In Full Retreat?
Privatization of Defense Industries in Britain and France

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In February 1996 Jacques Chirac, France’s conservative president, and Prime Minister Alain Juppé announced their government’s intention to sell the state’s holdings in Thomson SA, a multimedia conglomerate whose Thomson-CSF subsidiary was France’s primary manufacturer of defense electronics. The government also announced a plan to merge state-owned aircraft manufacturer Aérospatiale with privately owned Dassault Aviation; the state would take a majority stake in the new defense giant with the intention of privatizing it. Chirac’s policy of privatizing defense industries reflected the French Conservatives’ decade-long policy of severing the government’s ownership of French industry. It also reflects, however, a privatization trend in Western Europe that first took flight in 1979 with the election of the conservative government of Margaret Thatcher in Britain. Like Chirac, the Thatcher government also privatized government-owned defense industries, first British Aerospace in 1985, then Rolls-Royce in 1987. Although conservative parties traditionally embrace an ideology of structural economic reforms including privatization, it is surprising that France’s governing Socialist-Communist coalition, after coming to power in June 1997 on a platform that opposed any further privatization of state-owned firms, adopted a policy of partial divestiture of state holdings of the defense industries that their conservative predecessors had targeted.

Why have the British and French governments chosen to retreat from public enterprise in the defense sector, an area of industry vital to national security interests? And why did the French Socialist-Communist governing coalition, despite their ideological opposition to privatization, pursue partial privatization of defense industries anyway? At first glance, these cases of defense industry privatization demonstrate the increasing influence that global capital markets have over state decision makers. Faced with declining defense budgets, escalating research and development costs, and the consequent need to raise capital on private and increasingly global markets, neoliberal globalization theorists might argue these markets forced France and Britain to pursue the market-based strategies. Given the determination with which states protect their interests in national security, defense industry privatization is an apparently powerful testament to the degree to which states have become constrained by globalizing forces. Neoliberal globalization theorists might argue it is a profound example of the state’s retreat. Nevertheless, although the policy objective of privatization is a reduced state role in markets, the process of transferring state-owned assets to the private sector remains a highly political one in which the state plays a fundamental role. For one reason, not all privatization strategies are the same. Decision makers must choose a strategy that identifies who will own the state assets (workers, the public, private corporations) and whether privatization is complete or the state retains a residual role. For another, the process of privatization is one of restructuring the pattern of domestic interests, some of which may be entrenched and powerful. In this way, the state acts as an intervening variable that refracts the forces of globalization. The state has not retreated, as neoliberal globalization theorists claim. In fact, the state plays a necessary role in the reorientation of domestic interests. When the state is weak and fails to restructure domestic interests, the integration of domestic industry with transnational patterns of production and consumption is incomplete.

The patterns of defense industry privatization in Britain and France demonstrate the importance of the state in refracting the pressures of globalization. In Britain, the Thatcher government pursued a broad policy of privatization that sought to reduce systematically the power of labor groups. The privatization of state-owned defense firms like British Aerospace and Rolls-Royce was merely part of this larger systematic restructuring of interests. By contrast, French privatization of defense firms
reflects a different set of strategies. Under the conservative government of Chirac and Juppé, the state sought to use the privatization of firms like Aerospatiale and Thomson-CSF to reward long-time conservative party supporters. When the governing coalition of the left took power, the privatization policy changed. Rather than pursuing tactical privatization for political gain, Prime Minister Lionel Jospin’s government pursued a pragmatic policy designed to balance the competing political interests of his coalition partners who opposed privatization, and the pressures of both monetary union and other European defense firms seeking to rationalize a continent-wide defense industry. The fact that Jospin’s government settled on a policy of partial privatization, in which the state retained substantial stakes in defense industries, illustrates the importance of a strong state in the process of globalization. Whereas Chirac’s majority government could pursue complete privatization, Jospin’s coalition required continued state involvement in defense industries. Because Jospin’s coalition made the state weak relative to the demands of interests that opposed privatization, the state failed to integrate French industries into a global defense industry. This pattern of strong versus weak states best explains the degree to which globalization affects nation-states.

Globalization and the Defense Industrial Sector

Neoliberal globalization theorists argue that the processes of globalization is constructing new forms of political organization which not only compete with the nation-state but make it obsolete. Ohmae for one argues that "traditional nation-states have become unnatural, even impossible business units in a global economy."¹ This line of theorizing argues that the emergence of a single global market privileges forms of social organization that favor market principles. For this reason, transnational flows of capital, technology, and knowledge lead to a reduction of the state’s role in national economies. This process of globalization represents more than merely a reduced role for states in domestic and global markets, furthermore; it also represents the marketization of many public goods functions that states have traditionally performed.² Such marketization has occurred even in such traditional areas of state authority as national security industries. With falling procurement budgets in the largest arms-producing states and rapidly escalating costs of research and development of military technologies, governments have sought to preserve vital national defense industries by allowing defense industries not only to seek export sales but to find risk- and cost-sharing partners overseas. As a consequence, defense firms increasingly have sought capital from international sources. The result has been a globalization of defense technology and production that has become largely self-reproducing.³ For this reason, neoliberal globalization theorists argue that the demands of geo-economics have replaced traditional

³For a discussion of this dynamic, see David Held, Anthony McGrew, David Goldblatt, and Jonathan Perraton, Global Transformations: Politics, economics and Culture (Stanford, CA: Stanford University Press, 1999) 103-123. See also The Arms Production Dilemma: Contraction and Restraint in the World Combat Aircraft Industry, Randall Forsberg, ed. (Cambridge: Center for Science and International Affairs, 1994).
national security interests, resulting in the state’s withdrawal from one of its traditional prerogatives of sovereignty—its control of defense industries. The state’s retreat is practically complete.

This line of theorizing contrasts with comparativists and international relations theorists who argue that for the transnational restructuring of economies to occur, the state must remain strong relative to various domestic economic groups. These theorists argue that successful structural adjustment policies such as deregulation and privatization require a strong state relative to those groups who will resist structural adjustment.\(^4\) When a weak state attempts such structural adjustments like privatization, entrenched interests may succeed in blocking reform and preventing the economy from integrating into the global market.\(^5\) Whether a state is strong or weak relative to societal interests may vary, furthermore, according to the issue area. Krasner argues that in many states national-security decision making, including that about industries, resides in institutions that are relatively isolated from interest group pressures.\(^6\) In this respect states may have more or less success integrating different sectors of their economies into transnational patterns of production and consumption. In contrast to globalization theorists like Ohmae who see the state’s withdrawal as complete, these theorists identify a number of important variables that may affect the degree to which the state facilitates or resists the pressures of global markets. These include the issue area, institutions, and parties.

The following comparative analysis intermediates between the neoliberal globalization thesis and the strong-state hypothesis of comparativists. By looking at the privatization of defense industries in Britain and France, the analysis controls for the issue-area variable identified by comparativists. The analysis then explores the role of parties and the state’s institutions on the privatization of four defense firms. In brief, when considering the similar responses of both right and left parties in France, the analysis finds that institutional explanations, but not partisan variables, best explain the privatization strategies of the states. These variables do not explain, however, the state’s ability to resist the effects of globalization. In this respect the neoliberal globalization thesis and strong-state thesis are both partially correct. As evidenced by the privatization of defense industries, the globalization of the marketplace has become a self-reproducing phenomenon, but one that is refracted through state institutions. When the state is weak relative to societal actors, the process of globalization is slowed or incomplete.

Before examining the privatization of four firms in Britain and France, the paper explores the politics of privatization in Britain and France. Using a typology of privatization developed by Feigenbaum and Henig, the paper argues that although neither Britain nor France could resist pressures to privatize defense industries, the differences in the privatization strategies are best explained by the

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strength of state institutions relative to societal actors.  

Privatization as a Political Process

Privatization is the partial or total transfer of government functions or assets from the public sector to the private sector. Because such a transfer requires the interaction of government officials with actors in the private sector, it is inherently a political process. This process is more than simple bargaining games between political actors, furthermore. The transfer of public functions and assets to the private sector increases private actors’ reliance on market forces for the provision of public goods; in this way privatization reorders political-economic relationships and forms of social control. With this reordering of political institutions, the means by which political actors articulate and promote their interests also change. Feigenbaum and Henig find that "[privatization] often takes the form a strategy to realign institutions and decision-making processes so as to privilege the goals of some groups over the competing aspirations of other groups." Hence, privatization reorders political institutions and empowers some interests to the detriment of others. In this way, through structural adjustment of the economy, privatization effectively reorders domestic interests in favor of those who support globalization. In this way privatization and globalization become mutually implicating processes.

To reorder political institutions and empower actors, privatization seeks to encourage the private sector to expand into traditional areas of the public sector. Toward this end privatization has four specific objectives. First, the government can transfer areas of responsibility from the public to the private sector through the sale of public assets. Second, the government can establish user fees: by charging individual consumers for goods that the public sector still provides, user fees allow the state to privatize the financial costs of the provision of the good or service while maintaining control over its dispensation. Third, the state can contract out the provision of a public good by hiring private contractors to perform the public service. Finally, the state can privatize the provision of public goods and services by creating a private market: through legislative and regulatory means such as revising or removing the statutory protection of monopolies like utility companies, governments can create competition by lowering the barriers to other firms’ entry to the market.

Each of these options represents both a different degree of private-sector involvement in the provision of public goods, and a different degree of integration into transnational markets. Ramanadham characterizes the objectives of privatization by the degree to which the state remains involved in the provision of the public good. Privatization strategies that affect ownership structure, such as asset sales, reduce public control of the provision of public goods and hence increase the transnational nature of

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8Feigenbaum and Henig 2.
9Feigenbaum and Henig 191.
10Braddon and Foster 3-4.
industries. Changes in the organization of public management, such as contracting out and the breakup of "natural" monopolies, maintain a greater degree of public control over the private sector’s provision of public goods, and lessen the impact of global markets. The new operational modalities of privatization policies, such as criteria for managerial performance and requirements that public companies raise capital in private markets, may also preserve public control and oversight but will increase the cross-border integration of the privatized industry. Moderate privatization policies such as these preserve the state’s role in the provision of public goods and do not transfer ownership rights. For this reason, some strategies of privatization require greater involvement from the public sector and a greater degree of transnational integration, than others do. Even after privatization the state remains involved: the process remains a fundamentally political one, despite the pressures of global markets. The key to understanding the impact of globalization therefore is to identify the privatization strategies a state pursue.

Much as with other phenomena of globalization, those who benefit from privatization’s reordering of political institutions and responsibilities often obfuscate its political effects by touting its economic benefits. Feigenbaum and Henig note that neoclassical economics "dictates the retraction of a bulky, intrusive and parasitic welfare state." Such macroeconomic models demonstrate that the economy at large cannot sustain growth when the public sector becomes too large and intrusive. Microeconomic models likewise show that public firms are inefficient because they make investment and production decisions on non-economic criteria—not the least of which are the interests of politicians, bureaucrats, interest groups, or the state itself. Because neoclassical economics challenges the efficiency of the public sector, advocates of the policy of privatization often equate gains in efficiency with gains in social welfare. They favor privatization because it will improve productivity, lower prices, and increase the return on capital. This focus on criteria of economic efficiency, however, obscures the conflicting interests of political groups who will benefit from or be hurt by the policy of privatization. For many societal actors, efficiency is not the most important criterion of a policy; it may be full employment, preserving national control over important assets, or other non-economic objectives.

These conflicting interests arise because of the differential political effects of privatization policies. Joel Wolfe argues that privatization undermines the political power of labor groups by disaggregating contract negotiations from the national to the firm level. When combined with the deregulation of labor markets, privatization policies force a decentralization in collective bargaining that undermines the cohesiveness of labor as a single interest group. In this way the state can enhance its own power and autonomy: by disaggregating the means through which classes represent their interests,

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12 Feigenbaum and Henig 188-9.
14 Feigenbaum and Henig 190.
the scope of their influence over national policy will diminish.\textsuperscript{15} Furthermore, because capital does not require coordination or centralization to represent its interests, privatization disadvantages labor more than it does capital. This differential effect therefore reorganizes interest representation and enhances the power of the state.\textsuperscript{16} Ironically, in contrast to the neoliberal thesis of the retreat of the state, the process of privatization and the integration of national industrial sectors into global markets may strengthen the state relative to societal actors rather than weaken it.

Since privatization has political consequences, privatization policies can be characterized by the interests of political actors in a society. Feigenbaum and Henig develop a typology of privatization strategies that delineates privatizations according to, first, the motives of key actors in the privatization process and, second, the political consequences of privatizations. They identify three types of privatization strategies: pragmatic, tactical and systemic. The state often pursues \textit{pragmatic} privatizations to solve short-term policy problems such as immediate budgetary pressures. Feigenbaum and Henig find that pragmatic privatizations often are superficially depoliticized because they are in response to technical aspects of governance, such as budgetary shortfalls or the state’s short-term inability to provide services. For these reasons, in policy debates over pragmatic privatizations, state and private sector actors tend to disguise their political interests in technocratic, apolitical terms.\textsuperscript{17}

By contrast, \textit{tactical} privatizations tend to be highly political. State actors may privatize public sector assets or services in order to achieve short-term political benefits. These actors may gain from tactical privatization decisions when such policies appeal to specific interest groups, voter groups, or political supporters. Feigenbaum and Henig also note that tactical privatizations can neutralize short-term opposition to longer-term privatization projects: by providing side payments such as discount shares to labor and corporate managers, the state can minimize these groups’ opposition to a broader policy of privatization. In these ways state actors use the privatization of public assets and services to maximize temporary support of traditional constituents while minimizing the opposition of traditional political opponents.\textsuperscript{18}

State actors pursue \textit{systemic} privatizations to alter permanently the patterns of interest group support for and opposition to their broad policy agendas. Feigenbaum and Henig identify three ways in which privatization permanently alters patterns of interest articulation. First, privatization permanently dilutes the political power of working classes relative to the power of organized elites. Second, privatization slowly changes the active public’s values, culture and expectations about the appropriate balance of public and private ownership in a society. In this sense, privatization allows the state to delegitimize its role in many industrial sectors. Finally and most important, privatization restructures institutional arrangements "so that the array of incentives presented to individuals and

\textsuperscript{16}Wolfe 12.
\textsuperscript{17}Feigenbaum and Henig 193-196.
\textsuperscript{18}Feigenbaum and Henig 196-200.
groups encourages a greater reliance on private and market-oriented solutions."^{19} By altering both the expectations of actors and the institutions through which they express interests, systemic privatizations permanently enhance the state’s power relative to some interest groups. These shifts in state’s power and capacity should be the basis on which analysts distinguish between types of privatizations that states pursue in the face of the pressures of global markets.^{20}

While the changing structure of state and interest group power offers a typology of privatization, other authors identify different variables that may explain why the state privatizes public assets and services. The role of the state, the role and nature of markets, the concept and definition of welfare, the internationalization of social values, and post-industrial globalization of industries may also explain why states choose to privatize certain industries.^{21} The Feigenbaum-Henig typology acknowledges the significance of the role of the state, social conceptions of welfare, and international factors in privatization. Because it is a typology that looks at motivations, however, it does not purport to explain when and why privatization will and will not occur. The role and nature of markets and globalization of industries can help identify a number of constraints that state actors may face when pursuing pragmatic, tactical or systemic privatizations. For example, domestic capital markets can impede privatization if they cannot generate sufficient capital to purchase government assets. The nature of the public good itself can influence privatization strategies. When privatizing natural monopolies such as electric and water utilities, for example, state actors cannot create the economic efficiencies that often are the stated rationale for the transfer of assets and services to the private sector. For these reasons, the role and nature of both markets and industries can help explain why state actors pursue pragmatic, tactical or systemic privatization policies.

Market characteristics are unique for both individual nations as well as for individual public goods. For this reason, to explain patterns of defense industry privatization in Britain and France, this paper first examines the unique nature of British and French privatization strategies. Then it examines unique aspects of the political economy of national security in a world of global markets that may pose challenges to privatization strategies.

Two Halves of the Same Walnut: Privatization Politics in France

In France, the state’s privatization decisions in the 1980s did not overturn its strong tradition of dirigisme: in fact, nationalization and privatization in France are "two halves of the same walnut."^{22}

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^{19}Feigenbaum and Henig 200-202.
^{20}Feigenbaum and Henig 207.
France’s history as a late industrializer has left the country with both a strong statist tradition in economic planning and broad societal support for étatisme. Despite this history, however, President Valery Giscard d’Estang first called for a reduction of state involvement in the private sector after his election in 1974. Giscard d’Estang found little support for his plans to roll back the state, and the Socialist victory in the 1981 elections appeared to strengthen the state’s involvement in the private sector. After the elections, President François Mitterand nationalized five industrial corporations and strengthened the state’s control of industrial development in France. Nonetheless, the economic crisis in 1981 led Mitterand’s socialist government to seek new ideas for economic stimuli. The result was Mitterand’s compromise policy of “ni-ni”—neither new privatizations nor new nationalizations of French companies. In 1983, however, the government quietly allowed the sale to the public of nonvoting shares in state-owned corporations. By 1986, the National Assembly under Conservative Prime Minister Jacques Chirac approved the state’s divestiture of a number of nationalized companies. Privatization policies of the left and the right began to converge.

This convergence resulted from France’s precarious economic situation in the post-Bretton Woods global economy. During the deep recession of 1982, the Mitterand government could not undertake Keynesian stimulation of the economy because its inflationary effects tended to undermine capital formation. Keynesian stimuli also undermined France’s balance of payments, since the slowness with which French industry tended to respond to demand increases usually led to import substitution rather than a growth in domestic production. Due to increasingly liberalized and global capital markets, furthermore, the falling profitability of French industry discouraged capital investment in France and stimulated capital flight. The Mitterand government had little choice but to implement an austerity program, one which would severely constrain the state’s ability to finance nationalized corporations during hard times. Privatization was not a cure-all policy, however: France’s traditionally underdeveloped capital markets meant foreign investors were likely to invest heavily in privatized industry, an outcome which no French government dared to present to France’s voters. In the era of global markets, privatization would require a continued active state role to correct for shallow French capital markets.

These domestic and international constraints forced a convergence of the French left and right around the policy of privatization. But this convergence affected the parties of the left and right differently. The Socialists pursued pragmatic privatization policies that aimed to ease the government’s spending requirements during the recessions of the early 1980s. These Socialist policies of decentralization, deregulation and modernization of France’s industries deprived the Conservatives of an important electoral issue on which to challenge the Mitterand government. The moderation of the Socialist party therefore forced the Conservatives to adopt privatization as a tactical political issue. Since the Socialists and Conservatives disagreed over few practical aspects of government management

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2Feigenbaum 1989, 91-96.
26Feigenbaum 1989, 97.
of industrial modernization, the Conservatives adopted privatization as a key electoral issue with which to differentiate their agenda from that of the Socialists.\textsuperscript{27} Whereas the Socialists adopted pragmatic privatization strategies, by 1986 the Conservatives adopted tactical privatization strategies designed to win electoral support.

When the Conservatives gained control of the National Assembly in 1986, Chirac initiated the privatization policies that rewarded political allies. Greatly influenced by the success of Margaret Thatcher’s privatization program in the United Kingdom, the French Conservatives justified their privatization strategies on the grounds that government direction of industry was inherently inefficient and economically wasteful. In practice, however, the Chirac privatizations did not clearly enhance economic efficiency, as the neoliberal model of globalization suggests they should have. Feigenbaum notes that French public firms often outperform private-sector ones: there is no correlation between ownership structure and the economic performance of French firms. The Chirac government privatized, furthermore, only healthy state enterprises: not only is this a tacit acknowledgment that the private sector will not heal ailing public firms, but it also demonstrates that the burden of public enterprise on the national treasury was at best a secondary objective of policy.\textsuperscript{28} The demands of global markets therefore seemed less important than the domestic political objectives of the Conservative Party in France.

Ultimately, the Chirac government’s tactical privatizations amounted to the sale of underpriced state assets to political allies of the Conservative Party. Because of France’s shallow capital markets, the Chirac government imposed a 20 percent limit on foreign ownership of equity from privatized companies, and established the noyaux durs—literally, a "hard core" of French investors—which the Conservatives believed would prevent foreign control of French industries. In practice, however, the Chirac government sold shares at five to 20 percent below market value in order to form the noyaux durs. Many of the recipients of these discounted shares were friends of Jacques Chirac’s RPR conservative party.\textsuperscript{29} When combined with patterns of cross-ownership among large French firms, the Chirac privatizations created new structural links across industries which centralized private control of French industry in the hands of conservative party supporters.\textsuperscript{30}

When a coalition of Socialists and Communists formed a new government after the elections of May 1997, Prime Minister Lionel Jospin confirmed his government would uphold his campaign pledge to stop further privatizations. After canceling the privatization of France Telecom and defense electronics firm Thomson-CSF, however, Jospin’s government quickly moderated its position on privatization. Noting the serious nature of public finance in France and the impending budgetary demands of monetary union, the government coalition moderated its ideological opposition to privatization within two months of taking office. Jospin’s government soon announced a policy of partial

\textsuperscript{27}Feigenbaum 1989, 69-70.
\textsuperscript{28}Feigenbaum 1993, 72-73.
\textsuperscript{29}Feigenbaum 1993, 67-74.
\textsuperscript{30}Feigenbaum 1993, 79.
divestiture that became known as *mi-mi* or "half-and-half"—a far cry from the *ni-ni* policy of Mitterand.\(^3\)\(^1\)

This partial privatization strategy was a tactical policy designed to meet the competing demands of Jospin’s coalition partners on the one hand, and of monetary union and European allies on the other. Indeed, Jospin’s government refused to call his policy a "privatization;" instead it was an "opening of capital."\(^3\)\(^2\) Hence French privatization policies had come full circle. What began as the Socialists’ pragmatic privatization of French industry in the 1980s became the Conservatives tactical privatizations to reward political allies. By 1997 the policy had reverted to the Socialists’ pragmatic privatization strategy.

*The Dead Hand of Whitehall: Privatization Politics in Great Britain*

After the defeat of the Labour government of James Callaghan in 1979, the Conservative government of Margaret Thatcher reversed a policy of public enterprise that had been a cornerstone of bipartisan compromise in Britain during the postwar years. The Thatcher critique of public enterprise had three dimensions. Foremost, it sought to free British industry from the "dead hand of Whitehall"—the political interference and non-economic influences that undermined the efficiency of the British macroeconomy.\(^3\)\(^3\) This ideological critique overturned the Conservatives’ traditional willingness to tolerate the status quo between the public and private sectors despite their ideological opposition.\(^3\)\(^4\) Thatcher’s economic critique complemented this ideological challenge to Britain’s tradition of public enterprise. Thatcher argued that the financial demands of the public sector caused an increase in the Public Sector Borrowing Requirement (PSBR) that was inherently inflationary. Because the taxes used to finance the PSBR diverted resources away from the private sector, the costs of public enterprise crowded out private investment. Government financial support for the public sector also stifled innovation and the profit motive, thus creating a cycle of declining efficiency, falling profits, increased government financial support and inflation.\(^3\)\(^5\) By selling public assets, the Thatcher government argued that privatization would decrease inflation, make more private sector income available for investment, decrease pressure on the PSBR, and raise government revenues that would allow tax reductions.\(^3\)\(^6\) Finally, the Thatcher critique focused on the impact of state ownership on industrial relations in the United Kingdom. According to Thatcher and Sir Keith Joseph, who

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\(^3\)\(^5\) Pendleton and Winterton 1993b, 9.

\(^3\)\(^6\) Ramanadham 11-20.
formulated much of the government’s privatization policies, the state’s historical practice of being a
"good employer" artificially inflated the ranks of unions in Britain and encouraged multiunionism, both
of which they argued were inflationary. Furthermore, Joseph argued that because unions were too
powerful, managers of state enterprises tended to run industries in the interests of their workers rather
than in the interests of the firm’s profitability or the public’s interest. Hence unions were able to secure
wage increases that were unrelated to the firm’s performance or to labor’s productivity.37 Because
unions in state enterprises garnered inflationary wage increases while stifling the productive efficiency
of state firms, Thatcher and Joseph sought to reorder industrial relations in order to reduce the bargaining
power of labor.

Wolfe argues that the Thatcher privatization program sought to alter fundamentally the power of
British unions. He notes that privatization promotes value orientations that enhance the power of
managerial and state authorities. It also enhances state power by instituting modes of social and political
control that are impersonal, decentralized and preclusive but that are structured and regulated by the
state. This reordering of labor and capital relations in Britain favors owners of capital because the
bargaining power of labor becomes disaggregated.38 While labor requires centralization for effective
representation of its interests, capital does not. For this reason, Wolfe argues that "[privatization’s] ultimate purpose is to limit the type, number and frequency of inputs that threaten the system."39
Thatcher’s privatization program therefore was more than merely an economic, ideological, or industrial
relations challenge to the status quo. It was a strategic policy designed to alter fundamentally the pattern
interest intermediation in Great Britain. It was a systemic privatization of the first order.

Few Conservative policies better characterize this systemic attack on interest representation than
Thatcher’s goal of "popular capitalism." In its 1987 party manifesto, the Tories explicitly made
widespread share ownership an objective of its economic programs.40 Thatcher argued that privatization
would create widespread share holding in newly privatized companies, generating popular support for
private sector solutions to national economic problems. More fundamentally, however, Thatcher
believed popular capitalism would reduce popular support for trade unionism in Britain.41 In this way,
popular capitalism would fundamentally change the traditional constituency of the Labour Party so that
the British public would be more supportive of the private sector approaches to public goods that the
Conservative party favors.

The irony of the Thatcher critique is that, in practice, it has led not to a diminution of state
participation in the macroeconomy but rather an increase in it.42 Thatcher required a strong and activist
state to undertake systemic privatization. In practice, this meant the government often intervened in

37Pendleton and Winterton 1993b, 9-10.
38Wolfe 10-12.
39Wolfe 12.
40Hatch 61
41Pendleton and Winterton 1993b, 11-12.
labor disputes not to intermediate but to stiffen the resolve of management. The government also established new rules of collective bargaining that disaggregated the power of labor from the national to the firm level. Despite these measures, however, the historical record does not support Margaret Thatcher’s economic critique of public enterprise. Though the Thatcher government sold 17 major companies and some companies did become profitable, nationalized industries outperformed privatized ones (in terms of annual changes in output per person) from the mid 1980s onward. Popular capitalism, furthermore, never really occurred: most purchasers of initial public offerings of state-owned firms sought short-term profit-taking rather than long-term portfolio holdings. Thatcher’s privatization program was only successful in its disaggregation of labor’s political power. For this reason, privatization politics in Britain have been systemic in nature and in consequence. This systematic policy required a stronger state to intervene in and manage the economy in order to restructure domestic interests.

Globalization and the Privatization of Defense Industries

Defense spending remains one of the largest areas of public sector expenditure, albeit one that has declined since 1990. As a public good, the defense industrial base has some technical characteristics that make the privatization of industrial assets and services different from other types of privatizations. The nature of demand is the most important unique feature. Because the state is the sole consumer of goods produced by defense manufacturers, the monopsonistic market tends to have high barriers to market entry that arise from "life-critical" standards for military goods and from security requirements for development and manufacture. The defense market also tends to have low incentives for efficiency and innovation. The economic inefficiencies that arise from these demand-side characteristics create tension between competing public interests of economic efficiency and national autonomy in defense manufacturing.

Though the state as monopsonist has distorting effects on the economics of national security, supply-side characteristics of defense technology dictate the continued involvement of the state in defense industries. Firms in the defense sector face investment disincentives that arise from the public nature of defense goods. Ethan Kapstein argues that defense technologies create social benefits that are greater than the private benefits of the good: because firms cannot capture the full rents of their investments in defense technologies, they will tend to underinvest in defense research and

43Pendleton and Winterton 1993b, 12.
44Pendleton and Winterton 1993a, 236.
46Pendleton and Winterton 1993b, 12.
development. This market failure requires the state’s active involvement in the research, development and manufacture of defense systems.

Monopsony and investment disincetives create a difficult market for defense firms. Their dependence on a sole customer makes their profitability dependent on the cycles of government budgets. These defense budgets in turn respond quickly to changes in the international system, making strategic planning and long-term growth very uncertain for defense industries. Today, increasing research and development costs and falling defense budgets exacerbate the uncertain investment climate for defense industries. With the end of the Cold War, defense firms today face systemically lower levels of defense spending: as a percentage of central government expenditures, French military expenditures fell from 9.1 percent in 1987 to 7.2 percent in 1994. British military expenditures fell even further, from 12.8 percent of central government expenditures in 1984 to 8.0 percent a decade later. Facing such uncertainty in government procurement, defense firms tend to underinvest in new plants, new equipment, and the training of labor. This undercapitalization of the defense industry in turn decreases the industry’s competitiveness in commercial markets, making it difficult for defense firms to minimize their exposure to revenue cycles through diversification.

In today’s global business environment, defense industries have pursued two strategies: seek export markets to provide counter-cyclical revenue stability, and integrate civilian and military research and development to leverage costs and risks. Today, only the United States can afford to develop and produce weapons systems entirely in a domestic defense industrial base. The defense industries of every other state in the world require foreign partners to leverage risks and amortize costs associated with military research and development. While exports of weapons can improve economies of scale, intense global competition in arms markets has compelled many weapons manufacturers to offer the transfer of military technologies as a means of prying open export markets. This shift in market power from the supplier to the buyer fundamentally alters teaming relationships: it requires supplier

49Kapstein 93.
51Kapstein 94-97.
53Although the European Union has developed community-wide markets that may be considered "domestic," both the absence of a common European security and defense policy and the exemption of defense industries from the provisions of the Treaty of Rome suggest that there is no European-wide defense industrial base equivalent to that of the United States.
55Keller 119-120.
governments to deregulate both technology transfer rules and foreign investment regulations. This deregulation in turn has transferred control of military technology from the public to the private sector.56 With this loss of public control, the transnational military production base creates market structures and incentives that governments can no longer regulate and that have become self-reproducing. Whereas market imperatives once forced the state to minimize investment disincentives, today’s global defense industrial base and falling national procurement budgets have hastened the state’s retreat.

Both France and Britain first felt this globalization pinch as early as the late 1960s. After restoring their domestic defense industries after World War II, the governments of France and Great Britain slowed their imports of mostly U.S. weapons and, by 1960, began importing U.S. process technology in order to produce their own weapons. As licensed production of U.S. systems grew in Europe, the French and British governments started paying a substantial premium in both the costs and performance of weapons in order to subsidize their domestic defense industries.57 They could not sustain these costs, however. By the late 1960s European governments pursued three policies to strengthen their indigenous defense industries. First, in the absence of a cohesive, single European defense market, governments in France, Britain and Germany encouraged the consolidation of industries into "national champions" that would provide better economies of scale.58 Second, European governments began collaborating together on the development and production of the most costly weapons like fighter aircraft. Third, European governments actively sought export markets for their goods to provide a larger production base over which to amortize developmental costs.59 A leading French defense official noted in 1991 that "If you want to be able to afford to make your own weapons, you have to be able to sell them [abroad]."60 In this sense, the changing nature of defense technologies has created economic incentives for the transnationalization of defense manufacture and consumption.

These policies have had long-term implications for state ownership of British and French defense firms. A dilemma of international collaboration is that national weapons development depends on the capital markets of the other partners. If partner companies cannot attract sufficient investment, collaborative development will falter. For this reason, the trend toward international collaborative development has encouraged European states to privatize defense industries in order to provide easier access to capital markets. The rationalization of French and British defense industry has required, furthermore, new relationships between private sector firms and state-owned manufacturers. In return for their support of state-directed industrial consolidation, French and British defense industries have sought concessions from their governments that in effect have forced the privatization of defense industries. State enterprise in the defense sector has come full circle in both countries: whereas national security once dictated state ownership, the evolving global market and rising developmental costs have

58Article 232 of the Treaty of Rome exempts European Union members’ defense industries from the competition and standardization provisions of the Treaty and from oversight by the European Commission.
59Kapstein 116.
60Keller, endnote 17, pp. 17.
forced the British and French governments to privatize defense industries. Each state has responded, however, with different privatization strategies.

_Defense Industry Privatization in Britain: British Aerospace and Rolls-Royce_

The Thatcher government sold state holdings in two leading defense companies, British Aerospace and Rolls-Royce, as part of its broad policy of privatization. While this broad privatization policy was a systemic strategy to permanently reorder interest representation in Britain, both the defense product cycle as well as pressures on defense spending explains why the British government chose to privatize specific defense firms.

The history of British Aerospace’s privatization suggests that the Thatcher government had systemic rather than pragmatic or tactical objectives. British Aerospace, or BAe, is an amalgam of the British Aircraft Corporation and the Hawker Siddeley Group, both of which emerged during the 1950s from the consolidation of 11 British aircraft manufacturers. When in 1977 British Aircraft Corporation and Hawker Siddeley merged to become BAe, the Callaghan government nationalized the new company. In 1981, the Thatcher government sold a portion of its holdings of BAe stock, and sold the remainder of its 48 percent holdings in 1985 at a rate discounted five percent from market value. In the final offering, however, the Thatcher government announced that the government would retain a "special share" of 25 percent of the company’s public offering to prevent foreign ownership of BAe. The Thatcher government also limited individual investor or institutional holdings of BAe stock to no more than 10 percent of the total offering. Clearly the government designed the 1985 public offering to raise capital for British Aerospace without risking a loss of national control over the defense firm.

Rolls-Royce, the British manufacturer of aircraft engines, has a history that parallels that of BAe. Rolls-Royce also was the product of industrial consolidation of the 1960s. The Conservative government of Edward Heath nationalized the company in 1971 after its financial collapse during the costly development of a commercial aircraft engine. In 1987 the Thatcher government sold its holdings in Rolls-Royce with the same restrictions that accompanied BAe’s privatization: the government retained a "golden" share and limited foreign ownership to 15 percent of the offering. The Thatcher government also agreed to write off over $500 million in Rolls’ debt to stimulate investor subscription.

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64 Campbell 57-60.
to the offering.\textsuperscript{66}

Interestingly, the financial performance of BAe and Rolls-Royce before and after privatization suggests that privatization had little effect on the companies’ profitability or employment. BAe was profitable from 1983 to privatization in 1985, and experienced only one money-losing year between 1985 and 1991. Likewise, Rolls-Royce was profitable three out of the four years prior to privatization and has experienced only one losing year since 1987. Employment levels at both BAe and Rolls-Royce grew after privatization and have remained above their levels during national ownership.\textsuperscript{67} The continuity of employment levels and profitability before and after privatization indicates that BAe and Rolls-Royce were neither poorly run under state ownership nor more efficient under private ownership. This is consistent with findings that Rolls-Royce (but not British Aerospace) had greater labor and total factor productivity under public ownership than when privatized.\textsuperscript{68}

The cases of British Aerospace and Rolls-Royce show that defense industry privatizations under the Thatcher government produced neither the purported gains in economic efficiency nor freedom from government control that neoliberal globalization theorists suggest should occur. Though Conservatives criticized the power of labor, the growth in employment at British Aerospace and Rolls Royce suggests that defense industry managers did not clash with unions as they did in other non-defense industrial sectors. Furthermore, the government’s willingness to write off Rolls-Royce’s debt indicates that PSBR concerns were secondary to the government’s ideological objectives. Privatization in practice disproved the economic and industrial relations critiques leveled by Conservatives. Rather, the state sought to reorganization interest intermediation within Britain. The objectives of defense industry privatization were therefore political, not economic. These objectives included the restructuring of labor relations in Britain so that British defense firms could attract foreign capital.

\textit{Defense Industry Privatization in France: Aerospatiale and Thomson-CSF}

Prior to the 1997 elections, President Jacques Chirac and Prime Minister Alain Juppé planned to use the privatization of defense-electronics manufacturer Thomson-CSF and aircraft manufacturer Aerospatiale to reward the Conservative Party’s political allies. Unlike the broad restructuring of domestic interests that Thatcher pursued, the French conservatives’ privatizations clearly were tactical. Like the British case, however, French privatization of defense industries were fundamentally political rather than economic because they sought to reward political supporters of the conservative party. Whereas Thatcher sought to reorder interests to favor those who supported neoliberal markets, Chirac

\textsuperscript{66} "Rolls-Royce Plans Write-Off Before Sale to Private Investors," \textit{Aviation Week and Space Technology} v. 123 (December 2, 1985) p. 195.


and Juppé sought to favor those who supported his party. Despite the cohabitation of Socialists and Conservatives in power after the 1986 election, President Mitterand’s policy of "ni-ni" (neither privatization nor new nationalizations) gradually changed during 1991.\(^6\) With the election of Jacques Chirac to the presidency in 1995, the Conservative party’s privatization plans faced few remaining obstacles.

In early 1996, Chirac outlined his plans to privatize state-owned defense electronics manufacturer Thomson-CSF and to merge state-owned Aerospatiale with privately held Dassault Aviation.\(^7\) As with British privatizations of defense firms, the Chirac government’s purported liberalism belies the degree of \(étatisme\) it displayed. For the Thomson privatization, Chirac announced two conditions: foreign ownership of Thomson stock would be limited, and Thomson SA would be sold in its entirety rather than in parts. Chirac stipulated this latter condition to assure that private owners of Thomson would not sell off its unprofitable commercial electronics business from its highly profitable defense electronics group, Thomson-CSF.\(^8\) To accomplish this, the Chirac government selected a "trade sale" in which it planned to sell its entire interest to a private French corporation rather than a public flotation of the company’s stock. The government announced that in the interests of the rationalization of defense industries, it would sell Thomson to one of two competing private electronics corporations: Alcatel Alsthom or the Lagardère group.\(^9\)

When the government selected Lagardère to purchase its 77 percent holdings in Thomson, the multimedia conglomerate immediately announced its intention to sell the loss-making consumer electronics subsidiary to Daewoo of the Republic of Korea. Socialist party opposition and public outcry prompted the autonomous Privatization Committee to reject the plan in December 1996.\(^10\) The Conservative government launched a second privatization plan, this time only for the defense electronics subsidiary—the state planned to retain ownership of the consumer electronics group and provide a $1.9 billion cash infusion.\(^11\) The government also planned to retain a "golden share" allowing it a veto over transactions involving 10 percent or more of the voting rights.\(^12\) Again it announced a trade sale and invited bids from Alcatel-Alsthom and the Lagardère Group. It also invited the General Electric Company (GEC), Britain’s largest manufacturing group, to participate in the bids for privatization, an invitation it quickly revoked citing national security concerns after the French press expressed hostility to the idea.\(^13\)

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The Chirac privatization plans clearly were tactical in nature. In the abortive first competition for Thomson, the government selected the Lagardère group, whose chairman Jean-Luc Lagardère is a long-time supporter of Chirac’s RPR party. The government has also used its control of Thomson and Aerospatiale to place supporters in control of both companies. Long-time chairman Alain Gomez of Thomson-CSF resigned after the announced privatization plan; the Chirac cabinet replaced him with Thierry Bréton, who oversaw the government’s privatization of computer manufacturer Bull. Despite Serge Dassault’s initial opposition to his company’s merger with Aerospatiale, the Chirac government provided him with a side payment—a lucrative contract that the French military had resisted. This is the second time that the Dassault family has profited from privatization: the family joined the Merieux family to become the *noyaux durs* for the privatization of chemicals manufacturer Rhone-Poulenc. These practices demonstrate that the privatizations of Aerospatiale and Dassault systematically rewarded supporters of the Chirac government.

Before the Chirac government could complete its privatizations, however, the parliamentary elections of 1997 intervened. Held during the last week of May, the polling resulted in a surprising return to power of a coalition government headed by Socialist Lionel Jospin, initiating a period of cohabitation with Chirac. Having campaigned on a promise to stop the Conservative’s privatizations of state-owned firms, Jospin’s government immediately announced the cancellation of the Thomson-CSF float as well as a planned float for France Telecom—in effect returning to Mitterand’s *ni-ni* policy. Nevertheless, within a month of taking office, Jospin’s government publicly acknowledged that the state’s finances were in a serious condition, particularly with the budgetary criteria of monetary union looming. By the fall, the Socialist-Communist government announced it would pursue a pragmatic approach to privatization. The following spring, Jospin’s government reduced its holding in Thomson-CSF to around 47 percent in order to encourage a market-led consolidation of France’s defense electronics industry. In April 1998 the government announced it would "open the capital" of Thomson by selling the company to private firms Alcatel-Alstom and Dassault Aviation. That summer a further issue of Thomson stock reduced the government’s holdings to around 43 percent; by year’s end reports in European newspapers suggested that Jospin’s government was considering reducing its Thomson holdings even further, perhaps to as little as 10 percent in order to facilitate a international consolidation of European defense electronics firms. Nevertheless, the government has continued to maintain a sizeable minority holding in the Thomson successor companies.

Jospin’s government underwent a similar transition from ideological opposition to pragmatic support of the privatization of Aerospatiale. Immediately after the May 1997 elections, Jospin’s government confirmed its opposition to the planned float of the state’s share of Aerospatiale. This

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opposition posed the possibility, however, of impeding transnational rationalization of European defense industries. The conservative government had planned to merge Aerospatiale with Dassault Aviation, the majority of which was privately owned. However Serge Dassault, the company head and patriarch, opposed any such merger until Aerospatiale was privately held. Likewise, potential European merger partners like British Aerospace and Daimler-Benz Aerospace pressured the French government to relinquish its holdings in Aerospatiale. Along with the continued opposition to privatization of the coalition government’s Communist partners, this pressure from Dassault and British and German industries placed Jospin in a difficult bind. The result was a tactical privatization in which the French government would maintain a substantial but minority stake in Aerospatiale. In March 1998, the government announced it was opening Aerospatiale’s capital to private investors, but was unclear how much it would reduce its holdings. In June 1998 the government stated it would retain a majority stake, but a month later reversed itself. When announcing the sale of Aerospatiale to the privately held Lagardère group, the government said it would reduce its holding to around 46 to 48 percent. To satisfy France’s European partners, the government continued to hint that it would reduce its Aerospatiale holdings further in the interests of rationalization of the European Union’s defense industries. Aerospatiale completed its merger with Lagardère’s Matra division in February 1999. The following October Aerospatiale Matra merged with its German counterpart, DaimlerChrysler Aerospace, to form the European Aeronautic, Defence and Space Company (EADS). The French government’s residual holdings in the new company fell to around 15 percent.

These reversals in the privatization policies of the Socialist-Communist governing coalition of Lionel Jospin surprised many observers. Britain’s stodgy Financial Times concluded that "...more has been privatised by [Jospin’s] government than by the previous Juppé administration, which was openly committed to the process. And it has been achieved in half the time." Jospin’s government maintained, however, substantial minority holdings in both privatized Thomson-CSF and in Aerospatiale. This represented a substantial departure from the privatization policies of the conservative government of Jacques Chirac and Alain Juppé.

What explains this peculiar outcome of partial privatization by a Socialist-Communist coalition that was ideologically opposed to the state’s divestiture of its defense industry holdings? The answer lies in the peculiar configuration of the pressures of transnational defense industries and domestic

84 Jim Hoagland of the Washington Post quipped "Remember the scene in ‘Dumbo’ when the crows find the baby elephant stuck high in a tree and snidely chortle at the idea he flew there? I’ve seen a horse fly, and I’ve seen a house fly, but I will have done seen everything when I see an elephant fly, one of them jibes. . . . That’s me right now. What is left to see after watching the French Socialist government and its highly protectionist arms industry cheerfully open up to greater roles for private enterprise and for trans-Atlantic cooperation in the manufacturing and selling of advanced weapons systems?" Jim Hoagland, "Global Riddle: Who Is ‘Us,’ Who Is ‘Them’?" The Washington Post, October 24, 1999, p. B07.
institutions. Two transnational pressures forced Jospin’s government into a pragmatic privatization policy designed to alleviate immediate political problems. One was the pressing need to reduce state spending and raise state revenues in order for France to meet the budgetary criteria of monetary union. The other was the public pressure for privatization that both governments in London and Bonn, and British and German defense industry, placed on France to sell its holdings in order to facilitate transnational rationalization of European defense industries. But the necessities of governing a left coalition that included the Communists meant that Jospin had little room for maneuver. He consequently chose the mi-mi strategy in which the French state maintained sizeable minority holdings. In this sense, France’s Parliamentary institutions—and particularly its proportional representation electoral system that led to a coalition government—weakened Jospin’s state to the point it was incapable of resisting the demands of French labor groups. The result was the pragmatic strategy of partial privatizations of Thomson-CSF and Aerospatiale.

Conclusions: The Weak But Strong State

Defense industry privatization in Britain and France demonstrates a paradox of globalization. While global markets may demand the state’s retreat from domestic markets and industry, to do so the state must remain strong relative to societal actors. This is necessary because the state must restructure domestic interests so that those who support globalization (usually owners of capital) triumph while those who oppose it (usually labor) lose out. For the globalization of markets to succeed, the state must be strong. In this sense, neoliberals like Ohmae mischaracterize the role of the state. It remains an active participant in the process of restructuring the domestic economy so that it becomes a component of transnational patterns of distribution, production and consumption. Cox appropriately called this the "internationalization of the state": a conversion of the state "into an agency for adjusting national economic practices and policies to the perceived exigencies of the global economy."86 Such a state must remain strong relative to societal actors.

For this reason, to understand the impact of globalization on the state, one must look at state-level variables such as issue areas, parties, and institutions. All these variables affect the degree of the state’s independence from societal actors. The cases of defense industry privatization in Britain and France demonstrate in particular the importance of institutional factors in intermediating the impacts of globalization on the nation-state. In Britain, the Westminster parliamentary system, coupled with plurality voting rules, produces majority governments that are strong relative to societal groups. For this reason, an ideologically motivated government like that of Margaret Thatcher is capable of the most systematic of privatization policies, in which the very patterns of interest representation among societal groups is fundamentally changed. By contrast, France’s proportional representation may produce policy vacillations and cycles. Prior to 1997, the conservative government enjoyed control of both Parliament and the Presidency, resulting in a privatization policy best characterized as a tactical policy to reward

political supporters. After the May 1997 elections yielded no majority party, the coalition government of Socialists and Communists was weak relative to motivated societal actors like organized labor. The result was partial privatization of defense industries with the state retaining a substantial minority holding. State institutions best explain this pattern of defense industry privatization that occurred in Britain and France.

The role of institutions also illuminates the ownership strategies that the Thatcher, Chirac, and Jospin governments pursued in their privatizations of defense industries. Both the French and British governments retained "golden shares" in their privatized defense firms in the interests of preventing foreign ownership or control. But the ownership structures the respective states established for their privatized firms reflects the role of political institutions. Because the Thatcher government enjoyed a majority in Parliament, it could undertake the highly ideological policy of creating "popular capitalism" that systematically weakened the power of labor groups in British politics. This strategy resulted in a public offering of shares in British Aerospace and Rolls-Royce, including the provision that no one could own more than 10 percent of the common shares of either company. This latter provision ensured Thatcher’s goal of widespread public ownership while preventing foreign control. In France, by contrast, both the Chirac and Jospin governments opted for trade sales instead of public flotation of stock. With a proportional representation system, both governments had an interest in assuring that Aerospatiale and Thomson-CSF were owned by only a few private owners—but for very different reasons. For the Conservatives facing an upcoming election in 1997, this ownership structure enabled the government to reward long-time political allies like Jean-Luc Lagardère and Serge Dassault. For the Socialist-Communist coalition elected in 1997, by contrast, this ownership structure represented a compromise solution for Jospin’s government, caught between preserving a governing coalition with the Communists, meeting the budget requirements of monetary union, and satisfying European allies pushing for transnational rationalization of Europe’s fragmented defense industrial base. By selling Aerospatiale and Thomson-CSF directly to French firms rather than to the public, Jospin could assure his coalition partners that French owners, rather than owners in London, Frankfurt, New York or Tokyo, would determine the fate of French employees.

Two ironies emerge from this analysis. The first is that issue areas may be a less illuminating variable than some analysts suggest. Even in the area of national security, where analysts often argue the state enjoys the greatest independence from societal actors, the state may in fact be unable to resist the demands of societal groups that oppose the processes of market structural adjustment and globalization. This was evident when Chirac quickly withdrew his invitation for Britain’s General Electric Company to bid on Thomson after the French press and public expressed hostility to foreign ownership. The second irony is that states which are "weak" relative to domestic interest groups ironically are the ones that are the "strongest" in the face of the pressures of global markets. Such weak states may be incapable of undertaking the reorientation of domestic interests that global capital demands. This may explain why some Eastern European states have undertaken successful structural adjustment programs while that of Russia remains incomplete.87 Those states that are most independent

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87 McFaul 1995.
from societal actors are the states that can best undertake the restructuring that globalization demands. A state’s domestic weakness is its source of strength in the face of global pressures, while its domestic strength is a prerequisite of the process of creating and maintaining transnational patterns of production, distribution and consumption. In terms of globalization, the strong but weak state is the one in which globalizing forces have the greatest domestic impact. In this respect, analysts of globalization—whether of security or of economics—will benefit from such two-level analyses that utilize both domestic and international variables.89

A final irony is that the "success" of globalization depends upon the institutions of the state. When the state is strong relative to societal actors, it can restructure interests such that the processes of globalization become self-reproducing. Globalization itself is a process of mutually implicating transnational and domestic interests that is intermediated by the state. The state has not retreated, as some globalization theorists suggest. Rather, as the globalization of defense industries demonstrates, strong states often march lock step with both transnational and domestic interests.

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88This line of argument suggests that authoritarian systems will be better able to undertake policies of structural adjustment than democracies will. An extension of this reasoning might be that authoritarian systems might be better able to undertake the restructuring that global markets demand than democracies are, an argument that seems incongruous with observed processes of globalization. The comparative literature on structural adjustment is divided on this question of regime type and structural adjustment, furthermore. Some comparativists argue that democracies may have greater success in structural adjustment than authoritarian regimes. For a review of this literature and a critique of the authoritarian thesis, see Karen L. Remmer, "Democracy and Economic Crisis: The Latin American Experience," World Politics vol. 42, no. 3 (April 1990) p. 315-335.

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