**From Paradox to Missed Opportunities: French Statist Liberalism and the Euro Crisis**

Mark I. Vail

Associate Professor

Department of Political Science

Murphy Institute of Political Economy

Tulane University

316 Norman Mayer

New Orleans, LA 70118

Telephone: +1 (504) 862-8314

Fax: +1 (504) 862-8745

[mvail@tulane.edu](mailto:mvail@tulane.edu)

**Abstract**

This paper analyzes the evolving politics of France's European commitments with a particular emphasis on the contradictions and inconsistencies within France’s position as a European leader and anchor of EMU. It argues that the competing allures of statism and liberalism, France’s vacillating commitments to Keynesianism and austerity, and France’s core partnership with Germany have generated a deeply fraught and inconsistent set of trajectories in financial and economic policy both domestically and at the European level. It supports this central claim through an empirical study of the political debates surrounding the incipient European and Economic and Monetary Union in the late 1990s and the European financial and ensuing Eurozone sovereign debt crisis after 2007. In both of these instances (but most powerfully and obviously in the latter), French policy was guided by commanding but often contradictory political-economic imperatives: French economic autonomy and political leadership within Europe, the preservation of its historic partnership with Germany as an avenue of influence in the European Union, and protecting and preserving its cherished “statist liberal” political-economic model. The chapter concludes by suggesting that this balancing strategy has become less feasible since the euro crisis and France's growing ineffectiveness at articulating an alternative vision of European economic policy has reduced the chances of a less austere future for the Euro and may well destabilize the currency union as a whole.

Paper presented at the EUSA’s Fourteenth Biennial Conference, Boston, 5-7 March 2015 In the midst of the ongoing European debt crisis, the historical ambiguities of France’s role in the euro and in the European Union have been thrown into sharp relief. From the immediate post-war period, and in a somewhat different sense after the Socialist “U-turn” of 1983, the related repudiation of reflationary Keynesianism, and the subsequent embrace of the *“franc fort*” and “competitive disinflation” as central economic strategies,[[1]](#footnote-1) France sought to achieve on the European level the kind of international pre-eminence that it could no longer achieve on its own. In Tony Judt’s elegant formulation, “Unhappy and frustrated at being reduced to the least of the great powers, France had embarked upon a novel vocation as the initiator of a new Europe.”[[2]](#footnote-2) This goal was bound up in the Franco-German alliance at the heart of the European project, whereby Germany achieved international legitimacy through its commitment to multilateralism, which in turn served as an obstacle to any potentially revanchist agenda (and, more importantly, dampened others’ fears of renewed German nationalism).

France, by contrast, connected its economic destiny to the German Social Market Economy, the European Community’s largest and most powerful, in the hopes of securing a set of European arrangements that would both enshrine France as the European leader in international affairs and “facilitat[e] the voluntarist economic policies that, it was believed, would speed France’s economic modernization.”[[3]](#footnote-3) Though the “voluntarist” tendencies of France’s model of state-led growth abated somewhat after the 1983 abandonment of the *dirigiste* model, the French state remained a guiding force of French social and economic policy, even after the demise of *dirigisme*.[[4]](#footnote-4) The French conception of the EU continued to rest upon a notion that the country could exert a greater influence in world affairs through its role in the EU while shaping European policy in a more voluntarist (and less “Anglo-Saxon”) direction.

At the same time, however, France was never either entirely content to live in the shadow of its larger and more economically powerful neighbor or truly reconciled to the doctrinaire monetarism advanced by the Germans and indeed sought to preserve its ostensible status, dating from the earliest days of European integration, as the political leader of the European project. As German economic pre-eminence became clearer in the 1980s and 1990s, France worked to achieve a somewhat awkward synthesis between political leadership within the EU and a Franco-German economic partnership whereby to anchor its strategy of competitive disinflation to the German “external ally.”[[5]](#footnote-5) At the same time, it sought to advance an alternative model of economic governance involving greater integration of national economic policy making but in the service of a policy agenda both more interventionist and counter-cyclical than anything that Germany would be likely to tolerate.

The obvious tensions in this arrangement became more acute after German reunification in 1990, which, despite the enormous difficulty and expense involved in integrating nearly 20 million citizens in the former DDR into the West German Social Market Economy, created a potentially even more economically powerful country of 80 million people at Europe’s heart, no longer constrained by the geopolitics of the Cold War. Even though Germany was reluctant to take on a role of regional hegemon, this new political and economic landscape nonetheless presented a stark and unanticipated challenge to France’s claims to European political leadership, with President François Mitterrand and others openly fretting about renewed German nationalism and casting about for a new set of understandings of France and Germany’s respective roles.[[6]](#footnote-6)

In the run-up to the advent of the euro in the late 1990s, France’s effort to reimagine its European role took on added urgency, as the incipient currency union represented both an opportunity and a challenge. It was an opportunity in the sense that France, Europe’s second largest economy, stood to benefit from its role at the heart of what euro enthusiasts, both within and beyond France, hoped would become a new international reserve currency with all of the international economic heft that this implied, in the center of a new and powerful economic bloc capable of rivaling the United States. But it was also a challenge that highlighted many of the older ambiguities in France’s European role: could France, as Germany’s junior economic partner, successfully maintain its putative role as Europe’s political leader in the context of a currency union closely (indeed almost slavishly) modeled on the German deutsche mark and the anti-inflationary, monetarist assumptions embedded within it, while also working to use its voice to soften those biases in favor of greater state involvement in the economy?

Equally important, how was France to reconcile its traditional *dirigiste* focus on the state as the engine of national economic development and its longstanding hopes to use its role in the EU to secure such a policy orientation on the European level, on the one hand, with, on the other, a context in which monetary policy was entirely removed from national decision-making processes and fiscal policy was severely constrained (though such constraints would often be recognized in the breach when it suited national interests) by the so-called “Stability and Growth Pact” designed to protect the euro's value? These ambiguities reflected a deeper conflict among France’s reflexive statism, its embrace of the competitive-disinflationary strategy for which the Germans served as an external anchor, and distrust of the austerity that lay at the substantive heart of the euro project.

As France struggled to define its new role in the early years of the currency union, its older (and increasingly implausible) claims to be Europe’s leading voice in the international arena gave way to something more ambiguous. This role entailed the role of mediator between rich, northern EMU members and the poorer and economically more fragile countries in the periphery and southern tier, as well as a struggle to shape the direction of European policy from within the Euro bloc. France was clearly larger and more powerful that the small European states to her north, such as the Benelux countries, and the less economically mighty ones bordering the Mediterranean, with respect to which it had long considered itself to be something of a guide and protector and advocate of a less austere economic model than that favored by its richer, Northern European neighbors. At the same time, it still had to live in the shadow of the larger and more powerful Germany, struggling to make its voice heard internationally while both remaining loyal to their shared European project and providing a somewhat different vision of what the euro meant and how it should operate.

With mixed results, France also worked to mediate between the increasingly powerful and self-confident Germans and less affluent, largely Mediterranean states for which Germany’s model of export-led growth and massive trade surpluses were neither possible nor particularly desirable. This mediating role reflects a deeper and more substantive ambiguity in France’s political-economic outlook. While French elites continue to privilege the state as a key driver and organizing force of the French model of capitalism, they have also embraced a broad project of economic liberalization and, though with greater ambivalence than the Germans, the deflationary and monetarist assumptions at the heart of the euro. Elsewhere, I have characterized these conflicting ideas at the heart of French capitalism as “statist liberalism,” embracing both the state’s leading role in economic policy making and a substantively (but constrained) liberal vision of the content of economic policies.[[7]](#footnote-7) Here, I argue that similar ambiguities—between neo-Keynesian statism and monetarist liberalism, between an embrace of the international influence attendant to the euro and deep ambivalence about the monetarist assumptions at its heart—have guided France’s inconsistent policy preferences, highlighting its diminishing economic payoffs from the euro and its (often muted but nonetheless real) resistance to the German line in the ongoing European debt crisis.

Below, I explore the tensions at the heart of France’s “statist liberal” model during the past fifteen years. I argue that, for whatever political and economic benefits France derived from the euro in the currency union’s early days, such benefits have been more recently outweighed by both political and economic costs, as German insistence on deflationary monetarism in the teeth of the European debt crisis is increasingly at odds with France’s “statist liberal” vision. I argue further that the euro crisis since 2009 has confirmed France’s secondary role among Eurozone members, exposing the implausibility of France’s venerable claims to be a co-equal leader of the European project. In the 1990s and early 2000s, France fared relatively well, though the euro’s anti-growth biases and strictures on fiscal policy precluded an aggressive strategy to deal with the stubbornly high unemployment that persisted during this period. In the aftermath of the post-2007 financial crisis, such strictures have become more significant, as French authorities have struggled to reconcile political and economic leadership in the Eurozone with the desire to use the power of the French state to foster economic recovery.

As a result, France’s longstanding effort to marry its political-economic fortunes to Germany’s Ordoliberal system (which marshals but constrains market forces, privileges high-end exports, and empowers non-state social and economic actors), while pursuing at home a statist liberal model of top-down, technocratic economic management coupled with the expansion of market forces, has proved unfeasible. Even as the ongoing economic downturn has prompted France to adopt a more statist version of “statist liberalism,” therefore, the politics of the European debt crisis have placed the country in the awkward and increasingly untenable position of mediating between German-led monetarism and austerity and its own pressing domestic economic needs. This dilemma, exacerbated by a recent record of tepid economic growth that has weakened France’s fiscal balance sheet and therefore undermined its credibility as a counterweight to Germany, has important implications for the future of the euro, as France’s role as the statist voice of countries that reject the German-led austerity position and its ability to mediate between those countries and the Eurozone’s paymaster has been seriously compromised. In practice, I suggest that the weakening of this alternative voice will reinforce the euro zone’s tendency towards monetarism and austerity, which may ultimately have the (presumably unintended) consequence of forcing the exit from the euro of weaker, peripheral countries such as Greece and Portugal.

Below, I explore briefly the politics of France’s position on the euro during the period of the currency’s creation, between the mid-1990s and early 2000s, when the country made a series of bets that the euro would both shore up France’s influence in European economic policy making and guide the substance of that policy in ways that were consistent with France’s conception of its economic interests, even as it struggled to adopt labor-market policies that would promote French competitiveness. I then turn to the period of the financial and economic crisis since 2008 and focus more particularly on the impact of the Eurozone crisis on the French economy, focusing more particularly on France’s responses in fiscal and financial policy and its efforts to guide European responses to the debt crisis and acting as a counterweight to Germany. I conclude with some observations about the legacies of the “statist liberal” model as they apply to the contemporary European policy context and revisit developments over the past ten years with a view to sketching out likely scenarios for the fate of the euro and its member states.

**France’s “Faustian Bargain:” European Commitments and National Policy during the Birth of the Euro**

On 10 May 1981, François Mitterrand became the first Socialist French president since the advent of the Fifth Republic in 1958, marking the end of the nearly unchallenged Gaullist hegemony that had governed France during the previous two decades. It also embodied hopes for a new economic order in which the working class would be able to share more equitably in the fruits of economic growth. Supported by a large Socialist majority in Parliament, Mitterrand and his government embarked upon a program that represented “the highest stage of *dirigisme*,” using the powerful executive of the Fifth Republic to develop stepped-up industrial policies designed thoroughly to restructure the French economy while pursuing a “rupture with capitalism.”[[8]](#footnote-8) This policy of “redistributive Keynesianism”[[9]](#footnote-9) aimed to enact the Left’s electoral promises to create jobs, support consumption and incomes, and shelter workers from increasingly widespread economic dislocation. The means by which this new agenda was to be implemented involved reorganizing the supply side of the economy, stimulating demand, “reconquering the domestic market,” and relaunching state-funded research and development on a massive scale.[[10]](#footnote-10)

Due to a combination of political and domestic and international economic pressures, however, this brave new political-economic order collapsed nearly as quickly as it had begun. In 1982-1983, the government made an abrupt “U-turn,” opting for budget cuts and broad-based liberalization in an effort to resolve a series of mounting economic problems and to remain within the European Monetary system, which it viewed as an essential means of influence over European economic policy and whose limits on currency fluctuation were incompatible with reflationary *dirigisme*. This abrupt shift did not merely end the experiment with *dirigisme*, however; it also initiated a period during which the entire post-war edifice of *dirigiste* policy making would be dismantled. During the remainder of the 1980s, successive French governments embarked upon an unprecedented project of market making, involving the abandonment of the system of preferential credit and industrial policies that had fueled the *trente glorieuses*, the replacement of bank lending with equity financing for French firms, and the introduction of a competitive financial-services sector.[[11]](#footnote-11) This process accelerated under the center-Right administration of Jacques Chirac, whose government entered into an uncomfortable “cohabitation” with President Mitterrand in 1986. In five years, France had moved from the epitome of heavy-handed, *marxisant* statism to an acceptance of the market (though still rejecting Anglo-American conceptions of market hegemony) as the guiding principle for development.

The outcome of this period of political ferment was a “statist liberal” model that both preserved the state as the central guide of economic policy making even as it embraced elements of a more liberal, post-*dirigiste* identity with respect to policy substance. This somewhat schizophrenic political-economic orientation, which led to a series of market-conforming policy changes in the 1990s, would also color France’s understanding of the stakes of the nascent single European currency. Even as French elites viewed the euro as desirable from the perspective of both policy substance (creating a Europeanized anchor for its strategy of “competitive disinflation”) and process (giving France a prominent seat at the table at which European monetary policy would be made), they (including Jacques Delors himself) were always somewhat uneasy with the monetarist “orthodoxy” enshrined in the euro project, without which German approval was impossible.[[12]](#footnote-12) France was willing to adopt a monetary regime that was more deflationary that it would have preferred for the sake of the political goals of shoring up its influence within European institutions and promoting a single currency that it hoped would enhance its international economic power. In a sense, France was thus making policy from the “outside in,” allowing concerns about its role in the EU and EMU to shape its own domestic policy regime, importing deflation from EMU and Germany for the sake of hoped-for future influence over the substance of European economic and monetary policy.

While this imported monetarism sat awkwardly with the continued prominent role of the French state in domestic policy making, it did reinforce a pre-existing agenda of marketizing reforms in social and labor-market policy, which, by the late 1980s, had become the central thrust of French economic policy.[[13]](#footnote-13) The “statist liberal” strategy between the mid-1990s and mid-2000s privileged labor-market activation and reducing France’s stubbornly high unemployment as its central goals. Though driven in part by rising French unemployment, itself a product of a combination of accelerating layoffs in the wake of the abandonment of *dirigisme* and a Bismarckian welfare state whose reliance upon payroll taxes led to high non-wage labor costs, the effort to rationalize and activate the labor market was also a product of mounting French concerns about maintaining competitiveness in an increasingly integrated European marketplace.[[14]](#footnote-14) At the same time, French governments in the late 1990s and early 2000s displayed an increasing eagerness to rectify a growing fiscal imbalance (the budget deficit had grown steadily, reaching 4.1% of GDP by 2003),[[15]](#footnote-15) in large part due to the perceived need (often exaggerated as a way of securing political cover for unpopular cuts) to meet the Maastricht criteria of EMU’s Stability and Growth Pact. Although French governments of both Left and Right were ambivalent about these criteria, which represented obstacles to their statist liberal strategy for economic revival, they also felt that “the painful economic prescription of respecting the Maastricht Treaty was a necessary evil in order for EMU to happen.”[[16]](#footnote-16)

In order to reduce unemployment, a goal that had taken on new urgency with the advent of EMU and its associated fiscal strictures, French authorities embarked on a series of labor-market reforms in the late 1990s and early 2000s. The first element of this strategy was to reduce reliance upon early-retirement programs, which had become a favored (and politically popular) means of reducing labor supply during the 1980s. These programs offered something for everyone: workers were able to retire early with a minimal loss in income, firms were able to externalize the costs of their restructuring onto the state, and governments could limit the social unrest attendant to economic dislocation.

The second, and more significant, element of France’s labor-market strategy during this period was a series of reforms of unemployment insurance, which exemplified the country’s statist liberal strategy for shoring up competitiveness and reducing fiscal imbalances. In June 2000, French employers and reformist unions (jointly responsible for the administration of France’s system of unemployment insurance) struck a bargain that limited access to benefits and imposed significant new obligations upon job seekers. The resulting *Plan d’aide et de retour à l’emploi* (PARE) ended benefit degressivity but made receipt of benefits contingent upon a signed contract between job seekers and the ANPE, or national employment office (the *Projet d’action personalisé*, or PAP), making benefits contingent upon a personalized job-search program.

The best-known and most controversial labor-market reforms of this period, however, involved two laws which reduced the standard work week from 39 to 35 hours. The first so-called Aubry Law (named after Socialist Labor Minister Martine Aubry), passed in 1998, increased social-contribution exemptions to employers but made them conditional upon a firm’s or sector’s negotiation of a 35-hour weekly work-time limit, accompanied by proportional job creation. The second law, passed in 2000, introduced an exemption on social-security contributions that rose with salaries up to 1.8 times the minimum wage (fixed above that level) and established annual limits on work time and overtime for firms or sectors that negotiated new contracts.[[17]](#footnote-17) Aiming to create jobs through a combination of coercion and incentives, the measures were part of the government’s efforts to appeal to its constituencies on the Left and embodied its self-image as “the counter-current of ultra-liberalism.”[[18]](#footnote-18) While such rhetoric reflected the laws’ partially political inspiration, an attempt by the new government to shore up support among its Leftist constituencies in the electorate and in Parliament, authorities realized that the law would have to limit costs to employers if the measure were to lead to any significant job-creation. Here again, French authorities’ statist liberal strategy involved an uneasy synthesis of liberalizing labor-market measures designed to shore up French competitiveness and reduce unemployment and a leading role for the state in both guiding the reform process and imposing constraints on microeconomic decision making.

France’s statist liberal strategy thus reflected some of the same ambiguities at the heart of its conception of EMU. A combination of geopolitical aims (e.g., the French desire to constrain German power while preserving a platform for French influence) and economic considerations (the desire to anchor France’s “competitive disinflationary” strategy within the EU and securing influence over European monetary policy) led the country to support the structure of a project with whose content many French elites were uneasy.[[19]](#footnote-19) However one might wish to characterize this alloy of factors, it is clear that France’s embrace of a highly monetarist, even deflationary set of rules modeled on the deutsche mark was never complete, nor was it entirely consistent with a set of policy commitments involving rationalizing the labor market while preserving some of the Keynesian tenets that had lain at the heart of the *dirigiste* model. During the 1990s and early 2000s, given generally supportive conditions in a recovering international economy and the absence of any serious crises on the European level, France was able to nuance these differences, pursuing a national strategy for labor-market competitiveness never sharply at odds with European constraints on fiscal and monetary policy and indeed reinforced by concerns about sustaining economic growth and redressing the country’s fiscal imbalance.

Such a policy regime produced mixed results following the formal introduction of the euro in 1999, with banknotes and coins entering circulation in 2002. Like many of its Continental neighbors, France continued to suffer from chronically high unemployment and sluggish growth, though economic and labor-market performance improved somewhat following the downturn of the early 2000s. At the same time, however, and unlike Germany and even Italy, France’s economic performance declined over the first decade after the euro’s adoption, suggesting both constraints on growth and an eroding level of economic competitiveness. In 2004, French economic growth was 2.6% of GDP (compared to 1.2% in Germany and 1.7% in Italy). By 2008 (before the financial crisis and ensuing recession), growth had declined to a relatively stagnant –0.1% (collapsing to –3.1% in the following year).[[20]](#footnote-20) Though Italian and German growth during this period was similarly slow, unemployment remained higher in France (at 9.3% in 2004 and 7.8% in 2008) than in Germany or Italy. French budget deficits remained higher than that of either Germany or Italy, and its competitive position collapsed, with the current account declining from 0.5% of GDP in 2004 to –1.7% in 2008 (Table 1).

*[Insert Table 1 about here]*

With the advent of the post-2007 financial crisis, the deep global recession that followed in its wake, and apparently intractable and increasingly severe European debt crisis, France’s slow economic decline accelerated markedly, forcing authorities there to respond aggressively and rendering the previous statist liberal strategy of labor-market liberalization and marketization unviable in the short term. As the world economy sputtered to a halt, France was forced to confront the implications of its earlier Faustian bargain and the inconsistencies within its statist liberal model in a new and more straightforward way. In the next section, I argue that, as the proverbial chickens of France’s earlier decision to join EMU on German terms came home to roost, different elements of the country’s statist liberal model came to the fore, with the authorities embarking on joint strategy of modest Keynesian reflation.

With the advent of the Eurozone crisis in 2010, furthermore, France once again struggled to square the circle of leadership in the Eurozone and its distinctive trajectory of state-led domestic economic recovery. If the 1990s and early 2000s had been dominated by state-led labor-market reform designed to shore up France’s competitiveness and reduce budget deficits in the early days of EMU, the post-2007 period has been characterized by somewhat conflicted resistance to the implications of the terms of EMU to which it had earlier agreed. In the process, France has sought to protect national French economic interests, temper Germany’s hard-edged monetarism (though with greater force since the election of Socialist François Hollande to the French Presidency), and mediate between German economic leadership and doctrinal intransigence *vis-à-vis* the euro’s smaller and poorer members and its insistence on an orthodoxy of austerity which promises to leave such countries to years of economic decline. Doing so has proved increasingly difficult, however, as France’s continued efforts to offer a counterweight to Germany, and its related public defense of the broad outlines of Germany’s austerity-based strategy for dealing with the crisis, have rendered unavailable the earlier Franco-German strategy of ignoring the Maastricht criteria when it suited them. As a result, France has continued to struggle with the ambiguities of its statist liberal model and the increasingly glaring contradictions between distinctive elements of its European strategy and its own domestic economic priorities.

**Statist Liberalism in the Post-2007 Economic Crisis: France as Frustrated Arbiter and Alternative in the Eurozone**

From the early 1990s, French authorities had favored a somewhat different understanding of the euro, despite the (somewhat grudging) formal acceptance of monetarist orthodoxy as the apparent price of the project’s inauguration. This alternative conception centered on the conception of *gouvernement économique*, meaning a set of democratically elected European institutions responsible for fiscal and other policies historically reserved to member states and designed to act “as a counterpart to the independent European Central Bank.”[[21]](#footnote-21) The French hope was that such an arrangement could temper the influence of the austerity-minded Germans and provide mechanisms whereby to stimulate the Eurozone’s economy in the event of economic downturns, while also providing an embryonic core of a future coordinated fiscal union.

As in the early days of the European Community, the French goal was at once procedural and substantive. From a procedural point of view, it would allow the French to have a continued voice in European-level debates over economic policy, a voice viewed as all the more important given the relatively fixed and non-discretionary limits on fiscal policy represented by the so-called “Stability and Growth Pact” and the monetarist orthodoxy advanced by the highly independent ECB. Substantively, France hoped to both defend itself against speculative attacks in foreign exchange markets and to preserve its leeway to pursue a selectively interventionist strategy with respect to domestic economic policy. Though such hopes remained frustrated during the 1990s and early 2000s, despite some superficial German overtures in the direction of fiscal coordination, it remained at the core of the French conception of how the euro should eventually work.

The advent of the so-called European “sovereign debt crisis” (more accurately described as a bond-market crisis exacerbated by a deflationary monetary-policy regime)[[22]](#footnote-22) in 2010 brought the differences between the French and German conceptions into sharp relief. This debate was driven by deepening divisions among EU member states about both the merits of the French claim that Europe needed deeper fiscal policy coordination and the intransigence of Germany and her northern European neighbors over the question of loosening some of the fiscal strictures imposed on countries such as Greece, Portugal, and Spain that were under assault by bond markets. In the early days of the crisis, French President Nicolas Sarkozy saw close cooperation with German Chancellor Angela Merkel as the best way of pressing France’s case. In substantive terms, Sarkozy hoped to pursue a schizophrenic strategy of what Susan Milner has described as a strategy of “*ri-*lance (a mixture of austerity . . . and Keynesian boosterism to finance innovation and R&D, financed by borrowing), which it sought to coordinate at the European level.”[[23]](#footnote-23)

Despite French hopes of tempering Germany’s drive to austerity with elements of France’s alternative vision, however, Germany’s economic might and her necessarily central role in funding a series of (inadequate but numerous) bailouts of Eurozone countries, led this “partnership” quickly to devolve into a relatively hierarchical relationship, derided as “Merkozy” by observers, in which Germany effectively led and France followed. Though Sarkozy seemed to view subordination to Merkel as the price of continued relevance (a reprise of France’s position during the 1990s), he deeply resented this secondary role and continued to seek ways to constrain or dilute German orthodoxy. After one of a series of tense meetings with Merkel in late 2011 and early 2012, Sarkozy was able only to endorse a vague Franco-German commitment to economic growth, which he claimed “is the priority,” without however ever convincing Merkel to diverge from Germany’s austerity-first strategy, which was inimical to the very growth that both he and Merkel claimed to promote.[[24]](#footnote-24)

Unable to pursue its vision of reflationary *gouvernement économique* on the European level, France retreated inward, centering its response to the crisis on the national level, though operating in the long shadow of the Maastricht criteria, ECB monetarist orthodoxy, and the fetishization of austerity by Germany and her northern European allies (notably Finland and the Netherlands).[[25]](#footnote-25) If the 1990s and early 2000s were a period in which French policy operated from the “outside in,” applying German and ECB-centered orthodoxy in a series of labor-market reforms designed to support France’s competitiveness and restore fiscal balance, the post-2008 era can be thought of as the converse, with the focus of French policy reverting to the national level in the hopes of saving France’s capitalist model and building on the success of the national response to both press its case at the European level.

When the scope and severity of the financial crisis became clear in 2008, French authorities acted quickly and in ways that seemed to encapsulate the statist liberal adjustment strategy, even as it was constrained by Sarkozy’s rhetorical commitment to austerity and fears that the euro-induced bond-market crisis would spread to France. The first element of the government’s response was a counter-cyclical stimulus package, representing one of the first such measures in the OECD. Patrick Devedjian, one of Sarkozy’s top economic advisors, expressed a sense of urgency, claiming that “all projects must start in 2009. . . . We want rapid results,” and criticizing the Americans as having “wasted a lot of time.”[[26]](#footnote-26) The package, which amounted to €26 billion, or about 1.3% of GDP, prioritized public infrastructure projects, including four new high-speed rail lines, a new canal, renovations of public buildings, and investment in public enterprises.[[27]](#footnote-27)

The core of the French response centered squarely on macroeconomic stimulus in classical Keynesian fashion, though it did so mostly through investment and support for business rather than efforts to boost consumption.[[28]](#footnote-28) Sarkozy demanded that public enterprises “accelerate their future investments,” since “events command us to move quickly in order to put the brakes on the recession.”[[29]](#footnote-29) This sense of urgency was echoed by Budget Director Eric Woerth, for whom the goal was “to spend as quickly as possible.” Laurent Wauquiez, Secretary of State for Employment, added: “This . . . is exclusively a policy designed to support job creation.”[[30]](#footnote-30) This effort, which was widely viewed by workers as a sop to business, fueled union-led protests demanding support for purchasing power and public employment. The government assumed that the generous network of automatic stabilizers (expanded in the 1980s and 1990s), coupled with renewed economic growth, would accomplish this task.[[31]](#footnote-31) Then-Finance Minister Christine Lagarde observed, “The French model provides shock absorbers that were already in place. We haven’t had to reinvent our unemployment, health, or welfare systems.”[[32]](#footnote-32)

Faced with mounting protests and following a summit with union leaders, however, the government agreed to an additional €3 billion aimed at supporting consumption, in part due to its recognition that the original package would be unlikely to provide a sufficient boost to domestic demand. The package included a €200 bonus for recipients of the *Revenu minimum d’activité* (RMA, or France’s minimum income benefit), more generous unemployment benefits, and a €150 subsidy for low-income households.[[33]](#footnote-33) It thus echoed the initial package’s liberal orientation by focusing support on the poor rather than undertaking a broad attempt to boost incomes across the economy. Taken together, then, the two packages reflected statist liberalism’s “statist” (through direct spending and a macroeconomic orientation) and “liberal” (through means-tested income support and support for business) components. Equally important, their modesty relative to the efforts of other G-20 countries reflected an understanding of the limits on fiscal expansion represented by European strictures. This constraint was particularly acute for France, whose public finances had never recovered from the collapse of economic growth in aftermath of the crisis, with its public deficit soaring to 7.5% of GDP by the end of 2010.[[34]](#footnote-34) Such limitations undermined Sarkozy’s promise to “reconstruct a revitalized capitalism, better regulated, more moral and with greater solidarity,”[[35]](#footnote-35) even if one assumes that such a promise was sincere.

France’s relatively modest stimulus measures were thus focused largely on direct spending designed to revitalize the macroeconomy. This fact reflected the tension between the statist impulse and the limitations of France’s earlier liberalizing turn towards the market and the constraints of existing European-level strictures on public debt and deficits, as well as Sarkozy’s rhetorical commitment to German-led austerity. By 2010, France had spent a total of €38.8 billon on stimulus measures (1.75% of GDP), less than half the amount spent in the US (3.8%). Of that amount, only 6.5% was composed of tax cuts (compared to 45.4% in Canada and 34.8% in the U.S.), with the rest composed of direct spending.[[36]](#footnote-36) About €10 billion was spent on public investment, including infrastructure (€1.4 billon), defense (€1.4 billion), publicly funded research (€700 million), monument restoration (€600 million), and subsidies to public enterprises (€4 billion).[[37]](#footnote-37) The package was also quite short-term in focus, with 75% of the spending taking place in 2009 and only 25% (including the time-delimited income-support measures) in 2010.[[38]](#footnote-38)

This tepid response was particularly surprising given France’s relatively dire economic situation: in 2009, French GDP shrank by 3.1% and, by the end of the year, unemployment had risen to 9.5%, compared to Germany’s 7.8%.[[39]](#footnote-39) As the Eurozone crisis gathered momentum in early 2010 (developments which I discuss below in more detail), confronting an alarming budget deficit of 7.1% of GDP in 2010 and feeling compelled to follow the German austerity lead,[[40]](#footnote-40) Sarkozy proposed €65 billion in budget cuts and tax increases in 2011, with only €7.5 billion scheduled for 2012 and most requiring implementation after the 2012 presidential election. These measures generally favored business and seemed designed to demonstrate commitment to the idea of austerity without enacting serious cuts that might undermine his weakening political position.

After 2010, as bond yields in a number of countries spiked and policy makers struggled to confront revelations about Greece’s parlous financial state and the legacies of a decade of serious financial imbalances in the Eurozone, French authorities responded in ways that continued to reflect the tensions within the statist liberal model and the ambiguities and weaknesses of the country’s political position in the Eurozone. The deepening crisis confronted France with a dilemma that placed the ambiguities of France’s status in stark relief. Prior to the post-2007 global recession, France could maintain the illusion that, despite Germany’s greater economic might, the legacies of the Franco-German partnership and French leadership in shaping European institutions (not to mention the fact that Jean-Claude Trichet, the head of the ECB, was a Frenchman) provided it with a co-equal voice in shaping policy within the Eurozone. The sudden realization of the extent of French and German banks’ exposure to bad debt in the European periphery,[[41]](#footnote-41) combined with gathering fears that the survival of the euro itself was in jeopardy, however, made France’s traditional strategy of generalized public unity with Germany’s position and *sub rosa* attempts to soften Germany’s austerity line both more difficult and crucial to France’s continuing relevance to Eurozone decision making.

As the crisis gathered steam in 2010 and 2011, Sarkozy met with Merkel several times in an effort to work out a common position but did so in ways that reflected continued German dominance more than French influence. Sarkozy’s preferred strategy differed from the Germans’ in several important respects. For Merkel, both the origins of the crisis and the appropriate response to it had to do with rules about fiscal discipline (insufficiently strict and enforceable before the crisis, requiring additional force and applicability thereafter). In addition, she favored maintaining the ECB’s independence at all costs and limiting the power of political executives to intervene. Sarkozy, by contrast, emphasized European solidarity (meaning both support for weaker countries’ financial systems and the creation of collective debt instruments such as Eurobonds) and a co-equal partnership between political leaders and monetary-policy makers in the ECB. The *New York Times* provided an apt formulation of this different vision: “In Berlin, it is a common belief that the Eurozone be just fine if it could somehow turn itself into a large version of Germany: respectful of rules, wary of deficits, cautious of over expenditure. As for the French, they never love Europe so much as when they think it is like France: brilliant rhetoric, lots of rules and a capacity to go around them.”[[42]](#footnote-42) Given these divergent understandings of both the appropriate response to the crisis and the broader regime of Eurozone governance that it implied, Sarkozy faced a choice of how and to what extent to press these differing priorities, and the extent to which such differences should be aired privately or in the public arena.

The urgency of bailing out teetering peripheral financial systems, Germany’s stronger economic position, and Sarkozy’s political weaknesses militated in favor of a strategy of substantive concessions to the German line with vague and noisy pronouncements of a “common position” which failed to reflect France’s alternative vision in any meaningful way. This unequal relationship was not lost on many observers, and the epithet “Merkozy,” ostensibly used to denote a common Franco-German line, really reflected German dominance rather than parity and was generally understood to involve a pejorative reference to French subordination to German whims.[[43]](#footnote-43) As this process played out at a series of summits and other high-level meetings between Merkel and Sarkozy--first at a Franco-German summit at Deauville in October 2010, and then most notably the declaration of a (vaguely defined) “mutual approach” at an October 2011 meeting in Berlin—it became increasingly clear that French relevance to the discussion was preserved only to the extent that France hewed imperatives of austerity. Speaking of France and Germany’s relative influence in governing the crisis, former European Commission President Jacques Delors stated bluntly, “The eurozone crisis has evolved in rhythm with the decisions—and lack of decisions—of Ms. Merkel. It is not nice to say so, but that is how it is.”[[44]](#footnote-44)

To be fair, Sarkozy could not shoulder all of the blame for his relative ineffectiveness at pressing the French vision, as he was playing a relatively weak economic hand in a crisis whose urgency and severity lent itself to short-term palliative measures and rule-based *quids pro quo*. In a context in which such short-term (though ultimately destructive) bargaining dominated, it would be hard for Sarkozy to secure the implementation of a much grander vision of *gouvernement économique* and long-term growth supported by political initiative.[[45]](#footnote-45) On one level, the relative influence of the French and German position came down to the question of which partner was better able to finance the series of bailouts that came to dominate the euro crisis response in 2011. France’s economic weakness relative to Germany during this period meant that France had few resources with which to bargain. In 2010, French GDP grew by a modest 1.6%, compared to a very healthy 3.6% in Germany. At the same time, France had much further to climb out of the depths of the recession in 2009; whereas German unemployment had dropped significantly since the financial crisis’s immediate aftermath, declining to 7.1% at the end of 2010, French joblessness continued to rise, reaching 9.8% in the same year.[[46]](#footnote-46) Even as French authorities confronted weakening labor market and sluggish growth, their poor budgetary position thus left them with few resources with which to spur growth or job creation or to put much effective pressure on Germany, by necessity the largest paymaster of bailout funds, to alter its stance on austerity or the conditions imposed on recipient nations.

Despite such strictures, after Sarkozy’s loss to Socialist François Hollande in May 2012, French authorities once again seemed ready to add some substance to the longstanding French claims to represent an alternative to the German policy response to the crisis. Proclaiming that “it’s not for Germany to decide for the rest of Europe,” Hollande campaigned on promises to reverse Sarkozy’s modest spending cuts and adopt new spending initiatives designed to restore growth and create jobs.[[47]](#footnote-47) These included hiring 60,000 additional teachers and subsidizing 150,000 new youth jobs, rolling back Sarkozy’s reform that increases the retirement age from 60 to 62, and boosting the annual back-to-school allowance by 25%. More controversially, he promised to finance these measures in part through a 75% tax on households with annual incomes over €1 million and higher taxes on large firms, while also raising the minimum wage to support consumption. While Sarkozy’s variant of statist liberalism tended to favor finance, big business, and investment, then, Hollande’s emphasizes universalistic measures to boost consumption and economic equality.

With respect to EU policy, moreover, Hollande’s election represented a shift in discourse and the apparent possibility for alterations in some aspects of Europe’s new Fiscal Pact, negotiated in early 2012 under Merkel’s and Sarkozy’s leadership and ratified by most members of the Eurozone. Just as France has tried to walk the line between statism and competitive disinflation at home, the country is once again working to move European policy making in a less deflationary direction, even as Hollande and his government proclaim support for the overall thrust of the fiscal compact. During his campaign, Hollande promised – if elected – to demand the renegotiation of some elements of the pact, particularly in ways that would offer greater support for economic growth as a counterbalance to its single-minded emphasis on austerity. Following his election, Hollande proclaimed that he intended to give “a new direction to Europe” and that “austerity need not be Europe’s fate.”[[48]](#footnote-48) Such language furnished hope among some leaders in other countries, particularly on the European periphery and on the Left, that Hollande’s election represented a chance for the revival of hopes for French-style *gouvernement économique*, involving both greater coordination of European fiscal policies and a push to move such policies in a direction more supportive of economic growth. Despite claims by Merkel and German Finance Minister Wolfgang Schäuble that they would not permit any renegotiation of the Fiscal Compact (and that “we cannot work like that in Europe”), German authorities have, largely at French urging, expressed some openness to negotiating additional agreements that might attenuate some of the harsh edges of the austerity regime.[[49]](#footnote-49)

That said, Hollande’s promises of a new direction in Europe, away from grinding austerity towards a new emphasis on investment and growth, have come up against some significant economic and political obstacles and will likely prove to be more rhetorical than real. Speaking simultaneously to two audiences—his Leftist supporters at home and German and European authorities abroad—Hollande has felt compelled to walk a line between maintaining fundamental commitments to the European Union’s policy-making process, on the one hand, and a rejection of much of that regime’s substance, on the other. France under Hollande is once again trying to reconcile opposing political blocs, a fact which has led to significant inconsistency in both his rhetoric and his policy initiatives. Even as he proclaimed, prior to his first visit to Greece as President, that he “reject[s] a Europe that condemns countries to austerity without end,” he sought to establish credibility with his European counterparts and with policy makers in Brussels by honoring a commitment made by Sarkozy to cut the country’s budget deficit to 3% of GDP, a level at which the ratio of debt to GDP should stabilize, by the end of 2015.[[50]](#footnote-50)

Such promises were unrealistic, given the country’s deficit level of 4.8% of GDP at the end of 2012 (in excess of the government’s target of 4.5%), as French authorities were forced to recognize in March, when they revised the 2013 estimate upwards to 4.1% of GDP.[[51]](#footnote-51) All of these shifting commitments and rhetorical inconsistencies mask a difficult and ironic underlying truth: in order to gain the credibility and influence required to counter the austerity-first regime at the European level, France must adopt some elements of that regime at home. Such a dilemma poses both political and economic risks for Hollande, whose popularity has been slipping steadily since his election, in part due to frustrations with rising joblessness and sluggish growth, and in part due to perceptions that he has failed to become the promised counterweight to German dominance of European economic policy.[[52]](#footnote-52) It also likely means that France will prove increasingly unable to act as a voice for an alternative, less austere, pro-growth future for the euro, leaving the arrangement predominantly in the hands of Northern European advocates of austerity.

Despite the pressures of France’s budgetary situation and the challenges of walking the line between credibility and growth, France has come to represent a touchstone for those wishing for the emergence of an anti-austerity coalition to counterbalance the Germans and their northern European allies, consisting perhaps of Spain, Portugal, and even Italy. Leaders in all of these countries (along with Germany’s opposition Social Democrats) have increasingly (and with growing sharpness) questioned Merkel and Schäuble’s recipe for European recovery, using France as an example of the potential for resistance to the German line and the economic stagnation of the UK, which has pursued austerity with almost sado-masochistic zeal under David Cameron's coalition government with the predictable result of a triple-dip recession, as a cautionary tale, despite the quite recent advent of rapid (though distributionally highly inequitable) growth, driven primarily by the development of a new housing bubble, particularly in the South.[[53]](#footnote-53) At the same time, however, as many observers predicted at the time of his election, Hollande has felt compelled to adopt some modest austerity measures of his own at home, including €30 billion of spending cuts and tax increases adopted in September 2012, which preserves the promised 75% marginal rate on top incomes. In part, such a move represents Hollande’s wishes to reassure a nervous Germany and bond markets that he is not an old-style Socialist oblivious to economic reality,[[54]](#footnote-54) even though the cuts that he has proposed are actually quite modest by European standards. At the same time, however, they represent a somewhat different vision of the relationship between European and domestic policy making, reflected in Hollande’s concomitant promises to increase spending on consumption and expanding the public sector and, equally important, to use tax increases, rather than mere spending cuts, as a significant ingredient in his recipe for fiscal consolidation, especially during his early years in the Elysée.

Not limited to a pattern of domestic policy making more comfortable with spending increases and intervention in the economy than his German counterparts, Hollande’s policy proposals also differ from Merkel’s with respect to his vision for EU policy. He has been among the most vocal advocates of Euro bonds, a greater role for the European Investment Bank, European investments in infrastructure, and other measures designed both to increase policy coordination among member states and to stimulate growth. Hollande is once again trying to reconcile a statist vision of economic development with an austerity-based policy regime in ways that seek some degree of national economic-policy autonomy and to soften some of the austerity orientation of European policy making. France is working to establish a clear role in the Eurozone in ways that are both true to its statist liberal tradition and consistent with continued relevance and influence in the European conversation about how best to address the most serious crisis of confidence in European institutions since the World War II, which has shaken voters’ faith, not only in the wisdom of particular European policy positions, but rather in the sustainability of the European project as a whole. It remains to be seen how successful Hollande will be in these endeavors, but it is clear that he, unlike his predecessor, has introduced a new and distinctive voice into European policy debates and one with which Germany, despite its status as senior partner, will have to contend in the coming years.[[55]](#footnote-55)

**The Ambiguities of French Statist Liberalism: Implications for the Future of the Euro**

This paper has argued that France’s statist liberal model of economic development, solidified in the early days of EMU, has created a series of tensions and ambiguities within the country’s trajectory of economic policy and its position in the European Union in general and the Eurozone in particular. From the earliest days of the European Union, France sought to achieve influence at the European level that it could not achieve on its own and cement a close relationship with Germany that would act as the fulcrum of that strategy. Always the junior partner in this relationship in economic terms, France nonetheless saw itself as the spiritual core of European institutions and as the pre-eminent representative of Europe on the world stage.

With the advent of the Maastricht Treaty in the early 1990s and the consolidation of EMU later in that decade, however, this national self-conception proved increasingly difficult to sustain, as France struggled to reconcile its venerable statist model of economic development with the liberal, monetarist economic-policy regime at the core of EMU. In the late 1990s, France managed this contradiction by embarking on an ambitious set of labor-market reforms designed to further France’s “competitive disinflationary” strategy and adapt it to an increasingly challenging international economic environment, like Germany ignoring the strictures of the Stability and Growth Pact when doing so suited its interests. By contrast to France’s initial European strategy, this approach involved an implicit acceptance of the political *and* economic pre-eminence of Germany and, at least in the medium term, the German understanding of the Eurozone as predicated upon fiscal austerity, anti-inflationary monetary policy, and a de-emphasis of statist strategies for achieving economic growth.

All of the above conformed to and served the interests of Germany’s Ordoliberal, export-based economy, rather than France’s statist liberal model, which relied upon rapid economic growth and significant job creation in order to make liberalization politically viable while preserving the economic sustainability of its social model. This choice effectively meant accepting a relatively stagnant economy and high levels of unemployment, which the euro’s fiscal- and monetary-policy regime prevented it from addressing successfully. In this sense, John Driffill and Marcus Miller are right to claim that the label of so-called “Stability and Growth Pact” that served as EMU’s foundational bargain is a misnomer, since the Pact “increases unemployment and slows growth.”[[56]](#footnote-56) This outcome has both put France in increasingly difficult economic straits and undermined its credibility as an alternative voice to Germany’s model of “austerity for all.”

These trends were both accelerated and exacerbated after 2009. Though France was able to reconcile EMU with its statist liberal model in the relatively calm 1990s, this task became much more difficult in the aftermath of the post-2007 financial crisis and the “Great Recession” that followed in its wake. As opposed to its approach in the 1990s, when France internalized the deflationary biases of EMU primarily by liberalizing its labor market, in the latter period, the country prioritized domestic policy imperatives and returned to an older, statist pattern of policy making, enacting a modest Keynesian stimulus package and then shifting to a more pro-growth strategy under Socialist President François Hollande.

The scope of Hollande’s tactical shift, however, was constrained by France’s earlier embrace of the stringent fiscal criteria for EMU and the strongly felt imperative of preserving its leadership position within a currency union at odds with its preferred economic strategy. Having signed on to a deflationary and anti-growth EMU for largely political reasons, France found itself much more constrained with respect to economic policy than it would have liked in the face of an unprecedented and unexpected financial and economic crisis. If the statist liberal model represented a uniquely French response to the political-economic imperatives of the 1990s, it is clearly less well adapted to the contemporary context of sluggish growth, high unemployment, and an intractable European debt crisis. Even as it struggled to preserve its place at or near the head of the Eurozone policy-making table, then, it did so in ways that undermined the chances of achieving the substantive outcomes that such leadership was meant to foster.

France continues to struggle to define its position in the Eurozone and to offer a coherent alternative model to that advanced by Germany and other adherents to the doctrine of austerity. While François Hollande’s election has led to more explicit embrace of a pro-growth strategy at home and rhetorical contestation of Germany’s fetishization of austerity, it seems increasingly unlikely that France can square these rhetorical and political circles. In practice, this means that the future of the euro is likely to be an austere one, a fact which might well force the exit of some of its economically more vulnerable members. Even as the orthodoxy of austerity becomes more and more entrenched within the Eurozone, France’s ability to mediate between core and periphery will continue to be constrained by the Faustian bargain it made in the late 1990s, whereby it bought political relevance at the cost of at least part of its statist, pro-growth soul.

In this sense, France’s continued calls for some form of *gouvernement économique* would seem to reflect weakness as much as strength; having long ago lost the battle with Germany for lead authorship of Europe’s economic future, it is relegated to the second-best strategy of trying to soften the edges of an austere currency union. Though France is unlikely to return to the more liberal market variant of “statist liberalism” that characterized its policy strategy in the 1990s and early 2000s, it is also unlikely that Hollande will be able successfully to implement at the European level the more pro-growth version that he claims to favor, at least as long as the European debt crisis and prevailing economic stagnation endure. Indeed, the endemic political problems surrounding his administration, along with intensifying recrimination focused on rising unemployment and declining competitiveness, will likely undermine Hollande’s capacity to advance an alternative agenda.[[57]](#footnote-57)

If it does, then the chances for the euro to survive, at least in its current form, seem slim indeed. From the beginning, the European project was predicated upon a strong Franco-German partnership, which provided the Germans with legitimacy and the French with the potential to extend the scope of its international influence and economic might in the face of its declining post-war status. It also promised to allow the French to accomplish the kind of economic voluntarism that, at least after 1983, it could no longer accomplish on its own. Its embrace of liberal monetarism and a single currency that inhered those priorities in the 1980s and 1990s, however, effectively traded away its potential to shape the euro in a less austere, more growth-friendly, and more politically and economically sustainable direction. In this sense, Hollande’s criticism of Eurozone austerity and French talk of *gouvernement économique* over the past decade is really full of sound and fury and signifying very little. Such objections are much like closing the proverbial barn door after the horse has escaped.

French weakness and subordination to the German vision of the euro presents European authorities with a stark choice. As many observers have argued, the single currency both depended upon and was designed to drive the development of European political union. All but the most starry-eyed Europhiles recognize that this project has failed.[[58]](#footnote-58) In the absence of some sort of meaningful political union, and the mechanisms of fiscal adjustment and compensation that such would entail, Germany, its rich northern European neighbors, and the ECB must choose between a smaller Eurozone and a different policy regime. If they insist on the masochistic, monetarist austerity that has become the ECB’s orthodoxy, it seems impossible to envision a Eurozone that retains all of its current neighbors. If they want the single currency to survive in its current form, they must be willing to accept greater consumption and inflation in the Eurozone core, some monetization of sovereign debt, and less stringent conditions for fiscal transfers among member states. Given their categorical unwillingness to accept such solutions, it seems likely that the euro will survive, but with a smaller and more economically homogenous membership. To paraphrase Adolphe Thiers’s quip in the 1870s about the relationship between the nascent Third French Republic and conservatism, “the euro will be more accommodating, or it will not exist,” at least not in its current form.

**Table 1: French Economic Performance in Comparative Perspective, 2004-2008**

France Germany Italy

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2004 | 2008 | 2004 | 2008 | 2004 | 2008 |
| Real GDP Growth | 2.6% | –0.1% | 0.7% | 0.8% | 1.7% | –1.2% |
| Unemployment Rate | 9.3% | 7.8% | 10.5% | 7.6% | 8.0% | 6.7% |
| Current Account (BOP)  (% GDP) | 0.5% | –1.7% | 4.7% | 6.2% | –0.3% | –2.9% |
| Budget Deficit  (% GDP) | –3.6% | –3.3% | –3.8% | –0.1% | –3.6% | –2.7% |

Source: IMF Statistics at http://www.imf.org/external/data.htm. Various tables

**References**

Agence France Presse online. “Crise économique: Sarkozy content d’avoir fait les ‘bons choix’.” 23 January 2008.

Agence France Presse wire service, 14 October 1997.

Blyth, Mark. *Austerity: The History of a Dangerous Idea*. New York: Oxford University Press, 2013.

Boutté, Gilbert. *Nicolas Sarkozy* *face à la crise*. Paris: L’Harmattan, 2010.

Hugh Carnegy, “France Misses 2012 Deficit Target.” *Financial Times* online, 29 March 2013.

———. “French Socialists Attack ‘Selfish’ Merkel.” *Financial Times* online, 26 April 2013.

———. “Hollande Wrestles with Austerity Demands.” *Financial Times* online, 18 February 2013.

“Charlemagne: The Driver and the Passenger.” *The Economist* online, 15 October 2011.

Cohen, Elie. *L’Etat brancardier: Politiques du déclin industriel* *(1974-1984)*. Paris: Calmann- Lévy, 1989

Cornudet, Cécile. “Nicolas Sarkozy répond à la crise économique par un effort public massif.” *Les Echos*, 5 December 2008, 2.

———. “Sarkozy veut prendre le temps d’expliquer sa politique anticrise.” *Les Echos*, 2 February 2009, 3.

Cour des Comptes. *L’Etat et le financement de l’économie*, Rapport public thématique, July 2012.

Cowell, Alan, and Nicholas Kulish. “Austerity Faces Sharper Debate after European Elections.” *New York Times* online, 7 May 2012.

Delacroix, Guillaume. “10 milliards d’investissements publics accélérés et un Code de marchés publics allégé.” *Les Echos*, 5 December 2008, 4.

Direction de l’Animation de la Recherche, des Etudes, et des Statistiques (DARES). “Le passage à 35 heures vu par les employeurs.” *Premières Synthèses*, April 2002.

Driffill, John and Marcus Miller. “No Credit for Transition: European Institutions and German Unemployment.” *Scottish Journal of Political Economy* 50, no. 1 (February 2003): 41- 60.

Economist Intelligence Unit. *Country Report: France*. London: EIU, March 2011.

“Germany Continues Push for Austerity ahead of Meeting between Merkel, Sarkozy.” *Huffington Post* online, 9 January 2012.

Hall, Peter. *Governing the Economy: The Politics of State Intervention in Britain and* France. New York: Oxford University Press, 1986.

Horton, Mark A. “Comparing Transatlantic Responses to the Financial Crisis: The Fiscal Policy Response.” In *An Ocean Apart? Comparing Transatlantic Responses to the Financial Crisis*. Ed. Jean Pisani-Ferry, Adam Posen, and Fabrizio Saccomanni. Paris: Breugel, 2011.

ILO. *World Social Security Report: Providing Coverage in Times of Crisis and Beyond, 2010- 2011*. Geneva: ILO, 2010.

Jabko, Nicolas. *Playing the Market: A Political Strategy for Uniting Europe, 1985-2005*. Ithaca: Cornell University Press, 2006.

Jabko Nicolas, and Elsa Massoc. “French Capitalism under Stress: How Nicolas Sarkozy Rescued the Banks.” *Review of International Political Economy* 19, no. 4 (October 2012): 562-585.

Join-Lambert, Marie-Thérèse, *et al.*, eds. *Politiques sociales*, 2nd ed. Paris: Presses de Sciences Po et Dalloz, 1997.

Judt, Tony. *Postwar: A History of Europe since 1945*. New York: Penguin, 2006 [2005]

.

Levy, Jonah D. *Tocqueville’s Revenge: State, Society, and Economy in Contemporary France*. Cambridge, Mass.: Harvard University Press, 1999.

Levy, Jonah D. Mari Miura, and Gene Park. “Exiting *Etatisme*? New Directions in State Policy in France and Japan.” In *The State after Statism: New State Activities in the Age of Liberalization*. Ed. Jonah D. Levy. Cambridge, Mass.: Harvard University Press, 2006.

Loriaux, Michael. *France after Hegemony: International Change and Financial Reform*. Ithaca: Cornell University Press, 1991.

Milner, Susan. “France: Steering Out of Crisis?” In *Europe and the Financial Crisis*. Ed. Pompeo Della Posta and Leila Simona Talani. Houndmills, UK: Palgrave Macmillan, 2011.

Moïsi, Dominique. “Hollande Must Heed Lessons of Louis XVI.” *Financial Times online*, 9 April 2013.

OECD. *Main Economic Indicators*, volume 2011/5. Paris: OECD, 2011.

———. “OECD Country Statistical Profile: France 2011-2012.” Available online at <http://www.oecd-ilibrary.org>.

———. *OECD Economic Outlook*, *Interim Report*. Paris: OECD, 2009.

Okrent, Christine. “Can ‘Merkozy’ Save the Day?” *The New York Times* online, 8 December 2011.

Parsons, Craig. *A Certain Idea of Europe.* Ithaca: Cornell University Press, 2003.

Peel, Quentin, and Hugh Carnegy. “Europe: An Uneven Entente.” *Financial Times* online, 20 January 2013.

Prasad, Eswar, and Isaac Sorkin. “Assessing the G-20 Stimulus Plans: A Deeper Look.” Brookings Institution Working Paper, 14 December 2009.

“President Hollande,” *The Economist*, May 12th-18th 2012, 30-31.

Schwartz, Nelson D. “France, Unlike U.S., Is Deep into Stimulus Projects.” *New York Times*, 7 July 2009, B1.

Spiegel, Peter, and Peter Ehrlich. “Eurozone Anti-austerity Camp on the Rise.” *Financial Times* online, 21 April 2013.

Vail, Mark I. *Recasting Welfare Capitalism: Economic Adjustment in Contemporary France and Germany*. Philadelphia: Temple University Press, 2010

———. “Varieties of Liberalism: Keynesian Responses to the Great Recession in France and Germany.” Forthcoming in *Governance* 27, no. 1 (January 2014).

“Vive la Différence.” *The Economist*. 9-15 May 2009, 28.

Wittrock, Philipp. “Can Merkel Teach Hollande Austerity?” *Der Spiegel* online, 7 May 2012.

1. Nicolas Jabko, *Playing the Market: A Political Strategy for Uniting Europe, 1985-2005* (Ithaca: Cornell University Press, 2006), 157. [↑](#footnote-ref-1)
2. Tony Judt, *Postwar: A History of Europe since 1945* (New York: Penguin, 2006 [2005]), 153. [↑](#footnote-ref-2)
3. Michael Loriaux, *France after Hegemony: International Change and Financial Reform* (Ithaca: Cornell University Press, 1991), 242. [↑](#footnote-ref-3)
4. In the words of Jonah Levy, Mari Miura, and Gene Park, “[T]he road to *dirigiste* rollback is paved with new state interventions. . . . [D]e-*dirigisation* was purchased at the expense of expanded state activity in the social arena.” “Exiting *Etatisme*? New Directions in State Policy in France and Japan,” in *The State after Statism: New State Activities in the Age of Liberalization*, ed. Jonah Levy (Cambridge, Mass.: Harvard University Press, 2006), 95. [↑](#footnote-ref-4)
5. Loriaux, *France after Hegemony*, 253. [↑](#footnote-ref-5)
6. In a statement that reflected both his apprehensions and a misreading of the geopolitical context, Mitterrand said, “I don’t have to do anything to stop it, the Soviets will do it for me. They will never allow this greater Germany just opposite them.” Quoted in Judt, *Postwar*, 640. [↑](#footnote-ref-6)
7. Mark I. Vail, “Varieties of Liberalism: Keynesian Responses to the Great Recession in France and Germany,” *Governance* 27, no. 1 (January 2014): 63-85. [↑](#footnote-ref-7)
8. Jonah D. Levy, *Tocqueville’s Revenge: State, Society, and Economy in Contemporary France* (Cambridge, Mass.: Harvard University Press, 1999), 19. [↑](#footnote-ref-8)
9. The term is Peter Hall’s, in *Governing the Economy: The Politics of State Intervention in Britain and France* (New York: Oxford University Press, 1986), 193 ff. [↑](#footnote-ref-9)
10. Elie Cohen, *L’Etat brancardier: Politiques du déclin industriel* *(1974-1984)* (Paris: Calmann-Lévy, 1989), 309. [↑](#footnote-ref-10)
11. Levy, *Tocqueville’s Revenge*, 260. [↑](#footnote-ref-11)
12. Jabko, *Playing the Market*, 166-169. [↑](#footnote-ref-12)
13. For a full discussion, see Mark I. Vail, *Recasting Welfare Capitalism: Economic Adjustment in Contemporary France and Germany* (Philadelphia: Temple University Press, 2010), chs. 5 and 6. [↑](#footnote-ref-13)
14. Unemployment, which had been a mere 2.7% in 1973, rose to an unprecedented 12.3% by 1994. Marie-Thérèse Join-Lambert *et al.*, eds., *Politiques sociales*, 2nd ed. (Paris: Presses de Sciences Po et Dalloz, 1997), 198. [↑](#footnote-ref-14)
15. OECD, “OECD Country Statistical Profile: France 2011-2012,” available online at <http://www.oecd-ilibrary.org>. [↑](#footnote-ref-15)
16. Jabko, *Playing the Market*, 171. [↑](#footnote-ref-16)
17. Direction de l’Animation de la Recherche, des Etudes, et des Statistiques (DARES), “Le passage à 35 heures vu par les employeurs,” *Premières Synthèses*, April 2002, 10. [↑](#footnote-ref-17)
18. Agence France Presse wire service, 14 October 1997. [↑](#footnote-ref-18)
19. For a full discussion, see Craig Parsons, *A Certain Idea of Europe* (Ithaca: Cornell University Press, 2003), especially ch. 7. [↑](#footnote-ref-19)
20. All data in this section were drawn from OECD and IMF databases at <http://www.oecd-ilibrary.org> and http://www.imf.org/external/data.htm [↑](#footnote-ref-20)
21. Jabko, *Playing the Market*, 168. [↑](#footnote-ref-21)
22. For a full discussion of this rhetorical feint, see Mark Blyth, *Austerity: The History of a Dangerous Idea* (New York: Oxford University Press, 2013), especially chs. 1 and 3. [↑](#footnote-ref-22)
23. Susan Milner, “France: Steering Out of Crisis?” in *Europe and the Financial Crisis*, ed. Pompeo Della Posta and Leila Simona Talani (Houndmills, UK: Palgrave Macmillan, 2011), 190. [↑](#footnote-ref-23)
24. “Germany Continues Push for Austerity ahead of Meeting between Merkel, Sarkozy,” *Huffington Post* online, 9 January 2012. [↑](#footnote-ref-24)
25. On the lack of economic government, see Nicolas Jabko’s chapter 4 in this volume. [↑](#footnote-ref-25)
26. Nelson D. Schwartz, “France, Unlike U.S., Is Deep into Stimulus Projects,” *New York Times*, 7 July 2009, B1. [↑](#footnote-ref-26)
27. Cécile Cornudet, “Nicolas Sarkozy répond à la crise économique par un effort public massif,” *Les Echos*, 5 December 2008, 2. [↑](#footnote-ref-27)
28. The other significant element of Sarkozy’s “statist liberal” strategy was an aggressive bailout and forced merger of several major French banks. See Nicolas Jabko and Elsa Massoc, “French Capitalism under Stress: How Nicolas Sarkozy Rescued the Banks,” *Review of International Political Economy* 19, no. 4 (October 2012): 562-585. [↑](#footnote-ref-28)
29. Guillaume Delacroix, “10 milliards d’investissements publics accélérés et un Code de marchés publics allégé,” *Les Echos*, 5 December 2008, 4. [↑](#footnote-ref-29)
30. Agence France Presse online, “Crise économique: Sarkozy content d’avoir fait les ‘bons choix’,” 23 January 2008. [↑](#footnote-ref-30)
31. In 2005, France spent 1.2% of GDP on non-contributory income support, compared to 0.6% in Germany. ILO, *World Social Security Report: Providing Coverage in Times of Crisis and Beyond, 2010-2011* (Geneva: ILO, 2010), 264. [↑](#footnote-ref-31)
32. *The Economist*, “Vive la Différence,” 9-15 May 2009, 28. [↑](#footnote-ref-32)
33. Cécile Cornudet, “Sarkozy veut prendre le temps d’expliquer sa politique anticrise,” *Les Echos*, 2 February 2009, 3. [↑](#footnote-ref-33)
34. Economist Intelligence Unit, *Country Report: France* (London: EIU, March 2011), 6. [↑](#footnote-ref-34)
35. Quoted in Gilbert Boutté, *Nicolas Sarkozy* *face à la crise* (Paris: L’Harmattan, 2010), 187. [↑](#footnote-ref-35)
36. Eswar Prasad and Isaac Sorkin, “Assessing the G-20 Stimulus Plans: A Deeper Look,” Brookings Institution Working Paper, 14 December 2009; and Mark A. Horton, “Comparing Transatlantic Responses to the Financial Crisis: The Fiscal Policy Response,” in *An Ocean Apart? Comparing Transatlantic Responses to the Financial Crisis*, eds. Jean Pisani-Ferry, Adam Posen, and Fabrizio Saccomanni, (Paris: Breugel, 2011), 115. Estimates of overall fiscal stimulus during this period vary slightly, as a result of differing treatment of such factors as automatic stabilizers and differences between outlays and expenditures. But these figures represent the middle range of available data. [↑](#footnote-ref-36)
37. Delacroix, “10 milliards d’investissements publics accélérés.”  [↑](#footnote-ref-37)
38. OECD, *OECD Economic Outlook*, *Interim Report* (Paris: OECD, 2009). [↑](#footnote-ref-38)
39. Surprisingly, France’s stimulus measures were much more modest than those of Germany, a country normally associated with fiscal rectitude and a dislike of state intervention in the economy. For a detailed discussion, see Vail, “Varieties of Liberalism.” [↑](#footnote-ref-39)
40. OECD, “OECD Country Statistical Profile: France 2011-2012.” [↑](#footnote-ref-40)
41. At the end of September 2011, the four largest French banks shouldered a combined €63.3 billion in sovereign debt in Ireland, Spain, Portugal, Greece, and Italy (with €7.7 billion in Greece alone) , among the highest levels in the Eurozone. Cour des Comptes, *L’Etat et le financement de l’économie*, Rapport public thématique, July 2012, 96-97. [↑](#footnote-ref-41)
42. Christine Okrent, “Can ‘Merkozy’ Save the Day?” *The New York Times* online, 8 December 2011. [↑](#footnote-ref-42)
43. One senior European official had famously observed that the partnership “serve[d] to hide the strength of Germany and the weakness of France.” Quoted in “Charlemagne: The Driver and the Passenger,” *The Economist* online, 15 October 2011, [↑](#footnote-ref-43)
44. Quentin Peel and Hugh Carnegy, “Europe: An Uneven Entente,” *Financial Times* online, 20 January 2013. [↑](#footnote-ref-44)
45. It is also worth pointing out that Sarkozy faced re-election in 2012 amidst deteriorating poll numbers as a result of France’s economic woes and his own foibles. He thus had little political capital left to spend on a public fight with Germany over Eurozone policy. [↑](#footnote-ref-45)
46. OECD, *Main Economic Indicators*, volume 2011/5 (Paris: OECD, 2011), 11, 43. [↑](#footnote-ref-46)
47. Philipp Wittrock, “Can Merkel Teach Hollande Austerity?” *Der Spiegel* online, 7 May 2012. [↑](#footnote-ref-47)
48. Alan Cowell and Nicholas Kulish, “Austerity Faces Sharper Debate after European Elections,” *New York Times* online, 7 May 2012. [↑](#footnote-ref-48)
49. Wittrock, “Can Merkel Teach Hollande Austerity?”. [↑](#footnote-ref-49)
50. Hugh Carnegy, “Hollande Wrestles with Austerity Demands,” *Financial Times* online, 18 February 2013. [↑](#footnote-ref-50)
51. Hugh Carnegy, “France Misses 2012 Deficit Target,” *Financial Times* online, 29 March 2013. [↑](#footnote-ref-51)
52. Bruno Le Maire, Sarkozy’s former European affairs minister, put it this way: “France has got to regain credibility with Germany and that only comes through the economy, fixing growth, unemployment, and the debt. Nothing works without this.” Peel and Carnegy, “Europe: An Uneven Entente.” [↑](#footnote-ref-52)
53. Such skepticism among political elites has paralleled a growing, if limited, disenchantment with the austerity-only recipe. Peter Spiegel and Peter Ehrlich, “Eurozone Anti-austerity Camp on the Rise,” *Financial Times online*, 21 April 2013. [↑](#footnote-ref-53)
54. “President Hollande,” *The Economist*, May 12th-18th 2012, 30-31. [↑](#footnote-ref-54)
55. Much will also depend on Hollande's ability to keep his fractious Socialist government in line, something that the beleaguered and often ham-fisted President, whose approval ratings have plummeted in the wake of a series of scandals and other missteps, has often struggled to accomplish. One of the clearest examples of such political mismanagement came with the leaking of an internal Socialist Party memo condemning Merkel's “selfish intransigence” over austerity. Hugh Carnegy, “French Socialists Attack ‘Selfish’ Merkel,” *Financial Times online*, 26 April 2013. [↑](#footnote-ref-55)
56. John Driffill and Marcus Miller, “No Credit for Transition: European Institutions and German Unemployment,” *Scottish Journal of Political Economy* 50, no. 1 (February 2003), 42. [↑](#footnote-ref-56)
57. In the words of Dominique Moïsi, “[B]y navigating with excessive prudence between the logic of the bond markets (no Keynesian policy) and that of his Socialist party inside (no courageous measures to free up the labour market), he has reached the exact opposite result. He has encouraged a climate of negative expectations and suspicion vis à vis the efficiency of the state.” Moïsi, “Hollande Must Heed Lessons of Louis XVI,” *Financial Times*, 9 April 2013 [↑](#footnote-ref-57)
58. For a range of perspectives surrounding this core contention, see “Forum: How Germany Reconquered Europe: The Euro and Its Discontents,” *Harpers*, February 2014, 33-43. [↑](#footnote-ref-58)