

**A political economy approach of defense spending in France:
an empirical analysis**

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Abstract:

This paper aims at explaining factors that has affected the French policy of defense spending for the last decade. By assuming the defense policy as the most interventionist public policy, the model of public production has largely evolved towards a mixed solution. Since the defense sector is shared between internal production and private procurement, public decision makers are confronted with establishing an optimal level of defense spending.

As many studies have explored the determinants of defense spending and their impact on economic growth, we purpose to explain defense spending by some political and economic factors, both at the domestic and external level.

We first discuss the context in which defense production has been re-organized. In France, many industrial decisions (concentration, privatization...) are narrowly linked with public decisions and can be different according to the changing government. The collapse of some defense public-provided production has considerably altered the defense industrial base but also partly improved the procurement process. In fact, a new frontier in defense provision has emerged from these

successive political-economic changes. Consequently, we have to wonder if the evolution of defense spending reflects the new institutional framework.

For that, we develop a simple theoretical model of defense spending using French data on the last 12 years. The model measures the influence of industrial, economic and political determinants in the level of defense spending. We describe defense spending by separating three main components of expenditures (Army, Navy and Air). The underlined objective consists in distinguishing the stronger relationships in terms of defense political-economic interactions. Among exogenous variables, we use defense privately-provided output, level of imports/exports, impact of inflation, the partisan affiliation of the government, the regulatory context (such as the new public procurement code), and a composite index for the defense industrial base (including employment and market positions).