French aversion to independent monetary authority and the development of French policy on the EMU project

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Abstract:
The Jospin Government's demands to create a stronger political control over European monetary policy reflect a deeper concern in French political and administrative circles of the problematic political and economic nature of central bank independence. French opposition to central bank independence is rooted in four factors: the republican tradition; the perception of the appropriate link between monetary and economic policy; the belief that low inflationary policies do not require independent central banks; and the institutional power concerns of the French Treasury. This opposition shaped French positions on the details of the EMU project, the intergovernmental negotiations and their outcome. An appreciation of this opposition is thus necessary to understand the nature of French motives and the process leading to EMU. It also demonstrates the strengths and weaknesses of the leading explanations for French support for EMU and, more generally, the process leading to monetary integration.

KEY WORDS France; central bank independence; European Central Bank; monetary policy; Economic and Monetary Union; Euro-Council.

Introduction

In 1997, the new French Socialist-led government made particularly insistent demands for the creation of "*gouvernement économique*" — the establishment of some form of political counter power over the formulation of European monetary policy. This was presented as part of the new government's attempt to limit the austerity measures imposed by the convergence criteria which were explicitly prolonged into Stage Three of the Economic and Monetary Union (EMU) project by the "Growth and Stability" pact agreed upon at the Dublin European Council in December 1996. More generally, the new government sought to counteract the "sound money" bias of the powerful European Central Bank (ECB) (Dyson 1999a) and to adopt European

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monetary policies more closely in line with other economic goals, notably job creation — the idea of a "euro social". Previous French governments had made similar demands, although less virulently, to modify the EMU project.

Given the high real interest rates necessary to keep the franc in the ERM during most of the 1980s to the mid-1990s and relatively high unemployment, French governments faced considerable political pressure to modify the external constraint or remove it altogether. This pressure increased markedly in the period following German reunification when the asymmetric operation of the EMS imposed high German interest rates despite inflation levels in France well below those in Germany (Aeschimann & Riché 1996). The economic difficulties associated with these rates chipped away at the increasingly fragile support base in favour of competitive disinflation, the ERM and the EMU project. By 1997, in response to demands from the Socialist rank-and-file, left-leaning voters, the Communist and Green election coalition partners and the population more generally, the Socialists placed considerable emphasis upon the need to reinforce political control over monetary policy at the European level. This was closely linked to the demand to annul or modify the "Growth and Stability" pact. The Socialists made these promises — and then demands — even though a previous Socialist Government had bowed to German insistence on central bank independence and the convergence criteria.

The Jospin Government claimed that its demands led to the October 1997 agreement between European finance ministers to create a special council of economic and finance ministers of the EU Member States participating in EMU — the Euro-X

Council[2] — in addition to the establishment of a European employment policy as a qualification of the "Growth and Stability" pact and a step towards ensuring a "euro social". In real terms, the creation of the Euro-XI had no impact on the monetary policy powers granted to the Council (ECOFIN) by the Maastricht Treaty, which included, most significantly, the establishment of exchange rate agreements with countries outside the Eurozone — on the condition that the Council respect the goal of price stability. Moreover, the creation of the Euro-XI Council had already been tentatively promised at the Dublin European Council of December 1996, several months prior to the French legislative elections.[3] President Chirac and the Juppé Government had argued in favour of a special council. However, the logic behind its creation can only partially be seen in terms of the reinforcement — however symbolic — of a political control over European monetary policy. The Euro-XI Council was logically necessary: the EU member states which did not participate in EMU were not to contribute directly to the discussions of common interest of the countries within the Eurozone. More recently, leading French officials have misleadingly claimed 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, and thus was a step closer towards the creation of "*gouvernement économique*".[4]

[2]This was relabelled the Euro-XI following the determination of the number of countries able and willing to participate in Stage Three of the EMU project.
[3]Chirac claimed that the Germans accepted the creation of the Euro-X Council, which he misleadingly presented as "*gouvernement économique*", in exchange for the French accepting the "Growth and Stability" pact at the December 1996, Dublin European Council. Bilateral Franco-German negotiations on the precise nature of the council had begun in Lyon in January 1997.
[4]"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. The powers of the new Economic and Financial Committee do 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 Economics 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.

These promises and demands also reflected a deeper concern in French political circles and the administration with the problematic political and economic nature of central bank independence. French opposition to central bank independence is rooted in four factors: the republican tradition; the perception of the appropriate link between monetary and economic policy; the belief that low inflationary policies do not require independent central banks; and the institutional power concerns of the French Treasury. This opposition shaped French positions on the details of the EMU project, the intergovernmental negotiations and their outcome. An appreciation of this opposition is thus necessary to understand the nature of French motives for supporting EMU and the process leading to monetary integration. It also demonstrates the inaccuracy of the so-called "garbage can" explanation of EMU posited by certain authors and demonstrates why neo-realist and liberal intergovernmentalist claims must also be qualified.

The sources of French aversion of central bank independence

If the Socialist-led government was motivated by principally political and temporary economic concerns, the interest of French policy-makers in "*gouvernement économique*" is more complex. This interest stems from four different factors: 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; and power considerations within the French administration.

The republican tradition in France upholds the control of democratically elected officials over all elements of policy-making. This was reinforced by the strong tradition of "*volontarisme*". In the case of monetary policy, this must be qualified. The Bank of France enjoyed a semi-autonomous status from the middle of the 19th century (Bouvier 1988; Prate 1987). The minister of finance had more or less influence over the decisions of the Bank depending on the matter at hand (a consensus normally existed) and the personalities involved. The height of the Bank's expression of autonomy was during the interwar period of monetary instability when certain Bank governors forced modifications in government economic policy in order to ensure greater stability. On the Left, the Popular Front sought to curtail the growing power of the Bank through a major reform of 1936. Following W.W.II, the autonomy of the pre-war period was widely associated with the protection of elite interests, the general backward state of the French economy, the Laval deflation of the mid-1930s and the defeat of 1940. De Gaulle further reinforced State control through the nationalisation of 1945. However, the precise nature of this control and the legal status of the Bank were not defined. The strong economic growth of the "*Trente Glorieuses*" has been widely seen as the result of an economic, financial and monetary policy designed in co-ordinated fashion by the Treasury, the Planning Commission and democratically elected governments. Given the strong republican consensus of the post-war period and that most Bank of France governors were former Treasury officials (and members of the elite Financial Inspectorate), the expression of Bank autonomy — in defiance of the government — was only periodic and rarely public (Bouvier 1988, Koch 1983, Patat & Lutfalla 1986, Prate 1987). As during previous periods, this expression of autonomy depended upon the personalities involved and the degree to which governments diverged from the goal of monetary stability. Governor Olivier Wormser succeeded in clarifying Bank powers in the context of the January 1973 reform which explicitly granted the Bank greater scope to modify its monetary mechanisms. However, the reform in no way diminished State control over monetary policy. The republican bias in favour of a democratic check on the central bank was reinforced by technocratic arguments which stressed the historic dependence of the Bank of France on the Ministry of Finance as the principal source of monetary and economic information. Treasury officials generally believed that the Bank was unable, technically speaking, to take decisions in matters of credit and money (Koch 1983, Mamou 1987).

Most leading French politicians and financial bureaucrats correspondingly believed that economic and monetary policy should not be completely separated for economic reasons: that the latter should be seen as a tool of the former. Although price stability was of great importance, it was not to be considered a goal to be pursued separately from other economic goals. The relations between French governments and the Bank since the middle of the 19th century effectively demonstrated this duality. Beneath the different German and French attitudes on central bank independence, there lay two different conceptions of the role of money. According to the German conception, monetary stability was considered to be a categorical imperative of economic and democratic order linked to the maintenance of the rule of law (inflation is a non-voted tax). According to this tradition, citizens have as much right to a stable currency, as they have a right to the security of their person and their property. In consequence, macro-economic policy should involve as little manipulation as possible of credit. Such attitudes, it is well known, are also rooted in the experience of hyperinflation in the interwar period (Marsh 1992). French monetary history was considerably different from that of Germany. Although inflation had repeatedly been a problem both prior to and since W.W.II, the Laval deflation of the mid-1930s was generally perceived to be the most economically disastrous monetary development in the twentieth century (Patat & Lutfalla 1986). The Delors Report — written by central bankers and monetary economists — reflects the German conception. The strongly negative reaction of most leading French politicians and the Treasury to the report reflected the degree to which this conception was alien to the French (Balleix-Banerjee 1997).

The preference of French governments to link the management of economic and monetary policy does not necessarily indicate a limited commitment to low inflationary policies. It has been claimed that French governments have not been preoccupied with inflation as an economic problem but rather have adopted low inflationary policies in order to achieve a competitive advantage in relation to Germany (most notoriously by Connolly (1995)). There has been an historic preoccupation with the competitive position in relation to the major trade partners, in particular the Germans. The drive to cut inflation — under Giscard in the late 1970s and early 1980s and then the Socialists from 1982 — was linked closely to competition-oriented goals: inflation led to devaluation which only temporarily improved the competitive position of French industry and discouraged necessary structural change. Competitive advantage was sought via the maintenance of a lower level of inflation than France's European partners (notably Germany): thus the policy of "*désinflation competitive*" (Fitoussi 1993). This policy — linked to the avoidance of franc devaluations through the maintenance of relatively high interest rates given the asymmetric operation of the ERM — also forced French companies to become more cost efficient.

It is important to note that different actors have placed different emphasis on the two goals. Most leading French policy-makers sought both. French governments clearly had to balance monetary with other goals. Competitive ambitions — more acceptable to a French political class traditionally sensitive to the commercial balance — were often appealed to as the justification for the high interest rates needed to maintain low inflation. However, most leading Treasury officials have focused principally upon monetary goals, while those in the Bank of France have been singularly preoccupied with the maintenance of low inflation.

French reluctance to accept independent central banks during the Maastricht Treaty and insistence upon "*gouvernement économique*" was also rooted in the belief that "sound money" economic policies do not rely on independent central banks

(Aglietta 1988).[5] French monetary history was presented in order to challenge the numerous Anglo-American econometric and statistical studies which have shown a strong correlation between central bank independence and lower inflation rates. According to these studies, politicians are likely to adopt monetary policies which do not lead to optimal results on inflation because they are motivated by more than just monetary goals (Goodhart 1988 & 1993). Some in France did support these claims, notably leading Bank of France officials who from the period of increased inflation in the late 1960s repeatedly attempted to convince party leaders of the logic behind increased autonomy (Prate 1987). Correspondingly, the Bank presented the argument that independence would increase confidence in the franc, diminish speculation and allow the lowering of interest rates. Such economic arguments had greater political appeal apparently and convinced Chirac and other RPR leaders of the logic behind independence prior to the 1986 elections when they supported the Pasqua private member's bill (1985) which granted a large degree of autonomy to the Bank of France. Once in power, however, Chirac's position changed. In the face of the determined opposition of his Minister of Finance, Edouard Balladur, and the Treasury, Chirac's own position on the matter was insufficiently strong to lead to a change in policy (Balleix-Banerjee 1997 & Prate 1987).

French scepticism regarding the merits of independence was supported by new studies in the 1980s and 90s questioning the existence of a causal link between central bank independence and low inflation. More recently, Posen (1993) argues that political support for low inflation is responsible for both low inflation and central bank independence. He attributes this political support to the influence of a narrow financial or banking interest group. In the French case, this group can be defined as the financial administrative elite consisting of top Treasury officials (members of the elite *grands corps*, the Finance Inspectorate and other corps, and principally those involved in monetary policy-making); Treasury officials in the support staffs of the President, the Prime Minister and the Minister of Finance; and top Bank of France officials, notably

[5]Interviews with French Treasury officials and Michel Aglietta, a leading French monetary economist

the governor who has almost always been a member of the Finance Inspectorate and a former Treasury official. In the Treasury, it was also generally believed that the argument linking central bank independence and inflation did not take into consideration the rationalised French model of monetary and economic policy-making in which a trained financial administrative elite had considerable influence over the formation of policy. Relative French success in controlling inflation during the post-war period — from 1958 to 1968 and from 1978 to the present (with the brief exception of 1981-1983) — was achieved with minimal central bank influence over government policy-making. The inflationary tendencies in the French economy were linked to the excessive dependence of French public and private sector companies upon State-allocated credit, not inadequate Bank of France autonomy (Loriaux 1991; Aglietta 1988).[6] Moreover, from 1991, the French succeeded in lowering inflation well below levels in Germany. Given these achievements, French governments and the Treasury were reluctant to surrender control on the grounds that they were prone to excess. The admiration of the German economic model — and its low inflationary economic growth — did not extend to the institutional structure of German monetary policy-making.

The EMU project modified the economic policy-making power structure of the French State rooted largely in the financial administrative elite (Dyson *et al.* 1994). For the Treasury, central bank independence was one in a series of blows to its power, diminished by privatisations, the liberalisation of financial markets and EC rules on

and consultant to the Bank of France (13&18.6.1994).

[6]Reforms throughout the late 1970s, the financial deregulation of 1984 and European Competition rules substantially diminished this dependence. Aglietta (1988) claims that the relationship between the state and the central bank is not the real problem. "Monetary systems each have their own particular history. It is only in federal countries that central banks need to be independent of government. To create such a relationship in a highly centralised nation would be totally artificial and would not at any rate provide a real guarantee of anti-inflationary monetary policies, which is economic not juridical. What is essential is that the central bank is not the prisoner of a financial structure that requires it, under pain of destabilising this structure, to monetise public or private debts. It is the financial structure which must be transformed so that the central bank is not required to finance financial institutions. The policy must define the general conditions of the liquidity for all of the national economy. To achieve this judicial change is insufficient: what is needed is financial deregulation. This has been achieved in France. ... The dependence that existed was not vis-à-vis government but rather a structural dependence which limited the Bank of France's margin of manoeuvre. ... The aim was to organise an open financial market in which the banks could lend without perturbing excessively the interest rates. ... Internal deregulation and the raising of the external controls on capital movements go together" (p. 19, author's translation).

competition which limited large state aids, previously managed by the Treasury. Ironically, it also could be seen as the result of the victory of the Treasury in its struggles over a twenty year period with neo-Gaullist and Socialist governments to maintain low inflationary policies. EMU was only made possible by the willingness of both governments of the Left and the Right to embrace "sound money" economic policies.

The loss of this Treasury power due to the "independence" of the Bank of France was mitigated somewhat by the close links between the Bank's governor, the French financial administrative elite and leading French politicians. Although opposed to the statutory independence of the Bank of France, during the discussions and negotiations on EMU in 1990-1991, Treasury officials and the Socialist Minister of Finance, Pierre Bérégovoy focused their opposition on the issue of ECB independence. With power over interest rate policy transferred to the European level, it was necessary to extend Treasury control over this policy through the influence of the French Minister of Finance in the context of ECOFIN, and thus to ensure extensive Council control over the ECB.

There were also other reasons for opposition to central bank independence, although these appear to be secondary. Notable among these was the concern expressed by several politicians and officials — including Bérégovoy — that independence would not lead to a true sharing of policy-making power at the European level (Balleix-Banerjee 1997; Bauchard 1994). Rather it was his belief that independence would further reinforce the dominance of the Bundesbank in the determination of European monetary policy — principally because most of the participating member states were in effect German monetary satellites, or were insufficiently large to challenge German monetary influence. The concern to diminish Bundesbank and maximise French influence in the context of EMU explains in large part the intransigent French insistence upon Italian participation in Stage Three and upon the choice of Bank of France Governor Jean-Claude Trichet as the first president of the ECB. This insistence was not diminished by Trichet's repeated and public displays of autonomy in relation to the demands presented by President Chirac and the Juppé and Jospin governments (Aeschimann & Riché 1996). The hard won compromise to replace Wim Duisenburg by Trichet after four years was made palatable for the French by the appointment of Christian Noyer — like Trichet, a former head of the French Treasury — as ECB Vice-President.[7]

Given these views, it is not surprising that none of the political parties supported the concept of central bank independence until 1991 (Balleix-Benerjee 1993, 1995 & 1997). The RPR was opposed for nationalistic reasons (dropping all further discussion of the Balladur memorandum in the campaigns leading to the Presidential and National Assembly elections of 1988) and sought the maintenance of Council control over monetary policy. The Socialist party placed stress on social goals and the appropriate policy mix, although was forced into acquiescence by the Socialist government. Moreover — and surprisingly — the UDF 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 general party opposition or reluctance, French public opinion was generally — albeit vaguely — in favour of the EMU project and the transfer of monetary power to the European level and thus, implicitly, national and European central bank independence.[8]

Negotiations on EMU and central bank independence

The French preference to maintain political / Treasury control over monetary policy helps to elucidate the logic behind the development of French negotiating positions on the details of the EMU project — notably the French draft treaty of January 1991 — and likewise the overall negotiation process. During the period following the first meetings of the Delors Committee, Bérégovoy and Treasury officials introduced

[7]Noyer, with no previous experience working in a central bank and not trained as a monetary economist, was a unique appointment to the ECB. Rather his background was typical of heads of the French Treasury: general training in public administration at the *Ecole Nationale d'Administration* and then in financial management in the Financial Inspectorate.

[8]It should be stressed that this favourable disposition ignored the potential economic policy implications of central bank independence. For a detailed description of the development of French

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.[9]

Moreover, they 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.[10] Bérégovoy claimed that the French draft treaty did not seek to challenge the independence of the ECB and the pursuit of the goal of price stability — which the Germans would have refused to accept. However, the draft treaty sought to limit the European bank's margin of manoeuvre as much as possible.[11]

The French draft treaty had to respect the basic conclusions of the Rome I European Council which granted independence to the ESCB. Its article 2-3.2 therefore states that the ESCB will neither solicit nor receive the instructions of the Council, the Commission, the European Parliament or the Member States. However, this list omits mention of the European Council which elsewhere in the draft treaty (article 4-1) is given the power to define the major orientations of EMU. In addition to appearing self-contradictory, the French project thus seemed to be in direct contradiction with the

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public opinion in the pre-Maastricht period see the annual surveys in Sofres, *L'Etat de l'opinion*, Paris: Editions du Seuil, 1990-1991; see also Corinne Balleix-Banerjee (1997) pp. 146ff.

[9]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. Much of the following information was also outlined by Treasury and Bérégovoy's support staff officials in interviews. See also Paul Fabra, *Le Monde*, 4.7.89. This also demonstrated the control exercised by Bérégovoy as leader of the French negotiating team during the IGC and the control of Treasury officials over the preparation of the Draft Treaty. Previously, Bérégovoy had struggled with Roland Dumas, the Minister of Foreign Affairs, in shaping the project (Dyson 1997, pp. 57-77; Aeschimann and Riché 1996; and Balleix-Banerjee 1997, pp. 332-354 and 372-377).

[10]*Communiqué du Conseil des Ministres*, 5.12.90 and the French proposal for an EMU treaty, *Agence Europe*, 28/29.1.91, 5419.

conclusion of the Rome I Summit which stated that the ESCB would be independent of *all* instruction. 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 monetary stability (article 2-3.1) while giving the European Council and Ecofin the means to challenge this primacy.

The Germans opposed any such control beyond ensuring that the member states respect the specific convergence criteria they sought to place in the EMU treaty. Several unsuccessful attempts were made to reconcile the French and German approaches to the link between Community institutions and the ECB.[12]

The opposition of Bérégovoy and Treasury officials to central bank independence also explains, in large part, their consideration of the parallel currency approach to EMU and the British proposal of the hard ECU — effectively as a way to delay the move to EMU.[13] Moreover, the French draft treaty provides for a potentially indefinite period of transition to EMU: article 5-9 requires the Heads of Government and State to meet prior to the end of 1996 to determine by *unanimity* the length of a subsequent transition period prior to the final decision on the move to Stage Three.

On parliamentary control, Bérégovoy proposed a combined sitting of European and national parliamentary members to confirm the monetary policies pursued by the ECB.[14] However, he did not elaborate in any detail on this control and nothing was included in the draft treaty on the matter. There is reason to doubt Bérégovoy's democratic motives, especially given the tradition of a minimal parliamentary role in domestic monetary policy-making and French reluctance to extend European Parliamentary powers in other areas. Rather it is more likely that he sought allies for

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[11]*Agence Europe, ibid.*, 5419.

[12]The Dutch presidency presented a couple of texts (*Agence Europe*, 9.5.90, 5250) as did the Commission (*Agence Europe*, 18.5.90, 5257).

[13]This involved the creation, at the start of Stage Two, of an ECB which would immediately begin emitting ECU (K. Dyson *et al.*, 1994, p. 77). Support for this approach appears to have been based upon limited economic analysis and the French definitely underplayed its potential inflationary effects. Bérégovoy — who approached European affairs differently than Mitterrand — also wanted to continue British participation in monetary integration in order to further diminish German monetary power in Europe (Bauchard 1994).

[14]*Agence Europe*, 13.4.91.

his efforts to establish a political control over the ECB.[15] On the Commission's participation in the economic affairs of the Union, the French draft treaty proposal went further than any previous French document in advocating "an active role" of proposal and recommendation. Again, given French reluctance to increase Commission control in any policy-making areas, this reflected Bérégovoy's attempt to balance the powers of the ECB.

There is an apparent contradiction between the demands of Bérégovoy and the Treasury on setting monetary policy within an economic policy framework established by elected politicians, on the one hand, and their relatively easy acceptance of the Treaty based economic convergence criteria, on the other, given that the imposition of these criteria would severely constrain the economic policy-making powers of national officials. In other words, Bérégovoy and the Treasury appear to have been more concerned with the elements of formal control than the details of permissible economic policy.

The logic of this apparent contradiction can be explained principally in terms of the degree of the loss of the government's control over policy-making. In principle, the independence of central banks ended most government control over monetary policy, which the French believed should not be disassociated from economic policy, whereas the convergence criteria only provided limits not to be exceeded by national policy-makers. Moreover, in 1990 and 1991, the French thought that the criteria could easily be respected. Only from 1992 did it become clear that considerably more rigorous economic policies were necessary in order to meet the criteria. During the negotiations, French concern with the criteria reflected more a desire to ensure Spanish and Italian participation in the EMU project in order to balance German monetary power.

It can be argued that Treasury opposition was as much rooted in a desire to avoid losing control over monetary policy as it was in any perception of the link between economic and monetary policy, French institutional tradition or democratic sensitivities. It should, however, be noted that Bérégovoy's position reflected the

[15] *Agence Europe*, 26.10.89, 5119.

intensity of opposition to central bank independence in political circles which was only fully expressed during the 1992 referendum campaign. Bérégovoy conceded defeat on the matter, after a prolonged and much publicised outcry, only when the President forced his acquiescence. Treasury was not in a position to damage the project once arranged.[16] Moreover, the political and economic situation of the post-Maastricht period demonstrated that the EMS was not sufficient to ensure monetary stability or low inflationary policies in the context of liberalised capital flows and growing demands to devalue the franc outside the ERM, in order to lessen the economic difficulties created by high German interest rates.

Given the control that he exercised over European policy and his decision to force the acquiescence of Bérégovoy and the Treasury, the President's own position on central bank independence was of considerable importance in determining the development of French policy. There has been some difficulty in understanding the precise development of Mitterrand's stance on central bank independence and the EMU project. In terms of public announcements, it appears that he did not support independence until the end of 1990 when he endorsed the conclusions of the Rome I European Council, which accepted the independence of the ESCB. If his position did change at this point, this suggests the importance of two considerations: first, that German reunification encouraged his willingness to accept German demands on the matter in order to push ahead with EMU (Grant 1994) and second, that after a couple of years of discussions, it was very clear that the Germans would not alter their position on the matter. In any case, Mitterrand continued to allow Bérégovoy and Treasury officials to push for more political control throughout the IGC of 1991.

An alternative perspective on Mitterrand's position on independence comes from the Bank of France governor at the time, Jacques de Larosière, who met with the President in May 1988 and presented the necessary conditions (notably those imposed

[16]In 1993, the Treasury fought a determined and public battle with Prime Minister Balladur, Minister of Finance Alphandéry and the Bank of France — which it lost — to assume direct control over banking supervision rather than allow the independent central bank to retain control. However, the Treasury made clear that its opposition to the Bank of France retaining this power did not indicate its hostility to

by the Bundesbank) for the successful conclusion of the EMU negotiations. De Larosière claims that Mitterrand understood and accepted these conditions from the start of the negotiations.[17] However, given the President's decision-making style — his preference to meet his advisers separately and to demonstrate a strong empathy for their position — there is reason to doubt this.[18] It is possible that he understood the nature of German demands and was willing to compromise at the end of the negotiations, but that in the meantime he would allow the Treasury to demand as much political control as possible.

Mitterrand's own position on central bank independence, as on many policy questions, is far from certain. According to both perspectives, the President's willingness to allow Bérégovoy and the Treasury to make their demands was likely rooted in his own personal support for the maintenance of a political control.[19] It is also likely that he sought to prevent a Treasury revolt on the matter and that he was very sensitive to "republican" opinion on central bank independence. This sensitivity was most clearly demonstrated in the President's misleading statements during the campaign prior to the September 1992 French referendum on the Maastricht Treaty. On one significant occasion, during a major televised debate on the Treaty, Mitterrand claimed that elected officials would establish the economic policy framework for the formation of monetary policy: an interpretation of the Treaty inconsistent with its actual provisions.[20] Nonetheless, according to both perspectives, Mitterrand was not prepared to allow demands on the maintenance of a political control — from French or other member state officials — to derail the negotiations (Bauchard 1994).

Mitterrand's insistence upon satisfying the German demand for independent central banks in exchange for a fixed date for the start of EMU — despite the impact on

the independence required in the context of the EMU project. See, for example, "Banque de France : une liberté très surveillée", *Le Quotidien de Paris*, 6.4.1993.

[17]Interview, 26.8.94.

[18]This decision-making style is commented upon in great detail by Favier & Martin-Roland (1991) and Attali (1993, 1994, 1995).

[19]However, at the same time, Mitterrand did not prevent de Larosière from publicly, and repeatedly, expressing his support for independence. See, for example, de Larosière's speeches reprinted in *Banque de France-Info*, 89-24, 1.11.89, p. 8; and 90-12, 27.3.90, p. 7.

[20]*Libération*, 4.9.92. Other leading Socialist politicians made similar claims.

the republican model and the structure of power within the French State — perhaps demonstrates the importance that he placed on European power motives. French governments sought to end the independent expression of German — that is, the Bundesbank's — monetary power. They sought to maximise control over domestic monetary and economic policy-making by sharing monetary power at the European level, as a more acceptable alternative to Bundesbank dominance. Previously, French governments had demanded that German monetary policy incorporate the interests of other EMS member states, notably French interests. Specifically, this meant lowering German interest rates. In the context of the asymmetric operation of the EMS, French governments sought maximum German financial support for the defence of the franc-mark parity and extended monetary assistance to prevent excessive currency fluctuations within the ERM margins. German refusal to create a truly symmetrical EMS — in which strong and weak currency countries were equally responsible for the maintenance of inter-parity stability — led Mitterrand to the conclusion that German power could only be reduced in the context of EMU. The French were also concerned about the international implications of German monetary power. Sharing this power in the context of EMU was deemed the only way to avoid the creation of a tri-polar world of monetary power around Germany, Japan and the United States. Power motives also shaped the perception of other leading politicians of the EMU project. The psychological impact of German reunification, and its perceived strategic impact, further increased the importance of power arguments and thus helped to convince many former sceptics in the Socialist government of the merits of the project, including Prime Minister Rocard and diminish the opposition of some government members, including Bérégovoy himself (Bauchard 1994).[21]

French opposition to central bank independence also explains the negotiation strategy of Commission President, Jacques Delors and Chancellor Kohl. The March 1988 proposal of the German Minister for Foreign Affairs, Genscher, on the creation of

[21]Interviews with leading members of the Rocard and Cresson Governments and members of

a European System of Central Banks (ESCB) stated clearly that central banks would have to be made independent.[22] Delors and Kohl's decision to convene central bankers in the Delors Committee for the initial examination of the project was clever strategy both to overcome Bundesbank reluctance on EMU but also to side-step the inevitable opposition of certain member state governments and treasuries — notably the French — to central bank independence (Dyson 1994). The aim was to accustom governments to independence via the decisions reached by their own central bankers, acting in a personal capacity. The deliberations of the Committee imposed a central banker's bias on the project and shaped future discussions (Ungerer 1993; Østrup 1995). The Delors Report recommended both the independence of national central banks and the ECB, in addition to precise measures on the manner in which this development was to be ensured.

In the negotiations on the ECB, the French succeeded in establishing a certain role for the Council of Ministers but had to accept German demands that this role be contained within a tight framework which respected price stability. First, the Council of Ministers was granted power over the establishment of agreements for exchange rate systems with non-community countries (by unanimous vote) and over the setting of parities between the ECU and their currencies (by qualified majority) (article 109.1). Second, the Council was granted the power to formulate general orientations for exchange rate policy in relation to other non-Community currencies with which exchange rate systems have not been established (by qualified majority) (article 109.2). Both these powers involve necessary prior consultation with the ECB "in an endeavour to reach a consensus consistent with the objective of price stability".[23] The Council was given no further powers, not even to submit motions on monetary policy for discussion by the Governing Council of the ESCB. Article 107 states that "neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or

Bérégovoy's support staff.

[22]For an analysis of Genscher's proposal from a French perspective see Aglietta (1988, pp. 14-19).

take instructions from Community institutions or bodies, from any government of a Member State or from any other body". In all, the future ECB was granted a greater degree of "independence" than the Bundesbank.[24]

The inaccuracy of the "garbage can" model of policy-making

This understanding of the importance of political control for most French policy-makers also has implications for the relevance of several explanations of the logic behind the move to EMU. A rational choice explanation of the interest of European governments in monetary co-operation and integration, roots this interest principally in the desire to eliminate the domestic political difficulties associated with exchange rate adjustments (Bean 1992; Østrup 1995). This approach is of particular interest in the context of this study because it stresses that French interest in EMU stemmed from the development of attitudes towards the political control of monetary policy. According to this approach, EMU became necessary when — in the context of liberalised capital flows — the EMS demonstrated its failure to maintain stability despite considerable economic convergence. March's (1986) "garbage can" model of policy-making applies: national governments sought to transfer responsibility in a policy area that had become too politically difficult to manage. This claim has a certain intuitive appeal: on the Delors Committee and at the Madrid European Council, none of those countries most in favour of EMU — France, Italy, Spain and Belgium — had distinguished themselves over the previous decades by their exchange rate policy successes.

The application of a rational choice approach to French policy on European monetary *co-operation* — notably the creation of the EMS — makes sense. As the franc tended to suffer from speculation, and devaluations were normally perceived to be

[23]Correspondingly, negotiating positions on international arrangements were to be determined by qualified majority voting (article 109.3) "to ensure that the Community expresses a single position".

[24]For a comparison of the "independence" of the ECB and the Bundesbank see Robert Elgie, "Democratic Accountability and Central Bank Independence: Historical and Contemporary, National and European Perspectives", *West European Politics*, vol. 21, no. 3, July 1998, pp. 53-76. See also Peter Loedel, *Deutsche Mark Politics: Germany in the European Monetary System*, Boulder, CO: Lynne Rienner, 1999.

a sign of managerial inadequacy, French governments had a certain political interest in constraining their margin of manoeuvre in economic and monetary policy-making within European exchange rate mechanisms in order to ensure greater monetary stability. However, the application of the "garbage can" model to French policy-making on EMU and the decision to transfer powers to an independent Bank of France and the ECB is problematic. French policy-makers did seek to transfer control over monetary policy to European institutions because it was politically difficult to manage. However, they blamed this difficulty upon the asymmetric functioning of the ERM in the context of increased capital mobility — which considerably narrowed their margin of manoeuvre in monetary policy-making — not upon their control *per se*. Indeed, the French sought to maximise their *de facto* control as much as much as possible through the creation of a more symmetric EMS.

As demonstrated in this paper, opposition to central bank independence was well-entrenched. Leading French politicians overcame this opposition not because of their decision that monetary policy was too politically difficult to manage. Rather, President Mitterrand accepted — in the face of considerable opposition — that other goals were more important than policy-making tradition. The opposition of most leading French politicians to central bank independence and the attempt to establish some form of political control over the framework of monetary policy-making at the European level, indicates their preference to maintain *as much* control over monetary policy-making as possible.[25] What the French sought to end were, first and foremost, the politically embarrassing difficulties and economic cost involved in dealing with speculation attacks against the franc, not their *de jure* control over monetary policy.

[25]The "garbage can" model corresponds neither to the views of the policy-makers themselves as to their principal motivations nor to any apparent hidden motives. At no time have French policy-makers stated that they sought to share policy-making at the European level because it was excessively controversial to deal with it at home. This approach ignores the very strong republican tradition in France of political control over all elements of policy-making and the intense opposition of the actors most affected by devaluation — the Minister of Finance and the Prime Minister — to the independence of central banks at both the national and European level. Moreover, during the three year period prior to the Maastricht Treaty, there were no speculative attacks against the franc, no franc realignments — after January 1987 — and the French economy was performing well, in spite of high interest rates, at least until 1990, long after the solidification of French policy on EMU. Furthermore, the Socialists blamed the attacks of the 1986-1988 period on the economic policies of the previous government.

Mitterrand agreed to surrender control over most aspects of monetary policy to an independent Bank of France and ECB *only* when further EMS reform to create a more symmetric system proved highly unlikely and when the Germans refused to modify their position on independence.

Qualifying neo-realist and liberal intergovernmentalist claims

Grieco's (1995) qualified neo-realist approach explains the logic behind French support for EMU principally as the search for "voice opportunities". Similarly, liberal intergovernmentalism (Moravcsik 1998) stresses the French motive of increasing their margin of manoeuvre in macroeconomic policy-making: the replacement of the asymmetric EMS by EMU as a means to ensure the adoption of monetary policies more appropriate for the French economy rather than policies that followed those of the Bundesbank. These claims conform to the monetary and economic power motives that have driven French policy-making on European monetary co-operation since the late 1960s (Howarth 1999). They also conform approximately to the attitudes of top officials in the Bank of France (de Larosière 1994) who were also motivated by their own institutional power considerations. However, Grieco and Moravcsik ignore the complexity of French policy-making and in particular the attitudes of leading Treasury officials and the Minister of Finance, who determined the details of French negotiating positions on EMU. In other words, the French policy actors which were most concerned by monetary power considerations, namely Treasury officials, were reluctant to accept the EMU project and sought to delay the move to Stage Three, given their opposition to central bank independence. Treasury policy — which in effect focused upon monetary support mechanisms, the parallel currency approach and an indefinite stage two — corresponded closely to French positions during the EMU negotiations of the early 1970s and subsequent efforts to reform the Snake mechanism and the EMS and strengthen the use of the ECU. Monetary and economic power considerations, the search for greater "voice opportunities" and increased margin of manoeuvre in macroeconomic policy-making sparked French demands for EMS reform and speculation on further monetary integration (such as Balladur's February 1988 memorandum). These considerations were not, however, sufficient to overcome opposition to the loss of *de jure* monetary control and central bank independence. Mitterrand imposed French support for EMU upon a reluctant Treasury very late in the day when, shortly before the Maastricht Summit, it became clear that the negotiations would become deadlocked given that the Germans would not alter their demands on independence (Balleix-Banerjee 1997; Aeschimann & Riché 1996; interviews). The President's precise motivations are impossible to decipher precisely. It may be, as de Larosière has claimed, that he was convinced by monetary and economic power considerations. This would lend credibility to Grieco's and Moravcsik's claims. Mitterrand and then other leading politicians were willing to transfer *de jure* control over monetary policy because, in real terms, it was very limited and because they would rather share control with eleven other member state central banks than allow the Bundesbank to continue to dominate policy-making. However, he was also likely motivated by historical considerations: as emphasised by Dyson (1999).

Conclusion

An understanding of French attitudes on central bank independence is a crucial element of an accurate analysis of French policy during the EMU negotiations and, more generally, the process leading to the Maastricht agreement. The degree of opposition to central bank independence and the willingness of French Treasury officials to delay the creation of EMU indefinitely demonstrates the difficulty of applying "garbage can" approaches (the desire to surrender control) and neo-realist and liberal intergovernmentalist approaches (the desire to maximise control) to explain the French decision to support the EMU project. As this paper has shown, a complete analysis of the development of French policy must be rooted in an understanding of the attitudes of leading policy-makers. Other analyses have stressed the importance of "sound money" attitudes in explaining interest in the EMU project (Dyson 1994;

McNamara 1998; Sandholtz 1993).[26] Indeed, the willingness and ability of the French to participate in European monetary co-operation and integration relied upon the maintenance of low inflationary economic and monetary policies. This paper demonstrates the importance of attitudes on central bank independence to the development of French policy on EMU. Given the central role played by the French, these attitudes must also be understood to explain fully the negotiations leading to the Maastricht Summit.

[26]However, Dyson, McNamara and Sandholtz all exaggerate the ideological conversion of French policy-makers to "sound money" policies.

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