAT on some "luxury" goods and services, decreases for "items of first necessity", a series of "exceptional" majorations, prélèvements and surtaxes (tax increases), and a new top rate for income tax of 65% and reform of inheritance taxes (for a listing of the major reforms in France between 1981 and 1989, see Appendix B). The Socialists, in power for the first time in the history of the Fifth Republic, were intent on making good long standing promises. Francois Xavier Stasse noted,

...je crois que dans un premier temps, pendant les premiers mois, le président et le gouvernement ont pensé qu'il fallait appliquer notre programme. Nous avions un programme de campagne électorale...c'était un programme rédigé en 1972...donc pendant dix ans la gauche avait convaincu les français que ce qu'il fallait faire c'était d'augmenter les salaires, notamment les bas salaires, relancer l'économie par la consommation, parce que c'est ça qui crée les emplois. Et donc en 1981, quand nous sommes arrivés au pouvoir, presque tout le monde pensait qu'il fallait faire ça. On ne pouvait pas tout de suite changer la politique.⁵⁰⁸

The overarching goal was the reduction in inequalities and the enhancement of social justice. Raymond Barre supported Stasse's point, that the Socialists' program was out of date and reflected an ideological perspective that was rapidly changing, "...du côté de la gauche, c'était de la fiscalité redistributrice...c'était la...idéologie des années 1970 avec...des impositions plus élevées."⁵⁰⁹

industriel et commercial) under FF2 million. This exemption was intimated during the campaign, but arguments made by Delors and opposition from Francois Ceyrac, Yvon Gattaz and the CNPF ensured that the promise was made policy. (see, P. Favier and M. Martin-Roland, 1990, op.cit., pp.117-18).

⁵⁰⁸ Francois Xavier Stasse, interview in Paris, France, June 2, 1992.

⁵⁰⁹ Raymond Barre, interview in Paris, France, June 2, 1992.

Another interviewee, Patrick Careil, commenting on the Socialists efforts said,

La priorité c'était la lutte contre les inégalités...et pour lutter contre les inégalités il y avait différentes mesures possibles - la fiscalité en était une, mais pas du tout la seule. Donc, la fiscalité était une arme de lutte contre les inégalités, ce n'était pas un objectif en soi la réforme fiscale. Voilà la différence avec Ronald Reagan et Margaret Thatcher...⁵¹⁰

The heavier tax burden, for many taxpayers, imposed by the Socialists' tax program, and its rationalization as a means of reducing inequalities and enhancing social justice, was not only out of step with policies being enacted elsewhere, notably the United States and Britain, but also deflated any hopes that the tax burden would be held at 42% of gdp, as was promised.

In light of these efforts, it was rather paradoxical to hear the *Chef d'état*, the Prime Minister and other ministers, at various intervals, asserting that the level of *prélèvements* would be held steady. Not only had Mitterrand promised this during the election campaign, but also in various public declarations following his election. For example, in his first press conference in September 1981, the President declared that the tax burden would not increase in 1982.⁵¹¹ At the end of the day, Francois Mitterrand's management of the rate of p.o. differed little from Giscard d'Estaing's (see Appendix A, Figure 1A). The

⁵¹⁰ Patrick Careil, interview in Paris, France, May 25, 1992.

⁵¹¹ He also spoke of the "mauvais impôt sur les plus values" which must disappear, and the "réfonte indispensable" of the TP. (See, *Le Monde*, 26 Septembre 1981, pp.10-11).

tax burden continued its upward assent from 41.9% of gdp in 1981 to 44.6% in 1984.

In the the spring of 1982, the President enunciated two important guidelines for government economic policy: 1) the budget deficit must be kept within a limit of 3% of gdp and 2) no additional taxation "this year or next."⁵¹² In August 1982, after several reports by the press - not only right-wing - speculating about tax increases for the coming year, the Budget Minister, Laurent Fabius was compelled to denounce as "false rumors" and deny any plans to increase "tax pressure" next year.⁵¹³ Plagued by a worsening social (demonstrations by farmers and small businessmen), political (losses in the January 1982 by-elections and the March 1982 cantonal elections), and economic (stagnating industrial production, falling investment, stubborn inflation, a commercial account in deficit, the franc under constant threat,⁵¹⁴ rising unemployment, and sluggish gdp growth) climate, the government undertook a serious rethink of its policies and future strategy.

In liaison with Philippe Lagayette, the *directeur de cabinet* and economic advisor to Jacques Delors, and Francois-Xavier Stasse, the economic adviser at the Elysée, the Matignon economics team of Henri Guillaume and Jean Peyrelevade - drew up

⁵¹² *Financial Times*, June 10, 1982, p.48.

⁵¹³ *Financial Times*, August 6, 1982, p.2.

⁵¹⁴ There had already been one devaluation in 1981, with a second to follow in June 1982 and a third in March 1983.

a plan for *rigueur* involving devaluation, price and salary blockages, budget cuts and credit controls.⁵¹⁵ To supplement the Finance Minister's anti-inflation plan unveiled in January 1982, the new strategy would be unveiled in stages as the *plans de rigueur* of June 1982 and March 1983.⁵¹⁶

Above all, this change in policy was imposed by external developments. The economic recovery was not just around the corner, as many Socialists had optimistically predicted, and French economic policy - running counter to the restrictive policies pursued in the U.S. and in other EC countries - could not long be sustained.⁵¹⁷ Raymond Barre commented that Mitterrand saw his influence, his authority in the European Community, threatened by the pursuit of ineffective and internationally unacceptable economic policies, "Il a vu son autorité au sein de la Communauté compromise par la faiblesse de l'économie française du fait des erreurs de sa politique."⁵¹⁸ Georges Egret, commenting on the changes to business taxation which have taken place in France, pointed out that, in general, political developments

⁵¹⁵ According to Jacques Attali, the idea of price and salary blockages was first aired by Christian Goux, the President of the Finance Committee in the National Assembly, in a letter to Francois Mitterrand on April 22, 1982 (J. Attali, 1993, op.cit., p.213).

⁵¹⁶ All these individuals as well as other important actors - Alain Minc, Jean Riboud, Jacques Attali, Laurent Fabius and Jacques Dèlors - were considered, "plus rigoureux que nature, plus capitalistes que socialistes, avant tout gestionnaires sans états d'âme. Ils ont joué un rôle essentiel de juin 1982 à mars 1983, c'est-à-dire au moment des choix économiques décisifs" (Jean-Marie Colombani, *Portrait du Président*, Paris: Gallimard, 1985, p.38).

⁵¹⁷ See, *The Times*, July 11, 1983, p.4.

⁵¹⁸ Raymond Barre, interview in Paris, France, June 2, 1992.

outside France have - and did have - a considerable impact on domestic tax policy makers.⁵¹⁹

Already by the end of 1981 important figures in the government were entertaining doubts about how long France could afford to be out of step with the rest of its partners. The external pressures for a new policy direction were highlighted by the Prime Minister himself, who said, "Les politiques de droite de nos partenaires nous obligent à une rigueur accrue..."⁵²⁰ In light of the domestic economic situation and the rethinking of government economic and fiscal strategy, the plan to implement a vast socialist tax reform, inspired by Pierre Uri, coordinated and advocated by Pierre Joxe, and to which the President had been particularly attached, was suppressed.⁵²¹

From the spring of 1982 the government's approach to business taxation began to change, albeit tentatively. Delors and Fabius turned their concern from alleviating the burdens of the unemployed and low income earners to alleviating those of business, which, over the period since 1981, had borne the brunt of the costs imposed by the government and the recession - a fact which the business sector through its CNPF spokesmen tirelessly

⁵¹⁹ Georges Egret, interview in Paris, France, May 2, 1992.

⁵²⁰ *L'Express*, no.1656, 1 Avril 1982, p.60. However, when asked if the government was pursuing a "politique de droite", the Prime Minister categorically denied this.

⁵²¹ J. Attali, 1993, op.cit., pp.114,128,144,146,161.

proclaimed.⁵²² In mid-April, after discussions between Pierre Mauroy, the Prime Minister, Jacques Delors, the Minister of Finance, and Yvon Gattaz, president of the CNPF, the government announced a reduction of FF11 billion in the TP over two years, a stabilization of employers' social charges, and the transfer of a portion of the cost of family allowances from employers to employees.

The change in attitudes and strategy was embodied in the government's Interim Plan for 1982-83 prepared by Michel Rocard. Among the measures featured in the Interim Plan were: 1) a stabilization of the social charges paid by businesses; 2) tax reliefs for PME's and selected industries; 3) comprehensive reform of taxation and social charges in respect of greater efficiency and social equity, but with no increase in the tax burden, so as "not to compromise the competitiveness of businesses exposed to international competition"; 4) modernization of the *impôt foncier* and a more general reform of local taxes; and 5) modification of

⁵²²

See, *Financial Times*, November 4, 1982, p.3 and December 15, 1982, p.15. The CNPF's social committee claimed in July 1983, that since the Socialists came to power the charges borne by business had been made heavier by FF62.4 billion. The government's director of Forecasting at the Ministry of Finance claimed the cost due to the Socialists was figured at FF27.7 billion. Despite this disagreement, both sides agreed that the charges borne by industry had not ceased to increase since the first oil shock of 1973. As a result the financial situation of French companies, their profitability, their investment capacity, etc., had been detrimentally affected (see, *Le Nouvel Observateur*, no.974, 8 Juillet 1983, p.30). *L'Express* confirmed, "Même si l'ensemble des Français moyens sont sollicités, le gros de l'effort parafiscal est demandé aux cadres, aux professions libérales et aux patrons de l'industrie et du commerce. C'est, en effet, dans ces catégories que se recrute la majorité des 2 million de contribuables qui, avec le tiers du revenu imposable global, paient près des deux tiers du total de l'impôt sur le revenu." (*L'Express*, no.1656, 1 Avril 1983, p.67).

consumption taxes.⁵²³ These measures and the official rhetoric represented a fundamental change of priorities: boosting investment and employment through supply-side stimulation as well as the no less important goals of reducing inflation and the current account deficit.

On this change of strategy the *Financial Times* of September 28, 1982 remarked,

As one of the most important signs of change, the government has adopted the creed which could almost have come out of a Conservative party manifesto, that the emphasis in aid for industry should be moved towards tax incentives...the task now is to turn good intentions into results - and to impress the financial markets that the shift to the supply side is durable.⁵²⁴

All appearances indicated that the government had lifted a page out of the Reagan/Thatcher economic strategy book with its supply-side measures and attention to money supply and spending targets.

We have already discussed the effects outside developments and pressure had on this change in policy, as well as the impact of internal politics, for example, a changing national mood, the growing appeal of the center-right, and the declining appeal of the Socialists as evidenced in approval ratings and election contests. However, internal pressure was also brought to bear by business groups. The role of business groups in bringing about a change in government policy, merits a closer examination.

⁵²³ *Plan Intérimaire: Stratégie pour Deux Ans 1982-1983*, (Paris: La Documentation Française), Novembre 1981.

⁵²⁴ *Financial Times*, September 28, 1982, p.23.

Réduire les Charges des Entreprises

The attention paid to the charges borne by business was in part due not only to the facts themselves - at 17.9% (in 1984) the tax burden of French industry was the highest in the OECD (see Appendix A, Table 1A) - but to the endless complaints of the CNPF, and the pressure brought to bear on Mitterrand by his old friend Jean Riboud, PDG of Schlumberger and other "visiteurs du soir".⁵²⁵ The role of business groups was significant.⁵²⁶ Many of the interviewees commented that while France was not subject to any strong tax protest from the grassroots during the 1980s, business groups were particularly vociferous in their criticism of the government's tax policies and in their calls for a change. For example, Philippe Lagayette noted that there was "une

⁵²⁵ The *visiteurs du soir* was the name used by Jacques Attali (1993) to describe a group of socialist business executives, technical advisers and ministers who met regularly with the President, including, among others, Jean Riboud, André Rousselet, Pierre Bérégovoy, Charles Salzmann, Laurent Fabius, and Gaston Defferre (see J. Attali, 1993, op.cit., p.299).

⁵²⁶ In March 16, 1983 the *Financial Times* (p.2) (see also, *Financial Times* of November 4, 1982, p.3 and December 15, 1982, p.15) reported on the CNPF's efforts to persuade the government of the higher burden posed by heavier taxation and social charges in relation to their international competitors (see also, *Le Nouvel Observateur*, 22 Mai 1982, p.43) and of the need to lower business charges which they claimed had been increased by as much as FF100 billion since 1981. In response, the government agreed to establish a joint committee with the CNPF to study and report on the matter (see, Groupe de Travail CNPF-Administration, *Les Charges des Entreprises Françaises*, Rapport au Premier Ministre, Paris: La Documentation Française, 1983). Guy Brana, vice-president of the CNPF was quoted by the *Financial Times* as saying, "...We have just one solution to escape the paralysis: lower the charges on companies." Among the proposals advocated by the CNPF were: 1) reduce charges on companies by around FF20 billion over the next five years; 2) remove the wealth tax levies on capital invested in companies in the form of shares; and 3) increase depreciation allowances, allowing companies to write off 100% of the cost of new machinery in one year. Brana pointed out that similar measures had recently been enacted in Britain. He said, "I've been able to measure the progress in England [thanks to his links with the British Lucas Group]. Some very useful things have been done there. I would prefer to say that we are dynamic and competitive in France - but we have had the Socialist experience." (*Financial Times*, March 16, 1983, p.2).

protestation vigoureuse des entreprises" and that the government began to pay serious attention to what business groups had to say.⁵²⁷ Jean Choussat remarked, "Oui...le patronat a bien joué sa carte."⁵²⁸ And Patrick Careil mentioned the "mouvement des cadres contre l'augmentation de la pression fiscale et les réformes de 1981 et 1982," and continued, "...moi, j'étais toujours contre ces réformes et je pense qu'elles ont suscitées le mouvement de réaction des cadres qui obligea le président de la République à s'engager à plafonner le montant des prélèvements obligatoires par rapport au pib."⁵²⁹ The transformation in attitudes and the tax agenda with respect to the corporate sector was largely due to the pressure of business interests. Therefore, an examination of the part they played is indispensable.

Organized in various and disparate groups, the business community, and its complaints and demands, have had a particular resonance with governments of the right and the left.⁵³⁰ The CNPF, as the most important representative of business interests, has had a privileged, if not always charmed, relationship with government. Moreover, it is one of the principal interlocutors with the DGI and the SLF. In addition, it is often represented

⁵²⁷ Philippe Lagayette, interview in Paris, France, May 20, 1992.

⁵²⁸ Jean Choussat, interview in Paris, France, May 12, 1992.

⁵²⁹ Patrick Careil, interview in Paris, France, May 25, 1992.

⁵³⁰ Among these groups, the main players are, for example: the Conseil National du Patronat Français (CNPF); l'Assemblée Permanente des Chambres de Commerce et d'Industrie (APCCI); Société Nationale des Petites et Moyennes Entreprises (SNPME); Confédération Générale des Petites et Moyennes Entreprises (CGPME).

on government commissions, *groupes d'études*, as well as participating on the Economic and Social Council.⁵³¹ With its own tax committee, the CNPF has long complained of the heavy fiscal burden it bears, the discouraging effects of the French tax system on employment and investment, and consequently its disadvantageous position *vis-à-vis* its counterparts in other countries (see Appendix A, Table 1A). Mr. René Pelletier, the Director-General for Economic Affairs at the CNPF wrote in *Le Monde*,

...la France est à la fois le pays du monde - à l'exclusion des pays scandinaves, du Luxembourg, et des Pays-Bas - où le total des impôts et des cotisations sociales est le plus lourd, avec 37.50% du P.N.B., et le pays où la part, dans le revenu national, des impôts sur les bénéfices des sociétés est le plus élevé (notre pays n'est dépassé que par le Japon et le Luxembourg).⁵³²

Equipped with such comparisons, the CNPF has been an untiring advocate for lower taxation - lower social charges, lower IS and lower or abolished TP. Despite the falling share of company tax revenues relative to total income taxes (81% in 1959 and 46% in 1976), French companies, in comparison with their OECD counterparts, were being hit hard by the rise in company social charges and TP, not to mention an IS rate of 50%. The CNPF complained that compared to their American, Japanese, and British counterparts, "à production égale, les entreprises françaises

⁵³¹ See, J.C. Martinez, 1980, *op.cit.*, p.179.

⁵³² R. Pelletier, "Réponse du CNPF au Rapport du Conseil des Impôts", in *Le Monde*, 19 Juillet 1977, pp.11-12.

paient deux fois plus d'impôts et de charges sociales."⁵³³

In contrast, a 1977 Report from the Conseil des Impôts emphasized the weaknesses of the corporate tax regime and observed that few companies actually paid 100% of the taxes mandated by law.⁵³⁴ A parliamentary report on the fiscal position of oil companies noted that ELF and the Compagnie Française des Pétroles paid no IS and the taxes paid by foreign subsidiaries were derisory.⁵³⁵ An explanation is to be found in the numerous exemptions and tax reliefs enjoyed by many French companies - not to mention the not infrequent recourse to tax evasion and fraud. C. de Brie and P. Charpentier (1978) note that "fraude et évasion fiscales sont de même nature et font partie intégrante de la stratégie de l'entreprise."⁵³⁶ Furthermore, de Brie and Charpentier (1973) comment on the government's toleration of such activity, particularly by SMEs, "la fraude des petits...est...tolérée par l'Administration."⁵³⁷

The real low burden for some companies can also be explained by a device known as "contrats fiscaux". The government - particularly during the 1960s and 1970s - devised the "contrats fiscaux" in order to offer companies privileged tax

⁵³³ *Le Nouvel Observateur*, 22 Mai 1982, p.43.

⁵³⁴ *See, Le Monde*, 19 Juillet 1977, pp.11-12.

⁵³⁵ *Journal Officiel*, Documents Parlementaires, Assemblée Nationale, no.1280, 1974.

⁵³⁶ C. de Brie and P. Charpentier, *F Comme Fraude Fiscale*, (Paris: Alain Moreau, 1975), p.376.

⁵³⁷ C. de Brie and P. Charpentier, 1973, *op.cit.*, p.173.

treatment in return for their cooperation in meeting government targets and other objectives as set out in the plans. Thus, selected companies managed to reduce their tax bills as a *quid pro quo* for cooperating with the governments' efforts to manage the economy. This explains, in part, the high tax burden for companies - the facade - and the low tax revenues generated - the reality.

Although taxation was a major element in the costs borne by business, it was not the only measure of a company's financial costs. Other factors must be taken on board, i.e. labor costs (which includes salaries, social contributions, training, paid vacation, etc.). In fact, France is a low wage country compared with its international partners. Studies undertaken by the Dresdner Bank, the Centre d'Études Prospectives et d'Informations Internationales (CEPII) and the Institut de Prévisions Économiques et Financière pour le Développement des Entreprises (IPECODE) showed that total wage costs per unit of production placed France in a position either equal to, or favorable to, the United States, Great Britain and West Germany.⁵³⁸ All things considered however, France has been in the top five in terms of the heavy costs (in theory) borne by business.⁵³⁹ And business frequently reminded government of this fact, supporting their claims often with specious statistics and reports.

⁵³⁸ T. Gandillot, op.cit., p.157.

⁵³⁹ See e.g.: Groupe de Recherche sur la Régulation de l'Économie Capitaliste, 1981, op.cit., p.94; T. Gandillot, op.cit., p.154.

Despite, the CNPF's high profile, its expertise on corporate fiscal matters, its privileged position and access to policy makers, the thrust of its case had been virtually ignored by successive Gaullist governments, which, while paying lip-service to the CNPF's demands, carried on with their limited and selective policies of subsidies, "contrats fiscaux" and miscellaneous tax incentives. Considering the alternatives (attacking the government and lending its support to the left) and the risk of stoking the opposition's fire, the *patronat* restrained its displeasure. C. de Brie and P. Charpentier (1973) note, "le Gouvernement n'a pas donné satisfaction au patronat pour ne pas remettre en cause la selectivité de sa politique..."⁵⁴⁰ By the same token, the same authors contend that the CNPF often exaggerates its position - as do many other organized groups. While it rarely admits to having benefitted from the government's fiscal favors, it never ceases to complain about the "charges excessives qui pèsent sur les entreprises francaises."⁵⁴¹

Although both the CNPF and the government of Valéry Giscard d'Estaing made efforts to reconcile their differences in the run-ups to the 1978 and 1981 elections, due to mutual fears of a leftist victory, the underlying resentment and jealousies remained. The Socialists' election victories in 1981 remedied this tense situation. Following the government's defeat in 1981,

⁵⁴⁰ C. de Brie and P. Charpentier, 1973, op.cit., p.175.

⁵⁴¹ Ibid., p.173.

the *patronat* was effectively set free from the straight-jacket of its relations with the center-right. It was able to criticize government policy and vent its frustration without fear of the possible political consequences. Prior to 1981 the *patronat's* resentment and opposition to government policies was of necessity muted by the need to soften its criticisms of "friendly" governments.⁵⁴²

Faced with the crippling effects of the Socialist policies of the new government, which raised costs and introduced rigidities, the CNPF did not hold back. Moreover, the government's overt courtship of a CNPF rival, the SNPME, cast the *patronat* in a clear position of opposition. As the CNPF became more and more frustrated with the direction of the government's economic policy, its opposition became more and more strident. With the semi-failure of the Socialist's *relance*, the criticisms voiced by the CNPF began to assume an air of credibility and people within the government began to take notice. Furthermore, the Socialist government soon lost patience with the undependability and even hostility of the SNPME, and other business groups, partly in reaction to the government's economic policies and conduct of industrial relations. The CNPF capitalizing on the government's vulnerability and disillusion, continued to lobby hard and press the government to meet its

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See, S. Berger, "The Socialists and the Patronat" in H. Machin and V. Wright, eds., 1985, op.cit.

demands.⁵⁴³ Moreover, no small factor in the government's change of mind and tone were the nagging pleas by the President's close friend, Jean Riboud, PDG of Schlumberger, and other members of the business community with privileged access to the Elysée: "baisser les charges des entreprises." The vociferousness of the business lobby, which captured the changing climate of public opinion, and the pressure put on the government, soon bore fruit.

As already mentioned, in April 1982 Jacques Delors announced a reduction of FF11 billion in the TP over two years and a freeze on company social charges until July 1983 and lightening the *taxe d'habitation* by FF1 billion. In early 1982, Mitterrand had already agreed to do something for French businesses, when in a meeting of the *conseil restreint* on tax reform, he commanded the Finance Minister to lighten the charges bearing on French businesses.⁵⁴⁴ In September, the Council of Ministers agreed to exempt from the wealth tax plant and machinery (*l'outil de travail*) and capital tied up in private businesses. The government also decided tax credits for research spending, deductions for share purchases of 25% up to a ceiling of FF7,000 annually - previously, the old Monory law allowed deductions for purchases only up to FF5,000 - and the budgetization of the handicapped persons benefits which had been the responsibility of

⁵⁴³ In late 1982, the CNPF virtually blackmailed the government with a promise to help relieve the unemployment situation by pledging to hire up to 600,000 young people in 1983. In return the government was being asked to offer a ten point reduction in business social charges over five years and a stand-still on other taxes (see, *Financial Times*, December 15, 1982, p.15).

⁵⁴⁴ See, J. Attali, 1993, op.cit., pp.169,399.

the *Caisse Nationale d'Allocations Familiales*.

Slowly but surely the government was realizing that private enterprises invest and create wealth and jobs. Any hope of promoting economic renewal and social progress depended on them. But in the oppressive political and economic climate created, in part, and aggravated by the Socialists' quixotic policies, how to persuade French businesses to invest, innovate and hire? The CNPF was only too happy to meet the government halfway and put forward its proposals. In the meantime influential members of the government like Laurent Fabius, the Budget Minister and Pierre Bérégovoy, the Minister for Social Affairs, had come around to support the employers' cause. They urged the President and the Prime Minister to do something for businesses.

President Mitterrand himself, speaking at Figeac in September 1982, publicly and conspicuously recognized the plight of French businesses and urged his government to take action: the charges borne by businesses must be brought down.⁵⁴⁵

With the government attending to its needs, if only half-heartedly, the CNPF continued to press its agenda and in 1985 unveiled a three-year program of tax cuts worth FF40-45 billion. This plan would allegedly bring down p.o. by 1% per year.⁵⁴⁶ The patronat, hoping to influence party programs in the run-up to the 1986 elections, argued for cuts in the IS, the TP and social

⁵⁴⁵ The Figeac speech had been crafted by Pierre Bérégovoy, Charles Salzmann and Alain Boubilil.

⁵⁴⁶ "Propositions pour une Politique Economique Nouvelle" was unveiled by the CNPF on October 22, 1985. (see: *Financial Times*, October 23, 1985, p.3; *Le Monde*, 23 Octobre 1985, p.1).

charges. Although, it also recommended cuts in personal income tax and the wealth tax, the priority was firmly placed on restoring business competitiveness. The plan did not break new ground, but in fact, dealt with issues already familiar to the major parties. The proposals made by the CNPF in many respects merely amplified some of the measures passed by the government or under consideration by both the government and the opposition. As far as the CNPF was concerned however, the program of the center-right seemed to be more or less in line with the proposals in its own program, while the Socialists' did not go far enough.

A new consensus had been developing since 1982 on the principle and the means of lightening the corporate tax burden. The outstanding questions were: by how much should it be lightened and where should the cuts fall? The CNPF sought to influence the answers to these questions with the proposals it made in its three-year program. To the extent that in many ways the government and the opposition were attentive to the plight of business and in the process of adopting measures which sought to redress their plight, the CNPF's efforts had been rewarded. Evidently, therefore, the impact of the CNPF, and other professional organizations, as well as the influence of their constituent members, has not been negligible when one examines the evolution of the French tax agenda and the tax system.

Within the Elysée itself a supply-side mentality had begun to take root. The suggestion had been made, as early as April 1982, by Jacques Fournier, the *secrétaire général adjoint*, to

reduce or eliminate financial aids and expenditures to various social categories and replace these with tax cuts.⁵⁴⁷ As already discussed, the plight of businesses had captured the concern of both Laurent Fabius and Pierre Bérégovoy, two important members of the government with privileged access to the ear of the President. These advocates and policy activists, becoming ever more vocal and influential, persuaded the President of the necessity of tackling the problem of companies' financial charges. By early 1982, the message was getting through, when at a meeting of the *conseil restreint sur la réforme de la fiscalité*, the President was reported to have said, "Pour la fiscalité de l'Etat, je veux qu'on allège les charges des entreprises..."⁵⁴⁸

However, the most important statement on the need to reduce business charges came in a speech, drawn up by Pierre Bérégovoy, Charles Salzmann and Alain Boubilil - respectively, Minister for Social Affairs and advisers to the Elysée. In his speech of September 27, 1982 at Figeac which dealt, in part, with the problem of business charges, François Mitterrand exhorted his government to take action,

...Le problème de l'endettement se pose comme l'une des explications principales de la crise. Il faut que l'ensemble des entreprises puisse échapper aux trois menaces du moment: l'alourdissement de leurs charges, la lourdeur des taux d'intérêt et la surcharge de leur

⁵⁴⁷ J. Attali, 1993, op.cit., p.210. Attali called Fournier's suggestion "Idée féconde, qui permettrait de réduire à la fois la bureaucratie et les prélèvements obligatoires."

⁵⁴⁸ J. Attali, 1993, op.cit., p.169.

endettement financier. C'est dans ces trois directions que je demande au gouvernement d'agir pour les écarter.⁵⁴⁹

Up to this time, the change of priorities and the growing concern with business investment and profitability represented a "catch where catch can" situation. Measures had been hurriedly devised to appease a variety of groups, including the CNPF. Lowering the charges borne by companies had not been a matter of high agenda status. This changed with the Figeac speech.

It was Mitterrand's public acknowledgement of the plight of French business and its relation to the economic crisis, followed by his commitment to do something about it, that made this an urgent matter for the government. In addition, it marked a turning point for the Socialists in government, long indifferent to the plight of business, hostile to profit, and suspicious of free competition. As Jacques Attali (1993) observed,

Le grand tournant idéologique est pris: on ne parle plus que d'allègement des charges des entreprises, de moratoire, de baisse des taux d'intérêt. Quelques grands patrons de gauche ont fixé la direction. Reste à la suivre. Mais personne ne sait vraiment encore comment.⁵⁵⁰

The great ideological turning point was, however, in 1982, strictly limited to the corporate sector. The government was searching for ways to free itself from the financial burden of loss-making and heavily indebted public companies hungry for capital and for ways of encouraging the private sector to lead

⁵⁴⁹ P. Favier and M. Martin-Roland, 1990, op.cit., p.445.

⁵⁵⁰ J. Attali, 1993, op.cit., p.324.

France into the promised land of economic revival. Neo-liberal tax reform for the corporate sector appeared to offer hope.

This, moreover, was an important wedge in the government's tax agenda, one which had consequences for the government's later receptiveness and acceptance of neo-liberal tax reform across the board - for households, as well as businesses.

Beating the Center-right at its Own Game

The perception that something needed to be done about the state of personal, as well as corporate taxation was heightened by the alarming rise in *prélèvements obligatoires*. Despite claims to the contrary, the President's initial promises that the tax burden would not increase soon appeared derisory. The tax burden had risen from 41.9% in 1981 to 42.8% in 1982 and 43.6% in 1983 (see Appendix A, Figure 1A).⁵⁵¹

In March 1983, Pierre Mauroy acknowledged the government's inability to hold p.o. steady at 42.5%, "L'objectif...n'est pas abandonné, mais, c'est vrai, on ne peut pas l'atteindre pour le moment."⁵⁵² On June 28, 1983 on Europe 1, the Prime Minister lamented that p.o. would likely reach 45% of gdp in 1984.⁵⁵³ Delors, more the alarmist, was warning the President that unless

⁵⁵¹ Some of the more popular tabloids, like *Paris Match*, made much to do about the increases in taxation and the tax burden, and erroneously claimed that in 1983 the level of p.o. had reached 44% with 45% predicted for 1984. However, *Paris Match*, while not always entirely judicious with the figures, provided a good indication of taxpayer sentiment concerning the shape and direction of government tax policy. In a poll conducted in early August by BVA, a majority of those asked felt that taxes were higher than they expected in 1983 and would be excessive in 1984. (*Paris Match*, no.1786, 19 Août 1983, pp.58-60).

⁵⁵² *L'Express*, no.1656, 1 Avril 1983, p.63.

⁵⁵³ *L'Express*, no.1669, 1 Juillet 1983, p.42.

drastic measures were taken, p.o. were likely to reach 46% in 1984.⁵⁵⁴ This possibility prompted *L'Express* to remind,

On sera loin de la promesse du candidat Francois Mitterrand qui s'était engagé à ne pas dépasser le seuil du printemps 1981: un peu plus de 42%. La revue de l'Institut national de la statistique souligne à quel point les définitions et les dates de références rendent difficile la mesure scientifique des prélèvements obligatoires. On ne peut pourtant échapper à une conclusion globale: la France est aujourd'hui, avec les pays nordiques, le pays occidental où le chiffre est le plus élevé et augmente le plus vite.⁵⁵⁵

L'Express reflected a general concern among the public about the ever increasing tax burden. This concern was fomented by and capitalized upon by business groups and cadres. In turn, public concern with the rising rates and burden of taxation was causing the government some consternation. Its ratings in the opinion polls were dismal, and its electoral defeats boded ill for the 1986 general elections. To address these concerns - and save its neck - the government was casting about for new solutions.

While the turning point in the government's tax agenda is generally dated to September 15, 1983, the idea to reduce taxes had been gestating for some time before. Jacques Fournier, the *secrétaire général adjoint* at the Elysée, had suggested reducing or eliminating financial aids and expenditures to various social categories and replacing these with tax cuts. Jacques Delors in June 1983 had proposed a new 2% tax on all income to be called a

⁵⁵⁴ J. Attali, 1993, op.cit., p.492. This 46% figure was also predicted by *L'Express* writer Yves Guihannec following the disclosure of the 1984 budget. (see, *L'Express*, no.1680, 16 Septembre 1983, p.110).

⁵⁵⁵ *L'Express*, no.1680, 16 Septembre 1983, p.110.

"contribution sociale" to finance social security.

Fournier's idea was adopted by Fabius who included it among his other tax proposals. From June 1982, Fabius was proposing to replace *allocations familiales* with tax deductions and lower company charges. The Budget Minister became firmly opposed to solutions that would raise the level of p.o..⁵⁵⁶ It is ironic that Fabius, one of the architects of the 1981 and 1982 reflationary budgets should not long thereafter become an ardent advocate for lower spending and taxes.⁵⁵⁷ Indeed, by mid-1982, Fabius was urging the President to consider, among other things, reining in expenditures, halting any new public sector job hirings, abandoning the preservation of purchasing power except for the least well off, and prioritizing the government's and public sector's investment programs. As Delors had done, Fabius took his crusade public. In an article for *Le Monde*, he wrote,

⁵⁵⁶ J. Attali, 1993, op.cit., pp.252,287. The success with which Fournier's idea had permeated government decision making circles was made evident in a letter from President Mitterrand to Prime Minister Mauroy in April 1984 in which the President mentions studies which had been done on the subject of tax reform whereby one of the techniques under consideration involved substituting tax cuts for expenditures in certain areas: "...Il s'agit de rationaliser notre système de transferts économiques et sociaux en substituant, chaque fois que possible, des diminutions d'impôt ou de cotisation à des aides ou à des prestations" (J. Attali, 1993, op.cit., p.621).

⁵⁵⁷ In the Socialists' *loi de finances rectificative* for 1981, spending for the second half of 1981 rose to FF646billion, compared to FF617.5 billion forecast in the original 1981 budget. For the 1982 budget, spending rose by 27% (over the initial 1981 budget) to FF790 billion. What explains Fabius's 'conversion' to supply-side economics and neo-liberal tax reform is not altogether clear. However, a number of factors, no doubt, help explain his neo-liberal 'awakening': firstly, the disillusionment engendered by failed policies and the institutional constraints which made sweeping changes impossible; secondly, the intense lobbying by French businessmen and the realization of their key role in reviving the French economy; thirdly, the conservative, pro-business policies being pursued in other countries like the U.S., Britain and West Germany; and finally, perhaps, the realization that his own political ambitions were at risk given current policies.

...dans un pays ouvert sur le monde comme la France, avec une économie mixte et qui entend le rester, la limitation du poids des prélèvements est bel et bien une nécessité. Économiquement, car dans la compétition internationale les charges ne peuvent s'alourdir à l'excès. Psychologiquement, car l'initiative et l'esprit d'entreprise se marient mal avec des prélèvements trop forts.⁵⁵⁸

By late 1982, Fabius was persuaded that the government had been on the wrong tack. Raising taxes, as it had been doing since June 1981, was doing more damage than good. It was important, he recognized, for the encouragement of risk, initiative and the international competitiveness of French industry, to limit the tax burden. This December 1982 article was followed by a note to the President in February 1983 in which Fabius urged that 1983 be the year for the application of the orientations articulated at Figeac, particularly, the "réduction des charges financières des entreprises."⁵⁵⁹

Fabius's crusade seemed a quantum leap from the quixotic redistributive socialism of his first twelve months in office. Nevertheless, it was one very much in sympathy with the President of the Republic whose declarations at Figeac, in the press and in ministerial meetings, were laying the groundwork for another *grand tournant idéologique*.

From the end of 1982 to the end of 1983, the French government underwent a fundamental change of priorities in terms

⁵⁵⁸ L. Fabius, "Secouer Quelques Habitudes", *Le Monde*, 11 Decembre 1982, p.1.

⁵⁵⁹ J. Attali, 1993, *op.cit.*, pp. 373-374.

of its fiscal policy.⁵⁶⁰ There occurred a shift to the supply side. In the discussions for the 1983 Budget in August of 1982 the principal decision makers were talking about the inclusion of tax cuts, tax reform (including abolishing the CGT) and social security finance reform.⁵⁶¹ The President set out the parameters of the government's budgetary approach when he said,

"Des dispositions seront prises dès le budget de 1984 pour que le pourcentage total des prélèvements fiscaux et sociaux soit au moins stabilisé, avant d'amorcer la décrue."⁵⁶²

Evidently, the President was considering, already by the end of 1982, a strategy of general tax reduction. Neo-liberal tax reform was creeping into government rhetoric, if not action, by stealth. The Socialists, however, could not change the agenda too quickly without being accused of U-turning and betrayal.⁵⁶³

Many Socialists, including Mitterrand himself, showed no shame in borrowing ideas and solutions associated with the right

⁵⁶⁰ Francois Xavier Stasse, an economic adviser in the Elysée at the time, in an interview with the author, spoke at length about the ideological struggle waged by the Keynesians and the "classical" economists in the government, "...c'était plutôt... la discussion entre les tenants de la politique de la demande et la politique de l'offre... Ca c'est un débat qui avait déjà commencé du temps du gouvernement de M. Barre. A l'époque je travaillais dans le Ministère du Plan...et cette discussion n'avait pas encore pénétré les équipes économiques de la gauche, en particulier le parti Socialiste.. Il y avait sûrement des experts dans l'administration où j'étais qui participaient à l'ensemble de ce débat...Ca consistait à dire que...pour avancer la demande il faut s'assurer que l'offre soit compétitive. C'est cette argumentation là qui est entré aux États Unis et en Angleterre à la fin des années 1970s, et a progressivement gagné du terrain en 1982/1983 en France." (Francois Xavier Stasse, interview in Paris, France, June 2, 1992).

⁵⁶¹ J. Attali, 1993, op.cit., p.302.

⁵⁶² Cited in *Le Monde*, 11 Decembre 1982, p.1.

⁵⁶³ This was confirmed by many of the interviewees including, Philippe Lagayette, Jean Choussat, Francois Xavier Stasse, and Patrick Careil.

and dressing them up in "new socialist" rhetoric. Privately, Mitterrand had admitted already some months earlier to Delors and Lionel Jospin, "'C'est Reagan et Thatcher qui gagnent'".⁵⁶⁴ In early September 1983, with his finger in the air, in a way, Mitterrand preordained the end of the left-right cleavage.

Mitterrand began to play the neo-liberal card, but subtly. The Socialists' move to the right in ideological and policy terms, while alienating the Communists, would perhaps win the Socialists new friends in the center. Mitterrand, sensing the rightward shift in public opinion, - "le glissement à la droite" - felt a break with the communists could be to the Socialists advantage.⁵⁶⁵ Political impulses were certainly at work.⁵⁶⁶

⁵⁶⁴ P. Favier and M. Martin-Roland, 1990, op.cit., p.451. On August 23, the President admitted the ideological hegemony of conservatism (J.Attali, 1993, op.cit., p.490).

⁵⁶⁵ J. Attali, 1993, op.cit., p.495. In fact, as early as the autumn of 1982, President Mitterrand was considering an opening to the center. In a conversation he reportedly had with the industrialist Ambroise Roux, Mitterrand, with his sights set already on the 1986 elections anticipated, "...l'émergence d'une nouvelle formation centriste. Quelque chose qui ne soit ni de droite ni de gauche et qui morde sur l'électorat conservateur...Moi, c'est un vrai parti centriste que je voudrais créer..." (F-O. Giesbert, *Le Président*, Paris: Editions du Seuil, 1990, op.cit., p.228).

⁵⁶⁶ Many interviewees pointed to the political nature of Mitterrand's adoption of neo-liberal ideas. Francois Xavier Stasse put it most succinctly, "Il y a d'un côté la réflexion fiscale avec l'idée du président que si on ne change pas la politique, ce sera le débat des élections suivantes que Chirac gagnera sur son terrain, parce qu'ils sentent que Chirac est proche de Reagan et il gagnera sur son thème... c'était un argument politique. C'était que M. Reagan aux États Unis avait gagné sa campagne électorale sur le thème de la diminution des impôts et s'est rendu très populaire comme celà. Il était évident que lors de la présidentielle de 1984 aux États Unis de nouveau le sujet qui fit la différence entre le candidat républicain et le candidat démocrate, c'est le sujet fiscal...Tous les grands penseurs français se faisaient de plus en plus le cours de cette pensée fiscale...et plus on approchait des élections françaises, les élections législatives de 1986, plus le président Mitterrand était convaincu qu'en France aussi, si on n'arrêtait pas l'augmentation des impôts, la bataille électorale s'orientait sur le sujet fiscal... Et c'est pour ça qu'en 1983, il a dit qu'il fallait arrêter. Il fallait stabiliser les prélèvements obligatoires." (Francois Xavier Stasse, interview in Paris, France,

Indeed, Mitterrand's thoughts were never far from the elections of 1986 and 1988.

Partly, as a result of the apparent mismanagement of the economy, the Socialists saw their political support drifting away to the center-right.⁵⁶⁷ They were losing support among sectors of society which, to a great degree, had swung to them in 1981, namely business executives and managers, white-collar workers, shopkeepers and the liberal professions. The Socialists efforts to "faire payer les riches" were hurting the larger mass of taxpayers, as well as the wealthy. One Socialist deputy, Michel Charzat, a member of CERES, said of the old slogan, "Ca fait peur à tout le monde sans satisfaire personne. Et ça ne resoud rien: voyez la Scandinavie."⁵⁶⁸ As already mentioned, the center-right, promoting neo-liberal solutions, was making significant gains at the left's expense. In the opinion polls, as the President's and the government's approval ratings fell, those of Jacques Chirac, Raymond Barre, the UDF and the RPR rose.

Moreover, periodic SOFRES surveys revealed that voters on

June 2, 1992). Other reasons given for the change in strategy were the ineffectiveness of Socialist economic policies and the state of the economy, as well as pressure from France's European partners.

⁵⁶⁷ The defeat of the left in the January 1982 by-elections, the March 1982 cantonal elections, the March 1983 municipal elections, as well as the opinion polls which showed falling confidence in both Mitterrand and Mauroy, served as a vivid warning to the President and his government. According to a SOFRES poll published in *Le Figaro-Magazine* on October 1, 1983 only 38% of people questioned had confidence in the President, 56% did not. One year later, an IFOP survey published in *Le Journal du Dimanche*, 11 November 1984, only 26% of those asked expressed confidence (F-O. Giesbert, 1990, op.cit., p.228).

⁵⁶⁸ *L'Express*, 17 Septembre 1982, p.106.

the left were drifting ideologically towards the right.⁵⁶⁹ A growing majority of voters on the left (as well as the center and right), for instance, were in favor of reducing taxes and social contributions (a major theme associated with the center-right). Francois Xavier Stasse confirmed that "Il y avait des sondages, bien-sûr, qui montraient que les français estimaient qu'il y avait trop d'impôts..."⁵⁷⁰ Philippe Auberger, commented that the strongest anti-tax sentiment was felt and expressed by the small shopkeepers, the liberal professions and new anti-tax groups like the Ligue des Contribuables.⁵⁷¹

These sentiments, moreover, were amplified by the press, especially *Le Figaro* magazine. As already mentioned, a more mobilized public, the various business groups like the CNPF and the CGPME, were strongly urging the government to initiate important and necessary tax reforms and other supply-side measures. This rightward shift - or "glissement à la droite" - reflected a public mood at odds with the misguided policies of the left and a growing predilection for the ideas of the right. Commenting on the change in the public mood, Noel-Jean Bergeroux wrote in *L'Express*, "...It carries away the entire public and translates into support for the right...when it is so powerful, a movement of ideas soon makes its influence on political

⁵⁶⁹ See, SOFRES, *Opinion Publique*, (Paris: Gallimard, 1983, 1984, 1985, 1986).

⁵⁷⁰ Francois Xavier Stasse, interview in Paris, France, June 2, 1992.

⁵⁷¹ Philippe Auberger, interview in Paris, France, November 8, 1993.

behavior.⁵⁷²

As the above passage indicates, not only was the public becoming more and more interested in what the right was saying, but so was the press. The press, whether following or leading public opinion, devoted many printed pages to the right and their neo-liberal ideas. Taxation was a popular theme, and several leading journals highlighted developments in the United States and Great Britain and/or boldly came out themselves in favor of tax reform.⁵⁷³

It should be pointed out however, that while a growing number of French people felt that taxes were too onerous and that they needed reforming, support for tax reform itself was not widespread. Jean Choussat pointed out that when asked if taxes should be lowered, of course respondents will say yes.⁵⁷⁴ But ask people what their concerns are or what problems need addressing, tax reform comes very low on the list, if it even gets mentioned. Choussat asserted, "... il faut regarder les sondages, mais quand

⁵⁷² Noel-Jean Bergeroux, "La Droite, C'est Quoi?", *L'Express*, no.1790, 25 Octobre 1985, p.43. The translation is mine.

⁵⁷³ See e.g.: Maurice Roy, "Impôts: Vous Payez Plus que Vous ne Pensez", *Le Point*, no.494, 22 Février 1982, pp.81-86; *Le Point*, no.609, 14 Mai 1984, pp.61-64; Marc Ullmann, *Paris Match*: 17 Septembre 1982, pp.60+; 19 Août 1983, pp.58-60; *L'Express*: no.1629, 24 Septembre 1982, p.97; no.1680, 16 Septembre 1983, pp.109-110; Guy Sorman, "Impôts Locaux: Où Va Notre Argent", 11 Novembre 1983; Yves Guihannec, "Vos Impôts Vont-ils Baisser?", no.1702, 17 Février 1984, pp.37-39; no.1714, 11 Mai 1984, pp.39-42; no.1719, 15 Juin 1984; *L'Expansion*, no.210, 18 Février 1983, pp.51-53; *Le Nouvel Observateur*, no.981, p.27.

⁵⁷⁴ Jean Choussat, interview in Paris, France, May 12, 1992. In contrast, one or two interviewees claimed that the French didn't believe that they were too highly taxed. Philippe Lagayette, for example, asserted, "Il n'y a pas une sensibilité forte des français... qu'ils sont trop fortement taxé." (P. Lagayette, interview in Paris, France, May 20, 1992).

on demande aux français quels sont les problèmes auxquels ils sont sensibles, la réforme fiscale n'est pas citée."⁵⁷⁵ It was largely - Choussat and others pointed out - the organized groups and lobbies that cried the loudest for reform of the French tax system, and of course, they got a lot of press attention.

The President's growing concern with the level of taxes was clearly revealed at the Council of Ministers meeting of June 23, 1983 for the purpose of discussing the outlines of the 1984 budget. Mitterrand showed a glimpse of what would become almost an obsession over the coming months. At that meeting he said,

Il ne faut pas que le gouvernement tombe dans ce grave danger qui consiste à augmenter indéfiniment la charge des prélèvements obligatoires. Celle-ci évolue vers un taux de 50% et cela ne sera pas toléré.⁵⁷⁶

Despite the President's acknowledgement of the dangers of letting the tax burden increase inexorably, little was actually being done in the government to stop the upward trends. Nevertheless, the importance placed on the trend in p.o by the President and the consequences for enterprise and risk-taking were not lost on Jacques Delors, the Finance Minister. In a letter to the President in mid-August 1983, he wrote,

Il arrive un moment où l'impôt décourage l'initiative et le travail, la création d'un climat favorable au travail, donc à la productivité, et, quoi qu'on dise, à l'emploi....Les Français, s'ils sont stimulés, sont encore capables de travailler beaucoup et mieux.⁵⁷⁷

⁵⁷⁵ Jean Choussat, interview in Paris, France, May 12, 1992.

⁵⁷⁶ P. Favier and M. Martin-Roland, 1990, op.cit., pp.498-99.

⁵⁷⁷ J. Attali, 1993, op.cit., p.487.

Not long thereafter, Mitterrand, at a luncheon meeting on August 31, 1983, declared, "Il faut faire baisser l'impôt sur le revenu."⁵⁷⁸ Again, the call was made on September 8, and on September 14, "Il faut diminuer les impôts."⁵⁷⁹ The rhetoric was clear and unambiguous, but transforming words into concrete actions was to prove a lengthy and difficult process. However, the marker was set and the groundwork was being laid.

The 1984 Budget provided for an increase in spending by a mere 6.3%, or taking inflation into account, by .2%. Heavier taxation - to the tune of FF16 billion was inscribed in the budget which would raise the p.o. to 44.7% (or from 44.6% to 45.4% according to INSEE figures). Among the measures included were: a 5% and 8% surtax on taxes paid above FF20,000 and FF30,000 respectively hitting about 2 million households - this measure, in effect raised the marginal rate of income tax to over 70%; higher inheritance taxes (*droits de succession*) with new rates of 30%, 35% and 40% on top of the existing rate of 20%; the renewal of the "contribution" of 1% on income destined to finance social security; a 1% increase in the *cotisation vieillesse* from 4.70% to 5.70%. (For a summary of tax measures passed under the Socialists, see Appendix B).

Le Nouvel Observateur called this budget "Le K.O. fiscal."⁵⁸⁰ *Le Figaro* wrote of the tax measures, "la facture de deux ans de

⁵⁷⁸ Ibid., p.493.

⁵⁷⁹ Ibid., pp.495,502.

⁵⁸⁰ *Le Monde*, 16 Septembre 1983, p.31.

socialisme...: le laminage."⁵⁸¹ The president of the CNPF, Yvon Gattaz underlined the fact that, as a result of this budget, the French work 4.5 days out of 10 for the state, which, he explained, was not the case in any other large, developed nation. M. Gattaz pleaded for "moins d'État, moins d'impôts, moins de charges" and for "plus de libertés et d'initiatives individuelles."⁵⁸² Moreover, he claimed that the budget did everything to discourage cadres and reminded that "l'excès d'impôts tue l'impôt."⁵⁸³ The UDF expressed general satisfaction with the austerity of the budget, but many complained that the tax burden was too high. M. Edmond Alphandéry (UDF Maine et Loire) remarked, "à partir d'un certain seuil, l'impôt tue l'impôt, car on arrive à un taux de saturation fiscale qui décourage les contribuables."⁵⁸⁴ Criticisms about the state of French taxation were mounting. The clamor for action on the tax front came from many quarters, expected and not-so-expected.

Then, on September 15, 1983, Mitterrand made his announcement on television,

...trop d'impôt, pas d'impôt. On asphyxie l'économie, on limite la production, on limite les énergies, et je veux absolument, tout le temps où j'aurai cette responsabilité, revenir à des chiffres plus raisonnables. L'année prochaine, il faut que, au moment où nous préparerons le budget 1985, cela baisse d'au moins un point...Il arrive un moment où c'est

⁵⁸¹ Ibid.

⁵⁸² Ibid.

⁵⁸³ Ibid.

⁵⁸⁴ Ibid.

insupportable. Ce moment, je pense qu'il est arrivé.⁵⁸⁵

For many, this announcement came as a complete surprise. It seemed Francois Mitterrand had been seduced by the Laffer theory. The language used by the President echoed similiar statements made by Alphantéry or Gattaz or perhaps even Laffer himself.

On the French television station, TF1, the President confronted the great socialist taboos head on: peace between the classes, including an appeasement of *cadres*, the virtues of wealth creation and profit, the dangers of protectionism, the impracticality of wage-price indexing, the dampening of consumption, the necessity of curbing spending, and most significantly, tax reductions.⁵⁸⁶ Moreover the President continued his attack on taxation calling "excessives" the social and fiscal charges of French companies, labelling the TP "un impôt insensé, un impôt imbécile", and urging its reform. Also promised, was a one-percent reduction in p.o. for 1985. Tax reductions were the new "mot du jour", tax increases were "passé". Francois Xavier Stasse remarked, "... et voilà! C'était l'air du temps, c'était la mode."⁵⁸⁷

While several authors credit Jacques Attali and Jean-Louis Bianco, the Elysée's general secretary, with this "coup

⁵⁸⁵ *Le Monde*, 17 Septembre 1983, p.8.

⁵⁸⁶ The extent of Mitterrand's break with past orthodoxy was underscored by the contrasting opinion expressed by Pierre Uri on the rôle of taxation and the issue of targeting reductions in p.o. (see, P. Uri, "Un Plafond pour les Prélèvements Obligatoires a-t-il un Sens?", *Pouvoirs*, no.23, 1982).

⁵⁸⁷ Francois Xavier Stasse, interview in Paris, France, June 2, 1992.

médiatique" and the secret hatching of a tax reform plan, Attali himself, denies any credit and has claimed that the idea was the President's.⁵⁸⁸

A la surprise générale, il annonce aussi la baisse d'un point, l'année prochaine, du taux des prélèvements obligatoires! Tout le monde croira que cette mesure a été soigneusement préparée en secret à l'Elysée. Il n'en est rien: elle est improvisée en direct.⁵⁸⁹

It is quite possible that Attali, familiar with Laffer's ideas and respected by the California economist, exerted some influence on the President.⁵⁹⁰ There is no doubt that Jacques Attali was

⁵⁸⁸ See e.g.: P. Favier and M. Martin-Roland, 1990, op.cit.; T. Gandillot, op.cit.; P. Bauchard, *La Guerre des Deux Roses*, (Paris: Grasset, 1986); F-O. Giesbert, 1990, op.cit., pp.196-7.

⁵⁸⁹ J. Attali, 1993, op.cit., p.502.

⁵⁹⁰ Attali was allegedly influenced by Arthur Laffer, author of the famous curve, who along with Milton Friedman was a favorite economist of President Reagan. F-O. Giesbert (1990, p.230) notes, "A l'Elysée, Arthur Laffer a un ami: Jacques Attali. C'est lui qui convaincra François Mitterrand de réduire les impôts. Laffer dit du conseiller spécial: 'Ce type comprend tout'." One interviewee added fuel to the fire in remarking that Jacques Attali was much influenced by developments in the United States (Jean Pascal Beaufret, interview in Paris, France, May 14, 1992). The interviewees, on the whole, seemed inclined to believe that Attali played an important role in the President's television announcement, but were skeptical about any plan of action prepared by Attali and Bianco. For example, Jean Choussat, referring to Mitterrand's announcement of tax cuts on TF1, said, "...c'est sûr que Attali et les gens qui l'ont entouré ont beaucoup travaillé sur ça et ont joué un rôle très positif. Ils ont démontré au président cette idée là...lui même d'ailleurs a...assez naturellement été gagné par cela...c'était...une chose à laquelle il pensait profondément." However, he did not believe that there was any reform plan behind this announcement. (Jean Choussat, interview in Paris, France, May 12, 1992). Patrick Careil similarly commented, "Ca a dû être une idée émise par Jacques Attali au moment où justement il y a eu des réactions contre la pression fiscale, et en faveur d'un contrôle de la montée des dépenses - parce que tout le monde demandait plus de dépenses - il a fait sa promesse de stopper la progression des prélèvements obligatoires... C'était quelque chose de complètement improvisée sur une idée de Jacques Attali et que nous avons eu beaucoup de mal après à tenir..." (Patrick Careil, interview in Paris, France, May 25, 1992). Careil, as well, denied that there was any coherent reform plan behind the announcement, and that measures - a plan - to meet the President's commitment came afterwards. Careil said, "...Au Ministère des Finances on l'a encadré après...et à Matignon aussi..." Moreover, François Xavier Stasse insisted, given his close involvement in such matters, that he would have known about such a plan had one existed (François Xavier Stasse, interview in Paris, France, June 2,

highly esteemed by the President who sought his advice frequently. Elisabeth Guigou, one of the economic advisers in the Elysée during the early 1980s confirmed Attali's importance to the President, "'...A l'époque Attali était le seul du groupe à pouvoir exercer une influence sur le président et il a joué un rôle extrêmement positif...'"⁵⁹¹ To attribute the source of any idea is a difficult exercise indeed, and it will not be attempted here. It is sufficient to say, however, that Attali, as well as several other influential figures, like Fabius, Bérégovoy, and Riboud, among others, were well-placed, and any one of them capable of persuading the President of the efficacy of tax reform, if indeed, he needed persuading.

Despite the difficulties with which this policy priority was digested by the Socialists, and especially their communist allies, plus the technical problems of devising measures which would help achieve the President's objectives, Mitterrand stuck to his guns. The personal and public commitment of the President, his exhortations in the Council of Ministers and in committee meetings, as well as his personal contacts with government ministers, indicated quite clearly that tax reform was a priority, an imperative, placing it in a position of prominence on the government's agenda.

While the idea's source is an interesting point for reflection, what is more important is why Mitterrand was to adopt

1992).

⁵⁹¹ P. Favier and M. Martin-Roland, 1990, op.cit., p.461.

it and make it his own. In understanding why tax reform was given such prominence of place by the President on the government's agenda particularly from September 1983, one must try to explain the climate in government and/or the receptivity to this idea, regardless of the source (J. Kingdon, 1984).

We already discussed, to a considerable extent, the importance of the domestic economic and political contexts and their impact on the evolving approach to taxation within the government, the Socialist party and the opposition. Another important factor in the turn to neo-liberal tax reform in France was the international context, political, economic and ideational/ideological. Developments outside France's borders - particularly in Britain and the United States - had an undeniable impact on policy development and strategy. To some extent, this has already been touched upon, but require further attention.

For example, several authors claim that Ronald Reagan's success, both economically - as economic recovery in the United States was underway - and politically - loved by the media, popular with the public, and likely to win re-election in 1984, was a factor.

Entraînés par la logique, les socialistes ont pratiqué une politique suédoise alors que le président, impressionné par l'efficacité de Reagan, prend conscience que le seuil d'intolérance était dépassé...Francois Mitterrand, en adoptant ce nouveau style, s'inspire à l'évidence de Reagan. Comme lui, il va faire tomber, comme un couperet, l'annonce de la baisse des prélèvements obligatoires.. Un socialisme qui chasse sur les terres du reaganisme.⁵⁹²

⁵⁹²

P. Bauchard, 1986, op.cit., pp.173,174.

Les succès médiatiques de Ronald Reagan impressionnaient le Président français.⁵⁹³

One author indirectly gave Mrs. Thatcher some credit when the President reported to him something the British Prime Minister had said,

Pour avoir la paix sur le front fiscal, avait dit un jour en riant Mme. Thatcher au président, il suffit de baisser les impôts des faiseurs d'opinion.⁵⁹⁴

Several interviewees, including Raymond Barre, Francois Xavier Stasse, Yves Mansion, Jean Méo, and Georges Egret spoke of the impact of outside developments, with references to Britain, the United States, Germany and France's other European partners, and the spread of supply-side ideas.⁵⁹⁵ Given Mitterrand's reputed political astuteness, it is unlikely that he would have ignored these developments and their consequences.

No doubt, witnessing the electoral successes and popularity of Reagan and Thatcher, sensing the turning tide in ideas, reflecting on his own sorry position in the opinion polls, suffering the electoral successes of the right and their rise in public esteem, and faced with an economy that wouldn't be revived, Mitterrand surely felt that there was something to be gained by changing tack. Indeed, to borrow from Peter Hall

⁵⁹³ T. Gandillot, op.cit., p.79.

⁵⁹⁴ F-O. Giesbert, 1990, op.cit., p.231.

⁵⁹⁵ Barre, in fact, surmised that President Mitterrand's trips to the United States in 1983 and 1984 and his contacts there with industrial, agricultural and service industry groups had a profound impact on him, "...il a eu une révélation." (Raymond Barre, interview in Paris, France, June 2, 1992).

(1986), it was the combination of economic promise and political advantage that rendered neo-liberal tax reform such an attractive option for Mitterrand.⁵⁹⁶

Evidently, a variety of pressures and problems, political, societal and economic, domestic and international, combined to influence Mr. Mitterrand's choice. Economic and political developments - both international and domestic - which captured media attention and affected public opinion made the ground fertile for the neo-liberal ideas advocated by the center-right. Such trends and their potential consequences were not lost on Francois Mitterrand, nor for that matter other important figures in the party such as Laurent Fabius, Pierre Bérégovoy and Michel Rocard. But for many, the President's commitment was hard to swallow, and would be even harder to achieve.⁵⁹⁷

The President made his position clear shortly after his television announcement when he said at a meeting of the Council of Ministers,

⁵⁹⁶ See, P. Hall, 1986, op.cit., pp.274-75.

⁵⁹⁷ Although, initially, the President's announcement was met with cool reserve and even surprise by some members of his government. Despite the frequent signs evident in meetings with the President and in his public addresses prior to September 15, 1983, Mauroy, Delors and Bérégovoy were completely caught off guard by the announcement as well as the change in strategy which seemed to abandon the economic objectives of the *Projet socialiste*. Moreover, his announcement appeared to call into question long cherished notions of social justice. Indeed, the Prime Minister sought to persuade the President to limit the reduction in p.o. to .5% in 1985 and .5% in 1986, but Mitterrand stood resolutely by his pledge to the French people. Delors, Fabius, Emmanuelli, Stasse and Bérégovoy argued that such a reduction, as desired by the President, was impossible. In fact, the decision would be harder to implement, because with government spending based on a supposed increase of 1% in p.o., an actual 2% reduction in p.o. for 1985 would be required to meet the President's objective. This would mean tax cuts of FF80 billion!

Ce n'est pas sur l'évolution des indices économiques que le gouvernement regagnera l'opinion mais sur une diminution des prélèvements fiscaux. Les indices, même s'ils évoluent favorablement ne sont pas suffisants. L'inflation? Les gens pensent toujours que celle-ci peut repartir. Le chômage? Il est peu vraisemblable que son niveau soit réduit. Le commerce extérieur? Une amélioration peut avoir des effets vis-à-vis des opérateurs internationaux, mais elle resterait imperméable pour la grande majorité de la population... En revanche, la diminution d'un point de prélèvement sera immédiatement ressentie. C'est là que la majorité jouera sa survie. Les huit dixièmes des arguments de l'opposition se briseront sur cette réalité.⁵⁹⁸

Evidently, as this speech indicates, the commitment to reform and reduce taxes made by the President was above all political. This assertion has already been put forward, to some extent, in our earlier explanation of the government's *grand tournant idéologique*. The decision to place tax reform high on the French government's agenda was a political one. Mitterrand hoped to save the Socialists' perilous political fortunes by cutting the grass from under the feet of the opposition. As Francois Xavier Stasse put it, "...c'était une déclaration que le président a fait a la télévision, qui était...purement politique... Il était convaincu que s'il ne faisait pas celà, la bataille politique des élections suivantes serait perdue."⁵⁹⁹

As already mentioned, the reduction in taxes promised - and the reasoning behind it - was not only expedient, but also represented a nod in the direction of neo-liberalism preached by the likes of Reagan, Thatcher and Chirac. Learning from lessons

⁵⁹⁸ P. Favier and M. Martin-Roland, 1990, op.cit., p.500.

⁵⁹⁹ Francois Xavier Stasse, interview in Paris, France, June 2, 1992.

taught by Reagan and Thatcher, and aware of the importance of tax reform in the RPR's program and its supposed appeal, the President tied himself firmly to the tax reform bandwagon. Mitterrand hoped to benefit from the secret of the Reagan and Thatcher successes while at the same time taking the wind out of the opposition's sails. Given his doubts about the Socialists' chances in 1986, this was necessarily a pragmatic and realistic decision. The President was convinced that the major issues for 1986 would be employment and taxes.⁶⁰⁰

From Words to Deeds

Although lacking any firm ideas of his own, the President's commitment to tax reform, made repeatedly in public and in government, placed the issue in a position of prominence on the government's agenda. Following his interview on TF1 he wrote to Prime Minister Mauroy,

Il appartient au gouvernement de proposer les voies conduisant à une réduction d'au moins un point de prélèvements obligatoires en 1985. Cette tâche doit être engagée sans délais. Elle exige un travail préparatoire que je vous demande de bien vouloir mener à bien d'ici la fin Octobre.⁶⁰¹

But lowering the rate of p.o. would be a difficult effort to realize, considering that for ten years, p.o. had increased on average one percent per year (see Appendix A, Figure 1A).⁶⁰²

⁶⁰⁰ J. Attali, 1993, op.cit., p.596.

⁶⁰¹ Ibid., p.505.

⁶⁰² Francois Xavier Stasse offered some insight into the dilemma and how it might otherwise have been avoided. He revealed, "Il [le président] a dit 'Si je veux qu'il y ait un arrêt, il faut que je dise on va baisser d'un point les prélèvements obligatoires,'" but, "...Et lui il n'était pas technique, il était politique... c'était une déclaration

Neither his "liberal" predecessors at the Elysée and Matignon, nor his neo-liberal homologue across the Channel, had succeeded in reducing the tax burden. Despite the difficulty inherent in devising measures which would facilitate a reduction - let alone a stabilization - of p.o., Mitterrand repeatedly confirmed his wish to see the tax burden reduced, the TP abolished, and income taxes reduced by 5%.⁶⁰³

This promise, created problems for the government's partners, the Communists. Georges Marchais, the Communist Party leader, was decidedly opposed to the idea, while Charles Fiterman, the Transport Minister, ultimately declared himself favorable to "la réduction de l'impôt sur le revenu, voire d'autres impôts."⁶⁰⁴ Within the President's own party, Delors and Henri Emmanuelli (the Budget Minister) balked at the President's demands.⁶⁰⁵ Delors had privately called the President's promise on p.o. absurd.⁶⁰⁶ Such tax reductions - untimely considering that tax receipts were less than what had been forecast - would

que le président a fait à la télévision, qui était...purement politique. Je sais que le président était convaincu que si il avait demandé à ces experts... 'est-ce qu'il est possible de diminuer d'un point les prélèvements obligatoires?', je lui aurais dit 'non, que c'est impossible'...mais il ne l'a pas fait... la baisse d'un point, ce qui d'ailleurs était en réalité deux points, puisque le train annuel était de plus d'un point... C'était tout à fait impossible." (Francois Xavier Stasse, interview in Paris, France, June 2, 1992).

⁶⁰³ The 5% income tax reduction was broached with the Finance Minister in the course of a meeting with the President on January 3, 1984 (J. Attali, 1993, op.cit., p.562).

⁶⁰⁴ *L'Express*, no.1714, 11 Mai 1984, p.39.

⁶⁰⁵ J. Attali, 1993, op.cit., pp.599,604,630-1.

⁶⁰⁶ Gabriel Milesi, *Jacques Delors*, (Paris: Belfond, 1985), p.224.

entail a widening of the budget deficit to over 4%. The President remained unmoved. He called on the Prime Minister to lower income taxes and the *taxe d'habitation* by 10% and abolish the TP.⁶⁰⁷ At the Council of Ministers meeting of January 18, 1984, Mitterrand insisted that a reduction in the overall tax burden of French citizens was the government's "major political priority".⁶⁰⁸ The burden of direct taxes and social charges had become excessive in France, according to the President. Their reduction would be the centerpiece of the 1985 Budget. According to the *Financial Times*, the rising burden of taxes and social charges had become the most unpopular aspect of the government's economic policy.⁶⁰⁹

Mitterrand was determined that his will be done. In the event that key members of the government had forgotten his pledge or were hoping to short circuit it, a few months later, in April 1984, the President wrote to the Prime Minister a letter which Jacques Attali (1993) has called the most revolutionary that a President has addressed to a prime minister on the subject of tax and administrative reform.⁶¹⁰ Mitterrand wrote,

J'ai souhaité à plusieurs reprises que soit amorcée en 1985 la baisse des prélèvements obligatoires. Cet objectif est une priorité politique majeure pour l'action du gouvernement...L'importance politique qui s'attache à la réalisation de cet objectif de baisse

⁶⁰⁷ J. Attali, 1993, op.cit., p.605.

⁶⁰⁸ *Financial Times*, January 19, 1984, p.2.

⁶⁰⁹ Ibid.

⁶¹⁰ J. Attali, 1993, op.cit., p.621.

des prélèvements obligatoires justifie que l'on remette en cause les habitudes liées à la reconduction annuelle des dépenses dont la charge est désormais excessive aux yeux de nombreux Français. Je vous remercie de veiller à ce que le gouvernement tout entier participe à cet effort de remise en cause et d'imagination.⁶¹¹

Evidently, the commitment by the President to this agenda item remained unwavering - with the exception of the TP. Concerning the TP, given the need for any and all resources available, the abolition of a tax - no matter how heinous - which brought in FF60 billion per year, was a difficult imperative to follow. Jean Choussat, the Budget Director, in a missive to the President, impassionately explained the technical impossibility of abolishing the TP.⁶¹² Apparently, this intervention, surprising on the part of a civil servant, arrived at the right time. The President was persuaded, and plans to abolish the TP were dropped.⁶¹³

However, with the "glissement à la droite" gaining force,

⁶¹¹ Ibid., p.621.

⁶¹² Ibid., p.654.

⁶¹³ Also, at the Elysée, Francois Xavier Stasse and Hervé Hannoun worked on the reform of the TP. Stasse explains, "Le président à la télévision a aussi dénoncé cet impôt injuste et imbécile. Je ne me souviens plus qu'il ait ajouté qu'il fallait le supprimer... Nous avons beaucoup travaillé pendant six mois - essentiellement deux personnes, Hervé Hannoun, qui était à l'époque le conseiller fiscal... et moi, pour essayer de trouver un système pour supprimer la taxe professionnelle, mais, à la fin, on l'a baissé par d'autres moyens. Je lui ai dit 'aides moi' parce que le ministre de finances pensait que c'était impossible... Nous avons beaucoup travaillé... avec le directeur de cabinet du premier ministre, Jean Peyleverade - nous avons beaucoup travaillé ensemble et au bout de six mois, il a dit à Pierre Mauroy, et moi j'ai dit au président, "Ce n'est pas possible"... "C'est trop compliquée"... "Si nous supprimons la taxe professionnelle en le remplaçant par autre chose, ça va être une pagaille épouvantable. Il va y avoir des changements des effets de seuil, des changements des impositions d'un appartement à l'autre... d'une entreprise à l'autre... et donc le président a reconsidéré..." (Francois Xavier Stasse, interview in Paris, France, June 2, 1992).

evidenced by the March and June private schools demonstrations and particularly following the June 1984 European elections,⁶¹⁴ the President became even more convinced that his tax pledge should be implemented. In early July, in a speech in Auvergne, Mitterrand said, "Il faut patiemment réduire les impôts."⁶¹⁵ By early May 1984, the rest of the government was beginning to fall in line behind the President, and Delors announced that companies and individuals would pay lower taxes the following year, with income taxes probably dropping between 3% and 6%.⁶¹⁶

On July 6, 1984, Mitterrand took the initiative in announcing a FF10 billion reduction in the TP and the same amount for households, as well as the abolition of the 1% "contribution" for social security and various measures intended to simplify the tax system.⁶¹⁷ The President accelerated the cadence of his tax reform proposals, when, on July 14, 1984, on television, he announced an 8% general reduction in taxes, or around FF70 billion. According to the President, "...deux sortes d'impôts seront diminués: l'impôt sur le revenu des personnes physiques et la taxe professionnelle."⁶¹⁸ He asserted that the reductions in

⁶¹⁴ At these elections the combined left won 39% of the vote, of which the PS, at 20.7% (just under its 1979 vote share), registered well below its 36% share of 1981. Twenty percent of the vote had slipped to the right, with a total of 43% of the votes for the opposition RPR-UDF, and 11% going to the National Front. Abstentions reached a record 43.3%.

⁶¹⁵ *Le Point*, no.617, 16 Juillet 1984, p.34.

⁶¹⁶ *Financial Times*, May 8, 1984, p.2.

⁶¹⁷ Francois Renard, "Le Pari Difficile de la Diminution des Impôts", *Le Monde*, 17 Juillet 1984, p.1.

⁶¹⁸ *Le Monde*, 15 Juillet 1984, p.1.

income tax would be "la plus forte baisse depuis la Libération."⁶¹⁹

The 1985 budget went to great lengths to make good the President's promises and wishes. For a Socialist government, it represented a significant departure from previous budgets. On the day the 1985 budget was made public, at the meeting of the Council of Ministers, the President emphasized the consequences of not doing anything about the rate of growth in p.o.,

Si l'on n'avait pas cassé le rythme de leur augmentation, ils auraient atteint, à la fin du septennat plus de 50% du produit intérieur. C'eut été intolérable, on aurait étouffé l'initiative et la production.⁶²⁰

Once again neo-liberal and supply-side arguments were called upon to support the President's assertions that taxes should be lowered. At the end of the day, the tax reductions inscribed in the *loi de finances* for 1985 were more or less what the President had wanted. Although there was no reduction in the *taxe d'habitation*, income taxes were lowered by 5% or FF10 billion, the 1% "contribution" for social security was abolished, and the *taxe professionnelle* was reduced by FF10 billion (see Appendix

⁶¹⁹ Ibid.. A couple days later, the Mauroy government resigned and a new one was formed with two tax reformers heading it. Laurent Fabius was appointed Prime Minister and Pierre Bérégovoy was installed at the rue de Rivoli. In the President's letter to the new Prime Minister, tax reform was an important feature. He wrote, "D'abord notre fiscalité, qui doit être débarrassée de certains archaïsmes ou habitudes néfastes...Il conviendrait notamment: 1) d'enrayer l'augmentation continue des prélèvements obligatoires. Depuis dix ans, ces prélèvements - impôts et cotisations sociales - n'ont cessé d'augmenter. Grâce à la meilleure maîtrise des dépenses publiques, cette tendance doit s'inverser dès 1985; 2) de réduire régulièrement chaque année l'impôt sur le revenu..." (J. Attali, 1993, op.cit., p.675).

⁶²⁰ *Le Point*, no.626, 17 Septembre 1984, p.86.

B). Whether the measures decided would achieve a 1% fall in p.o. remained to be seen.⁶²¹

The dark spot on the government's achievement was the back door increases in indirect taxation implemented earlier in the summer. For instance, in July 1984, the price of super gasoline was raised 22 *centimes*, a rise of 4.5% and then another 3 *centimes* by the budget. In addition, the *taxe de base telephonique* was raised by 10 *centimes*, with a future rise of 5 *centimes* planned. These measures prompted the President to caustically remark at the September 12, 1984 Council of Ministers meeting, "Moins d'impôts, plus de taxes."⁶²² In October, the government announced an increase in the wealth tax rate of 1.5% to 2%, in order to counter opposition accusations that under the Socialists a class of "new poor" had emerged, as well as to appease the Communists.

The increases in public tariffs, however, eliminated the intended effects of the tax reductions. Firstly, they undermined the President's promise to reduce the burden of taxation by 1%, by creating further impositions on taxpayers. The tariff hikes went some way towards neutralizing the tax cuts in the 1985 budget for both businesses and households. Secondly, the

⁶²¹ On the expenditure side, another significant change was the control of public expenditure, which was projected to rise around 6%, less than the projected nominal growth in gnp of 7.5%. The slowdown in state spending for 1985 had not been witnessed on such a scale for at least a decade. The *Financial Times* (September 10, 1984, p.1) characterized the squeeze as "the tightest since World War II."

⁶²² J. Attali, 1993, op.cit., p.695. This was also the leader on the first page of *Le Monde* the day after the budget.

negative publicity given to these measures overshadowed anything positive which might have been gleaned from the tax reform/cutting measures in the budget.⁶²³

In the end, according to INSEE, p.o. dropped by .1%, from 44.6% of gdp to 44.5% for 1985 (see Appendix A, Figure 1A).⁶²⁴

Despite the failure to meet the President's promised 1% reduction, this government had not only been the first to announce a general reduction in taxes in 30 years, but was the first since 1971 to actually achieve the "coup d'arrêt".

The Socialist government encouraged by their own accomplishment and keen to cut the grass from under the opposition's feet, proceeded to promise continued reductions in taxation and the tax burden for 1986. The President, Fabius and Bérégovoy, throughout the course of 1985, and in the run-up to the March 1986 legislative elections, made promises of future tax reductions, including specific measures for income tax, the IS, and incentives for investment. The 1985 budget contained an average 3% reduction in personal income taxes, the suppression of the 1% *majoration exceptionnelle*, and a reduction in the IS, in part, from 50% to 45%. This time, the tax reductions would not offset by increases in public tariffs. By the elections of 1986, the tax burden looked set to fall to around 44%.

⁶²³ See e.g.: *Financial Times*, September 14, 1984, p.2; *L'Express*, no.1737, 19 Octobre 1984, p.61.

⁶²⁴ INSEE, in *Comptes Nationaux 1988* (Paris: La Documentation Française, 1988), recorded a decrease in p.o. of .1%, from 44.6% of gdp in 1984 to 44.5% in 1985. However, Jacques Attali (1993, p.695) claims the decline was .25%.

From 1985 - indeed from 1982/3 - the Socialists had successfully implemented a limited tax reform agenda based on selected reductions in personal, corporate and savings taxation meant to stimulate work, productivity, investment and risk-taking. On a more cynical level, their tax reforms were also announced and designed with regards to their hoped for political impact. In sum, the Socialists' tentative introduction of neo-liberal tax reform in France, revealed a much changed agenda from the pre- and immediate post-1981 experience. The Socialists not only changed their own agenda, but set the agenda, to a degree, for the incoming center-right government. This agenda change extended to other areas of economic policy including encouragement of the Bourse, price and exchange decontrols, and partial and limited denationalizations. Far from the "plus d'État" policies which characterized the Socialist Party's first years in office, the "moins d'État" credo - first articulated by the right - guided the policies of Mitterrand, Fabius and Bérégovoy, and of Rocard and Bérégovoy in the period following the conservative interregnum.⁶²⁵

Conclusion

Unofficially the rallying cry of the opposition - "moins

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Favier and Martin-Roland (1991, pp.393-4) tell us, "...le gouvernement mène une politique économique et monétaire qui, sur bien des points, rejoint les idées libérales qui dominent les réflexions de l'époque...Mitterrand a fait sien cet objectif de désengagement des pouvoirs publics de la vie économique réclamé avec insistance par les responsables de la droite convertis, pour la plupart, aux doctrines venues d'outre-Manche et d'outre-Atlantique. Cette rupture avec l'engrenage dirigiste, dans lequel s'inscrit la France de droite et de gauche depuis la Libération, vise à ôter à l'opposition l'un de ses principaux arguments: 'L'État étouffe l'initiative privée'."

d'Etat" - became Mitterrand's own. One of the keys to achieving the dual objectives of "moins d'État, plus de libertés" was taxation. In terms of agenda change, tax reform was surely the most dramatic. Absent from future budgets, for the rest of the decade, would be measures intended to deliberately increase the tax burden on businesses and high income earners - to deliberately "faire payer les riches" - once intended to serve ends of social justice and revenue raising (except with respect to the reimposition of a wealth tax in 1988). Instead there would be reductions in personal, corporate and savings taxation, and later in consumption taxation (see Appendix B for a summary of important tax reforms in the 1980s).

In contrast with the United States, and Great Britain to a lesser extent, the Socialist's adoption of neo-liberal tax reform was not driven by popular pressure from below; although, it is doubtful whether the French taxpayer could continue to tolerate the sort of charges the state would have demanded had the government not changed course when it did. Rather, the change was impelled by external developments which triggered a learning and emulative process, as well as internal developments, influenced by majoritarian politics and the failure of reflationary economics.

Outside France, the general movement towards tax reform, justified by Arthur Laffer and other economists of the New Right, and fostered by Mrs. Thatcher and Ronald Reagan, made its impact felt in France. France, as well as other countries, studied, and

in some cases, followed the American or British examples. Conservative parties in France, encouraged by Reagan and Thatcher, saw their agendas change, to a large extent, as they developed their own neo-liberal programs, which included tax reform in one shape or another. As the Socialist solutions proved ineffective in dealing with the economic crisis, the parties on the right, and their neo-liberal theses, were attracting increasing attention and interest. Their political victories, building on the progressive decline in support for the left, coupled with the sad state of the economy, obliged the Socialist government to consider other solutions.

Less than two years after the Socialists swept into power, the President, and some of his advisers and ministers, recognized that taxes were too high and likely to go higher. This development was having negative effects on productivity, investment and economic growth. As Mitterrand said to Bérégovoy during the Council of Ministers meeting of September 12, 1984 when the budget was presented,

...Quels budgets faciles auriez-vous eu si je n'avais pas imposé l'an dernier la règle de la diminution des prélèvements obligatoires! Pourtant, si je ne l'avais pas fait, nous continuerions sur la pente de leur augmentation continue depuis dix ans. Sans notre volonté farouche de les réduire, nous aurions terminé le septennat à près de 50% du pib et on aurait ainsi étouffé l'initiative et la production.⁶²⁶

The negative consequences of an increasing tax burden was apparent in the economic indicators - something the business

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P. Favier and M. Martin-Roland, 1990, *op.cit.*, p.186.

community never tired of advertising. Socially and politically, the electorate was unlikely to tolerate a higher tax burden and would hold the government responsible. This had serious implications for the upcoming legislative elections. The government was in a quandary: how to remedy the economic ills, win back public support, and reduce the opposition's appeal? One solution (among several) was already available: tax reform. Thatcher and Reagan had promoted and implemented it; and now Chirac was following in their footsteps.

The political climate made the time right for such a change. President Mitterrand, the ultimate policy shaper and decision maker in French government, acknowledged that taxes had reached the threshold of intolerance and changed the government's agenda by making tax reform a "priorité politique majeure". With tax reform advocates in key positions - particularly Fabius and Bérégovoy - in the government, this priority was operationalized in a series of measures that sealed the fate of the Socialist's experiment in redistributive Keynesianism.

From 1984 through 1986 and afterwards, loyal supporters of the President and tax reform advocates in their own right like, Pierre Bérégovoy, Laurent Fabius, Jacques Chirac, Michel Rocard, Dominique Strauss-Kahn, Claude Evin, Raymond Barre, Edouard Balladur, Alain Juppé, and Edmond Alphandéry were well-placed in government and in government circles to ensure that tax reform

moved on to the governmental agenda and the decision agenda.⁶²⁷

Nonetheless, these actors were not necessarily the policy entrepreneurs, as this attribution is generally accorded less well-known figures and groups. As in Britain, all the principal French economic decision makers - President, Prime Minister, Ministers of Finance and Budget- were committed to tax reform and the reduction of the tax burden. Their commitment, manifested in several ways, was instrumental in keeping tax reform on the agenda, or at the very least ensuring it did not fade away.

Of course, in politics, as elsewhere, often the best laid plans go awry. Public declarations on the shape and direction of taxation made by tax reform advocates are not always realized. Other items rise up onto the agenda, displacing tax reform or preventing the rise of tax reform to a place of prominence on the agenda. Such was the case immediately following the President's September 1982 Figeac speech, when more pressing problems like the budget and social security deficits, and controlling inflation, unemployment and currency instability occupied the attention and energies of governmental decision makers.

Also, in the period from 1988 to 1993, the President's concern for redressing the long neglected social inequalities, took priority of place on the agenda, and neo-liberal tax reform - partly because some key decision makers felt enough had already been done in that regard - struggled to survive. And in some

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These actors were those most frequently mentioned by interviewees and resource materials as key to the emergence and enactment of tax reform in France.

cases, particularly with respect to VAT, savings taxation and company taxation, neo-liberal tax reform scored some notable victories over skeptics, opponents and the apathetic, thanks to the commitment and conviction of key decision makers, and the absence or minimization of effective opposition.

There are a number of other reasons why the tax reform agenda may not be realized. Institutional constraints can affect the evolution of items on the agenda and the shape that policy ultimately assumes. Such constraints may come in the form of the nature of the dynamics of the relations between the President and his government and parliamentary majority. Or an idea, however timely, may conflict with important values or policies to which a political figure or party is particularly attached. For example, if neo-liberal tax reform did not appear earlier on the government's agenda, it was partly due to the fact that it was not compatible with either Socialist ideals nor the Socialists' program (including Mitterrand's 110 propositions). Public and political support for Socialist ideas and policies was still quite strong.

The resistance to a neo-liberal agenda including tax reform was also partly due to the roles assumed by Mitterrand and the expectations incumbent with those roles. Mitterrand, as leader of the Socialist Party, was intent on democratizing government, moving away from the alleged autocratical presidential regimes of his predecessors; he would therefore not be inclined to propose such reforms himself, especially ones which had become the domain

of the opposition, associated with the new right, and which had such little support within his own party. Were Mitterrand to advocate neo-liberal tax reform it would likely be seen as a betrayal of socialist principles and the Socialist Party and give the appearance that he was imposing his will on an unwilling party. To propose such a drastic change, moreover, with a majority of the left in Parliament hostile, would also defeat the democratizing and decentralizing efforts in the government decision making apparatus. Mitterrand needed the passage of time to help him, and others, persuade the party of the necessity of agenda change, in light of changing political and economic circumstances.

Institutional constraints can also come in the form of the resistance of other important actors in the process, on ideological or practical grounds. For instance, if the reform of the *taxe d'habitation* never rose to the decision agenda prior to 1989, or income taxes were not more quickly reduced, this could be explained, for example, by the resistance of the tax administration (part of the Ministry of Finance) to these ideas. This resistance could most likely be understood in terms of the tax administration's decision that such reforms were too problematic to introduce, would result in too great a loss of revenue, or that their agenda was already too full to consider new and far-reaching changes. A vivid example of this was the direct contact made by Jean Choussat, the then *Directeur du Budget*, in June 1984, with President Mitterrand concerning the

much desired abolition of the *taxe professionnelle*.⁶²⁸ The President and Prime Minister Mauroy had been pressing for the abolition of the TP since at least early 1984.⁶²⁹ Choussat informed the President by message that such a policy was "techniquement impossible". Mitterrand, in the end, was obliged to agree.⁶³⁰ The TP would not be abolished. The opposition or resistance of members of the Ministry of Finance, especially in the tax administration, doomed the President's idea. Unless powerful and influential actors can be persuaded or obliged to accept a particular policy or proposal - acceptance being based on a number of criteria - it is unlikely to move from the governmental to the decision agenda, or worse, will not even receive a serious hearing.

In addition to the above mentioned institutional constraints, other constraints arising from the institutional environment also may frustrate the movement of items onto the governmental agenda. For example, timing can seriously affect an item's progression to agenda status, and this has already been briefly referred to. In this case, the political calendar may alternatively make the time right or wrong for introducing and

⁶²⁸ In fact, the resistance of the tax administration to a reform of the TP predates 1984. For a brief, but good account of the blocking efforts made by civil servants to reform of this tax between 1975 and 1982, see, M. Sylvain, "Taxe professionnelle: le pouvoir dans la nasse", *Pouvoirs*, no.23, 1982.

⁶²⁹ President Mitterrand wanted the abolition to be compensated by a four point rise in VAT. The Finance Minister, Delors, resisted (see, J. Attali, 1993, op.cit., p.562).

⁶³⁰ J. Attali, 1993, op. cit., p.654.

implementing reforms. To illustrate, if Prime Minister Chirac (1986-88) did not undertake the reform of the system of social security finance by introducing the *cotisation sociale généralisée*, which at the time was strongly promoted by well-placed advocates, it was largely because of the 1988 presidential elections.⁶³¹ The nearness of the elections, and Chirac's undisguised designs on the presidency, made such a fundamental reform too risky. Similarly, if Mitterrand made tax reform a major political priority, it had much to do with his concerns regarding Socialist chances in the 1986 legislative election and his own political future.

While reform proposals were floating up and around, institutional constraints abounded in the forms of perceived civil service and party hostility, value inacceptability, role expectations and norms, and the budget, among others. Such constraints made neo-liberal tax reform an unlikely agenda item for a Socialist government in the early 1980s. It required a resolute and resourceful decision maker to assert his authority and place such a controversial issue on the agenda. Mitterrand resisted until the economic and political realities compelled him to consider a policy change. These realities were joined by the untiring advocacy of friendly, neutral, and even antagonistic actors, inside and outside government, who, if not induced the President, supported his decision to "take the bull by the

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See e.g.: *Le Monde*, 26 Mai 1987, pp.1-2 and 24 Octobre 1987, p.28; *L'Express*, no.1826, 4 Juillet 1986, p.22.; S. Shaughnessy, op.cit.

horns".

CHAPTER SEVEN

CHAPTER SEVEN**- The British and French Garbage Cans -**Introduction

The previous four chapters have demonstrated that tax reform is driven by a political dynamic. Even in an area as "economic" as taxation, political factors were important in the evolution of tax reform and its appearance on governmental agendas in France and Britain in the late 1970s and 1980s. The purpose of the last few chapters was to trace that evolution in France.⁶³² At their most basic, the preceding chapters provided a blow-by-blow account of tax policy making and the course of tax policy over the 1979-1989 period. While tax reform no doubt had an origin somewhere in the long span of history, the purpose was not to identify origins, British, French or other; that would be an exhaustive exercise in infinite regress.

Chapters three through six attempted to investigate the roots and branches of neo-liberal tax reform in the period prior to and including 1979 to 1989. In the course of that investigation, it became apparent that a complex of factors was responsible for the shape and development of tax reform in France. Our task now is to identify, clarify and organize those factors, and see how they compare to the British situation.

While many of the recent reforms may have roots in ideas

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While this is a comparative study, for reasons of space I have omitted a descriptive account of tax reform in Britain. Several thorough and insightful works on British tax reform are available and the reader is referred to the literature mentioned in footnote 5.

formulated and floated in the 1950s, 1960s or 1970s, why and how tax reform moved from intellectual debate to government legislation in the 1980s is more important than the potentially futile exercise of attempting to pinpoint origins. The critical factor that explained the "flowering" of tax reform was not so much the roots - or origins - but rather the political climate, or the receptivity of key decision makers to the actors and the ideas they advocated.⁶³³ What made the idea catch on and take hold is of greater import than where the idea came from. We should be asking, not who planted the seed, but what made the seed grow?

As we have seen, there were many tax reform ideas being floated by several sources: in Britain, the Bow Group, the IEA, the IFS, Enoch Powell, Peter Cropper, Lord Cockfield, Geoffrey Howe and Nigel Lawson, among others; in France, participants in the idea/proposal-generating and agenda setting processes included, the new economists, the Club de l'Horloge, Philippe Auberger, Jacques Chirac, Alain Juppé, Club 89, the *visiteurs du soir*, Christian Sautter, Jacques Delors, Laurent Fabius, Pierre Bérégovoy, members of the Planning Commissariat and others. Some of these participants were "visible", by virtue of their public and high-profile positions of authority; others were among the "hidden cluster", out of the public eye and/or working behind the scenes.⁶³⁴

⁶³³ As Kingdon (1984) states, "...the critical thing to understand is not where the seed comes from but what makes the soil fertile." (J. Kingdon, 1984, op.cit., p.81).

⁶³⁴ See, J. Kingdon, 1984, op.cit., ch.3, for a more in-depth examination of the visible and hidden participants.

The emergence of tax reform on the agendas of the British and French governments from 1979 and its "staying power" throughout the 1980s was due to a combination of problems, policies and politics and the activities and efforts of a variety of visible and hidden participants in a given institutional setting.

This thesis does not intend to assess the success or failure of tax reform policies. Nor does it detail their economic design, purpose or consequences. Rather, it seeks to examine and explain the pre-enactment processes which led to the emergence of tax reform in France and Britain in the 1980s. Moreover, the nature of the attention given to the issue is as important as the substantive policy produced as a result of that attention.

In advancing our understanding of tax reform, it was first necessary to examine the context in which the idea evolved into government policy. Following this, we must ask a number of questions which will help us to identify the complex of factors involved in the development and evolution of this issue up through its appearance on governmental agendas. What problems did the British and French governments face in the late 1970s/early 1980s? Who in government or around government recognized and promoted these problems? What was done about these problems? What solutions were proposed? Was one of them neo-liberal tax reform? Who proposed and advocated the neo-liberal tax reform solution and what were the alternatives? Was the solution deemed viable by people in and around government?

And on what grounds? Did the solution survive to make the leap from proposal to government policy? How and why did this happen?

We will approach these questions by first looking at the problems - primarily political and economic - facing France and Britain in the late 1970s/early 1980s. Secondly, we will look at the policy communities and the policy soup in each country, including the tax ideas which were generated and floated, and why some found favor while others did not. Thirdly, we will examine the political stream: those political conditions and circumstances that facilitated the emergence of the tax reform issue on governmental agendas. Fourthly, we will look at those critical junctures that brought all these elements together. In other words, how did these elements interact and in what way was their interaction crucial to the evolution of tax reform from idea to government policy? Naturally, in this exercise we will be looking at the relevant actors involved and the institutional/organizational features that shaped and defined their preferences and actions. Finally, we will compare the processes in France and Britain, and look for similarities and differences in their respective situations. This final task will serve an additional purpose. It will enable us to assess the appropriateness of Kingdon's model, joined with an institutional conception of the body politic, in explaining the shape and development of the tax reform processes and illustrate how tax reform is best understood in a political context across, as well as within, Britain and France.

The Problems Stream

Generally, before problems are recognized as such, conditions exist, which affect individuals in different ways. While some may have endured high taxes as a necessary and tolerable condition, others may have defined high taxes as problematic, with serious repercussions for individual economic, financial and political behavior, and the economy more generally. Conditions are often tolerable, until they become problems. People will demand that problems be resolved.

Before looking at any other factors, it is necessary to look at the conditions that eventually made tax reform a ripe issue. What conditions existed that drew attention and raised concern? Who paid attention to these conditions and why were the conditions interpreted as problems? What problems were acknowledged for which neo-liberal tax reform ideas were deemed appropriate tonics? First we will look at Britain, and then France; although, in many ways the basic story line is the same for both.

Primarily, economic problems during the 1970s alerted many people to a situation which needed to be addressed. In Britain, the country's long economic decline was not arrested by the economic framework of Keynesianism exercised by both Labour and Conservative governments since the 1930s. Although economic growth rose and fell periodically - reflecting the so-called "stop-go" strategy - by the late 1960s serious problems in Britain's economy surfaced and forced successive governments to

'tinker' with it, employing fiscal and monetary mechanisms in hopes of reinvigorating it. However, the old solutions of the Keynesian consensus had little effect on a system that was riddled with structural deficiencies and institutional anomalies.

The new Conservative government which took office in 1970 had pledged itself to a program of reform based on competition, tax reform, and less government intervention. This program initially represented a departure from what had gone before. The commitment to tax reform was made while in opposition and was carried into government by the Conservatives under Edward Heath. The commitment acknowledged the need to do something about the tax system, which had grown onerous, complex and inefficient. This need was fulfilled by Anthony Barber and the Treasury, based on work largely done by Iain Macleod, who died only days after being appointed Chancellor of the Exchequer. Nevertheless, despite the hope engendered by the new government's plans, economic difficulties persisted, complicated by events in the international arena. Consequently, the government backpedalled on its neo-liberal commitments, with the exception of tax reform.

The unstable economic environment of the 1970s was exacerbated internationally, by the demise of Bretton Woods, oil price hikes, rising commodity prices, and domestically, by a declining industrial base and economic competitiveness, increasing labor agitation, a falling share of world trade, rising inflation and unemployment. Rather than risk the political and economic consequences of new, radical liberal

economic ideas which had brought the Conservatives to power in 1970, the Conservatives finished their term of office applying the old solutions with a vengeance. The incoming Labour government of 1974 pursued similar collectivist solutions, but equally with no significant or permanent success. As economic growth through the 1970s failed to meet expectations, government was hard pressed to meet the financial requirements of its substantial political commitments for social and other programs, not to mention, the costly baggage of pre- and post-war social and economic policy legacies.

Pressed for more revenue, the Labour government reversed the reforming efforts of Anthony Barber, raised tax rates, devised new taxes and generally made the system more complex. To make matters worse, rising inflation meant a heavier burden on the taxpayer as the effects of bracket creep placed many in higher tax brackets and left taxpayers with lower real net income. Many suffered disproportionately.

However, in the absence of any tax revolt, politicians found it easy to do little or nothing about reforming the tax system. The safest course of action was to minimize political costs either by maintaining old tax laws, raising rates of indirect taxation (i.e. VAT or excise) and national insurance contributions (NICs), or by introducing relatively neutral tax changes. However, in return for a rescue loan from the International Monetary Fund to help the revenue-needy Labour government, promises of financial rectitude and responsibility

were made. Among other changes to Labour's economic agenda, taxes were brought down in the 1977 and 1978 budgets, and a Conservative inspired amendment was passed to henceforth raise thresholds and allowances in line with inflation (the Rooker-Wise amendment).

Although, these reforms were a refreshing change, they did not represent any fundamental change in Labour's thinking. Moreover, they did little to change the state of economic affairs. Economic growth did not materialize. The financial markets and the labor unions lost faith in the government, and the Liberals created problems in Parliament, wreaking havoc with Chancellor Denis Healey's economic plans.

Gallup polls increasingly showed that a majority of those surveyed felt that the Labour government was not handling the country's economic situation correctly. And polls continued to show a majority of people whose outlook for the economic situation as a whole was gloomy at best. The electorate was wondering, given the state of affairs, about the Labour government's ability to govern.

The collapse of the social contract between government and the unions, and the ensuing failure to agree on a pay policy culminated in the winter of discontent during 1978-79 which saw the unions at odds with the government. This situation merely heightened the perception of moral and economic decline and government mismanagement associated with Labour. The government was fitfully losing the battle to hold together the consensus

which had reigned supreme since the war. At the end of March 1979, the government lost on a vote of confidence motion and an election was called for May.

That government did not have all the answers, was becoming ever more apparent. Government intervention in the public and private sectors of the economy had produced an economic malaise that cried out for a new course of action. The most resented public intervention by government was in the area of taxation. The burden of taxation had grown significantly under Labour (see Appendix A, Figure 2A). The damage it was doing to personal and corporate incomes and incentives did not go unnoticed by the government's critics and concerned policy entrepreneurs.

Mrs. Margaret Thatcher, while in opposition, had consistently maintained that Labour policy took an increasing proportion of the national income for government. She disparaged the government's efforts to determine a high social wage at the expense of a low real wage in the pay packet. She insisted, as did other opposition figures like Keith Joseph and Geoffrey Howe, that what people really wanted was more of their own money and a chance to look after themselves in their own way.⁶³⁵ This message was not a new one, but by 1979 it had taken on more

⁶³⁵ As John Biffen recalled, "We were arguing that it was absurd for the top marginal rates of tax to be so high and they were out-of-line with what was evident elsewhere. On the whole we believed that if we could get taxes down, even if by only modest amounts - but particularly across the blue-collar worker range - we would be able to demonstrate that we were the party of modern liberalism which on the whole meant leaving people free to spend more of their own money. I mean that was the ideology behind it. We wanted to contrast ourselves with the Labour Party." (John Biffen, interview in London, England, June 20, 1991).

immediate saliency. The reduction of taxation soon became the political talisman of the 1979 campaign.⁶³⁶

In France the story is not altogether different. The French economy and the government of Valéry Giscard d'Estaing were buffeted by problems not unlike those experienced across the Channel. Rising inflation, taxes and unemployment and falling productivity, investment and economic growth rates - collectively known as 'la crise' - challenged government policy makers. Taxes appeared to be multiplying (ie. the *prélèvement conjoncturel*, the *taxe professionnelle*, the capital gains tax, and a new form of property tax and a wealth tax were given serious consideration) and tax rates rising. The austerity medicine administered by Raymond Barre peppered with neo-liberal measures - in the form of price liberalization and monetarism - improved the situation only slightly. However, the improvement was temporary. Following the oil price hike of 1979, the French economy once again deteriorated.

On the tax front, the government gave no visible indication that the rising tax burden was a major concern. Early in the Giscardien septennat, the President's economic adviser, Lionel Stoleru, even indicated his willingness to see the tax burden rise to 40% from the then current rate of around 35%. In fact, Stoleru pointed to the higher burdens then existing in other countries as a justification for allowing the French tax burden

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All of the British interviewees pointed to these problems and the growing appeal of the Conservatives' tax reform message in the period prior to the 1979 election.

to rise. Jacques Chirac, the Prime Minister, members of the government's majority in Parliament and the parliamentary opposition, appeared predisposed to higher and heavier taxation.

The climate was not right for neo-liberal tax reform in the mid- to late-1970s, and there were few people advocating it, with the exception of a few isolated individuals and groups, including Maurice Allais, the *nouveaux économistes*, and later the Club de l'Horloge. The government, however, did make an effort to hold company taxes steady (see the Blois Program of 1978) and lower VAT rates (while expanding the base of application), as a means of enhancing business competitiveness and reining in inflation. Nevertheless, special income taxes were imposed, *cotisations sociales* were raised, and the imposition of taxation grew heavier with inflation and the absence of full indexation.

During Barre's tenure at Matignon, the government expressed real concern about the rising level of taxation. Despite government rhetoric of the need to contain and if possible reverse the rise in high taxation, neo-liberal tax reform was not on the governmental agenda, nor, at the time, on the specialized agendas of the majority or opposition parties. Problems in the economy were recognized but neo-liberal tax reform, while acknowledged in principle by some as a possible solution, was rejected as unpracticable.

Neo-liberal tax reform was kept off the agenda by a number of factors including economic, budgetary and political constraints, ideological ambiguity and the persistence at elite

(especially administrative) levels of anti-reform attitudes and behavior. Political and administrative actors largely refrained from questioning the role of the state and viewed taxation in instrumental and technical terms. They wished to keep to a minimum any changes to the tax system, particularly after the major changes of the *taxe professionnelle*, the capital gains tax (brought in from 1975 and 1976 respectively), the VAT (begun in 1977) and the fiasco of the proposed *impôt foncier* (introduced in Parliament in late 1975).⁶³⁷ It was not until 1980 that policy entrepreneurs and political actors began to seriously consider and then promote the idea of neo-liberal tax reform.

At this point many would be inclined to stop the analysis. They would probably focus on the broad economic forces noted above as a sufficient explanation for the emergence of tax reform in Britain, and perhaps in France too. However to attribute the emergence of tax reform to economic difficulties in Britain and France - or anywhere - is insufficient and not entirely convincing. Certainly, economic challenges, like those experienced in the 1970s, gave a special urgency to the debate over taxation policy. But it was the political context that most decisively shaped the debate and the evolution of neo-liberal tax

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After the reform of the CGT in 1978, Maurice Papon, the Budget Minister declared that he favored "une pause fiscale" and an end to the "frénésie réformatrice" (see: C. Heckly, op.cit., p.346; *Le Nouvel Économiste*, no.275, 2 Mars 1981, p.34). As has already been mentioned, several interviewees commented on the resistance of the civil service to tax reforms. For example, Georges Egret remarked, "... mais l'administration du Ministère des Finances est encore une vieille administration qui laisse parler - qui se dit, "Bon. On fera pas de grands bouleversements, mais on va faire quelques petites modifications qui vont dans le bon sens." (Georges Egret, interview in Paris, France, May 7, 1992).

reform from intellectual debate to governmental agenda.

Economics set the stage, but politics provided the actors and the script. Furthermore, economic conditions had to be recognized as problematic by participants inside, if not necessarily outside, government, and deemed serious enough by these governmental and political actors to require the development and application of appropriate solutions. Someone in government had to find something urgent in the economic situation noted above and act, by seeking redress.

* Looking at the Signs

People in and around government keep a close eye on developments in the broader "problems" stream and seek to identify and bring those developments they see as problematical to the attention of decision makers or people in a position to do something. But how does one determine that a problem exists? Usually people rely on indicators (or focusing symbols like crises, natural disasters, social unrest or referendum results, etc.) of some sort to provide data and assess the state of things. They then place their personal interpretations on this data. It is their interpretations which determine whether or not a given condition is a problem worthy of attention. Kingdon (1984) says,

...data do not speak for themselves. Interpretation of the data transform them from statements of conditions to statements of policy problems. Policy makers consider a change in an indicator to be a change in the state of a system; this they define as a problem.⁶³⁸

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J. Kingdon, 1984, op.cit., pp.97,99.

Sometimes decision makers, or people in a position to do something, fail to recognize indicator change that signals the existence of some problem. Alternatively, they may even ignore it. What then may bring the problem to the attention of people in and around government is a focusing event or symbol that forces policy makers to reckon with the problem at hand.

An example of a symbol that rather forcefully focused attention, was the passage of Proposition 13 in California in June of 1978. While disaffection with high property taxes was nothing new, the "taxpayer revolt" emphasized the urgency and saliency of this disaffection.

The passage of Proposition 13 in California, for example, became symbolic of a perceived restiveness among taxpayers, a shift in public opinion...the symbol diffused very rapidly, probably because it captured the mood rather convincingly, at least as politicians saw it.⁶³⁹

The symbol and the perceived change in public attitudes were useful in the arguments people were making for lower taxes in the late 1970s, and which Ronald Reagan adopted in his presidential campaign in 1979-80.

Neither in Britain nor France did such a symbol or focusing event directly related to taxation occur. While taxpayers may have registered their discontent through such "standard" methods as tax avoidance and evasion, there was no visibly organized tax

⁶³⁹ J. Kingdon, 1984, op.cit., p.102.

revolt.⁶⁴⁰ Rather, changes in a number of "indicators" were seized upon as indicative of systemic problems in the British and French economies and societies. Lower productivity levels, higher inflation, lower output, particularly a precipitous decline in manufacturing output, pointed to a weakened economy.

In Britain, with respect to the system of taxation, an issue to which the Conservatives had long been attentive, the Conservative Research Department, and other groups and individuals close to the policy making process, had been watching other, more closely related "indicators": the movement in the basic rate, which rose from 30p in 1974 to 33p, then to 35p and then finally again to 33p in the pound, with a special rate of 25p up to the first £750 brought in by the government in 1978; the rise in the top rate of tax from 75% under Barber to 83% under Healey, made more onerous if one is hit by the 15% investment income surcharge; the rise in corporation tax from 40% to 42% and 52%, plus a new 2% national insurance surcharge imposed in 1976; the erosion of thresholds and allowances - for example, a typical family man in early 1979 was paying income tax when his income was a mere 45% of the national average against 51% in 1973 and 82% in 1964; and the increasing number of

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In fact, the majority of those interviewed in Britain and France pointed out that taxation was not a major issue with the broader public in either country and remarked on the absence of tax revolts in Britain and France. Although, many French interviewees referred to the 'historic' revolts of the Poujadistes in the 1950s and the CID-UNATI in the 1970s. In other words, they made it quite clear that political rhetoric surrounding tax reform was not inspired by rumblings from the masses. If political leaders advocated tax reform, they did so based on ideological or political instincts - due to the potential electoral gain - or in response to rumblings from influential sectors, especially business.

taxpayers scooped up in the tax net - by 1977, 2.25 million more than in 1973-74. Also, the Conservatives, waving reports issued by the New Earnings Survey, pointed to the decline in real purchasing power due to the increasing proportion of income paid in taxes and eroded by inflation.

Other indicators included international comparisons of starting rates of income tax and thresholds as well as the overall tax burden and rates of income tax and social security suffered by the average worker. For instance, the *Conservative Campaign Guide* of 1977 made use of international comparisons of income tax for a typical married couple with two children at various income levels. This comparison highlighted the high tax position Britain occupied in relation to other OECD members. A comparison of starting thresholds and tax rates was made which showed Britain with one of the highest basic rates at one of the lowest thresholds (see Appendix A, Table 2A). All these comparisons were used to show how Britain fared unfavorably in relation to its economic partners. These "indicators" and others, like Treasury and special commission reports, i.e. the Diamond Commission and Meade Commission reports were deemed, by some interested parties, symptomatic of serious problems. Very often they were used to highlight the detrimental effects of Britain's system of taxation on choice, incentive, investment and savings. Furthermore, the connection frequently made between high taxes and poor economic performance was a frequent and important argument in favor of reform of Britain's complex and

punitive system of taxation.

Similarly in France, those who favored some reform of the tax system produced international comparisons which cast France as one of the most highly taxed countries, and domestic comparisons, which traced the inexorable rise in taxation under successive governments. Policy entrepreneurs like Maurice Allais, the new economists, including Henri Lepage and Guy Sorman, the Club de l'Horloge, Yvan Blot, and Philippe Auberger, seized upon such indicators to emphasize the need to reform France's system of taxation.⁶⁴¹ In its 1980 manifesto, *Atout France*, the RPR drew attention to France's intolerable tax burden and overly complicated tax structure.⁶⁴²

As parliamentary debates revealed in the late 1970s/early 1980s, for example on the 1980 budget, France's unenviable tax position in and of itself, and relative to other countries, the link between taxation and economic performance and the need to do something about it were becoming increasingly acknowledged, especially within the government's own majority.⁶⁴³ The issue of neo-liberal tax reform was moving outside closed academic circles and economic/tax symposia and reaching a wider audience.

⁶⁴¹ See e.g.: M. Allais, 1977, op.cit.; M. Allais, 1966, op.cit.; H. Lepage, 1982, op.cit.; P. Salin et al., *L'Occident en Desarroi*, (Paris: Plon, 1978); P. Baccou et le Club de l'Horloge, 1981, op.cit.; Alain Juppé et le Club 89, 1983, op.cit.; P. Auberger, 1984, op.cit..

⁶⁴² J. Meo and the Rassemblement pour la République, *Atout France*, (Paris: Editions Roudil, 1980), pp.47,326-7. According to the author(s) p.o. had risen from 39.7% of gdp in 1975 to 43.2% in 1979 and had thus exceeded "le seuil du tolérable." The warning was made that the tax burden should not be permitted to rise further.

⁶⁴³ See e.g.: *Journal Officiel*, Débats Parlementaires, Assemblée Nationale, 17 Octobre 1979, pp.8287-8,8343.

Attitudes gradually were changing, becoming ever more partial to neo-liberal tax reform as an appropriate tonic for France's ailing economy, and as a political talisman, as had been proven in the United States and Great Britain.

Another important and closely watched indicator were the public opinion polls. At least in Britain, throughout the 1970s, they continued to register public distaste for high taxation and a need to do something about it. When Gallup began registering British public opinion regarding tax reductions in the late 1970s, the majority of those polled felt reducing taxes was important and supported moves to reduce taxation. The Conservatives took an aggressive stand on the tax issue, and the public seemed to respond favorably.

Despite the absence of any symbol or focusing event, like a tax revolt, the changes in the indicators mentioned above, were sufficient to alert politicians to the magnitude of the problem. In fact, for many politicians, particularly Conservative ones, the changes in the indicators merely reinforced their perception of a long standing situation which demanded redress. While it would be unfair to say that Labour politicians were unaware or insensitive to the problems of Britain's tax system and the unpopularity of their tax policies - see Denis Healey's speech to the Parliamentary Labour Party meeting at the House of Commons⁶⁴⁴ or Prime Minister Callaghan's speech to a joint meeting of the

⁶⁴⁴ Reported in the *Times* of February 2, 1976.

Cabinet and the National Executive⁶⁴⁵ - the conditions, as they perceived them, apparently had not deteriorated to a point that required a search for, or experimentation with, 'new' tax ideas; although, Healey's tentative efforts to reduce tax rates in the 1978 budget, indicated an appreciation of the problem and the need to do something about it.

Labour, quite simply, was not interpreting the data in the same way as the Conservative opposition. Or if they were, they were ignoring it, or prescribing different solutions.

Regardless, Labour commitments to give priority to solving the problems of unemployment and inflation via monetary constrained demand management, plus the party's alleged predilection for high taxes - on account of their revenue raising and redistributational effects - inhibited the Labour government from taking any serious steps to reform the system, even if some in the party had thought it necessary.

In France, public discontent with the burdens of a high tax system was not on the same scale as it was in the U.S. or Britain: nor did it have the same political consequences. During the life of the Fifth Republic, up until 1981, there were no widespread tax revolts in France or major political parties devoted to tax cutting. In the twentieth century, the most outstanding exception was the Poujadiste revolts, during the Fourth Republic, starting in 1953 in the departement of Lot and

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Reported in the *Financial Times* of March 15, 1978.

which spread throughout France.⁶⁴⁶ The Poujadiste affair was the most celebrated of the post-war French tax revolts, although other manifestations of tax resistance occurred in the 1960s, 1970s and 1980s, with CID-UNATI (the organization for independent workers) and the Ligue des Contribuables (a taxpayers association formed in 1983 under the leadership of Jacques Bloch-Morhange).⁶⁴⁷

In France anti-tax reaction, pre- and post-Poujade, has largely been reflected in the high rates of tax evasion/avoidance and fraud.⁶⁴⁸ Other indicators of public discontent include the hefty black economy and of course, public opinion surveys. On the whole public opinion polls on the issue of taxation (which were not very common in France) showed a public fairly satisfied with, or at the very least tolerant of, the tax system.⁶⁴⁹ Tax cutting and tax reform have never been high on the public's list of priorities in the way it has been in countries like Britain

⁶⁴⁶ From the Poujadist revolts sprang a political movement called the Union de Defense des Commerçants et Artisans (UDCA), which sent over 52 MPs to Parliament in the 1956 legislative elections. Gabriel Ardant (1972, op.cit., p.645) writes that the essential feature of the Poujadist movement was the reaction against state intrusion, "...le mouvement est la réaction de défense d'hommes libres, défense contre l'administration envahissant, contre les recensements, contre l'immatriculation, contre l'étatisme." However, the primary concern was relations between the state and the taxpayer and less the burden of taxation. Events (ie. European integration, Algeria) soon overtook the Poujadists who from the moment they entered Parliament displayed nothing more than political ineptitude and failed to sustain tax reform as an issue of high agenda status. The revolts and the movement proved to be only a quirk of the period rising out of the conjunction of special economic, social and political factors at that time.

⁶⁴⁷ See, "Les Resistances à l'Impôt", *Revue Française de Finances Publiques*, no.5, 1984.

⁶⁴⁸ Different assessments put the loss to the Trésor (Treasury) at 15-25% of total tax receipts.

⁶⁴⁹ See e.g.: *Revue Française de Finances Publiques*, no.5, 1984, op.cit.; J. Dubergé, 1961, op.cit.; J. Dubergé, 1990, op.cit..

and the United States. While in principle, the idea of tax cuts appears to have broad appeal, the French make a closer and more immediate connection between quality and level of public services and benefits than their British or American counterparts, and so are less keen on the idea of tax cuts, given the alleged effects such measures would entail.⁶⁵⁰

If public opinion gave any clear indications just prior to and immediately following the appearance of neo-liberal tax reform on Chirac's agenda in 1980/81, it appeared inclined to the sorts of reform promised by the left: higher taxes, but on the wealthy and businesses. While, in the early 1980s public attitudes towards the high rates of taxation appeared to be changing - perhaps in part led by the focus of media and political attention on the issue - there was no identifiable constituency for neo-liberal tax reform, apart from business executives and small business owners.

However, other polls were slavishly watched by political decision makers in France. These were the political popularity polls and election results (by-elections and local elections). As the Socialists got mired down in the economic and financial mess created in part by their fiscal policies, public opinion and voting preferences began to turn against them. Poll ratings and electoral outcomes were perceived as veritable problems by party

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Although, opinion polls in the U.S.A. and Britain, reveal a public reluctant to condone reductions in taxation, when squared against the possibility of reduced levels and quality of public services and benefits.

leaders, because if left unaddressed, the Socialists' hold on power would be at risk come the next general election.

It was the perception that high taxes were stifling incentive, choice and savings, and thereby affecting growth and enterprise in the British and French economies, which confirmed the Conservatives' belief, and later persuaded the French Socialists, to do something about taxation. The Conservative opposition under Mrs. Thatcher, harboring monetarist and supply side ideas, identified similar conditions - which the Labour government tolerated or was unable to solve - as problematic, and therefore deserving of serious attention. They devoted much time and energy to raising the profile of problems like high taxes, falling standards of living and low economic growth, and tied these problems to the solution of neo-liberal tax cuts and tax reform.⁶⁵¹

The case of France, however, was slightly different. Chirac in 1981 and Mitterrand from 1982/83 ostensibly sought to address problems in the French economy - low company profits and investment, stifled risk-taking and initiative - which were not unlike those plaguing Britain. They were not entirely convinced that the solutions provided by the neo-liberal agenda were appropriate. These French political leaders were less beholden to neo-liberal ideology than Mrs. Thatcher and the Conservatives, and more concerned about their own political fortunes. While,

⁶⁵¹ Nearly all the British interviewees mentioned these and other tax-related problems, like the brain drain and the low rate of savings, as indicative of the harmful nature of high taxes.

for Mitterrand and Chirac, seizing on neo-liberal ideas, like tax cuts and reform, was an essential element in a bid to promote political survival and electoral ambitions, for Thatcher (and Howe and Lawson), neo-liberal tax reform was borne of ideological conviction, and for the most part was perceived as an end in itself.

* How Problems are Defined

Kingdon (1984) informs us that problem definition often involves values, comparisons and categories. Values involve one's ideologically inspired judgment; comparisons are made between closely related factors - sometimes across nations - and the relative advantage or disadvantage which is discovered; categories signify how one classifies or attributes something - for instance, inner city riots will be subject to different definitions and solutions depending on whether one categorizes them as a law and order problem or as inner city blight. What values, comparisons and categories did participants bring to bear in their evaluation of conditions and problems?

The Conservatives evaluated conditions in light of all three: values, comparisons and categories. The anti-interventionist and free-market sentiments which pervaded the Conservative leadership in the late 1970s, supported by monetarist and supply-side doctrine, not only helped explain the problems presented by high taxation, but also prescribed, or at least proscribed, some of the solutions. Among the prescribed solutions was tax reform.

On the other hand, in France, the Socialist President and others in his government - once ardent big spending, "soak-the-rich" populists - quickly adapted their values to meet the pressing needs and exigencies of their business clients and the electoral timetable. It was expedient, in other words, to change tack, shed the socialist agenda, and ascribe to the notions and solutions put forward by the neo-liberals.

As previously discussed, various indicators were monitored by the Conservatives to assess the state of taxation and its effects on the British economy and society. These indicators included: OECD and Treasury international tax comparisons, the tax rate and threshold structure, and personal disposable income statistics. They were supplemented by occasional Treasury reports or special commission studies, like Diamond and Meade.⁶⁵² International comparisons of the type often quoted in the Conservative campaign guides or found in the publications of policy organizations like the IEA or the IFS, usually showed the poor position Britain occupied in relation to other OECD members. Britain's poor economic performance, in relation to its economic partners, it was argued, was at least partially explained by its higher burden of taxation. Moreover, comparisons between the tax policies and achievements of the last Conservative government were also drawn to justify the Conservative case for tax reform

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J.E. Meade Committee, *The Structure and Reform of Direct Taxation*, (London: Allen and Unwin, 1978); Diamond Commission, *Royal Commission on the Distribution of Income and Wealth, Report no.4*, Cmnd. 6626, (London: HMSO, 1977).

and its capability to best carry out that reform.

Similar comparisons were made in France, setting that country against others and contrasting the current state of taxation with what went before. The government could not escape comparisons made by the opposition parties, by international organizations - like the OECD - or the government's own agents - like the planners - which cast France in an unfavorable light.

Lastly, the Conservatives saw taxation not as a tool for social engineering, as Labour did, but as an intrusion into the lives of every taxpaying citizen - an intrusion that undermined initiative and responsibility. High taxation was the gross manifestation of the hand of big government making decisions better left to individuals in possession of more of their own money and functioning in a free market.

In contrast, the French Socialists did not view high and complex taxation in terms of the intrusive hand of the state, as did the Conservatives in Britain; although, this view came to be adopted by the center-right opposition. The Socialists, at least initially, considered taxation in terms of its social and redistributive functions. However, in the context of the economic crisis of the early 1980s and the changing tax environment internationally, the tax problem began to be seen as presenting an obstacle to risk and enterprise, as well as electoral success.

This information was used to evaluate change and determine the magnitude of the problem or related problems (i.e. high

taxes, low economic growth, low investment, etc.). When the problem was, or related problems were, identified, defined and deemed serious, the next step was to argue the case for government attention and action. While Britain's tax system, for some, including Labour, may have been a tolerable condition - or a problem - not worthy of serious government attention, the Conservatives interpreted the situation differently in light of their own values, comparisons and classifications. Their particular interpretation defined the problem in terms which mandated serious attention and action.

The center-right opposition in France, from 1981 led by Chirac, followed the pattern of the British Conservatives to a large degree. The Socialists however, drew somewhat different conclusions given their different starting point and position: marked by a leftist ideology rather than neo-liberal, as the party in government, and their medium-term objectives of election victory, or at the minimum, political survival. For the Socialists, the indicators were interpreted less in ideological terms and more pragmatically. Despite this, their slightly different interpretation of the indicators led to tax policy outcomes which emulated more or less those in Britain.

* Who Makes a Problem Important?

Just because a problem is identified does not mean that it rises automatically to agenda status. As Kingdon (1984) notes,

While the emergence of a widespread feeling that a problem exists out there may not always be responsible for prompting attention to a subject, people in and around government still must be convinced somewhere

along the line that they are addressing a real problem.⁶⁵³

The mere fact that the tax system was considered a problem by certain elements in the British and French polities was not in and of itself sufficient to make tax reform an item of agenda priority. What lifted tax reform to agenda status? Who or what was responsible for making the right people pay attention to the (tax) problems?

Kingdon underscores the importance of activists in focusing attention on certain problems they deem important or serious enough to warrant resolution. Much time and effort is expended convincing people in and around government - but most specifically, key decision makers - that a given problem merits attention and remedy. The activist will undertake these efforts for any number of reasons: ideology, self-interest (ie. monetary or career rewards), an interest in good public policy, etc.. The activist may even have a ready remedy that he/she feels can best address a given problem.⁶⁵⁴

The activist will emphasize the adverse changes in the indicators, opinion surveys, commission studies and academic reports, to substantiate his/her claims. These activists, sometimes known as policy entrepreneurs, struggle to ensure that their interpretation of the indicators, and hence their definition of the problem, captures the attention of important

⁶⁵³ J. Kingdon, 1984, op.cit., p.121.

⁶⁵⁴ In this paper, the terms policy activist and policy entrepreneur will be used interchangeably.

people. Problem identification and convincing others that a problem exists, are two sides of the same coin. It's hardly worth going to the trouble of monitoring and interpreting the indicators unless the intention is to draw attention to the perceived problem, with the ultimate objective of seeing the problem solved.

Fortunately, those who recognized Britain's tax system as a problem, had little trouble convincing the key decision makers. Those watching the indicators, identifying the problems and proposing solutions were themselves the decision makers. People like Mrs. Thatcher, Sir Keith Joseph and Sir Geoffrey Howe had long recognized the problems of Britain's tax system and had canvassed, if not themselves proposed, possible solutions. Conservative policy makers like Thatcher and Howe, supported by the likes of Lord Cockfield, Nigel Lawson and Peter Cropper, proposed lowering income tax rates, raising expenditure taxes and reforming capital taxation while in opposition because they were convinced that they were addressing real problems.⁶⁵⁵

It had long been the Conservative position that taxes were too high and Britain's system too complex.⁶⁵⁶ When the party leadership changed in 1975, the question of addressing Britain's tax problems quickly assumed a high agenda position. While tax reform enjoyed a prominent position before 1975 on the

⁶⁵⁵ These individuals were most frequently referred to by the British interviewees as the important tax policy makers immediately prior to and after May 1979.

⁶⁵⁶ See e.g., A. Gamble, *The Conservative Nation*, (London: Routledge and Kegan Paul, 1974).

Conservative Party's agenda, this time things were different. Primarily, what was different under Thatcher, was that this time, the Conservative approach to taxation would be backed by a powerful and persuasive policy paradigm, founded in New Right economics (P. Hall, 1993).

Those actors defining the 'tax' problem in France were not among the visible cluster. In other words, in contrast to Britain, the problem definers were not political leaders. At least initially, one must first credit the role of groups, like the Club de l'Horloge, and the *nouveaux économistes*. They monitored the economic and political indicators and propogated neo-liberal ideas, including tax reform. Their effect, however, was important in terms of the attention accorded their views by the press, certain business representatives and members of the center-right parties.

However, developments abroad, particularly in the United States, were also important in shaping perceptions about taxation. Members of the neweconomists, like Henri Lepage, and 'governmental' policy entrepreneurs, like Philippe Auberger and Alain Juppé, had travelled to the United States during the 1970s and experienced first hand the 'American' anti-tax movement, the changing climate of opinion, and were exposed to 'new' ideas floating around there. They brought these experiences back with them to France. For instance, Auberger developed neo-liberal tax reform proposals, which found their way into the campaign speeches of Jacques Chirac and the RPR party programs of the

1980s.⁶⁵⁷

The initial acknowledgement by people in Mitterrand's government that a problem existed was due in large part to the efforts of the employers' organizations, but more specifically their unofficial representatives in the Elysée - Jean Riboud, Gilbert Trigano, Francois Dalle, André Rousselet, and others, the so-called *visiteurs du soir* - who had the most direct contact and impact in terms of promoting this agenda item.⁶⁵⁸

Developments in the problems stream were opening a window for advocates to promote their ideas onto the governmental agenda. As the economy worsened and businesses bore an increasingly heavier burden of the costs, through taxation and higher interest charges, "*réduire les charges des entreprises*" became the rallying cry of Riboud, president director-general of Schlumberger, a close personal friend of Mitterrand's and a member of the CNPF. Frequent comparisons were made between the fiscal charges borne by French businesses compared with their main competitors abroad. Also attention was drawn to the increasing financial burden imposed since the Socialists had come to power.

With the deteriorating position of French industry, and the worsening economic climate, these problems and their consequences for the economy and the Socialists' electoral fortunes had a

⁶⁵⁷ See, P. Fysh, *op.cit.*

⁶⁵⁸ See: J. Attali, 1993, *op.cit.*; S. Berger, "The Socialists and the patronat: the dilemmas of co-existence in a mixed economy", in H. Machin and V. Wright, eds., *op.cit.*, pp.228-30, 236-8.

transforming effect on Socialist values and policies. To further ignore the pleas of such an important group would not serve the government's best interests. Furthermore, this group had friends in high places, important people who would lend a sensitive ear to what they had to say. Both Laurent Fabius and Pierre Bérégovoy, ministers in the Mauroy government, listened and in turn pleaded the case for French businesses. The President himself was soon persuaded, and the tax agenda - at least the corporate tax agenda - soon changed.

The recognition of a problem by important decision makers is an important step on the way to bringing an issue to policy prominence. But while a problem, or its solution, may on their own rise to agenda prominence, unless the problem is connected with an appropriate solution, or vice versa, then there is a great likelihood that either will fade from the agenda due to declining interest, frustration or insolubility. The problem must have a solution, or the solution must have a problem.

If a problem is recognized, where do the solutions come from? We know that policy entrepreneurs promote problems and solutions, but where do the solutions come from in the first place? What role do the policy entrepreneurs play in determining solutions? The process of devising solutions or policies, is another important stream in the development and emergence of tax reform. In the next section we will learn about the policies stream where solutions are generated by policy communities and where policy entrepreneurs promote solutions.

The Policies Stream

The ideas of economists and political philosophers, both when they are right and when they are wrong are more powerful than is commonly understood. Indeed the world is ruled by little else...I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas.⁶⁵⁹

Behind every new idea there is a policy community of specialists. A policy community is comprised of a group of generally more than one individual that shares an interest in an issue area. These individuals are considered experts or specialists in a particular issue area, i.e. housing, health, environment, or tax. Sometimes policy communities operate as part of a formal organizational network and sometimes they operate outside the formal network. In any case, they are engaged in generating ideas and formulating proposals.

Policy communities can be found among specialized institutes or groups like the IFS, the IEA, the CNRS or the *nouveaux économistes*, partisan and non-partisan groups like the Fabian Society, Bow Group, or political/philosophical *clubs de réflexion* like Club 89 or the Club de l'Horloge, political think tanks like the Central Policy Review Staff, the Conservative Research Department (CRD), or the Centre for Policy Studies (CPS), interest groups like, the CBI, the IOD, the TUC or the CNPF, which have their own special committees on taxation, or maybe - though rarely - Parliament itself or its committees. Some of the ideas produced float up to the surface, and with some advocacy,

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John Maynard Keynes quoted in J. Kingdon, 1984, op.cit., p.132.

capture the attention of someone in or around government. If the idea connects with a given problem and seems a promising solution, then it is very likely to be considered and possibly adopted by an important decision maker in government and placed on the government's agenda.

Nonetheless, despite the relation between solutions/policies and problems, it is important to remember that they are two different process streams. The policies stream in which policy communities operate is more or less independent from the political stream. But that is not an absolute and in many cases there will be overlap and combination. The policy communities pertinent to the tax reform process in Britain and France were not altogether independent of problems and politics. In some cases there was a close connection between the participants in the policies stream and those in the politics and problems streams. Participants like Yvan Blot and the Club de l'Horloge, the new economists, Auberger, Juppé, Delors, Fabius, Bérégovoy, Howe, Lawson, Cropper, Cockfield, the CRD, CPS, IEA and the Bow Group frequently crossed from one stream to another. Many of them were close to, and in many cases were, key decision makers in the political stream.

Perceived problems regarding the economic and tax systems of Britain and France, and politicians looking for solutions served as catalysts for many of the ideas and proposals generated. However, in the absence of such catalysts or stimuli, it's quite likely new ideas would still have been produced, since members of

the policy community are constantly exploring and devising new solutions, even in the absence of problems. While many ideas may be floated in the absence of problems, in the late 1970s/early 1980s several "new" ideas (in some cases, old ideas reconstituted) appeared in response to problems related to the economy, and also to politics.

It was the perceived problems concerning Britain's economic performance, the overbearance of government and the stifling of initiative that gave rise (and credibility) to neo-liberal tax reform proposals. From the late 1970s in France a number of policy entrepreneurs and ideas were floating around, attempting to solve any number of economic, political and social problems. For some participants, like Chirac, - a participant in the political stream - an active search was underway to solve perceived political dilemmas (how to distinguish himself from Giscard d'Estaing and Mitterrand and win the presidency) and less importantly, economic dilemmas (how to rejuvenate the French economy). Some of the ideas floating in the policies stream, including neo-liberal tax reform, became part of the specialized agendas of Chirac and the center-right opposition.

On September 15, 1983 (like a year earlier in his Figeac speech), it was Francois Mitterrand who adopted the tax reform idea - or rather poached it from his political opposition - and made it his own. Publicly the President recognized the problems of rising *prélèvements obligatoires*, as well as the negative effects of high taxation on the economy, and specifically, on

production, investment and individual initiative. A solution was available - or rather a range of solutions collectively subsumed under the tax reform rubric - which appeared to adequately address these problems, tax reform.

As already stated elsewhere, it is not important when the policy communities generated their ideas, or even which ones. The mere fact that they did is enough. Suffice to say that many ideas were considered at some stage. What is of greater importance for our purposes is to understand the conditions in which they emerged and why some survived and others did not.

As already shown, there were a large number of groups and individuals involved in the process of producing ideas. Confronted with perceived economic (including tax) and political problems, these groups and individuals contemplated among other things: the reduction of corporate and individual tax rates; shifting the incidence of taxation between direct and indirect; indexation; simplifying the tax structure; broadening the tax base and closing loopholes.

The number of ideas floating about was remarkable. Some of the more recent ideas reappeared as modified versions of earlier ones. Many of the ideas survived - in original or modified form - to be taken up and considered by a variety of decision makers. The evolution of tax reform proceeded not so much by mutation, or the sudden appearance of an entirely new policy, as by recombination, or the new packaging of already familiar elements.⁶⁶⁰

⁶⁶⁰J. Kingdon, 1984, *op.cit.*, p.131.

* The Role of Policy Entrepreneurs

In order to achieve agenda status, ideas or issues need the push provided by committed activists. Whether original, or recombined, various ideas are developed into policy proposals once they became the focus of attention from someone in and around government. However, ideas and issues mainly come to the attention of decision makers as a result of the advocacy of various individuals or groups. We have already briefly considered the role of policy entrepreneurs in the problems stream. We will now learn more about how and why policy entrepreneurs promote solutions in the policies stream.

Policy entrepreneurs can be found in or out of government, in academia, in professional and trade organizations, in research institutions, among a plethora of interests groups, and very often in the policy community itself. Howard Jarvis and Jim Gann, the two men who began the drive to persuade California voters of the need for Proposition 13 and vote 'Yes', provide two good examples of policy entrepreneurs.⁶⁶¹ These two men strongly believed in the necessity of reversing the trend towards ever increasing property taxes. Over a sixteen year period prior to June 1978, each had tried separately to get an initiative on the ballot to rein back state taxes, but failed. Jarvis and Gann committed a great deal of their time and personal resources to

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For an interesting account and analysis of the anti-tax movement in the United States and Proposition 13 see: T. Schwadron, ed., *California and the American Tax Revolt*, (Berkeley: University of California Press, 1984); G. Kaufman and K. Rosen, *The Property Tax Revolt: The Case of Proposition 13*, (Cambridge: Ballinger, 1981).

waging their campaigns against high taxes. By 1978, the problem of high taxes was perceived by a sufficient number of people to be serious enough to heed Jarvis and Gann and vote yes on Proposition 13.

When the proposal passed, decision makers in government, in California and elsewhere, paid attention and seriously considered the problem of high taxation, and various solutions then floating around, which sought to address this and related problems.

Similarly, in Britain and France, policy entrepreneurs advocated a variety of solutions to address perceived political and economic problems. They advocated the adoption by government of several solutions - some of them noted above - that promised to solve the problems. In some cases their solutions were ignored, and in others they were considered and adopted, either in their original or modified forms.

As noted with the example of Jarvis and Gann, success does not often come to policy entrepreneurs immediately, if at all. The common thread which binds all policy entrepreneurs is their commitment of time, energy and resources in promoting particular solutions. Participation in the advocacy of a solution is often fluid. Policy entrepreneurs move in and out of the stream depending on the amount of time, energy and resources they can commit. In the event that a solution is not promoted to agenda status, it may fade away as the policy entrepreneur loses interest or must commit him/herself elsewhere. This is particularly true for solutions which are considered faddish or

fashionable. Nevertheless, inevitably, the solution, perhaps in a modified form, will be resurrected and carried forward by another advocate. To see the fruits of one's labors usually takes some time.

Why do policy entrepreneurs invest so much of themselves? Several reasons are available: 1) their belief in the rightness of their cause, ideology and their desire to promote 'good' public policy; 2) the expectation of some form of return, i.e. electoral victory, career advancement, recognition, monetary reward; or 3) perhaps advocacy is an end in itself, engaged in for the enjoyment derived from simply participating.⁶⁶² It is often difficult to determine with any certainty which reason is applicable in any one case. Usually, the reality reflects a combination of two or all three. However important the incentives may be in motivating policy entrepreneurs, unless they demonstrate particular qualities and characteristics, alone or, to greater advantage, in combination, they will find success less easily. Among such qualities and characteristics are, expertise, connections, recognized and broadly supported policy authority, decision-making authority, and persistence. Equipped with these 'entrepreneurial' incentives, skills and qualities, the policy entrepreneur maximizes his/her chances of success.

In the case of tax reform in Britain during the late 1970s, the policy entrepreneurs were not 'private' citizens, but public figures; politicians to be precise and their advisers. The

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See, J. Kingdon, 1984, *op.cit.*, pp.129-30,189-90.

ideology of the Conservative leadership in the late 1970s about the proper role of government in the nation's social and economic life prompted them to advocate free market solutions. An important feature of those free market solutions was tax reform, more specifically, tax cuts. It was a solution that satisfied in part, Thatcher's, Joseph's and Howe's vision of smaller government, freer markets and greater individual choice. Additionally, it was a solution that struck a nerve in the British voter.⁶⁶³ The Conservative leadership knew they were advocating a solution that had wide electoral appeal.

In France, the policy entrepreneurs issued from a broader policy community, and one initially only tangential to political circles. Before long, entrepreneurs advocating neo-liberal tax reform ideas came from academic/intellectual, as well as political/governmental and business/financial circles. They brought to the tax debate a variety of experiences, ideas and motivations.

* Creating a Receptive Climate and Building Support

The idea of tax reform, or more specifically, lower taxes, did not capture the sympathy of the general public overnight. As we saw in the case of Chirac during the 1981 presidential elections, his "tax cuts" message found favor with only a small portion of the French electorate. Promoting the cause would take

⁶⁶³ See e.g.: G. Heald and R. Wybrow, *The Gallup Survey of Britain*, (London: Croom Helm, 1986); *Gallup Poll Index*, May 1979, p.10; H. Penniman, ed., *Britain at the Polls 1979*, (Washington: AEI, 1981); *Economist*, May 12, 1979, p.26.

time and effort. In Britain, the activists - Mrs. Thatcher, Geoffrey Howe, Keith Joseph and others - went to great lengths to present their case to a number of audiences: the party, the press, the City, and the general public. Through speeches in Parliament and party conferences, lectures in universities and polytechnics, interviews in the media, and literature issued through the CPS, CRD, or the Bow Group, the policy activists floated and spread their ideas and policies. In France, entrepreneurs assiduously promoted their tax reform ideas and policies through the lecture and conference circuits, universities, the media and the chambers and corridors of political power. In a climate largely suspicious of neo-liberal ideas, the policy entrepreneurs in France faced a tough battle.

What has just been described above is a process which Kingdon (1984) refers to as "softening up".

These entrepreneurs attempt to "soften up" both policy communities, which tend to be inertia-bound and resistant to major changes, and larger publics, getting them used to new ideas and building acceptance for their proposals.⁶⁶⁴

The ideas expressed by the Conservative party leaders were couched in populist terms: "keep more of your own money", "restoring incentives", "greater individual responsibility", "the right to decide how to spend your own money", "putting choice back into people's pockets." When expressed this way, it was difficult to ignore tax reform's appeal. There already was established in the party itself a group which was convinced of

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J. Kingdon, 1984, op.cit., p.134.

the need for tax reform. Indeed, as was earlier acknowledged, much of the groundwork, or softening up, had been anticipated by Enoch Powell and Iain Mcleod.⁶⁶⁵ Mrs. Thatcher, along with Geoffrey Howe and Keith Joseph, extended it. They focused attention on the need to reduce taxes and soon people became interested in the idea.

The economic difficulties Britain was suffering in the 1970s, coupled with the undeniably high rates of taxation, lent credibility to the idea of tax reform. The intention to switch taxation from personal incomes to spending, and reduce the overall burden if possible, was supported by typical supply side arguments. Gradually people tuned in to this message and the question of tax reform grew in terms of its saliency and importance to the public. In the 1979 election it was the third most urgent issue before the voters.⁶⁶⁶ The advocacy of the idea, couched in the framework of a new public philosophy, set against the backdrop of a deteriorating economic situation, and joined

⁶⁶⁵ Arthur Cockfield spoke at great length about the work done by the Conservatives under Ted Heath's leadership on the reform of Britain's tax system and the persistence and reconstitution of many of the earlier ideas under Mrs. Thatcher's leadership (Baron Arthur Cockfield, interview in London, England, June 11, 1991).

⁶⁶⁶ See e.g.: G. Heald and R. Wybrow, 1986, op.cit.; H. Penniman, 1981, op.cit.; *Gallup Poll Index*, May 1979, p.10; *Economist*, May 12, 1979, p.26. Several of the British interviewees spoke of the the Conservatives' tax reform message as "politically attractive". Adam Ridley affirmed, "... I think there is no doubt that the political resonance and response to a tax cutting program was very powerful... we thought it was a strong card to play politically, but we had no idea if it was worth 1, 2 or 5% in the share of the vote. But it was a conviction that had a very specific electoral significance." Ridley went on to speak of the swing of traditional Labour voters to the Conservatives in 1979 and summed up, "And so tax cutting, I suspect, had very considerable appeal for these people along with a number of other policies, like the sale of council houses..." (Adam Ridley, interview in London, England, May 30, 1991).

with the public sentiment against high taxation, contributed to the growing acceptability of the Conservatives' proposals.

In France, the "softening up" process was more difficult, particularly given the absence of readily evident cultural values or attitudes to which arguments for neo-liberal tax reform could refer. As the Socialists' economic policies appeared to be making a bad situation worse rather than better, people began to give some credence, or at least attention, to the tax and other proposals being made by the opposition center-right. Chirac and members of the RPR and UDF actively promoted tax reductions and tax reform, couching their proposals in terms which reflected their Thatcherite-Reaganite sympathies. In these efforts, the center-right was assisted, to a large extent, by the French media, particularly the printed media. Public opinion began to respond to their message, though not in any dramatic way. Increasingly, though, people began to resent taxation as intolerable or excessive.⁶⁶⁷

President Mitterrand, ever-sensitive to political trends, soon got the message as well. In addressing the tax issue on TF1 in September 1983, as in Figeac in 1982, Mitterrand acknowledged that a threshold had been reached, and that the time had come to reverse trends in taxation. Before long, the President, and other reformers in his government, once the subjects of the "softening up" process, themselves engaged in "softening up" various publics: policy makers in government, the Socialist Party

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See: J. Dubergé, 1984, *op.cit.*; J. Dubergé, 1990, *op.cit.*

and the public.

Policy entrepreneurs are sensitive to the climate of opinion *vis-à-vis* certain issues. If they wish to stand any chance of seeing their issue rise on a specialized or governmental agenda, they must do what is necessary to ensure that as broad a public as possible is receptive to the issue. A hostile climate will derail any hopes of agenda status. Efforts must be undertaken to educate and persuade the public, but more critically, governmental decision makers.

* Passing the Tests

Before and during the "softening up" process it is essential that ideas and proposed solutions pass a number of hurdles which stand in the way of their ultimate success, or at the very least, survival. These hurdles represent tests which the proposal must pass if it is to be taken seriously. Important decision makers in government as well as members of the policy community ask themselves a number of questions which amount to a test for any idea or proposal: Will the idea work? Does it conflict with certain deep rooted beliefs or practices? Will it be opposed by powerful and/or influential actors? Can we afford this? If the perception is that the idea is unlikely to pass all the necessary tests, then it may never be raised. A proposal's ultimate survival depends on its ability to pass a series of tests.

Kingdon (1984) calls these tests "criteria for survival."⁶⁶⁸ In order for a proposal to be considered viable, and so worthy of

⁶⁶⁸ J. Kingdon, 1984, *op.cit.*, pp.138-146.

attention by decision makers, it has to meet these criteria. Kingdon identifies a number of different but crucial criteria, including: 1) technical feasibility; 2) value acceptability within the policy community, but also within decision making circles; 3) tolerable cost; 4) anticipated public acquiescence and a reasonable chance for receptivity; and to Kingdon's criteria I will add, 5) minimal opposition from important decision makers. I will not go into a discussion of each of these criteria, as they are more or less self-explanatory and the reader is referred to Kingdon (1984) for a more in-depth analysis. Moreover, to a large extent, the characteristics that enhanced (or did not) the survival of neo-liberal tax reform in Britain and France from 1979 have already been mentioned, although perhaps not explicitly identified according to the aforementioned criteria in every instance. The research did however, confirm these criteria. If an idea or proposal failed to meet one or more of these criteria, its survival was in jeopardy, and in many cases was not acted upon.

To illustrate, if neo-liberal tax reform failed to emerge on the Socialist government's agenda earlier than 1982/83, it was because such ideas were not consistent with Socialist (tax-related) values of social justice and redistribution, and government efforts to boost public spending. Tax reform, therefore, did not meet the value (or receptivity) criterion. It also failed to meet the cost criterion, as the Socialists' management of public finances would not easily accommodate neo-

liberal tax cuts or fundamental reform. Another example is provided by the fate of the French President's decision to abolish the *taxe professionnelle*. If the idea to abolish the TP wasn't enacted, it was because civil servants had determined that to do so would be administratively complicated and would entail too big a revenue loss. Here, the absence of technical feasibility and the cost to the budget prevented this policy preference from being acted upon.

In the case of Conservative tax reform there are also examples of proposals that were removed from the agenda, or never made it there at all, because they failed to satisfy one or more tests. For example, although there were very good budgetary and economic reasons for doing so, the inability of the Treasury, and Nigel Lawson as Chancellor, to act positively on the abolition of mortgage interest tax relief is explained by the refusal of the Prime Minister to tolerate the social and political consequences (the effect on home-owning and home-owners) of such a measure.⁶⁶⁹ In this case, the proposal did not meet value acceptability, on political and ideological grounds. Nor was the public likely to be accepting, or at least, acquiescent, if faced with such a proposal.

An even earlier example is provided by the apparent abandonment of the tax reform agenda between 1980 and 1983. If

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The benefit this perk brings to homeowners has declined gradually during the 1980s and 1990s, as the ceiling on loans qualifying for relief has remained largely static (at £30,000 since 1983). Moreover, the relief was limited to 20% in the March 1993 budget, and again lowered to 15% in the December 1993 budget, down from 40% three years prior.

the government did not go further in the pursuit of its tax reform agenda during Howe's chancellorship, the inaction was most likely due to budget constraints, and the government's preference for reducing inflation, public spending and the PSBR before moving any further on the tax reform front.⁶⁷⁰ As Peter Hall (1986) remarks,

The Government's tax policies have been largely determined by its record on public spending and its policy towards the public sector deficit. Once Thatcher decided to reduce the PSBR at all costs, she could not reduce the aggregate tax burden...⁶⁷¹

The rise in the tax burden was testament to the inability of the Thatcher governments to reduce the tax burden (as they had promised) while simultaneously reducing the PSBR.

It would be misleading to say that failure to satisfy one criteria, while meeting all the rest, leads to the defeat of an idea/proposal. For example, while budgetary constraints appeared to prevent any action on President Mitterrand's calls to reform corporate and personal taxation between 1982-84, when action finally did come in 1985-86, the costs were not significantly less. In other words, the state of public finances were no better in 1984 (when the 1985 budget was devised) than in any year previous to justify the cost of the tax reform measures enacted in the 1985 budget. What happened was that resistance to the agenda status of tax reform was removed by Delors's replacement as Finance Minister by Pierre Bérégovoy and the

⁶⁷⁰ Many of the British interviewees mentioned this fact.

⁶⁷¹ P. Hall, 1986, op.cit., p.117.

appointment of a committed reformer at the Hôtel Matignon, Laurent Fabius. These reformers assessed the situation differently in light of their own values and interests and felt the costs to the budget were small enough (and the anticipated economic and political benefits great enough) to warrant supporting and enacting this policy change.

By any number of means, policy makers and decision makers weigh the costs and benefits of a range of factors before deciding to give an idea serious consideration and promote it to agenda status. They perceive and calculate the balance of feasibility and unfeasibility, support and opposition, benefits and costs and arrive at a decision to consider or not to consider. It is difficult to say with any certainty what matrix of variables people in and around government bring to bear on assessing the "survivability" of an idea or proposal.⁶⁷² One person's reading of a situation may favor action on a particular idea or proposal, while someone else's reading may lead to the opposite conclusion. The balance of factors under consideration must however be deemed positive (enough) before any idea or proposal is taken up and advocated.

* Conviction and Determination: the keys to persuasion

To merely propose and advocate an idea may not always suffice to win the public's approval. The specialized and broader publics must be convinced, as well as persuaded.

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See e.g.: J. Kingdon, *Congressmen's Voting Decisions*, (New York: Harper and Row, 1981).

Integral to the advocacy process is a firm belief in the ideas that are being proposed. The belief in the necessity and feasibility of the measures to reduce and simplify taxation was a necessary ingredient in persuading the various audiences to consider, accept, and in many cases, support the idea.

In France, the conviction with which politicians on both the left and right wielded the tax reform issue was less profound than in Britain. Both Chirac and Mitterrand, as well as many important policy entrepreneurs and policy makers, were relative late-comers to the cause. While their rhetoric matched that of their British counterparts, experience and history led to doubts about the translation of that rhetoric into reality.

The force with which neo-liberal tax reform was advocated on both the left and the right, had a marginal effect on the wider public, which was affected by its traditional adherence to the provident state, its pervasive suspicion of any tax reforms, and the perceived threat to the beloved *sécu*.⁶⁷³ Perhaps, however, the audience that was most vulnerable to the neo-liberal message was the political audience, those members of government (and the bureaucracy) and the party whose support was essential to the

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Many of the French interviewees spoke of the conservative nature of French taxpayers and their suspicion of reform, and for these reasons, in France, there is a "conservatisme fiscal". As Georges Egret observed, "Les contribuables sont les plus conservateurs qui soient..." (Georges Egret, interview in Paris, France, May 7, 1992). Also frequently mentioned, was the attachment of the French to their social security, "Et si vous trouvez, bien sûr, beaucoup des français d'accord sur le fait que il faut moins d'impôts d'État, vous en trouvez moins qui seraient d'accord pour baisser les cotisations sociales. Parce que ils craindraient que la protection sociale diminue en même temps - et ça ils sont très sensibles à cet aspect." (Jean Choussat, interview in Paris, France, May 12, 1992).

success of any reforming efforts. Making the connection between tax reform and electoral success - as Chirac, Mitterrand and others did - touched a sensitive nerve among government and party members, who began to see tax cuts and tax reform as an important part of a new agenda that would bring electoral manna.⁶⁷⁴

Ideally, a broader public rallied behind such a program would be the ultimate guarantee of success, but given the public's general apathy on issues of taxation, it wasn't essential. The structure and norms of the French political system did not require it.

Having said that however, the public's opposition would mean the defeat of neo-liberal tax reform. Moreover, hostility from other key decision makers would frustrate efforts to change the tax agenda. All the right people had to be in place, supported by policies and people that reflected as broad a base of support as possible.

In the Conservatives' advocacy of tax reform there was a determination that was hard to deny. As Sir Geoffrey Howe declared at the 95th Annual Conference in Brighton in mid-October

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As we have already seen, in fact, the electoral benefits were dubious. In opinion surveys and at the polls, political figures and political parties appeared to gain little from promising tax cuts and reform and/or enacting tax reform measures. Several of the interviewees commented that the alleged electoral benefits arising from promises and plans to cut and reform taxes often fail to materialize. Raymond Barre admitted, "Je ne crois pas que en France on puisse mener, gagner, les elections sur la fiscalité." (Raymond Barre, interview in Paris, France, June 2, 1992). Barre went on to say that although he felt it was important to include tax proposals in an election manifesto, these proposals would not greatly influence voters in terms of their electoral behavior. Jean Pascal Beaufret and Pierre Bilger also asserted that tax reductions do not necessarily translate into votes (Jean Pascal Beaufret, interview in Paris, France, May 14, 1992; Pierre Bilger, interview in Paris, France, April 28, 1992). Also see, e.g.: *L'Express*, no.1735, 5 Octobre 1984, p.22; *Financial Times*, September, 14, 1984, p.2.

1978,

Have no doubt about our determination. There will be real and substantial cuts in income tax because nothing less will do. All of this I have said before. I shall go on saying it until we have the opportunity to let our actions speak louder than our words.⁶⁷⁵

There is little room for doubt that the key economic policy makers in the Conservative Party were committed to the idea of neo-liberal tax cuts and reform. Soon the idea diffused widely, reaching beyond the confines of the Conservative leadership and Conservative forums, like the Centre for Policy Studies, the Bow Group and the annual conferences.

The economic/tax policy communities, politicians, journalists, academics, and various institutions, came to consider, if not embrace, many of the proposals put forward by the Conservative activists. The more tax reform - and all that it implied - was discussed, the more accepted it became. The persistent agitation by the Conservative Party leadership for reform of the British tax system compelled many people to weigh the arguments they were making in light of pressing economic concerns. Scholarly journals, and more importantly, the popular media, began to feature the ideas and the proposals being put forward. Gallup polls registered increasing voter preference for the Conservative Party on the issue of taxation. What was needed, as Sir Geoffrey mentioned in the quote above, was the opportunity to put words into action.

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"The Next Government", *Politics Today*, no.18, (London: Conservative Research Department, October 30, 1978).

The much anticipated opportunity generally appears because of a serious problem or propitious political event(s). In both Britain and France, political developments were critical to tax reform's placement on the governmental agendas.

The Politics Stream⁶⁷⁶

The event that would give the Conservatives their much desired opportunity is part of what Kingdon (1984) calls the politics stream. This stream consists of such political activities as lobbying, national moods, campaigns, elections, changes in administration, government personnel or the partisan composition of a governmental body. The term 'political' is used by Kingdon not so much in its broader sense - i.e. the authoritative allocation of values - but rather assumes a narrower definition, one that accommodates the existence and role of pressure groups, politicians, elections, public opinion etc..

Developments in the political stream take place "quite apart" from what happens in the policy and problems streams. The political stream flows, in spite of what is happening in the problems or policies streams. By the same token, the political stream is not isolated from developments in the problems and policies streams.

The agenda is affected by events in the political stream in dramatic and various ways. For instance, a change in the public mood enabled Jarvis and Gann to place Proposition 13 high on the

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The 'politics stream' is also referred to throughout this paper as the 'political stream.'

California state government's agenda. This alone would have created a climate receptive for the Jarvis-Gann initiative. Of course, it was helped and affected by the rampant inflation and its consequences for property and tax assessments. The Kemp-Roth proposals, though defeated in the U.S. Senate in 1978, became - in a somewhat modified form - an important feature of Ronald Reagan's tax reform agenda once he came to the White House in 1981. Instructive though these American examples may be, what about Britain and France? What happened in the political streams in Britain and France to propel tax reform onto the governmental agendas?

* The National Mood

One aspect of this process stream involves national mood or public opinion.

People in and around government sense a national mood...The idea goes by different names - the national mood, the climate in the country, changes in public opinion, or broad social movements.⁶⁷⁷

Each of these terms refer to a shared perspective on an issue or set of issues by a significant number of people. The extent to which the national mood is perceptible will often influence which items are considered or ignored by the decision makers. Changes in the national mood can therefore act as an impetus or a constraint. If public opinion is inclined in a certain way then an idea may find a favorable climate and flourish. Alternatively, it may confront a hostile climate and die.

⁶⁷⁷ J. Kingdon, 1984, op.cit., p.153.

National mood is of particular importance because of the effects it can have on creating fertile ground. If the seed, or rather the idea, finds fertile soil, then it will germinate and develop.

Conservative leaders believed they were in tune with the national mood when they criticized the high level of taxes and proposed measures to reduce them.⁶⁷⁸ The opinion polls certainly showed that there was a growing concern in the country over the burden of taxation and a general feeling that something had to be done about it.⁶⁷⁹ Even the Labour Prime Minister, James Callaghan, had noticed the public's growing distaste for paying ever higher taxes when he spoke in March of 1978 of the public's interest in paying less tax. Mrs. Thatcher too, often spoke of the public's dislike of high taxes. The Conservative Party's policy document, "The Right Approach to the Economy" (1977) claimed that "more and more people can see the sense in shifting part of this burden on to the pockets of those who spend and can afford to do so." This assessment was made to legitimize the proposed shift from direct to indirect taxation, which the

⁶⁷⁸ John Biffen spoke about the central place tax reform occupied on the Conservatives' agenda, "If you go back to the late 1970s, I don't think we quite realized it, but we were much more with the mood of the times." (John Biffen, interview in London, England, June 20, 1991).

⁶⁷⁹ See e.g.: H. Penniman, 1981, op.cit.; *Economist*, May 12, 1979, pp.22-26; *Economist*, April 21, 1979, pp.21+; *Gallup Political Index*, no. 225, May 1979, no.226, June 1979. Several of the British interviewees spoke about public opinion in vague terms. For example, allusion was often made to a "general feeling" that taxes were too high. Others were less vague; for example, John Hoskyns commented that there was "a strong feeling in the public as a whole of the unacceptability of high rates of taxation." (John Hoskyns, interview in London, England, June 11, 1991). Adam Ridley recalled, "I don't think there was much doubt that there was a very healthy, independent resentment [about the burden of taxation]." (Sir Adam Ridley, interview in London, England, May 30, 1991).

Conservatives effected once in power.

Finally, the press constantly reported on the public's discontent with the levels of taxation, as well as the overall state of the economy. For example, the *Economist* in its April 21, 1979 issue, quoted the historian Lord Blake who wrote, "There is a wind of change in Britain and in much of the democratic world and it comes from the right, not the left." Lord Blake had argued that this wind of change was reflected in the widespread expectation that a new Tory government would dramatically reduce the burden of taxation and increase incentives.⁶⁸⁰

'People', 'the public', 'widespread expectations' - these are all connotations for the 'national mood'. It is difficult to ascertain the sources of the national mood, but no doubt it can be measured in a number of ways by attentive politicians: newspaper editorials, public opinion surveys, interest group demands, questions and comments by citizens in television and lecture audiences, and citizen-sponsored initiatives.

Certainly, one cannot discount the effect that the national mood had on the Conservatives' agenda in opposition. This effect was concentrated on the fit between certain Conservative policies and the national mood. Conservative policy makers discerned a general discontent with the tax system, the trade unions, and Labour's economic management. These were salient issues with the public, as supported by press reports and opinion surveys at the time. Important decision makers in the Conservative Party linked

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Economist, April 21, 1979, p.39.

policies on trade unions, taxes and economic management with the problems these subjects posed. The policy activists, or entrepreneurs in the party, or associated with it, went before the general public to persuade them of their perception of the problems and the viability of their solutions.

In any event, the Conservatives sensed a changing mood and cultivated what they perceived to be growing discontent over the burden of taxation in Britain. The unprecedented saliency taxation had acquired for the British voter by the late 1970s made the ground ripe for the Conservatives' tax reform message. The favorable national mood therefore enhanced the viability of tax reform. This had important consequences for the Conservative party's electoral fortunes.

In the case of France, as already mentioned, the change in national mood, evident from the early 1980s, was not of the magnitude witnessed in Britain, nor was it as clear. In other words, while public opinion seemed to be increasingly receptive to the idea of tax cuts and tax reform, there was no significant consensus on the issue in the broader public. Appeals to liberal values, of the sort made in Britain, confronted contrary prevailing attitudes, norms and practices.

Although politicians and the press focused attention on the issue of neo-liberal tax reform and seemed to strike a sensitive anti-tax nerve among French taxpayers, they did not manage to win unequivocal support. As already mentioned, neo-liberal tax reform and the principles which supported it, failed to gain

significant ground among the French public because of the widespread belief in the state's central role, and the fear of the effect of reform on social security as well as on those who benefitted from the tax system in its current form.

Nevertheless, movement in public opinion was significant enough to persuade some political decision makers and policy entrepreneurs that a sufficient constituency existed that supported tax reform. At the very least, tax reform had few visible detractors. Furthermore, those who did advocate tax reform the loudest, like business groups and the press, had the sort of economic and political clout that was not easy to ignore.

In France, as opposed to Britain, the national mood would be a less important development in the political stream than the pressure brought to bear by powerful interest groups, like the CNPF, the electoral situation and party competition, the changing agendas of government personnel and the turnover in government personnel.⁶⁸¹

⁶⁸¹ Indeed, most of the French interviewees spoke of the absence of grassroots pressure for reform of the tax system, but acknowledged the significant pressure exerted by employers groups and the press. Jean Choussat opined, "Est-ce qu'il existait au fond une demande de réforme fiscale? Non..." But Choussat admitted that, "Il y a par la presse spécialisée, la presse patronale, dans les organisations professionnelles, il y a bien sûr une grande sensibilité au problèmes fiscaux.... le patronat notamment a très bien joué cette carte en arrivant à convaincre le gouvernement que pour être un bon européen, pour être compétitive, pour être moderne, il fallait être un peu près dans le moyen pour les taux de prélèvements obligatoires..." (Jean Choussat, interview in Paris, France, May 12, 1992). As a reason for the general absence of demand from the masses, almost every interviewee cited the fact that at least one half of eligible taxpayers do not pay tax and the countless exemptions that diminish a taxpayer's nominal imposition. As Jean Choussat noted, and this was typical of the comments, "... à peu près la moitié des français ne paye pas d'impôts sur le revenu; il y a à peu près un foyer fiscal sur deux qui ne paye pas d'impôt sur le revenu et, bien entendu, ce sont les foyers les moins riches...statistiquement en tout cas."

* Elections and Personnel Changes in Government

According to Kingdon (1984), agendas change because some of the major participants in and around government change.⁶⁸²

Governmental decision makers affect agenda change in two important ways. One way involves action taken by them to change the priority they attach to certain items. Another way involves a change in particular governmental decision makers such that some are replaced by others who bring new priorities to the agenda. That turnover explains, to a large degree, why new items rise onto the agenda. It is the change in government personnel, if you will, that best accounts for the emergence of tax reform in Britain and France.

When the Labour government turned its attention to tax reductions in the 1977 and 1978 budgets, it seemed, on the face of it, to reflect a change in the government's priorities. However, tax reform it was not. The new Thatcher administration, in 1979, structured its policy agenda according to the priority it planned to give certain items, among them, reining back government spending and borrowing, establishing money supply targets, a limited selling of national assets, and lowering (direct) taxes. These priorities had been sustained during the five years of opposition and were backed up with detailed policy worked out by the CPS, CRD, the party leadership and their advisers. Finally, they appeared in the Conservatives' 1979 election manifesto, which although short on specifics,

⁶⁸² J. Kingdon, 1984, *op.cit.*, p.160.

constituted a vague expression of the future government's policy agenda.

The fact that Mrs. Thatcher opened the Conservatives' 1979 election campaign with a promise to reduce taxes, reflected the prominent place tax reductions occupied on the party's specialized agenda, and would occupy on the governmental agenda once in power. Promises of tax reform and tax reductions punctuated the Conservative campaign in the run up to the general election. But as Kingdon (1984) notes,

There is nothing automatic about campaign pledges finding their way into public policy. For a campaign promise to gain policy agenda status, it must be accompanied by something else - perhaps a firm presidential commitment or a constituency that pushes the idea and tries to hold the president to his promise.⁶⁸³

In the British case, tax reform found a receptive and vaguely identifiable constituency of support - among the voting public and, especially, among business groups. It also carried the firm commitment of Mrs. Thatcher and her Shadow Chancellor, Geoffrey Howe, as well as Nigel Lawson, Lord Cockfield, and other future members of the Thatcher governments. There was no mistaking their determination to carry out the kind of changes they were promising once they attained office. The belief that tax reductions and other reforms were a necessary part of the solutions to be applied to Britain's economic and social problems followed Mrs. Thatcher and the Conservatives to power in May 1979.

⁶⁸³ Ibid., p.66.

Therefore the election was a critical point in the emergence of tax reform on the government's agenda. It produced a new government comprised of decision makers for whom tax reform would occupy a spot at the top, or near the top, of the government's agenda. The decision to implement part of the reform program in the first budget of June 1979 testified to the importance attached to this policy goal. However, to some extent, those tax reform measures appeared because of the need to "deliver the goods" - part of the "implicit exchange" whereby support for candidates is given in return for action on the promises.⁶⁸⁴

In this sense, the change in administration which resulted from the election provided a new opportunity for new solutions and new players. Suddenly a whole "host of players" previously excluded or marginalized: i.e. monetarists, supply-siders, privatizers, free-marketeers, family groups etc. saw the new Thatcher government as an opportunity to press their particular cases, and an expectation that they would receive a sympathetic hearing. Hugo Young (1989) writes how during the opposition years certain principles and characters were raised up which Ted Heath had "cast into the outer darkness."⁶⁸⁵ Some of those outcasts shed their collectivist facades, and those who had stuck to their principles, emerged to participate in a more favorable political climate. The Conservative Party led by Mrs. Thatcher provided certain opportunities for these "characters" and their

⁶⁸⁴ Ibid.

⁶⁸⁵ H. Young, 1989, op.cit., p.102.

"principles".

Before moving on, the part played by groups in this process deserves a little more attention, since groups constitute an important element in the political stream. While established *interlocuteurs* in France eventually came to play an important role in the agenda setting process, in Britain, they were regarded with suspicion. In fact, the Thatcher government's suspicion of groups - like the TUC and even the IOD and CBI for a time - bordered on hostility and it was little inclined to consult them, let alone actively rally their support behind the government's tax agenda. In Britain, as opposed to France, group pressure was not a significant factor contributing to the emergence of tax reform on the governmental agenda.

In France, developments in the electoral arena related to party competition, changing agenda priorities among government personnel, and turnover in government personnel were instrumental in the emergence of tax reform on the governmental agenda. Later, in 1986 and again in 1988, changes in political administrations - from socialist to conservative and back again to socialist - would be important to the persistence and reinforcement of neo-liberal tax reform on the governmental agenda. As already mentioned, the changing national mood was a factor but not among the most important, except perhaps, to the extent that it translated into defeat for the Socialists in the electoral arena and catalyzed the forces of party competition. The emergence of neo-liberal tax reform on the broader

governmental agenda first occurred in the context of presidential campaign politics in 1980/81.

Initially advocated from 1981 by Jacques Chirac, the intent was not to solve an identifiable problem (although a problem was ostensibly identified), but, rather, to seek electoral advantage by invoking an issue which apparently had contributed to the electoral successes of Ronald Reagan and Mrs. Thatcher. Neo-liberal tax reform, as it figured in Reagan's and Thatcher's programs, and as it was adopted by Chirac, was largely ignored by his main opponents in the 1981 presidential race, Valéry Giscard d'Estaing and Francois Mitterrand. As we saw, however, the time wasn't ripe for Chirac's tax reform message. As the 1980s progressed, the situation changed. The issue was catching on and soon both the RPR and the UDF had made tax reform a major (electoral) theme.

However, while the issue was given a place of prominence on the opposition's agenda, it was somewhat slower in coming to the government's agenda, for reasons already mentioned. Several developments in the political stream conspired and combined to bring tax reform to the Socialist government's agenda. As we have already discussed, pressure from business representatives, i.e. the *visiteurs du soir* and business groups like the CNPF, were instrumental in prompting agenda change. The government's changed approach to corporate tax policy was, in part, masterminded by these groups and advocated from within government by influential decision makers associated with these groups, like

Laurent Fabius and Pierre Bérégovoy, whose own tax and spend agendas underwent a significant transformation in the 1981-84 period, partly in response to these societal pressures.

At a *conseil restreint* on tax reform held on February 13, 1982, Mitterrand exhorted his government to reduce company charges.⁶⁸⁶ The *conseil restreint* and more publicly, the President's speech at Figeac in September 1982, represented the "open window" which pushed the reduction of company charges (the precursor of a broader reform of the corporate tax system) onto the decision agenda. The concern with reducing the fiscal burden on businesses was just the tip of a wedge which would usher in tax reform on a larger scale in France.⁶⁸⁷ One year later, in September 1983, the President pledged himself on television to tax reductions and tax reform.

As in the aftermath of the President's Figeac speech, in the months following the announcement on TF1, the ministers concerned, namely, Mauroy, Delors and Emmanuelli, were not in any rush to realize Mitterrand's agenda. As mentioned earlier, they were preoccupied by more pressing problems and were convinced, given the current economic and financial situation, that the President's tax agenda was not feasible. When the aforementioned

⁶⁸⁶ J. Attali (1993, p.169) notes, "'Réduire les charges des entreprises': la petite musique de Jean Riboud commence à se faire entendre."

⁶⁸⁷ The spread of one subject area to another related subject area is called "spillover" by Kingdon (1984, pp.200-204). He notes, for example, how de-regulation policies were first enacted for the airline industry; similar measures were soon considered for trucking and railways. The same effect is observed with tax reform in France. Beginning with the small steps of reducing company charges and the *taxe professionnelle*, this effort was expanded into a far-ranging reform of corporation, personal and consumption taxation.

problems became less pressing and a solution, or a series of solutions, was found which would solve the tax problem without aggravating the other problems, attention was re-focused on the issue of tax reform. The momentum increased with the ministerial changes of July 1984 and the appointment of committed tax reformers to key posts in the government, particularly Laurent Fabius as Prime Minister, and Pierre Bérégovoy as Finance Minister.

Both Britain and France provide evidence that events in the problems stream, and to a greater extent, the political stream threw open windows of opportunity for agenda change. Economic decline and electoral concerns were the problems which a number of ideas and solution, including neo-liberal tax reform, were designed to address. But more importantly, changes in national mood, governments, government personnel and agenda priorities, as well as group pressure and election campaigns, were critical to the appearance of neo-liberal tax reform on governmental agendas.

* Review of the Politics Stream

Although the politics stream flows independently of the problems and policy streams - as Kingdon (1984) tells us, it flows "according to its own dynamics and its own rules" - it can be, and often is, affected by problems and policies, as well as organization.⁶⁸⁸ Once again, the broader definition of politics is considered here and includes such things as swings in national mood, changes in administration, election campaigns and interest

⁶⁸⁸ J. Kingdon, 1984, op.cit., p.170.

group lobbying. Politics, in one form or another, has a powerful effect on agendas.

Firstly, perceptions of the national mood can suppress the movement of a particular item onto the agenda or it can create the right climate for the promotion of an item. If the public appears predisposed to a particular course of action, then a government may adopt and/or act on an agenda item which corresponds to the public's mood. Conversely, if public opinion appears hostile to a particular course of action, a government will weigh the costs and benefits of persevering with an unpopular agenda item, or dropping it.

Secondly, agenda change can result from turnover in government, whether at the executive (including the bureaucracy), legislative, or even judicial levels. Turnover in government personnel can put key decision makers in positions that enable them to restructure the agenda with new items or reprioritize the current agenda, emphasizing those items they deem worthy of action, and de-emphasizing others. Although, a change in agenda priorities and objectives may take place without a change in government personnel or governments.

Thirdly, election campaigns and electoral promises can have an effect on the agenda either by committing the political candidate to particular items which presumably he/she will carry into government if elected, or by giving incumbent decision makers the incentive to adopt new agenda items which may have broad electoral appeal but were heretofore absent from, or low

priority on, the government's agenda.

Fourthly, government officials in a pluralist democracy are generally compelled to pay attention to the diverse and sometimes conflicting needs of groups in the economy and society; or at the very least they try to give the impression that they do. When pressure is brought to bear on these officials by a powerful group or groups - either in an attempt to promote an item onto the agenda or to defeat or modify an item already on the agenda - a calculation will be made from the consideration of the balance of forces arrayed and the costs of meeting or resisting the demands. Upon making this calculation, the government will act accordingly. Agenda change is facilitated by a "constituency in favor of it and hampered by the absence of such a constituency or by the active opposition of organized interests."⁶⁸⁹ However, the outcome is not always determined by the balance of organized forces. Sometimes, they are surmounted - witness the 1986 U.S. Tax Reform Act - or merely ignored - as demonstrated with Lawson's reform of life assurance premium reliefs and the changes in capital allowances in 1984.⁶⁹⁰

Political forces affect agenda change in a variety of ways and to differing degrees. Sometimes they impact the process jointly or separately, in concert or conflict. In any event, the

⁶⁸⁹ J. Kingdon, 1984, op.cit., p.171.

⁶⁹⁰ See, N. Lawson, op.cit., ch.28. For accounts of the role of groups in the stages leading up to the 1986 Tax Reform Act see e.g.: G. Mucciaroni, op.cit.; D. Beam, T. Conlan and M. Wrightson, op.cit.; J. Birnbaum and A. Murray, *Showdown at Gucci Gulch: Lawmakers, Lobbyists and the Unlikely Triumph of Tax Reform*, (New York: Random House, 1987).

politics stream is an important promoter and/or inhibitor of agenda status. It is probably more important than the policies or problems streams. In terms of British tax reform the simultaneity of the national mood - which reflected a deep resentment of high taxes in a stagflating economy - and elections - those of 1979 - were very powerful elements in the emergence of tax reform. The equation of national mood and elections resulted in a change of administration, bringing into government a group of decision makers who had promised a high priority for tax reform. In France, the dictates of the electoral timetable and the dynamics of party competition, preceded by intense lobbying by privileged groups and, to some extent, a changing national mood, combined to create a receptive climate for policy entrepreneurs advocating neo-liberal tax reform. The government's tax agenda changed through the willful decision of a President persuaded that such a change was imperative.

The Confluence of the Streams

Now that the three streams and what they represent have been identified and explained, what brings about their fortuitous confluence? To take stock, one has a problem, a ready and viable solution, and engages in politics or finds allies in politics to promote both problems and solutions as items worthy of attention and action. But what brings them all together to produce the desired change in public policy?

By way of illustration, we will rely on the example of the three streams which came together to produce tax reform in

Britain from 1979. Geoffrey Howe, writing in the *Times* proclaimed that the economic problems which beset Britain were partly due to Labour's belief in high taxation.⁶⁹¹ He proceeds to explain the problems caused by the tax system "distorted by inflation and socialism", i.e. tax avoidance/evasion, the effects on incentive and enterprise, the lower rates enjoyed in other countries. He then offers the 'Conservative' solutions, i.e. reducing rates, notably the higher rate from 83% to 60%, reducing capital transfer tax (CTT) and indexing CGT. He wrote,

...the Conservative Party has clear ideas on what has to be done. We are impatient for the opportunity.⁶⁹²

In that one article, one catches a glimpse of the three streams : the problem, the policy and the political. What is absent is "the opportunity", a window of opportunity, that represents the most propitious moment for bringing the streams together.⁶⁹³ This is the opportunity Sir Geoffrey refers to.

* Policy Windows

Agenda change occurs when the separate streams come together. The streams come together at critical times. John

⁶⁹¹ *Times*, August 8, 1977, p.19.

⁶⁹² *Ibid.*

⁶⁹³ One interviewee, Arthur Cockfield, hinted at the imminent policy window that would open for corporate tax reform, "It wasn't until Nigel Lawson became Chancellor, that the conditions appeared right to move ahead with tax reform. Many of his measures had already been worked out, like the changes to corporation tax, and were just waiting for the right moment." (Baron Arthur Cockfield, interview in London, England, June 11, 1991). In this case, a policy window was opened - "the right moment" - when Nigel Lawson, a committed tax reformer, became Chancellor of the Exchequer. With sufficient advocacy and minimal constraints, and meeting certain criteria of acceptability, corporate tax reform became an item on the governmental agenda.

Kingdon (1984) writes,

A problem is recognized, a solution is developed and available in the policy community, a political change makes it the right time for policy change and the potential constraints are not severe.⁶⁹⁴

It is when these process streams are joined that agenda change is most likely to occur. The most telling occasion for this coupling is when a policy window opens. Kingdon (1984) tells us that policy windows are "opportunities for action on given initiatives" which "present themselves and stay open for short periods."⁶⁹⁵ The major changes in public policy result from the appearance of these opportunities. Participants with policies to advocate must usually wait for the right opportunity - the opening of a policy window - to push their policies onto the agenda.

Why do windows open? Kingdon (1984) tells us,

Basically a window opens because of a change in the political stream (e.g. a change of administration, a shift in partisan or ideological distribution of seats in the Congress or a shift in national mood)... a change in administration is probably the most obvious window in the policy stream.⁶⁹⁶

As already discussed, Britain and France offer two examples of windows opened by developments in the political stream. The defeat of the Labour government in the May 1979 election and the arrival of Mrs. Thatcher at 10 Downing Street and Sir Geoffrey

⁶⁹⁴ J. Kingdon, 1984, op.cit., p.174.

⁶⁹⁵ Ibid.

⁶⁹⁶ Ibid., p.176

Howe at number 11, provided a window of sorts for those with ideas on how to reform the tax system. Moreover, several measures had already been worked out by members of the Shadow Treasury team and their advisers while in opposition and who took positions with the new government. In the absence of constraints, many of those measures were ensured a prominent place on the agenda for tax reform.

For the most part, the policy entrepreneurs were themselves important decision makers in the Conservative Party and their advisers. They were, therefore, in prime positions to affect the agenda. Several times already, reference has been made to people like Sir Geoffrey Howe, Peter Cropper, Lord Cockfield, Nigel Lawson, and Adam Ridley, who, when in opposition, had devised and advocated various proposals, and had been receptive to ideas proposed by others in the policy community. Once in government, they were well-placed to move those proposals onto the governmental and decision agendas, barring significant constraints.

In France, the window opened more than once, depending on which agenda one is looking at. The specialized tax agenda of Chirac and the RPR-UDF was transformed when Chirac decided to run as a presidential candidate in 1981, thereby opening a window. The governmental tax agenda, which was the Socialists' concern, changed due to a window thrown open by Mitterrand's Figeac and TF1 speeches, and the change in government personnel in July 1984. These windows came to be opened due to a combination of

group pressure, economic problems and electoral anxieties.

The appearance of tax reform on the governmental agenda was the product of the coming together of several streams flowing through the organization of French government. A couple of related problems were recognized: electoral decline and unpopularity, high tax burden and rates, and their negative impact on the economy. The problems stream was therefore opening a window for appropriate solutions. A solution was available in the policy community and recommended: neo-liberal tax reform and its component measures. Political developments also had the effect of opening a window and made the time right for policy change: a shifting national mood, the threat of electoral defeat in 1986 at the hands of the center-right and the need to renew voters' confidence in the Socialist party/government, and the lobbying of influential business interests.

The most visible manifestation of change in the political stream was provided by the President's speech at Figeac in September 1982 and his announcement on TF1 one year later. These commitments to reform the tax system for the benefit of businesses, investors and households, put the government in the market for new policies, thereby creating an unmistakable window for policy activists. Neo-liberal tax reform, an 'umbrella' solution, which had been floating around in the policy stream for some time, would address the economic problems plaguing the country and the Socialist government. More importantly, was the political salvation the tax reform idea seemed to offer.

Ironically, not only was Mitterrand instrumental in opening the policy window, but himself became a forceful policy entrepreneur. He was the most visible among the cluster of actors to link problems, policies and politics and change the government's agenda.

How does one know when a window is open? And how does one know when that open window is beckoning? And what happens when one pushes a proposal successfully through the window? Firstly, windows are not universally perceived. While a change in administration may seem to many an obvious open window, some activists may misperceive or misjudge it, or just miss it altogether. For instance, a few members of the policy community in Britain, i.e. the IEA and the IFS, produced proposals to reduce and/or abolish mortgage interest tax relief, a popular tax expenditure, but one with extremely high costs to the Treasury and with perverse effects on the housing market. The perception by participants in or related to the IEA and the IFS that a new government committed to tax simplicity and markets free from distortions had opened a window for such proposals proved wrong. Many of the arguments, sensible though they were, were rejected or ignored.

In France, wide-ranging proposals, including abolition of the TP and reforming social security finance, were pushed onto the agenda once the tax reform windows were opened by the election of a neo-liberal center-right government in March 1986. Both the RPR and the UDF had explicitly promised, or had at least

intimated, that the time had come to abolish the TP and reform social security finance. However, apparently, policy entrepreneurs, both outside and inside government, although finding decision makers in sympathy with their proposals in principle, met with resistance and inaction in practice. In all cases, while these proposals had made it to the decision agenda, they were rejected.

Secondly, open windows are not always predictable. If, for example, a program authorized by government is in need of renewed funding or is reaching the end of its operating life, here is a predictable window. However, in many cases, it is anybody's guess when a window opens. Usually an event in the problems stream - a natural disaster - or in the political stream - an election campaign - will open a window for participants to put forward policies, link them to problems and push for their adoption by important people in and around government. When such a window opens, however, it is usually a surprise. The successful activist will have prepared him/herself well in anticipation of just such an opportunity, just in case. If the activist is caught unprepared, then he/she will probably have a hard time persuading anyone to pay attention to certain problems and policies, or the opportunity may pass them by entirely, as windows do not stay open long.

Thirdly, if a window opens and an activist proposes his/her policy, and persuades those in or around government of its optimality, the outcome of that policy may differ from the

original intention. How that policy is actually legislated and implemented will very likely be different as it gets processed in the garbage can. The Green Paper on Corporation Tax (Cmnd 8456) in 1982 was clearly a window and many participants used the opportunity to make their case for changes (or no changes) to the system of corporate taxation. Most of the interested parties pressed for no change or for special tax privileges. In fact Sir Geoffrey Howe commented later in his Budget speech of March 15, 1983,

There is one impression that stands out, and that is the overwhelming desire on the part of industry for stability in the corporate tax regime. I recognise the force in this. Change is not costless. I have therefore concluded that there should be no change in the broad structure of the present arrangements.⁶⁹⁷

Apparently, the Chancellor had been persuaded of the need for stability. However, by 1984, other developments in another garbage can resulted in a sweeping reform of the broad structure of corporate taxation which bore little resemblance to the original solutions/policies brought to the government's attention during the consultative stage of the 1982 Green Paper.

When President Mitterrand proposed abolition of the TP and advocated an 8% reduction in income taxes in 1984, he had little control over how these policy objectives would turn out. Would his objectives be achieved? Or would they be compromised by the assessments and policy interests of other participants in the garbage can? In the end, the policy outcomes differed from the

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Parliamentary Debates (Hansard), House of Commons, Session 1982-83, Sixth Series, vol.39, col. 149, (London: HMSO), p.85.

objectives articulated and desired by the President.

The policy windows for tax reform opened and closed several times during the 1979-1989 period in Britain and France. When and if the window closed, as it seemed to in Britain from 1980-1983, and in France from 1989 it did so largely for one or more of the following three reasons: 1) because of the belief that enough had been done, at least for the time being - as in the case of the basic rate which was dropped in Britain from 33% to 30 % in 1979 and then not touched again until 1986, or Francois Mitterrand's public acknowledgement in his 1988 *Lettre à tous les Français* that enough had been done in terms of income tax reductions; 2) because of a development in the problem or political stream - for instance, the problems of inflation, the budget deficit and public spending temporarily closed windows in both countries on further major reforms to the system; or 3) because insufficient interest exists, or lack of agreement, as exemplified by the inaction of the concerned ministers following Mitterrand's speeches in 1982 and 1983. In most instances during this period, it is likely that tax reform got squeezed out by other priorities and was forced to assume a lower position among the governments' priorities, to be resurrected later and acted on should conditions be more favorable.⁶⁹⁸

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Most interviewees, both British and French, when assessing the evolution of tax reform in their respective countries, referred to the emergence or immediateness of more pressing problems like budget deficits, public spending, inflation and currency fluctuations, as inhibiting progress on the tax reform front. Typical was the comment made by Hermione Parker, referring to economic problems, "This limited their [the Conservatives'] room for maneuver and contributed to their abandoning radical [tax] reform until economic conditions made them

Over the *longue durée*, however, it can be argued that the window for tax reform remained constantly open. But, while an open window, correctly perceived, may be an open opportunity to promote items to agenda prominence, agenda change is not automatic. Several conditions must be met for agenda change to take place. We will look at those conditions next.

* Coupling

When the window is opened, if agenda change is to happen, the three streams must be joined together. "Coupling" is the term Kingdon (1984) uses to describe this action.

There comes a time when the three streams are joined. A pressing problem demands attention, for instance, and a policy proposal is coupled to the problem as its solution. Or an event in the political stream, such as a change of administration, calls for different directions. At that point, proposals that fit with that political event, such as initiatives that fit with the new administration's philosophy, come to the fore and are coupled with the ripe political climate. Similarly, problems that fit are highlighted, and others are neglected.⁶⁹⁹

A link is made when all three streams are joined. This link produces agenda change. If one or more of the process streams is missing, then agenda change is unlikely to occur. Without problems there would be little point in advocating solutions, without solutions, problems wouldn't be solved, and without politics, the incentive to promote and link problems and

more viable." (Hermione Parker, interview in London, England, June 11, 1991).

⁶⁹⁹ J. Kingdon, 1984, *op.cit.*, p.211.

solutions is rendered non-existent. In the event that all three streams are present, the appearance of a policy window is the most propitious time for linking to take place. Often the window stays open only briefly and if coupling doesn't take place, the window usually closes.

Tax reform emerged on the agendas of the Conservative and French governments because of the fortuitous confluence of the three streams discussed in detail above. When the window opened, what or who was responsible for the linking? It was not a spontaneous confluence. People cause agenda change; people equipped with conviction, energy, expertise, and connections, and aided by events. Those people who effect the confluence are known as policy entrepreneurs, whom we have already discussed. John Kingdon (1984) explains, "Entrepreneurs who advocate their pet alternatives are responsible for this coupling."⁷⁰⁰

Entrepreneurs are people who spend much time, energy and other resources promoting their conception of problems and/or their solutions. However, they also analyze situations and anticipate those propitious moments when the time is right for them to act.

Policy entrepreneurs see their chances enhanced once the windows are opened. They capitalize on propitious events and circumstances and use their influential positions to promote their ideas with the aim of changing the agenda. At those moments, the policy entrepreneurs are a critical factor in the

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Ibid. p.204.

coupling. The role of the entrepreneur is, therefore, crucial. Without him/her, good ideas remain just that. Problems remain unsolved and political events come and go without incident.

In the context of tax reform in Britain, for the most part, the most important policy entrepreneurs were Geoffrey Howe and Nigel Lawson, with supporting roles played by Lord Cockfield, Peter Cropper, and other advisers such as Adam Ridley. Perhaps it would be attributing too much to Howe and Lawson to identify them as solely responsible for the appearance of tax reform on the government's agenda in the 1980s. Certainly a larger cast of characters played various and not insignificant parts, many of whom I have already mentioned. However, both Sir Geoffrey and Nigel Lawson were the central figures in the process of reforming Britain's tax system.⁷⁰¹

In France, as mentioned earlier, the policy entrepreneurs included, among others, Philippe Auberger, Alain Juppé, Jacques Chirac, the Club de l'Horloge, the new economists, Club 89, and Laurent Fabius, Pierre Bérégovoy, the CNPF, the *visiteurs du soir*, perhaps Jacques Attali and Jean-Louis Bianco, and the President himself. These entrepreneurs worked assiduously to connect problems to solutions, and then problems and solutions to politics. The commitment to reform taxes made and maintained by President Mitterrand, as well as other key figures in the alternating Socialist and center-right governments and

⁷⁰¹ Nearly all those interviewed mentioned either Geoffrey Howe or Nigel Lawson or both together as 'instrumental', 'crucial' or 'key' figures in the tax reform process in Britain after 1974.

oppositions (and leading advocates outside government) throughout the 1980s, meant that the issue would not just fade away. Tax reform continued to remain an important agenda item for some years. During the 1980s several proposals were devised and made available in the policy stream. Considered acceptable in terms of their economic and political viability and potential to solve the given problems, some of these policies were coupled to events in the political and problems streams and so changed the tax policy agenda in France.

Among the most important policy entrepreneurs during this period were Chirac, Mitterrand, Fabius, Bérégovoy and Juppé. They formed part of the visible cluster responsible for linking the streams. Supporting them was a whole cast of other important actors, many of whom formed part of the hidden cluster identified above. Nevertheless, to a great extent, interviewees identified Fabius, Bérégovoy and Juppé as the key tax reformers in French governments during the 1980s.

Neo-liberal tax reform remained high on the French and British governments' agendas for a number of reasons, but mostly because of the efforts and commitments of key decision makers in government. These decision makers saw reform of the tax system as a necessary condition for effecting the sort of changes that would create new businesses, new jobs and new wealth. But in addition, tax reform offered the prospect of electoral success, even if a direct link could not be definitively ascertained.

There can be no doubt, that the reforming instincts of Howe

and Lawson, Fabius, Bérégovoy and Juppé, and their positions as key decision makers were critical to the agenda status and enactment of tax reform legislation between 1979 and 1989. The joining of the separate streams depended on these entrepreneurs, but did not depend on them alone. Nonetheless, it was the their presence, dispositions and activities - in the right place at the right time, advocating the right policies - that linked the three streams of problems, policies and politics and thereby placed tax reform high on their governments' agendas, where it remained for most of the 1980s.

While the outstanding feature of the processes examined here is the joint effect of factors coming together at once, these processes are not entirely random nor do they operate under a momentum all their own. The institutional environment of our organization, both domestic and international, imparts a particular dynamic that alternatively impels and constrains the process streams.

The Role of Institutions

While events in the process streams do not occur in a neat and orderly fashion and the outcomes of these processes can be rather unpredictable, there is some degree of pattern evident. Events and activities in each of the three streams are subject to some criteria or conditions which help us to make sense of what is going on and to predict what will happen. For example, as we have seen, conditions must be identified and defined as problems according to generally acceptable values, comparisons and

categories. Otherwise they remain conditions and go unaddressed. If policy entrepreneurs and key decision makers do not acknowledge the existence of a problem, then nothing happens. In order for solutions to become policy they must find a receptive climate, be seen to respond to a given problem and meet particular criteria of acceptability: value, technical, budgetary, and public.

Certain developments in the problems or politics streams - including a focusing event, a natural disaster, economic crisis, change of administration or swing in national mood - are more likely than others to open a policy window and thereby create an environment favorable for entrepreneurs promoting ideas and solutions. Entrepreneurs are more likely to succeed if they possess a number of important strengths, qualities and skills such as the ability to speak for an identifiable group or public, expertise, political connections, etc. When the window opens, the probability of agenda change is enhanced when a skillful entrepreneur couples problem, solution and politics. In the absence of constraints - social, economic/budgetary, political - the item rises onto the governmental agenda, and perhaps even the decision agenda.

To reiterate, these processes though apparently accidental and fortuitous, are not, as some might conclude. There is some semblance of order. In each stream there are processes at work which impose some order. Among these processes are, the devices used to raise consciousness that problems exist, the criteria

used to judge whether proposals should be seriously considered or not and political norms and rules of the sort constitutions, elections and culture impose. Additionally, institutions impact the problems, policies and politics streams by means of constraints and incentives. Let's briefly look at how institutions were important in the case of tax agenda change in Britain and France.

New ideas like tax reform, may be attributable to individuals or groups, but need somehow to be disseminated and diffused in order to 'take off', catch on' and 'capture' the attention of people in and around government'. Recall Hall's (1986) observation, "...the crucial step here is the one which popularizes a new economic idea and translates it into policy."⁷⁰² In France, the new idea became popularized by groups and organizations, like the *nouveaux économistes*, universities and *grandes écoles*, the Club de l'Horloge and Club 89, the RPR and UDF, the press, etc. In Britain, the cast of important institutional actors included universities, think tanks - i.e. the Bow Group, the CPS, the IEA, the IFS - the press, and the Conservative Party. Without the 'home' provided by such institutions, tax reform would very likely have remained just an interesting idea, rather than the issue - or even the international trend - that it became.

Rather than attempt a new analysis of the important institutional variables which structured the activities and

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P. Hall, 1986, op.cit., p.275.

behavior of the relevant tax policy making actors and institutions, and which affected the shape and direction of tax policies in Britain and France, we will focus on Peter Hall's variables, which I believe appropriately account for the course that economic policy - and for our purposes, tax policy - took from 1979.

I am not going to attempt a systematic analysis of Hall's (1986) five institutional variables - the organization of capital, labor and the state, the organization of the political system and the position of the nation within the international economy - with respect to their respective impacts on the policy processes and outputs examined here. But, with the exception of the organization of labor, which was not so important during this period in terms of its effect on tax policy making, I will briefly discuss those variables he has identified and consider how they impacted tax reform in Britain and France in the 1980s.

I believe Hall's account of the impact of institutional variables on economic policy continuities, and the policy changes which took place after the Socialist experiment failed and after the Conservatives came to power, is a sound one, if not entirely a sufficient one. His analysis can be applied to the case of tax policy, as it was with economic policy more generally. Our study provides strong evidence that, for instance, the organization of the state, the political system, capital and the positions of France and Britain in the international economy, had an immense impact on the processes identified here and the nature of the

policies produced.

For example, the solution of tax reform, its availability and appropriateness for France, was influenced by developments taking place outside France. Not only did tax reform elsewhere have important consequences for French policy makers, but also in another important, though perhaps less direct respect, was France's position in the international economy crucial. The policies of 1981-82 revealed how pressures related to France's external relations and economic position were aggravated. The widening current account deficit, the weakness of the currency and the rise in the budget deficit, testified to the degree to which French policies were "out of step with the international conjuncture" and the "unsustainability" of such policies in the face of external constraints.⁷⁰³ Hall (1986) notes,

As the government ran up against economic constraints that derived from its insertion into world markets, it faced the difficult choice of adapting its strategy to the operation of market forces or of moving down a more radical path than anticipated.⁷⁰⁴

Socialist policy makers decided that France could no longer

⁷⁰³ OECD, *Why Economic Policies Change Course*, (Paris: OECD, 1988). Several of the French interviewees explained how France's tax position was compromising its position in the international economy. To many, it was obvious that France needed to undertake important economic and financial (and tax) reforms, in order to improve its position. For example, when asked if there were any signs which may have prompted politicians to consider tax reform policies, one interviewee, Francois Xavier Stasse responded, "... la France a fait payer la crise... par les entreprises. Nous voyons très clairement le partage ajouté a les entreprises; ça dégradait très nettement au benefices... les entreprises au cours de ce period voyent leur capacité de autofinancement, leur capacité d'investissement se reduiaient. Et la France petit à petit perd de la compétitivité... Nous avons ecouté, étudié les prises de positions des responsables économiques américains, anglais, allemands..." (Francois Xavier Stasse, interview in Paris, France, June 2, 1992).

⁷⁰⁴ P. Hall, 1986, op.cit., p.225.

afford to remain out of step with its major trading partners without jeopardizing France's position in the international economy, and the domestic economy - not to mention their own political positions. More a tacit vindication of Raymond Barre than the *Projet Socialiste*, the austerity package they subsequently devised and enacted began to remove the fiscal burden borne by French businesses and shifted it to the upper- and middle-classes. Similar strategies were being considered and pursued elsewhere, which facilitated somewhat the introduction of such 'un-Socialist' policies.

Initially, Britain's position in the international economy appeared to play a less important role in the processes which produced (tax) agenda change. During the Conservative period of opposition when tax reform was made an important item on the agenda, tax policy makers were not so much concerned by Britain's international trade and financial position. Although, it would be difficult to deny that the concerns of British industrialists and especially the City - with their exposure to international markets and their attractiveness to international investors - did not concern tax policy makers inside and outside the Conservative Party.⁷⁰⁵ Later on, in the 1980s, when international tax reform was underway, tax policy making became more outward looking, in

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The influence of City and business interests on the Conservative Party has not only a domestic dimension, but an international one as well. For City and business influence in the Conservative Party and British government generally, see: C. Mellors, *The British M.P.*, (Farnborough: Saxon House, 1978); N. Ellis, *Parliamentary Lobbying, Putting the Business Case to Government*, (Oxford: Heinemann Professional Publishing, 1988); A. Roth, *The Business Background of M.P.s*, (London: Parliamentary Profile Services, 1972, 1967, 1965).

the sense that taxes were seen as a way of enhancing Britain's competitive position *vis-à-vis* its major partners.

Even in the earlier period, when tax reform measures appeared on the Conservatives' agenda, the positive effect of neo-liberal tax policies on the country's international economic position and improving international confidence were not far from policy makers' minds.⁷⁰⁶ The Conservative's tax plans as outlined in *The Campaign Guide 1977* made frequent references to Britain's tax and economic position in relation to other low tax and economically successful countries in Europe and elsewhere. Frequent comparisons were drawn between the British tax system and those systems in other countries in order to highlight Britain's 'disadvantaged' position. Certainly implied, if not always explicitly stated, was the need to correct those disadvantages.

The pursuit of a "domestic" growth strategy was not enough. Tax policy would also need to be aimed at improving Britain's international competitiveness, although as already mentioned, this concern became much more pronounced in the later reforms under Lawson. Nevertheless, under Geoffrey Howe, the taxation of capital underwent some significant changes, providing evidence of the concern for Britain's financial and industrial positions in the international economy, as well as domestic economic growth and

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Several of the British interviewees mentioned the brain-drain - the migration of high income earners to low tax countries - the squeezing of company profit margins and the efforts of high income earners to seek shelters for their income outside Britain. All these problems were relevant to Britain's position in the international economy.

the creation of jobs.

The organization of capital, according to Hall (1986), refers to the relationship between financial and industrial capital. Britain and France maintain different capital structures. In Britain, businesses were largely given a free hand to make decisions and conduct affairs. The state interfered as little as possible. British firms came to rely on internally generated funds and equity issues for finance, rather than large scale and long-term assistance from banks.⁷⁰⁷ The reverse was true in France, where industry remained small and fragmented and depended heavily on long term bank loans for finance. The state orchestrated consolidation of industry and nationalizations in the post-war period gave French banks, many of them in state hands, a more important role. Moreover, whereas, the City took on a substantial role in business affairs, in France financial markets remained largely undeveloped.⁷⁰⁸

With its reliance on the state banking sector for financial support and its traditionally close relationship with French government and politics, the organization of capital had tremendous consequences for government policy makers. Several developments affecting the organization of capital had consequences for tax policy change in France. In the early 1980s, in light of the state's need to capitalize its vast expenditure program, budget deficits grew, and to choke off

⁷⁰⁷ P. Hall, 1986, *op.cit.*, ch.3.

⁷⁰⁸ *Ibid.*, pp.264-5.

inflation and support the depreciating franc, interest rates rose. Sources of finance capital began to dry up. The government passed much of the burden for financing its social program onto the corporate sector. Taxes on corporations rose. Such measures adversely affected corporate profits which, as a result, fell. The rate of investment was on the decline.⁷⁰⁹ For instance, the portion of investment financed from retained earnings fell from 78% in 1979 to 34% in 1982.⁷¹⁰ The cost of debt service for French firms as a percentage of value-added doubled between 1979 and 1984.⁷¹¹

Relations between capital and the state had ramifications for the direction of tax policy. In the early 1980s the French Socialist government was trying to ostensibly democratize state-society relations by promoting dialogue with 'other' representatives of capital besides the traditionally privileged CNPF.⁷¹² Actually, the government was trying to shore up its political base of support. These actions, which entailed strangling financial resources, increasing costs, introducing rigidities, withdrawing the state's recognition of the primary representative group as a privileged interlocutor and marginalizing it, had the combined effect of inciting significant reaction on the part of capital interests. The CNPF emerged as a

⁷⁰⁹ Recall the earlier quote by Francois Xavier Stasse.

⁷¹⁰ P. Hall, 1986, *op.cit.*, p.222.

⁷¹¹ Ibid.

⁷¹² See, S. Berger, in H. Machin and V. Wright, eds., *op.cit.*

major institution of opposition to the government.⁷¹³

While in Britain, the CBI and IOD resented the policies pursued by the early Thatcher government and threatened a "bare-knuckle" fight, these business groups were not strong enough to force the government to bend to their will.⁷¹⁴ But the organization, practices and norms of the main economic policy making body, the Treasury, plus the mediating effects of monetarist ideology and conviction politics, gave the Conservative government room to flout the arguments made by business representatives, if it wanted to.⁷¹⁵

The Socialist government in France, saddled with a set of interlocking institutions which relied on the input and cooperation of business interests, soon learned that it could not afford to run rough-shod over the demands and pleas of the CNPF.⁷¹⁶ Suzanne Berger (1985) writes,

...the Government discovered that it needed employers' organizations as a transmission belt to a world in which bureaucrats had limited access and few points of leverage. The professional unions represented in the CNPF have constructed a dense organizational network that covers all of France. Their legal, financial and research services have a reach into individual firms that no government offices parallel. The Government began to understand that the modernization of French

⁷¹³ Ibid., p.230.

⁷¹⁴ See: P. Hall, 1986, op.cit., p.105, 129; W. Grant, "Representing Capital" in R. King, ed., *Capital and Politics*, (London: Routledge and Kegan Paul, 1983); W. Grant and D. Marsh, *The Confederation of British Industry*, (London: Hodder and Stoughton, 1978).

⁷¹⁵ See, P. Hall, 1986, op.cit., pp.65, 264-5.

⁷¹⁶ The institutional framework in France which served as a conduit for business interests included, among other bodies, the modernization commissions of the Plan, the Economic and Social Council, and nationalized industries.

industry and its adaptation to world markets would require associations to mediate between the State and private business...⁷¹⁷

The government was compelled to heed the demands being made by the representatives of capital if economic recovery was ever going to materialize. Somehow, Mitterrand's government needed to persuade private businesses to invest, innovate and hire.⁷¹⁸ Moreover, as growing budget deficits and currency instability constrained state financing, it was necessary to free up finance capital in other ways. Lowering company charges (including taxes), allowing public companies to "sell-off" assets and encouraging the financial markets were some solutions under consideration.

Conceding to the demands made by the CNPF was the price for achieving the aims of the government, and relieving the government of unbearable responsibilities. A major demand made by French businesses was lower taxes on enterprises. In order to remain competitive and stimulate economic recovery, the government was convinced that it was imperative to reduce the charges borne by business and thereby enhance their financial flexibility. The influence of capital and its organization over economic, and especially taxation policy was thus manifest in France during the 1980s.

In Britain, the traditional loose and independent relations

⁷¹⁷ S. Berger, in H. Machin and V. Wright, eds., op.cit., p.235.

⁷¹⁸ Ibid., p.236.

between capital and the state and the division of interest and operations between the managers of financial and industrial capital (Hall, 1986) freed policy makers to some extent, from pressures exerted by these two sectors. Moreover, this situation was enhanced by the smaller scale on which British industry concentrated compared to its French counterpart, and its failure to mobilize in any effective, organized way to promote its interests. If anything, the international reputation and orientation of the City, and sterling's role as a world currency, obliged British policy makers to pay more heed to the interests of the financial community than to business. This situation was reinforced by the organization of the state with its internationalist perspective and the institutional presence within government of the Bank of England, which spoke for the interests of the financial community.⁷¹⁹

Tax policy was subject to short-term political concerns, with little thought as to its long-term effect on business.⁷²⁰ Where business was concerned, the attention focused on it was generally due to the eruption of crises and the need to preserve employment in threatened sectors. The extent of government intervention on behalf of capital can be observed in the plethora of tax reliefs commonly resorted to as a means of alleviating perceived problems, and which particularly favored the

⁷¹⁹ P. Hall, 1986, p.251.

⁷²⁰ Cedric Sandford, speaking generally about British tax policy, felt much of it was "ill-conceived" partly because there was "not enough consultation or long term thinking." (Cedric Sandford, interview in Bath, England, June 6, 1991).

manufacturing industries over service industries.

It wasn't until the advent of Prime Minister Thatcher that the state developed a long term approach to capital, but one still guided by a minimalist creed. This approach largely involved tax reform backed by supply-side principles. That is, creating a decision making environment uncluttered by tax devices which distorted investment decisions and choices about finance. Specifically, this involved eliminating all but a few 'essential' allowances and lowering corporation tax rates. However, while the evidence is lacking for the direct influence of capital on the tax reform agenda - particularly as the economic/tax preferences of the government were more or less congruent with the economic/tax preferences of business/City interests - the organization of capital in Britain certainly influenced the tax reform process by establishing the parameters in which tax policy makers devised and implemented the tax reforms of the 1980s.⁷²¹

The organization of the state and the way it orders and channels the interactions and relations between actors also pressured a particular line of policy. This variable tends to lend itself more to policy continuity than change in the sense that the state's particular institutional structure remains

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For further information on the role of business groups and the City in British economic policy making, see e.g.: P. Hall, 1986, op.cit.; P. Middleton, "Economic Policy Formulation in the Treasury in the Post-war Period", *National Institute Economic Review*, no.127, February 1989; N. MacKinnon, "Playing to the Front Row", *New Economy*, Autumn 1993; D. Freud, "The Tories Open a Hornets' Nest", *Financial Times*, January 23, 1983. City reaction is important and its influence was noted by Leonard Beighton, who said, when devising tax policy, "...you have to have one eye on the financial markets... it's very important to the real economy how the financial markets are reacting..." (Leonard Beighton, Lecture to the LSE Financial Markets Group, January 9, 1995).

largely stable and so, will very likely constrain or deflect the exertions of political actors intent on effecting radical change. However, policy innovators and policy innovations may break through the constraints posed by the organization of the state, and actually exploit statal institutions to serve innovative ends. Here we can see that there is a close relation between the organizational variables of the state and the political system. In Britain and France, the distinctive organization of these states affected the "incentives, balance of power, and flow of information facing individuals at different positions within it."⁷²² This organization imparted a particular bias to the policy processes and outcomes.

The subjugation of the legislative branch of government by the Fifth Republic constitution, and the constitutional and practical pre-eminence of the executive, mean policy initiatives generally lay with the executive. The President, who heads the executive, and his ministers, are assisted by a personal team of advisers with access to ideas and actors inside the government, in the civil service, the *cabinets*, and outside government, in business and the broader policy community. The President, ministers, and advisers, are in a position to range widely across the policy agenda and consider items that muster technical as well as political feasibility. It is likely, therefore, that any important policy initiatives should issue from the executive branch of government, particularly the Elysée or in the case of

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P. Hall, 1986, *op.cit.*, p.61.

tax ideas, the Ministry of Finance.

The customary avoidance by the bureaucracy - recognized as a major policy force - of issues that are controversial or overtly political in nature, leaves the initiative on an idea like tax reform with the political - as opposed to the administrative - executive. However, the extent of the administration's influence may be felt in its resistance to such ideas which may not meet administratively defined criteria of acceptability. In fact, the influence of the administration on the policy process was translated into support for the President's tax reform proposals - as long as they were technically viable. We have learned that the administration had come to be infiltrated by neo-liberal thinking and thinkers who were partial to neo-liberal tax reform ideas (J-F. Kesler, 1985; B. Theret, 1991).

As already discussed, neo-liberal ideas dominated teaching and thinking at the *grandes écoles* by the mid-1980s and this had important policy consequences.⁷²³ The new strategy adopted by the French government can therefore be related to the organization of the state: a President, and ministers and advisers, advocating tax reform imposed their policy preferences - developed internally and inspired by group demands and international developments - on a pliable bureaucracy and an acquiescent Parliament.

The British state bears much in common with its French

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See: J-F. Kesler, 1985, op.cit.; B. Theret, op.cit.

counterpart with respect to its institutional organization.⁷²⁴

Tax policy making is centralized in the Treasury, with input possible from other sectors. However, it's the Chancellor who has the final say over tax matters.⁷²⁵ Only the Prime Minister can overrule the Chancellor. Of course, the Prime Minister's decision-making authority does not merely rest in her ability to overrule. She is also a possible source of policy proposals. The collective Cabinet and Parliament remain largely marginal to the tax agenda setting process. Cut off from the policy making process by the closed ranks among budgetary policy actors and the secrecy which shrouds the process, any input they may have is generally at the Chancellor's discretion. Constitutional devices and standard operating procedures, including among other things, a weak committee system, the three-line whip and the spectacle of Budget Day, also further limit participation in the tax policy making process on the part of the Parliament and cabinet. As in the case of France, it is with general facility that the political executive in Britain, sure of itself and its policies, structures and implements its tax agenda.

Hall (1986) maintains that the "civil service system and the politics-administration nexus" in Britain inclines policy making to be inertial rather than innovative.⁷²⁶ To a large extent this

⁷²⁴ See e.g., N. Lawson, 1992, op.cit., p.272.

⁷²⁵ On the role of the Chancellor, see e.g.: N. Lawson, 1992, op.cit., pp.691-2,598,ch.47; H. Young and A. Sloman, *But, Chancellor*, (London: British Broadcasting Corporation, 1984); M. Thatcher, 1993, op.cit., p.673;

⁷²⁶ P. Hall, 1986, op.cit., p.62.

is true.⁷²⁷ However, if a party, privileged with an electoral mandate, enters government determined to implement its program, then the state's capacity to constrain innovative policies is much reduced.⁷²⁸ Furthermore, if a strong Chancellor is appointed to head the Treasury, with a prolific mind and dogged determination, the civil service will bend to his will rather than the Chancellor bending to the will of the civil service.

While the organization of the state is generally considered to introduce rigidities with respect to the policy process and the ability of actors to enact innovative policies, this is not an absolute. Policy change is possible within the institutional confines of the state. Tax reform rose on governmental agendas in Britain and France because of the ability of policy innovators to exploit their positions within state structures and overcome the constraints imposed by those structures. Nevertheless, those actors had to work through and within the organizational structures to develop, promote and enact tax reform policies, thereby becoming subject to the rules, roles, procedures and physical structures in their given organizations. In the case of tax reform, therefore, agenda setting processes and policy outputs were impacted by the organization of the state.

⁷²⁷ See earlier discussion on elites and sub-cultures in Chapter 2. Also, see e.g.: S. Steinmo, 1993, *op.cit.*, pp.113,115,148; Lord Houghton, "Administration, Politics and Equity" in A.R. Prest et al., *The State of Taxation*, IEA Readings 16, (London: The Institute of Economic Affairs, 1977), p.55; H. Young and A. Sloman, *op.cit.*; J. Barnett, *Inside the Treasury*, (London: Andre Deutsch, 1982). John Kay, for example, referred to the "clear unwillingness" and the "restraints" posed by civil servants when faced with politicians bent on introducing reforms (John Kay, interview in London, England, July 2, 1991).

⁷²⁸ See, H. Young and A. Sloman, *op.cit.*, p.123.

Finally, in the case of tax policy, the rules, norms and procedures set forth in the existing tax code had an important impact on the shape of tax ideas and tax policies in France and Britain. This notion draws on incremental and inertial theories of the policy process.⁷²⁹ In-force legislation, what Heclo (1974) calls the "policy inheritance", can be considered an institutional variable in that it represents and imparts established procedures, rules and norms which define relations between actors and institutions in the polity and create incentives and techniques which shape attitudes and behavior. To borrow Heclo's words, tax reformers were reacting against and working with a background of inherited techniques, forms, and presumptions collectively known as the tax code.⁷³⁰

Since France's tax system is heavier on consumption, rather than income, emphasizes indirect as opposed to direct taxation, (on the balance of taxation, see Appendix A, Figure 5A) and has come to be used by government to exercise control over and regulate economic decisions made by individuals and enterprises, policy makers are therefore constrained, and must bear in mind this aspect of the institutional setting when formulating policy. For example, while in Britain and the U.S. swinging cuts were made in personal income taxes, where direct taxation is heavier, French politicians and policy makers did not have the same scope

⁷²⁹ See e.g.: R. Rose and T. Karran, 1987, *op.cit.*; J. Witte, 1985, *op.cit.*; H. Heclo, 1974, *op.cit.*).

⁷³⁰ See, H. Heclo, 1974, *op.cit.*, p.47.

to introduce such policies. In Britain and the United States taxes on income and profits represent 38.5% and 42.6% of total taxation respectively, whereas in France it represents only 17.8% (1983 figures). (For a comparison of the balance of taxation and the tax burden between France, the U.S., and the U.K., see Appendix A, Table 3A and Figure 5A).

In order to offset cuts in income taxation, the rates of value added tax were raised and its scope extended in Britain in the 1980s and early 1990s. This strategy had been foreshadowed by Geoffrey Howe, when Shadow Chancellor in a speech he made in Leicester on January 5, 1977. He said, "The whole balance of our tax system needs to be shifted. The British system depends more on direct and less on indirect taxes than other countries."⁷³¹ In France, the high and increasingly uncompetitive VAT rates provided room for maneuver for tax policy makers in this area, and accordingly, VAT rates were reduced and streamlined throughout the second half of the 1980s.

By the same token the revenue yields of particular taxes, like the *taxe professionnelle* or the National Insurance Surcharge or the popularity of tax provisions like mortgage interest tax relief make it difficult for reformers to simply abolish such taxes outright. In all cases, in fact, these taxes were either left to be eroded by the effects of inflation and/or "reformed" incrementally. Evidently, therefore, the body of rules, laws and

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Quoted in *The Campaign Guide 1977*, (London: Conservative and Unionist Central Office, 1977), p.73.

regulations that govern a particular policy area also have important effects on the ideas and policies produced.

While the previous variables alternatively provide arguments for policy continuity and policy change, it's primarily in the political arena that the most influential stimuli can be found for policy change. Investigating the economic policy changes of the Thatcher and Mitterrand governments, Hall (1986) concludes that parties functioned as "agencies of innovation".⁷³² He maintains that a "coalition of social groups, forged by political elites around a new set of priorities, has been the agency for a major shift in policy."⁷³³ Indeed, both Thatcher and Mitterrand alienated or side-lined respectively, Conservative 'wets' and leftist Socialists and Communists, in the pursuit of their respective agendas; in Mitterrand's case, an agenda which was different from that which got him elected. Thatcher reached out to supply-siders and monetarists, and Mitterrand welcomed the inputs of classical economists and supply-siders, as the policy agendas for each took on a decided neo-liberal shift compared to what went before. The political system, therefore, with its constellation of political organizations and actors competing for electoral support and political power, is an important institutional variable explaining the processes discussed above.

The organization of the French and British political systems

⁷³² P. Hall, 1986, op.cit., p.102.

⁷³³ P. Hall, 1986, op.cit., p.63; also see: P. Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises*, (Ithaca: Cornell University Press, 1986); T. Ferguson, "From Normalcy to New Deal", *International Organization*, vol.38, no.1, Winter 1984.

is already quite familiar, and is not too distinct from the "organization of the state" variable. Still it is slightly separate.⁷³⁴ We have already looked at the organization of the political system: largely dualist party systems aligned across a left-right spectrum, with deeply rooted doctrines, legislative elections every five years or so, and in France, presidential elections every seven years or so, a majority-based electoral system, where the winner takes all (except in the 1986 general elections in France), the policy marginalization of Parliament achieved through disciplined parliamentary majorities, constitutional devices like toothless committees, the three-line whip in Britain and articles 38, 40-1, 44 and 49-3 (among others) in France, which give the government the upper hand and enables it to impose its will despite significant dissent. These "institutions" create incentives for parties to devise and offer programs which respond to perceived economic and societal demands or reflect strongly held views (ideology) and they concentrate policy making powers and resources in the executive. If tax agendas changed, then its largely to the role of the political systems that we must look.

The innovative role of political parties in France was evident in both Chirac's and Mitterrand's adoption and advocacy of neo-liberal tax reform. Because he needed to distinguish himself from his centrist and leftist opponents in order to ensure his survival as a credible presidential hopeful, and

⁷³⁴ P. Hall, 1986, *op.cit.*, p.271.

ultimately appear on the second ballot, Jacques Chirac virtually discarded his party's platform and opted for the neo-conservative and neo-liberal policies espoused by Reagan and Thatcher.

Apparently, when political ambitions and survival are at stake, traditional doctrine is easily discarded and new ideas taken up. While it was certainly electoral competition that persuaded Chirac to adopt the tax reform policies he did, this action had little to do with demands expressed at the grassroots level. It was more a risky political calculation based on the success of such policies elsewhere and their potential to attract, at least in the beginning, a core of support, and perhaps later, a broader electorate, provided a considerable effort was made to change the climate of opinion through education and persuasion. To borrow Hall's words, it was the combination of economic promise and political advantage that made neo-liberal tax reform such an attractive policy alternative for Chirac.⁷³⁵ The same appeal was recognized in Mitterrand's case.

The decline in the Socialist party's electoral fortunes and popularity within a year of its election, highlighted by the evidently growing appeal of the center-right, obliged the Socialist government to reconsider its policies. The upcoming 1986 parliamentary elections imposed a timetable that the government had to consider if it was going to do something to reverse its deteriorating position. The electoral timetable meant that the government had to change its policies with enough

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Ibid., p.275.

time for them not only to be formulated, authorized, and implemented, but also for them to be appreciated by the voting public.

The *glissement à la droite* and the withdrawal of the Communists from the government in 1984, opened the prospects of a center-left alliance, something Mitterrand had been considering since 1982. The change in the electoral laws to a system of proportional representation augmented this prospect. The political timetable, the need to win back support at the opposition's expense, and the attempt to appear more centrist led Mitterrand, the de facto head of the Socialist party, to poach in neo-liberal territory and adopt policies that seemed to have popular appeal, among which, tax reform. Certainly, concern about the state of the French economy and the need to do something about it also figured in the Socialist government's search for new, viable and attractive alternatives. But, on the whole, the shift in policy was driven largely by ideas expressed and developed by political parties competing for votes and hoping to forge new social coalitions that would broaden their bases of support and propel them into office.

The importance of party on agenda change in Britain is emphasized by Peter Hall (1986) who asserts that the,

...movement of the Conservative Party toward monetarism was ultimately the most significant factor in the collapse of the Keynesian consensus. In 1979 Thatcher was to form a Government and embark on a determined monetarist experiment.⁷³⁶

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Ibid., p.98.

In Britain, the political system was important in two ways: 1) the embrace and promotion of a new set of ideas by a political party; and 2) in terms of its impact on agenda change, by virtue of the fact that it provided the opportunity (elections) to enact an agenda which promised a distinct set of policies.⁷³⁷ In contrast with France, however, the appearance of tax reform on the Conservative Party's agenda had little to do with the nature of electoral competition or responses to grass roots pressures. After all, neo-liberal tax reform had been on the Conservatives' agenda before Mrs. Thatcher assumed the leadership of the party. It was reinforced as a prominent agenda item by Mrs. Thatcher, Keith Joseph and Geoffrey Howe, not so much as a means to win votes away from Labour - although of course the promise of tax reform did have this effect - or as a party-driven search for new solutions - which to a large extent it was - but to satisfy and promote the ideological convictions of these Conservative leaders. Tax reform was necessary to rejuvenate the economy by providing greater choice and incentives and reducing the government's role in the economic and social life of the nation. Nevertheless, it was the party, led by a few ideologically driven individuals, hoping to forge a new social coalition, competing in an electoral arena for the privilege of power and the opportunity to implement its ideas, that underscored the processes of

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P. Hall (1986, p.132) notes that the "Thatcher Government initiated a remarkable break with the pattern of past policies."

alternative generation, policy advocacy and agenda change.⁷³⁸

We have examined a number of organizational variables - the organization of the state, capital, the political system and the positions of France and Britain in the international economy, as well as in-force legislation or the policy inheritance - and their effects on both the activities leading up to (tax) agenda change and the nature of the (tax reform) policies produced. In France and Britain there was no sudden alteration in the institutional setting which induced agenda change. Having said that, however, institutional change was indeed taking place in subtle ways. Gradually, a number of related and unrelated changes had been underway for some time - the decline of planning, the growing global economic interdependence and increasing exposure of 'domestic' industries to international markets and events, the decline of trade union influence and the rise in business influence, the concentration of decision making power in the executive and the decline of collective cabinet decision making, growing budget deficits and the drying up of state controlled finance capital, the rise of political and philosophical thinking groups promoting New Right ideas, to name a few. Furthermore, rigid boundaries did not exist between these

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When asked, "Was tax reform driven by economic or political/ideological motives?" a majority of the British interviewees responded, "Political/ideological." John Kay responded unequivocally that the whole process was "entirely politically driven." (John Kay, interview in London, England, July 2, 1991). Hermione Parker asserted, "Politics has come first in tax reform." (Hermione Parker, interview in London, England, June 11, 1991). Although, Cedric Sandford saw elements of both economics and politics. He said, "Tax reform was driven more by economic motives. These motives grew out of closely held political philosophy - a market orientation philosophy." (Cedric Sandford, interview in Bath, England, June 6, 1991).

spheres. Each of the social spheres associated with these institutional variables interpenetrated others.⁷³⁹ Developments in one had implications for others. Shifts in the broader socio-economic and political context created opportunities for strategic maneuvering by actors within existing institutions.

As we have seen, institutions are not immune to change, and their adaptation to shifting contextual conditions can impact political outcomes in a significant way. The diminishing ability of the state to successfully govern the economy in the late 1970s led to a growing divorce of power from responsibility in this sphere.⁷⁴⁰ The increasing openness of the French and British economies and the international character of economic problems and policies rendered national economic strategies ever less effective. Institutions traditionally responsible for economic policy making and management were undermined and saw their influence decline, i.e. tri-partite bodies, Sectoral Working Parties, the National Economic Development Council, the French Planning Commissariat, the Modernization commissions, state controlled banks and public sector industries.

In the policy vacuum that ensued new actors and groups stepped in drawing attention to pressing problems and linking them with new ideas. Governments and political parties searched for new means of dealing with the problems at hand. Groups like the *nouveaux économistes*, the Club de l'Horloge, and political

⁷³⁹ P. Hall, 1986, op.cit., p.280.

⁷⁴⁰ Ibid., p.281.

actors with ties to the UDF and the RPR, in France, and the IEA, the Bow Group, the IFS, the CPS and policy entrepreneurs associated with the Conservative Party in Britain introduced new ideas, many of which were developing abroad.

However, the development of these ideas in Britain and France, their rate and manner of diffusion, the activities undertaken by members of the policy community, policy entrepreneurs and decision makers in and around government, the nature and impact of perceived problems which the new ideas addressed, and the shape and definition of the policies which evolved from those ideas, are better understood in light of the institutional configuration which imprinted its image on the processes at work and consequently, the outcomes. Of greatest impact on the agenda setting process and policy outputs pertinent to neo-liberal tax reform were four elements of this institutional configuration: the organization of the state, the organization of capital, the policy inheritance, the organization of the political system and the position of each country in the international economy.

CHAPTER EIGHT

CHAPTER EIGHT**- Conclusion -**

Tax systems in a number of different countries underwent significant changes in the 1980s. The remarkable feature of these changes was the commonality - in policy processes and outputs - discernible from one country to another. Changes in the socio-economic and political contexts in the late 1970s/early 1980s led to critical examinations of tax structures. France and Britain were not immune to such developments.

Common criticisms emphasized the complexity and inequity of the tax system as well as the system's punitive and distortionary character. Such problems, though not necessarily new, had become more pressing given the changed economic climate of the 1970s, characterized by stagflation and declining competitiveness. New ideas about the role of government and more specifically, the role of the tax system, moved from the margins of society into the mainstream. Political actors were persuaded by arguments that government should withdraw and give vent to the freer play of market forces. Neo-liberal tax reform figured prominently in such arguments.

Neo-liberal tax reform emerged on the agendas in France and Britain in the decade from 1979, as it did in many other countries. However, this policy was not simply a response to economic conditions. The changed economic picture was certainly an important impetus to the introduction of tax reform policies, but alone cannot account for the changed agendas in France and

Britain. Moreover, while many tax ideas may originate with economists, they do not have the power to determine policy. They do not possess the legal authority to make binding policy decisions, as governments do.⁷⁴¹ Government agencies and commissions study tax proposals to assess their possible administrative, legal, economic and revenue effects. Government ministers, legislators and civil servants, as well as political parties, consider the proposals in light of the reactions they will elicit from different sectors of society, and debate the proposals' merits and demerits. Any controversy which arises is settled politically. The policy choice made and the policy outcomes are decided politically. Rather than an economic or fiscal technique, tax reform must be considered a political strategy above all.

With tax reform, as with other policy areas, political variables will have a decisive impact. These variables are involved in often complex, ambiguous, unclear and messy ways. But what are these political variables? How can we identify them? How can we come to an understanding of the parts they play? To do this we need the help of a model or framework which somehow makes sense of the policy process(es) and the variables that play a part therein. The suitable model or framework should correctly trace the evolution of tax reform from idea to government policy, showing how societal inputs of various kinds, decision making processes, political and bureaucratic cultures, actors, ideas and

⁷⁴¹J.E. Anderson, 1975, *op.cit.*, p.43.

institutions, have interacted within a given (domestic and international) institutional setting. Consideration of the institutional context in which these activities take place is essential because political preferences, attitudes and behavior cannot be understood outside it.

A number of theoretical constructs are available for the analysis of tax policy - culture, public choice, group, state centric, elite, learning and diffusion, institutional, garbage can and process streams and windows - and these have been examined above. Each of these theoretical approaches, in some respect, alert us to important political phenomena. Moreover, they help to clarify matters by reducing or simplifying the range of variables relevant to those phenomena. While some help in explaining the emergence of tax reform on the agendas in France and Britain in part, none are entirely suitable.

The cultural model is too broad-brushed and yet explains too little. It is fraught with many problems. A culturalist would try to explain tax policy developments in a polity in terms of the long-standing beliefs, values and attitudes of the tax policy makers. For example, in France anti-tax sentiment joined with an *étatiste* tradition and concern for social justice in France to produce contradictory trends in tax policy. In the case of Britain, from 1979, a culturalist would say, hierarchical and market cultures combined to produce low taxation. While examples can be found which appear to support the validity of cultural arguments, in the final analysis, however, even these cultural

characteristics need explaining. Taking the above examples, were policy makers naturally ingrained with a low (or a high) tax bias, or did they learn to appreciate the values and ideas behind such policy positions? And, if they learned, how did they come to learn such values and ideas?

Following on from this line of questioning, the cultural model is problematic when confronted with the "which came first?" issue of institutions versus culture. Is someone born with an anti-/low/high tax bias? Or does one learn it? If the latter question applies, how is it learned? And who is it learned from? How are beliefs, values and attitudes reproduced if not by reference to institutional structures?⁷⁴² More concretely, we learn these values through institutions. Institutions like the family, church, school, government, and the press, filter, transmit and inculcate values.

Finally, culture, for the purposes of this study remains problematic because it tells us next to nothing about the processes at work that brought tax reform onto the governmental agendas in France or Britain.

Public choice arguments focus primarily on behavioral motivation with their simplistic and occasionally erroneous assumptions, although, as we have seen, they do have some limited purchase. The riddling of the British and French tax codes with reliefs and exemptions, and Mitterrand's concession to reform the corporate tax system, testify to the rent seeking behavior of

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P. Hall, 1986, *op.cit.*, p.230.

interest groups and the utility maximizing behavior of bureaucrats and politicians. Olson's (1982) encompassing groups argument also helps us to understand why - in the face of possible hostility or resistance - the RPR, UDF, Chirac and Mitterrand, and Mrs. Thatcher and the Conservative Party, adopted tax reform policies.

Nonetheless, public choice arguments related to the median voter, the political business cycle, and in some respects rent seeking, have been shown to be largely inaccurate as explanations for the emergence of neo-liberal tax reform. For example, the signals were not clear that assuming the mantle of neo-liberal tax reform would maximize utility, either in the case of Mrs. Thatcher in the mid- to late 1970s, or Chirac in 1981, or in the case of Mitterrand in September 1983. Factors other than, or additional to, mere economically inspired rationality had to be operating in the tax reform process.

Group theory has been a useful analytical framework for evaluating the emergence of neo-liberal tax reform on the French government's agenda, and to a much lesser extent, the British government's. Pressure brought to bear by the CNPF and other business interests, political thinking groups like Club 89, the Club de l'Horloge and the *nouveaux économistes*, and later public interest groups like the Ligue des Contribuables, were critical to the adoption of tax reform by Mitterrand and his governments.

But group theory has its limitations, partly due to the passive role it attributes to government, and partly due to its

failure to adequately consider the role of institutions. Governmental officials are not merely referees in the struggle between competing groups. They are active, opinionated and possess resources that enable them to act decisively and sometimes independently. The French government, like its British counterpart, was not obliged to heed the pleas and demands of business - or any other - groups for tax cuts or special tax treatment, although as we saw, given the context, their arguments were certainly compelling. Nevertheless, to a degree, governmental officials controlled the activities and effects of these groups. And although, in both Britain and France, there are cases where the government 'caved in' to group demands, each ultimately retained control over the timing and nature of the policies considered and introduced.

Finally, group theory fails to account for the differentials in the relationships between different groups and the state, how groups shape and define their preferences and choose their strategies. This implies a neglect of the institutional setting in which groups operate.

State-centric theory is also an unlikely explanation of tax reform in France and Britain. The extent of state intervention in political, economic and social life and the clash of preferences at the highest levels, puts into question its unity and independence *vis-à-vis* societal groups. Furthermore, despite possessing ample institutional means to impose its will, the state has not only become virtually obsolete in terms of being

capable of defining economic preferences and translating them into policy on its own terms, but it is also extremely reliant on societal actors, if not for their input, then for their cooperation in the implementation and evaluation of policy.

The evidence demonstrates the weaknesses of the state-centric model for the case of tax reform in France, the ultimate state-centric paragon. If it had not been for the direct pressure exerted by the CNPF (and perhaps external actors, i.e. the Germans), and the indirect pressure exerted by the increasingly popular center-right parties, as well as the economically and politically successful supply-side economic and tax programs introduced in Britain and the United States, socialist tax reform, rather than neo-liberal tax reform, would most likely have been the order of the day. In Britain, the emergence of tax reform on the specialized agenda of the Conservative Party in the 1970s had nothing to do with state-centrism and everything to do with the ideas, efforts and choices of actors outside the state, including the press, party research departments, think tanks, and policy experts.

Elite arguments which explain the tax policy process in terms of a small, cohesive and purposive policy elite, are also inappropriate. While elite structures and practices can be identified in France as well as Britain, the tax policy process in both countries is more pluralistic and dissentious than elite theorists make out. It encompasses a large number of actors and a wide range of interests. Moreover, the elite themselves, as we

have seen, are characterized by internal disagreements, fragmentation and division, making a clear and unified position on taxation highly improbable.

Learning and diffusion are unwieldy tools in the analysis of public policy. They basically attempt to attribute policy change within a polity to the influence of 'agents of change' equipped with information and knowledge acquired from outside - as well as inside - a given system. Also learning and diffusion models attempt to explain how that which is learned is transmitted by these agents within society generally, and to domestic decision makers in particular, and in what ways these are influenced.

Moreover, at least with respect to the pre-enactment processes which concern us here, it was only in the case of France that learning and diffusion were applicable. Britain itself, was considered to have been at the forefront of the tax reform movement and so was not influenced in the development of its tax reform agenda by ideas and developments outside the country, except, arguably, later in the reforming process. If learning is applicable at all in the British case, it is in the sense that Mrs. Thatcher and other key economic policy makers took on board the experiences and policies of preceding British governments and political actors. These cases suggest that policy outputs reflected the impact of learning and diffusion to a certain extent. But admitting this, while helping us to understand the processes a little better, does not satisfy as an explanation. In addition, the inability to frame our discussion

of the tax reform agenda setting processes in Britain and France in common terms, compels us to look elsewhere for an approach which links the processes at work in both countries.

Unfortunately, as a theoretical construct, learning and diffusion are too unconstructed. We are not helped to understand why something is learned, why it has a certain effect, or how what is learned is applied. Furthermore, why - as in some cases - does what is learned yield different responses and policy outcomes? Our examination showed that learning and diffusion approaches are characterized by a lack of rigor, coherence and consensus.

Institutionalists, like Peter Hall (1986), attempt to identify a range of political and economic variables interacting in the policy process by examining the structural constraints and incentives operating in a country's socio-economic organization. As Hall says, "...economic policy is the output not of individuals, but of organizations that aggregate the endeavor of many individuals in particular ways."⁷⁴³ The endeavors of individuals cannot be understood apart from their institutional environment. In other words, in order to appreciate how ideas are translated into policies, one must examine the institutional context in which ideas are generated and actors' preferences, goals and activities are shaped and defined.

Decision makers are faced by an environment consisting of a number of defining domestic and international variables. The

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P. Hall, 1986, op.cit., p.233.

organization of the state, the political system, capital, each country's position in the international economy, as well as the policy inheritance, had a defining impact on the emergence of tax reform on governmental agendas in France and Britain.

These organizational variables structure the environment in which decision makers develop preferences, make choices and pursue goals. The sort of factors which have a defining impact on policy processes and outputs include: the relationship between the executive, legislative and judicial bodies, the political arena and the nature of electoral competition, the strength and roles of finance and industry, the openness of the national markets and the positions of national producers and financial markets relative to international markets (Hall, 1986). With respect to our two cases, an examination of the institutional settings in Britain and France gave us a clearer understanding of how neo-liberal tax reform emerged on the governmental agendas in those two countries. One cannot fully comprehend the diverse, and at times overlapping processes which pushed neo-liberal tax reform into agenda prominence in Britain and France without due consideration of, for example, electoral competition and majoritarian electoral systems in both countries; the hierarchical nature of British and French governments, which concentrates decision making in the executive and tax policy making in the French Ministry of Finance, and the British Treasury; the constitutions and political traditions in each country which equip the executive with effective disciplinary

devices to ensure its will can prevail; the relationship of business and labor with government; the importance of financial markets, the roles of sterling and the franc, and the competitive positions of the French and British economies relative to each and to other countries. Earlier detailed examinations of these institutional variables revealed their dynamic effects on the policy goals and politico-economic strategies of policy entrepreneurs and key decision makers. Without institutions, it is impossible to understand the interactions of ideas and actors that set the tax reform agendas in Britain and France.

The institutional framework, however, is weakened with respect to two factors: policy changes and the role played by ideology. However, in recent years, institutional analysis has moved away from its static sensibilities and successfully accommodated the notion of policy change, by accounting for the phenomenon of institutional change and the ineffectual responses of established institutions to events or crises which may prompt institutional adaptation or change. With regards to ideology, institutionalism is less comfortable, but still makes an attempt to link institutions and the role of ideas in politics. This link is effectively supported by the argument that while one's ideological convictions may not be explained in terms of one's position or role in a given institutional setting, those convictions, to have effect, and to find force, need to be resonated and disseminated by and within institutions.

Again, our enterprise is concerned with identifying

commonalities in the agenda setting processes in Britain and France which gave rise to neo-liberal tax reform. Institutionalism is useful to some extent, but as a middle ranging theory, it is more appropriate with respect to identifying the most salient factors which explain policy differences, rather than policy similarities. Finally, the most serious drawback for this school of thought is its oversight of the activities and processes that operate and gave rise to agenda change and tax reform. In other words, institutionalism, explains the woods while neglecting the trees. Nevertheless, it has defined the parameters in which an examination of the agenda setting and policy formulation (pre-enactment) processes take place. We cannot ignore the impact of institutions on these processes without weakening our analysis.

Our final discussion focused on garbage can (Cohen, March and Olsen, 1972) and process streams and windows (Kingdon, 1984) models. These models revealed the existence of several process streams running through an organization. I relied on Kingdon's model which draws heavily on the earlier garbage can model. Public policy change is understood as the fortuitous confluence of three streams: problems, policies and politics. Participants in each stream are engaged in various activities from interpreting indicators signalling the existence of a problem to persuading key actors that a particular solution is the appropriate one for addressing the problem(s) at hand.

Within our organization the three streams flow more or less

independently of one another. They come together at critical times, usually when a policy window opens, and produce agenda change. A policy window opens usually because of some development in the problem or politics stream. Solutions are joined to problems, which are then both joined with politics. However, this is not a passive coupling. The appearance of the right entrepreneur at the right time is crucial to the coupling. Entrepreneurs advocate, educate, and wait for the right moment to push their proposals and problems into prominence. When the right moment appears, usually in the form of an open policy window, they attempt to link the three streams. If the link is made, then the likely outcome is agenda change.

In Britain, members of the Conservative Party - as well as some in the opposition parties - had identified problems with the British economy, and more specifically with the British system of taxation. They formulated policies with the help of many advisers who came from outside as well as inside government. Certain activists, like Margaret Thatcher, Keith Joseph, Geoffrey Howe, and later Nigel Lawson, sought to persuade the British public of the detrimental effects of Britain's tax system on enterprise, initiative and choice. They furthermore advocated their policies - lowering the top and basic rates, switching from direct to indirect taxation, cutting capital taxes and raising thresholds etc. - as those best able to solve the problems they had identified.

As politicians themselves, Howe and Lawson, supported by a

large cast of other governmental and non-governmental officials and advisers, capitalized on favorable developments in the political stream, for example, rising public opinion against the onerous burden of taxation and the 1979 general election. When a window presented itself in the form of the 1979 election and the subsequent Conservative victory, Sir Geoffrey in particular, joined the three streams and brought tax reform onto the British government's agenda; although it soon became a lower priority on the agenda as other more pressing problems commanded the Chancellor's attention. As those pressing problems were fading, Nigel Lawson was made Chancellor. Given his entrepreneurial credentials and commitment, tax reform again emerged to assume a prominent place on the British government's agenda, where it remained through the end of the 1980s.

Neo-liberal tax reform appeared on the agenda in France in the early 1980s. On the advice of key political advisers, neo-liberal tax reform was initially advocated from 1981 by Jacques Chirac. The intent was not to solve an identifiable problem (although a problem was ostensibly identified), but, rather, to seek electoral advantage by invoking an issue which apparently had contributed to the electoral successes of Ronald Reagan and Mrs. Thatcher. Neo-liberal tax reform, as it figured in Reagan's and Thatcher's programs, and as it was adopted by Chirac, was largely ignored by his main opponents in the 1981 presidential race, Valéry Giscard d'Estaing and Francois Mitterrand. As we saw, however, the time wasn't ripe for Chirac's tax reform

message.

As the 1980s progressed, the situation changed. The issue was catching on and soon both the RPR and the UDF had made tax reform a major (electoral) theme. Employers' organizations also tirelessly (and tiresomely) pressured the government of Francois Mitterrand to consider and implement tax reform measures, such as were being considered and implemented elsewhere. Moreover, the issue received much attention by the media. The climate appeared increasingly receptive to neo-liberal tax reform ideas and solutions.

Before long, neo-liberal tax reform made the move to the Socialist government's agenda. A couple of related problems were recognized: electoral decline and unpopularity, high tax burden and rates and their negative impacts on the economy. The problems stream was therefore opening a window for appropriate solutions. A solution was available in the policy community and recommended: neo-liberal tax reform and its component measures. Political developments also had the effect of opening a window and made the time right for policy change: a shifting national mood, the threat of electoral defeat in 1986 at the hands of the center-right, and the lobbying of influential business interests. Potential constraints - i.e., the budget, political and pressure group opposition - were soon minimized or perceived to be sufficiently minimal as to warrant the serious consideration, enactment and implementation of exploratory tax reforms.

Policy entrepreneurs played a critical role in linking these

streams. They capitalized on propitious events and circumstances and used their influential positions to promote their ideas with the aim of changing the agenda. These policy entrepreneurs included both visible and hidden participants, among others, the Club de l'Horloge, Philippe Auberger, Alain Juppé, the Club 89, Jacques Chirac, Laurent Fabius, Pierre Bérégovoy, the CNPF, the *visiteurs du soir*, perhaps Jacques Attali and Jean-Louis Bianco, and the President himself. The commitment to reform taxes made and maintained by President Mitterrand, as well as other key figures in the alternating Socialist and center-right governments and oppositions, and leading advocates outside government, throughout the 1980s, meant that the issue would not fade away. Considered acceptable in terms of their economic and political viability and potential to solve the given problems, these policies were coupled to events in the political and problems streams and thereby changed the tax policy agenda in France. Tax reform continued to remain an important agenda item for some years. During the 1980s several proposals were devised and made available in the policy stream and overcame a number of constraints and hurdles to reach legislative enactment.

These processes described above were not completely random. The structures of our organized anarchies help explain why new ideas like tax reform were developed, sought after and translated into policies. We cannot hope to understand the emergence of tax reform on the government's agenda without consideration of the institutional environment and the role of institutions,

particularly the organization of the state, the organization of capital, the policy inheritance, the organization of the political system and the positions of Britain and France in the international economy. We cannot fully understand the ideas, interests and actions of participants in the tax reform process, or the process itself, apart from the institutional settings in which they operate. Institutions impose some structure, defining relations and influencing actors' interests, attitudes and behavior.

Despite this, an element of unpredictability and chance remains which makes the phenomena of agenda setting still rather vague and hit-or-miss.⁷⁴⁴ Still, the processes described here are made less imprecise given an understanding of the process streams which run through the organization and the dynamics of the organizational setting.

The tax reform process is a complex one, comprised of many interweaving strands.⁷⁴⁵ The research revealed no single factor explanation - i.e. economics, technological advance, group pressure, elite consensus, international influences - behind the promotion of tax reform onto agendas in Britain and France from 1979. What the research did reveal was a complex of factors

⁷⁴⁴ J. Kingdon, 1984, *op.cit.*, p.218.

⁷⁴⁵ Indeed, one of the interviewees, Adam Ridley, invoked the image of a multi-dimensional matrix, reminiscent of the "interwoven" strands mentioned by Robinson and Sandford (1983). He said, "One of the things that you find if you analyze what has been happening in the policy-making process, from about 1976-77 onwards - it was like any multi-dimensional matrix in each of which you have a variety of different elements intersecting..." (Sir Adam Ridley, interview in London, England, May 30, 1991).

which did not interact neatly in orderly and clearly identifiable steps or stages.

This examination of tax reform in France and Britain has aimed to combine empirical and theoretical material in order to arrive at a better understanding of a subject which has not been scrutinized sufficiently in terms of political, as opposed to economic or administrative, dynamics. The process of tax reform in France and Britain during the 1980s was a complex one, comprising several interweaving strands driven largely - though not exclusively - by politics.

Why did tax reform evolve from idea to government policy? Why did tax reform rise on the governmental agendas in France and Britain? Why did some proposals succeed, while others did not? In answering these questions, we looked at the interactions between actors, ideas and institutions and we explored the processes through which they affect agendas.

The approach favored here is one which combines Kingdon's (1984) process streams and windows framework with Hall's (1986) institutional framework. As evidenced in the cases of Britain and France, this sort of eclectic framework of analysis is useful in helping us to understand the relationships among the different variables at work in the agenda setting phase of the tax reform process.

The Kingdon approach is most suitable as a framework for analyzing the complex of factors involved in the emergence of tax reform on the governmental agendas in France and Britain during

the 1980s. It is largely successful in its attempts to identify and explain the often unpredictable and sometimes messy interactions of actors, ideas and institutions. While this model acknowledges the role of serendipity in the policy process, it also recognizes that the agenda setting processes depend on features of the organizational environment.

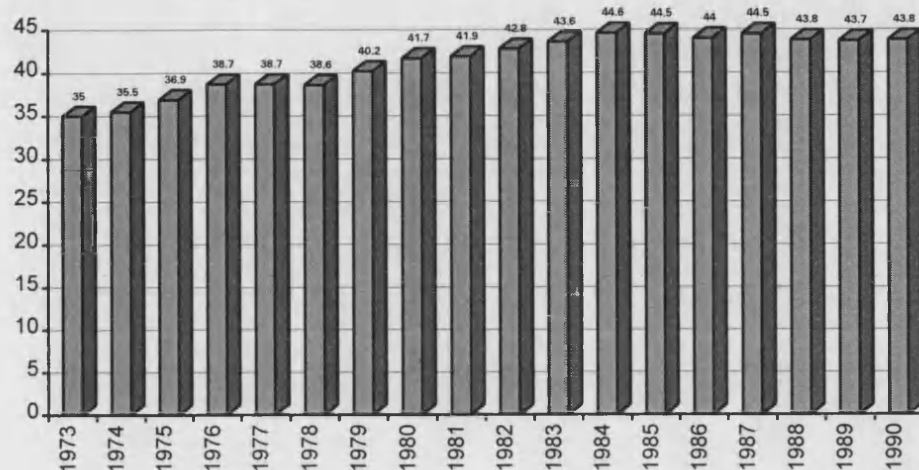
An institutional approach fuses nicely with Kingdon's (1984) process streams and windows approach. Together they synthesize a wide range of material in a compelling way, that help us to better understand the complex of factors that led to the emergence of tax reform on the governmental agendas in Britain and France. This approach, however, has ramifications that extend beyond this single policy area and indeed, the two-country analysis undertaken here. Building from the limited focus of this study, our somewhat eclectic process framework may have a number of advantages when applied to multiple issue areas and cross-country comparisons. The framework's potential for considering a broad range of concerns, activities and institutions systemically, comprehensively and empirically has important and interesting implications for comparative studies.

APPENDIX

Appendix A

Figure 1A

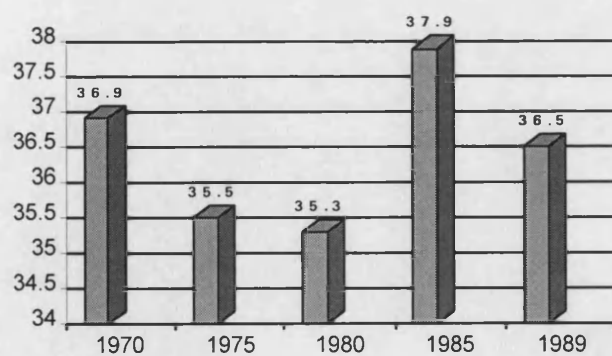
France: Tax Burden as % of GDP, 1973-1990



Source: Comptes de la Nation; OECD

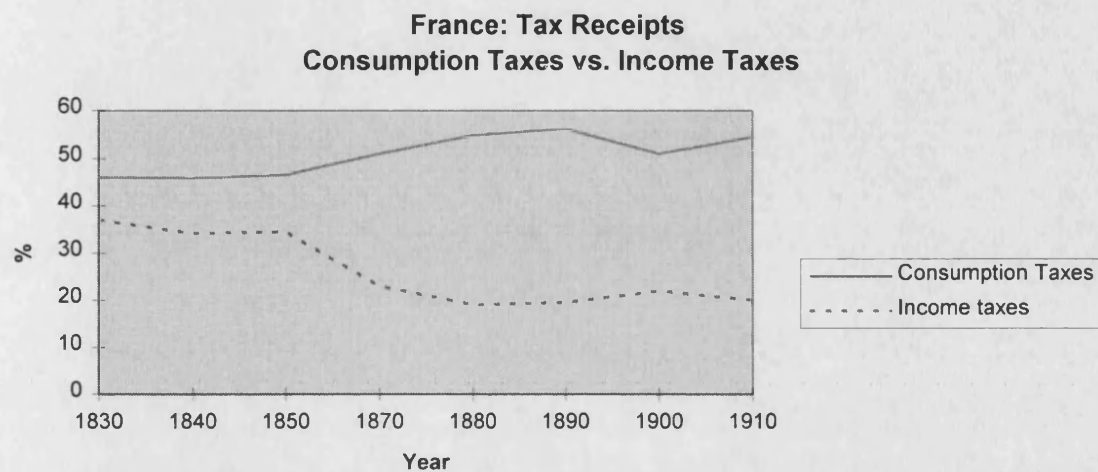
Figure 2A

Britain: Tax Burden as a % of GDP
1970-1989



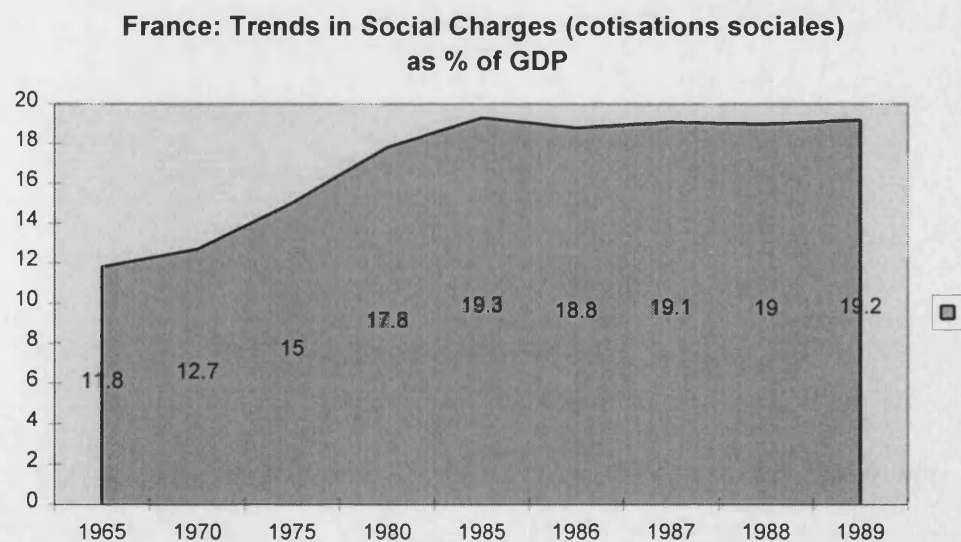
Source: OECD

Figure 3A



Source: T. Gandillot, *Le Grande Cirque Fiscal* (Hatier, 1988)

Figure 4A



Source: *Revenue Statistics of OECD Member Countries 1965-1990*

Figure 5A

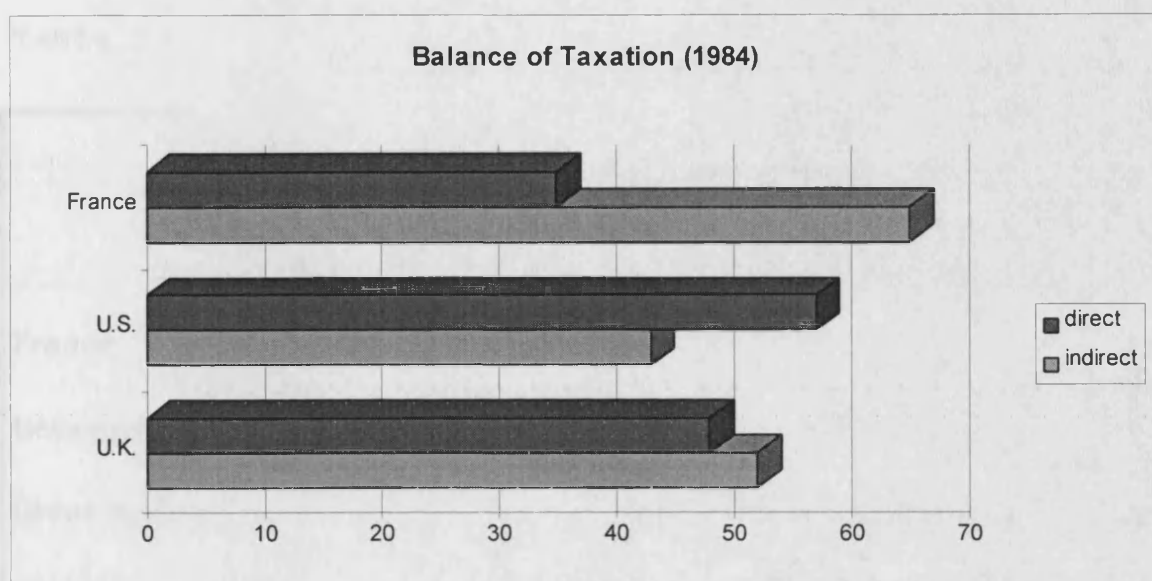


Table 1A

Tax & Social Charges on Businesses 1980-89 (as a % of GDP)			
	<u>1980</u>	<u>1984</u>	<u>1985</u>
France	16.6	17.9	14.3
Germany	10.8	10.9	9.1
Great Britain	8.0	11.0	8.0
Japan	9.6	10.0	11.9
United States	7.6	9.0	7.5

Source: OECD and Conseil des Impôts (1987)

Table 2A

Income Tax Rates and Thresholds Married with 2 Children				
	<u>1978</u>		<u>1981</u>	
	Threshold in sterling	rate of income tax	Threshold in sterling	rate of income tax
Belgium	2,680	12.7	3,300	21.7
Denmark	2,700	14.4	2,445	14.6
France	4,735	7.2	5,400	7.2
W. Germany	2,725	18.0	3,010	18.0
Ireland	2,275	20.0	2,680	25.0
Italy	1,465	10.0	2,070	18.4
Luxembourg	5,750	18.45	5,625	12.3
Netherlands	3,395	19.2	3,040	16.3
Great Britain	1,736	25.0	2,146	30.0

Source: *Financial Times*, February 3, 1982

Table 3A

The Burden of Taxation (1989) as a percentage of gdp					
	personal income tax	corporate income tax	employee social charges	employer social charges	VAT & excise taxes ¹
<u>France</u>	5.2%	2.4%	5.7%	11.9%	12.7%
<u>U.K.</u>	9.7%	4.5%	2.7%	3.5%	11.0%
<u>U.S.</u>	10.7%	2.6%	3.5%	4.9%	4.4%

¹ figures for 1988

Source: OECD

Appendix B

Tax Reform in France, 1981-1989

Main measures:

1981

- all brackets to be indexed for inflation
- exceptional increase of 25% on income tax paid in 1981 over FF100,000
- special tax of 10% on certain general company expenses (i.e., entertainment, gifts, etc.)
- abolish loi Monory (relief for share purchases)
- creation of IGF (wealth tax) on incomes over FF3 million with rates from .5% to 1.5% (various deductions for plant, machinery and art)
- reductions in *cotisations patronales* due on salaries not exceeding FF3,480/month

1982

- exemption from social charges for certain troubled industries, i.e. textiles
- new favorable depreciation rules for companies
- *Taxe d'Etat* imposed on automatic apparati installed in public places
- special levy of 1% on civil servants' income for the benefit of the unemployed
- VAT lowered to 5.5% on certain food products
- standard rate of VAT raised from 17.6% to 18.6%
- VAT extended to veterinarians and non-daily publications
- higher taxes on oil industry
- *taxe professionnelle* reduced for businesses that create jobs, hire the unemployed or invest (FF5 billion loss to the Trésor)

1983

- creation of new upper income tax rate of 65%
- surtax of 5% on 1982 incomes paid of more than FF20,000, and 8% for more than FF30,000
- obligatory government loan of 10% of taxes paid equaling more than FF5,000 in 1982
- exceptional levy of 1% on all incomes for the benefit of social security
- increase in employers' unemployment contributions
- increase in employers *cotisation assurance-vieillesse*
- removal of the ceiling on the *cotisation assurance-maladie* due by employers, but imposed at a lower rate
- abolition of stamp duty on bills posted, receipts and residence certificates
- creation of a new parafiscal tax on certain petroleum products by the Caisse nationale de l'énergie

- increase in the *taxe intérieure de consommation sur les produits pétroliers* (TIPP)

1984

- tax deductions for professional expenses for specific industries
- deductions for mortgage interest, energy-saving home improvements, and life insurance premiums, changed to tax credits of 25%
- tax deductions of 10% for business expenses of high income earners (more than FF509,000/year) limited by non-indexation of FF50,9000 limit
- inheritance tax rate raised from 20% to 30%, 35% and 40% for fortunes transferred over FF3.4 million; lightened for small inheritances by means of a rise in the threshold below which the tax does not apply
- increase in tax on automobile insurance policies from 9% to 15%
- VAT rate of 33% extended to rented cars, Video-cassette recorders and video-cassettes
- continuation of the temporary 1% contribution for the benefit of social security

1985

- eliminate the 1% contribution for the benefit of social security (promised for 1986)
- reduce the *taxe professionnelle* by FF10 billion
- reduce income taxes by 5% (FF10 billion)
- abolish 25% withholding tax on foreign purchases of domestic bonds
- repayment of 10% obligatory loan announced for 1986
- extra-budgetary increases in the price of supercarburant and the *taxe de base téléphonique*
- upper rate of IGF (wealth tax) raised from 1.5% to 2% for fortunes more than FF20 million

The 1985 budget represents the government's attempt to fulfill Mitterrand's promise to reduce the tax burden by 1% made on TF1 in September 1983

1986

Socialist measures

- income tax reduced on average by 3%
- IS (corporate tax) for undistributed profits lowered from 50% to 45% (cost: FF4-5 billion)

Chirac government measures

- reduction of 9 parafiscal taxes on various industries
- reduce top income tax rate from 65% to 58%
- reduce TP by 16%
- abolition of the IGF
- harmonization of exemptions for bond and share income
- increase in TIPP
- increase rate of *cotisation vieillesse* on employees

- obligatory tax contribution of .4% of net household revenue in 1985 and 1986 for the benefit of the Caisse nationale d'assurance-vieillesse

1987

- IS lowered to 42% on distributed and un-distributed profits
- reduction in income taxes of 3% on average
- *taxe d'Etat* abolished
- reductions in TIPP
- reductions in *taxe sur les frais généraux* over three years, then abolished in 1989
- tax deductions for interest paid on capital loans
- increase deductions for *revenus fonciers* from 15% to 35% in certain cases
- certain exemptions granted for *vignette auto* (i.e. for families with 5 children)
- *avoir fiscal* raised from 50% to 69.05%
- tax credit for research at rate of 30% for expenditures of more than FF3 million
- VAT extended to telecommunications
- VAT for record sales reduced from 33% to 18.6%
- VAT on car sales reduced from 33.3% to 28%
- medical care organizations relieved from VAT
- tax reliefs for agriculture, i.e. VAT reductions/exemptions
- increases in *cotisations sociales*

1988

- IS lowered from 42% to 39%
- tax holiday for new businesses of five years - third year at 75%, fourth year at 50%, fifth year at 25%
- no social charges or temporary exemptions for companies that take on apprentices, people on *revenu minimal d'insertion*
- indexation of *taxe sur les salaires*
- from January 1989 new companies exempted from *taxe foncier* and TP
- increases in *cotisations sociales*
- removal of the ceiling on *cotisation d'allocations familiales* for employers
- VAT decreased to 5.5% for a number of goods and services
- VAT reduced rate lowered from 7% to 5.5%
- VAT reduced from 33.3% to 28% for many items; i.e. perfume, hi-fi, *tabacs*, audio-visual
- VAT reduced from 18.6% to 5.5% on non-alcoholic drinks
- .4% levy on incomes subject to IRPP
- new wealth tax (ISF) with rates of .5%, .7%, .9% and 1.1% on fortunes over FF4 million with exemptions for art, forests, plant and machinery, employee buyouts involving share transactions. Expected to hit about 125,000 taxpayers

1989

- company tax decreased from 39% to 37% on un-distributed profits; remains at 42% for distributed profits
- eight year exemptions from IS for companies setting up in Corsica
- tax credit for companies making reductions in their work time (*la durée hebdomadaire de travail*) of at least three hours
- interest income from savings instruments of 10 years exempted from income tax
- decrease from 11% to 0% (up to FF100,000) and 6% (FF100,000 to FF300,000) of company transfer duties (*droits de mutations sur la cession de fonds de commerce et conventions assimilées*)
- reduced tax on bonds and other fixed revenue savings instruments (*instruments de placement à revenu fixé*) from 25% and 32% to 15%
- reduction in tax rate applied to other savings instruments from 45% to 35%
- abolition of 5.15% tax on life insurance contracts
- holders of personal equity plans who collect after ten years (capital plus interest) will be exempted from tax
- ISF changed with new rates (1.2% and 1.5%) and brackets
- VAT decreased: 1) on medications reimbursed by social security from 5.5% to 2.1%; 2) high rate of 28% reduced to 25% on cars, hi-fi, video-cassettes

Tax Reform in Britain, 1979-1989

Main measures:

1979

- basic rate of personal income tax lowered from 33% to 30%
- top rate of personal income tax lowered from 83% to 60%
- personal allowances raised
- age allowances raised
- thresholds raised for investment income surcharge
- profit limits raised for corporation tax applied to small companies
- standard rate of VAT raised from 8% and 12.5% to a uniform 15%
- excise duties raised on tobacco, alcohol and petrol

1980

- lower personal income tax rate of 25% abolished
- tax thresholds and personal allowances raised
- thresholds raised for investment income surcharge
- employees'/employers' national insurance contributions raised
- relief for life assurance policies reduced from 17% to 15%
- thresholds raised for stamp duty
- exemptions for capital gains tax raised
- corporation tax for small companies lowered from 42% to 40% and profit limits increased
- excise duties raised on tobacco, alcohol and petrol
- exemptions for capital transfer tax increased
- prescription charges increased from 45p to £1
- petroleum revenue tax increased from 60% to 70%
- increased taxation on company cars
- short term social security benefits including unemployment benefit become liable to income tax from April 1982
- Green Paper, The Taxation of Husband and Wife (CMND 8093)
- Committee on Enforcement Powers of the Revenue Departments (Keith Committee) set up - report issued in 1983 (CMND 8822, 9210, 9440)

1981

- no rise in threshold and personal allowances
- employees' national insurance contributions raised
- windfall tax of 2.5% on non-interest bearing sterling deposits over £10 million
- new supplementary petroleum duty to be levied at 20% of total value of oil extracted in the Britain and from the continental shelf
- increased taxation on company cars
- excise duties raised on tobacco, alcohol and petrol
- taxation of various fringe benefits, i.e. free petrol, season rail tickets, credit cards provided at employer's expense
- business start-up scheme provides relief against taxation on investment in new businesses

1982

- tax thresholds and personal allowances raised
- thresholds raised for investment income surcharge
- employees'/employers' national insurance contributions raised
- increase exemptions for transfers of property subject to stamp duty
- exemptions for capital gains tax raised; new system of indexation
- exemptions for capital transfer tax increased
- national insurance surcharge lowered from 3.5% to 2.5%
- petroleum revenue tax increased from 70% to 75%
- excise duties raised on tobacco, alcohol and petrol
- Green Paper on Corporation Tax (CMND 8456)

1983

- tax thresholds and personal allowances raised
- thresholds raised for investment income surcharge
- employees'/employers' national insurance contributions raised
- mortgage interest relief ceiling raised from £25,000 to £30,000
- exemptions for capital gains tax raised
- exemptions for capital transfer tax increased
- national insurance surcharge reduced gradually from 2.5% to 1.0%
- excise duties raised on tobacco, alcohol and petrol
- planned phased reductions in advanced petroleum revenue tax to 0% in 1987
- taxation of various fringe benefits, i.e. company-sponsored scholarships, company-provided or no-rent/low-rent housing
- tax relief for investors in small businesses increased from £20,000 to £40,000

1984

- tax thresholds and personal allowances raised
- investment income surcharge of 15% abolished (cost £350 million in full year)
- five-year phase-out of tax relief of 50% for foreign employee's working in Britain and tax relief abolished from April 1985 for British residents working abroad
- excise duties raised on tobacco, alcohol and petrol
- life assurance premium relief for all new contracts eliminated
- top rate of capital transfer tax reduced from 75% to 60% and exemptions increased
- stamp duty reduced to 1%
- rate of corporation tax reduced from 52% to 50% then to 45% in 1984-85 and 40% in 1985-86 and 35% in 1986-87; the rate for small companies is lowered from 38% to 30%
- exemptions for capital transfer tax increased
- capital allowances on plant, machinery and assets cut from 100% to 75% with immediate effect, then to 50% from March 31, 1985, and abolished from March 31, 1986; annual allowances of 25% will then apply from the date expenditure incurred

- stock relief abolished
- national insurance surcharge abolished
- increase in development land tax threshold from £50,000 to £75,000
- VAT payments on imports to be brought in line with customs duties
- VAT extended to construction alterations and take-away food
- increased taxation of company cars

1985

- tax thresholds and personal allowances raised
- graduated rate structure for national insurance contributions (NICs) and cuts in employees'/employers' NICs for low-paid workers
- upper earning limit on employers' national insurance contributions abolished
- exemptions for capital gains tax raised
- capital transfer tax thresholds and rate bands raised
- development land tax abolished
- stamp duty of 1% on gifts repealed; deeds of family arrangement and transfer of property on the break-up of a marriage exempted from the 1% duty
- VAT extended to advertisements in newspapers, journals and periodicals
- excise duties raised on tobacco, alcohol and petrol

1986

- tax thresholds and personal allowances raised
- basic rate of personal income tax cut from 30% to 29%
- exemptions for capital gains tax raised
- capital transfer tax on lifetime gifts between individuals abolished and CTT renamed "inheritance tax"
- stamp duty on share purchases cut from 1% to .5%; stamp duty extended to previously-exempt areas of trading, i.e. purchases of letters of allotment, quick buy-and-sell deals, dealings in loan stocks
- introduction of personal equity plans (PEPs); all dividends and capital gains accruing are exempt from tax as long as investment remains for one full calendar year
- small company tax rate cut to 29% (corporation tax for large firms to 35%)
- excise duties raised on tobacco (cigarettes, not cigars and pipe tobacco) and petrol, but not on alcohol
- Green Paper, The Reform of Personal Taxation (CMND 9756)
- Green Paper, Paying for Local Government (CMND 9714)

1987

- tax thresholds and personal allowances raised
- basic rate of personal income tax cut from 29% to 27%
- exemptions for capital gains tax raised
- inheritance tax threshold raised from £71,000 to £90,000; number of rates reduced from seven to four: 30%, 40%, 50%, 60%

- corporation tax: 1) small company tax rate cut to 27%; 2) for firms with profits between £100,00 and £500,000, the tax rates are set on a scale between 27% and 35%; 3) tax on companies' capital gains to be charged as income at normal corporation tax rates (35% or 27%); 4) advanced corporation tax may be set against capital gains tax
- tax-free lump sum of occupational pension schemes limited to £150,000
- no increases in excise duties on tobacco, alcohol and petrol; differential of 5p introduced in favor of unleaded petrol
- switch to cash accounting allowed for VAT payments for small companies

1988

- tax thresholds and personal allowances raised
- rate structure of personal income tax reduced from 6 brackets to 2, one at 25% and one at 40%
- increased taxation of company cars
- taxation of various fringe benefits, i.e. entertaining overseas business persons
- tax relief for non-charitable covenants and the costs of planting and running new plantations eliminated
- limit of £500,000 on the amount a company can raise through the Business Expansion Scheme
- reform of the taxation of husband and wife planned for 1990
- Capital gains tax: 1) amnesty for capital gains tax liabilities incurred prior to April 1982; 2) separate capital gains tax rate of 30% abolished with capital gains brought more into relationship with income tax, subject to the taxpayer's highest marginal rate
- small company tax rate reduced to 25% (main rate of corporation tax at 35%)
- inheritance tax structure reduced from four rates to one, at 40%
- tax relief on mortgage interest on loans (after April 6, 1988) used to purchase a home for a dependent relative or former or separated spouse; mortgage interest relief to apply to residences rather than borrowers
- some excise duties raised, i.e. on beer, wine, cigarettes and petrol

1989

- tax thresholds and personal allowances raised
- introduction of the community charge (poll tax) in Scotland
- reform of NICs: 1) reduced number of rates with one at 2% (on the first £43) and one at 9% above that; 2) abolition of the earnings rule
- inflation-adjusted ceiling on the size of occupational pension funds qualifying for tax relief
- increased taxation on company cars
- VAT extended to commercial building and utilities (obliged by decision of the European Court)
- tax relief limits to pensions paid out on earnings of a maximum of £60,000 (applicable to pension schemes set up after March 1989)

- tax relief for private medical insurance
 - new rules on the taxation of capital transfers
 - raise annual limits on amount that may be invested in a PEP and be exempt from tax
 - restrictions on life assurance company practices, but abolition of the life assurance policy duty (from January 1990)
 - excise duties not raised
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Appendix C

List of Interviewees

In France:

<u>Name</u>	<u>date & place of interview</u>	<u>(former) position</u>
Philippe Auberger	Paris, Nov. 8, 1993	representative for economic and financial affairs to the prime minister's office, 1974-76; sous-directeur in the Ministry of the Economy and Finance; adviser on tax questions to Jacques Chirac and the RPR; author of <i>L'Allergie Fiscale</i> (1984)
Raymond Barre	Paris, June 2, 1992	prime minister
Jean-Pascal Beaufret	Paris, May 14, 1992	chargé de mission à la direction du Trésor; technical adviser to Laurent Fabius
Pierre Bilger	Paris, April 28, 1992	chargé de mission à la direction du Budget; technical adviser to Jean-Pierre Fourcade; sous-directeur à la direction du Budget; directeur du cabinet de Maurice Papon, minister for the Budget
Patrick Careil	Paris, May 25, 1992	chargé de mission au Service de la Legislation Fiscale; rapporteur, commission d'étude sur l'institution eventuelle d'un prélèvement sur les grosses fortunes; technical adviser to Jacques Delors and Laurent Fabius; chef du Service de la Legislation Fiscale; chargé de mission auprès Pierre Bérégovoy
Jean Choussat	Paris, May 12, 1992	chef de service à la direction du Budget; directeur du Budget
Georges Egret	Paris, May 7, 1992	directeur du service fiscal du CNPF; member of the finance section of the Economic and Social Council; secrétaire général du groupement français de l'Association Fiscale International
Philippe Lagayette	Paris, May 20, 1992	directeur du cabinet de Jacques Delors; 2eme sous-gouverneur, Banque de France

List of Interviewees (cont'd)

In France:

<u>Name</u>	<u>date & place of interview</u>	<u>(former) position</u>
Yves Mansion	Paris, June 2, 1992	chargé de mission, direction du Budget; technical adviser to P. Bérégovoy; adjoint directeur du cabinet de P. Bérégovoy
Jean Meo	Reuil Malmaison, May 18, 1992	author of Atout France (1980); secrétaire-général adjoint et conseiller pour les affaires économiques et sociales au RPR
Yvon Ollivier	Paris, May 14, 1992	chef de bureau, Direction Générale des Impôts; sous-directeur au Ministère du Budget; detaché en qualité de directeur générale des impôts
Francois Xavier Stasse	Paris, June 2, 1992	technical adviser on the economy/budget to President Mitterrand
Michel Taly	Paris, June 22, 1992	chef du Service de la Legislation Fiscale

In Britain:

John Biffen	London, June 20, 1991	Chief Secretary to the Treasury; Leader, House of Commons
Baron Arthur Cockfield	London, June 11, 1991	Commissioner of Inland Revenue; Minister of State, HM Treasury; adviser on tax policy to the Conservative Party and the Chancellor of the Exchequer
Peter Cropper	London, June 10, 1991	special adviser on taxation to the Conservative Party and to the Chief Secretary to the Treasury; special adviser to the Chancellor of the Exchequer; Conservative Research Department
Douglas French	London, July 3, 1991	assistant to Sir Geoffrey Howe, Shdow Chancellor; special adviser to the Chancellor of the Exchequer; Chairman of the Bow Group

List of Interviewees (cont'd)

In Britain:

<u>Name</u>	<u>date & place of interview</u>	<u>(former) position</u>
Martin Holmes	Oxford, June 17, 1991	academic and author of several books on the Thatcher governments
Sir John Hoskyns	London, June 11, 1991	head of prime minister's policy unit; Director-General, Institute of Directors
John Kay	London, July 2, 1991	Director of the Institute for Fiscal Studies
Hermione Parker	London, June 11, 1991	assistant to John Biffen; researcher, Institute of Economic Affairs
Sir Adam Ridley	London, May 30, 1991	economic adviser to the shadow cabinet and Assistant director, Conservative Research Department, 1974-79; special adviser to the Chancellor of the Exchequer, 1979-84
Ann Robinson	London, June 18, 1991	co-author <i>Tax Policy-making in the United Kingdom</i> (1983); head of policy unit, Institute of Directors
Cedric Sandford	Bath, June 6, 1991	member of Meade Committee on the Reform of Direct Taxation; professor of political economy at Bath University; director of Bath University's Centre for Fiscal Studies; co-author of <i>Tax Policy-making in the United Kingdom</i> (1983); author of several books on taxation; tax expert
Sir Alfred Sherman	London, May 21, 1991	co-founder, Centre for Policy Studies and Director of Studies; adviser to Conservative Party and Mrs. Margaret Thatcher, Shadow leader

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