The French State in the Euro Zone:
'modernization' and legitimizing dirigisme
in the 'semi-sovereignty game'.

David Howarth
Queen Mary College
University of London, London, E1 4NS
d.j.howarth@qmw.ac.uk

Abstract

This objective of this paper is to examine the discursive structure underpinning and shaping the impact of EMU upon French State structures, policy regimes and policies and French strategic responses to the operation of the EMS and EMU. This discursive structure is shaped principally by a conservative liberalism and a rear-guard interventionism. State reforms and the strategic behaviour of French policy makers in the Euro zone reflect the dialectic between these two ideologies. The operation of the EMS and the EMU project has provided French governments a justification for 'modernising' reforms and State withdrawal from interventionist strategies sought for other reasons, crucially European competition rules and the impact of globalisation and the comparatively heavy reliance on foreign capital (both public and private sector debt). Participation in the EMS and the EMU project over the past fifteen years has encouraged financial market liberalisation, budget reform, including the reform of the social security budget and the structures controlling this budget, fiscal reform, increasing labour market flexibility and privatisation. Monetary power motives encouraged the French to embrace EMU as a means to share control over monetary policy with the Germans. However, core elements of the EMU project — notably central bank independence — were directly contrary to the French republican tradition. French governments — particularly the current Plural Left government led by Lionel Jospin — have sought to qualify the application of 'sound money' policies by advocating developments at the European and domestic levels that correspond to the strong French interventionist tradition and thus improve their legitimacy in the eyes of a public opinion wary of the modernising reforms made more necessary by international constraints.

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Introduction

French participation in the Euro Zone should be seen principally in terms of a *self-imposed* 'semi-sovereignty game'. From the creation of the EMS in 1979, French political leaders have seen a European monetary constraint as a tool to reinforce domestic economic restructuring. In this sense, President Mitterrand's March 1983 decision to keep the franc in the ERM represents the final decision to end Socialist reflation, embrace open competition in the EC, and conform — at least to a certain extent — to the German economic standard. The French pursuit of EMU demonstrates the desire to ensure the continuation of reform while at the same time loosen the external constraint by sharing monetary power with the Germans. (1) The tightness of this constraint was blamed for the excessive decline in French economic output and the growth in French unemployment, particularly in the period following German reunification.

The main objective of this paper is to examine the impact of EMU as part of the Europeanisation of the French State, which has been explored in a number of contexts and in more general terms by Ladreche (1994), Guyomarch *et al.* (1998), and most recently by Cole and Drake (2000). The analysis of Europeanization here is constructivist, focusing upon the development of French State identity (see Dyson 2000). The EMS and EMU project have involved both weak and strong Europeanization. As weak Europeanization, the EMS and EMU should be seen as intervening variables shaping the operation of the French State, policy regimes and policy making. They were mechanisms embraced by certain leading French policy makers — starting with President Giscard d'Estaing — to reinforce domestic efforts to 'modernize' the State and economy and keep public spending under control — despite widespread reluctance in the French population and political circles — to face the impact of increased exposure to European and global competition, European competition rules, and the comparatively heavy reliance on foreign capital (both public sector debt and private sector equity capital). This has been 'bottom-up Europeanization': improving the fitness of the French economy in order to keep the franc in the ERM and to participate in EMU (Alphandéry 2000; Boissonnat 1998). The EMS constraint and the EMU project have contributed to the timing and intensity of some reforms to French policy regimes which have been adopted principally for other reasons: financial market liberalization, budget reform — including the reform of the social security budget and the structures controlling this budget — fiscal reform, increasing labour market flexibility, and privatization. This weak Europeanization has involved the 'framing' of individual structural policy reforms in terms of convincing the Germans to accept mutual realignments in the ERM (in the 1981-1987 period), avoiding devaluation in the ERM (from 1983), and respecting the convergence criteria of the EMU project and the Stability and Growth Pact.

In other respects, the EMU project should be seen as an independent variable and a factor of strong ('top-down') Europeanisation in France. The project has involved the imposition of central bank independence, sought by few French policy makers, opposed by many, and directly contrary to the French republican tradition. Strong Europeanization can also be seen in terms of the modification of the role of the French Treasury and the change in programmatic discourse — notably the establishment of the medium term stabilization plans in coordination with European partners to respect the terms of the Stability and Growth Pact. Strong Europeanization can be seen in the considerable emphasis that the 'Plural Left' Government of Lionel Jospin has placed on counter-balancing both the power of the ECB in the Euro zone with the reinforcement of a European 'economic government', and the 'sound' money bias of EMU with the reinforcement of European social and employment policies.

This paper consists of two major parts. First, it seeks to examine the discursive/ideological structure underpinning and shaping the impact of EMU upon French State structures, policy regimes, and policies, and French strategic responses to the operation of the EMS and EMU. This discursive structure is shaped principally by a conservative liberalism — in the ascendant given the economic constraints reinforced by monetary integration — and a rear-guard interventionism. Second, substantive State reforms and the strategic behaviour of French policy makers in the Euro zone reflect the dialectic between these two ideologies. This dialectic and the substantive reforms have contributed to reshaping French State identity. EMU has acted as an intervening variable enforcing the reforms sought principally by conservative liberals dominant in the financial administrative elite, which has contributed to the shift in State identity towards stabilisation. However, this shift has been couched in other long-standing themes of the French State. The constraints of monetary integration have sat uneasily with a strong interventionist legacy. Nonetheless, EMU has also increased possibilities for improved EU level coordination in economic and employment policies ('economic government') which the current Plural Left Government has been in the vanguard to develop. The decision to embrace the goal of EMU should also be seen in terms of French strategy to increase monetary policy making power in relation to both the Germans and the Americans, and thus as a reflexion of the traditional assertiveness of the French State in the European and international arenas backed by widespread popular approval (Howarth 2001). In public discourse, EMU was justified principally in terms of containing the economic and diplomatic power of reunified Germany, and the creation of the single European currency in terms of replacing the deutschemark and challenging the international role of the dollar.

The economic ideology of French State strategies in the Euro zone

Reinforcing the Conservative liberal agenda

Conservative liberalism has been the dominant economic ideology in the Treasury division of the Ministry of Finance, the Bank of France, and the Financial Inspectorate (the *grand corps* which forms the leading part of the French financial elite). However, the influence of this ideology has always been limited by its fragmentation and weakness in French party politics (Dyson *et al.* 1994, 35; Hazareesingh 1994). The creation of the EMS in 1979 corresponded to the hitherto rare predominance of conservative liberalism in government under Valéry Giscard d'Estaing as President and Raymond Barre as Prime Minister. This ideology was inspired more by the German model of low inflationary economic growth than Anglo-American liberalism (Dyson 1994; McNamara 1998). Conservative liberals uphold the self-adjusting nature of market mechanisms and reject State-led reflation. They seek exchange rate stability, low inflation, balanced budgets, and commercial and balance of payments surpluses. Devaluation was long opposed as a fundamental threat to a social order based on savings and monetary stability. Conservative liberals embraced the EMS and EMU as useful semi-sovereignty games to import German 'sound' money policies and budget and wage discipline. They uphold the respect for technical experience and expertise in economic policy and the maintenance of a measure of autonomy from political interference in the formulation and implementation of economic policy — which serves the self-interest of the Treasury and the Bank of France. The EMS helped to reinforce the influence of the Treasury and the Bank of France in relation to governments. EMU helped to further reinforce conservative liberalism, through the convergence criteria and the transfer of monetary policy to technocratic control in the Bank of France and the ECB. Members of the Treasury were very reluctant to embrace independent central banking as a necessary step to reinforce their economic preferences. However, the convergence criteria and the Stability and Growth Pact have reinforced Treasury influence over the domestic reform agenda.

Core conservative liberal economic ideas formed the bedrock beneath 'competitive disinflation', the major French macro-economic policy of the mid-1980s onwards (Fitoussi, 1992 & 1995). The value of 'sound' money was linked to the idea that the weakening competitive position of French exports was due to structural problems which could not be resolved through competitive devaluations. Following Mitterrand's March 1983 decision to keep the franc in the ERM, intellectual and political support for this policy gradually solidified (labelled by critics *la pensée unique*). At the intellectual level, the extensive influence of the State in the area of economic research, through the studies produced in the Treasury, the Forecasting Division of the Ministry of Finance, and the National Institute of Statistics and Economic Studies (INSEE), facilitated the rapid extension of these ideas into the academic economic community and their dominance. The ideological shift in favour of 'competitive disinflation' was reinforced by the modernization and liberalization of the French financial markets in the mid-1980s, including the creation of the MATIF, as part of the drive to reform the 'overdraft' economy (Mamou 1987; Loriaux 1991). While the objective of opening access to foreign capital to finance French debt was to control inflation and lower interest rates, the increased reliance on foreign capital made both attractive rates and a strong currency more necessary than previously.

In a French political class little concerned with inflation as an economic problem, 'competitive disinflation' helped to increase the acceptability of 'sound' money policies and the EMS constraint. The demands of French governments to create a more balanced convergence suggest that their principal worry was not inflation per se but rather the inflation differential and trade imbalance with France's major trading partners. The label 'competitive disinflation' is thus quite revealing because disinflation was required principally to the extent that it improved

France's competitive position vis-à-vis the Federal Republic. The distinction is important because it demonstrates the shallowness of anti-inflationary sentiment in French political circles, beyond the small conservative liberal hard core including Barre and Giscard and Socialist modernizers including notably Jacques Delors and Pierre Bérégovoy. Moreover, this distinction introduces a different angle on the economic logic behind French support for the EMS constraint. The purpose of this constraint for many leading French politicians was not to reduce the level of French inflation as an objective in itself, but rather to reduce the level of inflation in order to improve France's competitive position. Treasury officials and ministers of finance accepted — more or less — the need to lower inflation as an economic goal in itself. However, for a political class historically obsessed with the trade balance — and notably in relation to the Federal Republic — the competitive element of the policy had much greater resonance. The greatly improved competitiveness of French companies in the 1990s and record commercial trade surpluses from 1994 helped to legitimize a policy that was otherwise blamed for lost economic output and high unemployment.

The continued weakness of French neo-liberalism

Neo-liberalism — weak in the Treasury, Bank of France, as well as French academic and political circles — has been of relatively limited influence in directly shaping French policy on EMU and economic reform. Likewise, France was largely immune to the Anglo-American economic arguments criticizing EMU for not being an optimal currency zone (Rosa 1998). Neo-liberalism was most influential in the context of financial market liberalization started by Pierre Bérégovoy in 1984, which was both encouraged by EMS membership (the search for non-inflationary sources of finance) and encouraged continued EMS membership (increasing the need for monetary stability and French interest rates to attract foreign capital). (5) Neo-liberalism enjoyed a brief period of influence in the neo-Gaullist RPR in the mid-1980s, although neo-liberal rhetoric was rejected following 1988 for electoral reasons. Overt neo-liberalism played only a limited role in the public debate on the EMS and EMU and most frequently has been invoked as a negative connotation by those on the left and right opposed to the EMU project, seen as a neo-liberal device to reinforce the effects of globalization and undermine the French social model.

The lingering dirigiste bias

Dirigisme as a manifestation of *étatisme* reflects a strong mistrust of market mechanisms, the economic utility of which is nonetheless accepted. It insists upon the need for active State intervention in the economy, labelled *volontarisme*. Dirigisme has influenced a wide spectrum of French political and public opinion to different degrees, notably the Gaullist / neo-Gaullist parties on the Right, the Socialist party on the Left, in addition to the elite technical corps of the French State (which had limited influence over monetary policy). Dirigistes tended to prefer the conservative liberal goals of a strong currency, monetary stability, and a trade surplus, although normally for different reasons and these goals were secondary to State-led economic growth. Dirigistes also sought to place constraints on the operation of international financial markets and speculative capital. (2) In decline since the 1960s with the opening of the French economy to international markets, dirigiste strategies have been restricted in the context of the operation of the EMS and the EMU project and the corresponding 'modernizing' reforms. Paradoxically, this decline has worked to the disadvantage of the Treasury and the Financial Inspectorate, the influence of which had profited immensely from post-war dirigisme and the extension of the public sphere. The decline of dirigisme thus represented the rise of the Treasury's ideological bias of conservative liberalism while greatly weakening the influence of the Treasury itself. Nonetheless, the capacity of the French State (led by the Treasury) to persist in a policy of avoiding ERM parity realignments for twelve years (from 1987 to the start of EMU), despite the often considerable economic and political difficulties involved in doing so, reflects an important strength of the dirigiste tradition. In the 1980s and '90s, both the neo-Gaullists and the Socialists rejected many elements of dirigisme, although electoral constraints — the public sanctioning of perceived excessive liberalism — have forced both parties to continue to emphasise State-led action. Active State responses to the challenges of 'modernization' — particularly in the areas of social and employment policies — and the political difficulties of managing the privatization of the 'public services' demonstrate the institutionally embedded ideas that make French responses to the constraints of the Euro zone unique. Radical critiques of capitalist society remain very much embedded in the left-wing of the Socialist party and its coalition partners in the current Plural Left Government. Moreover, much of the electorate on both the left and right continues to expect interventionist State responses. Even the conservative liberals Edouard Balladur, Edmond Alphandéry and Alain Juppé made a spirited defence of French public services against European competition rules.

To justify reforms, leading Socialists have appealed to the Mendeiste left-wing tradition of economic modernization designed to challenge 'traditional centres of capitalist privilege' in France. From the early 1980s, social catholics such as Delors sought to locate a 'Third Way' that would retain elements of dirigisme while accepting the predominance of market forces. This was about 'reforming' capitalism in alliance with the technostructure of the French State. The idea of regulating and controlling markets in the context of what current Prime Minister Jospin has labelled a 'modern socialism' has been an important element of Socialist party discourse in dealing with the constraints of globalization (Jospin 1999; Marian 1999; Cambadélis 1999). Leading Socialists learnt from their defeat in the 1993 legislative elections that a continued dirigiste discourse and policy response was crucial to their electoral success to prevent the loss of support to other left-wing parties. In order to reinforce his government's left-wing credentials, Jospin has also distanced himself from the 'social democracy' espoused in the Blair-Schröder Pact — attacked as 'social liberalism' by many of those in the French Left — and insisted on the plurality of European social democracy. Officially, EMU was not to force the Left into strategies that pushed 'modernization' in the direction of unacceptable liberalization. Jospin (1999) claims that the *volontariste* State remains a crucial part of 'modern socialism' despite European and international constraints (see also Marian (1999)). It accepts the central role of the market but insists that it must be regulated and 'governed' at both the national and international levels. While interventionist strategies of the 'old' left are no longer valid, *volontarisme* remains crucial in the form of what Jospin calls a 'strategic State' which encourages activity in areas of future growth; an 'investor State' which plays an active role in assuring the improvement of infrastructure, education, and research; and a 'facilitating State' which works to improve the quality of the operating environment of companies.

Jospin has also placed considerable emphasis on the construction of 'social democracy' at the European level as a counterbalance to the monetary power of the ECB and to limit the worst effects of globalization: the improvement of economic policy coordination in the context of the Euro-Council (now Group), in particular co-ordinated reflation, the development of the European employment policy, the reinforcement of the European social policy, and the development of common European positions on international market regulation. EMU, if qualified by appropriate counter-weighing EU level economic policy coordination has been presented as a way to regain control and manage the forces of globalization. This strategy reflects the strong negative connotation of globalization on the French left — demonstrated by the popularity of such books as *L'Horreur Economique* by Vivienne Forrester — but equally the relatively positive perception of European integration in the Socialist party established by President Mitterrand during the 1980s. EMU in the 1990s has been manipulated in the same way as the Single Market Programme from the mid-1980s: as a mechanism to make the economy more competitive while preserving the relatively generous social security system and working conditions (*les acquis sociaux*). The discourse of EMU as a means of reconciling the European social model to the new realities of globalization — more present in Germany — has been little presented in France, given the widespread hostility that 'globalization' inspires.

However, it is important to stress that the current Socialist-led Government has placed clear boundaries around this dirigiste reflex. The brief return of Neo-Keynesianism under Oskar Lafontaine was not intellectually matched in France. The Socialist Minister of Finance, Dominique Strauss-Kahn, joined several Lafontaine initiatives calling for more European-led activism on growth and employment and the two ministers issued a joint statement praising the drop in French and German intervention rates on 3 December 1998 (from 3.3 to 3 per cent in France). (3) However, Strauss-Kahn refused to join Lafontaine's attack on ECB monetary policy-making. At the international level and in business and financial sector fora in France, Strauss-Kahn was particularly active in promoting his government's modernizing credentials. (4) At the twelfth anniversary meeting of the London-based Centre for Economic Policy Research (CEPR) in November 1998, he equated 'modern socialism' with 'modernization' and, in particular, 'sound' money and finance, arguing that there was nothing socialist about high deficits and debt (Strauss-Kahn 1998). In his domestic public and party political speeches the rhetoric was decidedly more *volontariste*, but the Jospin government accepted the need for continued 'modernization' to respond to the increased competition in the Euro zone and globalization. It has privatized more State assets than previous conservative governments combined and refused to intervene in highly politicized factory closures (the Renault plant in Vilvorde, Belgium in 1997) and massive lay-offs (Michelin in 1999) despite considerable pressure from coalition partners and trade unions. This has exposed the Socialist-led Government to accusations that it has accepted the dominant conservative liberalism in economic policy-making and has allowed an excessive Anglo-American style liberalization but has used a virtual activism in EU and domestic social and employment policies in order to legitimize modernization (Mauduit & Desportes 1999).

Monetary power interests

From the creation of the ECSC, European integration — and the loss, restriction, and sharing of State powers — has been supported to the extent that it serves French economic interests, promotes French leadership in the European Community / Union and reinforces European power in relation to the United States, which reflects long-standing French realpolitik, discourse and identity on European matters (Dyson 1999; Dyson & Featherstone 1999; Howarth 2001). The establishment of the EMS was seen as a way to limit the dominant power of the Bundesbank and share the costs of monetary stability. The move to EMU was a response to failed French efforts to convince the Germans to create a more symmetric EMS. EMU was thus embraced as a way to share monetary power with the Bundesbank and adopt interest rate policies which corresponded more closely to French economic preferences. In the period following German reunification, the containment of growing German economic and political power in the EU framework became a — if not *the* — major public justification for EMU. The high interest rates and speculative attacks of the post-reunification period were presented as additional reasons to move to EMU. The expanded use of the ECU and euro were presented as means to challenge both mark and dollar supremacy, which explains why French negotiators sought a more powerful ECB from the start of Stage Two of the EMU project to promote the ECU. Most recently, French monetary power preoccupations were manifested in the dispute over the appointment of the first ECB president.

EMU and French State reform

In addition to weak and strong Europeanization, the effects of EMU can be examined in terms of three of the four State responses listed by Radaelli (2000): accommodation, transformation, and inertia. There has been no retrenchment in France to date, due principally to the strong (albeit often not apparent) political commitment to proceed with EMU and the relatively strong economic growth since 1997 which has made respecting the Stability and Growth Pact more politically manageable. The possibility of retrenchment was strongest between 1992 and 1996, when record high interest rates, sluggish economic growth and rising unemployment combined with republican and nationalist opposition to the loss of monetary power made French support for the EMU project politically problematic. Opposition to EMU in France was more widespread than in the majority of the EU member states — with substantial sections of nearly all parties opposed, increasing towards the extremes and reflected in public opinion, especially the more educationally and socio-economically disadvantaged groups (Howarth 2001). Much of this opposition owed less to the goal of EMU itself than to the perceived negative economic implications of EMS asymmetry and the EMU convergence criteria at the time. Nonetheless, throughout this period, polls showed that a majority of French voters supported the core elements of the project and, unlike in some countries, the mainstream French press was on the whole supportive of EMU. (6) The normally aquiescent business community began to turn against the ERM constraint from 1992, although the CNPF (the leading peak association of large-scale companies) remained officially silent on the matter and continued to support EMU (Aeschimann & Riché 1996). No political party collapsed over the issue of monetary integration, despite the strong opposition of Eurosceptics in the Gaullist RPR (Rally for the Republic), including the large majority of the party's National Assembly deputies, and leading members Philippe Séguin and Charles Pasqua. In 1999, Pasqua led a split from the RPR following the success of his Eurosceptic list (with Philippe de Villiers) in the European Parliamentary elections (Howarth 2000). Ostensibly, this was due to his removal from the party following his refusal to accept the ratification of the Amsterdam Treaty, but long-standing opposition to EMU was a contributing factor. It remains to be seen if Pasqua's new Eurosceptic Gaullist party, the RPF (Rally for the French People) will remain a permanent element of the French party system and what impact it will have on the Right. The various French attempts to qualify the imposition of 'sound' money policies and technocratic control — outlined below — reflect French government efforts to prevent retrenchment. With the drop in interest rates from 1996, demands for withdrawal from the ERM and the pursuit of a more expansionist economic policy gradually declined. Public opinion also warmed substantially to EMU. The threat of retrenchment created by the election victory of the Plural Left proved only to be temporary (see below).

There was some degree of accommodation to State public policy preferences principally in terms of the 'sound' money policies that French governments had already successfully maintained and, at least initially during the EMU negotiations, the perception that France would have little trouble respecting the convergence criteria. In the period following German reunification and the sluggish economic growth of the early to mid-1990s, the move to EMU became more closely associated with lowering interest rates, a French preoccupation from the early 1980s. As mentioned above, EMU was also compatible with traditional French realpolitik, discourse and identity on European Community matters.

The start of Stage Three of EMU corresponded to a period of relatively strong economic growth in France, which has helped reinforce the legitimacy of the project (as demonstrated in the very favourable opinion polls). France was reaping the rewards of a long period of domestic adjustment that started in the late 1970s and was reinforced by the success in avoiding the devaluation of the franc from 1987 onwards. The strong trade surplus created by the policy of 'competitive disinflation' has continued into the Euro zone, despite the strong rise in domestic consumption. The substantial drop of German and French short term interest rates between 1995 and the start of 1997, in the period immediately leading up to the start of Stage Three and during the first two quarters of 1999 gave a much needed push to domestic consumption and investment. The substantial drop of the euro in relation to the dollar and the yen also suited French preferences. Throughout the 1990s, French governments argued that European currencies were overvalued in relation to the dollar. In a November 1996 article in the French weekly *L'Express*, former President Giscard d'Estaing — one of France's leading proponents of EMU — called for a unilateral devaluation of the franc in the ERM justified by the overvaluation of European currencies in relation to the dollar and the German refusal to lower interest rates to allow a devaluation of the mark. The Plural Left established a lower exchange rate with the dollar and the yen as one of its four conditions to be respected for continuing with EMU. French calls for European politicians to avoid expressing views in favour of a weak euro — notably Gerhard Schröder — should *not* be seen as a reflexion of the Jospin Government's preoccupation with the slide of the European currency. (7) The gradual rise in European interest rates from November 1999 also suited French economic needs. Growth was strong in 1999 and 2000 while the French Economy had spare capacity well into 2000: thus it was not against French interests to have a tighter but still accommodating monetary stance. Germany, at an earlier stage in the cycle, would have preferred the maintenance of lower rates. In terms of the monetary power motives that drove French policy on European monetary integration, the rate rise was seen as a manifestation of Germany's reduced influence in EMU — widely commented on in the French press — compared to its previous predominance in the ERM. (8)

Adjusting to independent monetary authority

The economic impact of the advent of the Euro zone has helped to legitimize the project which imposed highly controversial transformation (strong Europeanization) upon France: notably central bank independence. Administrative and political opposition to independence was rooted in four factors (Howarth 1999a): the republican tradition, notably the indivisibility of French political authority; the perception of the appropriate link between monetary and economic policy; the belief that low inflationary policies do not require independent central banks; and the institutional power concerns of the French Treasury. This opposition fed wider public concern regarding rule by 'technocrats' and the problem of democratic accountability.

Compared to other central banks, the Bank of France was normally considered to be one of the more 'dependent', with monetary power concentrated in the Finance Ministry (Goodman 1992). In the post-war period, the Bank had made repeated demands to increase its autonomy. However, political and Treasury opposition to greater autonomy had been too great to allow this. (9) The conservative liberal admiration of the 'German model' did not extend to support for central bank independence. On the left, autonomy was associated with the protection of private interests in the pre-war period, deflation, and inadequate investment. Nonetheless, prior to the Maastricht Treaty, the operation of the ERM, the stable franc policy, and financial market liberalization had already promoted a shift of relative power between the Treasury and the Bank of France in favour of the latter notably because of the increased importance of interest rate policy on which the Bank had the greater expertise (Mamou 1987; Dyson *et al.* 1994; Dyson 1997). The German insistence on the privileged position of the bank governors in the negotiations on EMU also reinforced the position of the Bank in relation to the Treasury.

The rapid move to independence at the start of 1994 (the start of Stage Two of the EMU project) was justified in terms of building confidence in the franc in the context of record levels of speculation, not the desirability of independence per se. (10) The intensity of the 1993 debate on the bill granting independence — opposed essentially by the same politicians who opposed EMU — and the necessary constitutional change (which thus required a special majority of three-fifths of both legislative chambers meeting at Versailles) demonstrated the unlikelihood that independence could have been achieved without the EMU project. (11) Article 1 of the bill on independence also attempted to meet republican objections regarding the ban on 'soliciting or accepting' outside instructions on the conduct of monetary policy by asserting that monetary policy must operate 'in the framework of the government's general economic policy'. The move to independence also provided the opportunity to transfer full power over banking surveillance to the Bank of France, opposed by the Treasury and traditionally by much of the political class. However, this was also seen as a crucial move to rebuild confidence in banking surveillance following the Crédit Lyonnais scandal which demonstrated the difficulty of maintaining effective Treasury control given the cosy networks of the Financial Inspectorate.

Independence and EMU transformed the role of the Bank of France in domestic policy-making. Governor Jacques de Larosière — former head of the IMF — had played a crucial role in the context of the discussions on EMU leading to Maastricht both as a credible interlocutor of the Bundesbank and in terms of his efforts — in the context of a very active and public campaign — to convince Mitterrand and others of the need for accepting German demands on independence. Bank of France governors in the past had previously been known for their criticism of government policy, especially during the Fourth Republic. However, most demonstrated caution when commenting on government policy-making. Following the move to independence, the bank has had to accommodate itself to a more active and public role in promoting the 'stability' culture in France. Jean-Claude Trichet, the first governor of the independent central bank, has made several thinly-veiled attacks on presidential and government economic and monetary policy statements and economic policy decisions which appeared to menace the pursuit of 'sound' money policies, the move to EMU, and the respect of the Stability and Growth Pact (Aeschimann & Riché 1996; Milesi 1997).

The organization of the appointment of the Bank's Monetary Policy Committee (governing board) members created the possibility of strongly divergent perspectives on monetary policy-making and a less orthodox bank leadership than that of the Bundesbank and, paradoxically, the pre-independence Bank of France. The appointment of six of the nine external members of the Committee for staggered nine year terms is shared between the presidents of the National Assembly, the Senate, and the Economic and Social Council (the other three, the governor and deputy governors, are appointed for periods of six years). By the start of 1997, a majority of the Committee (five of the six externally appointed members) were known for their anti-EMS credentials and opposition to the maintenance of the excessively high interest rates necessary to keep the franc in the ERM. (12) This majority battled unsuccessfully in favour of a rapid drop in French rates. In November 1996, two of the externally appointed members publicly expressed their disapproval of the EMU convergence criteria and argued in favour of an additional criterion emphasizing employment levels. (13) Thus, the governing board of the independent Bank of France has itself contributed to qualifying the emphasis placed on 'sound' money policies, which was established as the sole official goal of the 1993 statute. Paradoxically, in doing so, it may have reinforced the independent bank's legitimacy on the left.

Bank of France independence also involved a shift in government discourse on monetary policy. In the context of strong domestic political pressures to stimulate economic growth, there was a strong temptation to use the bank and notably its governor, Jean-Claude Trichet, as a scapegoat for the high interest rates maintained in the context of the operation of the EMS. This was highly problematic given the bank's fragile legitimacy and public support (unlike its German counterpart). Leading Eurosceptics and opposition politicians frequently attacked Trichet – whose name unfortunately approximates the French word 'to cheat' (*tricher*). More problematic were the attacks by President Chirac and the Juppé Government, some of which — in the context of continued doubt about French willingness to maintain high interest rates and commitment to the EMU project — prompted speculation against the franc. Thinly veiled personal attacks against Trichet threatened to undermine the professional credibility of the Governor and public acceptance of independence. (14) The Jospin Government has resisted criticizing the ECB or diverging in any way from public support for a strong euro. In part this reflects policy learning: the long experience of speculation has made French governments (particularly Socialist-led ones) more sensitive than the Germans of the need for caution when discussing monetary policies. The risk of incurring the sanction of the Euro zone partner governments also imposes greater caution. However, and more important, the difficult economic and political conditions of the 1992-1997 period have been lifted and will unlikely be recreated in the near future.

The French Treasury has had to accommodate itself to a very different kind of policy-making role. The loss of control over monetary policy and banking surveillance were only two elements of the gradual decline of Treasury power due to financial market liberalization, privatization, and European competition rules. However, the Treasury has regained influence in domestic policy making in the context of reinforced European coordination of economic policies — in the Euro-Council (now Group) and the Cologne process — and the medium term stabilization plans which have largely corresponded to conservative liberal reform priorities. The Treasury remains very much the centre of economic intelligence in France. Although the Bank of France has increased its capacities in this regard, the Bank still depends on Treasury information in several areas (notably economic statistics and forecasting information). Treasury power has been reasserted as the privileged partner in the Franco-German Economic Council created in November 1987, and (with the Bank of France) the Economic and Financial Committee (the rebaptized Monetary Committee) the first head of which was Jean Lemierre, a former Treasury director and Financial Inspector. The appointment of former Treasury director and Financial Inspector Christian Noyer as ECB Vice President (and thus member of both the Executive Board and the Governing Council) created a vital link between the French Treasury, the French financial elite, and the European bank. (15)

Policy regime reform

There has been both transformation and inertia in the different policy regimes where governments have sought to introduce reforms. The framework of monetary and financial discipline created by the EMS and the EMU project has been an explicitly manipulated driving force behind financial market liberalization, budgetary, fiscal, welfare state, administrative, and labour market reforms — most prominently in the 1994 Minc Report, the most comprehensive package of reform recommendations to date. EMU as weak Europeanization has been used by governments as a more politically acceptable way of 'internalizing' external economic imperatives represented by globalization. EMU as a justification of reform was presented as the central message of Chirac's public about-face on the project on 26 October 1995, the Juppé Plan the following November, and the turning in the Jospin Government's budget policy in the summer of 1997.

EMU as a justification of reform has, however, run up against competing values. Ideologically inspired political opposition to reforms combined with trade union opposition to modifications to social security regimes and privatized public services which disadvantage public sector employees have also resulted in some degree of inertia in France. Slower than expected change has been due less to domestic institutional veto players, than the lack of political will to push reforms through too rapidly given the political difficulties of doing so: manifested in the widespread strikes and public demonstrations of December 1995 and the frequent strikes and demonstrations in affected sectors. Public administration staff cuts (the non replacement of retiring staff) have been recommended in diverse reports but consistently avoided by governments. In April 2000, Lionel Jospin sacrificed his Minister of Finance, Christian Sautter, and cancelled cuts in the total number of tax officers (the non replacement of retired staff) which sparked off nation-wide strikes. The aim of the cuts had been to set a precedent to be followed by other ministries. The French public sector deficit remains one of the largest in the Euro zone and there is pressure on France from the European partners to make more sustainable cuts to public spending. With presidential and legislative elections in 2002, the current Jospin government is unwilling to engage in further cuts that would enable it to meet the aim of a budget surplus during periods of relatively strong economic growth established in the Stability Pact. French public sector debt hovers very close to the 60 per cent criterion which makes more substantial cuts necessary following the 2002 elections.

Careful political management, increased emphasis on negotation, good relations with trade union leaders and gradualism have become core elements of government reform strategies (along lines outlined by Marsh (1999)). The public reaction to the Juppé Plan, announced in November 1995, demonstrated the dangers of pushing through ambitious reforms without adequate consultation and supportive coaltions (Howarth 1999b). The presence of Communist, Green, and left-wing socialist parties in the Plural Left Government has made the management of reform particularly hazardous but has equally helped to contain opposition (Cambadélis 1999). Jospin has placed considerable emphasis on open debate, although coalition partners have come increasingly to complain that this debate is principally a technique to push through reforms they find unacceptable. In this context, the government audit of 1997 was necessary to justify continued government spending cuts, which the Plural Left coalition had promised to stop, to meet the three per cent criterion. Jospin also created the Council for Economic Analysis (CAE), attached to his office. This group consists of 38 academic economists appointed by the Prime Minister who meet once a month to discuss matters chosen by the Prime Minister or other ministers in advance. It has been presided over by either Jospin himself or Pierre-Alain Muet, a leading French academic economist and member of Jospin's support staff (*cabinet*). The stated purpose of the Council is to provide an opportunity for open debate on the major economic and social questions of the day prior to government decision-making.

Its members produce reports requested by ministers and these reports reflect, rather than suppress, the diversity of views. The Council is intended to present a public challenge to the perceived excessive technocratic (Treasury) control over economic policy (interviews with Council members; Victor 1999, 427). It plays the role of legitimizer of controversial economic policy decisions and a means to contain the opposition of left-wing academic economists. More generally, the creation of the Council demonstrates an attempt to respond to those who question the legitimacy of the highly technocratic EMU and the economic constraints that it imposes by demonstrating the continued capacity of the government to take an activist line on economic and social policies.

Financial market liberalization

After monetary policy, the financial market liberalization of 1984-1988 was the first major French policy regime reform linked explicitly to the operation of the EMS. It was inspired more by Anglo-American neo-liberalism — which shaped the thinking of American-educated members in the Socialist Finance Minister Pierre Bérégovoy's *cabinet* — than 'sound' money ideas imported through the operation of the EMS. Still, the decision to maintain the franc in the ERM made financial liberalization both more acceptable and likely because French policy had to focus upon market-imposed interest rates more closely and the continued participation of the franc in the ERM made the pursuit of low inflationary policies more necessary, whereas the provision of State allocated credit in the *circuits de trésor* was inherently inflationary. The challenge to inflation provided a useful logic that helped overcome the institutionally-rooted reluctance to accept liberalization in the Treasury that had blocked previous reform attempts (Loriaux 1991). Financial market liberalization also in turn reinforced the ERM constraint and increased the logic to move to EMU. The limited development of French institutional investors resulted in the dramatic growth of French dependence upon foreign (largely American) held debt, which amounted to roughly 40 per cent of total debt by the early 1990s, far higher than any of the larger EU member states. This in turn meant that French governments had to be particularly cautious about the perceived strength of the franc and attractiveness of French interest rates (Reland 1998). It also created new controlling interests — American pension funds — which have increased the importance of share-holder return and discouraged interventionist strategies that do not promote this. The need to maintain high real interest rates in the context of the asymmetric operation of the ERM encouraged the French to pursue the reform of the system and led to the Basle-Nyborg accords on improved interest rate policy coordination. The German refusal to accept further obligations that would make the EMS a more symmetric system encouraged French interest in more substantial reform. Increased reliance on foreign capital and the desire to build Paris as a financial centre also made capital controls imposed at the national level increasingly problematic which in turn increased French willingness to proceed with capital liberalization, which the German government had established as a precondition for proceeding with discussions on EMU. Nonetheless, French governments remained wary of the impact of liberalization on exchange rate stability given the persistent speculation against the franc well into 1987. Ironically, President Mitterrand had to impose liberalization upon Bérégovoy, the father of financial market reform (Howarth 2001).

Budget cutting
The 'sound' money policies pursued in the context of the EMS constraint increased pressure on governments to keep public spending under control. Following financial market liberalization, budgetary restraint was deemed necessary to lower French interest rates. The justification of budget cutting has involved a reinvention of discourse appealing to the preoccupation with unemployment. Dramatically reversing the reflationist discourse and criticism of the deficit convergence criterion of his presidential campaign, in October 1995 Jacques Chirac explicitly justified the need for rapid cuts to ensure the move to EMU in 1999.(16) This is a major example of weak Europeanization: the EMU project, German insistence on respecting the 3 per cent public deficit criterion and the Stability and Growth Pact, have placed budget reform high on the agenda. However, even without the external constraint budget cutting would have been a priority because of record high tax levels and decreased margin of manoeuvre in budgetary policy (a growing percentage of the total budget consisted of allocated expenditure). (17) In 1993, the budget deficit reached an unprecedented 6 per cent. In his October 1995 interview, Chirac also insisted that low budget deficits were a precondition of job creation, a core argument in conservative liberal discourse. Governments have been forced to examine possible cuts in government and social security spending, a tighter control over local government budgets, but also, more controversially, structural reforms. The ability of the Jospin Government to respect the criteria for 1998 depended largely on privatizations and transfers of French Télécom profits. More problematically, in 1996, the Juppé Government assumed State control over existing France Télécom pensions; this led to France Télécom transferring 37.5 billion francs to the State budget which diminished the deficit by 0.45 per cent — vital to prove continued French commitment to the EMU project — but also imposed a heavy financial burden on future governments. (18)

Barring substantially higher economic growth rates, further structural reforms are required in order to respect the Stability Pact in the medium term. Government cuts to date have largely affected the Ministry of Defence. With one of the largest public administrations in Europe (in terms of percentage of total jobs), cuts to staff numbers have been widely recommended. The Picq report of 1994 established the goal of replacing only 1 in 3 civil servants retiring from the administration in order to reduce the total number of staff to 1980 levels (a 15 per cent cut). However, in the context of record high levels of unemployment and the strong and militant trade union presence in the public sector (led by *Force Ouvrière*) cuts were postponed by the Balladur and Juppé governments. The need to start making politically difficult cutbacks — combined with an anticipated economic downturn — was one major consideration that led President Chirac to dissolve the National Assembly and hold the legislative elections in June 1997, ten months earlier than necessary. Just prior to these elections, the UDF Minister of Finance Jean Arthuis promised the reduction of personnel (*Le Monde*, 2.4.97). However, the Plural Left Government has continued to delay total staff cuts. The Jospin government has used staff replacement as a political device to demonstrate its commitment to job creation in the public sector (allied with temporary youth employment schemes).

Improved budget management has also come on to the agenda as another example of weak Europeanization. Bolstered by the Stability Pact commitment to budget surpluses during periods of economic growth, Arthuis called for the desirability of changing the budget ordinance of 1959 in order to prohibit a deficit on current expenditure (Arthuis 1998). Government bond finance would therefore be strictly limited to capital expenditure. This move would have been in keeping with the emphasis the finance minister already placed on the distinction between current and capital expenditure in the preparation of the 1997 budget. While such a reform proposal has had some support in conservative liberal circles, without the Stability Pact it is unlikely that it would have been proposed by an acting Minister of Finance. There have also been growing calls to increase parliamentary control over the budget — increased powers and resources of the finance committees of the two houses — in particular to resist more effectively the adoption of supplementary credits by decree. (19) To date, the well-entrenched opposition to the extension of parliamentary control over the executive has prevented any significant moves in this direction (demonstrating the clear limits of weak Europeanization).

The Juppé Government was not, however, opposed to the extension of parliamentary control over the level of overall social security expenditure. This involved a major challenge to the powers of the social partners (employers' representatives and trade unions) which previously had the final say over budgets in the mutual fund administrative councils. Opposition to this element of the Juppé Plan was one of the factors which sparked off the December 1995 demonstrations. Nonetheless, the government proceeded with the necessary modification of the constitution (19 February 1996) and the legal process (a decree of 24 April 1996) to enable the reform. Decrees were also adopted to reform hospital administration and to control more effectively medical practioners' standard consulting fees. The Juppé government also — unsuccessfully — sought to modify the pension regimes for public sector employees in order to increase the number of contribution years to that of the private sector (from 36.5 to 39 years). Initial moves in this direction in November 1995 — affecting train and metro conductors — were rescinded to end nation-wide strikes.

Prior to the June 1997 elections, the Plural Left promised an end to budget cuts. The Jospin Government rapidly abandoned promises to run an activist budgetary policy and continued with cuts in government expenditure, notably in defence. Nonetheless, the Jospin Government maintained the rhetoric of margin of manoeuvre — vital for maintaining legitimacy on the left — promising an increase of 1 per cent in government expenditure (whereas the Juppé government had sought a stagnation of expenditure). In December 1998, the Jospin Government announced its annual medium term stabilization plan for a sustainable drop in the public deficit. The increase in government expenditure would be only 1 per cent over 2000-2 (.3 per cent per year) — a reinterpretation of the previous promise — lowering the public deficits from 2.3 per cent in 1999 to 0.8-1.2 per cent in 2002, depending on growth levels. From the start of 1999, the government announced that for the 2000 budget there would be no spending increase, demonstrating its decision to save spending increase for the lead up to the 2002 presidential and legislative elections. The Socialist-led Government recognizes the unpopularity of cutbacks in its own constituency, much of which works in the public sector. Finance Minister Christian Sautter failed in his efforts to decrease the excessively large number of tax administrators due to the unwillingness of the Socialist-led government to push through cuts in the face of stubborn trade union opposition. He was replaced by the more politically-astute former Prime Minister Laurent Fabius, who has put all government cutbacks on hold. Relatively strong economic growth during the first three and a half years of its administration, has enabled the Jospin government to delay more substantial sustainable cuts until after the 2002 elections.

The debate in early 2000 on the unexpected budget revenue (due to stronger than predicted economic growth) — the '*cagnotte*' — is interesting in this regard. The use of the '*cagnotte*' became a symbol of Jospin government priorities. Rather than use the '*cagnotte*' to further reduce the deficit, Jospin was constrained by the Socialist left and the Plural Left coalition partners to use the money to increase government spending. Likewise, the government has sought to prioritize income tax cuts for the first time in 15 years (announced on 31 August 2000) (French taxes are among the highest in the Western world). This involved tax reductions on all incomes in particular the least well off, and on companies, with the aim of stimulating further growth in order to further lower the deficit.

Labour market reform

The restriction of interest-rate and exchange rate policies in the EMS and their loss in the EMU project along with the increased wage competition in the Euro zone has placed increased pressure on French governments to modify labour market policies and increase wage flexibility (another example of weak Europeanization). Reform has taken place in the context of high structural French unemployment due to the high minimum wage and high social security charges imposed on French companies, in addition to the political difficulties of lowering the minimum wage — there is also the tradition of new French presidents and governments raising the minimum wage above the rate of inflation — and the lack of centralized wage bargaining which make negotiated solutions more difficult. The attempt by the Balladur Government in 1994 to introduce a young person's SMIC (minimum wage) met with stubborn student resistance and was dropped. The combination of these factors has led to two major policy responses to deal with the problem of labour market inflexibility. French governments have relaxed rules on hiring: allowing greater scope for the creation of work of a limited duration (*contrats de durée déterminée*, CDD) and part time work. The Jospin Government has also created the possibility for greater flexibility in the context of the 35 hour week: notably by allowing companies, in the context of collective bargaining leading to the implementation of the 35 hour week, the possibility of freezing wages and spreading the 35 hour week over the period of a year.

French strategy to qualify 'sound' money policies and legitimize the EMU constraint.

At the European level, French governments of both the left and the right have consistently manifested a desire to qualify two core elements of the EMU project — the prevalence of 'sound' money policies and technocratic control over monetary policy — with more interventionist EU strategies. This is reflected —

despite the increased influence of conservative liberalism and the determined pursuit of low inflationary policies — in the long standing French efforts to convince the Germans to accept a more balance economic convergence and increased strong currency country (German) obligations in the EMS to decrease its deflationary impact. To reiterate French interest in monetary co-operation and integration: French governments accepted the need for an external constraint but opposed an excessively rigorous constraint. Since the early 1980s, French governments have also actively pursued job-creating reflationary EU strategies, including most notably, Chirac's success at the June 1995 Cannes European Council in convincing his European partners to accept a massive EU-wide infrastructural development programme (never put into effect). The modification of the EMU convergence criteria, the creation of an EU 'economic government', including improved economic policy coordination and a strengthened employment policy, and the creation and reinforcement of EU social policy, demonstrate the continued attempts to qualify and counterbalance 'sound' money policies. French governments have consistently sought to qualify the economic policy-making constraints imposed by the EMU project, while accepting the EMU goal itself. They have actively sought to make the EMU semi-sovereignty game 'stickier' to satisfy French policy preferences excessively restricted at the domestic level. Government efforts in these areas should also be seen as an important legitimizing exercise of the EMU constraint and 'modernizing' reforms, appealing to the strong interventionist tradition in France — part of what Dyson (1999) has labelled the 'craftsmanship of discourse'.

National politicians both in government and in opposition have had difficulty accepting the idea — central to 'sound' money policies — of the neutrality of monetary policy in terms of employment. The unique situation following German reunification of low French inflation combined with high interest rates required to maintain the franc in the ERM — and thus record high real interest rates — did not help in this regard. From 1991 to 1997, French governments were very critical of the Bundesbank and the Bank of France for the excessive caution in lowering interest rates, which tended to undermine the credibility of French monetary policy.

The qualification of the convergence criteria (notably the 3 per cent deficit rule) was a consistent demand of French governments given the economic difficulties of the mid-1990s, the dramatic rise in public sector deficits, and the political difficulties associated with necessary cuts. The French had accepted the convergence criteria in 1990/91, being one of the few countries that could respect them at the time. French negotiators equally proposed the 3 per cent deficit criterion rule, whereas the Germans had accepted a more relaxed calculation of deficits. (20)

The Juppé and Jospin governments accepted the creation of the Stability Pact — principally as a means to meet Kohl Government demands and counter strong opposition to EMU in Germany. However, they sought to render it as innocuous as possible (Milesi 1997; Schor 1999). The Juppé Government wanted to avoid the automaticity of fines sought by the Germans, giving priority to politically determined fines (in the Ecofin). After prolonged discussions, the French accepted automaticity. They then sought derogation in the event of economic recession. However, on this as well, the Germans largely prevailed: derogation is guaranteed in the unlikely event of recession beyond 2 per cent of GDP and politically determined in the event of a shrinking GDP between 0.75 per cent and 2 per cent of GDP. The Germans also succeeded in imposing the goal of budget surplus during periods of economic growth. The addition of the word Growth to the Stability Pact was a French demand to ease the acceptance of the pact at home.

The Plural Left had promised the rejection of the Stability and Growth Pact as part of their wider push for a '*euro-social*'. To avoid a crisis on this which would have put the EMU project at risk, at the Amsterdam Summit the Jospin Government reached a compromise with the Germans. This involved the symbolic qualification of the resolution on the pact by its combination with a general and vague resolution on growth and employment, topped by a common preamble which ostensibly granted equal weight to both. The Amsterdam resolution on 'Growth and Employment', included the 'urging' (no obligation was established) of the European Investment Bank (EIB) to increase its interventions in high technology and Small and Medium Sized Enterprise (SME) projects, as well as education, health, environment and large infrastructure projects on the grounds that these tend to create jobs. In reality, this commitment did not amount to any real change: the EIB already took employment into account in its investment decisions and there was no increased funding (which the Germans were quick to state). However, a previously agreed EIB loan for small and medium sized companies was announced at the Amsterdam Summit and presented by the Jospin Government as proof that the new employment policy — see below — had teeth. Jospin Government efforts to ensure the participation of the Italians (another Plural Left demand) also reflected the desire to maintain a less rigorous Euro zone and limit German influence. French support for not penalizing Italy for its excessive deficit in 1999 equally reflected more relaxed French attitudes to the application of the Stability and Growth Pact.

French preference to qualify 'sound' money and technocratic control has also been reflected in constant demands for the establishment of a European 'economic government': a political counterweight to the ECB to improve economic policy coordination and establish an appropriate policy-mix at the European level. The aim of improved European economic policy coordination had been a French policy ambition from the start of the petrol crisis, normally with the aim of encouraging the Germans to reflate their economy (or lead an EC-wide reflation) or improved interest rate policy coordination in the EMS (created in the Basle-Nyborg reforms of September 1987) to increase German responsibility for helping weak currencies resist speculation. Bérégovoy first raised the need for a European economic government in 1988 to challenge the obvious predilections of the central bank governors meeting in the Delors Committee. In their draft treaty of January 1991, French Treasury officials insisted:

> Everywhere in the world, central banks in charge of monetary policy are in dialogue with the governments in charge of the rest of economic policy. Ignore the parallelism between economic and monetary matters ... and this could lead to failure.

The draft treaty also proposes that the European Council, on the basis of Ecofin reports, define the broad orientations for EMU and the economic policy of the Community. Within these orientations, Ecofin would co-ordinate the policies of member states and make recommendations to individual governments, while the ECB would manage European monetary policy. Bérégovoy insisted that the French draft treaty did not seek to challenge the independence of the ECB and the pursuit of the goal of price stability — which the Germans would have refused to accept (*Le Monde*, 17.1.91). French discomfort with having to accept unqualified central bank independence was reflected in the efforts by Socialist government politicians to avoid the issue during the 1992 Maastricht referendum campaign. (21) Likewise, French governments have exaggerated the importance of subsequent developments at the EU level to the construction of an economic government. The agreement at the December 1996 Dublin European Council to create a Euro-Council (subsequently downgraded to Euro-Group given German opposition to the use of the term 'Council' which suggested that the new body had legal powers which it did not) was presented by the Juppé Government (and subsequently the Jospin Government) as an important step towards economic government. (22) The new Economic and Finance Committee (the rebaptized Monetary Committee) was also presented as an element to reinforce the control of the Euro-Group over the economic framework in which monetary policy was made, and thus a step closer towards the creation of economic government (*Libération* 13.1.99). Each reinforcement of economic policy coordination at the European level — including the Cologne Macro-Economic Dialogue — has been seized upon by the Jospin Government as a victory of the French perspective. While some form of economic government is indeed being created (see Wessels & Linsenmann 2001), the overriding goal of coordination to date has been to ensure the maintenance of price stability, rather than the older French objective of stimulating economic growth. Recently, Fabius, the Ecofin president during the second half of 2000, blamed the weakness of the euro on the lack of strong political leadership in the Euro zone, the absence of an EU equivalent of the American Secretary of the Treasury. In order to reinforce its arguments, the Jospin Government created a group in the Planning Commission, chaired by the economist Robert Boyer, to provide a detailed plan of alternative scenarios for the reinforcement of strategic EU-level economic policy coordination and the construction of economic government (Boyer 1999). Boyer (1998) has been a well-known critic of what he labels the 'political and institutional deficits of the Euro'.

Economic government as expressed through the creation of a substantial EU employment policy has been of particular importance for the Plural-Left Government as a reinforcement and legitimation of activist domestic employment policies and a qualification of the Stability Pact. The Juppé Government had accepted the German refusal to extend the EU policy remit to cover employment in the Amsterdam Treaty. Respecting campaign promises, Jospin reached a compromise with the Germans that involved the creation of the Employment Chapter, the resolution on growth and employment, and the formulation of a European employment strategy. As already noted, the resolution involved only vague objectives. The Employment Chapter created would involve no additional spending or obligatory measures but would rather focus upon information sharing, pilot projects, and benchmarking, as agreed upon at the Luxembourg and Cardiff jobs summits. French Socialist ministers have consistently stressed — if not exaggerated — the significance of EU policy developments in this area (Howarth 1998).

French government efforts to establish and then reinforce a European social policy from the mid-1980s should be seen as a French strategy to limit the competitive disadvantage, in the context of the Single European Market, created by expensive French social programmes and generous workers' rights, and corresponding high taxes and social charges on companies (Guyomarch *et al.* 1998). EMU reinforces this disadvantage by creating a new transparency in prices and costs. For Socialist governments, in particular, the Social Chapter has also been a legitimizing device to balance excessive emphasis on economic and monetary integration. French strategy has been to establish a higher minimum European standard that acts as a buffer protecting the French social security system from the competitive impact of globalization. German and British governments have sought to minimize European level developments in this field and a common lowest denominator approach has very much prevailed affecting only the countries with the lowest standards (notably the UK) but even these developments have, for the domestic audience, frequently been presented as victories for French governments. It should also be noted, that tax harmonization has been another priority of French governments anxious to challenge more competitive tax regimes which place French companies at a disadvantage and attract French capital.

Domestic employment and social policies : 'modernizing' interventionism
Jospin's rallying cry — widely embraced by centre-left governments — has been '*oui à l'économie du marché mais non à la société du marché*', a core motif of his 'modern socialism'. Thus, if the reinforcement of EU level employment and social policies has been a priority for the Plural Left Government, of much greater importance has been domestic policy developments in these areas. The legitimizing 'social democratic' element of Jospin Government policy-making has come principally in the guise of active intervention to create jobs and in particular jobs for young people. The Plural Left Government promised to create 350,000 jobs in both the public and private sectors. The targets have been met thanks to the establishment of special low paid and temporary contracts for young people in the public sector (emplois-jeunes) and improved economic growth in the private sector. The 35 hour week is an interventionist policy that has not contributed to the government budget deficit. It has been presented very much in terms of social justice. However, faced with the need to increase labour market flexibility and lower unemployment, the government has reneged on its promise that wages would not be affected, allowing companies to freeze wages in the context of collective agreements with trade unions. As a legitimizing device, the 35 hour week is thus proving to be problematic.

The Plural Left Government has also placed considerable emphasis on social policy, although here rhetoric has not been matched by large increases in spending. The creation of the 'universal health coverage' (*Couverture Maladie Universelle*, CMU) has been the most significant social policy development to date (it was agreed in principle in March 1999 and started on 1 January 2000). It is to finance the complementary health care of some 6 million poorest people.

While the policy has improved the left-wing credentials of the government, the organization of the payment for this programme demonstrates another underlying reform agenda which could transform the French social security system. The funding for the CMU comes from the State (1.7 billion francs) as well as mutual funds and insurance companies (a total of 9 billion francs). The government wanted to minimize the budgetary impact of this new policy. The mutual funds equally sought to minimize contribution increases. Private insurers have thus taken the opportunity to strengthen their position in the social security system which could be a major market for them. This development should be seen in the context of cautious steps by Jospin to allow private insurers to cover extra complementary (*sur-complémetaires*) pension regimes (adopted in October 1998). This development, very controversial on the left, represents possibly a first step to the development of Anglo-American style pension funds, rendered more politically acceptable by 'socialist' frills: no fiscal advantages for higher income earners and fund management by the 'social partners'.

Jospin Government tax reform has also displayed this Janus face characteristic which demonstrates the growing pressures placed upon the French by the Single Market and EMU to adopt a more competitive tax regime. On the one hand, the newly elected government adopted a series of tax measures designed to demonstrate its reformist left-wing credentials: a rise in the tax imposed on the largest fortunes, a major increase of the CSG (*contribution sociale generalisée*) created to help cover the social security deficit, a slight increase on savings taxes, the progressive reduction of health care contributions (*cotisations-maladie*), a temporary increase in company tax (for two years), and the targeted drop of certain VAT rates to benefit low income earners. The Jospin Government argued that France had progressed far enough in the European race to lower taxes (even though French corporate tax rates remain among the highest in the EU). However, it is important to stress that there was no introduction of new capital taxes and few of the measures had a significant redistributive impact. At the same time, the Jospin Government has proceeded cautiously — despite considerable opposition on the Left — with the lowering of the relatively high French tax on company stock options. The recent Fabius income tax cuts (announced 31 August 2000) benefited all income groups (although the CSG was cancelled for the lowest income earners) as well as companies.

Conclusion

EMU as strong Europeanization has involved reforms to the French State which likely would not have been adopted given deep-seated domestic opposition — notably central bank independence but also the management of domestic policy refroms through the medium term stabilisation plans. The operation of the EMS and EMU as weak / bottom-up Europeanization has helped French governments push through controversial reforms. Monetary integration has been a self-imposed 'semi-sovereignty game' which has involved the 'framing' of several policy regime reforms in terms of improving the fitness of the French State and economy in the lead-up to EMU combined with the Single European Market. This has been more politically acceptable than 'framing' reforms in terms of coping with globalization, given the widespread negative connotation that this invokes in France of liberalism beyond the control of governments; whereas the EMS and EMU have been presented as an extension of French State action and a reflexion of French monetary power interests. Europeanization has involved a redefinition of French State identity towards stabilisation as emphasised by conservative liberals. However, this redefinition has been couched in active State responses to the challenges of the Single European Market and globalization — in the areas of social and employment policies at the EU and domestic levels, as well as the impressive ability of French governments to spread adjustment costs over more than a decade within the ERM constraint and to keep a politically tenuous and economically problematic EMU project on track. There may be different emphasis placed on the role of the State by French governments of the right and the left, with the latter stressing more active State responses. Moreover, the constraints of European and global competition, reinforced by EMU, increasingly limit the scope of this interventionism. However, the degree of continuity demonstrates the institutionally embedded dirigiste legacy — and the domestic political difficulties involved in pushing through some reforms — which will continue to make French responses to the constraints of the Euro zone unique despite the pressures to converge.

Notes

1 It is important to stress that French negotiators did not perceive the convergence criteria as difficult to satisfy when they were agreed during the EMU negotiations. France was one of the few EC member states that met the criteria in 1990-91.

2 Lionel Jospin continued to call for the imposition of an international tax on speculative capital movements (the so-called Tobin tax) right up to the 1997 legislative elections.

3 For an example of their joint initiatives see their article in *Le Monde* (15.1.99), 'Tirer le meilleur parti de l'euro'.

4 Strauss-Kahn was frequently praised for his ability to present very different messages at different fora.

5 Neo-liberal ideas had inspired key members of Bérégovoy's *cabinet* who encouraged liberalization despite Treasury opposition. Treasury reticence was rooted principally in the problematic nature of liberalization prior to the development of the French bond market and the lack of large institutional investors (notably pension funds). Arguably, it also reflected some degree of hostility to the Treasury's loss of control over investment decisions in the context of dominant State credit managed through the Treasury circuits. See Mamou (1987).

6 For a detailed description of the development of French public opinion see the annual surveys in Sofres (1990-1999); and Balleix-Banerjee (1999). Precise poll results depended upon the wording of the question but support for both the EMS and the EMU project remained consistently above 50 per cent.

7 Interviews with Treasury officials. *Le Monde*, 9.9.2000.

8 Economist Intelligence Unit, *Country Report France*, 2nd quarter 2000.

9 Prior to the 1986 elections, leading RPR politicians, including Jacques Chirac, called for independence. Charles Pasqua, subsequently an opponent of the Maastricht Treaty, prepared a draft bill to this effect. Once in government the project was dropped.

10 A rapid move to independence was accepted by Mitterrand and the Socialist Government in late 1992, delayed because of the 1993 legislative elections and put into effect by the RPR-UDF government — well in advance of the required date.

11 The legislation on independence was initially blocked by the French Constitutional Council on the grounds that, under the constitution of the Fifth Republic, a government could not delegate responsibility for the conduct of monetary policy to an independent body.

12 The leading Neo-Gaullist Eurosceptic, Phillipe Séguin, as president of the National Assembly, nominated Jean-René Bernard and Pierre Guillen (appointed 3 January 1997). The latter, a former president of the metal-workers' federation, had actively opposed the Maastricht Treaty.

13 *Le Monde* interviews on 22.11.96 and 29.11.96 with Paul Marchelli and Jean-Pierre Gérard respectively.

14 On 14 July 1995, in a televized interview, Chirac implicitly — but very clearly — took Trichet to task on two matters: high interest rates and the laxity of banking supervision in the late 1980s and early 1990s — when Trichet was head of the Treasury — which contributed to the Credit Lyonnais scandal.

15 Noyer's appointment — although acceptable according to the ECB statute given his experience in the area of monetary policy — was unusual, as he was the only member of the ECB Governing Council with no direct professional or academic experience in central banking.

16 Europe 1, interview, 26.10.95.

17 In 1990, the fiscal receipts of the State were affected at 57% to unavoidable expenditure linked to employment policies, the civil service, and debt charges. 43% was left for other expenses which allowed the government to leave its mark on budgetary policy. 8 years later, in 1998, only 12% remained for unallocated expenditure (Ministère de l'Economie et des Finances et de l'Industrie, *Politique économique 1998*).

18 This transfer was also good for France Télécom when the company introduced part of its capital on to the Bourse: increasing interest in buying FT shares. The financing of FT's shares was estimated at 251 billion francs by the Finance Committee of the National Assembly. In addition to the 37.5 billion francs, FT

was to give the State an amount each year to cover 99 billion francs of the pension charges, leaving the State to cover 114.5 billion francs.

19 Two former finance ministers with long experience in the National Assembly and Senate finance committee have called for this (Arthuis 1998; Alphandéry 2000).

20 The 3% figure was the highest point reached by the Socialist Government public deficit in the early 1980s which Mitterrand thought unlikely to be reached again.

21 On one significant occasion, during the major televized debate on the Treaty in early September, President Mitterrand misleadingly claimed that elected officials would establish the economic policy framework for the formation of monetary policy: an interpretation of the Treaty inconsistent with its actual provisions (Libération, 4.9.92).

22 Despite Socialist Government claims, in real terms, the creation of the Euro-Council (Group) had no impact on the monetary policy powers granted to the Council (Ecofin) by the Maastricht Treaty, which included, most significantly, the establishment of exchange rate agreements with countries outside the Euro zone — on the strict condition that the Council respect the goal of price stability. The Euro-Council was logically necessary: the EU member States which did not participate in EMU were not to contribute directly to the discussions on economic matters of common interest of the countries within the Euro zone. However, the Euro-Council had no legal powers: all its decisions would have to be confirmed by Ecofin.

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