Making and Breaking the Rules:

French policy on EU ‘gouvernement économique’

and the Stability and Growth Pact

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ABSTRACT *French policy-makers have been caught in a dilemma with regard to the construction of the Economic governance (EG) dimension of EMU between two strong but contradictory preferences: on the one hand the supranational consequences of a dirigiste approach to macro-economic policy and, on the other hand, a Gaullist reflex to retain sovereignty as much as possible and to insist upon intergovernmentalism in EU-level macroeconomic policy-making. Since the late 1980s, French governments have promoted the construction of EG in ways which can be seen in terms of these contradictory preferences, while challenging the official Treaty-based ‘price stability’ goals of EG. The Raffarin Government supported the March 2005 reform of the Stability and Growth Pact (Stability Pact, SP) because it rendered the Pact more flexible allowing greater margin of manoeuvre in the development and implementation of the Broad Economic Policy Guidelines (BEPG) and the application of the Excessive Deficit Procedure (EDP). EG has thus involved less ‘top-down’ Europeanization and ‘transformation’ of French policy than ‘bottom-up’ Europeanization, ‘accommodation’ and ‘absorption’.*

KEY WORDS EMU, Economic Governance, Stability and Growth Pact, Europeanization

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Introduction

Leading French politicians and academics have, since the start of discussions on the shape of the EMU design in 1988, been the principal proponents of the establishment of some form of '*gouvernement économique*' (economic governance (EG)) at the EU level. Economic governance has ostensibly and rhetorically been presented as a counter-balance to the monetary policy-making power of the European Central Bank (ECB). It has also been presented as a means of encouraging coordinated reflation among EU Member States to ensure economic growth. At the same time EU economic governance has been used as a justification for domestic structural reform: a useful external constraint for French governments hamstrung by financial constraints and domestic political opposition to structural (notably pensions) reform. All French governments have defended the broader objectives of the Maastricht Treaty and Stability Pact (SP) rules (to prevent the unsustainable increase in the public debt load). However, French governments have also refused to accept the binding nature of the precise fiscal policy rules that are meant to reinforce the price stability goals of EU economic governance. These rules are not allowed to constrain French policy making when they are inconvenient.

This paper is thus a case study of the difficult acceptance of 'Europeanization' in France both in terms of the policies pursued by French governments but also in terms of their adopted discourse. French policy and discourse on economic governance provides an excellent example of how successive French governments have retained an idea of European Integration '*à la carte*': they maintain a discourse in favour further integration, provide little substance as to what that means and are not actually committed to respect the rules they have previously accepted. This paper analyses the diversity of ways in which French policy makers have presented the concept of European '*gouvernement économique*'. This concept has been manipulated – beyond the core EMU goals of price stability (the stated aim of macroeconomic policy coordination in the Maastricht Treaty and the Stability Pact) and, subject to this stability, economic growth – to cover:

1) economic policy coordination with other member state governments and with the ECB to achieve an 'appropriate' policy mix;

2) a more energetic EU-level interventionism designed to stimulate economic growth and create jobs;

3) the reinforcement of EMU’s credibility and legitimacy;

4) an explicit challenge to the ECB's goals and goal-setting and operational independence.

The inconsistent and often incoherent presentation of the concept of EG by leading members of the French political class reflects the inherent contradiction between two well-established French policy making preferences. On the one hand, the consequences of a *dirigiste* approach in the context of EMU encourages French governments to match the single monetary policy with some form of supranational economic governance that can bring about a tight coordination of national macroeconomic policies but also serve as a potentially useful device to empower French governments in the domestic political and economic context. On the other hand, the Gaullist reflex to retain national policy making margin of manoeuvre (‘sovereignty’) as far as possible is manifested in the preference that EU-level policy making is conducted in an intergovernmental manner. The difficulty elaborating a clear French policy on EG has thus reflected the incoherence in French policy on European integration more broadly and the failure of French governments to move beyond the divisive questions of principle (‘should we transfer sovereignty?’) to the more consensual challenge of managing such change: not ‘whether’ but ‘how’ to transfer sovereignty (Arnaud 2000; Drake 2001).

The ‘price stability’ function embodied by the Maastricht Treaty’s convergence criteria and the Stability and Growth Pact (Stability Pact, SP) has consistently been marginalized in French government (both conservative RPR-UDF / UMP and left-wing Plural-Left) discourse and policy on EU economic governance precisely because of the ostensibly binding nature of this function. The emphasis placed on the other forms of economic governance – notably as 'policy mix' and 'intervention' but also as political representation of the Euro-zone and even as political control over monetary policy – reflect more the domestic political and economic tradition – crucial to government-legitimisation in France – of *volontarisme* (or *dirigisme*), that is active – at least ostensibly active – state intervention in the economy.[1] While the price stability dimension of European economic governance has conformed to the preferences of French governments seeking to push through significant structural reforms to lower the French public spending deficit and contain the rising debt burden, the rigid design of the SP rules has contradicted French preferences in favour of intergovernmentalism and margin of manoeuvre in macroeconomic policy making. The Pact was accepted by the Juppé Government (1995-1997) only after lengthy and bitter debate (Heipertz and Verdun 2004; Milesi 1998) to meet intransigent German demands and ensure the start of Stage Three of EMU. Thus the repeated failure of French governments to follow the existing rules of EU-level economic governance and the Broad Economic Policy Guidelines (BEPG) established for France should not be seen as a reconceptualisation of French preferences with regard to economic governance. The French government's Pact reform proposals and its support for the elements of the March 2005 reforms demonstrate the preference for more flexible SP rules, the application of which should be subject to national political and economic considerations. The elaborate nature of the potential flexibility in the application of the reformed SP's rules thus embodies the French paradox of wanting EG yet insisting upon intergovernmental policy making and margin of manoeuvre.

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[1] *Volontarisme* can be equated with *dirigisme* which Schmidt has defined as 'a set of interventionist policies and directive policy-making processes' (Schmidt 1997, 229) with the state actively steering the economic (industrial and so on) development of the economy (see also Hall 1986; Schonfield 1969).

EMU, Economic Governance and Europeanization

In terms of the relevance of the diverse literature on Europeanization with regard to France and European integration, two conclusions can be drawn from the argument made here about EU-level economic governance and national margin of manoeuvre. The first concerns the description of EMU as 'transformative'. The second concerns an application of the concept of Europeanization as a two way process that is 'bottom up' and 'top down' (Börzel 2002). In her study of the impact of EU adjustment pressures on policy sectors in the member states, Schmidt (2002) applies Radaelli's (2000) analytical framework of Europeanization in terms of the scope of domestic change to several domestic policy sectors. This framework includes the concepts of transformation, accommodation, absorption, retrenchment ('negative' change) and inertia (resistance) (see also Heritier et a l. 2001; Cowles, Caporaso and Risse 2001). Schmidt argues that EMU is the only EU policy area which has 'transformed' French policy and policy making. In all other areas (for example, financial services, electricity, air transport, railways and road haulage) there has been either been absorption or inertia.

With regard to EMU, the 'transformation' that Schmidt outlines disguises developments which have worked to increase government margin of manoeuvre rather than decrease it. Rather than restricting the macroeconomic framework in which French governments must operate, EMU has actually decreased constraints on French governments. There is greater margin of manoeuvre in fiscal (and other macroeconomic policies) despite (or even because) of the Stability Pact. As EMU removes the possibility of speculation against national currencies, greater deficits are less problematic in the short-term for governments in managing their macro-economic policy as they are effectively sheltered by the single currency. The most restrictive element of the EU fiscal rules (notably the 3 per cent deficit limit) was until the 1990s not seen as particularly constraining for French policy makers given how seldom French governments had exceeded this figure in the past (only once since 1958). When respecting these fiscal rules became politically difficult from 1993, French governments tried to change them. After the start of EMU's Stage III, it became possible to flout and then change them (the March 2005 reforms) to ensure continued margin of manoeuvre. ECB interest rates, which decreased with the start of EMU, have far better conformed to French economic preferences than under the European Monetary System (EMS) – despite repeated criticism of ECB monetary policy making by French governments. The SP – created ostensibly to restrain the spending of profligate governments – in fact increased adjustment time for governments. The appearance of budgetary restraint – at least in the early years of EMU – built credibility for EMU and national macroeconomic policy (Jones 2000). Thus 'transformation' in the realm of monetary policy has, at best, allowed for 'accommodation' and 'absorption' in fiscal and macro-economic policies and at worse 'retrenchment' – higher budget deficits and debt load – and 'inertia' – failure to engage in structural reform.

Börzel (2002) is helpful to this analysis because of a pertinent distinction between 'top-down' and 'bottom-up' Europeanization. Furthermore, an application of the concepts of 'pace-setting, foot-dragging or fence-sitting' further demonstrates the interaction of French fiscal and macro-economic policy preferences and policy on EU-level economic governance.[2] German CDU-CSU governments engaged in 'pace-setting' on the fiscal policy rules and macro-economic policy framework of EMU, while French governments engaged either in 'fence-sitting' – as on the design of the convergence criteria in the early 1990s – or 'foot-dragging' – as on the independence of the ECB and the creation of the Stability Pact.

[2] Börzel (2002: 194) defines these three strategies as follows. Pace-setting is 'actively pushing policies at the European level, which reflect a Member State's policy preference and minimize implementation costs'. Foot-dragging is 'blocking or delaying costly policies in order to prevent them altogether or achieve at least some compensation for implementation costs'. Fence-sitting is 'neither systematically pushing policies nor trying to block them at the European level but building tactical coalitions with both pace-setters and foot-draggers'.

However, since 1993, French governments have almost consistently engaged in 'pace-setting' with regard to the reform of EU-level economic governance. French governments sought certain EU-level developments ('pace-setting') because they were seen to complement French state action and domestic economic objectives (to achieve a 'goodness of fit') which lowered the implementation costs at the national level (Börzel 2002: 194). Member states seek to 'upload' national policy arrangements to maximise the benefits and minimise the costs of European policies of 'downloading'. For Héritier *et al.* (1996) member states 'compete at the European level for policies that conform to their own interest and approach' (Börzel 2002: 194). Thus, French governments have sought EU-imposed goals – Europeanization as 'tying one's hands' through a deliberately developed external constraint – but all French governments have also opposed tightly binding rules that eliminate national margin of manoeuvre in national fiscal and macro-economic policy making. A coincidence of French and German preferences between 2003 and 2005 created a window in which French 'pace-setting' resulted in desired policy change on the Stability Pact.

French visions of EU-level '*gouvernement économique*'

The issue of economic governance has been raised by the French more than any other Euro-zone member state: a preoccupation that reflects concerns linked to the traditionally widespread reluctance to accept central bank independence, the tradition of state interventionism in the economy and the 'sound money' bias of EMU. Since the start of negotiations on the EMU project in the late 1980s, the issue of EG has been constantly present in French political discourse and policy demands at the European level. The term 'economic governance' can signify several different things. In general terms, EG is an institutional set up at the European level that is designed to establish some form of macro-economic policy, be it only 'soft' / non-binding economic policy coordination, that has direct impact upon the member states. This is a form of collective governance (Wallace 2000; 541*ff*) 'among core actors from several institutions and bodies in a multi-faceted network which is constituted by mutual participation patterns' that can be called horizontal fusion (Wessels & Linsenmann 2001). In the academic literature — describing what *has been* created or recommending what *should be* created – this includes different modes of governance: the 'hard' coordination in the realm of monetary and fiscal policies and the 'soft' coordination in the area of economic and employment policies.

What various French proponents mean exactly when they espouse EG has been unclear even though there has been a limited attempt by French academics and government economic advisors to explore possible EG scenarios (see, notably, Boyer 1999; Boyer and Dehove 2001). Different governments — indeed different policy makers — place different emphasis on different kinds of coordination and the appropriate role to be fulfilled by the Eurogroup. Five objectives of 'economic governance' – some overlapping; some contradicting – can be discerned from French policy statements over the past fifteen years. These all relate to the objective of EG that was explicitly established by the Maastricht Treaty and the SP: EG as coordination of macroeconomic policies to achieve greater price stability – to support fiscal policy coordination (which is supposed to involve binding rules and even fines). Thus EG was expected to reinforce the primary objective – low inflation – of the ECB (with economic growth and employment as a secondary objective), promote a positive coordination role between Ecofin and the ECB and prevent individual member states 'free-riding' off the low inflation achieved by the central bank and other Euro-zone member states. EG as the achievement of price stability has involved the supposedly 'hard' coordination of the convergence criteria rules (with rules for the imposition of fines established in the Stability Pact) and 'soft' coordination consisting of the mutual surveillance of national macroeconomic policies begun in Stage One of EMU in 1990 with the establishment of Broad Economic

Policy Guidelines and the requirement that member states prepare and submit medium term reports, which was reinforced by Regulation 1466/97 of the SP that established the Stability and Convergence Programmes. For economists, the price stability elements of the treaty and the SP are designed to prevent the dangers of a ‘chicken game’ between fiscal and monetary authorities and of certain participating states ‘free riding’ off the stability achieved by other member states.

Economic governance as ‘effective policy mix’

No French politician would claim that EG exists only to achieve price stability. Thus this understanding of EG associated with the application of Maastricht Treaty and SP rules is always presented in the context of EG as achieving an ‘effective policy mix’ which aims to promote a more active coordination of member state policies to increase economic growth and employment creation in the context of the ‘sound money’ goals of the EMU project. This is about qualifying / counterbalancing – but not directly challenging – the drive for monetary stability. This form of EG would involve a positive coordination between the Council and the ECB. Such emphasis on effective policy mix can either involve an acceptance of an ECB (monetary policy) leadership role (thus the Council places clear limits on its pursuit of improved economic growth and this does not become inflationary) or a direct challenge to this role, emphasising instead the need for a tighter coordination of national macroeconomic policies (although not necessarily via precise binding rules) to achieve stronger economic growth and employment creation. French government rhetoric and policy has presented both these forms of ‘policy mix’ while tending to favour the latter.

Initial French interest in EU-level economic governance – in the context of the discussions and negotiations on EMU in the late 1980s to the final agreement on the design of EMU at the December 1991 Maastricht Summit – stemmed in large part from widespread

French concern for the need for an effective policy mix which involved containing ECB monetary policy in a broader macroeconomic policy established by governments. Pierre Bérégovoy, Minister of Finance from 1988-1992, sought to counter what he saw as the excessive influence of the national central bank governors in the design of EMU (Howarth 2001). During the period following the first meetings of the Delors Committee, Bérégovoy and Treasury officials introduced the idea of '*gouvernement économique'*. In the French draft treaty of January 1991 they 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.[3]

Moreover, the Treasury proposed that the European Council, on the basis of Ecofin Council 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 and the ECB would manage European monetary policy. Bérégovoy and Treasury officials also argued in favour of giving the ministers of economics and finance control over exchange rate policy.[4] The French draft treaty sought to limit the European bank's margin of manoeuvre as much as possible.[5] The draft treaty also very much reflects Treasury attitudes regarding the goal of price stability and French monetary policy tradition. It maintains a double language in favour of both the primacy of

[3] For a copy of the French Draft Treaty see *Revue Financière Internationale: aujourd'hui l'écu, numéro spécial*, June 1991; and *Agence Europe*, 28/29.1.91, 5419.
[4] *Communiqué du Conseil des Ministres*, 5.12.90 and the French proposal for an EMU treaty, *Agence Europe*, 28/29.1.91, 5419.
[5] *Agence Europe, ibid.*, 5419.

monetary stability (article 2-3.1) while giving the European Council and Ecofin the means to challenge this primacy. The Germans opposed any powers to the Council beyond ensuring that the member states respect the specific convergence criteria they sought to place in the EMU treaty. Ironically, given subsequent French government difficulties keeping the deficit below 3 per cent, French negotiators were flexible on the inclusion of the convergence criteria and even proposed the precise 3 per cent figure which proved so economically and politically constraining in subsequent years.[6]

Since 1992, French governments have translated 'effective policy mix' into increased national margin of manoeuvre in macroeconomic – and notably fiscal – policy. All French governments since 1996 publicly opposed the constraining features of the original Stability Pact and none undertook the kinds of structural reforms needed to ensure that France would meet the medium term goal of a budget 'close to balance or in surplus'. The Jospin Government in it latter years (especially from 1999) and the Raffarin UMP Government both prioritised tax cuts over deficit cuts. Major reductions in tax were one of the principal campaign pledges of President Chirac and the UMP in the 2002 presidential and legislative elections. Chirac spoke with a forked tongue for domestic public and European political elite audiences. While emphasising tax cuts in the domestic debate, he and the UMP also regularly confirmed France's commitment to meeting the medium term SP goals.

Repeated German failure to meet the 3 per cent deficit figure from 2002 gave the French greater political margin of manoeuvre on the SP rules. The Raffarin Government formed a pro-reform alliance with the Schröder Government. The French government then accepted the Schröder Government's demands that the application of the SP's Excessive

[6] In 1991, France was one of the few EC member states to respect all five criteria and, until that date – apart from 1983 – since the Second World War, France had avoided a public spending deficit greater than 3 per cent. The 3 per cent deficit limit was first set by the French Socialist Government in the context of its abandonment of its Keyensian experiment of the early 1980s. With a 3.1 per cent deficit in 1983, President Mitterrand resolved not to exceed 3 per cent in the future.

Deficit Procedure (EDP) be suspended and joined with the Germans to force through the suspension at the 25 November 2003 Ecofin meeting.[7] Official French policy on the SP insisted that the non-application of the EDP did not amount to an abandonment of France's commitment to the Pact (*Le Monde*, 26.11.2004). However, the Raffarin Government insisted upon a more flexible application that would – officially – take into consideration the economic situation facing a participating member state and – in practice – allow more scope for political bargaining and thus margin of manoeuvre for French (and other) governments.

Both the Jospin and Raffarin governments let it be known that a reformulated Pact should take into consideration deficit spending on public investment (notably physical infrastructural and research spending) – eliminating this for total public deficit considerations – which would allow for greater margin of manoeuvre. This was most recently defended through a report published 18 November 2004 by economists in the Economic Analysis Council (*Conseil d'analyse économique*) attached to the Prime Minister's office. Allied to the Schröder Government, the Raffarin Government insisted on discounting public spending on research – especially given the EU's official (Lisbon) research spending objective of 3 per cent of total GDP by 2010. The Raffarin Government also accepted (*Le Monde* 3.12.04) the Schröder Government's insistence that all national spending on EU engagements be taken into consideration when judging national deficits: thus allowing net contributors to the EU budget like Germany but also France more leeway in comparison to net recipients. With the largest total defence budget in the EU, President Chirac and the Raffarin Government also

[7] Article 104.8 (TEC) states that 'Where it establishes that there has been no effective action in response to its recommendations within the period laid down, the Council may make its recommendations public.' Article 104.9 (TEC) states that: 'If a Member State persists in failing to put into practice the recommendations of the Council, the Council may decide to give notice to the Member State to take, within a specified time-limit, measures for the deficit reduction which is judged necessary by the Council in order to remedy the situation. In such a case, the Council may request the Member State concerned to submit reports in accordance with a specific timetable in order to examine the adjustment efforts of that Member State.' These provisions were not applied to Germany and France.

demanded that defence spending be excluded from deficit calculations (Chirac 14.7.2004). French governments – both left and right – supported a more flexible medium term target that did not insist upon balanced budgets, as in the original Pact, yet was still designed to reduce debt in the long term. The French wanted each country to have its own medium term objective that would in effect would increase government margin of manoeuvre by submitting the determination of this target exclusively to ministerial judgement and thus abandoning completely the automaticity enshrined as a central tenet in the Pact which arguably impeded the development of an appropriate policy mix for each Euro-zone member state. Both the Jospin and Raffarin Governments were officially hostile (Treasury officials, interviews April and May 2005) to proposals to render the Pact more 'symmetric' by increasing the constraint on fiscal policy – forcing the further reduction of deficits – during periods of economic growth. This constraint was considered politically unacceptable to governments wanting to ensure maximum margin of manoeuvre in fiscal policy.

After lengthy and rather acrimonious debate in the Eurogroup, Ecofin and the European Council, on 20 March 2005, the EU member state governments reached an agreement on SP reform, containing the following changes to the existing rules:

- While the official deficit threshold will be maintained, there will be a derogation – allowing a member state to exceed temporarily the 3 per cent figure to a limited extent – in the event of slow economic growth (no precise figures being provided).

- A temporary (period of time not defined) deficit will not be declared excessive if the member state concerned devotes considerable public expenditure to one of several 'other relevant factors' 1) investment; 2) research and development; 3) structural reforms (only those which have a long term impact on the solidity of public finances will be taken into account); 4) EU policy goals; 5) European unification; 6) international 'solidarity' (which the French insisted would include spending on both aid and military). Further consideration would be given to these ill-defined spending categories. Once the 3 per cent deficit limit is reached the Council and Commission will examine the extent to which spending on these 'pertinent factors' contribute to the deficit in question.

- A member state which has achieved a public spending surplus during periods of relatively strong economic growth and which has a relatively low debt burden will be treated more leniently
- A member state exceeding the 3 per cent threshold will obtain a delay of 3 years to bring its deficit down again. The objective remains to bring the deficit below the threshold within a year following the launch of the EDP but a government can obtain a delay of a year if there are particular circumstances that should be taken into consideration (notably slow economic growth). Before advancing to the sanctions procedure the Commission will prepare a report to determine whether a supplementary delay of a year should be allowed.
- Following the identification of an EDP by the Commission *and the Council*, a member state will have 6 months (not just the current 4) to propose corrective measures.
- As in the Commission's recommendation, member states are to avoid pro-cyclical budgets in good times (when real growth is superior to potential growth) but there is to be no obligation for these member states to achieve a budget surplus.
- More effort will be demanded from member states with a relatively heavy debt burden which have not undertaken structural reforms.
- The mid-term objective of each member state will be determined with regard to two factors: 1) those member states with low debt levels and strong growth are allowed a medium term deficit of 1 per cent; 2) those member states with high debt levels and

> weak growth prospects will have to move to a deficit close to balance or in surplus (as is currently the case but this objective will be redefined every four years). Member states which have not yet attained their medium term objective will have to reduce their structural deficit – depending upon the level of economic growth – by 0.5 per cent of GDP.

The new spirit of the SP presented by the French Finance Minister Thierry Breton – ‘to help rather than to punish’ (*Le Monde* 22.3.2005) – the elimination of the elements of automaticity in the original pact and the introduction of considerable room for interpretation conform well to French intergovernmentalist preferences. They also reflect the ‘effective policy mix’ dimension in the French approach to economic governance. There is an obvious tension between greater flexibility allowed in the application of the SP and the potential effectiveness of its sanction mechanisms. There is also the potential for tension between this more flexible version of economic governance and EG as macroeconomic policy coordination. Under the new Pact, there is considerably greater scope for counterclaim in the event of non-compliance with existing rules, given that member states can justify their borrowing with reference to numerous factors. Furthermore, the increased uncertainty that surrounds the determination of acceptable medium term balances will make it even more difficult for Ecofin to trigger sanctions against errant member states.

2. *Economic governance as interventionism*

The second version of EG that can be discerned in French government rhetoric and policy is more interventionist involving EU job creation strategies and infrastructure programmes. This could involve varying degrees of intervention in the context of the EU's employment and social chapters or in terms of EU sponsored investment. To the extent that intervention involves reflation and thus a direct challenge to the price stability goals of the ECB, this understanding of EG is likely to overlap to some extent with the fifth objective of economic governance explored below.

The French Socialists made this more interventionist version of economic governance a central element of their policy on EMU during the campaign prior to the June 1997 National Assembly elections.[8] They and their Plural Left coalition partners forwarded European economic governance as a means to promote growth and employment, goals which were ostensibly given equal weight to the 'growth and stability' goals in the Amsterdam Treaty due to Prime Minister Jospin's insistence on parallel resolutions. Rhetorically, the construction of EG was linked to the establishment of a '*euro-social*': an EU level economic and monetary policy mix that would more aggressively counterbalance or even directly challenge the 'sound money' policies pursued by the ECB. The Plural Left Government called for collective EU-level interventionism to include both joint spending on major infrastructural projects and a high-profile EU employment strategy, that Jospin forced through at the June 1997 Amsterdam European Council, to involve regular ‘Jobs Summits’. However, the Plural Left Government's preferences in this area were not met: the Employment Chapter of the Amsterdam Treaty, the Luxembourg and Cardiff Jobs Summits of November 1997 and March 1998, and the Cologne and Lisbon Summits of June 1999 and March 2000 established a non-binding 'soft' or 'open' form of coordination that fell far short of the kind of intervention sought by the French.[9]

[8] See Howarth (2002a & b); Pochet (1998).

[9] The Employment Chapter itself involved no additional spending or obligatory measures and emphasised a vision of job creation closer to that advocated by Tony Blair’s New Labour — with an emphasis placed on training and the adaptability of the work force as contributing to a ‘flexible and competitive Europe’ — than the Plural Left vision of EU-level spending and intervention. The Luxembourg and Cardiff ‘job summits’ of November 1997 and March 1998, and the Cologne and Lisbon summits of June 1999 and March 2000 established and reinforced a programme of employment policy coordination: best practice information sharing, pilot projects and non-binding job creation targets. This coordination fell far short of the Jospin Government’s initial proposals for the Luxembourg summit that included the establishment of specific binding national plans for the creation of twelve million jobs throughout the EU over the next five years, the coordination and regulation of employment

Nonetheless, EU employment policy served its legitimising purpose at the domestic political level and French Socialist ministers consistently stressed – if not exaggerated – the significance of developments in this area (Howarth 2002a/b).[10] The Jospin Government also made a deliberately symbolic gesture de-emphasising the stability element of economic governance and emphasising government margin of manoeuvre: France was the only aspiring participant of EMU to fail officially to respect the 3 per cent deficit figure for its 1997 budget — the 3.1 figure announced demonstrated French *pique* at German insistence that the deficit criterion be respected for participation in EMU. However, the overriding objective of starting EMU by 1999 – the design of which the Germans would not allow to be altered – demonstrated the hollowness of the Jospin Government's rhetoric. Socialist-led governments have not been alone in advocating this more interventionist form of economic governance. In 2003, the Raffarin UMP Government joined with the German Chancellor Schröder to launch a Franco-German growth initiative of 18 September 2003 and attacked the Commission for being excessive in its drive for budget cutting and 'anti-industry', pledging further tax cuts in both countries and 10 major jointly funded infrastructural projects (*Le Monde*, 19.9.2003). President Chirac has regularly called for EU-level and Franco-German projects which involve deficit spending to stimulate the economy and develop particular industrial sectors.

3. *Economic Governance as credibility and legitimacy building*

EG has also been perceived and advocated as a means to improve the credibility of ECB monetary policy. This form of EG can link in with the price stability version of EG embodied by the Maastricht Treaty and SP rules by reinforcing the credibility of the ECB's efforts to manage Euro-zone monetary policy. Crucially, this form of EG concerns communication –

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policy at the EU-level and even the necessary Commission approval on industrial redundancies and closures ('Le Sommet de Tony Blair', *Le Monde*, 23-24.11.1997).

[10] See Martine Aubry's comments in 'Le Sommet de Tony Blair', *Le Monde* (23-24.11.1997).

the coordination of different national government voices regarding ECB monetary policy and desirable economic policy. There has been a problem of many voices making different pronouncements on ECB policy making. This version of EG has involved the creation of a single political interlocutor of the ECB, which focuses on maintaining good relations with the central bank and contributes to the improved coordination of the international representation of the Euro-zone. Thus, the emphasis is upon the effective operation of the intergovernmental / political dimension of the Euro-zone. This version of EG is closely related to the fourth which has involved embedding the independent ECB in a political framework: to reinforce its democratic legitimacy and public accountability. This fourth version has provided a partial response to those who express concern for the problematic existence of a single currency without a single state. Despite their rhetorical and real emphasis placed upon reinforced coordination, in their search for margin of manoeuvre French governments have done much to undermine this form of economic governance.

Socialist Finance Minister Dominique Strauss Kahn succeeded in achieving a formal agreement on the creation of what he labelled the 'Euro-Council' (*conseil de l'euro*) in December 1997 which the Jospin Government widely presented as a manifestation of economic governance. This body was subsequently relabelled the Euro-X due to German opposition that the label Council incorrectly suggested that this new body had legal status. This body became the Euro-XI following the determination of the number of member states participating in EMU and was subsequently officially relabelled the Eurogroup during the French Council presidency during the second half of 2000. Leading French officials also made the exaggerated claim that the creation of the new Economics and Financial Committee, the rebaptised Monetary Committee, helped to reinforce the control of the Euro-XI over the economic framework in which monetary policy was made, thus forwarding the construction of EU economic governance.[11] Emphasising the role of the Economic and Financial Committee was – as with the Eurogroup – important to the Jospin Government which sought to demonstrate and enhance the importance of intergovernmental decision-making in EMU as a counterbalance to supranational rules.

The French Council Presidency of the second half of 2000 had two specific goals with regard to the political dimension of the Euro-zone: improve the visibility of the then Euro-XI and improve economic policy coordination. Progress in both goals was limited during the French presidency but potentially significant. Regarding the first goal, the Jospin Government had failed in the French aim to give the Euro-XI a legal personality of its own. Thus all Euro-XI agreements had still to be ratified by Ecofin. Also, Ecofin remained very much the most important body for coordination (including discussion of the Stability / Convergence Programmes and the BEPG which were also prepared by the ESCB members not participating in the Euro-zone and thus not attending the Euro-XI meetings). Nonetheless, the French scored a minor victory in convincing the Euro-zone governments to relabel the Euro-XI the Eurogroup. The French also succeeded in bringing an agreement to produce a clearer, published agenda for Eurogroup meetings, to have longer meetings, to discuss more current matters at them and to improve their communication output (notably through the organization of a press conference immediately after the Eurogroup meeting, prior to the Ecofin the

[11] 'On n'est plus très loin du gouvernement économique', interview with Jean Lemierre in *Libération*, 13 January 1999. Jean Lemierre, former head of the French Treasury and the first president of the Economic and Financial Committee made such announcements to the French press upon the creation of the council at the start of 1999. However, the powers of the new Economic and Financial Committee did not reinforce those of the Euro-XI. Like the former Monetary Committee, this new body includes leading central bank officials and the Heads of national Treasuries. It incorporates the principal responsibilities of the former Monetary Committee, placing emphasis upon economic policy co-ordination (which explains the change in name). In June 1998, the Commission's proposals to strengthen economic policy co-ordination in the context of the new Committee and the Euro-XI, were rejected by the member states. Like its predecessor, the new Economic and Financial Committee is the principal body in which detailed negotiations and decisions take place, leaving Ecofin to ratify the decisions or to negotiate and make decisions in those situations in which the treasury officials and bank governors are not able to reach agreement. See Puetter 2004.

following day).[12] With regard to Eurogroup-ECB relations, Laurent Fabius – unsuccessfully – sought the organisation of more frequent bilateral meetings between the presidents of the two bodies. The aim here was to improve the coordination of member state positions on ECB policy making and channel this through the Eurogroup to the ECB president. Fabius also blamed the weakness of the euro on the lack of strong political leadership in the Euro-zone, the absence of an EU equivalent to the American Secretary of the Treasury.[13] He raised the idea of a Mr. Euro – previously introduced by the French – to be held by an individual over a period of several years and responsible, in conjunction with the Council presidency, for the international representation of the Euro-zone (an economic policy equivalent to the Mr. CFSP, the EU's foreign policy representative). With regard to the second goal of the French Council Presidency, there were no great strides towards tightened policy coordination. Moreover, the development of a common communications strategy appeared to stall with different publicly expressed views on a range of Euro-zone related matters including the decline of the euro and attacks on Duisenberg's competence as ECB president (see Howarth and Loedel 2005).

While breaking the Pact’s rules and agreeing to suspend the EDP, the Raffarin Government nonetheless continued its efforts to reinforce the Eurogroup as the principal intergovernmental forum for Euro-zone coordination. With EU enlargement, the French see the Eurogroup as assuming even greater importance as an informal forum for discussion to counterbalance the potential dilution of French influence in the context of Ecofin meetings. The Franco-German proposal on the reinforcement of the Eurogroup to the EU Convention met with the objection of the euro-outsiders. The French sought to enable Ecofin to meet in a

[12] This was very significant because it gave the Eurogroup the opportunity to make policy announcements prior to their confirmation by all EU finance ministers in Ecofin.
[13] Fabius, L., 'Donner plus de visibilité à l'euro 11 sera un axe fort de la présidence française'; Zecchini, L. and Lemaitre, P.H., 'La France veut renforcer le pouvoir du club de l'euro', *Le Monde*, 4.7.2001.

forum consisting of only the ministers of finance of the Euro-zone member states, thus enabling them to make legally binding decisions without the approval of the Euro-outsiders. These proposals were not included in the Draft Treaty (2003) – not only because of the objections of the Euro-outsiders but also because of the problematic precedent that it would set for the organisation of other councils of ministers – and the French have had to content themselves with the limited reinforcement of the Eurogroup including the creation of a Mr. Euro who was to chair meetings for two years and provide a political face to the Euro-zone (Convention Working Group on Economic Government, Report 2002; Draft Treaty Establishing a Constitution for Europe 2003). Even without Treaty ratification, at the start of 2004, the Luxembourg Prime Minister and Finance Minister, Jean-Claude Junker, was appointed as the first two-year head of the Euro-group.

4. *Economic Governance an explicit challenge to the ECB's goals and goal-setting and operational independence*

Finally, French politicians have challenged explicitly both the goals and independence of the ECB. There are four roots to French opposition to central bank independence required by the German imposed design for EMU (Howarth 2001): the French republican tradition; the belief that control over economic and monetary policy should not be separated; the perception — rooted in the history of French political economy — that low inflationary economic policies can be maintained by democratically elected officials, guided by enlightened bureaucrats and advisers (notably those from the French Treasury and, in particular, the elite corps of Financial Inspectors); and power considerations within the French administration. None of the leading French political parties supported the concept of central bank independence until 1991 either at the national or European level (Balleix-Benerjee 1997). The Neo-Gaullist RPR was opposed for nationalistic reasons and sought the maintenance of Council control over a future

European monetary policy. The Socialist party placed stress on social goals and the appropriate policy mix. Moreover – and surprisingly – the UDF confederation supported only a more cautious, evolutionary approach – although one of its more pro-European components came out strongly in favour of central bank independence.

Despite this tradition of opposition, following the ratification of the Maastricht Treaty the large majority of mainstream political leaders either defended central bank independence and the ECB’s goals or abstained from comment. However, since the start of EMU’s Stage Three in 1999 and, in particular, since the start of the economic slowdown in 2001 the antagonistic opinions of influential advisers and leading politicians alike have been heard. On 23 January 2002, Pascal Lamy, the Socialist French commissioner for trade and Jean Pisani-Ferry, then the head of Prime Minister Jospin's Economic Analysis Council (*Conseil d’analyse économique*), published (in a 'personal capacity') a pamphlet calling for the Eurogroup to be assigned the responsibility for setting the inflation target that the ECB is expected to meet (Lamy & Pisani-Ferry 2002). The authors argue that the ECB's pursuit of low inflation has been too restrictive and has hindered economic growth in the Euro-zone. The European monetary policy model should be re-established along the lines of fiscal-monetary authority relations in Britain, Denmark, Sweden and New Zealand, where the Treasury sets the inflation target that the central bank is expected to follow.[14] The authors also argue that the British target of 2-3 per cent, set by the government, has proved its merit in comparison to the more restrictive 2 per cent set by the Governing Council of the European Central Bank, with its singular objective of price stability. The authors note that ECB's structure was determined by the need to reassure the German public that it would be as tough on inflation as the Bundesbank. The changed economic conditions since the start of EMU –

[14] *L'Europe de nos volontés,* Plon, 2002. The pamphlet almost certainly had the blessing of Prime Minister Jospin, with an eye to the upcoming French presidential and National Assembly elections. Lamy and Pisani-Ferry likewise challenged the logic behind the continued application of the Stability Pact's 3 per cent budget deficit criterion.

especially in Germany – required a different approach to monetary policy. Only reform along British lines would enable a more flexible monetary policy that could better respond to the economic downturn in most of the Euro-zone.

Several leading French politicians have also called for the transformation of the ECB's goals. The sound money core of the EMU project and the independence of the ECB was an object of attack by the Jospin Socialist-led Government in its early months. Leaders in the Raffarin and de Villepin UMP governments have been similarly critical. On 14 July 2004, in his annual televised Bastille Day speech, President Chirac chose to focus upon the need to reform the mission of the ECB in order to qualify the pursuit of low inflation – implying that ECB policy contributed to sluggish economic growth in the largest Euro-zone economies. As Finance Minister, Nicolas Sarkozy called for the ECB to adopt a Federal Reserve-style target that includes economic growth (*Financial Times*, 11.6.2004) and as the UMP's 2007 presidential candidate he attacked ECB's focus on low inflation. The ambition of all Europeans, he argued, 'should be to redefine the principles and the rules of economic and monetary union by carving them in a humanist and social dimension that is so dearly lacking in Europe' (*Euroactiv.com* 23.2.2007).[15] Proposal 89 of Ségolène Royal's 2007 presidential electoral programme calls for the inclusion of an employment creation objective in the ECB's Statute.[16] Several leading politicians and 2007 presidential candidates – including Sarkozy, de Villepin and Royal – have also made veiled attacks on the ECB's goal-setting independence (see *Le Monde* 9, 19 and 22.12.2006). In December 2006, when criticising the

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[15] 'Sarkozy wants "protective EU" to offset globalisation', *Euroactiv.com*, Friday 23.2.2007, updated Wednesday 28.2.2007, http://www.euractiv.com/en/elections/sarkozy-wants-protective-eu-offset-globalisation/article-161948, accessed on 10 March 2007.

[16] The Socialist candidate appears not to have noticed that the ECB's secondary goal is presently economic growth and employment creation.

ECB's decision to raise its interest rate, Royal insisted that the bank be 'submitted to political decisions' because it is not its job 'to order [*commander*] the future of our economies'.[17]

Conclusion

The Raffarin Government's policy on Stability Pact reform was consistent with French policy positions on EU-level economic governance over the past fifteen years. French governments have sought to reform the restrictive rules of the price stability function of economic governance (the Maastricht Treaty and SP rules) but they could tolerate them as long as they were not rigidly enforced. These restrictive rules have been most explicitly challenged in the context of electoral contests: thus the positioning of the Plural Left coalition in the 1997 legislative elections and the Chiracian Right in the 2002 presidential and legislative elections. Economic governance as tightened macro-economic policy coordination has been a desired goal as long as most of this coordination remained 'soft' and retained a broadly – if not actively – interventionist character emphasising growth and job-creation in line with the goals established in the Lisbon strategy. Economic governance as the explicit elimination of the ECB's goal-setting and operational independence has only occasionally been a stated goal of French governing politicians since the signing of the Maastricht Treaty, which may reflect the recognition of the unlikelihood of such a reform. A more regular feature of French government policy announcements has been the extension of some kind of political control in macroeconomic policy making that effectively qualifies the bank's 'sound money' emphasis.

Yet French governments have never spelled out the institutional arrangements and decision making procedures whereby this political control would be achieved. The reinforcement of the role of the Eurogroup in Euro-zone macro-economic policy coordination has been a French objective for over a decade. French governments have advocated giving the

[17] The precise wording that the Socialist 2007 presidential candidate used was 'soumise à des décisions politiques' *(Le Monde*, 22.12.2006)

body a treaty-recognised status and power to make decisions. However, beyond the reinforced status of this intergovernmental body, French governments have failed to clarify precisely how macro-economic policy coordination would be reinforced. Indeed, *the most common feature of French discourse on EG has been the absence of any concrete proposal of transferring real economic policy competences from the national to the European level*. Indeed, it might be argued that French efforts with regard to the reinforced status and role of the Eurogroup stem principally from the restrained, informal and secretive features of this body (Puetter 2004). These features ensure a flexible application of the rules and a politically sensitive margin of manoeuvre, thus well reflecting the paradox – indeed inherent confusion – of French policy on economic governance that is both intergovernmental and *dirigiste* in nature. In terms of the Europeanization of French policy, EG has brought about minimal 'top-down' 'transformation' despite the early 'pace-setting' efforts by the German. Since 1993, but in particular since 1999, French governments have engaged a kind of 'pace-setting' of their own to shape a more acceptable economic governance that maximises margin of manoeuvre in the context of Monetary Union. Yet French 'pace-setting' is ultimately confused because of contradictory French preferences.

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