Making and Breaking the Rules: French policy on EU 'gouvernement économique' and the Stability and Growth Pact

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European Integration online Papers (EIoP) Vol. 9 (2005) N° 15;
http://eiop.or.at/eiop/texte/2005-015a.htm

Date of publication in the EIoP: 19.10.2005

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Keywords

European Monetary Union, economic integration, stability and growth pact, intergovernmentalism, policy coordination, ECB, political science

Abstract

The failure of the Raffarin Government to respect the Stability and Growth Pact (Stability Pact, SP), its call for the Pact's reconceptualisation, reform of the management of the Euro-zone's monetary policy and EU-level reflation should be seen not as a significant change in French policy on 'gouvernement économique' (that is, EU-level economic governance (GE) but as a reassertion of long standing but contradictory French preferences. French policy-makers have been caught in a dilemma with regard to the construction of the Economic dimension of EMU between two strong preferences: on the one hand the supranational consequences of a dirigiste approach to macro-economic policy and, on the other hand, a Gaullist reflex to retain sovereignty as much as possible and to insist upon intergovernmentalism in EU-level macroeconomic policy-making. The 'price stability' function of GE as embodied by the Maastricht Treaty rules on convergence and the SP has been consistently marginalized in the discourse of French governments of both the Right and Left. Rather EG has been presented in five overlapping ways which can all be seen in terms of the paradox of the French pursuit of both reinforced macroeconomic policy coordination at the EU level yet also national margin of manoeuvre through intergovernmental policy making. Crucially, this paradox also explains the lack of clarity and inconsistency in French pronouncements on GE. Most elements of the 2002 Commission and Ecofin SP reform proposals and the precise elements of the Pact reform finally agreed in March 2005 met with French approval given that they render the SP more flexible allowing greater margin of manoeuvre in the development and implementation of the Broad Economic Policy Guidelines (BEPG) and the application of the Excessive Deficit Procedure (EDP), thus better meeting French intergovernmentalist preferences on EG but undermining the coordination of national macroeconomic policies that could contribute to an effective policy mix with the ECB's monetary policy.

Kurzfassung

Das Versagen der Regierung Raffarin, den Stabilitäts- und Wachstumspakt (Stabilitätspakt, SWP) zu respektieren, ihr Ruf nach einer Rekonzeptualisierung des Pakts, nach Reform des Managements der Geldpolitik der Eurozone und Belebung der Konjunktur auf EU-Ebene sollten nicht als signifikanter Wandel der französischen Politik in Bezug auf 'gouvernement économique' ('Regieren im Bereich Wirtschaft' auf EU-Ebene, GE), sondern als neuerliche Behauptung langjähriger aber widerspruchsvoller französischer Präferenzen gesehen werden. Französische politische Entscheidungsträger sind im Hinblick auf die Konstruktion der ökonomischen Dimension der WWU in einem Dilemma zwischen zwei starken Präferenzen gefangen gewesen: Auf der einen Seite die supranationalen Konsequenzen eines dirigistischen Ansatzes in der Makro-Politik, und auf der anderen Seite ein Gaullistischer Reflex zur Wahrung von Souveränität soweit möglich und die Beharrung auf Intergouvernementalismus im makroökonomischen politischen Entscheidungsprozess auf EU-Ebene. Die "Preisstabilitäts"-Funktion des "Regierens im Bereich Wirtschaft", wie in den Konvergenzregeln des Vertrags von Maastricht enthalten, und der SWP ist im Diskurs französischer Regierungen, sowohl der Rechten als auch der Linken, beständig marginalisiert worden. Vielmehr wurde GE in fünf sicht teilweise überschneidende Arten gemacht, welche alle im Sinne des Paradoxons des französischen Strebens nach sowohl verstärkter makroökonomischer Politik-Koordination auf EU-Ebene, als auch nach nationalem Handlungsspielraum durch intergouvernementale Politikgestaltung gesehen werden können. Bezeichnenderweise erklärt dieses Paradoxon auch den Mangel an Klarheit und Inkonsistenz in französischen Äußerungen über GE. Die meisten Elemente der Reformvorschläge der Europäischen Kommission und des Ecofin zur Reform des SWP und die präzisen Elemente der Paktreform, über die schlussendlich im März 2005 Einigung erlangt werden konnte, stießen auf französische Zustimmung, da sie dem SWP, bei größeren Handlungsspielraum in der Entwicklung und Umsetzung der wirtschaftspolitischen Leitlinien (BEPGs) und der Anwendung des Verfahrens bei einem übermäßigen Defizit (EDP) mehr Flexibilität geben, und folglich den französischen intergouvernementalistischen Präferenzen der GE besser entsprechen, jedoch gleichzeitig die Koordinierung nationaler makroökonomischer Politiken, welche zu einem effektiven Politik-Mix mit der Geldpolitik der EZB beitragen könnten, untergraben.

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1. Introduction

Leading French policy makers and academics have, since the start of discussions on the shape of the EMU design in 1988, been the principal proponents of the establishment of some form of ‘*gouvernement économique*’(GE – economic governance) at the EU level ostensibly and rhetorically as a counter-balance to the monetary policy-making power of the European Central Bank (ECB) and a means of encouraging coordinated reflation to ensure economic growth in the Euro-zone but also as a means of reinforcing domestic structural reform. Thus EU economic governance can be seen as a useful external constraint for French governments hamstrung by financial constraints and domestic political opposition to structural (notably pensions) reform and all French governments have defended the broader objectives of the Maastricht Treaty and the Stability and Growth Pact (Stability Pact – SP) rules (to prevent the unsustainable increase in the public debt load). However, the refusal of French governments to accept the binding nature of the precise fiscal policy rules meant to reinforce the price stability goals of EU economic governance ensures that these rules cannot be allowed to constrain French policy when they are inconvenient.

This paper analyses the diversity of ways in which French policy makers have presented the concept of European ‘*gouvernement économique*’ – as a vaguely shaped political device – beyond the core goal of price stability (the stated aim of macroeconomic policy coordination in the Maastricht Treaty and the SP) and, subject to this stability, economic growth:

1. as economic policy coordination with other member state governments and with the ECB to achieve an 'appropriate' policy mix;
2. as a more energetic EU-level interventionism designed to stimulate economic growth and create jobs;
3. as a political interlocutor of the ECB to contribute to the legitimisation of ECB monetary policy making;
4. as an exercise in political communication to reinforce the credibility of Euro-zone monetary policy; and
5. as an explicit limitation of the ECB's independence.

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

The 'price stability' function embodied by the Maastricht convergence criteria and then the Stability and Growth Pact (SP) has consistently been marginalized in French government discourse (both conservative RPR-UDF / UMP and left-wing Plural-Left) and policy on EU economic governance precisely because of the ostensibly binding nature of this function. The emphasis placed on the other forms of economic governance – notably as 'policy mix' and 'intervention' but also as political representation of the Euro-zone and even as political control over monetary policy – reflect more the domestic political and economic tradition – crucial to government-legitimisation in France – of *volontarisme* (or *dirigisme*), that is active – at least ostensibly active – state intervention in the economy.(1) While the price stability dimension of European economic governance conformed to the preferences of French governments seeking to push through significant structural reforms to lower the French public spending deficit and contain the rising debt burden, the rigid design of the SP rules contradicted French preferences in favour of intergovernmentalism and margin of manoeuvre in macroeconomic policy making. The Pact was accepted by the Juppé Government only after lengthy and bitter debate (Heipertz and Verdun 2004; Milesi 1998) to meet intransigent German demands and ensure the start of Stage Three of EMU. Thus the failure of both the Jospin and Raffarin Governments to follow the Broad Economic Policy Guidelines (BEPG) established for France and respect the Pact's 3 per cent deficit criterion and the agreement of the Raffarin Government to German government demands that the Excessive Deficit Procedure (EDP) be suspended, the reconceptualisation of the SP and its attack of the Commission for its legal defence of the existing Pact should not be seen as a reconceptualisation of French preferences with regard to economic governance. The French government's Pact reform proposals and its support for most elements of the Commission's reform package of 2002 and the March 2005 reforms demonstrate the preference for more flexible SP rules, the application of which should be subject to national political and economic considerations. The elaborate nature of the potential flexibility in the application of the reformed SP's rules thus embodies the French paradox of wanting GE yet insisting upon intergovernmental policy making and margin of manoeuvre.

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

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

2.1. Five French visions of 'economic governance'

What various French proponents mean exactly when they espouse GE has been unclear even though there has been a limited attempt by French academics and government economic advisors to explore possible GE scenarios (see, notably, Boyer 1999; Boyer and Dehove 2001). Different governments — indeed different policy makers — place different emphasis on different kinds of coordination and the appropriate role to be fulfilled by the Eurogroup.

There are five understandings of 'economic governance' – some overlapping; some contradicting – that can be discerned from French policy statements over the past fifteen years. These all relate to the form of GE that was explicitly established by the Maastricht Treaty and the SP: GE as coordination of macroeconomic policies to achieve greater price stability — to support fiscal policy coordination (which is supposed to involve binding rules and even fines). Thus GE is expected to reinforce the primary – low inflation – objective of the ECB (with economic growth and employment as a secondary objective), promote a positive coordination role between Ecofin and the ECB and prevent individual member states ‘free-riding’ off the low inflation achieved by the central bank and other Euro-zone member states. GE as the achievement of price stability has involved the supposedly 'hard' coordination of the convergence criteria rules (with rules for the imposition of fines established in the Stability Pact) and ‘soft’ coordination consisting of the mutual surveillance of national macroeconomic policies begun in Stage One of EMU in 1990 with the establishment of Broad Economic Policy Guidelines and the requirement that member states prepare and submit medium term reports, which was reinforced by Regulation 1466/97 of the SP that established the Stability and Convergence Programmes . For economists, the price stability elements of the treaty and the SP are designed to prevent the dangers of a ‘chicken game’ between fiscal and monetary authorities and of certain participating states ‘free riding’ off the stability achieved by other member states.

1. No French politician would claim that GE exists only to achieve price stability. Thus this understanding of GE associated with the application of Maastricht Treaty and SP rules is always presented in the context of GE as achieving an ‘effective policy mix’ which aims to promote a more active coordination of member state policies to increase economic growth and employment creation in the context of the ‘sound money’ goals of the EMU project. This is about qualifying / counterbalancing – but not challenging – the drive for monetary stability. This form of GE would involve a positive coordination between the Council and the ECB — which also has for secondary goals the promotion of employment and investment in the Euro-zone. Such emphasis on effective policy mix can either involve an acceptance of an ECB (monetary policy) leadership role (thus the Council places clear limits on its pursuit of improved economic growth and this does not become inflationary) or a direct challenge to the ECB leadership role, emphasising instead the need for a tighter coordination of national macroeconomic policies (although not necessarily via precise binding rules) to achieve stronger economic growth and employment creation. French government rhetoric and policy has presented both these forms of ‘policy mix’ while tending to favour the latter.
2. The second version of GE that can be discerned in French government rhetoric and policy is more interventionist involving EU job creation strategies and infrastructure programmes. This could involve varying degrees of intervention in the context of the EU's employment and social chapters or in terms of EU sponsored investment. To the extent that intervention involves reflation and thus a direct challenge to the price stability goals of the ECB, this understanding of GE is likely to involve to some extent the fifth vision noted below.
3. GE has also been perceived and advocated as a means to improve the credibility of ECB monetary policy. This form of GE can link in with the price stability version of GE embodied by the Maastricht Treaty and SP rules by reinforcing the credibility of the ECB’s efforts to manage Euro-zone monetary policy. Crucailly, this form of GE concerns communication — the coordination of government voice regarding ECB monetary policy and desirable economic policy. There is a problem of many voices making different pronouncements on ECB policy making: notably Chancellor Schröder on the positive aspects of a weaker euro in September 2000 and the ongoing public criticisms of ECB management which could be blamed for contributing to the weakening of the euro and the German Chancellor’s more recent complaints about excessively high ECB interest rates. This version of GE involves the creation of a single political interlocutor of the ECB, which focuses on maintaining good relations with the central bank. The creation of this single interlocutor would also contribute to the improved coordination of the international representation of the Euro-zone.
4. This is linked to a fourth version of GE (compatible with the previous versions) which involves embedding the independent ECB in a political framework: to reinforce its democratic legitimacy and public accountability. This version provides a partial response to those who express concern for the problematic existence of a single currency without a single state.
5. Finally, and more specifically, French politicians have challenged explicitly both the goals and independence of the ECB. Proposals linked to the Jospin Government have called for the reformulation of Euro-zone monetary policy making along British / Swedish / Danish / New Zealand lines, granting the Eurogroup the power to set the ECB's inflation target, thus effectively qualifying the autonomy and 'sound money' goals of the central bank. President Chirac has more recently (14.7.2004) challenged the low inflationary bias of the ECB.

3. A history of French use of the term '*gouvernement économique*'

3.1. The roots of French interest in economic governance: qualifying central bank independence and sound money goals

Initial French interest in EU-level economic governance – in the context of the discussions and negotiations on EMU in the late 1980s to the final agreement on the design of EMU at the December 1991 Maastricht Summit – stems in large part from widespread French opposition to central bank independence required by the German imposed design for EMU and concern for the need for an effective policy mix which involved containing ECB monetary policy in a broader macroeconomic policy established by governments. There are four roots to this opposition (Howarth 1999): the French republican tradition; the belief that control over economic and monetary policy should not be separated; the perception — rooted in the history of French political economy — that low inflationary economic policies can be maintained by democratically elected officials, guided by enlightened bureaucrats and advisers (notably those from the French Treasury and, in particular, the elite corps of Financial Inspectors); and power considerations within the French administration. None of the leading French political parties supported the concept of central bank independence until 1991 either at the national or European level (Balleix-Benerjee 1997). The Neo-Gaullist RPR was opposed for nationalistic reasons (despite Edouard Balladur's own rather vague recommendation of a European Central Bank to manage a European 'common' currency in his January 1988 memorandum) and sought the maintenance of Council control over a future European monetary policy. The Socialist party placed stress on social goals and the appropriate policy mix, although was forced to accept central bank independence (both the ECB and NCBs) 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.

Pierre Bérégovoy, Minister of Finance from 1988-1992, sought to counter what he saw as the excessive influence of the national central bank governors in the design of EMU. Bérégovoy repeatedly raised the need for a political counter-balance to the ECB in order to achieve an appropriate policy mix at the EU level (Howarth 2001). 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 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.(2)

Moreover, the Treasury proposed that the European Council, on the basis of Ecofin Council reports, define the broad orientations for EMU and the economic policy of the Community. Within these orientations, Ecofin would co-ordinate the policies of member states and make recommendations to individual governments and the ECB would manage European monetary policy. Bérégovoy and Treasury officials also argued in favour of giving the ministers of economics and finance control over exchange rate policy.(3) 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.(4)

The French draft treaty had to respect the basic conclusions of the Rome I European Council, in which President François Mitterrand accepted the German imposed requirement of ESCB (ECB and national central banks) independence given his overriding ambition to press ahead with EMU.(5) Article 2-3.2 of the French draft treaty 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 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, of course, 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.(6)

The French Socialist-led government placed much less emphasis upon the need for coordinated macroeconomic policy among future EMU member states, without which an effective policy mix with the single monetary policy would be impossible to achieve.(7) The French, however, were willing to accept German demands for treaty based rules on macroeconomic (and crucially fiscal) policy convergence (differences over the need for which had long been a point of contention between the two countries). Ironically, given subsequent French government difficulties keeping the deficit below 3 per cent, French negotiators were flexible on the inclusion of the convergence criteria and even proposed the precise 3 per cent figure. In 1991, France was one of the few EC member states to respect all five criteria and, until that date – apart from 1983 – since the Second World War, France had avoided a public spending deficit greater than 3 per cent.(8)

3.2. The French conservative rejection of precise rules

With the marked deterioration of the French economic situation from 1992 and the dramatic rise of the public spending deficit, the Balladur-led RPR (Neo-Gaullist)-UDF government from 1993-1995 railed against the constraint of the convergence criteria and the need to respect the 3 per cent figure. The government nonetheless promised domestic austerity measures in order to qualify for Stage Three of EMU, which was the overriding priority imposed by President Mitterrand. During the 1995 presidential election campaigns, both Chirac on the right and Jospin, the leading candidate on the left, manipulated the economic impact of the European constraint against Balladur, the supporter of financial orthodoxy. While the Juppé Government (1995-97) pursued politically painful domestic reform in order to ensure French participation in EMU's Stage Three, it challenged German efforts to impose the Stability Pact which established specific procedures for the warning and punishment of countries exceeding the three per cent deficit limit (Heipertz and Verdun 2004; Howarth 2001; Puetter 2004; Milesi 1998; Steclebout 2004). Juppé insisted upon the addition of the word 'Growth' to the Pact's official title demonstrating the importance attached to more activist forms of economic governance and margin of manoeuvre by the Neo-Gaullists. At the time of the December 1996 Dublin European Council, Juppé also claimed victory in securing a general agreement to create a 'Euro-Council' — consisting of Euro-zone ministers of finance — which would form the core of economic governance, a reinforced macro-economic policy coordination among Euro-zone governments and an improved dialogue with the ECB and thus an improved policy mix. However, the Juppé Government spelled out neither the nature of the improved policy coordination amongst member state governments and how this might go beyond the existing rules in the Maastricht Treaty and SP, nor why or how the improved dialogue with the ECB would have any impact on European monetary or national macroeconomic policy making.

3.3. The Jospin Government and 'gouvernement économique'

The French Socialists made EU economic governance a central element of their policy on EMU during the campaign prior to the June 1997 National Assembly elections.(9) The Socialists had been radicalised in opposition, during the recession of the early- to mid-1990s which was blamed widely on the high interest rates required to keep the franc in the ERM and the cut-backs required to meet the deficit convergence criterion of the Maastricht Treaty. The Socialists' joint election manifesto with their Plural Left coalition partners pulled them further to the left. They forwarded European economic governance as a means to promote growth and employment, goals which were ostensibly given equal weight to the 'growth and stability' goals in the Amsterdam Treaty due to Jospin's insistence on parallel resolutions. Rhetorically, the construction of GE was linked to the establishment of a *'euro-social*': an EU level economic and monetary policy mix that would not just counterbalance but also challenge the 'sound money' policies pursued by the ECB with collective EU-level interventionism. The Jospin Government also made a deliberately symbolic gesture de-emphasising the stability element of economic governance and emphasising government margin of manoeuvre: France was the only aspiring participant of EMU to fail officially to respect the 3 per cent deficit figure for its 1997 budget — the 3.1 figure announced demonstrated French *pique* at German insistence that the deficit criterion be respected for participation in EMU. However, the overriding objective of starting EMU by 1999 – the design of which the Germans would not allow to be altered – demonstrated the hollowness of the Jospin Government's rhetoric.

Socialist Finance Minister Dominique Strauss Kahn succeeded in achieving a more formal agreement on the creation of what he labelled the 'Euro-Council' (*conseil de l'euro*) in December 1997 which the Jospin Government widely presented as a manifestation of economic governance. This body was subsequently relabelled the Euro-X due to German opposition that the label Council incorrectly suggested that this new body had legal status. This body became the Euro-XI following the determination of the number of member states participating in EMU and was subsequently officially relabelled the Eurogroup during the French Council presidency during the second half of 2000. Leading French officials also made the exaggerated claim that the creation of the new Economics and Financial Committee, the rebaptised Monetary Committee, helped to reinforce the control of the Euro-XI over the economic framework in which monetary policy was made, thus forwarding the construction of EU economic governance.(10)

Emphasising the role of the Economic and Financial Committee was – as with the Eurogroup – important to the Jospin Government which sought to demonstrate and enhance the importance of intergovernmental decision-making in EMU as a counterbalance to supranational rules.

Other governments (notably the German and the British) feared that the French Socialist government of the day had too Keynesian a vision of appropriate policy mix and intervention that would undermine the price stability goals of the ECB. The Plural Left Government's rhetoric (notably that of certain government ministers including Prime Minister Jospin himself and the powerful Social Affairs Minister Martine Aubry) emphasized a much more interventionist GE linked closely to an activist EU employment policy. However, the Jospin Government's preferences in this area were not met: the Employment Chapter of the Amsterdam Treaty, the Luxembourg and Cardiff Jobs Summits of November 1997 and March 1998, and the Cologne and Lisbon Summits of June 1999 and March 2000 established a non-binding 'soft' or 'open' form of coordination that fell far short of the kind of intervention sought by the French.(11) Nonetheless, EU employment policy served its legitimising purpose at the domestic political level and French Socialist ministers consistently stressed — if not exaggerated — the significance of developments in this area (Howarth 2002a/b).(12) However, in these areas limited developments owed less to French preference for intergovernmental policy making at the EU level than fundamental disagreement over policy design with other member states.

Interventionist Jospin Government rhetoric effectively damned the term 'economic governance' in the eyes of several other EU governments, which helps to explain why the term was largely absent from French government rhetoric during the French Council Presidency of the second half of 2000 (although the state sponsored studies on GE produced in the lead up to and during the Council Presidency used the term quite freely). Nonetheless, the discourse of Jospin, the Socialist Minister of Finance Laurent Fabius and President Chirac regarding the role of the Euro-XI and economic policy coordination continued to focus on all versions / logics of GE with the exception of the more interventionist third.

In order to strengthen its hand in discussions with its EU partners, in 1998 the Jospin Government created a group of the French Planning Commission to examine possible scenarios of improved economic policy coordination in the Euro-zone. This group was led by Robert Boyer, a leading academic critic of the lack of economic policy coordination at the European level (see Boyer 1999; Boyer and Dehove 2001), and the group's May 1998 Report demonstrated both the problems of inadequate coordination and the potential paths for coordination. Furthermore, Jospin called upon the Economic Analysis Council linked to the Prime Minister's office to examine economic governance and to produce a report at the start of the French Council Presidency, to provide the intellectual backing for the project. The report by Pierre Jacquet (1999) argues that economic growth over the upcoming decade would be considerably lower without tightened coordination and the European partners would not be able to meet their goal of 'full employment' by 2010 (set by the March 2000 Lisbon European Council). It should be noted that Finance Minister Fabius did not officially endorse this report.

Plural Left Government rhetoric on the need to tighten macroeconomic policy coordination did not result in improved efforts to meet fiscal targets set out for France in the Broad Economic Policy Guidelines and ensure that France would balance its budget by 2004. The Jospin Government consistently maintained the rhetoric of national margin of manoeuvre, promising a 1 per cent rise in government expenditure, whereas the Juppé government had sought an expenditure freeze. In December 1998, the Jospin Government announced its annual medium-term stabilisation plan for a sustainable drop in the public deficit. The increase in government expenditure was to be only 1 per cent over 2000–2, or 0.3 per cent per year — a reinterpretation of the previous promise — lowering the public deficit from 2.3 per cent in 1999 to 0.8–1.2 per cent in 2002, depending on growth rates. Relatively strong economic growth during the first three and a half years of office enabled the Jospin Government to delay more substantial, sustainable cuts until after the 2002 elections. The debate in early 2000 on the unexpectedly large budget revenue — the ‘*cagnotte*’ — due to stronger than predicted economic growth is revealing. The use of the *cagnotte* became a symbol of the Jospin Government’s priorities. Rather than using it to further reduce the deficit, Jospin was constrained by the Socialist left and the Plural Left coalition partners to increase government spending. Likewise, the government sought to prioritise income tax cuts—announced on 31 August 2000—for the first time in 15 years. In doing so, the Jospin Government failed to abide by its earlier deficit cutting promises as outlined in the Broad Economic Policy Guidelines (BEPG), setting the country up for the future infringement of the rules and demonstrating the problems of the Pact as insufficiently ‘symmetric’, failing as it does to enforce budget cutting during periods of strong economic growth. Thus the Jospin Government effectively demonstrated its disapproval of the constraints of the existing GE with its bias in favour of structural reform to achieve sustainably low budget deficits and debt loads while effectively contradicting its official calls for tighter macroeconomic policy coordination.

3.4. The French Council Presidency and the pursuit of economic governance

In his June 2000 speech before the German Bundestag, President Chirac called for improved economic policy coordination and a stronger Euro-XI as a key component of his vision of a 'pioneer group' needed to make EMU work. In effect, emphasis was placed on the first, third and fourth versions of GE. The French Council Presidency thus had two specific goals: improve the visibility of the Euro-XI and improve economic policy coordination. Progress in both goals was limited during the French presidency but potentially significant. Regarding the first goal, the Jospin Government had failed in the French aim to give the Euro-XI a legal personality of its own. Thus all Euro-XI agreements had still to be ratified by Ecofin. Also, Ecofin remained very much the most important body for coordination (including discussion of the Stability / Convergence Programmes and the BEPG which were also prepared by the ESCB members not participating in the Euro-zone and thus not attending the Euro-XI meetings). Nonetheless, the French scored a minor victory in convincing the Euro-zone governments to relabel the Euro-XI the Eurogroup. The French also succeeded in bringing an agreement to produce a clearer, published agenda for Eurogroup meetings, to have longer meetings, to discuss more current matters at them and to improve their communication output (notably through the organization of a press conference immediately after the Eurogroup meeting, prior to the Ecofin the following day).(13) With regard to Eurogroup-ECB relations, Laurent Fabius — unsuccessfully — sought the organisation of more frequent bilateral meetings between the presidents of the two bodies. The aim here was to improve the coordination of member state positions on ECB policy making and channel this through the Eurogroup to the ECB president. Fabius also blamed the weakness of the euro on the lack of strong political leadership in the Euro-zone, the absence of an EU equivalent to the American Secretary of the Treasury.(14) He raised the idea of a Mr. Euro — previously introduced by the French — to be held by an individual over a period of several years and responsible, in conjunction with the Council presidency, for the international representation of the Euro-zone (an economic policy equivalent to the Mr. CFSP, the EU's foreign policy representative). The campaign for a Mr. Euro by the end of 2001 was intensified by the Belgian Eurogroup President. The Draft Treaty Establishing a Constitution for Europe includes a provision establishing a two year presidency for the Eurogroup.

With regard to the second goal of the French Council Presidency, some progress was achieved when the Euro-zone finance ministers reached an unbinding agreement to improve the coordination of economic policies and statements on the major economic issues of the day and of member state analyses of economic developments in the Euro-zone. The official French aim was to improve the coordination of these analyses with the policy 'map' being developed by the ECB in order to give clearer signals to financial analysts. However, the Eurogroup's communication problem arguably worsened during the French Council Presidency — with notably different views on the decline of the euro and attacks on Duisenberg's competence as ECB president — contributing to the general state of disorder and contradicting efforts to construct the third version of GE (see Howarth and Loedel 2003). Economic governance as credibility booster is always potentially weakened by domestic political and economic considerations which take priority in the rhetoric of the political leaders of largest EU member states. Another perceived coordination problem of the Eurogroup concerned its failure to be more active in intervening and reaching agreements with the United States and Japan to boost the euro — using the new Article 109 provisions on exchange rate interventions agreed at the Amsterdam Summit.

Despite the efforts of French and other governments there were no great strides towards tightened coordination. The Eurogroup was clearly more visible than the Euro-XI, discussing a wider range of problems, thus contributing to the development of the third and fourth versions of economic governance and the legitimisation of the ECB. Peer pressure in the Eurogroup and the open coordination method more generally failed to prevent delays to major structural reforms in several countries, including France. This in turn placed the ECB in the spotlight — along with the Commission — as the main watchdog of price stability in the Euro-zone and increased the probability of open verbal conflict. The core price stability goal of economic governance was clearly not prioritised by the Jospin Government — despite the constant assurances of Socialist finance ministers to their Euro-zone counterparts and the international financial markets.

The further qualification of the price stability goal of economic governance was reiterated in the comments by French officials relating to the fifth version of economic governance. On 23 January 2002, Pascal Lamy, the Socialist French commissioner for trade and Jean Pisani-Ferry, then the head of Prime Minister Jospin's Economic Analysis Council (*Conseil d'analyse économique*), published (in a 'personal capacity') a pamphlet calling for the Eurogroup to be assigned the responsibility for setting the inflation target that the ECB is expected to meet (Lamy & Pisani-Ferry 2002). The authors argue that the ECB's pursuit of low inflation has been too restrictive and has hindered economic growth in the Euro-zone. The European monetary policy model should be re-established along the lines of fiscal-monetary authority relations in Britain, Denmark, Sweden and New Zealand, where the Treasury sets the inflation target that the central bank is expected to follow.(15) The authors argue that the British target of 2-3 per cent, set by the government, has proved its merit in comparison to the more restrictive 2 per cent set by the Governing Council of the European Central Bank, with its singular objective of price stability. The authors note that ECB's structure had been determined by the need to reassure the German public that it would be as tough on inflation as the Bundesbank.

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

3.5. The Raffarin Government and GE

3.5.1. The 2002 election campaigns: tax cuts above the European constraint!

During the 2002 presidential and legislative election campaigns, the principal economic policy differences between Jospin and Chirac and the Socialist Party / UMP camps had to do with tax and the European constraint (Howarth 2004). With regard to the former, Chirac and the UMP (the Union for a Presidential Majority) played the more traditional tune of the Right promising significant cuts in taxes on income (a third in the life of the next government and five per cent immediately), corporate (to the EU average) and value added taxes (on CDs and the hotel sector). With regard to the latter, Chirac and the UMP took a more ambiguous line: accepting the need for budgetary restraint and accepting the desirability of the goal of balanced budgets while refusing to commit to the balanced budget goal of 2004, to which the Jospin Government had agreed. There was a marked element of rebellion in Chirac's policy: challenging the constraints of the Euro-zone's Stability Pact if these constraints made the fulfilment of his promises on tax cuts and government spending unrealistic. On the other hand, Jospin's election campaign platform – prepared by the 'social liberal', 'modernising' faction of the Socialist party – defended the Stability Pact rules and the need for France to abide by them and challenged Chirac's and the UMP's tax cutting plans as unworkable. Therefore — and this has to be the most significant irony of the electoral campaign — Jospin and the Socialists found themselves — uncomfortably — in the completely reverse position from where they had been in the Spring of 1997: defending the constraining rules of EMU and the Stability Pact which they had previously attacked in their campaign for a '*euro social*' and presenting themselves as more financially responsible than the conservative opposition.

Chirac continued to speak with a forked tongue for domestic public and European political elite audiences. At the 16 March European Council summit, Chirac and Jospin confirmed France's commitment to bring public finances 'close to balance or in surplus' by 2004. In the domestic political debate, Chirac qualified his commitment to this goal given his promises on tax cuts but also, it might be suspected, to demonstrate traditional Gaullist disdain for any external (European) constraint on domestic policy. Furthermore, Chirac was wary of the experience of the mid-1990s when the Juppé Government was forced to increase VAT by 2 points to satisfy the Maastricht criteria, a move that contributed to the Right's defeat in the 1997 legislative elections. Chirac indicated on several occasions that France's pledge to her European partners and the Commission to balance the budget by 2004 would have to be put back to 2007 to allow for his spending plans. In direct contradiction to the President's commitment of 16 March, Chirac's camp calculated that his programmes and increased pension costs would increase state spending by €35 billion. However, his opponents argued that it would cost a great deal more (€56bn (£34.5bn)) (*Financial Times*, 22 March 2002). The European Commission in the meantime predicted a French deficit of 1.9 for 2002.(16) In the lead-up to the legislative elections, at the 4 June Eurogroup meeting of Euro-zone finance ministers, Francis Mer sought to persuade his Euro-zone counterparts to postpone debate on national economic policy guidelines until after the French elections.(17) As with Chirac, Mer made careful use of language which conformed well to established French policy on GE:

> *C'est l'objectif qui compte (celui de l'assainissement budgétaire), ce n'est pas tel ou tel chiffre précis, tel ou tel pourcentage. Ne nous accrochons pas à une date symbole. … Il faudra qu'avec quelques autres pays on essaye de trouver un langage commun …, quitte à le faire dans des termes qui permettent d'assurer le maintien du cap sans forcément être obligé de respecter à la lettre quelque chose qui a toujours été exprimé en termes de principe.*(18)

Nonetheless, Mer maintained France's commitment to respecting the date:

> *Si l'on veut, l'on peut. C'est une question de choix, c'est une question de décisions, c'est une question de volonté. Tout est possible à condition de ne pas casser la baraque, c'est-à-dire de ne pas casser une dynamique de croissance.*(19)

Like Chirac's calculations, Jospin's policies assumed, over optimistically, that economic growth would reach an average of 3 per cent over the following five years. Jospin insisted on sticking to the 2004 schedule to balance the public budget, while claiming that public spending would rise on average 1.5 per cent a year. To have any chance at success in balancing the budget, Jospin would have had to consecrate the entirety of his margin of manoeuvre created by economic growth from 2002 to 2004 to lowering the public spending deficit. Only after that date would he begin to put into effect his tax cutting plan. Jospin presented himself as the responsible candidate, who might be tying the government's hands, but only doing so temporarily.

3.5.2. Breaking the rules yet defending economic governance

Given the prioritisation of domestic political and economic concerns and much emphasised dislike for binding supranational macroeconomic policy rules, there was strong reason to suspect that following the start of 1999, when the going got tough, the French would start breaking rules which indeed they did. With the failure of the Jospin Government to make sufficiently large cuts to the budget, the economic slow-down from 2001 resulted in the rapid rise of the deficit towards the 3 per cent figure, breaking this figure for 2002 (at 3.2), despite a much lower previously forecasted figure and again in 2003 (4.2) and in 2004 (3.7) and most certainly in 2005. In the meantime, French debt rose from 56.8 per cent in 2001, exceeding the 60 per cent figure in 2003 (63.9), reaching 65.6 per cent in 2004 and set to rise again in 2005 . With the launch of the Early Warning and then Excessive Deficit procedures against France and the stubborn refusal to move rapidly to cut the deficit, President Chirac and the Raffarin Government joined the growing ranks of those calling for a temporary ‘softening’ of the SP (*Le Monde*, 14.7.2003) and even a rethink on the Pact.

German failure to meet the 3 per cent deficit figure has given the French greater political margin of manoeuvre on the rules — and the two countries formed a tax cutting and public spending alliance — much to the anger of the smaller Euro-zone states and pro-EU politicians in France, thus emphasising the more interventionist form of economic governance. The Franco-German growth initiative of 18 September 2003 attacked the Commission for being excessive in its drive for budget cutting and ‘anti-industry’, pledging further tax cuts in both countries and 10 major jointly funded infrastructural projects (*Le Monde*, 19.9.2003). The growth initiative demonstrates the extent to which French governments, be they on the Right or the Left, still feel the need to resort to deficit spending in order to stimulate the economy. This was followed by the announcement later in September of France’s budget for 2004 incorporating further tax cuts despite promises at the Stresa Ecofin meeting by Francis Mer that the French government would ensure that its deficit would be brought below 3 per cent in 2005. While it is likely that the French government would have accepted to move to the provisions of TEC articles 104.8 and 104.9 provided that the Council recommendations were framed sufficiently leniently, the French government then accepted the Schröder Government’s demands that the application of the Excessive Deficit Procedure (EDP) be suspended and joined with the Germans to force through the suspension at the 25 November Ecofin meeting.(20)

While breaking the Pact’s rules and agreeing to suspend the EDP, the Raffarin Government has continued its efforts to reinforce the principal intergovernmental forum for Euro-zone coordination: the Eurogroup. With EU enlargement, the French see the Eurogroup as assuming even greater importance as an informal forum for discussion to counterbalance the potential dilution of French influence in the context of Ecofin meetings. The Franco-German proposal on the reinforcement of the Eurogroup to the EU Convention met with the objection of the euro-outsiders. The French sought to enable Ecofin to meet in a forum consisting of only the ministers of finance of the Euro-zone member states, thus enabling them to make legally binding decisions without the approval of the Euro-outsiders. These proposals were not included in the Draft Treaty Establishing a Constitution for Europe (2003) – not only because of the objections of the Euro-outsiders but also because of the problematic precedent that it would set for the organisation of other councils of ministers – and the French have had to content themselves with the limited reinforcement of the Eurogroup including the creation of a Mr. Euro who will chair meetings for two years and provide a political face to the Euro-zone (Convention Working Group on Economic Government, Report 2002; Draft Treaty Establishing a Constitution for Europe 2003).

3.5.3. Raffarin Government policy on Stability Pact reform

Official French policy on the SP insisted that the non-application of the EDP did not amount to an abandonment of France’s commitment to the Pact (*Le Monde*, 26.11.2004). The Raffarin Government opposed the elimination of the Pact. However, it insisted upon a more flexible application that would – officially – take into consideration the economic situation facing a participating member state and – in practice – allow more scope for political bargaining and thus margin of manoeuvre for French (and other) governments. The Raffarin Government was vocal in its criticism of the Commission’s defence of the Pact, seeing as counterproductive its decision to take Ecofin to the European Court of Justice for the non-application of the EDP.

Both the Jospin and Raffarin Governments let it be known that a reformulated Pact should take into consideration deficit spending on public investment (notably physical infrastructural and research spending) – eliminating this for total public deficit considerations – which would allow for greater margin of manoeuvre. This was most recently defended through a report published 18 November 2004 by economists in the Economic Analysis Council (*Conseil d'analyse économique*) attached to the Prime Minister's office. Allied to the Schröder Government, the Raffarin Government insisted on discounting public spending on research – especially given the EU's official (Lisbon) research spending objective of 3 per cent of total GDP by 2010. The Raffarin Government also accepted (*Le Monde* 3.12.04) the Schröder Government's insistence that all national spending on EU engagements be taken into consideration when judging national deficits: thus allowing net contributors to the EU budget like Germany but also France more leeway in comparison to net recipients. With the largest total defence budget in the EU, President Chirac and the Raffarin Government also demanded that defence spending be excluded from deficit calculations (Chirac 14.7.2004).

French governments – both left and right – supported a more flexible medium term target that does not insist upon balanced budgets, as in the original Pact, which is designed to reduce debt in the long term. The French would allow each country to have its own medium term objective which would be set on the basis of calculated debt but also hidden debt, notably future debt connected to spending on pensions and health. The official aim here was to allow compensation of those MS which undertook structural reforms which would have budgetary effects only in the long term and thus allow them to increase their medium term deficit target. This proposal was linked to efforts on the part of the Raffarin Government to reform civil service pensions. However, such a recalculation of MS medium term targets in effect would increase government margin of manoeuvre by submitting the determination of the medium term target exclusively to ministerial judgement and thus abandoning completely the automaticity enshrined as a central tenet in the Pact. Both the Jospin and Raffarin Governments were officially hostile (Treasury officials, interviews April and May 2005) to proposals to render the Pact more 'symmetric' by increasing the constraint on fiscal policy – forcing the further reduction of deficits – during periods of economic growth. This constraint was considered politically unacceptable to governments wanting to ensure maximum margin of manoeuvre in fiscal policy.

The Raffarin Government also expressed reservation with regard to proposals by the Commission and leading European economists (for example, Charles Wyplosz) that increased focus should be placed on debts rather than deficits. It has been suggested that MS with debt levels below the 60 per cent threshold be allowed the possibility of higher deficit levels thus effectively rendering more complex and subject to political judgement the application of the EDP, emphasising the 'soft' law elements of the Pact, rather than the 'hard' law dimension of the current rules. As already noted, French debt load had risen rapidly above the 60 per cent mark. While the Raffarin Government accepted the consideration of debt in the more flexible determination of country-specific medium term objectives, the government opposed (*Le Monde* 3.12.2004) the use of the debt figure to determine the application of Pact deficit procedures. This opposition is rooted in the manner in which the French government has dealt with the increasing burden of civil service retirement funds: through the creation of a retirement reserve fund (*le fonds de réserve des retraites*) which in effect transforms a 'hidden' debt into a calculable debt.

The Raffarin Government was prone to accept those elements of the Commission's 2002 reform package which in effect accepted a more flexible interpretation of the Pact, while rejecting Commission proposals to strengthen the sanctions against non-compliant member states. In 2003, Ecofin (Ecofin 2003b) agreed several modifications to the Pact in line with the Commission's package although there was on-going debate on the need for additional reform since the Council's suspension of the EDP in November 2003. Ecofin, in line with the Commission, emphasised a more flexible interpretation of the Pact's medium-term rule to take into account the size of public debt, the economic cycle and the quality of public investment. The full Commission reform package includes the following:

- whether the budget is close to balance or in surplus should be assessed in cyclically adjusted terms;
- states in breach of the medium term rule should be required to reduce their deficit by 0.5 per cent of GDP per annum;
- member states are to avoid pro-cyclical budgets in good times and the Pact is to be used to the fullest to prevent this practice;
- regard is to be had to state-specific circumstances in relation to the long-term sustainability of public finances, the maintenance of safety margins to avoid a breach of the 3 per cent ceiling, and the maintenance of coherence between the evolution and quality of public finances and the medium term rule. This would allow states with healthy budgetary positions and a low level of public debt to run a deliberate but temporary deficit, provided the additional resources generate economic and budgetary benefits (Begg et al, 2003: 75);
- more attention is to be paid to the longer-term sustainability of public finances in particular in relation to ageing populations.
- the Pact should contribute to a satisfactory pace of public debt reduction.

- a code of conduct for improving the quality of budgetary statistics, which re-emphasised the Commission's role as statistical authority within the context of the EDP, and the responsibility of the states to provide timely and accurate data. However, the autonomy of the Commission in using these statistics would not be increased.

While several of these reform proposals appeared to contradict French preferences, only one of them might be considered more constraining on French government policy making: the required 0.5 per cent annual cuts to the deficit in the event of a breach of the medium term rule. But this would not be accepted as absolutely binding. The third and sixth proposals restated existing objectives. The first and fourth conformed largely to French reform objectives. The requirement to improve the quality of budgetary statistics and allow a strengthened Commission role as a statistical authority had potential implications in terms of the role of peer pressure in macro-economic policy coordination but did not impose an immediate or precise restraint on national macroeconomic policy making. The Commission's decision to take the Greek Government to the ECJ for falsifying its budgetary figures and the possibility of imposed fines suggests only a moderately reinforced constraint on governments.

France formed a pro-reform alliance with the Schröder Government, which despite being reinforced by the Berlusconi Government's demand for Pact reform and the empathy of the Blair Government, was resisted by other MS. The necessity of reform was then weakened by the Commission itself, which, on 20 November 2004, announced that it intended (from mid-December) to suspend the application of the Excessive Deficit Procedures against France brought against it in the Spring of 2003 (the matter had been blocked by Ecofin since 25 November 2003). This decision was taken despite the near certainty that France would announce a budget deficit above 3 per cent for 2004 and only succeed in bringing its deficit below the threshold in 2005 thanks to a massive transfer to the State budget of pension funds from the large public utilities, EDF and GDF. It should be recalled that the Jospin Government undertook a similar measure in 1997-8 with France Telecom pension funds in order to ensure that France qualified for participation in EMU's Stage Three.

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

- While the official deficit threshold will be maintained, there will be a derogation – allowing a member state to exceed temporarily the 3 per cent figure to a limited extent – in the event of slow economic growth (no precise figures being provided).
- A temporary (period of time not defined) deficit will not be declared excessive if the member state concerned devotes considerable public expenditure to one of several 'other relevant factors' 1) investment; 2) research and development; 3) structural reforms (only those which have a long term impact on the solidity of public finances will be taken into account); 4) EU policy goals; 5) European unification; 6) international 'solidarity' (which the French insisted would include spending on both aid and military). Further consideration would be given to these ill-defined spending categories. Once the 3 per cent deficit limit is reached the Council and Commission will examine the extent to which spending on these 'pertinent factors' contribute to the deficit in question.
- A member state which has achieved a public spending surplus during periods of relatively strong economic growth and which has a relatively low debt burden will be treated more leniently
- A member state exceeding the 3 per cent threshold will obtain a delay of 3 years to bring its deficit down again. The objective remains to bring the deficit below the threshold within a year following the launch of the EDP but a government can obtain a delay of a year if there are particular circumstances that should be taken into consideration (notably slow economic growth). Before advancing to the sanctions procedure the Commission will prepare a report to determine whether a supplementary delay of a year should be allowed.
- Following the identification of an EDP by the Commission *and the Council*, a member state will have 6 months (not just the current 4) to propose corrective measures.
- As in the Commission's recommendation, member states are to avoid pro-cyclical budgets in good times (when real growth is superior to potential growth) but there is to be no obligation for these member states to achieve a budget surplus.
- More effort will be demanded from member states with a relatively heavy debt burden which have not undertaken structural reforms.
- The mid-term objective of each member state will be determined with regard to two factors: 1) those member states with low debt levels and strong growth are allowed a medium term deficit of 1 per cent; 2) those member states with high debt levels and weak growth prospects will have to move to a deficit close to balance or in surplus (as is currently the case but this objective will be redefined every four years). Member states which have not yet attained their medium term objective will have to reduce their structural deficit – depending upon the level of economic growth – by 0.5 per cent of GDP.

The new spirit of the SP presented by the French Finance Minister Thierry Breton – 'to help rather than to punish' (*Le Monde* 22 March 2005) – the elimination of the elements of automaticity in the original pact and the introduction of considerable room for interpretation conform well to French *dirigiste* and intergovernmentalist preferences. There is an obvious tension between greater flexibility allowed in the application of the SP and the potential effectiveness of its sanction mechanisms. Under the new Pact, there is considerably greater scope for counterclaim in the event of non-compliance with existing rules, given that member states can justify their borrowing with reference to numerous factors. Furthermore, the increased uncertainty that surrounds the determination of acceptable medium term balances will make it even more difficult for Ecofin to trigger sanctions against errant member states.

Raffarin Government demands to reform the Stability Pact have been complemented with reinforced French demands to relax the monetary policy constraint of the European Central Bank. While the sound money core of the EMU project was an object of attack by the Jospin Government – at least in its early months – the Raffarin Government has revived demands for a reform of the bank's core principles. In June 2004, Finance Minister Nicolas Sarkozy called for the ECB to adopt a Federal Reserve-style target that includes economic growth (*Financial Times*, 11.6.2004), while on 14 July, in his annual televised Bastille Day speech, President Chirac chose to focus upon the need to reform the mission of the ECB – implying that ECB policy contributed to sluggish economic growth in the largest Euro-zone economies – in order to qualify the pursuit of low inflation.

4. Conclusion

The Raffarin Government's policy on Stability Pact reform has been consistent with French policy positions on EU-level economic governance over the past fifteen years, which in turn reflect the strong interventionist State tradition crucial for government legitimisation. French governments have ideally sought to reform the restrictive rules of the price stability function of economic governance (the Maastricht Treaty and SP rules) but they can tolerate them as long as they are not rigidly enforced. These restrictive rules have been most explicitly challenged in the context of electoral contests: thus the positioning of the Plural Left coalition in the 1997 legislative elections and the Chiracian Right in the 2002 presidential and legislative elections. Tightened macro-economic policy coordination is a desirable goal as long as most of this coordination remains 'soft' – with French support for 'hard' policy coordination restricted to social and employment policies – and retains a broadly interventionist character emphasising growth and job-creation in line with the goals established in the Lisbon strategy. The explicit elimination of the European Central Bank's goal-setting independence has only occasionally been a stated goal of French governments since the signing of the Maastricht Treaty. A more regular feature of French government policy announcements has been the extension of some kind of political control qualifying the bank's 'sound money' emphasis. However, French governments have never spelled out the institutional arrangements and decision making procedures whereby this political control would be achieved. The reinforcement of the role of the Eurogroup in Euro-zone coordination remains a French objective. Notably, French governments have advocated giving the body a treaty-recognised status and power to make decisions. This reform objective stems in part from the French ambition to improve the communication and legitimisation dimension of economic governance. However, beyond the reinforced status of this intergovernmental body, French governments have never succeeded in clarifying precisely how macroeconomic policy coordination would be reinforced. Indeed, *the most common feature of French discourse on GE has been the absence of any concrete proposal of transferring real economic policy competences from the national to the European level*. French efforts with regard to the reinforced status and role of the Eurogroup stem principally from the restrained and secretive nature of this body, which ensures a flexible application of the rules and a politically sensitive margin of manoeuvre, thus well reflecting the paradox – indeed inherent confusion – of French policy on economic governance that is both intergovernmental and *dirigiste* in nature.

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Endnotes

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

(2) 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).

(3) *Communiqué du Conseil des Ministres*, 5.12.90 and the French proposal for an EMU treaty, *Agence Europe*, 28/29.1.91, 5419.

(4) *Agence Europe*, *ibid.*, 5419.

(5) Mitterrand's own views on central bank independence are far from clear (see Howarth 2001).

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

(7) Such a policy mix would be impossible to achieve with one monetary policy and several varying economic policies, potentially going in different directions and not responding in a coordinated manner to asymmetric shocks in the Euro-zone. Rules on fiscal policy were not enough to ensure effective coordination (as the Irish government’s resistance to Commission criticisms in early 2001 demonstrated).

(8) The 3 per cent deficit limit was first set by the French Socialist Government in the context of its abandonment of its Keyensian experiment of the early 1980s. With a 3.1 per cent deficit in 1983, President Mitterrand resolved not to exceed 3 per cent in the future.

(9) See Howarth (2002a & b); Pochet (1998).

(10) ”On n'est plus très loin du gouvernement économique”, interview with Jean Lemierre in *Libération*, 13 January

1999. Jean Lemierre, former head of the French Treasury and the first president of the Economic and Financial Committee made such announcements to the French press upon the creation of the council at the start of 1999. However, the powers of the new Economic and Financial Committee did not reinforce those of the Euro-XI. Like the former Monetary Committee, this new body includes leading central bank officials and the Heads of national Treasuries. It incorporates the principal responsibilities of the former Monetary Committee, placing emphasis upon economic policy co-ordination (which explains the change in name). In June 1998, the Commission's proposals to strengthen economic policy co-ordination in the context of the new Committee and the Euro-XI, were rejected by the member states. Like its predecessor, the new 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. See Puetter 2004.

(11) The Employment Chapter itself involved no additional spending or obligatory measures and emphasised a vision of job creation closer to that advocated by Tony Blair's New Labour — with an emphasis placed on training and the adaptability of the work force as contributing to a 'flexible and competitive Europe' — than the Plural Left vision of EU-level spending and intervention. The Luxembourg and Cardiff 'job summits' of November 1997 and March 1998, and the Cologne and Lisbon summits of June 1999 and March 2000 established and reinforced a programme of employment policy coordination: best practice information sharing, pilot projects and non-binding job creation targets. This coordination fell far short of the Jospin Government's initial proposals for the Luxembourg summit that included the establishment of specific binding national plans for the creation of twelve million jobs throughout the EU over the next five years, the coordination and regulation of employment policy at the EU-level and even the necessary Commission approval on industrial redundancies and closures ('Le Sommet de Tony Blair', *Le Monde*, 23-24.11.1997).

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

(13) This was very significant because it gave the Eurogroup the opportunity to make policy announcements prior to their confirmation by all EU finance ministers in Ecofin.

(14) Fabius, L., 'Donner plus de visibilité à l'euro 11 sera un axe fort de la présidence française'; Zecchini, L. and Lemaitre, P.H., 'La France veut renforcer le pouvoir du club de l'euro', *Le Monde*, 4 July (2001).

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

(16) It can be noted that the actual French deficit for 2002 according to the government's own figures exceeded the 3 per cent figure (*Le Monde*, 25 February 2003).

(17) *Le Monde*, 5 June 2002. The European Commission made the interim government's campaigning more difficult. On 4 June, the European Commission issued a blunt warning that the credibility of the euro was at stake due to threats of delays in certain member states to balancing budgets. Mer's case was not strengthened by the other member states. The new Portuguese government (elected in March on the promise of a lowering of corporate and income taxes) reaffirmed that it would respect the 2004 date even if this meant a necessary increase in taxes (the Italians and Germans also made this commitment) (*Libération*, 5 June 2002).

(18) *Libération*, 5 June 2002. 'It is the objective that counts [a low budget deficit], it is not such or such precise figure, such or such percentage. We must not attach ourselves to a symbolic date. … It is necessary that with the other countries we find a common wording … even if this is in terms that permit us to achieve the general objective without forcibly being obliged to respect to the letter what has always been expressed in terms of principle.' (author's translation).

(19) *Ibid*. 'If we want to, we can. It is a matter of choice, it is a matter of decisions, it is a matter of will. Everything is possible on condition that we do not '*casser la baraque*', that is we do not break a dynamic of economic growth' (author's translation).

(20) Article 104.8 (TEC) states that 'Where it establishes that there has been no effective action in response to its recommendations within the period laid down, the Council may make its recommendations public.' Article 104.9 (TEC) states that:

> 'If a Member State persists in failing to put into practice the recommendations of the Council, the Council may decide to give notice to the Member State to take, within a specified time-limit, measures for the deficit reduction which is judged necessary by the Council in order to remedy the situation. In such a case, the Council may request the Member State concerned to submit reports in accordance with a specific timetable in order to examine the adjustment efforts of that Member State.'