Transformative Relationships: The State and Private Interests in Economic Modernization

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Abstract

I develop and test a new theory that seeks to explain both the form and success of economic modernization policies. The relative centralization – matched or unmatched – of the state and interest groups, I argue, will determine whether policy-making processes are characterized by state dominance, private capture, corporatism, or pluralism. Moreover, governments will be most successful in promoting economic modernization, I contend, when their level of centralization is aligned with that of interest groups. I find support for my arguments using both qualitative and quantitative evidence. My qualitative test uses extensive archival research to explore economic policy outcomes in postwar France, and my quantitative models look at sixteen countries across six decades. The results shed light on a wide variety of economic policies and outcomes, while suggesting that policy-making styles are not fixed characteristics of countries but can vary both across time and, critically, across sectors of the economy.

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The pursuit of national prosperity as a state goal dates back at least to the upheavals of the industrial revolution. While ideas about modernity and the role of government have evolved since that heady time, the notion that national authorities must take action to ensure the economic prosperity of their peoples has remained a fixture of political discourse. This is as true today as it was fifty or one hundred years ago; even a cursory glance at the rhetoric and policies of many modern states reveals a preoccupation with how government can transform economic outcomes.

Despite this continuity, few studies of economic modernization consider anything but the very recent past. In addition, the near-universal focus on the "developing world" as a distinct entity means that the experiences of industrialized states have rarely been brought to bear on the economic development issues of today.[1] In this article, I leverage the past experiences of one industrialized modernizer – France just after the Second World War – to improve our understanding of modernization policy more generally. I then test the broader applicability of my arguments with a quantitative model examining sixteen developed countries across six decades.

What, then, is the meaning of economic modernization? I adopt a broad definition that encompasses a fairly wide variety of economic outcomes. For me, modernization (which I will also refer to as transformation) is the process of upgrading a country's productive capacity. Successful modernization, therefore, involves the enhancement of national productivity through the development of human, industrial, and agricultural capital. This enhancement, in turn, results in the creation of higher value-added goods and in the achievement of higher aggregate national income. My particular interest here is in the efforts of states to promote this modernization through specific constellations of national policy. These constellations can run the gambit from

[1] The classic study by Gerschenkron (1962) is a notable exception.

trade protection to industrial subsidies to investment in education. Because I am interested in the structures of policy formation rather than outcomes in specific policy areas, I leave the definition of modernization policy quite fluid.

When are modernization policies successful and when do they fail? And, at a time when so many states are committed to economic transformation and when so many experts are ready to provide technical advice on how to do it, why are outcomes so mixed? I develop a new theory that seeks to explain both the form and success of modernization policy. This theory considers the preferences and the organization of states and interest groups in an interactive model. Its key insight, to be explained in more detail below, is that the most effective modernization programs are crafted and implemented with the cooperation of both state and private interests. This cooperation is best achieved when the state and interest groups are characterized by a similar degree of organizational centralization.

What matters most critically for economic outcomes, then, is not fundamental characteristics of states such as geography, though these do set the circumstances under which states must operate. Nor is it transient factors such as choosing the "right policies", which in any case can vary depending on national circumstances. What matters most in the success of modernization policy is instead the right process of policy development and implementation. Even this process is not a fixed characteristic of countries, but rather can vary across sectors of the economy and across relatively short periods of time. Getting this process right improves the likelihood that countries will development and implement modernization policies that fit their circumstances and needs, policies that can transform the material future for their citizens.

Explaining the Success of Economic Modernization: Past Approaches

Given the importance of economic modernization, with its impact on the lives of millions and on the basic contours of the international system, it is not surprising that many scholars have sought to explain it. Within this very broad field, a growing literature advances the notion that variation in institutions, both political and economic, underlies differences in economic trajectory. Getting these institutions right, scholars in this field argue, helps produce economic policies that are appropriate to local circumstances and that are effectively implemented (i.e. Doner 2009, Root 1996, Rodrik 2007, Wade 2003).

In this article, I take my inspiration from this research but move beyond it by combining political institutions, interest groups, and preferences, into a single framework. My argument is similar to that developed by Hall (1986) in his comparison of French and British industrial policy, but in that classic book no specific framework for understanding outcomes is developed and the focus is entirely on planning. I also draw on the work of Haggard (1990), who sees development policy outcomes as resulting from the interaction of actor preferences institutional constraints, and on Levy (1999), who points to the benefits of strong social capital in informing the decisions of interventionist states.

Unlike much of the literature that has gone before, however, I flesh out in more detail the expected outcomes from different combinations of institutional constraints and preferences. In addition, I develop predictions both for the nature of the policy process and for the effectiveness of policy in promoting economic upgrading. I also emphasize aspects of the policy-making process that are sometimes ignored in past studies. For example, a potential problem with much of the research linking preferences with economic policy is the assumption that partisan differences depend not on genuine beliefs but on differing societal supports. As a result, states are often not considered independent actors but rather the servants of social interests and public opinion (see Evans, Reuschemeyer, and Skocpol 1985). My project seeks to explain when states will take the lead in economic policy and when they will follow the interests of sub-national groups.

My article also speaks to prior research on both corporatism and the developmental state. Scholars of corporatism, who have focused their analyses on Western Europe and Latin America, highlight the importance of interest group centralization in the coordination of economic policy between the state and private actors (i.e. Schmitter 1974). It is this peak-level cooperation that defines corporatism and distinguishes it from more pluralistic systems. Advocates of corporatism often tout its ability to generate macroeconomic stability (Garrett 1998), an equitable distribution of income (Freeman 1989), and, more broadly, mutually beneficial outcomes across all segments of an economy (Katzenstein 1985). Along similar lines, more recent scholarship identifies the existence of distinct "varieties of capitalism" in which institutional configurations in a variety of areas (education, industrial relations, finance, etc.) fit together to produce a coherent political-economic system (Hall and Soskice 2001). This research highlights the benefits of coordinated market systems in which state and private institutions are mutually influential in the production process. And, while corporatism has traditionally been associated with economic stability and slow upgrading, scholars such as Ornston (2012) have begun to point to its ability to contribute to more dynamic and rapid forms of modernization.

In a similar vein, but focused more on the developing world, scholars of the developmental state emphasize the role of technocratic, centralized state bureaucracies in efforts to spur industrial upgrading, especially in the East Asian tigers. Scholarship in this area focuses not only on the benefits of elite bureaucratic power (such as the classic Japanese MITI discussed in Johnson 1982), but also on the ability of these bureaucracies to communicate effectively with business leaders (Evans 1995). Overall, scholars of the developmental state see coordinated and firm state action as the best method available for industrializing states to build comparative advantage in high value-added products (i.e. Wade 2003).

I draw on the important innovations found in both literatures, but go beyond them in two ways. First, I argue that a complete explanation of economic policy-making requires an understanding of how state centralization and interest group centralization interact. To be sure, scholars of corporatism and the developmental state are both interested in the relationship between government and interest groups. Neither approach, however, fully theorizes the organizational structure of both state and private institutions. Corporatists are primarily interested in interest group structure and consider state organization only secondarily, while developmental state theorists have the opposite focus. In this article, I examine both state and interest organization and develop expectations for their joint and mutually contingent influence.

Second, I emphasize that corporatism and pluralism, state dominance and interest dominance, are not fixed characteristics of countries. Rather, I argue that they can vary both across time and, critically, across sectors of the economy. My approach is in contrast to most theories of corporatism and the developmental state, which imply that these characteristics are relatively fixed elements of individual countries (see Gilpin 2001, Lijphart and Crepaz 1991, Schmitter 1976). It is true that some scholars in both schools have begun to point to the ways in which structure of policy-making can vary within countries. Keeler's (1987) focus on the corporatism of agricultural policy, in contrast to industrial policy, in France is an example of this recognition, as is Pinglé's (1999) work on "developmental ensembles" in India. That said, the assumption that the basic structures of economic policy making are fixed national characteristics remains pervasive in the literature.

Preferences, Institutions, and Modernization

In this section, I develop in more detail my theory of economic modernization. An obvious first step is to note my assumptions and highlight the cases to which my argument applies. Because I am interested in the form and success of modernization policy, I am concerned only with those countries that can be said to have developed and implemented such a policy in one of its myriad forms. This category evidently includes a large number of countries in the world today, but excludes failed or purely kleptocratic states. It also, at least in theory, excludes countries pursuing purely *laissez faire* economic policies or policies oriented only at maintaining the status quo, but there are few such cases in existence. It is worth noting that my focus on modernization allows me to concern myself with a wide variety of specific economic instruments, including trade, income, and fiscal policies. All of these can be components of an overall approach to modernization.

I build my theory around a close examination of domestic politics. Specifically, I focus on three important characteristics of countries – the economic preferences of governments and interest groups, the centralization of business, labor, and agrarian representation, and the centralization of political institutions. For my purposes, interest group centralization means (1) that the sector is dominated by a single group, (2) that this single group organizes a significant portion of participants in the sector, and (3) that that this single group is, at least to some degree, organizationally centralized. An interest group can be considered centralized when its executive is able to determine its bargaining position and impose that position on the membership, or when its rank-and-file are so united on an issue that they act as one. I do not consider state dominated interest groups, which are especially common in autocratic systems, to be centralized because they do not represent the independent preferences of private actors.

For the state, centralization means that it can speak and act with a unified voice on most policy matters, and that it is insulated enough that private interests can find few opening to exploit. Centralization can take many forms in a democracy. For example, a state is centralized when a powerful executive controls most of the levers of policy or when a single disciplined party dominates the legislature. It is decentralized when there are multiple access points through which private interests can influence policy; these access points can result from party system fragmentation, weak governing party organization, or strong legislative power (Ehrlich 2011). Decentralization can also include the existence of empowered sub-national governments, though, for my definition, this is not a requirement. In this article, I take both centralization and actor preferences as exogenous and do not seek to explain them.

How do institutions and preferences interact to produce economic policy? I contend that, when a country's political institutions are centralized and its business, labor, and farm interests are decentralized, the economic preferences of the government will largely determine state policy. As discussed below, prior research has found that political centralization tends to insulate policy-makers from interest group power. This is because more centralized political institutions provide fewer "access points" through which interest groups can influence policy (Ehrlich 2011). When policy is controlled by a small number of individuals at the center of power, changing that policy will be more challenging for private sector interests than when decisions result from a more decentralized process. The greater insulation of a centralized state, combined with a decentralized and unorganized structure of interest group power, will provide governments with maximum freedom to carry out their economic policies. Under such conditions, state authorities are unlikely to face coordinated opposition to their decisions and will be in a better position to play one private sector group against another. A statist economic policy will be the outcome.

By contrast, when a country's political institutions are centralized and its business, farm, and / or labor representation is as well, state officials will have to consider the preferences of organized interests. The centralized political institutions will, however, provide political leaders with a modicum of insulation, allowing them some room to pursue their preferred policies. Put differently, interest groups will have difficulty influencing the centralized policy process on the front end, but, by the same token, political leaders will need to consider the possible response of private interests to their enunciated policies. Under these conditions, economic policy will be corporatist in nature, with outcomes determined by bargaining among representatives of the state and the peak-level interest groups. Both state and interest group leaders will begin the bargaining process with internally formulated preferences, but also with an understanding that coordination will be required for effective policy. And, in keeping with the corporatist mold of policy formation, only a small number of influential actors will be given a seat at the table when that coordination takes place.

In a third case, where a country's political institutions are decentralized but its interest representation is centralized, government officials will have little opportunity to resist the power of organized business, labor, or agriculture. These interest groups will have the ability to inject themselves into the policy formation process itself by lobbying legislators, ministers, bureaucrats, and other influential state actors. And, once the policy is made, they will have the power to threaten coordinated non-cooperation if the government's decision does not accord with their desires. Consequently, economic policy outcomes will reflect the preferences of these centralized interest groups, and the state's preferences will be effectively captured by organized social interests.

In the final case, when both political institutions and interest organizations are decentralized, policy-making will embody the pluralist model most closely, with smaller interest groups lobbying multiple different state actors to affect policy. State leaders will be heavily constrained by these interest groups, but will have some ability to build different winning coalitions to maintain office. Policy will reflect the interests of these state-society coalition members. For example, business associations may fracture by sector of the economy and, likewise, different state agencies may be responsible for economic policy-making in different industries. In this scenario, the ultimate results will be state-private sector coordination at the sectoral rather than national level, with different actors involved in coordinating different elements of economic policy. Such a process would be open and decentralized, with important roles to be played by different components of government and the private sector.

In which of these four cases is state intervention most likely to be effective in promoting economic modernization? Making such a prediction is perilous, as economic upgrading is likely to depend on a wide variety of factors, many of them outside the control of governments and interest groups. That said, my theory does point to some preliminary expectations. In general, I argue that the state will be most successful in promoting economic modernization when its level of centralization is aligned with that of interest groups. For my purposes, success is defined with a counterfactual: a successful modernization program is one that produces better economic outcomes (measured most directly by change in national income) than the status quo policy.

Obviously, measuring success is fraught with myriad complications, and I discuss my efforts to do so later in the article.

I argue, then, that centralized governments cooperating with centralized business, labor, and agricultural interests in a corporatist framework, along with decentralized governments cooperating with decentralized business, labor, and agriculture interests in a pluralist framework, will be in a good position to shepherd the economy. By contrast, government dominated and interest group dominated economic systems will be less successful in promoting upgrading. The logic is that cooperation between the state and interest groups is critical for economic management. When institutions are such that either side can effectively ignore the preferences of the other, the quality of policy will suffer.

In state-dominated systems, for example, we would expect the linkages between government agencies and interest groups to be weaker, something that is likely to impair the development of realistic policies (see Evans 1995). Even when these links are well developed, the absence of a coordinated interest group preference may also intrude on the development of an effective policy. A dominant state must still understand the needs of the private sector to construct effective modernization policy, and when these private actors are not able to speak with a single voice, this task is complicated considerably.

In the reverse case, where interest groups are dominant, their overwhelming power can lead to redistributional policies that impair competitiveness. It is always easier for private actors to engage in rent-seeking than to compete on world markets. When these actors dominate the policy-making process at the expense of the state, they are more likely to demand subsidies, trade protection, and other benefits than the more challenging policies that can contribute to long-run growth. As theorists of the developmental state have pointed out, strong states with an interest in the aggregate welfare of the country are more likely to develop and implement such policies (see Johnson 1982, Wade 2003). Corporatist and pluralist systems will make economic policy in very different ways, I argue, but the outcomes will reflect a broader level of social and political buy-in than policies produced in state or interest dominated countries.[2] I present a summary of my theory in Table 1.

Insert Table 1

Economic Modernization in Postwar France

This article deals qualitatively with a case – postwar France – that experienced a sharp break with the past. I examine this case not because the pursuit of economic modernization requires such a break, but because many countries that have dedicated themselves fully to economic change have done so following some internal or external political shock. Scholars of qualitative methodology have long argued that such crises can form "critical junctures" where institutional transformation is possible (see Capoccia and Keleman 2007). It thus makes sense to examine a country seeking to transform it economy after some watershed event because the hypothesized relationships will be in clearer relief. In addition, the experiences of France during this period are particularly relevant to the many industrialized modernizers of today, namely those middle-income countries that have achieved a certain level of economic development but that are seeking to upgrade further their productive capacity (Doner and Schneider 2016).

[2] For simplicity, on the industry side, I consider cases where business and labor are both centralized or both decentralized. I argue, of course, that matching levels of state and business organizational centralization are good for growth. This is also true likely for labor, as the integration of workers aids in keeping inflation down, labor quiescent, and training well organized. It is probable that if business and the state are centralized, but labor is decentralized, the matching organizational structures may still contribute to growth, but the absence of labor participation may generate more inequality (See, for example, Kohli 2004). And if labor and the state are centralized but business is not, this may contribute to equality but less to growth. I do not, however, fully theorize this mixed case.

France emerged from the Second World War with its economy and infrastructure devastated. Nearly two million buildings had been damaged, extensive areas of farmland had been rendered unusable, and both train and ship transport was at a virtual standstill (Eichengreen 2007). But the country's technocratic elite also saw in the destruction an opportunity to set France on a path towards economic modernization that had eluded it for decades.

As a consequence, the first twenty-five years after the war gave birth to French economic policy as we know it today. Those years began with a turn to large-scale indicative planning and dirigisme in an effort to reconstruct the French economy. The post-war period also saw a dramatic expansion of the French welfare state and an unprecedented growth in the public sector's social role (Nord 2010). French leaders adopted these policies as part of a broad economic modernization strategy, pursued at a time when the dangers of permanent stagnation loomed in the aftermath of occupation and war. These policies continue to structure the economic debate in France today, whether over welfare benefit cuts, government support for national champions, or the expansion versus deepening of the European Union. And their importance does not end with France. Dirigisme and indicative planning have been emulated in a number of countries around the world, and French policy continues to leave its mark on the structure of European integration (Balassa 1978, Loriaux 1999).

Studying post-war France allows me to vary each of my key independent variables and therefore permits a comprehensive examination of the theory. France under the Fourth Republic (1946-58) was characterized by relatively decentralized political institutions paired with decentralized interest representation in the industrial sector and centralized interest representation in the agricultural sector. The country's political institutions were then transformed in 1958 with the establishment of the Gaullist Fifth Republic and its strong

President. This new centralized state in turn faced, for the most part, the same structure of interest representation that had confronted its predecessor. By examining how French economic policy varied from the Fourth to the Fifth Republics and from the industrial to the agriculture sector, I am thus able to examine all of the variation present in my model.[3]

In effect, therefore, I am adopting a most-similar-systems research design (see, for example, Meckstroth 1975), where I seek maximum variation on the independent variables of interest and minimum variation elsewhere. By examining a single country, I am better able to hold potentially confounding cultural, social, and economic factors constant while I investigate the effects of changes in my independent variables. To complete my qualitative analysis of postwar France, I draw on the secondary literature in both English and French, as well as on an extensive examination of primary sources. These sources include memoires of the key actors during the period, government and interest group documents maintained in various French archives, and contemporary journalistic accounts. This sort of detailed historical analysis is appropriate because my theory specifies not just a hypothesized relationship between independent and dependent variables, but a full causal process. In this context, process tracing allows me to test whether the causal mechanisms highlighted by my framework actually produce the economic policy outcomes predicted (Mahoney 2003). At the same time, as Lieberman (2015) has argued, combining quantitative tests with comparative historical analysis is an effective way of ensuring the generalizability of probabilistic theories like mine.

France is generally considered to be a statist country, one where the government and, especially, the powerful civil service call the shots in economic policy (Schmidt 1996). It is often thought of as an outlier in studies of European political economy, neither liberal nor

[3] Note that I focus on the period from 1944 through 1968; the uprising of that year led to political shifts outside the scope of the project.

corporatist nor pluralist (Hancké 2002, Esping-Andersen 1990). I argue, by contrast, that France was sometimes statist, but also sometimes corporatist and pluralist, and even sometimes dominated by private sector interests. My model helps explain why the French case has historically been so vexing for scholars, and teases out the various ways that economic policy has been made in the country.

A Story of Centralization and Decentralization

When France emerged from German occupation in 1944, a provisional government took power under the leadership of General Charles de Gaulle, head of the Free French during the war. In the following year, the French people elected a Constituent Assembly to draft a new constitution, ultimately ratifying the result by referendum in October 1946. This new constitution, which gave birth to the Fourth Republic, retained most of the key institutions of the defeated Third Republic, including a weak presidency and a strong parliament (McRae 1967, Vinen 1996).

The authority structures of the Fourth Republic were fundamentally decentralized. First and foremost, the position of the President, largely a figurehead under the Third Republic, remained essentially powerless under the Fourth. Real power rested with the parliament, or National Assembly, which selected the government and the prime minister, termed in France the President of the Council.[4] The Fourth Republic also replaced the two-round majority electoral system of the Third Republic with proportional representation, a system that would give further impetus to multiparty politics (Judt 2011).

While its prime ministers could hold significant powers with the backing of a majority in the National Assembly, the Fourth Republic was characterized by a fragmented party system

[4] See the 1946 Constitution of the French Republic. Available at http://www.conseil-constitutionnel.fr/conseil-constitutionnel/francais/la-constitution/les-constitutions-de-la-france/constitution-de-1946-ive-republique.5109.html

which put severe limitations on their actual authority (Vinen 1996). Soon after October 1946, a quasi-stable system of tripartism developed, whereby power was shared between the newly created Christian Democratic MRP, the revitalized Social Democratic SPIO, and the Communist PCF (Blum 1958, Suleiman 1974). Cold war pressures led to the successful banishment of the PCF from power in the following year, at which point power was shared among the MRP, the SPIO, the centrist Radicals and UDSR, and the rightist-liberal UNIP. With a few exceptions (the Radical Pierre Mendès-France and the Socialist Guy Mollet are the most notable), no Fourth Republic prime minister was able to stay in power for more than a few months at a time. While some politicians held the prime minister's office multiple times, and also circulated among the key ministries of state, shifting party coalitions meant that stable government was next to impossible (Vinen 1996, Rioux 1987, McRae 1967).

Compounding this decentralization of authority was the uneven structure of the parties themselves. While some of the parties, such as the SFIO and the PCF, where quite organizationally centralized, with national party leaders firmly in control, others, such as the Gaullist RPF and the Radicals, were highly decentralized and internally split (McRae 1967).

Some observers have emphasized the guiding role of the civil service during the Fourth Republic, seeing government as effectively centralized due it its power (Debré 1957). It is certainly true that the authority of the administration meant that day-to-day governance functioned in France, despite the fragmentation of the National Assembly. The elite corps d'état, associations of state administrators who often colonized power in key ministries, provided a structure to government decision-making that was sometimes lacking among the elected leadership (Suleiman 1974, Hayward 1986). And, in economic policy, the Commissariat général au plan (CGP), headed initially by the energetic Jean Monnet, provided a central coordinating point for thinking about the direction of the economy (Monnet 1978, Nord 2010).

Despite the central role played by the administration, however, its power to effect policy change was severely limited without the direction of the decentralized political authorities. Furthermore, Chagnollaud (1996) has argued that the weakness of the ministers and the power of the administration has been exaggerated. As a senior civil servant during the Fourth Republic, François Bloch-Lainé, put it:

> It is certain that the [senior administrators], especially those in the Finance Ministry, had more freedom of action and more personal influence when the ministers passed quickly, when the governments changed often. People say that things worked during the Fourth Republic thanks to them, despite the political instability. . . . [But the senior administrator], whatever his liberty, is limited in his efficiency. There were a thousand essential things that he could not do nor obtain. Deprived of solid and constant governmental support, he was an infirm person who leaped around without constraint. He limps, he hops, and he doesn't go far, even if he walks a long time.[5]

And the National Assembly and the ministries, as I discuss in the next section, were quite open to influence by organized private groups.

The structure of French government underwent a dramatic change in 1958 with the advent of the Fifth Republic. The crisis that led to this institutional shift was precipitated by the Fourth Republic's inability to deal with decolonization in Algeria. The threat of a coup by certain French generals led to the recall of de Gaulle who, as a condition of his return, demanded a new constitution (Peyrefitte 2012, de Gaulle 1971, Maier and White 1968).

[5] Bloch-Lainé 1976, p.97. Translation by author.

This new constitution corrected all of the problems of authority that de Gaulle had been criticizing for years. First, it created a dramatically stronger President of the Republic, a move that was reinforced seven years later by the first direct election of the President in more than one hundred years. The President would, in turn, appoint the prime minister, subject to the approval of the National Assembly, and the prime minister would appoint the government. The new constitution also weakened the National Assembly and shifted most of its powers to the executive (Debré 1981).[6] Perhaps the clearest sign of this diminished role was the fact that ministers in the Fifth Republic, unlike those in the Fourth, were most often technocrats and rarely parliamentarians (Suleiman 1974, Bloch-Lainé 1976).

As a result of these changes, which also included a reversion back to the majoritarian electoral system, party fragmentation was reduced dramatically and government became much more stable (Suleiman 1974, Judt 2011). The Gaullist UNR and its successors essentially dominated the National Assembly and the Presidency until the 1970s, and only two Presidents and four prime ministers held office during this period.

Two more factors contributed to the centralization of authority during the Fifth Republic. First was the dominant personality of Charles de Gaulle himself, whose role in government was hardly questioned, at least until 1968 (Pinay 1984). Second was the resurgent power of France's elite administrators, who were frequently able to take charge of key ministries during the period (Bloch-Lainé 1976).

In making industrial policy, the French state of both periods partnered with businesses that were organized in a decidedly decentralized fashion. On the face of it, this decentralized

[6] See the 1958 Constitution of the French Republic. Available at http://www.conseil-constitutionnel.fr/conseil-constitutionnel/francais/la-constitution/la-constitution-du-4-octobre-1958/la-constitution-du-4-octobre-1958.5071.html

structure might not be obvious. Immediately following the end of the occupation, the French state, at that point under the sway of a resurgent left, nationalized a number of the country's largest firms, particularly those controlling transport and key utilities (Sheahan 1963, Nord 2010). Not only that, but many private French corporations were members of the CNPF, the peak level French business association (Ehrmann 1957, Wilson 1987).

But industry representation was in reality quite decentralized. Only a relatively small percentage of industry was ultimately nationalized, and even state owned industries were given a significant amount of autonomy (Baum 1958). More than that, the CNPF, while quite representative on paper, was very fragmented in structure. Its members were not individual businesses but rather smaller business associations divided by region, economic sector, and firm size, and these had quite fractious interests that made it difficult for the CNPF to agree on anything (Ehrmann 1957, Wilson 1987). The CNPF's also had an important rival in the CGPME, which represented small and medium sized industries and often vocally took positions in conflict with those of the CNPF.[7]

If business representation was decentralized, labor interests were even more so. Unions in France were highly divided along ideological lines, with the largest syndicate in France, the CGT, under the sway of the communists and reluctant to cooperate at all with the state. Other major unions took a more social democratic or Catholic orientation. In addition to these ideological divides, some unions focused their representation on the traditional working class, while others were made up of public sector or highly skilled workers. But perhaps the most important factor ensuring the decentralization of labor representation was France's very low

[7] An example comes from Archives Nationales, Fond 80/AJ/1, which involves an intervention in the planning council by Gingembre, the president of the CGPME, in 1946. Differences between the two groups are also discussed by Ricard, the president of the CNPF, in the Archives Nationales du Monde du Travail, Fond AS/72/109.

union density, the percentage of workers who are members of labor union (Howell 1992, Wilson 1987, Kuisel 1981, Schmidt 1986).

By contrast, the peak level association in agriculture, the FNSEA, was France's most powerful and centralized interest group. Of course, as in industry, there were divisions among French farmers, especially between the large agriculturalists of the north and west and the small growers of the south and east. Still, most of the FNSEA's individual members were farmers themselves rather than trade groups, making it easier for the leadership to coordinate policy across the divisions. And, even more importantly, the FNSEA, at least before the 1960s, was able to unite its constituents over a policy on which they could all agree – high prices (Keeler 1981a, Wilson 1986, Moravcsik 1998).

Modernizing Industry

If my theory is correct, we would expect industrial modernization policy during the Fourth Republic to be characterized by a pluralist pattern of decision-making, and to be reasonably successful. By contrast, we would expect the policy to be state dominated during the Fifth Republic and considerably less successful. The evidence supports these conclusions.

Under the Fourth Republic, the predicted pluralism of industrial policy accords well with the structure of economic planning that was introduced during the period. At the behest of Jean Monnet, de Gaulle authorized the creation of the leading state planning institution, the CGP, just before he left office in December 1944. Monnet's vision was to develop a form of indicative planning, distinct from the command-oriented Soviet version, which could coordinate public and private sector efforts at reconstruction and modernization (Monnet 1978, Mioche 1987). Central to this version of planning were the "modernization commissions" (Hackett and Hackett 1965, Bauchet 1964, Hall 1986, Eichengreen 2007). These commissions, made up of representatives of private interests and the state, cooperated with the French planning bureaucracy to set the broad guidelines for the economy, especially during the 1950s. Critically, the modernization commissions mostly represented business interests at the sectoral level, rather at the peak level, as would be expected of a more corporatist arrangement (Estrin and Holmes 1983, Hackett and Hackett 1965, Bauchet 1964).[8] Labor union representation was also present, though the CGT pulled out of the process in 1947, and the other unions largely felt marginalized (Nord 2010). The primary planning relationship embodied a complex series of agreements between an influential state, ideologically committed to planning, and a large number of firms and sectoral level business associations.

Planning is not the only area where the pluralist structure of industrial policy during the Fourth Republic is visible. It can also be seen in the system of "pantouflage," where senior French administrators, especially members of the elite corps d'état, leave their public role to take leadership jobs in the private sector (Vinen 1995, Suleiman 1976). The similar social background of senior state and business leaders made multiple, uncoordinated bargains between specific industries and specific state ministries possible. More than that, there is strong evidence that businesses and business groups wielded tremendous power in the National Assembly, not least in their ability to provide campaign funding for politicians (Ehrmann 1957).

As the theory would predict, the rapid growth of the French welfare state during this period also represented a decentralized structure of state-society relations, with different employer groups, labor unions, and state agencies taking a leading role in creating and managing different components. For this reason, for example, family policy was separated from income

[8] Details on the make-up of the modernization commissions can be found in the Archives Nationales du Monde du Travail, Fonds 72/AS/121, 72/AS/109.

support policy when the structure of social transfer was established (Nord 2010, Dutton 2002, Palier 2008). In addition, there were separate *caisse*, or funds, for workers, farmer, artisans, professionals, and so forth.[9] As Labor Minister Aujoulat put it in 1954, the government's intention is "to actively associate participant representatives in the management of the structures of social security."[10]

French planning continued under the Fifth Republic, but in an altered form. President de Gaulle and his advisors were ideologically committed to planning but focused more on encouraging intensive, high productivity growth, rather than on utilizing all of the country's factors of production. With the implementation of the Treaty of Rome, the Fifth Republic was also much more concerned about enhancing France's international productivity (Keeler 1981a, Loriaux 1999, Hall 1987).

For all of these reasons, de Gaulle and his government took much more centralized control of the planning process, weakening the CGP and enhancing the role of the Ministry of Finance (Hall 1987, Aujac 1986, Vinen 1995). Indeed, a letter from Prime Minister Debré to the President of the National Assembly, Chaban-Delmas, made very clear that the Ministry of Finance was in charge of developing the Fourth Plan.[11] More to the point, the Fifth Republic eschewed the more sectoral and cooperative strategy of the Fourth Republic, preferring instead to channel state support to a small number of large businesses in an effort to create "national champions" (Hall 1986, Zysman 1977, Schmidt 1996). As the official planning document itself stated, "the Fifth Plan proposes . . . the creation, or the reinforcement where it already exists, of a

[9] The structure of the French welfare state is often termed corporatist in the literature because the individual components embody cooperation between business, labor, and the state. By my definition, however, the system is not genuinely corporatist because of its decentralized, fragmented nature. Rather, the French welfare state represents a multitude of specific bargains among different decentralized interests.
[10] Speech by Dr. Aujoulat, Archives Nationales du Monde du Travail, Fond 72/AS/475. Translation by author.
[11] Archives Nationales, Fond 540/AP/5.

small number of *corporations or groups of international scale* capable of confronting foreign business groups . . ."[12] This strategy, far from representing the influence of major corporations, indicated instead the ability of the French state to do whatever it wanted with industrial policy. Indeed, there were a sparse sixty mergers from 1950 to 1958, but nearly triple that number during the first seven years of the Fifth Republic (Howell 1992).

The centralization of state institutions, and the weakening of the National Assembly, meant that businesses associations were no longer able to wield as much influence over the policies that affected them (Hall 1987, Zysman 1977, Schmidt 1996).[13] The CNPF lost influence, and the state, sometimes relying on personal connections between senior officials and business leaders, dealt more directly with individual businesses. These individual businesses were not entirely without influence, of course, and there were cases where they resisted state initiatives that they disliked (Hayward 1986, Cohen and Bauer 1985). But overall, it was the state which called the shots, as evidenced by the fact that many mergers orchestrated by government officials did not correspond with the existing market strategies of firms. For example, the state pushed Elf Aquitaine to diversify unsuccessfully into pharmaceuticals and chemicals, and it motivated Pechiney – an aluminum firm -- to try dies and chemicals. It also pushed French firms into acquiring other French firms to avoid foreign takeovers, for example requiring CII to accept Alcatel as a major shareholder (Goyer 2008). In the final analysis, the state was able to select which firms to assist and which to ignore, something that would have

[12] Fifth Plan of Economic and Social Development (1966), p. 68. Emphasis in the original. Translation by the author. Accessed at: http://www.strategie.gouv.fr/sites/strategie.gouv.fr/files/atoms/files/cinquieme-plan-1966-1970.pdf

[13] Though note that the Fourth Plan was the first to be discussed in advance by the National Assembly, as mentioned in a letter from Balaresque, a civil servant in the Ministry of Finance, to Minister Giscard d'Estaing, Archives Nationales, Fond 540/AP/5.

been impossible if state institutions were more decentralized or business institutions more centralized.

A good example of the contrasting approaches to industrial policy in the Fourth and Fifth Republics can be found in steel production. Steel was among the six sectors chosen by Monnet's First Plan as critical for postwar development, and it received significant public funds to help it compete, especially after the European Coal and Steel Community was established (Adams 1989).[14] But the power of the steel industry made it difficult for the state to force the industry to consolidate and modernize. In 1966, however, the indebtedness of the industry, combined with the stronger institutions of the Fifth Republic, led to a planned restructuring of steel under state supervision (Zysman 1977, Hayward 1986).

The welfare state during the Fifth Republic remained structured in a decentralized fashion, largely as it had been before 1958. This might at first seem to contradict my theory, but a consideration of the theory of "critical junctures" will show why it does not. While industrial policy was ongoing and always subject to reformulation, especially when the five-year plans came up for renewal, the institutions are the welfare state were more fixed. That said, the Fifth Republic, especially in its later years, has moved to expand the welfare state and to centralize it more under state control, all of which is in keeping with the theory (Hall 2008, Dutton 2002).

Modernizing Agriculture

The theory predicts that agricultural policy under the Fourth Republic will reflect the dominant power of the organized farmers' lobby, while during the Fifth it will embody a negotiated

[14] See also the First Plan of Modernization and Equipment (1946). Available at http://www.strategie.gouv.fr/actualites/premier-plan-de-modernisation-dequipement

settlement between state and agricultural interests, in the corporatist fashion. All of these expectations are supported by the historical evidence.

French agricultural policy under the decentralized Fourth Republic was dominated by an effort to appease the country's highly organized agricultural interests in their demands for costly price supports (Keeler 1981a). The willingness of French authorities to ignore the need for land reform in favor of supports accords well with the theory's predictions of agricultural dominance (Rioux 1987). Likewise, a strong French motivation for the negotiation of the Rome Treaty and the creation of the European Community was to maintain agricultural price supports while reducing their cost to the French state (Gueldry 2001).

The power of agriculture during this period is best demonstrated by its extraordinary influence over the National Assembly. The FNSEA formed what was by far the most powerful caucus in the National Assembly -- the Independent Peasant Bloc – which counted some 130 deputies in 1951, when the leftist newspaper *Combat* facetiously proposed renaming the parliament "The National Peasant Assembly" (Wright 1964). In 1957, the FNSEA was even able to force the calling of special session of parliament to consider a perceived crisis in agricultural prices (Wilson 1987). More to the point, the agricultural lobby was ultimately successful with its central demand of broad commodity price indexation, which it achieved in 1957, despite cost and inflation worries (Cleary 1989).

Things began to change during the Fifth Republic, however. The political strength of agrarian interests met its match in the newly centralized power of the state, and neither the Fifth Republic nor the FNSEA was able to dictate its own terms to the other. The new leadership ended the indexation of prices and pointedly ignored FNSEA efforts to call a special session of the National Assembly (Wilson 1987, Cleary 1989). Indeed, Prime Minister Debré's reaction to

FNSEA's pressure on the parliament was to state that "we are no longer under the Fourth Republic."[15] Political leaders were in a better position to force changes in agriculture than they had been during the shifting coalitional politics of the Fourth Republic. That they chose corporatist cooperation with the FNSEA to achieve agricultural modernization is in keeping with the matched centralization of the public and private sectors (see Keeler 1981b).

This corporatism was born out of a common interest in agricultural transformation shared by Fifth Republic planners and the progressive youth wing of the FNSEA, the CNJA. Realizing that the powerful agrarian organization would need to be brought on board for modernization to work, the state reached out to the CNJA as a possible ally (Keeler 1981a, 1981b, 1987). The young agriculturalists, for their part, wanted to see syndicalism stand for more than price supports and saw cooperation with the state as a way to encourage but also cushion the changes needed in the countryside (Rioux 1987). Initially, the newfound cooperation between the state and CNJA was resisted by the leaders of the FNSEA, but they ultimately came on board with the new corporatist arrangements, especially once the CNJA leadership began to take power in the parent organization (Keeler 1987, Wilson 1987, Cleary 1989).

As part of these new corporatist arrangements, put into law in 1960 and 1962, new institutions were created to oversee agricultural modernization and the FNSEA was given the means, directly and indirectly, to dominate their decision-making. These institutions included, for example, the SAFERs, which purchased new agricultural land coming onto the market and resold it to encourage the creation of larger farms. They also included the Chambers of Agriculture, elected bodies with a number of important powers over local agricultural policy, which were almost always dominated by the FNSEA. Over time, this system of "cogestion"

[15] Debré 1984, p. 76.

made it difficult to distinguish between the powers of the state and those of the agricultural syndicate. This corporatist arrangement benefitted the FNSEA by institutionalizing its power and giving it shared control over government resources, and it benefited the state by providing it a partner through which it could influence agricultural policy at the grassroots. Of course, the FNSEA lost some legitimacy among its members, as it gave up its freedom to protest and march against state policy, but its institutional power left farmers few alternatives but to cooperate with it (Wright 1964, Wilson 1987, Keeler 1981a, 1981b, 1987). Likewise, the state ceded some of its authority to the FNSEA, best demonstrated when de Gaulle compromised his European policy of the "empty chair" after farmers forced him into a second round in the election of 1965 (Moravcsik 2000). Overall, however, as we will see below, this form of corporatist cooperation was beneficial to both actors and to French agricultural transformation more broadly.

Comparing the Success of Industrial and Agricultural Policy in France

How does the evidence accord with my predictions about which configuration of state-interest relations is most effective for promoting economic modernization? My framework predicts that pluralist industrial policy under the Fourth Republic and corporatist agricultural policy under the Fifth Republic will prove more successful than the interest capture of Fourth Republic agrarian policy and the statism of Fifth Republic industrial policy.

These predictions are all borne out by the evidence. Industrial transformation proceeded at a rapid clip during the 1950s, when France had the fastest growing productivity levels in Western Europe. Indeed, the country's ability to come back from the stagnation of the interwar period and the destruction of World War II was quite extraordinary, and there is good reason to believe that the decentralized cooperation between the state and major economic actors was a large part of the reason why (Kuisel 1981, Vinen 1996, Sheahan 1963, Estrin and Holmes 1983, Shonfield 1965). By contrast, the less cooperative industrial policy of the De Gaulle years, while it did enjoy some successes, also saddled the French economy with a series of large, unproductive firms. Indeed, many scholars, among them Adams (1989), Eichengreen (2007), Hall (1986), Schmidt (1996), Zysman (1977), Cohen and Bauer (1985), and Berger (1981), have emphasized the weak results of the national champions policy. Notable examples of the failure of the policy to yield benefits include the chemical (Cohen and Bauer 1985) and computer (Zysman 1977) industries, where the state intervened to compel changes in the market strategies of specific companies. In neither of these instances did this intervention produce products capable of success on international markets. At particular risk of failure were firms created from forced mergers, which often put together two or more companies with little inherent compatibility (Cohen and Bauer 1985).

By contrast, agricultural policy under de Gaulle succeeded in promoting agricultural modernization in a way that Fourth Republic agrarian policy was not able to do (Keeler 1987, Wright 1964, Cleary 1989). The interest dominance of the Fourth Republic led to an agrarian policy focused on price supports, but which ignored the underlying problems of French agriculture, especially the surfeit of small, unproductive farms. The FNSEA had little interest in bearing the costs of a tough adjustment, and its power over the state gave it little incentive to do so. Productivity did grow during the Fourth Republic, but many small and inefficient farms remained (Rioux 1987). The advent of the Fifth Republic put a strong state in power that was able to force modernization by aligning with, and ultimately empowering, progressive interests within the agricultural movement. The FNSEA became a partner in successful transformation, helping to tackle the problems of the countryside while softening the difficulties that come with change. As de Gaulle himself noted in his memoirs (1971), the first five years of the Fifth

Republic saw agricultural output rise by nearly a third at the same time that the number of farms declined from 2.2 million to 1.9 million.

Quantitative Analysis

I test the generalizability of the argument with a quantitative examination of state and interest group structures in the developed world. My models examine outcomes in sixteen countries from 1961 until 2015, contingent on data availability.[16] Because of the difficulty in measuring the process of policy-making in a large-N setting, I focus on the second portion of my argument – that related to outcomes. I also look only at the industrial sector, as good cross-national data on agrarian organization is difficult to find.

If my theory is correct, we would expect economic outcomes to be better, other things equal, when both the state and business groups are either centralized or decentralized. When their level of centralization is mismatched, outcomes should tend to be inferior. To operationalize these outcomes, I make use of four different dependent variables, each of which reflects annual change in an economic characteristic related to modernization. These four variables – *GDP per capita (% Growth), Gross Capital Formation (% Growth), Gross Value Added (Annual Change),* and *Patent Applications by Residents (Annual Change)* – are taken from World Bank (2017) and summarized in Table 2.

On the right side of the equation, I make use of *Business Centralization (Kenworthy)* – described in Kenworthy (2003) – to measure the relative centralization of business interests. Since this variable changes very little from year to year, I use Kenworthy's (2003) cross-temporal average and extend it to 2015. To measure state centralization, I adopt three different

[16] These countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

operationalizations -- the *Political Constraints* variable from Henisz (2000), recently updated to 2016, the *Checks* variable from the Database of Political Institutions (Cruz, Keefer, and Scartascini 2016) and the *Municipal Decentralization* variable developed by Ponce-Rodriguez, Hankla, Martinez-Vazquez, and Heredia-Ortiz (2018).

In addition, I include three control variables in each of the models. The first of these is *Union Centralization (Cameron)*, which comes from Cameron (1984) and Kenworthy (2003) and measures a concept which, although not my focus theoretically, is likely to have an important impact on economic outcomes. As with the previous measures of business centralization, I use Kenworthy's (2003) average across time and then extend it to 2015. My final two control variables are *Logged Population* and *Logged GDP*, both taken from World Bank (2017). I summarize all of my dependent, independent, and control variables in Table 2.

Insert Table 2

To deal with panel heterogeneity, I adopt the panel correct standard errors (PCSE) approach of Beck and Katz (1995) for each of my models. When my dependent variable is percentage change, I include a correction for the first order autocorrelation present in the model. When my dependent variable is differenced (a procedure which also deals with the unit root present in the gross value added and patent data), I instead use a lagged level of the dependent variable in keeping with the error correction model approach (Baltagi 2000).

Results

I present my models in Table 3. Overall, the results provide strong support for my theory. The interactive variable is significant and in the expected direction in nine of the twelve models, which is quite robust given the variety of outcome measures and state centralization measures employed. Furthermore, in nearly all of the models, the two component variables of the interaction are also statistically significant.

Insert Table 3

The easiest way to evaluate my hypotheses is to look at the predicted values of the dependent variables, along with their 90% confidence intervals, at different values of state and business centralization. I present these computations at the bottom of the table for each model in which the interactive variable is significant. To calculate these numbers, I set the two components of the interaction at their minimums and maximums, matching them in all four possible ways, and then set the other variables to their means.

In eight of the nine models where the interaction term was statistically significant, matching levels of state and business centralization (i.e. centralized-centralized and decentralized-decentralized pairs) produce better predicted outcomes than mismatched levels of centralization (i.e. centralized-decentralized and decentralized-centralized pairs). The only exception is for the gross value added model using municipal decentralization (Model 11), where decentralized-decentralized generates better outcomes, as expected, but centralized-centralized is roughly equivalent in effect to the mismatched pairs.

This level of consistency is notable and is made even more impressive by the fact that the sizes of the predicted benefits from matched levels of centralization are so large for many of the models. For example, in Model 3, moving from state centralization-business decentralization to matched centralization improves the annual change in gross value added by $660 billion. Switching from state decentralization-business centralization improves the change in value added by the slightly more modest sum of $201.5 billion. Similarly, in Model 4, we can see that moving from state decentralized-business centralized to matching decentralization leads from a predicted annual reduction of 886 new patents to a predicted increase of 3,210. This is a difference of about 4,000 patents, or one standard deviation of the variable. The predicted shift from centralized-decentralized to matching centralization is even bigger, predicting an improvement of a whopping 35,000 patents. Numerous other examples can be described. It is also notable that in six of the models, the predicted outcome generated by at least one of the two matched pairs has no overlap in confidence interval with the predicted outcome of either of the mismatched pairs. And in two of these models, both matched pairs have no overlap in confidence interval with either mismatched pair.

Perhaps the clearest way of observing the effects of matching organizational centralization on economic outcomes is graphically. Drawing on the results from Model 3, Figure 1 shows the impact of business centralization on the annual change in gross value added when the state is centralized. Figure 2 shows the same effect when the state is decentralized. As is clear from the graphs, the centralization of business strongly improves outcomes when the state is centralized, but worsens them when the state is decentralized. This is because, I argue, centralized business is beneficial in the context of a centralized state, generating a corporatist approach to policy making. By contrast, it is harmful when the state is decentralized, leading to the capture of policy-making by private interests.

Insert Figures 1 and 2

Can we say anything about whether the corporatist combination of matched state-business centralization or the pluralist combination of matched state-business decentralization produces better outcomes? Unfortunately, the answer to this question remains a bit ambiguous. It appears that the political constraint models tend to generate more favorable results for the corporatist pairs, while the checks and municipal decentralization models seem to favor the pluralist pairs. This difference in outcome is likely related to differences in measures of state centralization, but more research will be needed to tease out the relationships here. Overall, my results indicate clearly the superiority of matched state-business structures, but do not clearly point to corporatism or pluralism as the best arrangement.

Understanding Modernization: Concluding Thoughts

In this article, I have argued that a complete understanding of modernization policy requires an examination of both state and interest group organization. The interaction of these two factors can lead to fundamentally different types of policy-making structures, even across time and economic sector within the same country. When both the state and interest groups are centralized, economic policy is characterized by corporatism, and when they are both decentralized, it is best described as pluralist. A centralized state facing decentralized business leads to a statist economic policy, while the reverse leads to capture of the state by private interests. Matching levels of centralization, whether through corporatism or pluralism, are the most likely to produce well considered and appropriate modernization policies.

Some readers may wonder whether a focus on modernization policy is passé in a modern global economy more wedded, at least ostensibly, to purely market solutions. I believe it is not. As Haggard (2015) has pointed out, the recent financial crisis is spurring a comeback for scholars of the developmental state, and the populist wave sweeping much of the world is undermining the faith of many people in market solutions. A more active role for the state, in cooperation with the private sector, may be just what capitalism needs to reinvigorate itself.

More to the point, recent studies by Mazzucato (2015) and Weiss (2014) have shown convincingly that even the United States, the standard bearer of free markets, has an active industrial policy. This policy, oriented towards modernization and technological upgrading, is carried out mostly through supply contracts between government and business, especially in the defense sector. Obviously, the United States does not engage in any formal planning process, and its industrial policy operates under the radar (and in a pluralist fashion, as my argument would predict), but it is nonetheless real.

Other readers may ask whether the increasing constraints of international economic agreements make it difficult for states to engage in industrial policy. This question may seem especially acute for members of the European Union, historically the primary innovators of industrial policy (Gershenkron 1962). But scholars have pointed out that a number of policy instruments are still available for states to encourage modernization, including, for example, active labor market policies (Rodrik 2007, Hall 2008). In keeping with my argument here, then, what matters is less the specific policy, which can change according to circumstance, and more the structure of policy-making itself. It will take cooperation between business and private interests to develop the most innovative solutions to economic transformation in the future.

I also believe that my theory can help explain the challenges that many authoritarian regimes face in economic development. Because illiberal regimes rarely make room for organized private interests, and because their state structures are generally centralized, achieving the genuine public-private cooperation necessary for modernization may be particularly challenging for them. Of course, this fact does not mean that modernization will be easy or automatic for democratic governments either.

My purpose here is to understand the politics behind state modernization policies and their success, but I believe that a similar logic could be extended to explain a wide variety of economic policies, including trade, welfare, regulation, and incomes. Of course, all of these policies can be components of a broader focus on modernization, but they have their own drivers as well. Understanding better the interactions between the state and interest groups can shed light on how these, and many other policies, are formulated.

In the final analysis, I do not advocate any single strategy for economic modernization, and indeed one implication of my theory is that appropriate strategies will need to be hammered out by representatives of the state and private sector in each country. I am interested only in explaining the policy that is made and in trying to understand the political process that is most likely to achieve an effective modernization strategy, one that contributes to a better material future for all citizens.

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Table 1: Theory

	State Centralization	State Decentralization
Interest Group Centralization	Corporatism More Effective Outcomes Fifth Republic Agricultural Policy	Capture Less Effective Outcomes Fourth Republic Agricultural Policy
Interest Group Decentralization	Statism Less Effective Outcomes Fifth Republic Industrial Policy	Pluralism More Effective Outcomes Fourth Republic Industrial Policy

Table 2: Summary Statistics

Variable	**Computation Method and Source**	**Mean**	**Standard Deviation**	**Range**
GDP per capita (% Growth)	Annual percentage change in GDP per capita (Source: World Bank 2017)	2.15	2.32	-8.71 to 12.5
Gross Capital Formation (% Growth)	Annual percentage change in Gross Capital Formation (Source: World Bank 2017)	2.40	7.42	-28.2 to 23.8
Gross Value Added (Annual Change)	Annual change in Gross Value Added at factor cost in billions of constant USD (Source: Computed from World Bank 2017)	34.5	80.2	-400 to 510
Patent Applications by Residents (Annual Change)	Annual change in Patent Applications by national residents in thousands (Source: Computed from World Bank 2017)	483	4124	-34795 to 28487
Business Centralization (Kenworthy)	Coded "1" when no peak business association exists, "2" when one exists but has few powers, and "3" when it exists and has significant powers. Averaged over time and extended to 2015. (Source: Kenworthy 2003)	2.06	.658	1 to 3
Political Constraints	Degree to which political systems are constrained by multiple veto gates, and the degree to which these veto gates are controlled by ideologically different parties. (Source: Henisz 2000)	.327	.335	0 to .894
Checks	Count of the veto gates that represent genuine constraints on political leaders (Source: Cruz, Keefer, and Scartascini 2016)	2.56	1.71	1 to 18
Municipal Decentralization	Coded "1" when (1) there are municipal elections, and either (2) 75% or fewer of municipal council seats are held by national parties, or (3) national party leaders do not control party nomination in municipal elections. (Source: Original Dataset, Ponce-Rodriguez, Hankla, Martinez-Vazquez, and Heredia-Ortiz 2018)	.219	.414	Dummy
Union Centralization (Cameron)	Coded "0" when unions are decentralized and "1" when they are fully centralized. (Source: Cameron 1989, Kenworthy 2003)	.371	.256	0 to .8
Logged Population	Natural log of Population (Source: World Bank 2017)	15.96	1.56	11.69 to 21.04
Logged GDP	Natural log of GDP in constant USD (Source: World Bank 2017)	24.12	2.16	18.92 to 30.44

Table 3: Results

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11	Model 12
	GDP per capita (% Growth) (N=849, 16 countries)	Gross Capital Formation (% Growth) (N=719, 16 countries)	Gross Value Added (Annual Change) (N=702, 16 countries)	Patent App-lications by Residents (Annual Change) (N=748, 16 countries)	GDP per capita (% Growth) (N=623, 16 countries)	Gross Capital Formation (% Growth) (N=623, 16 countries)	Gross Value Added (Annual Change) (N=621, 16 countries)	Patent App-lications by Residents (Annual Change) (N=566, 16 countries)	GDP per capita (% Growth) (N=522, 16 countries)	Gross Capital Form-ation (% Growth) (N=522, 16 countries)	Gross Value Added (Annual Change) (N=522, 16 countries)	Patent App-lications by Residents (Annual Change) (N=479, 16 countries)
Business Centralization (Kenworthy) X Political Constraints	-6.22* (3.49)	-23.0 (14.2)	-279*** (86.1)	-14.5*** (5.02)								
Business Centralization (Kenworthy) X Checks					-.415* (.218)	-1.42* (.759)	-9.45* (5.17)	-.480* (.278)				
Business Centralization (Kenworthy) X Municipal Decentralization									.380 (.532)	-.169 (1.61)	-7.79** (3.77)	-1.16** (.460)
Business Centralization (Kenworthy)	5.27* (2.84)	18.0 (11.8)	222*** (68.5)	11.6*** (3.98)	1.88* (.972)	5.24 (3.39)	32.1 (22.0)	1.48 (1.16)	-.123 (.420)	-.963 (1.39)	-.617 (2.92)	.543*** (.173)
Political Constraints	11.9* (7.10)	48.9* (29.0)	608*** (185)	30.7*** (10.7)								
Checks					.924** (.443)	3.16* (1.55)	22.1* (11.6)	1.27** (.649)				
Municipal Decentralization									-.453 (1.13)	.536 (3.45)	21.8** (9.65)	2.83*** (.972)
Union Centralization (Cameron)	-.286 (.331)	-.159 (1.41)	14.9** (6.61)	1.56** (.666)	.038 (.463)	-.569 (1.64)	8.55** (3.96)	2.14*** (.776)	.131 (.539)	-.149 (1.85)	6.30 (4.59)	1.54* (.809)
Logged Population	2.46*** (.452)	1.15 (1.70)	27.5*** (9.92)	.896** (.408)	1.79*** (.682)	1.16 (1.97)	17.8** (8.46)	.502 (.399)	1.62** (.736)	.389 (2.35)	17.0** (7.74)	.316 (.521)
Logged GDP	-2.63*** (.513)	-1.37 (1.91)	-21.3*** (7.31)	-.080 (.350)	-1.95** (.808)	-1.57 (2.27)	-17.7** (7.74)	.417 (.551)	-1.78** (.870)	-.651 (2.72)	-19.0*** (7.10)	.533 (.718)
Constant	22.1*** (7.37)	18.1 (30.7)	-367** (170)	-37.9*** (14.8)	20.8* (11.0)	14.3 (30.7)	105 (138)	-24.6** (11.9)	23.3** (11.8)	16.1 (36.6)	228** (115)	-21.6 (13.4)
Predicted Values of Y (with 90% confidence intervals) when:												
State Centralized + Business Centralized	7.69 (3.13 to 12.3)		210 (110 to 310)	10.6 (4.73 to 16.4)	3.09 (1.36 to 4.82)	6.27 (.432 to 12.1)	53.0 (22.0 to 83.0)	.677 (-.914 to 2.27)			35.0 (29.0 to 40.0)	.822 (.518 to 1.13)
State Centralized + Business Decentralized	-8.12 (-17.8 to 1.56)		-450 (-700 to -210)	-24.2 (-38.4 to -10.1)	-2.54 (-5.80 to -.725)	-9.46 (-20.8 to 1.88)	-44.0 (-120 to 37.0)	-3.77 (-8.28 to .739)			37.0 (23.0 to 50.0)	-.807 (-1.58 to -.030)
State Decentralized + Business Centralized	1.70 (.905 to 2.49)		8.50 (-6.30 to 23.0)	-.886 (-1.75 to -.018)	-2.69 (-7.72 to 2.33)	-13.5 (-30.8 to 3.87)	-59.0 (-150 to 34.0)	-2.28 (-7.38 to 2.83)			33.0 (26.0 to 41.0)	.184 (-.449 to .817)
State Decentralized + Business Decentralized	2.54 (1.65-3.43)		91.0 (62.0 to 120)	3.21 (1.50 to 4.93)	14.1 (4.18 to 24.0)	47.4 (12.7 to 82.1)	350 (92.0 to 620)	19.2 (4.37 to 34.0)			58.0 (44.0 to 73.0)	2.03 (.948 to 3.11)

***p<.01, **p<.05, *p<.10. All tests are 2-tailed. Standard errors are in parenthesis. All models use panel corrected standard errors with autocorrelation correction.

Figure 1

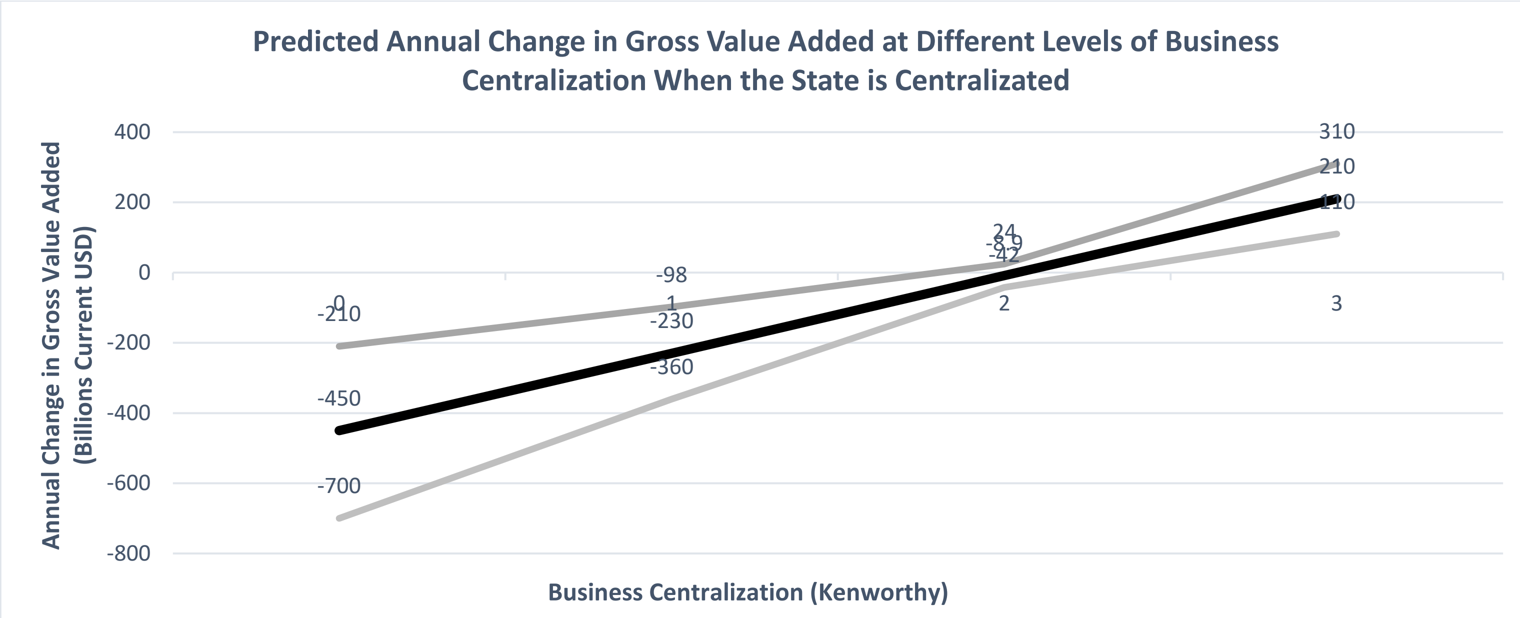

Figure 2