

**DEFINING THE NATIONAL INTEREST: DOMESTIC SOURCES OF THE FRENCH  
EUROPEAN MONETARY POLICY DURING THE MITTERRAND ERA**

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**Abstract**

The French European monetary policy during the Mitterrand years evolved through three stages: 1. Defining the national interest, 1981-1983 (The First EMS crisis); 2. The deepening of the *franc fort* policy (1984-1992); 3. The consolidation of the *franc fort* policy, 1992-1993 (The Second EMS crisis). The *franc fort* policy based on redefined national interest was epitomized by the French "U-turn" of 1983 and consolidated at the EMS crisis in 1992 and 93.

The process of redefining national interest reflected a specific feature of the French policy-making community. The implementation and consolidation of the *franc fort* policy had been led by technocratic elites. During the crisis period, especially during the 1982-3 EMS crisis, the role of the president and socialist politicians had been dominant. As socialism faded out, the political nature of the EMS decision was taken over by a technocratic decision. The deepening of the ideational consensus among economic elites redefined the French national interest in a way to make an exit from the EMS more difficult. In a later crisis, 1992-3, the defense of the franc was led more by the opinion from technocratic elites, including the economic bureaucrats of Trésor and Banque de France. Elite cohesion based on the *Grands Corps* system remained intact and facilitated the consensus on the redefinition of national interest.

The increased democratic deficit between administrative elites and citizens brought a problem of the legitimacy of delegation. The self-justified delegation and a passive consensus on the European monetary integration came under a doubt, leading to the crisis of Maastricht referendum and the 1995 strike.

## I. INTRODUCTION

During the process of European monetary integration, the institutions of the EU had transformed interests and preferences of the member states. To maximize benefits from the integration, member states had to adapt themselves to a new institutional structure unless they had enough capacity to change the structure itself. I interpret this process of adaptation as a redefinition of national interest. In this paper, I argue that the national interest itself should be counted as changeable and that it is being continuously redefined according to a given political context.<sup>1</sup>

This paper asserts that the French national interest had been redefined to adjust to changing external constraints, especially European monetary integration. The French European monetary policy evolved through three stages during the Mitterrand years: 1. Defining the national interest, 1981-1983 (The First EMS crisis); 2. The deepening of the *franc fort* policy (1984-1992); 3. The consolidation of the *franc fort* policy, 1992-1993 (The Second EMS crisis). Europe became a major constraint in the economic policy of the French governments during the Mitterrand era. As Europe became officially a subject of internal politics, pursuing economic policy needed a combination of political imperative of European construction and economic policy.

Domestic political actors redefined their versions of national interest in light of new circumstances and the winning group could make their own principle as a general interest representing the French interest. In this paper, I employ three domestic political variables: the president, party/National Assembly, and bureaucracy. During the crisis period, especially during the 1982-3 EMS crisis, the president and socialist politicians had been dominant in defining the French preference in the European monetary integration. As socialism faded out, the political nature of the EMS decision was taken over by a technocratic decision. With the deepening of European monetary integration, the *franc fort* policy began to reflect the will of administrative elites who, in accord with the national political power, had preferred to "naturalize the exigencies of modernization invoking the European constraints."<sup>2</sup> The role of technocratic elites in the Trésor and the Banque de France will be given focus as a determining factor in pursuing the

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<sup>1</sup> Simon Hix contrast two notions of national interest. One is a rationally-constructed national interest and the other is a Hoffmann's primordial conception of nationalism. The former is bargainable interest while the latter is non-negotiable. In this paper, I will use the term in the first sense. Simon Hix, "The study of the European Community: The Challenge to Comparative Politics," in West European Politics, V.17, No.1 (January 1994)

<sup>2</sup> Elie Cohen, "Contrainte économique et action politique", in Pouvoir 68, 1994, p.94.

*franc fort* policy and, therefore, in redefining the national interest. The process of redefining national interest reflected a specific feature of the French policy-making community. Elite cohesion based on the *Grands Corps* system remained intact during the Mitterrand years and it facilitated the consensus on the redefinition of national interest by the economic elites.

From a perspective of domestic-international relations, the examination of French experience shows that the external economic constraint does not directly lead to policy outcome. It affected the domestic politics first by changing the context of decision making. The equilibrium of political actors were also changed. The winning groups in the new context began to determine the French national interest. In this sense, "domestic politics" does matter. However, I differentiate my argument from the domestic political determinism in that domestic politics had substantially been influenced by the external constraints. The composition of policy community and the consensus among the core policy actors reflect both domestic and international aspect.

The second part of this paper examines the theoretical background of domestic politics in European monetary integration and the role of bureaucrats in defining the national interest. The third part traces the evolution of the French European monetary policy during the Mitterrand era. The role of each domestic actors will be discussed in the fourth part. Part five focuses on the bureaucratic domination of European monetary policy-making and its consequences. Evaluation of the French European monetary policy during the Mitterrand era will be made at the conclusion.

## **II. THEORETICAL PERSPECTIVE: DOMESTIC POLITICS AND RECONFIGURATION OF NATIONAL INTEREST**

### **1. Redefinition of national interest.**

This research employs the conception of national interest to explain the interaction between national governments and European institutions. European integration proceeds as a result of converging national interest among the member states. The formation and redefinition of national interest in these countries are influenced both by internal and external factors. National interest is not entirely endogenous nor exogenous. Domestic political actors played a role in intermediating and distributing external constraints to their constituencies while, in turn,

affected by them. During this process, the European identity and relative capacity of each actor in the policy arena had shifted. The winning group exerted their version of national interest.

Redefinition of national interest had preceded policy reformation. As institutional effects accumulated in the EC, the way governments and other actors perceive and pursue their interests had been altered. National interests were defined in context of the EC membership. EC has become part of the interest calculation for government and political actors.<sup>3</sup>

Usually the reconfiguration of national interest had been made by government leaders and bureaucratic elites. In European monetary integration, a highly insulated nature of monetary policy making placed the elites' definition of national interest at the center of interstate bargaining toward policy coordination and monetary union.<sup>4</sup>

Two theoretical perspectives of redefining the national interest need to be addressed more in detail: the theory of domestic politics in European negotiation and the role of bureaucrats and national elites in determining national interest.

## **2. Domestic politics and European monetary integration**

During the European monetary integration, domestic political actors had to adapt to international constraints to protect and increase their capacities. At the same time, the pressure from domestic interests often exerted strong effects on the administration. Domestic politics in regard to European integration can be viewed from several perspectives.

### *Domestic structure: Sectoral analysis*

According to the domestic structure approach, foreign economic policy is determined in the struggle for influence among domestic social forces or political groups.<sup>5</sup> It interprets national policy choices as a function of governments' reactions to pressures from domestic groups representing specific interests. Frieden argues that capital mobility exacerbates cleavages between tradable-goods producers, internationally-oriented, diversified investors and non-

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<sup>3</sup> Wayne Sandholtz, "Choosing Union: Monetary Politics and Maastricht," in International Organization, Vol.47, No. 1 (Winter 1993)

<sup>4</sup> Kathleen R. McNamara, "Economic and Monetary Union in Europe," Paper presented to the Annual Meeting of the American Political Science Association, New York, September 1-4, 1994, p.21.

<sup>5</sup> Most "second-image-reversed" theorists start from the analysis of domestic structure in their relationship with international environments. See Ronald Rogowski, Commerce and Coalitions (Princeton: Princeton University Press, 1988); Peter Gourevitch, Politics in Hard Times (Ithaca: Cornell University Press, 1992)

tradable, domestically oriented investors.<sup>6</sup> The winning coalition convinces the national government to pursue specific macroeconomic and exchange rate policies that will benefit those sectoral interests. In Frieden's framework, the pro-EMS policies will be supported by firms in the financial sector -- major exporters and diversified multinationals -- who constitute a winning coalition. The development of the EMS is due to support from economic actors who receive benefits from exchange rate stability.<sup>7</sup> Gowa, in her analysis of the US monetary policy to close the gold window in 1971, argues that US monetary policy is the product of a relationship between public and private sectors. The consideration of national autonomy and domestic political support preceded the imperative of regime maintenance.<sup>8</sup>

### *Institutional Analysis*

However, policy outcomes do not always reflect demands from societal actors. In France, the governments used to take initiatives in formulating and implementing the EMS policy rather than responding to societal demands. The government-led French pro-EMS policies sometimes made a contradiction with sectoral analysis considering its weak financial sector.<sup>9</sup> Institutionalists criticize the sectoral approach in that the state does not merely reflect societal interests but that state officials can build new institutions to achieve a specific goal.<sup>10</sup> State institutions can play a critical role in shaping the manner and extent to which social forces can exert influence on foreign economic policy. State institutions can shape interest groups' ability to gain access to the policy arena. The structure of societal interests facing the government is neither rigid nor predetermined.<sup>11</sup> Over time these institutions shape the preferences of actors,

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<sup>6</sup> Jeffrey A. Frieden, "Invested Interests: The Politics of National Economic Policies in a world of global finance," in International Organization, Vol.45, No.4 ( Autumn 1991)

<sup>7</sup> *Ibid.*, p.448.

<sup>8</sup> Joanne Gowa, Closing the Gold Window (Ithaca: Cornell University Press, 1983). For Gowa, the relative influence of society and state in foreign economic policy also depends on whether or not the political "goods" in question are susceptible to collective action. Joanne Gowa, "Public Goods and Political Institutions: Trade and Monetary Policy Processes in the US" in Ikenberry, ed., The State and American Foreign Economic Policy (Ithaca: Cornell University Press, 1988).

<sup>9</sup> John Zysman, Government, Market, and Growth; David Cameron, "British Exit, German Voice, French Loyalty: Defection, Domination, and Cooperation in the 1992-93 ERM Crisis," Paper presented at the Annual Conference of American Political Science Association, 1993, pp.54-56.

<sup>10</sup> For institutionalists' arguments, see the articles in John Ikenberry, ed., The State and American Foreign Economic Policy.

<sup>11</sup> David Lake, "The State and American Trade Strategy in the Pre-Hegemonic Era," in Ikenberry et al. eds., The State and American Foreign Economic Policy.

define and limit their choices, and encourage them to choose among alternative strategies.<sup>12</sup> The persistence of institutions influence policy even after the ideas and coalitions that initially gave rise to them no longer dominate.<sup>13</sup> Emphasizing the shaping and constraining role of state officials and the institutions, institutional theories try to differentiate the state from societal actors in that state executives pursue more general "national interests."

However, these state institutions can not be totally free from societal preferences. In the short run, the state officials might be able to enact foreign economic policies which contradict specific interests of private actors but, from a longer perspective, the national interests and private interests can not be apart from each other.

### *Bargaining Theory: Two-Level Game and intergovernmentalism*

According to two-level game perspective, European integration is the pursuit by the decision-maker -- national executives -- that meet the demands of enough domestic groups to guarantee ratification and the political survival of the decision-maker. The sets of national elite making EC policy changes as the venue of policy-making shifts.<sup>14</sup> The set of agreements within the win-set is likely to be generated by the domestic game. Domestic structure affects the size of minimum winning support coalitions which national governments need to pursue effective policies in the EU and the extent to which national governments are able to act with one voice as unitary actors.<sup>15</sup> The sub-set among agreements reflects decision-maker's bargaining position.<sup>16</sup>

In the intergovernmentalist framework, national governments are the principal agents in European cooperation. National preferences are primarily determined by the constraints and opportunities imposed by economic interdependence. Intergovernmentalism interprets international political outcomes as a result of strategic interaction among national governments.

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<sup>12</sup> Jeffrey Anderson, "The Single European Market and Beyond: A Study of the Wider Implications of the Single European Act" in *World Politics*, V.47, n.3 (April, 1995)

<sup>13</sup> John G. Ikenberry, David A. Lake, Michael Mastanduno, "Introduction: Approaches to Explaining American foreign Economic policy," in Ikenberry et al. *ibid.*; Judith Goldstein, "The Political Economy of Trade: Institutions of Protection," in *American Political Science Review*, Vol.80, No.1 (March 1988).

<sup>14</sup> Michael G. Huelshoff, "Domestic Politics and Dynamic Issue Linkage: A Reformulation of Integration Theory," in *International Studies Quarterly*, v.38, n.2 (June 1994)

<sup>15</sup> Thomas Risse-Kappen, "Exploring the Nature of the Beast: International Relations Theory and Comparative Policy Analysis Meet the European Union," in *Journal of Common Market Studies*, Vol.34, No. 1 (March 1996)

<sup>16</sup> For two-level game arguments, see Robert Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," in *International Organization*, Vol.42, No.3 (Summer 1988); Peter Evans, Harold K.Jacobsen and Robert D. Putnam, eds., *Double-Edged Diplomacy: International Bargaining and Domestic Politics* (Berkeley: University of California Press, 1993)

The real achievement of the European Community lie in the underlying domestic and international forces that have shaped national preferences and power in the direction of greater co-operation. In this sense, the EC can be analyzed as a successful intergovernmental regime designed to manage economic interdependence through negotiated policy coordination.<sup>17</sup>

However, liberal intergovernmentalism has little to say about whether actors' interests and preferences are shaped by the EU institutions or the integration process itself.<sup>18</sup> The origins of preferences are exogenized and the actors' preferences remain fixed during the process. In fact, executive control over foreign policy depends on a large degree on the nature of the political institutions and domestic structures in general.<sup>19</sup> Moravcsik argues that only domestic politics matter in formulating national preference. Domestic politics certainly matters in determining national preference but domestic politics itself is also heavily influenced by external factors. Basic premises of intergovernmentalism should be reconsidered in terms of the "Europeanization" of domestic politics.

### 3. Explaining the role of bureaucracy

European integration had been made mostly through negotiations between national elites. Elite bargained each other in response to the challenges and opportunities posed by international and domestic changes. Changing European economic structures altered the choices and constraints of national elites. However, the structural changes did not "cause" responses by themselves. They represented "choices" to decision makers.<sup>20</sup>

National interests are primarily determined by elites that control government bureaucracies. The mode of defining national interests and formulate policies depends on "the manner in which the issues are represented by specialists to whom decision-makers turn advice in the face of uncertainty."<sup>21</sup> The existence of an epistemic community<sup>22</sup> would be a

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<sup>17</sup> Andrew Moravcsik, "Preference and Power in the European Community: A Liberal Intergovernmental Approach," in Journal of Common Market Studies (December 1993). Moravcsik points out three elements of intergovernmental institutionalism: intergovernmentalism; lowest-common-denominator bargaining; the protection of sovereignty. See also Juliet Lodge, "EC Policymaking: Institutional Considerations," in Lodge, The European Community and the Challenge of the Future (London: Pinter, 1993).

<sup>18</sup> Risse-Kappen, "Exploring the Nature of the Beast"

<sup>19</sup> Ibid.

<sup>20</sup> Wayne Sandholtz and John Zysman, "1992: Recasting the European Bargain," in World Politics, v.42, n.1 (October 1988), p.106.

<sup>21</sup> Peter Haas, "Introduction: Epistemic Community and International Policy Coordination," in International Organization, Vol.46, No.1 (Winter 1992). In a similar context, Adler and Haas emphasize the role of



prerequisite for cooperation. An epistemic community furnishes negotiators with "expert" information -- a particular solution or compromise that advances the negotiations by coordinating states' expectations. Information from the community creates "focal points" that promote agreement.<sup>23</sup> Policy outcomes "stem from communities of shared knowledge and not simply from domestic or transnational interest groups."<sup>24</sup> Epistemic communities are also linked with domestic political actors. Haas points out that: "The strength of cooperative arrangements will be determined by the domestic power amassed by members of the epistemic community within their respective government."<sup>25</sup> These actors reshaped their states' definition of the national interests in ways that allowed those states to be more cooperative.

However, theories of epistemic community do not tell much about domestic politics that explains why and when an epistemic community can have an impact on the domestic system.<sup>26</sup> Furthermore, the influence of epistemic community has not always been constant. Epistemic community theory alone is insufficient to explain European monetary policy-making case. While monetary policy is certainly a technical issue, it has a broader socio-political preview. More political nature is inherent in European monetary policy arena. Money was a too explosively political thing to be treated just "technically." The "political collary" of the success of the *franc fort* policy was also important.

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epistemic communities with specific ideas in helping states identify their interests, framing the issues for collective debates and proposing specific policies.

<sup>22</sup> Epistemic community is a "professional group that believes in the same cause-and-effect relationships, truth tests to accept them, and shares common values: its members share a common understanding of a problem and its solution." Peter Haas, "Introduction: Epistemic Communities and International Policy Coordination," p.55.

<sup>23</sup> Haas, "Introduction: Epistemic Communities and International Policy Coordination."

<sup>24</sup> Peter Haas, "Do Regimes Matter? Epistemic Communities and Mediterranean Pollution Control" in *International Organization* 43 (Summer 1989), p.377.

<sup>25</sup> Ibid. For more discussion on the epistemic community and its role in international cooperation, see *International Organization*, Vol.46, No.1 (Winter 1992), a special issue on *Knowledge, Power and International Policy Coordination*.

<sup>26</sup> Helen Milner, "International Theories of Cooperation among Nations: Strengths and Weaknesses" in *World Politics* (April, 1992)

### III. THE FRENCH EUROPEAN MONETARY POLICY DURING THE MITTERRAND ERA

#### 1. Defining the national interest, 1981-1983 EMS crisis.

Since the beginning of Mitterrand's presidency, the uncertainties persisted around the stability of the franc. On the next day of presidential election, the franc fell to its bottom in the EMS.<sup>27</sup> Banque de France intervened intensively spending 2 billion dollars. On May 14, the Banque de France raised its rate to a record high level of 18%. On May 24, after a meeting between Mitterrand and Schmidt, Germany participated in the defense of the franc. The franc was stabilized but it was not sufficient to establish confidence and assure a solid base for the franc.<sup>28</sup> The socialist government were uncertain as to their intention to remain in the EMS. The future of France was dependent on their capacity to overcome the monetary crisis and to suppress speculation.<sup>29</sup> Jacque Delors, the French Finance Minister, had consistently ruled out a devaluation of the franc.<sup>30</sup> However, the divergence of economic policy between Paris and Bonn was getting larger. The French socialist government decided to expand government expenditure by 23% next year while Germany limited its increase by 4.2%.<sup>31</sup>

#### *The First Devaluation*

The pressure in the EMS grew further in September. The monetary tension stemmed mainly from two factors: First, there had been a strong flow of international funds out of the dollar and it exerted pressures on the mark and other pegged currencies. Second, the Bonn and Paris governments were adopting very different approaches to the management of their domestic economies.<sup>32</sup> The first devaluation of the franc came in early October, 1981. On October 5, the Franc was devalued by 8.8% vis-à-vis the DM.<sup>33</sup> The first devaluation could have been regarded as a readjustment of the heritage from Giscardian economic policy. The franc had

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<sup>27</sup> The French Franc fell from 2.3667 vis-à-vis the DM on May 8 to 2.4103 on May 11

<sup>28</sup> *Année Politique, économique et sociale*, 1981.

<sup>29</sup> *Financial Times*, 81.9.21

<sup>30</sup> "Jacque Delors has risked pegging this reputation to the status quo rather as Harold Wilson did during the build-up to the devaluation of sterling in 1967." *Financial Times*, 81.9.21

<sup>31</sup> *Année Politique, économique et sociale*, 1981.

<sup>32</sup> *Times*, 81.9.21

<sup>33</sup> Devaluation of the franc by 3%; revaluation of the DM by 5.5%. Initially, Delors wanted to make +/- 4.75% vis-à-vis the DM.

reached artificially high levels during the Giscard years. In 1979, Giscard took France into the EMS arrangement but the constraint under the EMS became really binding under Mitterrand. By pegging the franc to the strong currencies of Europe, the EMS caused the franc to become increasingly overvalued. During 1979-80, the franc became overvalued by roughly 12% *vis-à-vis* the Deutsch Mark, and thus required a 12% devaluation simply to restore the competitive *status quo ante*.<sup>34</sup> The widening gap between the French economy and the world economy had two important consequences: it increased the trade deficit and caused problems for the financing of the nation's welfare spending.<sup>35</sup>

### *The Second Devaluation*

The franc was under new attack in March 1982.<sup>36</sup> The European Council at Brussels in March 29 and 30 did not take a substantial preventive measures. After a period of relative recovery, it deteriorated again in May. On May 28, in an interview with American journalists, Mitterrand declared inadvertently that he "did not have a religious attachment to the EMS." This comment provoked a rapid controversy at Versailles. The monetary tension since the March led to a second devaluation. The franc was devalued on June 12 by 5.75% while the DM was revalued by 4.25%. On June 16, at the Council of Minister, the second phase of change-- the passage to austerity and a fight against inflation -- was decided. The policy proposals which accompanied the June 1982 devaluation included a price and income freeze, the manipulation of VAT rates, and the postponement of the revaluation of certain welfare benefits.<sup>37</sup>

### *The Third Devaluation*

However, the French economy failed to rebound to a satisfactory level in spite of the two devaluations. Pressure on the franc accelerated since March 1983. During the week of March 3-10, the Banque de France spent 23 billion franc to defend the franc. Another devaluation and

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<sup>34</sup> David Cameron, "The Colors of a Rose," (Cambridge: Center for European Studies Working Paper Series #12, 1988), p.39.

<sup>35</sup> Pierre-Alain Muet, "Economic management and the International Environment, 1981-1983," in Howard Machin and Vincent Wright, ed., Economic Policy and Policy Making Under the Mitterrand Presidency, 1981-1984 (New York: St. Martin's Press, 1985), p.84

<sup>36</sup> Volkmar Lauber, The Political Economy of France: From Pompidou to Mitterrand (New York: Prager, 1983), p.17.

<sup>37</sup> *Ibid.*, p.85.

more radical measures became inevitable. At this time, an opinion to leave the EMS prevailed within the Socialist.<sup>38</sup> On March 19, the franc was almost ready to quit the EMS. Delors attacked violently against Germany. Tackling the question of readjustment of parity, the minister of Economy and Finance declared on 19 March that "it is the Germans that should make a decision."<sup>39</sup> After a week of hesitation,<sup>40</sup> Mitterrand chose to remain in the EMS with a third devaluation. Pierre Mauroy and Jacques Delors successfully persuaded the Germans to revalue their currency by 5.5% in exchange for a 2.5% devaluation in the franc.<sup>41</sup> The third devaluation brought the U-turn of socialist policies. The Delors plan was announced on March 25 and reinforced the austerity policy. From the initial expansionary policies, the Socialist turned to *rigueur* which included an increase in taxes and a reduction in government spending.<sup>42</sup>

The political price of the policy U-turn was immediate. In the municipal election at Dreux on September 11, the Left was seriously defeated. Confidence on the political leaders were aggravated. According to the survey made by SOFRES, 57% was not favorable to Mitterrand's first two years while only 28% was favorable. There was a rapid degradation of Mitterrand's image.

### *Defining the National Interest*

During the 1981-1983 monetary crisis, the new socialist government was not equipped with a clear policy stance in the EMS affairs. Mitterrand did not come to power with a solid idea of Europe, especially regarding the functions and the actors of the Community. The initial stance of the Socialists in the first year of their tenure was essentially based on the previous posture developed in the 1970s. According to the socialist principle, European institutions could have

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<sup>38</sup> For the debates on leaving the EMS, see Philippe Bauchard, La Guerre des deux roses: du rêve à la réalité (Paris: Grassat, 1986), pp. 121-125.

<sup>39</sup> Année Politique, économique et sociale, 1983

<sup>40</sup> For the Mitterrand's decision, see David Cameron, "Exchange Rate Politics in France, 1981-1983: The Regime Defining Choices of the Mitterrand Presidency," in Anthony Daley, ed., The Mitterrand Era (New York: New York University Press, 1995); Bauchard, *ibid.*: Julius Friend, Seven Years in France (Boulder: Westview Press, 1989); Pierre Favier and Michel Martin-Roland, La Decennie Mitterrand (Paris: Seuil, 1991); Catheline Nay, Les Sept Mitterrand (Paris: B. Grassat; 1988).

<sup>41</sup> Peter Hall, "The Evolution of Economic Policy under Mitterrand," in George Ross, Stanley Hoffmann and Sylvia Malzacher, ed., The Mitterrand Experiment (Oxford: Polity Press, 1987), p.88. The imminent threat that France might leave the EMS helped persuade the Germans to bear the disproportionate share of realignment.

<sup>42</sup> The measures of March 1983 contained three main elements: 1) an increase in taxes which mainly affected households; 2) a reduction in spending in government services and the public sector; 3) various different measures destined to keep control of the repercussions of the previous measures. Muet, *ibid.*, p.91.

significance only when they could serve the interests of the workers. Between ideological principle and economic pragmatism, certain ambivalence existed in policy areas, especially in monetary policy regarding the EMS. In this circumstance, Mitterrand was careful to say nothing too positive regarding the EMS which might upset the fragile balance within the party.<sup>43</sup> European monetary system was not a dogmatic norm but a practical object.<sup>44</sup> The Community was rather an instrument which should serve the best of the objectives of the French socialist government.

However, the Socialists knew that they could never keep themselves totally apart from the EMS. With the emergence of the new government, the Socialists declared that "the franc will, in fact, remain in its currency floor *vis-à-vis* the mark, the strongest currency in the European monetary system."<sup>45</sup> When it came to the question of European coordination, the socialist government readily gave its consent even though its commitment to the monetary union remained uncertain. Mitterrand mentioned that "the European monetary system, it is a practice and it should become a good practice. The political will of the government and the president is to improve it by remaining there and to perfect common enterprises."<sup>46</sup> To the question whether he wanted to leave the EMS, Mitterrand responded, "we have already left it several times but those were not with us. ... That is a question posed by those who had left the 'snake,' and who doubt our intention."<sup>47</sup>

In sum, Mitterrand and the socialists had to redefine the national interest regarding European monetary integration during the EMS crisis. Their previous version of socialist European could not play an important role in dealing with the real monetary problems. Instead, the French socialist government reformulated their European identity and equated it with the national interest. The concept of Europe had been inserted to the traditional definition of the French interest while the socialist ideology was discarded. The French government would keep its loyalty to European monetary integration at the same time guarantee the well-being of the Republic. The redefined national interest had to be strengthened and consolidated. Subsequent years of French membership in the EMS got through this process.

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<sup>43</sup> Elizabeth Haywood, "The European Policy of François Mitterrand," in Journal of Common Market Studies, v.31, n.2 (June, 1993), p.272.

<sup>44</sup> In an interview with Le Monde, Andrés Chandernogor, minister of European affairs, precised the objectives of government: "We are not theologians, nor of a supranationality, nor of a non-supranationality.... We approach Europe as it is..." Le Monde, 81.8.11.

<sup>45</sup> Le Monde, 81.5.13

<sup>46</sup> Ibid.

<sup>47</sup> Le Monde, 82.6.1.

## 2. Making a virtue out of necessity: the deepening of "franc fort" policy, 1984-1992

The year of 1984 saw the first success of the austerity. Price and salary was well controlled and external commerce ameliorated. There was a financial and monetary recovery. European governments began to recognize the external constraint on their macroeconomic policy before the recognition was forced on them by the markets through crisis. The member countries decided to strengthen the convergence of economic policy including a more wide use of the ECU.

In 1985, there came a worry that the franc was overvalued *vis-à-vis* the mark. The parity between the franc and the mark was balanced quite artificially. Chirac, president of RPR, criticized the strong interest rate which held the franc. However, there existed an understanding that devaluation would no doubt slow an evolution toward a competitive industrial structure. Bérégovoy, Minister of Finance, confirmed that the franc was solid enough. The struggle against inflation and holding the reserve got the priority of economic policy.

In early April, 1986, the mark began to increase. Banque de France ceased to intervene to support the franc. The franc fell immediately by 5%. In fact, economic indicator showed a continuing overvaluation of the franc which resulted in too high of a real interest rate. A 12% of interest rate gap with Germany had been made since 1983 and a possibility to lower the interest rate had been grown since then. Broader divisions within the new government exited the necessity of devaluation. The right government blamed the "mismanagement" of the Socialists in previous years but their policies did not show a radical shift from the previous one. In fact, the socialist policy since 1983 had converged with that of the right wing. On April 6, there came a devaluation of the franc by 3% *vis-à-vis* the DM which was revalued for 3%.<sup>48</sup> The 1986 devaluation was a "cold" reinstallation because it was made without a vast movement of capital and central bank reserve redistribution.<sup>49</sup>

In spite of devaluation, the franc had weakened again since December 1986. Massive intervention by the Banque de France and the increase of intervention rate were made to protect the franc. Nearly 50 billion franc had been spent since December. EMS member countries intervened massively to stabilize the parity while a readjustment was left undecided. Balladur

<sup>48</sup> To move the position of Germany, the French had to make a concessions. The practice of exchange-rate control may certainly be sacrificed for the EMS. An agricultural yield was made for the price of devaluation to keep the Franco-German axis. *Liberation*, 86.4.4.

<sup>49</sup> Balladur put: "(it was) the first time in the history of EMS that a country raise a problem of realignment of currency during the peaceful period, not pushed by the speculation." *Le Figaro*, 86.4.7.

obliged Germany, who had an excellent economic performance in the past year, to support the franc. Doubts had increased whether the Banque de France was the only one responsible to hold the franc. On January 7, the Banque de France ceased to intervene in the market, letting the franc fall to the limit. Jacques Chirac criticized that "this is a mark crisis, not a franc crisis. Let the German authorities do what is necessary... No question of a devaluation of the franc -- and leaving the EMS -- and a return to exchange control."<sup>50</sup> On January 11, at the EC's Monetary Committee, Balladur asserted that the franc will not be devalued and demanded a German adjustment.<sup>51</sup> On the next day, the DM was revalued by 3%.<sup>52</sup> The franc was stabilized slowly at 3.35 *vis-à-vis* the DM, near to the pivot rate of 3.3538. In an interview with *Le Figaro* after the adjustment, Balladur affirmed the French interest in maintaining the EMS: "Our appearance in the EMS is an interpretation of our attachment to the exchange rate stability... The EMS functions, nevertheless, to our profit. Our competitiveness increased *vis-à-vis* Germany since April 1986... We have to make perfect the EMS."<sup>53</sup>

During Mitterrand's second tenure since 1988, the socialists became a strong guardian of *franc fort*. Since his arrival in the government, Michel Rocard defined a policy line -- a refusal to rely on the easiness of new devaluation in the EMS -- which had been maintained.<sup>54</sup>

The accelerated European economic and monetary integration in the late 1980s rapidly changed the institutional arrangement with which the French government had to interact.<sup>55</sup> The Franc was under an entirely liberal capital movement. The increased capital mobility necessitated a more rigorous monetary management. A general consensus had been made in defending the currency through competitive disinflation and *franc fort*.<sup>56</sup>

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<sup>50</sup> *Financial Times*, 87.1.7

<sup>51</sup> M. Stoltenberg, a German counterpart, was embarrassed by the proximity of legislative election, January 25. In fact, Germany had no economic reason to justify any realignment. Rather they saw a "politically excited" atmosphere in France. Germany was, without doubt, seeking a compensation, especially for her agriculture. *Le Monde*, 87.1.11-12

<sup>52</sup> German revaluation of 1987 was, in nature, also a "technical" readjustment. Decision was made by technocratic concertation.

<sup>53</sup> *Le Figaro*, 88.1.14

<sup>54</sup> *Le Monde*, 89.7.4.

<sup>55</sup> On April 17, 1989, Delors report on Economic and Monetary Union was published. On June 19, 1989 European directive on the liberalization of banking activity was adopted. At the European Council at Hanover, Committee of central bankers and monetary experts under the preside of Jacques Delors decided to establish the European Central Bank and the monetary union. European Council at Strasbourg, December 8-9, adopted 11 projects of Economic and Monetary Union and social charter. Finally at the Maastricht summit, December 9-10, 1991, irreversible engagement to the Economic and Monetary Union was decided.

<sup>56</sup> Jacques de Larosière, president of the Banque de France, asserted: "If France well understood the monetary stability as a prior objective... of a very strong political consensus in our country, the national interest can not be fold back... and have to participate actively in the collective management of European currency." Jacques de Larosière, "Plaidoyer pour l'ECU", *Le Nouvel Observateur*, 92.7.9-15, p.65

### 3. Consolidating “franc fort” policy: 1992-93 Crisis

During the mid-eighties and early nineties, the EMS evolved into a quite stable quasi-fixed monetary regime. The “Nyborg Accord,” adopted in September 1987, enabled the EMS to bring assistance to the devises in danger and intramarginal interventions by central banks. Also the determination shown by the member governments to pursue rigorous economic policies contributed to relative exchange rate stability in the late 80s and early 90s.<sup>57</sup> However, inherent problems were still found in the EMS such as high real interest rate and overvalued exchange rate.

The EMS crisis stemmed from several factors. First of all, there was a discrepancy between the nominal and real values of the currencies of the EMS members. Since the last multi-currency realignment in 1987, there had been a cumulative difference between the German rates and those in weak-currency countries. Secondly, the EMS crisis was also an outcome of the increased capital mobility.<sup>58</sup> The liberalization and globalization of the currency market significantly diminished the ability of the central banks to intervene in the market. Thirdly, the German unification began to pose a burden to other EMS member countries since 1989. To finance the deficit of unification, the German government indicated a tight monetary policy to the Bundesbank, forcing up interest rates and exporting the costs of unification, in the form of high interest rates, to its partners in the ERM.<sup>59</sup> The DM was no longer a good anchorage. The EMS countries failed to agree to a realignment before they fell into a crisis in the Fall of 1992. For France, realignment was considered an acknowledgment of the failure or shortcoming in French government’s *franc fort* policy.

#### *The first crisis*

In September 1992, the dollar weakened<sup>60</sup> and it began to threaten the European monetary system. On September 16, Britain went out of the EMS after unsuccessful intervention

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<sup>57</sup> *Financial Times*, 90.5.16

<sup>58</sup> For example, the volume of currency markets in 1992 was nearly one trillion dollars whereas the official currency reserves of the G7 countries was approximately 275 billion dollars. Cameron, “British Exit, German voice, French Loyalty,” p.9.

<sup>59</sup> *Ibid.*, pp.10-11.

<sup>60</sup> 1\$ = 4.76F, 1.40DM



by central banks.<sup>61</sup> Immediately after "Black Wednesday," the franc came under pressure and began to lose its value rapidly. On September 19, France and Germany began a concerted defense of the franc confirming the Franco-German solidarity. On September 21, the French and German officials<sup>62</sup> worked out the details of a coordinated intervention by the Banque de France and the Bundesbank. The Bundesbank supported the franc at levels above its floor and did so *openly* for the first time in its history.<sup>63</sup> On September 24, speculation ended. Germany reaffirmed its will to maintain the EMS.

It was estimated that Banque de France had spent 160 billion francs -- which is more than 80% of its total reserve -- during the crisis while Bundesbank spend 310 billion francs to defend the French currency.<sup>64</sup> During the First ERM crisis in 1992, it became evident that the Bundesbank could finance the intramarginal intervention to the currency speculation without limit. The application of Bale-Nyborg agreement on intramarginal intervention among the central banks worked successfully to defend the franc. The *franc fort* policy was not challenged.

#### *The Second EMS Crisis*

New tension arose in the EMS in November. After the attacks on several weak currencies,<sup>65</sup> the franc was under the speculative attack again. By the early December, the franc had fallen almost to its floor against the DM. On December 3, the Bundesbank stepped in to help defend the franc. On Friday, December 11, a day after the Bundesbank had again decided not to lower its rates, the franc fell again to within two centimes of its floor against the mark. Once more, the Bundesbank intervened openly on behalf of the franc.<sup>66</sup> Publicly announcing the intervention of the Bundesbank, Theo Waigel stated that there was no need to devalue the franc. On December 15, there came a new fall of the franc. Despite the public statements by President Mitterrand and Prime Minister Bérégovoy that the franc would not be devalued,<sup>67</sup> the franc still

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<sup>61</sup> Less than 8 days ago, Prime Minister John Major asserted that a devaluation would be a "betrayal of our future," and its political credibility -- without mentioning her economic policy -- has suffered. *Le Monde*, 92.9.19, p.17.

<sup>62</sup> Michel Sapin, the Minister of Finance, Jean-Claude Trichet, the Director of Trésor, and Jacques de Larosière, the Governor of the Banque de France, met in Washington with Theo Waigel, Horst Kohler, Helmut Schlesinger and Hans Tietmeyer, their German counterparts. Cameron, "British Exit, German Voice, French Loyalty"

<sup>63</sup> Ibid.

<sup>64</sup> *Financial Times*, 92.9.24, 10.3, 11.3.

<sup>65</sup> The Swedish couronne floated while Spanish peseta and Portuguese escudo were devalued 6% the franc

<sup>66</sup> Cameron, "British Exit, German Voice, French Loyalty," p.35.

<sup>67</sup> *Financial Times*, 92.12.9, 12.18.

remained under pressure. The Bundesbank intervened in the currency market with DM 3.5 billion in support of the franc in the first trading day of 1993. With the help of massive interventions by the two central banks, the second crisis on the franc was settled by mid-January. Reiterating their belief in keeping close cooperation between the franc and the mark in order to ensure the proper functioning of the ERM,<sup>68</sup> the French and German officers could avoid a forced devaluation of the franc. However, the uneasiness still remained and the short-term interest rates were still higher than those of Germany by approximately 3%.

### *The Third EMS Crisis*

Since July 1993, the franc was under speculative attack again. On July 8, the franc was weakened seriously *vis-à-vis* the mark. Despite of an increasing divergence and tension between French and German monetary policy during the last few months,<sup>69</sup> the Bundesbank and Banque de France began once again a concerted intervention. However, at this time, the Franco-German cooperation, which could successfully defend the franc twice, was unable to thwart the speculative attacks. In spite of the massive interventions,<sup>70</sup> the franc remained on its floor of the ERM. By the end of July 29, having spent more than 100 billion francs of reserve in the past week, the Banque de France had no more than 12 billion francs of reserve to defend the franc.<sup>71</sup> In the middle of the crisis, the French government made it clear that they have no intention to adopt a radical measures to leave the ERM and float the franc. The French government clarified that they would not to give up their *franc fort* policy which had been quite successful for the last 10 years.

On July 23, short term interest rate was increased from 7.75% to 10% but the franc had fallen from 3.418 to 3.413 *vis-à-vis* the DM. After the Bundesbank's decision not to change its interest rate, the franc had been heavily attacked.<sup>72</sup> On July 30, the Banque de France let the franc touch the limit from the beginning and obliged the Bundesbank to make unlimited

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<sup>68</sup> Financial Times, 93.1.6

<sup>69</sup> The new crisis stemmed in part from a growing divergence between French and German monetary policy. As the new French government pursued its ambition to lower its interest rates, in order to promote an economic recovery while the Bundesbank refused to reduce its rates. It increasingly became apparent that the disagreement between the two countries could create pressure on the franc and problems within the ERM.

<sup>70</sup> The Banque de France had spent more than \$55 billion in reserves and borrowed funds, and the Bundesbank had spent well over \$35 billion.

<sup>71</sup> During the week of 93.7.22 and 29, Banque de France had borrowed 101 billion from FECOM; 46 billion from EC stabilization Fund; 55 billion directly. La Tribune Desfossés, 93.8.6

<sup>72</sup> During 7.29-30 the franc fell from 3.40 to 3.413 --> 3.418 --> 3.4305.

intervention. Having failed to agree to an immediate suspension of the ERM, the French and Germany central banks conducted the largest one-day intervention in currency markets ever undertaken by the central banks, which was still insufficient.<sup>73</sup> After discussing several alternatives, the EMS countries finally agreed to widen the band to +/- 15%. For France, the wider bands allowed it to avoid the political humiliation of devaluation and maintain the existing *franc fort* policy.

There had been a convergence of perspectives between the president and prime minister and also with Minister of Economy during the crisis. In spite of the opposition from anti-EMS politicians,<sup>74</sup> the winning group of the French EMS politics had been pro-European politicians and technocrats who advocated the franc fort policy. In fact, the stability of the franc became the pillar of cohabitation. The abandonment of the franc fort policy would require a wrenching domestic political reappraisal since it has been followed with rare unanimity by both left and right in France for ten years.<sup>75</sup> Through the deepening process since 1984, the franc fort policy was consolidated during the EMS crisis, 1992-93. Defending the franc had become an *intérêt propre* of France.

#### IV. IN WHOSE INTEREST?

##### 1. President.

A strong presidential leverage in implementing foreign policy has been one of the institutional features of the French Fifth Republic. Presidents not only defined a range of government action but also reserved the right to choose the scope and nature of intervention in foreign policy and European affairs. Considering political leaders' access to economic policy tools and their capacity to design and implement long term goals,<sup>76</sup> the presidential initiative has

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<sup>73</sup> By the end of that day, the Banque de France had spent 160 billion francs worth of fund, most of it borrowed, in defense of the franc, and the Bundesbank had spent more than 30 billion DM to prop up the French currency.

<sup>74</sup> Philippe Seguin (RPR), Jean-Pierre Chévenement (PS; Mouvement des citoyens), Philippe de Villiers (PS) and Jean-Marie le Pen (FN).

<sup>75</sup> Financial Times, 93.8.1

<sup>76</sup> James I. Walsh, "International Constraints and Domestic Choices: Economic Convergence and Exchange Rate Policy in France and Italy" in Political Studies (1994), XLII

been a primary factor in defining the national interest.<sup>77</sup> At the leadership level, the reconfiguration of the French national interest during the European monetary integration had depended on the extent to which Mitterrand had fully integrated the European constraints into his conception of France and Europe.

During the EMS crisis, 1981-83, under the ambivalence of new socialist government, France's European policy was largely influenced by presidential domination of policy making. European policy, as a consequence, began to reflect the personal commitment of Mitterrand. However, the European monetary policy-making was not entirely a president's affair. The leverage of Mitterrand had been significantly constrained by domestic political constraints: the power of bureaucratic elite; the party and elective structure; the parliamentary configurations, etc.. In fact, the Chief of the state could just "orient" policy lines. It was technocrats and experts who constitute the content of policy. Presidential dominance of European monetary policy-making had not always been clear, either. For example, after the ERM crisis, 1992-3, Elysées abstained from making a comment. President did not want to make a declaration which could be misinterpreted. A *Porte-parole* mentioned later: "The monetary problem implies a responsibility. We have decided not to express ourselves. We don't want to do politics on this subject."<sup>78</sup>

When President Mitterrand opted in 1983 for the franc fort policy, he was effectively discarding most of his election commitment to old-fashioned socialism in France. Instead, he was putting a higher priority on France's commitments to the European community. Mitterrand wanted to link Europe, the Maastricht Treaty, the EMS, and the *franc Mitterrand*. By doing so, he relied less on the socialists. Technocratic nature of the European monetary policy made Mitterrand listen to bureaucrats' opinion.

## 2. Party / National Assembly.

During the European monetary integration, the French political parties had to consider the constraints from both Europe and their domestic constituencies in deciding the national preferences. They had to appeal to constituents through promises of beneficial outcomes from

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<sup>77</sup> As Peter Evans points out, "executive initiative...must be seen not so much in terms of leeway to pursue individual ends but as indicative of the privileged position of chief executives and their advisors when it comes to defining what specifically constitutes the *national interest*." Peter Evans, "Building an Integrative Approach" in Double-Edged Diplomacy. Emphasis in original.

<sup>78</sup> Le Monde, 93.8.4

ongoing European integration. However, political parties and National Assembly could not correctly reflect the European idea of the mass.

The fragmented structure and the limit as a presidential party explain a relatively weak position of the *Parti Socialiste* in determining the national interest during the European monetary integration. Even though the PS has actively participated in the European monetary integration, there had been a strong anti-European group led by Chévènement. Michel Rocard and his friends also preferred a certain pragmatism in the EMS policy. The defeat of legislative election in the 1993 made the Socialist rethink of a strict monetary policy. The defense of the *franc Mitterrand* received only timid support in the PS.

Among the right wing political parties, divisions of European idea shaken a weak consensus on the European monetary integration. UDF was pro-federalist while RPR was Gaullist insisting the priority of French nation-state and was cautious about the transfer of sovereignty. Chirac's comment on European monetary system had not been constant ranging from a total support to the criticism of supranational domination. In fact, the dilemma of the right was how to say no to the socialist but to say yes to Europe.

Fragmented inner consensus in both PS and UDF-RPR ultimately led to a secondary role of political party and National Assembly in European monetary policy-making. Furthermore, the institutional structure of the Fifth Republic bestowed a superior capacity to the executives and bureaucrats in formulating economic policy, sometimes overriding a proper ratification of legislative process. The political parties, therefore, had existed rather as an ideological buttress in European monetary policy-making than as a major participant in deciding substantial policy issues.<sup>79</sup> Internationalization of national economy also led to a party decline. Deepening of European integration changed the environment of party politics and demanded a new dimension of party identity. The traditional political competition based on economic ideology had become no longer valid since the 1980s.<sup>80</sup> New dimension of alliance was made between pro-EMS (Mitterrand-Chirac-Delors) and anti-EMS politicians (Chévènement-Pasqua-Seguin).

In sum, European monetary policy-making was not based on the parties. Mitterrand and other political leaders tried to emphasize that Europe should not be in the hands of partisan interest. Worry about partisan interest taking over European goals made a claim that partisan

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<sup>79</sup> Even though many socialists think that employment is more important than franc fort, only a few actually adopted the thesis of Chévènement who had criticized the function of the EMS, especially the action of the Bundesbank. His action had been regarded as heresy by the Mitterrandist.

<sup>80</sup> Hervert Kitschert, The Transformation of European Social Democracy (Cambridge: Cambridge University Press, 1994)

interest was not the same as national interest.<sup>81</sup> Insisting non-partisan, non-particularist conception of Europe, they in fact alienated the European subject from the mass and the party and let it be treated among technocrats and a handful of political leaders, those who think themselves representing *intérêt general* and “national interest.”

### 3. Bureaucracy

The role of bureaucrats had been crucial in redefining the French national preferences. The French bureaucrats had been relatively autonomous from the pressure from the parties or the parliament in the formation of European monetary policy. Parties had been weak as a policy actor and not been suitable as sites of expertise in area of economic and monetary integration. Also, the *de facto* political inferiority of the National Assembly to the bureaucracy under the presidential discretion made the preferences of elected officials hard to penetrate to those of bureaucrats. The institutional traits of the Fifth Republic contributed the relatively dominant role of elite bureaucrats *vis-à-vis* other political actors.

During the European policy formation, politicians were generally assumed to decide the agenda that there would be cooperation and the bureaucrats determined the content. In turn, when European agenda became dominant, politicians tried to benefitiate European integration to justify the legitimacy of their economic policy. However, when the bureaucracy began to have an influence in the agenda-setting function, the capacity and leverage of this group were significantly reinforced.

In the EMS negotiation, especially during the crisis, the French negotiators included the Finance minister and his counselors; representative from Trésor; governor and deputy governor of the Banque de France. Two groups of bureaucracy had been crucial in determining the French EMS policy. One was the Trésor in which *inspecteur des finances* used to take key positions, and the other was Banque de France. In dealing with European monetary policy, the preferences and opinions of these two groups used to influence president and other politicians.

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<sup>81</sup> Mitterrand declared that the Maastricht Treaty should not be utilized to partisan object. Le Monde, 92.1.12-3

### 1) Trésor - Inspection des Finances

The birth of franc fort and its deepening had been possible due to an ideological consensus among economic elites symbolized by *Trésor* and *Inspection des Finances*. On the next day of May 10, when the new power hesitated on the possibility of devaluation, the Trésor, by all their means, refused any adjustment and maintained the franc in the EMS. The decision was heavy for political consequences: adhering to Europe by this monetary line. During the EMS crisis, 1981-83, Mitterrand hesitated on the final decision at the *Elysées* meeting. Delors, the Finance minister, was determined. Also was Camdessus, director of Trésor. The “*rigueur*” and “*les Grands Zéquilibres* (the grand equilibrium),” the two prophets for the *trésoriers* were kept. Trésor opposed vigorously against “*l’autre politique*” and demolished it. There was no other means to establish “*Grands Zéquilibres*,” of which they were responsible, outside of austerity policy. During the cohabitation period, the new right wing majority wanted to cord the Trésor to pursue their own policy. However, the Trésor could successfully prevent issuing a big borrowing for revitalizing measures. In every regime, the Ministry of Economy and Finance prevented the politics of “dream.” Yves Mamou concluded: “The Trésor had won... The economic discourse which dominate nowadays is theirs.”<sup>82</sup>

In fact, the Trésor always preferred *rigueur* by nature. Sociopolitical consensus in the Ministry of Finance were made on the two principles: the continuity and expertise of Keynesianism; adaptation of the system to constraints. When the national constraints were not strong enough, the Ministry of Finance knew how to use international constraints. The European monetary system had been a formidable means to impose coherent and reasonable conjunctual regulation, which meant a political constraining. Their point of view eventually triumphed.

The inner structure of economic elites did not change during the Mitterrand era. *Inspecteur des finances* were always at the center of economic decision-making. The economic counselors at the Rivoli-Matignon-Elysées were almost always come from the *Inspecteurs*.<sup>83</sup> The number of *inspecteur des finances* in function in the administration of the *Rue de Rivoli* (Ministry of Finance) remain rigorously same as before. The role exerted by the *inspecteurs* at

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<sup>82</sup> Yves Mamou, *Une machine de pouvoir* (Paris: La Découverte, 1988)

<sup>83</sup> *Libération*, 85.11.13

bank, industrial groups, still maintained.<sup>84</sup> For the socialist government, there was no ambiguity: the director of Trésor had to apply “their” policies. The role played by the Trésor and *Inspection des Finances* was not seriously challenged. “The left voluntarist did not change the power of the Trésor. By contrast... (they) let themselves close to the tradition of equilibrium at the *Rue de Rivoli*. According to the logic of symmetry, the Right liberals made a risk of maintain the instruments of dirigism in the state... The regime/pass and financial power remains. The *enarques* could sleep without worries... the Trésor is eternal.”<sup>85</sup> As far as they had hegemony in entire financial sector, their views could be prevailed.

The Trésor was supposed to execute a decision taken by politics. Institutionally, Trésor was inferior to political arena. However, as often in the state machineries, those who counsel and execute play a decisive role in the formation process.<sup>86</sup> Certainly, politics could always violate the tradition of *rigueur* and impose policies more despensive and audacious. “The Trésor would execute it.”<sup>87</sup> But, at the same time, they could exert influences by persuading the minister -- and, in turn, all the governments-- and return to their own classical management. Politics did not always have a room of maneuver.<sup>88</sup> For the trésoriens, the regimes pass like a season.<sup>89</sup> “The ministers pass, administration remains.”<sup>90</sup> The function of the Ministry of Finance and Trésor was outside of the political game by the politicians. Rather they preferred a neutral expertise. Michel Camdessus, a director of Trésor affirmed: “We constitute a politically neutral corps in serving the state.”<sup>91</sup>

The Trésor and *Inspection des Finances* played a leading role in determining the French “national interest” in European monetary integration. However, the deepening of European monetary integration undermined the hegemony of the privileged corps. The Trésor began to weaken during the period of economic liberalization. After the independence of Banque de

<sup>84</sup> *Inspecteurs des Finance before and after the coming of the left (%)*

	Corps. Insp.	Minist. cabinet	Elect. functn.	Financ Minist.	Other admin.	Bank	Indust. group	Other	total	N
1980	24	6	4	12	9	25	19	1	100	240
1983	24	2	3	11	7	29	21	3	100	265

Le Monde, 85. 4.28-9; Annuaire de l'Inspection.

<sup>85</sup> Libération, 85.11.13

<sup>86</sup> Ibid.

<sup>87</sup> There was an inner critique that “stop thinking that we are driving France. The decision always matter to politics. We have our opinion but we always subordinate.” Le Point, 93.6.26-7.2

<sup>88</sup> Quotidien de Paris, 88.3.16

<sup>89</sup> Libération, 85.11.13

<sup>90</sup> Jean-Claude Trichet, Le Monde, 93.9.14

<sup>91</sup> Le Nouvel Observateur, 83.1.1.



France, the power of Trésor was institutionally challenged.<sup>92</sup> The Trésor found itself amputated one of its principal functions: monetary policy.<sup>93</sup> In spite of the relative success of *franc fort* policy and competitive disinflation, critics also had risen on the role of Trésor. They kept too rigid line of rigueur including psycho-rigidity, incapable of change in the changing environment.<sup>94</sup> Immobilism among the few economic elites was deepened. Founded in the intellectual frame of administrative economics, the responsables at the Ministry of Finance and the Trésor had never really understand nor accepted the mechanism driven by the market, where adaptation of the price plays an important role.

## 2) *Banque de France*

The structure of domestic financial institutions and its arrangement play an intermediating role of distributing external economic constraints into domestic financial participants. The politics of monetary policy-making depends especially on the relationship between the government and the central bank. The degree of central bank independence indicate the extent to which domestic political pressures influence national monetary policy-making. In general, central bankers had been assumed to tend to be more concerned with the risk of inflation and price stability than politicians do. On the other hand, governments tend to have broader concerns in competitiveness in international trade, short-term economic growth, national spending, and foreign policy in general.<sup>95</sup> The final policy outcome would reflect, therefore, a relative influence and power between different interests of central bankers and politicians.<sup>96</sup>

When the new socialist government came in May, 1981, the change rarely affected the Banque de France.<sup>97</sup> Banque de France was still ruled by the previously appointed, with a

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<sup>92</sup> Trésor was excluded from the council of monetary policy. New statute of Banque de France stipulates "...Banque de France accomplish its mission in the range of general economic policy of the government." *Le Figaro*, 93.6.8. New convention was made between Banque de France and Trésor on the mangement of the reserve of changes.

<sup>93</sup> *La Tribune*, 95.7.24. In Trésor, A1 department change the name to *Trésorerie et Affaires Monétaire*. They kept narrow communication with the Banque de France but their capacity was weakened.

<sup>94</sup> *Le Point*, 93.6.26-7.2

<sup>95</sup> C. Randall Henning, *Currencies and Politics in the United States, Germany and Japan* (Washington, DC: Institute for International Economics, 1994)

<sup>96</sup> *Ibid.*

<sup>97</sup> During the presidential election campaign, Mitterrand mentioned the role of Banque de France in a coming new government (81.4.20): "...the missions of the Banque de France should be strongly developed. It is necessary to orient the credit in a more selective and more rigorous way, for the purpose of realize a veritable economic and social planning. The role of Banque de France in this domain of distributing of credit will be more effective." *Le Monde*, 82.5.21. However, the function of the Banque de France did not change radically during the first several years of Mitterrand presidency.

predilection to monetary theories and centralization. Renaud de la Genière, governor of Banque de France, supported actively the Minister of Finance during the 14 days before the third devaluation in 1983. He was in sympathy with Jacques Delors.<sup>98</sup> While many of industrialist and financialists demanded an eventual departure of Jacques Delors and easing of economic policy, the president of Banque de France reaffirmed the politics of *rigueur*.<sup>99</sup> Renaud de la Genière was against economic liberalism. Economic easing could be made only at the cost of currency. Quitting the EMS and floating the franc would lead to a vicious cycle. Keeping interest rate low would lead to *encadrement du credit* again.<sup>100</sup> When austerity policy had been executed since 1983, the new governor of the Banque de France, Michel Camdessus, did not have a choice to pursue other alternatives.

Like Trésor, the Banque de France held the norm of *grands zéquilibres*. By nature, the Banque de France wanted to pursue its policy of fighting against inflation and the defense of the franc. The gap between France and her partners in the European monetary system also necessitated *grands zéquilibres*. Banque de France also tried to maintain a semblance of a political neutrality and technical expertise.<sup>101</sup>

Institutionally, Ministry of Finance had been superior to the Banque de France. When it comes to major monetary policy, the governor should work with *Rue de Rivoli*. The government could exert influences on the Banque de France in two ways. One was the nomination of the members of Banque de France and the other was orienting the mission of the Banque de France: Trésor determined the variation of the financial needs of the banks and the state. However, the Banque de France also exerted a very strong influence on the Ministry of Finance in determining monetary and interest-rate policy. It was rather a reciprocal dependence between the Banque de France and the Ministry of Finance.

The environment of the Banque de France, however, had been significantly transformed during the late 1980s and the early 1990s. Financial deregulation and economic liberalization as well as an internationalization of capital movement fortified the relative capacity of Banque de France in deciding the EMS policy. As the criteria to join the European monetary union became more binding, the role of Banque de France in interpreting and redefining the national interest

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<sup>98</sup> *Le Monde*, 84.11.15

<sup>99</sup> *Libération*, 84.1.20

<sup>100</sup> *Ibid.*

<sup>101</sup> Jean-Claude Trichet mentioned: "We don't do politics while we serve the state." *Le Nouvel Observateur*, 94.5.19-25

had gotten more weights.<sup>102</sup> Independence of Banque de France<sup>103</sup> was also important in the sense that it facilitated the concentration with other partners.

The role of technocratic economic elites of the Trésor and Banque de France in determining the French EMS policy did not change much in spite of changing environment and the rules of game. Same group of policy community could adapt themselves to a new environment while keeping their influence.<sup>104</sup> In the long run, their knowledge and opinion began to be reflected as the French national interest.

## V. EXPLAINING BUREAUCRATIC DOMINANCE: DEMOCRATIC DEFICIT AND THE LEGITIMACY OF DELEGATION

### 1. Grand Corps and the “ elite rose”

The similarities in recruitment, background, and the inner coherence of French economic elites made it possible to define a preference on European monetary policy based on a more informal agreement between agencies than through a formal legislative procedures. The stability of the French policy community contributed to the European monetary policy-making in that it had provided an institutional foundation which facilitate the policy consensus in determining

<sup>102</sup> The role of EC monetary committee and the Committee of EC central bank governors were increased along with the deepening of European monetary integration and it reinforced the importance of independent Banque de France. On the increased role of central bankers in European monetary ingegration, see David Cameron, “Transnational Relations and the Development of European Economic and Monetary Union,” in Thomas Risse-Kappen, ed., Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures, and International Institutions (Cambridge; Cambridge University Press, 1995).

<sup>103</sup> Under the Maastricht Treaty on EMU, EC governments must give central bank independence before 1994.

<sup>104</sup> The 9 members of monetary council in the newly independent Banque de France showed similar profiles of background: IEP, ENA, Inspection des Finances, etc.

Jean-Pierre Gérard	X, industrialist
Denise Flouzat	IEP, Doctor in Economics, Universitaire, First deputy-governor
Bruno de Maulde	IEP, ENA, Inspection des Finances
Jean Boissonat	IEP, Journalist, DG of Expansion
Michel Albert	ENA, Doctor in Economics, Inspection des Finances, PDG of AGF
Denis Ferman	Doctor in Law, Banque de France
Jean-Claude Trichet	ENA, Inspection des Finances
Hervé Hannoun	ENA, Inspection des Finances (cabinet de Bérégovoy, 89 - )
Michel Sapin	Sup., IEP, ENA. Rocardien. PS deputy.

national economic policy. Elite cohesion was based on the system of *grands corps*.<sup>105</sup> Members of the *grand corps* behave as traders between the political and administrative power.

During the first year of the socialist governments, the left rarely opened its headquarters (*état-majors*) to representatives of traditional elite groups.<sup>106</sup> However, they returned rapidly to depend on the traditional elite formation line (IEP-ENA). The mechanism of selecting the elites continued to function according to the same logic. Socio-professional profile of the new elites did not change much. Among the core ministries, the newly promoted rarely took important positions. The direction of the cabinet often required technical competency. The socialists could not, in the long run, deviate from traditional network. The heads of the administration were neither socialists nor rightists. The PS conserved excellent technicians at the head of administration, especially in the Trésor and the Banque de France, without worrying of their political orientation. This phenomenon was even more visible since the arrival of Fabius at the Matignon. During the years of cohabitation, the constituents of monetary policy area did not change much from the previous socialist governments.<sup>107</sup> The elite system remained stable. No new kind of politics-administration interrelationship occurred during the Mitterrand era regardless of the change of government between the left and the right wing. The change of person was of no use if the government was not able to impose its policy upon the technostructures.<sup>108</sup> The same phenomenon was found in the business sector. The economic elites who served in the administration still constituted a majority in the major enterprises.<sup>109</sup>

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<sup>105</sup> The *Corps*, the French elite group, was not a ruling group but rather a managerial one. Vivien Schmidt, *From State to Market* (Cambridge: Cambridge University Press, 1996), pp.332-333. In fact, *Grands corps* themselves had never been a definitive master of politics. Luc Rouban points out: "Real political appointments are very few. Members of the grand corps are not submitted to the political power, they participate it. They are partners, but subordinates. They are serving the State, not a specific government." Luc Rouban, "The Civil Service Politicization in France: The New Rule of the Game" Paper presented at the Annual Conference of American Political Science Association, 1995.

<sup>106</sup> In 1982, there was no *ingénieur du corps des mines* at the Elysées. At Matignon, except for a short stay of Robert Lion, the director of cabinet was taken by more political personage, Michel Delebarre. Among the director of cabinet, there had been a small decrease of numbers from *Inspection des Finances* during the first few years of the socialist government. In 1980, there was 1 president, 1 minister (Jean-François Deniau), 1 State Secretary (Jean Farge), and 16 at ministerial cabinet. In 1982, only 3 director of cabinet (Louis Schweitzer, Budget; Philippe Lagayette, Finance; Jean-Charles Naouri, Social Affairs) and 8 to a subordinate cabinet. Originality of the elite changed slightly and a new generation of socialist elite (*elite rose*) appeared. *Le Monde*, various dates.

<sup>107</sup> Philippe Lagayette, deputy governor of the Banque de France was a former director of Delor's cabinet. Daniel Lebègue, director of Trésor, was nominated by the Socialists. The paradoxical socialist heritage still remained in the monetary policy regardless of the colors of government.

<sup>108</sup> *Quotidien de Paris*, 82.4.6

<sup>109</sup> During the period of 1981-1985, among the 36 president of nationalized/public enterprises, only 5 remained and 2 changed the position. 29 new PDG. New patrons, however, chose continuity. In 1985, only 30% (10) did not come from the administration. 63% (23) came from the *Grands Corps d'Etat*. Only 8 did

The socialists did not make any rupture in the conditions which rule the access to this universe. Statistically, the leaders of the big enterprises showed the same identity as their predecessors.

The role of technocratic elite varied vis-à-vis politicians during the Mitterrand era. During the period of political transition, politicians -- president, party leaders, etc. -- dominate political agenda. However, when everyday policy-making was concerned, bureaucrats gradually increased their influences on the possible choices. Relying on a homogeneous policy community limited available political agenda. Henri Vernet rightly pointed out: "In fact, everything happens as if the political power were placed under the tutelage of administration. In caricature, at least, we can say that its only space of liberty lies in the elaboration of programs, before coming to the power. Again they (partisans) have to consider, as we have seen, the influence of the bureaucrats. Next, once the government is installed in these walls, the technocrats disembark."<sup>110</sup>

## 2. Bureaucratic adaptation to Europe

Deepening of European integration threatened the domestic primacy of elite groups. Economic deregulation and liberalization of capital movement undermined the traditional capacity of intervention of economic administrators. *Grands corps* began to lose their control in European affairs. However, domestic structure still remained. They found their own way of adaptation and modified the conditions of intervention.<sup>111</sup> *Grands corps* were not unfavorable to Europe. They took it as inevitable. The national administration and *grands corps* were, in fact, partners in European construction. The *corps* have even been reinforced in several policy areas such as regulation policy and intermediation of structural fund.<sup>112</sup>

Members of *grands corps* still held the key posts of European policy-making.<sup>113</sup> With similar profile, they spoke the same language and shared a same administrative culture.<sup>114</sup>

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not serve at the administration and 25 came from *Grands Corps*, serving average of 12 years. Michel Bauer, "La gauche, les grands patrons et l'esprit," in *Le Monde* 85.4.28-29. For a relations between business and administrative elites, see also Michel Bauder ad Bénédicte Bertin-Mourot, *L'Acces au sommet: Des grads entreprises Françaises, 1985 - 1994* (Paris: Boyden Global Executive Search, 1995); *L'ENA. Est-elle une business school?* (Paris: Boyden Global Executive Search, 1994); *Les 200: Comment devient-on un grand patron?* (Paris: Seuil, 1987); Schmidt, *From State to Market*.

<sup>110</sup> Henri Vernet. *Quotidien de Paris*, 88.3.16.

<sup>111</sup> François d'Arcy and Luc Rouban eds., *De la Ve République A L'Europe* (Paris: Presses de Sciences Po, 1996)

<sup>112</sup> *Ibid.*

<sup>113</sup> For example, Thierry Bert (normal, ENA, Inspection) was a technical counselor at the Elysées while Yves-Thibault de Silguy (ENA. Diplome) did his work at Matignon and SGCI. *Le Monde*, 93.12.4

Personal relation between ministerial bureaucrats and the members of the SGCI<sup>115</sup> was also important to advance European policy and save the loss of time. This common network facilitated the circulation of information and create a common mind set. Around 100 elites in SGCI<sup>116</sup> and Ministries sharing common culture in European affairs constitute a core of European policy making. They were not very political and armored with technocratic expertises.<sup>117</sup>

### 3. Democratic deficit and the legitimacy elite dominance in EMS policy-making

From the beginning, European integration entailed an elite-centered nature. The elites took it for granted the “indifference” of the public opinion to Europe.<sup>118</sup> There had been an “ideology of competence” and a “myth of general interest” among the French elites.<sup>119</sup> Bureaucratic elites decided as if they represented national interest -- *intérêt général*. Bureaucrats colonized private and parapublic sectors and dominated the formation of general interest.<sup>120</sup> The colonialization of power by high civil servants produced a series of false consensus, biased decisions. They usurped the authority from the people to give responsibilities without real mandate, giving legitimacy by self-defined “competence”<sup>121</sup>.

The European monetary system gave too much power to technocrats and politicians and not enough to citizens. “Speaking of franc” had been a privilege of higher civil servants and reserved for the elite decision. Jean-Yves Haberer pointed out: “...monetary policy permits not have to confront with the parliament (not like a fiscal policy), nor with the unions or the sensible socio-professionals. Monetary policy accompany enough strong degree of socio-political anathema...”<sup>122</sup> European monetary integration had a significant influence in the socio-economic

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<sup>114</sup> Ibid.

<sup>115</sup> In dealing with European affairs, France created an organization of interministerial coordination. (SGCI). Only 2 country, France and Great Britan, have administrative coordination toward Brussels which depend directly on the chief of the government.

<sup>116</sup> In SGCI, *Inspecteur des Finances* and *Corps Diplomate* retained most of their power.

<sup>117</sup> Ibid.

<sup>118</sup> Jean Francois Revel, “Europe: le non-debat” *L’Express*, 77.6.20

<sup>119</sup> Ezra Suleiman pointed out that an “idelogical neutrality” and “a rhetoric of general interest” were the two principles of the French elites. Ezra Suleiman, *Les haute Fonctionnaires et la politique* (Paris: Seuil, 1976) p.106

<sup>120</sup> According to Thierry Pfister, “30% of *inspecteur des finances* and *corps des mines* quit the administration to immigrate into enterprise. 15% of *corps de ponts et chaussées* and *Conseil d’Etat*.” *Quotidien de Paris*, 88.3.16

<sup>121</sup> Thierry Pfister, *La Republic des fonctionnaires* (Paris: Albin Michel, 1988). Quoted in *Libération*, 88.2.24

<sup>122</sup> François Renaud, “Du Trésor public à celui de Paribas,” in *Le Monde*, 85.4.28-29.

life of the average French citizen. But in international negotiations, there was no effective ways to represent these interests. "The (European monetary) negotiation would be made at the last moment, between expertises and it would provide a room for a political 'deals' which is hard to preview"<sup>123</sup> The technocratic nature of European monetary integration has reinforced the capacity of the bureaucrats in European monetary policy-making arena. Monetary policy and democracy were often incompatible and contradictory objects.<sup>124</sup> In France where the professional economists were already (very) marginalized and giving only few confidence to the market mechanism, the defender of official doctrine established their proper illusion in a taboo excluding the group that casted even the least doubt on the *franc fort* policy.<sup>125</sup>

This economic totalitarianism aggregated the recession and unemployment and finally opened a public debate on the French economy and Europe.<sup>126</sup> The EMS crises exposed the limit of legitimate delegation of general will by the elites. Those in office usually believe that their policies express the long-term interests of their people, while speculation attacks reveal the irresponsibility, if not wickedness, of markets.<sup>127</sup> While European elections and parliament did not properly reflect the reality,<sup>128</sup> the mass began to express their antipathy to European monetary integration and political elites through protest, outside of institutionalized political sphere. In the 1995 strike, the question was posed: "what is good for the people?" and "who decide?"<sup>129</sup> Elites were pushing dangerously close to the limit of public tolerance. The exchange rate policy conducted in the name of Europe by Bérégovoy - Balladur - Trichet came under a critique.

## V. CONCLUSION

The convergence and redefinition of national interest in regard to monetary policy was epitomized by the French "U-turn" of 1982-3. The French European monetary policy during the

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<sup>123</sup> Libération, 86.4.4

<sup>124</sup> Jacques Delors said: "It will be difficult to conciliate independence in monetary affairs with a political responsibility and democracy." Le Monde, 1990.5.17

<sup>125</sup> Jean-Jacques Rosa, "Les couteuses illusions du franc fort," Le Figaro, 93.8.2

<sup>126</sup> It is, before anything else, the erroneous conception of our high officials, and their excessive ambition, that explain the error of appreciation which led us to an impasse. *Ibid.*

<sup>127</sup> Financial Times, 93.8.17

<sup>128</sup> Gérald le Gall, "Une élection sans enjeu, avec conséquences" in Revue Politique et Parlementaire, 910 mai-juin, 1984, p.12.

<sup>129</sup> "The 1995 Strikes - Something New or Déjà Vu?" in French Politics and Society, v.14, n.1 (Winter 1996)

ERM crisis, 1992-93, reflected the accumulation of the institutional loyalty. The institutional loyalty, however, had not been made neither from purely economic calculation nor out of normative commitment. It reflected a political interest and a justification of domestic affairs. During the EMS crisis in the early 1980s, Mitterrand was anxious to find European arguments to back the case for his policy turnaround once the final French position was adopted. By actively supporting European institutions and by emphasizing the emergence of a strong and united Europe, Mitterrand discovered another way to bolster confidence in his government.<sup>130</sup> Beyond this focal point, political justification and economic rationality were mutually reinforcing, configuring the French national interest in the European monetary integration. During the peaceful period of the EMS in the mid 80s, the *franc fort* became the first priority in pursuing competitive disinflation policy. The consensus was not very divergent between the left and right politicians. The record of economic policy during the cohabitation periods (86-88, 93-95) shows that the change of the government did not accompany a change of *franc fort* policy. The French governments during the Mitterrand era tied their hand to pursue their economic rationale of European monetary integration. The response of the French governments to the EMS crisis in 1992-3 was more consistent compared with the 1981-83 crisis. Whereas leaving the EMS had seriously been considered a decade ago, the policy alternatives during the ERM crisis in 1992-93 almost excluded the possibility of the float of the franc. After ten years in power and its abandonment of its socialist program in the early 1980a, it had nothing upon which to stake its claim to office other than its policy of the *franc fort*. In that sense, the context of decision-making had been continuously constrained by the deepening of European monetary integration.

The process of reconfiguring national interest reflected a specific trait of French policy community. In France, a cohesion of politico-administrative elites and business sector played a major role in redefining national interest. During the crisis period, especially in the 1982-3 EMS crisis, the role of president and socialist politicians had been dominant. In a later crisis, 1992-3, the defense of the franc was led more by the opinion from technocratic elites, including economic bureaucrats of the Trésor and the Banque de France, in a more institutionalized way. The *franc fort* policy was seminated by Mitterrand in 1983 when he decided to stay in the EMS and made a large "U-turn" of the socialist policies but the implementation and consolidation of the "franc fort" policy had been made by more technocratic elites. The structure of the French policy community remained quite intact during the Mitterrand years. They were still exclusive to other groups and lacked a competition. The norm of the EMS had already been solidly

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<sup>130</sup> Wayne Northcutt, Mitterrand: A Political Biography (New York: Holmes and Meier, 1992), p.147.



accepted by the policy community. The deepening of the ideational consensus among economic elites redefined the French national interest in a way to make an exit from the EMS more difficult.

The elite domination of the French European monetary policy was due to the nature of monetary policy-making and interstate negotiation process. Coping with exchange rate crisis did not usually allow plenty of time to make a domestic consensus or a ratification of the parliament. Interest-rate adjustment or the central bank intervention was decided at a highly remoted elite level, which in turn had a tremendous effect on everyday economic life. Election did not fully reflect a people's conception of European integration because the election massed up so many delicate political issues or a general popularity of the government at that time. The increased democratic deficit between policy elites and citizens brought about the problem of legitimacy of delegation. The self-justified delegation and a passive consensus on the European issues had come under a doubt, leading to the crisis of Maastricht referendum and the 1995 strike.

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