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## France rediscovers the virtues of protectionism

### [News analysis](#)

[Elsa Conesa](#)



 Presidents Emmanuel Macron and Joe Biden at the White House in Washington, D.C., on December 1, 2022. JEAN-CLAUDE COUTAUSSE FOR "LE MONDE"

Almost two years after his inauguration, Joe Biden is again dictating the European agenda. Celebrated for his \$2 trillion (approximately €1,908 trillion) stimulus plan in the wake of the Covid-19 pandemic, the American president has now moved to the "wrong side of the force" with his Inflation Reduction Act (IRA), according to French Industry Minister Roland Lescure, speaking on November 16 at a conference organized by Business France.

The act, which includes nearly \$400 billion in expenditures, will massively subsidize US manufacturers with domestic preference stipulations, encouraging European companies to base their production in the United States, where they would also benefit from low energy prices.

Ever since, France has been trying to structure a response around a "Buy European Act," in the hope of preserving European companies along with the objective of industrial sovereignty, at the heart of Emmanuel Macron's second term. In doing so, the French president is reviving a form of protectionism to which Europe, led by Germany, absolutely refuses to resort.

### **A taboo subject in France**

President Macron, however, avoids using the highly charged term. "In France, protectionism is wrong," said Hakim El Karoui, an essayist and consultant whose book *L'Avenir d'une exception* ("The Future of an Exception," 2006) criticized the risks of social decay inherent in free trade. He explained, "We implicitly consider that it is what led to the Second World War. It is not at all in the political and economic culture of the French elites. Yet even the MEDEF [France's largest employer federation] has changed its tune on trade policy. There is talk of reciprocity, but in reality, it is never enforced. So, in essence, what Joe Biden is saying to the Europeans is: 'Do the same.'"

Economists are also uncomfortable with the idea of protectionism, whereas free trade promotes competition and low prices for the consumer. "You have no idea of the consensus of economists against [former French minister of industrial renewal] Arnaud Montebourg" at the time when he was defending "made in France," said François Geerolf, professor of economics at UCLA (California), who reminded us in passing that "Joe Biden surrounded himself with heterodox economists."

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However, the subject is highly political: "A factory that closes is an RN [far-right Rassemblement National party] base that opens," as Minister of the Economy Bruno Le Maire likes to say. Several American economists, such as Dani Rodrik from Harvard and David Autor from MIT, have shown that the areas most vulnerable to competition from low-wage countries are also the most likely to become politically polarized. Part of the economist community has evolved in the wake of Donald Trump's victory and Brexit in 2016. However, few French academics have addressed the subject, for fear of being co-opted by the far right, which has embraced the idea of national preference. "Just saying that deindustrialization is a problem excludes you from the consensus of economists," said Mr. Geerolf. "Up to now, to speak in this way was to express a populist view."

The notion of industrial policy developed a pejorative connotation, even though it was at the heart of Asian economic development

In France, the debate was never really opened but instead focused on the way the country reacted to the shock of globalization. "Even among economists, it is sacrilegious to question 40 or 50 years of unbridled free trade," said entrepreneur Denis Payre, who argues in his book *Le Contrat Mondial* ("The Global Contract," 2021) for free trade only among countries sharing the same fiscal, social and environmental standards. He continued, "There exists a conformism, even a herd instinct, in French academic circles. If the United States ended up

adopting this protectionist act, it is because China has been subsidizing its industry for 20 years!"

When the concept of globalization began to take hold in the 1990s, economists "were in line with the doctrine of the time, in favor of free trade and against protectionism," said Nicolas Dufourcq, head of the French public investment bank Bpifrance. He explored this issue in his recent book *La Désindustrialisation de la France, 1995-2015* ("The Deindustrialization of France, 1995-2015"). He continued, "I don't remember witnessing the beginnings of a debate on doctrine at the time of the GATT agreements or when China joined the WTO in 2001. There was this idea of the infallibility of markets, which could not cause harm. We ignored the depth of the crisis that was brewing."

The far left, which was trying to raise the alarm with movements like the Association for the Taxation of Financial Transactions and for Citizen Action (ATTAC), adopted messaging that was "not credible because it was very exaggerated," said Mr. Dufourcq. And while Germany chose to respond with the reform of its labor market and the Hartz laws in 2002, the government of then French prime minister Lionel Jospin "put in place the 35-hour workweek, a few weeks after China joined the WTO," he said.

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### **Catching- up**

At the same time, the notion of industrial policy – "that Soviet country thing," as Denis Payre described it – developed a pejorative connotation, even though it was at the heart of Asian economic development in Japan, Korea, Taiwan and China. The belief was that it would be a catching-up phenomenon, which would not last, and that the West's future lay in the service sector, a reservoir of jobs in the face of factory closures and the emergence of mass unemployment. "Many people believed that industry was now the business of low-cost countries and that France should specialize in research units and services," said former corporate boss Louis Gallois [in an interview with French newspaper \*Le Figaro\*](#).

Encouraged by the work of economists, successive political leaders have chosen to respond by helping low-wage earners. That is seen as the most effective solution for rapidly creating jobs and showing results. This has led to the development of service jobs, which are often precarious. Whereas industrial jobs, which are better paid, are the ones whose disappearance most alters the social fabric. The trend began to slow down in 2012, with the measures inspired by Mr. Gallois's report on competitiveness.

It remains to be seen whether France will succeed in adopting a policy that champions a form of "European preference" in contrast to the German model, which is highly dependent on exports.