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Modelling France after Germany. The creation of the Banque publique d'Investissement in France as an example for the transfer of a German economic model in times of crisis?

1. Introduction: Investing in the Banque publique d'investissement

> *« Je veux relancer la production, l'emploi et la croissance. Je créerai une Banque publique d'investissement. À travers ses fonds régionaux, je favoriserai le développement des PME, le soutien aux filières d'avenir et la conversion écologique et énergétique de l'industrie. Je permettrai aux régions, pivots de l'animation économique, de prendre des participations dans les entreprises stratégiques pour le développement local et la compétitivité de la France. Une partie des financements sera orientée vers l'économie sociale et solidaire. » (François Hollande 2012)*

François Hollande's decision to create a public investment bank *Banque publique d'Investissement* (BpI) is at the heart of this paper. The BpI was his Number 1 election promise (Hollande 2012: 7) and regroups the pre-existing French financing bodies Oséo, the operating arm of the *Caisse de Dépôts et consignations* called CDC Entreprisess and the Fond Stratégique d'Investissement (FDI) in a single institution. This happens at a point in time where the interest in the German model is especially pronounced in France (cf Artus 2009, Duval 2013, Gallois 2012, Hénard 2012, Kohler/Weisz 2012, Odent 2013). The fact that the then Premier Ministre Jean-Marc Ayrault mentions the German experience with the *Kreditanstalt für Wiederaufbau* (KfW) as an "inspiration" for the creation of the BpI is not the only indication that a policy transfer from Germany to France is taking place here (Ayrault 17.10.2012). This paper analyses to what extent and why a transfer of a German institution and growth model is taking place in the Eurozone crisis context in France.

This presumed institutional transfer is embedded in an intense French debate about the nurturing of a German-style *Mittelstand* in France – i.e. the economic fabric made up by medium-sized businesses which is so characteristic for Germany. The ultimate aim seems to be to raise growth and employment levels to recent German standards through the expansion of an economic fabric made up of medium-sized firms. One of the first steps to this end was the introduction of a new statistical category termed *entreprise de taille intermediare* (ETI) as a

French equivalent of *Mittelstand* in 2008 (Banque Publique d'Investissement 2012, Kohler/Weisz 2012). Similar but more ambitious than the the KfW-Mittelstandsbank which supports the existing Mittelstand in Germany, the BpI's role is to assist in a Mittelstand-enlargement process in France.

This paper examines the evolution of public investment banking in Germany and France during the Eurozone crisis. Its main emphasis is on the question of how and why the establishment of the BpI is linked to the model of the KfW. Such policy instruments and institutions of state action are well-suited to analyse change (Lascoumes/Simard 2011: 7). Yet the answer is embedded in a wider strategy of reproducing the German Mittelstand and its benefits in France. The analysis of the reproduction of a German finance institution in France is thus only one aspect of this paper, the spread of an economic growth model across the Franco-German border is another and maybe more interesting aspect.

Using the policy transfer typology, it argues that the observed changes in the field of public investment banking can be characterised as the 'adaption' of a German economic model. The centralist structure and an economic policy which aims at nourishing grand champions are the main limitations for a full-blown copying of the German model in France. Moreover, as a federalist country, Germany does not have a national growth strategy to offer. The focus on public investment banking means that the often polemic discussion on German model of labour-market reforms conducted under Gerhard Schröder is disregarded. This is justified as their positive impact on growth and employment is over-stated (Fontagné 2009: 17). The Franco-German transfer is an interesting case study because of the pivotal role the country duo plays within the EU and the Eurozone and their history of close post-war cooperation.

2. Literature review: Transferring policies, institutions and growth models

"Problems that are unique to one country … are abnormal" (Rose 1991: 4)

The concept of policy transfer will be used for this process-focused small-n case study as it is particularly useful to analyse bilateral policy (Knill 2005: 767). The search across space for new policy solutions is a valid option for policy-makers in periods of uncertainty or crisis if the alternatives prove ineffective. Usually, this approach is sought if a search across time in a country's own history has not provided any relevant lessons and a "more of the same"-approach is no longer possible. Policy innovation is commonly seen as too risky to be a promising strategy, it requires significant effort and little guarantee about the benefits to be reaped (Rose 1991: 13-15). Instead a comparison with other countries in a given policy area can seem promising. Actors adopt “a willingness to looks elsewhere for solutions” (de Maillard/Le Goff 2009: 678[1]) and imitate strategies adopted by their likes in situations deemed similar (Delpeuch 2008: 12).

Policy transfer is defined as “a process in which knowledge about policies, administrative arrangements, institutions and ideas in one political setting is used in the development of policies, administrative arrangements, institutions and idea in another political setting” (Dolowitz/Marsh 2000: 5). The transfer of institutions is the most familiar understanding of policy transfer (Stone 2012: 486)[2]. Focusing on knowledge is important if we understand economic policy-making as a “form of collective puzzlement on society's behalf" (Heclo 1974 cited in Hall 1993: 276). Policy transfer is a meso-level theory which does not provide a single type of explanation for the observed processes and outcomes - the focus is on processes more than on outcomes (Delpeuch 2008: 26). Here it is combined with an institutionalist approach and contests the rational actor-model. Instead it integrates a logic of choice and agency (Stone 2012: 485). This stands in stark contrast to convergence studies which usually use large-n studies and explain observed outcomes with structural processes such as globalisation, industrialisation or regionalisation (Delpeuch 2008: 26, Stone 2012: 487). Policy diffusion is not too dissimilar from policy transfer in that it is also a process-focused approach (Knill 2005: 767). But diffusion studies often present policy change as something that is “contagious rather than chosen” (Stone 2012: 485)[3]. In contrast, this paper studies the voluntary and deliberate transfer of the German KfW and the German Mittelstand which are used as dependent variables[4].

The present paper can be accused of “methodological nationalism” (Stone 2012: 490). However, it seems necessary to follow the dominant discourse which shapes the debate about a national “French model” and a “German model” – not without questioning it. Before transfer can take place, the importing country must produce a conceptual model of a policy which spells out cause and effect relationships (Rose 1991: 20). By “German model”, this paper

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[1] All foreign-language quotes have been translated by the author.

[2] Delpeuch draws attention to the paradox that those who talk about institutional transfer rarely use a neoinstitutional framework (Delpeuch 2002: 4).

[3] Another difference is that the notion of “diffusion” seems to be more popular with American scholars than with Europeans who prefer “transfer” (Stone 2012: 485).

[4] A problem of the literature is that policy transfer can be and is used both as dependent as well as independent variable which bears potential for confusion (Dolowitz/Marsh 2000: 8, Lascoumes/Simard 2011: 13).

understands the existence of a large Mittelstand supported by the KfW which is seen as having an important impact on German growth and employment performances. The model has both an analytic and a normative aim (Giraud/Dupré/Lallement 2012: 15). In the present case, this leads to the promotion of a certain type of firm to create something like a Mittelstand in France and support it by KfW-like institution – based on the assumption that this will have positive effects on the French economy. This conviction is based on a prospective evaluation in which empirical evidence about how and why a programme works in country X serves as a basis for hypotheses about its likely success or failure in country Y (Rose 1991: 23). It raises the important issue of transferability.

Transferability is key in the study of policy transfer. Two extreme positions can be sketched. Abstract, mostly economic, theories assume "perfect fungibility", thus the existence of a one-size-fits-all-model which can be transferred without the slightest difficulty. "Total blockage" is the counter-position which rejects the idea of a successful transfer in all cases because of the uniqueness of every country and point in time (Rose 1991: 7, 25). The institutionally-grounded policy transfer approach here employs a middle ground, stressing that transfer is not an "all-or-nothing-process" (Dolowitz/Marsh 2000: 13). The limiting impact of path-dependency is most important to be pointed out: "Past policies constrain agents as to both what can be transferred and what agents look for when engaging in policy transfer" (Dolowitz/Marsh 1996: 353). Policy-makers thus cannot search for models randomly[5], given that depending on the historical, institutional, economic and cultural context in the receiving country, some things will be easier to be transferred than others – some might not be technically feasible, others might not be politically desirable (Rose 1991: 26). When dominant models exist on an international level, their influence is mediated through *inter alia* national languages, media and policy-makers (Giraud/Dupré/Lallement 2012: 23).

Consequently, the policy transfer approach proposes a typology in order to classify different degrees of policy transfer observed (based on Dolowitz/Marsh 1996: 351; Dolowitz/Marsh 2000: 6, Rose 1993: 30).

[5] Rose points out that policy makers "do not have the time or capacity" to search everywhere (Rose 1991: 13) – this micro-sociological explanation is of little utility here but he has got a point. There are other reasons explained below why policy-makers probably would not search everywhere even if policy-makers had infinite time and capacities.

(1) Copying
(2) Adaptation
(3) Synthesis
(4) Inspiration

Straightforward *copying* is rare and mainly possible within a given nation (Rose 1991: 21). Delpeuch even states that "imported solutions are never exactly reproduced in the country of reception, the country of reception always being different from the country of origin" (Delpeuch 2008: 15). *Adaptation* describes a situation where a programme is designed in a 'creative act', taking a similar programme as a starting point and taking into account differences in institutions, culture and economic characteristics (Rose 1991: 21, 1993: 31). When elements from different programmes of different origins are combined into a tailor-made new whole, a *synthesis* is taking place (Dolowitz/Marsh 1996: 351)[6]. Lastly, there are instances where a superficial look at foreign models can trigger policy changes. Yet, in the absence of a well-developed policy model, *inspiration* is more a form of "speculation" than actual policy transfer (Rose 1993: 31). Policy failure can be the result of any of those four forms of policy transfer, in this sense it is similar to the 'retrenchment category' in the Europeanisation approach (Radaelli 2003: 37, Dolowitz/Marsh 2000: 6). Process-tracing is the method of choice for the analysis of the level of policy transfer.

In order to avoid the criticism that policy transfer is little more than a categorisation exercise (Delpeuch 2008: 61), some of its preconditions and working mechanisms must be specified. As highlighted above, policy transfer is common in periods of crisis and uncertainty. The crucial element, however, is dissatisfaction. Dissatisfaction can be caused by uncertainty, by changes of the policy environment as happens in crisis or by a change in political values (Rose 1991: 12). But dissatisfaction is subjective, as Rose himself points out when he writes that dissatisfaction can be "generated" (ibid.). There is thus a social constructivist element (Dolowitz/Marsh 1996: 347, 357). In the present paper, it would be simplistic to see the Eurozone crisis as the single trigger for policy transfer from Germany to France if it excludes a comparison of how the crisis is perceived and links to economic dissatisfaction in France which predates the crisis.

[6] In order to avoid the criticism of 'degreeism' (Radaelli 2003: 38), the category of hybridization (combination of two programmes into one), is not used in this typology. Otherwise it would be difficult to distinguish it from the adaptation-category which can also involve the borrower "picking and choosing" elements from a foreign programme (Dolowitz/Marsh 1996: 351).

The social constructivist element also helps to explain the choice of a certain model policy at a given moment in time. Geographic proximity is a first indicator because “neighbours are a convenient source of ideas” (Rose 1993: 99). But the regards does not always direct itself towards what is near. Ideological divergences can hinder policy transfer between neighbours and so did East German not look towards West Germany during the Cold War and vice versa. Similarity of economic resources is a criterion explaining choice insofar as industrialised countries compare themselves with other industrial countries, not developing nations (Rose 1993: 98) – helped by benchmarking efforts of e.g. the OECD. But this still leaves a variety of models to choose from and this paper argues that ideological similarities are the key factor which explains a given country chooses one model over another (Rose 1993: 106, Dolowitz/Marsh 1996: 353). Summing up, a few hypotheses about the likeliness of the occurrence of policy transfer can be developed (based on Dolowitz/Marsh 1996: 353, Rose 1993: 135/6, 141).

(1) The more direct the relationship between the problem and the import of a new model as a solution is perceived to be, the easier it is to be transferred
(2) The more information actors have about how the model works in another location, the more likely it is to be transferred
(3) The smaller the level of change associated with new model, the more likely it is to occur
(4) The greater the interdependence between policy fields in different jurisdictions, the more likely transfer is to take place
(5) The greater the congruity between the ideological grounding of the policy makers and those the model represents, the more likely it is to be transferred

In the case of Germany and France, two neighbouring countries and founding members of the ECSC, both a high level of interdependence and knowledge about each other can be assumed. However, the relationship between the creating of the BpI and relancing growth is not as straightforward as it is often represented and the level of change required for it to make it work considerable. There are also considerable differences concerning the view on public investment banking and national industrial strategies in Germany and France. This indicates already that why a full-blown copying of the German economic model in France is not to be expected.

At this point, the role of relevant actors in policy transfer needs to be highlighted. Drawing on Dolowitz and Marsh, these are elected officials, political parties, civil servants, experts/technocrats[7], pressure groups, and supranational institutions (Dolowitz/Marsh 1996: 345). For the present study of economic policy elected national policy-makers as well as civil servants and technocrats in the public investment banking are crucial as well as the European Union and informal EU-level-networks. The interlinkages of these actors in form of transnational epistemic communities with shared normative and causal beliefs is often highlighted (Haas 1992: 3, Delpeuch 2008: 22/23, Dolowitz/Marsh 1996: 346, Knill 2005: 769, Rose 1991: 15/16, Stone 488). However, Stone is right to criticise that this view is still too state-centric and does not attribute enough weight to non-state actors such as consultancies which can be particularly influential in the knowledge-intensive field of economic policy (Stone 2012: 486). Another point worth discussing is whether the media are more than a transmittant of ideas.

[7] It could be argued that in an age of New Public Management and public-private-partnerships, the distinction between civil servants and technocrats is increasingly hard to make.

3. Empirical analysis: A transfer of a German growth model and its institutional complementarities?

3.1 Adapting the German Mittelstand

"Il manque un Mittelstand à la française." (Stoffaes 2009 : 15)

"Pourquoi n'a-t-on pas, en France, d'équivalent du Mittelstand allemand? " (Bezbeze/St. Etienne 2006 : 7)[8]

As a first step of analysing the transfer of the German economic model in France, it is useful to try and trace French entrepreneurs, civil servants and academics' general attitude towards the idea of transferring a German economic model which for them often equates the German *Mittelstand*. There is a strong view that simply copying the German model is not an option but that adaption is better suited. The author of the influential Gallois report on French competitiveness, Louis Gallois states: "the *Mittelstand* is not transposable as such", and more generally, "We do not believe in measures which are exportable *en bloc"*. (Gallois 2012: 14, 2012b: 7). The reason why it would be "illusionary to try and create a *Mittelstand à la française"* is that the *Mittelstand* is the product of the specific German history, culture and identity" (Gilet 2012: 7). Thus the French government and regions have to develop solutions specifically adapted to the French context (Wettmann 2012: 7).

Seeking best practices may well serve as a basis for this but it cannot produce ready-made solutions (Gallois 2012: 14). At the same time, adaption requires more than colouring the French discourse with an occasional reference to the German model (Kohler/Weisz 2012: 13). What all of the views have in common is that they reject the idea of perfect fungibility. Instead they outline the importance of national characteristics and path-dependency. While it is crucial to understand the factors hindering importing a German model unaltered – the aim of this section - one also needs to consider that Germany is often placed in the position of a lesson-giver which it might never have sought to have. As a federal and decentralised state, it regards its own success less as the result of a national strategy than of the successive adaptations of different public and private actors (Hénard 2012: 17).

[8] "France needs a Mittelstand" and „Why don't we have an equivalent to the German Mittelstand in France?"

The first challenge in the debate is to provide a definition of the *Mittelstand*, the business ecosystem in which the KfW operates and which France seeks to nurture and enlarge, not leas through the creation of the BpI. In Germany, *Mittelstand* does not correspond to a merely statistic category, it embodies a "state of mind" (Kohler/Weisz 2012: 43). Ludwig Erhard shows this in his work "Wealth of Everyone" where he defines *Mittelstand* through values such as self-reliance and courage (Erhard 1957: 145)[9]. The German research institute *Institut für Mittelstandsforschung* uses a mix of quantitative and qualitative indicators to give meaning to the concept. On the one hand, it refers to businesses a) with less than 500 employees generating an annual turnover of less than 50 million Euro and b) which are family-owned (IfM Bonn 2014). But even bigger businesses with an annual turnover of less than 1bn Euro as ca be referred to as Mittelstand – the corresponding term would be "*gehobener Mittelstand*" – something like an up-market *Mittelstand*. *Mittelstand* is best understood as a continuum between small, medium and larger businesses which includes a normative component about long-term orientation and sustainability of these businesses (Kohler/Weisz 2012. 30).

France, concurrent with the EU logic, defines small and medium-sized businesses (the French abbreviation is PME) as businesses of up to 250 employees and an annual turn-over as less than 50 million Euro – half the size of employees, same turnover as in the German IfM-definition. An interesting recent addition to the French statistical landscape is the category of *entreprise de taille intermédiaire* (ETI) which looks like a literal translation of the German *Mittelstand.*[10] It was created by the *Loi de Modernisation de l'Economie* in 2008 and regroups businesses with between 250 and 5.000 employees and an annual turnover of less than 1,5 billion Euro (Insee 2014). It is a mere statistical category and does not include any criteria about independence or governance of ETIs (Kohler/Weisz: 13). In this respect, it cannot be used interchangeably with term *Mittelstand*. The last category are the *grandes entreprise,* the result of the Gaullian strategy of privileging the development of French national champions such as the TGV (Kohler/Weisz 2012: 18/19).

What is the relevance of the *Mittelstand* and ETIs for the present study of policy transfer between Germany and France? It is part of the conceptual model of the German economic model which creates the need for the BpI in France. Betbeze and St. Etienne put it in a nutshell: "France needs the equivalent of 10.000 businesses with 300 employees. Let us imagine these 3 million new jobs: our economic, social and financial problems would

[9] For a discussion of how the Mittelstand developed its present form after 1945 through decartellisation and Ludwig Erhard's resistance of this strategy, see Berghahn 2010: 100ff.
[10] In the absence of an equivalent term in English, this paper sticks with the term ETI as much as possible.

disappear" (Bezbeze/St. Etienne 2006: 7)[11]. The observation that France does not have enough ETIs is shared by Francois Hollande, the then Premier Ministre Jean-Marc Ayrault as well as Louis Gallois (Ayrault 17.10.2012, Hollande 25.10.2012, Gallois 2012: 13/14). It is argued that large enterprises eliminate jobs in the long-term whereas smaller enterprises remain small and do not have the capacity to contribute to growth in employment (Bezbeze/St. Etienne 2006: 7). Therefore ETIs are seen as most decisive for growth and particularly employment. Yet while creation of new businesses in France is remarkable, these businesses do not grow to ETI size or if they do, they quickly get bought up (Gallois 2012: 13/14). In contrast, Stoffaës raises causality issues with the idea that France simply needs to "make small businesses grow to see a French *Mittelstand* emerge" (Bezbeze/St. Etienne 2006: 7). He stresses that French businesses will only grow, if they become more competitive, not vice versa (Stoffaës 2009: 15).

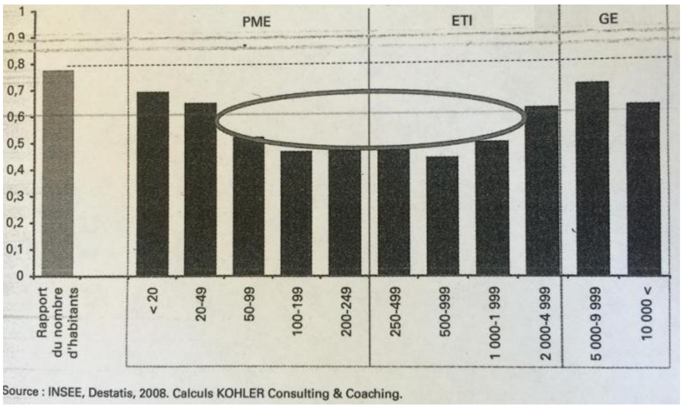

Table 1. Relationship between the number of businesses in France and Germany per size (Kohler/Weisz 2012 : 15)

The French fascination with the German economic model thus stems from the fact that Germany has maintained superior growth rates since the financial crisis on the one hand. On the other hand, the attention is on the big German *Mittelstand* which is seen as having a decisive impact its economic performance[12]. In order to show how the German economic model is conceptualised in France, the economic and political ecosystem the *Mittelstand* operates in needs to be scrutinised. In more polemic accounts, the German model is described as a beggar-thy-neighbour-policy with a wage-moderation-policy made possible by the labour-market reforms under chancellor Gerhard Schröder and outsourcing of parts of the production (Duval 2013: 9, Odent 2013: 62). However, the impact of these reforms is insufficient as an explanation for the German growth performance, as they only affect price-competitiveness of

[11] Same argument, different numbers: Stoffaës argues that France does not have enough businesses with between 200 and 1.000 employees and a focus on high-tech and export business (Stoffaës 2009: 15).

[12] This was the topic of an intensive debat on the occasion of the launch of the BpI's Think Tank Bpi Le Lab. BpI Le Lab will make an extensive data set on 500.000 businesses available to academics and the public which will allow interrogating the relationship between business growth and employment numbers in more detail (BpI Le Lab 2014).

German products (Kohler/Weisz 2012: 30, Fontagné 2012: 17). The more interesting phenomenon is the relatively stronger non-price competitiveness of German products[13]. Interestingly, France and Germany sell very much the same products to the same markets and the main part of their bilateral exchange is intra-industry exchange (Fontagné 2009: 20, Gallois 2012: 10, Kohler 2012: 30, Levet/Lorenzi 2009: 92ff.). What distinguishes them is that German products feature higher in terms of innovation, have a better niche positioning and are less price-sensitive through their focus on the middle-to-upmarket segment – in addition to the differences in the economic fabric describe above (Kohler 2012: 30, Levet/Lorenzi 2009: 92ff.). In short: "The German competitive advantage is neither a sectoral nor a geographic one" (Fontagné 2009: 23).

These positive characteristics German products exhibit are only made possible through a "virtuous circle" in the German way of production – or through their "comparative institutional advantage", as Hall and Soskice would call it (Hall/Soskice 2001: 37, Kohler/Weisz 2012: 53). A large supply of high-skilled human capital is a precondition for the virtuous circle as described by Kohler and Weisz[14]. German producers specialise on one product or process in the value chain which they continuously improve through incremental innovation[15]. This enables German producers to preserve their leadership against their competitors and results in high margins. Through those high margins, producers can continue to keep their business family-run and remain largely independent concerning financial markets (Kohler/Weisz 2012: 53ff). For the subsequent discussion of the working ways of the KfW and the BpI, two points are most relevant here: Innovation is indeed crucial and it helps that German businesses spend more money on R&D than their French counterparts - concerning the public sector, the relation is inverse. One of the priorities of the Gallois report is thus to develop measures which would increase firms R&D spending (Gallois 2012: 11). The financing mode of German producers is a related and very interesting point. As they rely comparatively little on capital-investment, they finance expansion either through reserves resulting from high margins or through a cooperation with local banks, their *Hausbanks*.

[13] This is also the reason why Germany is less affected by a strong Euro, contrary to France. French calls for minimally devaluing the Euro are frequent, they can be found in the Gallois Report (Gallois 2012: 50).

[14] The role national education systems play in this context i soften highlighted. In the case of France, the merits of the vocational training in Germany are constrasted with the advantages of the French elite formation (Wettmann 2012: 3, BpI 2012).

[15] Participants at a BpI public debate on the Mittelstand diametrically opposed a German – culturally predispositioned – affinity towards incremental innovation with a French affinity towards radical innovation. This is an interesting contradiction to the categorisation made by the Varieties of Capitalism-Approach (Hall/Soskice 2001: 38/9).

Before the relation of the *Hausbank* with the German *Mittelstand* is explained in more detail, another element of Germany's comparative institutional advantage over France needs to be highlighted. According to Wettmann, the German federalism leads to an "institutionalisation of policies in favour of regional development and medium-sized businesses", both PME and ETI (Wettmann 2012: 4). This is also reflected in the decentralised transport policy (ibid.). Germany's historic evolution towards regional clusters has led to a dense network between regional and local businesses as well as between *Mittelstand* and large enterprises (Stoffaës 2009: 16). The fact that Germany – contrary to France - does not have a disjoint policy which supports "trendsetting" sectors over "traditionally" industrial sectors is also favourable to the creation of these links, it incites cooperation between regional and local actors, small and large businesses, entrepreneurs and suppliers to cooperate (Hénard 2012: 35, Kohler/Weisz 2012: 22, 25). Germany's federal structure can be seen as a structure of "permanent benchmarking" between regions which increases productivity (Hénard 2012: 24).

3.2 Adapting the KfW

« La Banque Publique d'Investissement sera donc un outil de croissance offensif au service des PME, des PME industrielles et des Etablissements de Taille Intermédiaire »

« La BPI n'est pas un 'machin parisien' » (Moscovici 17.10.2012)

In order to analyse how the BpI compares to the KfW and adapts its model, it is necessary to sketch the mode of financing of German businesses. The interlinkages of the German industry and its banks – "*la banquindustrie*" (Duval 2013: 50) - belong to the institutional complementarities which are characteristic for Germany and crucial for its economic performance. In line with the aforementioned *Hausbankprinzip*, German Mittelstand businesses rely on local banks – *Hausbanken* – rather than capital markets to finance expansion and innovation if they do not have sufficient reserves (Kohler/Weisz 2012: 80). The *Hausbank* – in more than 50% of the cases a *Sparkasse* (savings bank) or local cooperative bank - and the Mittelstand business develop a close working relationship (Kohler/Weisz 2012: 80, 85). The *Hausbank* gets privileged access to financial information. In the case of businesses with less than 250 employees, there is no legal obligation to make financial data public, so competitors and clients will not have access to the information – only the *Hausbank*

(Kohler/Weisz 2012: 45). In return, the *Mittelstand* business gets high-quality advice from an institution which knows not only the business but also the local economic conditions very well (Kohler/Weisz 2012: 81).

Privileged access to information is not a guarantee that banks will lend to businesses. But the German financial landscape has developed in a way that allows *Hausbanks* to reduce considerably the risk associated with credit allocation. This enables them to supply *Mittelstand* businesses with long-term loans or finance innovations which, almost by definition, always have an insecure pay-off (Kohler/Weisz 2012: 86). Here the KfW comes into play. Upon demand, the KfW supplies the *Hausbanks* with a loan on behalf of the loan-seeking *Mittelstand* business – a process called 'onlending'. The KfW itself profits from a guarantee of the German government which enables it to refinance itself at very low rates on the capital market and to provide businesses with long-term loans (Harries 1998: 38/9, Kohler/Weisz 2012: 80, 86/7). In other cases, the KfW will facilitate lending by acting as a guarantor for a specific loan (KfW 2014). The KfW also has sister institutions in each state. These Länder public investment banks provide similar services. Support for the *Mittelstand* has been part of the KfW's main activities since the second half of the 1950s and since 1983 the KfW is specifically responsible to finance innovation (Harries 1998: 57, 122). The KfW follows an ordo-liberal economic framework. Its philosophy is to intervene in credit-supply only in the event of market failure such as after the financial crisis (Schröder 2014).

The possibility that the creation of the BpI constitutes a mere copying of the KfW can be excluded from the outset. This would, if at all, only be possible in countries where public investment banks are built from scratch with large KfW involvement – as was the case in 14 transformation countries after the Cold War and as we can observe in the case of crisis-struck countries such as case (Harries 1998: 182; Schröder 2014). France already had a plethora of pre-existing financial institutions with functions similar to the one the KfW carries out. The way in which they are combined to form the BpI can be seen as an adaption to the German KfW model in the support of French *Mittelstand*. These institutional changes correlate with the emergence and strengthening of the discourse about the lack of a German *Mittelstand*.

Among those institutions, the *Caisse des Dépôt et consignations* (CDC) is the most important to name. Kohler and Weisz consider it as an equivalent of the KfW – writing a few months before the creation of the BpI (Kohler/Weisz 2012: 64). The CDC has an almost 200-year history and indeed a tradition of supporting French PME and ETI businesses. Through its CDC Entreprises branch, it invested in businesses as a minority shareholder but it did not practice onlending or secure loans as the KfW does. CDC Entreprises has been integrated into BpI together with

Oseo and the *Fond Stratégique d'Investissement (Bpi 2014)*. The Fond *Stratégique d'Investissement* was created in 2008 as a reaction to the financial crisis. It stands in the service of industrial PMEs and ETIs which it supports as a minority shareholder, accompanying them in a medium-term perspective (BpI 2014a). Out of the three institutions named, Oseo is the one closest to the KfW in its functioning, as it is the only body which practices onlending similar to the KfW. It was created in 2005, focuses mainly on PMEs and can be seen as the BpI's predecessor (BpI 2014a, Reinhart 2014: 47). Through successive changes and finally the merging of CDC Entreprises, Oseo and the FSI into a new whole, an institution with significant similarity to the KfW has emerged.

A juxtaposition of the KfW and the BpI shows two institutions with significant resemblances. Firstly, a legal remark – both institutions present themselves as "banks" while neither one them has a banking licence (Harries 1998: 211, CDC Nyi: 1). Instead they both have a triple-A-rating which is a necessary precondition for refinancing at low cost. Whereas the KfW is held at 80% by the German government and at 20% by national governments, the French government only holds 50% of the BpI – the other half is held by the CDC (BpI 2013a:2, KfW 2013a:4). The KfW is with a 483,0 bn Euro balance sheet total about 15 times bigger than the BpI with a balance sheet total of 32,6 bn Euro (BpI 2013: 7, KfW 2013). The structure of the balance sheet does not allow for an in-depth analysis of the respective activities but it shows a preference for securing loans and on-lending in the case of the KfW and a preference for providing quasi-equity and acting as a minority shareholder in the case of the BpI (Kohler/Weisz 2012: 78). Acting as a shareholder can, in individual cases be used to prevent buy-outs – something the KfW could not or would not do. But above all, the support of PME and ETI businesses is the stated priority of the creation of the BpI (BpI 2013: 3, 2013a: 1).

Another interesting feature is the emphasis placed on regional ancrage within the BpI. The BpI has offices in all regions and promises that 90% of the decisions regarding regional PMEs will be taken in the region (BpI 2013a: 7). Economics and finance minister Moscovici stressed that creating a new institution based in Paris with no links to the territory was by all means to be avoided (Moscovici 2012: 3). The BpI also has as many, if not more, regional representatives on the BpI governance boards than the KfW (BpI 2013a: 6, KfW 2013a: 21). Strengthening regions could also be seen as an attempt to adapt institution and economic structure to make it more conducive to the emergence of a Mittelstand à la française. It is the rejection of permanent centralisation that critics direct at the BpI (Wettmann 2012: 5). In terms of the political economy framework guiding the establishment of the BpI, the philosophy is one of a supplyside approach which has much in common with Germany's ordoliberal framework (Gallois 2012: 19).

4. Conclusion: beyond the BpI and the *Mittelstand*

"A bank can only be as good as its economic environment"(Harries 1998: 90)

Institutional complementarities are a challenge for policy transfer. Even though the conditions for successful policy transfer outlined above are largely fulfilled here, adaption difficulties can be witnessed, a mere copying of the German economic model excluded. As close neighbours and through their cooperation in Europe, France and Germany have gained a high level of knowledge about each other's political, economic and cultural system. Interdependencies are high within the EU and particularly high between Germany and France who are each other's main trading partner. Economic policy seems to have achieved a high level of ideological congruence in both countries and the level of change associated with the establishment of the BpI as modelled on the KfW would not have been insurmountable. The relationship between the problem of low growth and unemployment and the proposed solution – Mittelstand-creation and support through the BpI – was presented as straightforward.

Yet these favourable conditions cannot mask the fact that France cannot make a *Mittelstand* emerge by political willpower. Even if it could, it might not produce the same effects in an eco-system which is different from the German one: a business financing mode which relies much on capital investment, the lack of close cooperation between businesses, their suppliers and clients, the political and economic strengths of the regions. After all, the attempts to reproduce a (West-) German *Mittelstand* in the former East Germany have not been very fruitful (cf. Hénard 2012: 29, Wettmann 2012: 4). Nonetheless there seems to be a general enthusiasm for the German *Mittelstand* – more than the KfW at the moment. In 2011, a report by the Confederation of British Industries proposed to devote more resources to British SMEs – vaunting the German *Mittelstand* as an example. It would be worthwhile to investigate further to what extent this debate is a short-term phenomenon linked to the Eurozone crisis. This would also require paying closer attention to the exchanges between European politicians and experts to trace knowledge-exchange in the technocratic field of public investment banking.

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