

# Would Keynes Approve of the Nationalisation of French Industries?

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*A Critical Assessment through the Lens of Keynesian Economics*



# Roadmap

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*The theoretical foundations*

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## French Nationalisations — Three Waves

*1936 · 1945 · 1981–82*

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*Conditional approval and caveats*

# I. Keynesian Economics — Core Principles

## Aggregate Demand

Economic output is primarily driven by aggregate demand. Recessions result from demand deficiencies, not from fundamental supply-side failures.

## Role of the State

Government must act as a counterweight in downturns: fiscal stimulus, public investment and, when necessary, direct economic intervention.

## Market Failures

Keynes recognised that private markets fail to provide certain public goods, natural monopolies, and long-term strategic investments.

## Animal Spirits

Investment depends on confidence ("animal spirits"). State ownership can stabilise expectations and smooth volatile private investment cycles.

## II. French Nationalisations — Three Waves

### 1936 Front Populaire

- Léon Blum government
- Société Nationale des Chemins de Fer (SNCF)
- Nationalisation of war industries
- Context: Great Depression, social unrest

### 1945 Post-Liberation

- De Gaulle & National Council of Resistance
- Renault, Banque de France, EDF, GDF
- Air France, major insurance groups
- Context: Reconstruction, national sovereignty

### 1981–82 Mitterrand Wave

- Socialist electoral programme
- 39 industrial groups, 5 major banks
- Thomson, Rhône-Poulenc, Saint-Gobain...
- Context: Economic crisis, left-wing ideology

# III. Keynesian Arguments in Favour of Nationalisation

*"The important thing for government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all."*

— J.M. Keynes, *The End of Laissez-Faire* (1926)

1

## Natural Monopolies & Market Failure

Railways, energy networks, and banking exhibit natural monopoly characteristics. Keynes explicitly supported state control where private competition is inefficient or impossible.

2

## Counter-cyclical Investment

State-owned enterprises can maintain investment during downturns when private firms retrench. This is quintessentially Keynesian: public spending as a stabiliser.

3

## Strategic Economic Coordination

Post-war France needed coordinated reconstruction. Keynes favoured "socialisation of investment" to direct capital towards socially optimal ends.

# 1936 — Front Populaire: Keynes's Likely Verdict

## Economic Context

- Great Depression at its peak
- Mass unemployment across Europe
- Deflationary spiral
- Social unrest & political instability
- General Theory published same year (1936)

## ✓ Keynesian Alignment

### **SNCF:**

Natural monopoly — exactly the type of market failure Keynes identified.

### **War industries:**

Strategic investment beyond private profit motive; national security as public good.

### **Stimulus logic:**

State employment & investment to lift aggregate demand — The General Theory in practice.

### **Counter-cyclical:**

Maintaining output during depression aligns with Keynes's prescriptions perfectly.

# 1945 — Liberation Nationalisations: Keynes's Likely Verdict

## Socialisation of Investment

Keynes explicitly wrote in *The General Theory* (Ch. 24) that "the socialisation of investment" was needed to ensure adequate employment. The scale of post-Liberation reconstruction required exactly such coordination.

## Banking & Credit Control

Nationalising the Banque de France and major credit institutions gave the state control over capital allocation. Keynes strongly believed in managed finance — he had little faith in financial markets' capacity for self-regulation.

## Energy & Transport

EDF, GDF, and SNCF represent textbook natural monopolies with high fixed costs and network effects. For Keynes, these were precisely the domains where private ownership would lead to under-investment or exploitative pricing.

*Overall verdict: Strong Keynesian approval — closest wave to his theoretical prescriptions*

# 1981-82 — Mitterrand Wave: Keynes's Likely Verdict

## ✓ Arguments Keynes Would Support

- Counter-cyclical rationale: 1981 crisis called for state intervention to sustain aggregate demand
- Banking sector nationalisation: consistent with Keynes's view of finance as a public utility
- Industrial strategy: directing investment in strategic sectors (Thomson, Rhône-Poulenc) echoes his "socialisation of investment"
- Avoiding deflationary austerity: the political alternative (tight monetarism) was explicitly anti-Keynesian

## X Where Keynes Would Hesitate

- Ideological overreach: nationalising competitive manufacturing firms (Saint-Gobain) lacks clear market failure justification
- Keynes was not a socialist — he sought to save capitalism, not replace it with state ownership
- Scale & speed: 39 groups in 18 months risked administrative dysfunction and political backlash
- Macroeconomic context: global monetarist turn of 1979-82 undermined any isolated Keynesian experiment

# IV. Systematic Reservations: Keynes Was Not a Statist

## Efficiency & Incentives

Keynes believed in the efficiency of markets for ordinary goods. State ownership of competitive industries risks moral hazard, reduced productivity, and rent-seeking by managers and trade unions.

## The "Fine-Tuning" Illusion

Keynes trusted in macroeconomic adjustment through fiscal policy, not permanent structural nationalisation. He would have preferred temporary intervention rather than irreversible ownership changes.

## Political Economy Problems

Keynes was acutely aware of political cycles. State-owned enterprises, once created, become hard to reform. They can be captured by particularistic interests contradicting the general welfare.

## International Openness

In an open economy, extensive nationalisation creates capital flight risks and international competitiveness problems — precisely what France experienced in 1981–83, ultimately forcing the "tournant de la rigueur."

# V. A Nuanced Verdict

1936

**WOULD  
APPROVE**



*Depression context + natural monopolies + counter-cyclical logic = textbook Keynesian case*

1945

**STRONGLY  
APPROVES**



*Post-war reconstruction + banking + energy networks = closest to his own theoretical programme*

1981–82

**PARTIAL  
APPROVAL**



*Banking yes, competitive industry no — ideological overreach beyond market failure rationale*

Keynes would support nationalisation where it corrects market failures — but would reject ideological state ownership in competitive markets.

# Conclusion

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Keynes was never a socialist — he sought the preservation of capitalism through judicious state action.

He would have supported nationalisations driven by market failure logic: natural monopolies, banking, reconstruction, counter-cyclical investment.

He would have been sceptical of ideologically-motivated ownership changes in competitive, internationally-exposed industries.

The 1945 wave comes closest to his programme; the 1981–82 wave contains elements he would both endorse and reject.

The key Keynesian criterion is not ownership per se, but whether intervention maximises aggregate welfare and employment.

*"In the long run, we are all dead." — But institutions last. Keynes would have asked: which nationalisation serves the living?*