Economic Policy-Making in France After the Crisis

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Introduction

This paper focuses on the dynamics of macroeconomic policy-making in France since 2008. It is the latest iteration of my ongoing attempts to achieve a more systematic incorporation of ideational factors into the analysis of political economy in general, and the French case in particular. In exploring how economic ideas get incorporated and deployed within the making of economic policy, the approach taken here assumes a contingent and to some extent open-ended struggle between different *socially and politically constructed* interpretations of economic policy logics and outcomes which are always contestable. The economic policies and policy prescriptions which flow from these are built on *socially and politically constructed* interpretations of economic rectitude. In short, TINA is wrong as there is never *no* alternative.

The analysis presented here advances a post-*dirigiste* interpretation which emphasises distinctive ideational building blocks of market-making and economic policy-making in France. The paper explores French economic policy, and more specifically fiscal policy, since the global financial crisis (GFC) with particular focus on interventions under the Hollande presidency. Focusing on French positioning towards the architecture of the Euro, and evaluating developments in French fiscal policy and fiscal institutions since May 2012 it considers the degree of 'fiscal space' for the growth-oriented economic policies favoured by Hollande. The puzzle that this paper explores is why despite the appetite for *dirigisme* and, to a degree, for Keynesianism, and despite a mandate in favour of a shift in the economic ideas underpinning economic policy, has so little change ensued after May 2012.

Post-*dirigisme* highlights how constraints on French economic policy-makers restrain the scope for discretionary, activist and interventionary economic policies such that their reach exceeds their grasp. The analysis illustrates how the primary source of those constraints is *not* the confines of post-crisis international economic policy orthodoxy. Exploring IMF thinking and pronouncements, we find that the latter has been evolving in ways broadly conducive to French approaches, indeed encouraging French authorities to go further in terms of expansionary fiscal stimulus in 2008, and to reduce the pace of fiscal consolidation from 2011 onwards. Nor, in the period after 2011, are financial market credibility concerns – in the form of borrowing costs and spread between French and German bond yields - impinging directly on French policy space, since borrowing costs have been historically low in this period.

The most pressing constraints have been firstly, French politicians'' fear that – given financial market irrationality – those sanguine market conditions could evaporate very quickly in the context of the unresolved Eurozone crisis. This has generated, on Left and Right – strong incentives to over-compensate in demonstrating fiscal rectitude to stave off an anticipated erosion of financial market confidence. This mind-set is illustrative of the conidition of post-*dirigisme* and contrasts with the assertive confidence of French *dirigiste* interventionism at many points during the *Trente glorieuses*. The second pressing constraint, again demonstrating reduced French influence, have been the prevailing political economic ideas amongst European partners (notably Germany) and EU Institutions (notably the Commission and the ECB), and the model of political economy which underpins attempts to resolve the crisis and reform EU economic governance.

Hollande's campaign was fought, somewhat anachronistically, on commitment to *both* a harsh fiscal consolidation *and* a re-orientation of economic policy in a more growth-oriented direction. Rules have been recognised in France, the EU, and beyond as an important element in the construction of fiscal policy rectitude, thus this paper considers the evolution of the French fiscal rules regime, and of the EU-wide fiscal rules architecture. The qualitative changes to French economic-policy making brought about international the transposing of the

EU Fiscal Compact Treaty are far-reaching, as detailed below. In this light, the expectations raised during the campaign by rhetoric promising activism in support of jobs and growth only deepens the tensions of post-*dirigisme*, raising expectations and fuelling anticipations of significant economic policy changes. In office, as a result of ideational and material constraints at the European level, and as a result of divisions within his governing coalition and a lack of authoritative governing style, Hollande has struggled to forge a coherent economic strategy. This is in part because he lacks the policy space to undertake the reorientation of policy towards supporting growth on the scale he had hoped for and promised during his campaign.

Ideational Political Economy & Post-*Dirigiste* Economic Policy making dynamics

Consistent with a body of ideational scholarship highlighting and exploring the causal and constitutive role of ideas in explaining political economic outcomes (Blyth 2002; Campbell 1998, 2004; Hay 2001; 2004; Hall 1989, 1993; Hay & Rosamond 2002; Schmidt 2002, 2008), our account focuses on how economic actors understand their environment, arguing that these understandings shape how change is enacted. We align with Woll in seeing economic rationality, in France and elsewhere, as socially constructed (2008, 2010), and markets as social and political constructs (Jabko 2006).

There are, within advanced capitalisms, nationally differentiated conceptions of the market, and these inform distinctive practices of market-making, and kinds of market operations. French understandings of the market and competition, the ideational building blocks of market-making, inform French state interventions and leave footprints on French institutions and market structures, and the evolutionary trajectory of French capitalism. The enduring influence of this French conception of the market underscores the ideational legacies of *dirigisme*. These ideational particularities of the French *dirigiste* market are embedded in a social order of elitist oligarchic networks, spanning the public and private sectors, and where there are well established societal preferences for comparatively high levels of public spending and taxation. These understandings, shared by influential elites, shape economic policy approaches and expectations.

The parameters and causes of the post-*dirigiste* condition in France have been explored in detail elsewhere (Clift 2012). The post-*dirigiste* condition in France denotes a significant qualitative shift away from the institutional allocation of credit practice of the *dirigiste* post-war era (Shonfield 1969; Zysman 1983: 112-32), where the state's directing capacity flowed from its operation as gatekeeper for access to strategic investment capital. In the wake of the re-constitution, internationalisation, liberalisation and growth of French capital and especially bond markets in the 1980s, the scope, scale and degree of possible intervention is circumscribed.

The 'post-*dirigiste*' interpretation advanced here (see also Levy 1999; Howell 2009; Jabko & Massoc 2012) recognises how substantial liberalisation since the 1980s has transformed the context of French economic policy. At the same time it recognises the ongoing market-making role of the French State, in combination with the French conception of the market and it's embedding within France's distinctive social context. This is characterised by the inter-penetration of public and private elitist networks of France's 'financial network economy' (Morin 2000). French post-*dirigiste* economic policy is more constrained and rule-bound than in the discretionary *dirigiste* heyday, but still demonstrates some of the oligarchic elitist and networked character of French capitalism. As in the case of the recent bank bail-outs (Jabko & Massoc 2012; Clift 2012; Howarth 2013), there are often still a small number of key players involved in shaping French economic policy, within the Elysée, Matignon and Bercy, and they tend to share close personal ties, forged at France's *grandes écoles*.

Post-*dirigisme* emphasises French capitalism's influential and enduring ideational and institutional legacies, and insists upon the possibility of 'alternative types of capitalism distinguished by the extent and character of state intervention in the economy' (Jackson & Deeg 2008: 699, see also Schmidt 2002, 2003, 2009). Post-*dirigisme* foregrounds the state as actor in and enactor of markets. Yet paradoxically this includes enacting new rules-based frameworks which impose significant new restraints, binding French economic policy-makers in ways which restrain the future scope for *dirigiste* economic policy.

The 'post-' in post-*dirigisme*, speaks to a recognition of significant qualitative differences from French state intervention of the post-war era. The liberalisation, internationalisation and reregulation of French capitalism, enacted by that self-same French state, has let the genie out of the bottle to an important degree. The process of European economic integration, with its deepening with the advent of the Euro and thereafter the Eurozone crisis and its institutional and policy responses, constitute an additional significant constraint on discretionary French economic policy-making. In France, the *dirigiste* policy traditions continue, but the conditions of possibility for the pursuit of *dirigisme* no longer prevail. Yet paradoxically, post-*dirigisme* also underlines the powerful historical and ideational legacies of *dirigisme*, and the enduring weight of expectation – on the part of the French populace and state elites themselves – of expansive French state interventionism. The condition of post-*dirigisme* entails the quest for new forms of economic policy intervention, seeking to guide the French economy and exert economic policy influence by new means and old. The 'footprints' of all this are revealed in the conduct of economic policy – the ideas which inform it, and how these are deployed and put into practice.

Economic Ideas and French State Traditions

Economic policy actors are understood here in the round in socially embedded terms. Actors, as Schmidt's discursive institutionalist approach contends, are 'thinking actors', and their 'ideas, discourse, and actions ordinarily make sense (and can be made sense of) within a given meaning context' (2009: 532-3). Thinking about economic ideas about the market in this way is of wider significance, restoring contingency and agency to explanations in political economy which have recourse to economic imperatives. Economic policies and policy prescriptions, as noted above, are built on *socially and politically constructed* interpretations of economic rectitude.

Our approach has some overlap with O'Sullivan's idea of 'acting out change' which focuses on 'the users of the financial system' who 'play a crucial role in enacting the rules' (O'Sullivan 2007: 394), although our account draws more attention to the ideational conditions in which French economic policy actors respond to changing economic conditions. French economic policy-makers, even of reformist bent, exhibit a prevailing comfort with markets dominated by a few 'national champions' wielding significant market power. Underpinning aspects of French economic policy is a particular balance between state and market and a degree of regulation of (labour, product or services) markets widely accepted as appropriate. These norms get re-produced amongst the *grand corps* within the *grands ecoles* (Offerlé 2009; Dudouet & Grémont 2007, 2010), and reaffirmed through the deep inter-penetration of public and private elites (Bourdieu 1989: 428-481; Suleimann 1978: 230-236; E Cohen 1996**).**

The OECD and IMF, rooted in a different conception of what 'the market' should look like, have for decades been urging further and more deep-seated liberalisation of French product and services markets as a strategy to boost French economic competitiveness. The at best halting progress across many sectors, reveals the footprints of post-*dirigiste* approaches to economic policy in France, and its underlying conception of the market. This helps explain the enduring presence of highly regulated markets in many areas. Of course, the French state and the French economic policy apparatus is not monolithic. All policy elites are not of one mind. There have been attempts to 'faire bouger les lignes' notably the incoming Sarkzoy administration, committed to market reform along IMF/OECD lines, convened the Attali commission on improving competitiveness of French product and services markets. Yet the limited impact and lack of enactment of changes and structural reforms the Attali commission advocated is itself revealing.

French state traditions also find expression through the economic ideas and norms prioritised within the French administration. One important aspect shaping the making of French economic policy is the prevailing 'conservative liberal' thinking which dominates within the French administration,[1] notably in key economic power houses such as the *direction générale du Trésor* and the *Banque de France*. There is a something of a default position in favour of 'sound money' approaches to budget and wage discipline (see Dyson 1999: 37, 42; Howarth 2002: 147-149; Clift 2003).

This co-exists with other particularities of the French administration, notably enduring strength of ENA's influence. On the one hand, this institution is steeped in the view that highly trained experts it prepares for French high office can and should use their expertise to shape French economic outcomes. By such means France's colbertist, *dirigiste* state tradition gets reproduced. ENA has a particular influence on the economic thinking of French enarques, linked to the content of its economics syllabus. France's future economic policy makers are taught some old-school Keynesian economics, with more contemporary developments in academic economics not part of ENA syllabus. There is a comfortable alignment between some of these economic ideas and *dirigiste* pre-suppositions, state traditions of the French *grand corps*.

This helps explain a degree of antipathy towards rules-based economic policy, drawn as it is from a different tradition of economic thought, and contradicting directly, as it does, *dirigiste* notion of the appropriate degree of discretion enjoyed by economic policy-making elites. It also helps explain why the rediscovery or re-emphasis of more Keynesian notions of the efficacy and importance of fiscal policy within economic stabilisation, which emerged with the IMF in the vanguard in the post-crisis period, found a relatively hospitable welcome within parts of the French economic-policy making machinery. Many *haut fonctionnaires* had

[1] Interview with Finance Ministry *haut fonctionnaire*, May 2013.

been less exposed to the widespread backlash against Keynesian economics which had prevailed within academic economics since the 1980s.

French Post-Crisis Economic Policy Settings

With this context for the analysis of French economic policy established, we can now turn to the conduct of economic policy in France since the crisis. The Ayrault Government in 2012, like the Fillon Government between 2010 and 2012, promised to cut the deficit (in the Maastricht and Stability and Growth Pact [SGP] sense) to 3% by 2013. This commitment presupposed an herculean effort of fiscal consolidation on the part of the current French Government and the last one.

Thus French fiscal policy settings since 2010, and under the Hollande presidency since May 2012, have not been found wanting in terms of 'fiscal effort' to restore the public finances. Although Hollande delayed the target date to achieve budget balance from 2016 to 2017, this still envisaged an historic 7% turnaround in the structural balance between 2012 and 2017, half through increasing tax take, half through reducing public spending (Heyer, Plane & Timbeau 2012: 17). Even before winning the Socialist primary in autumn 2011, Hollande had committed himself firmly to the fiscal consolidation and restoration of the public finances which has been the central underpinning of his economic policy since May 2012.

Both key aspects of fiscal consolidation - increasing the overall tax take and curtailing public expenditure have been pursued boldly by both Fillon and Ayrault, albeit with somewhat different emphases in terms of where the burden of increased taxation falls, and what spending commitments should be preserved. Fiscal consolidation under Hollande is front-loaded, with 2013 and 2014 particularly contractionary, but the budgetary stance remains restrictive throughout the quinquennat (Heyer, Plane & Timbeau 2012: 13, table 2). Yet these fiscal policy settings have had predictably adverse effects on French growth and employment levels.

The theme of the increased revenue component of the fiscal consolidation measures being concentrated on more affluent households and large corporations is a consistent aspect of fiscal policy presentation under the Hollande Presidency. It featured in the first presentation of the 2013 budget in September 2012[2] and was reasserted in February 2013.[3] The attempt to relieve the burden of higher taxes on the most liquidity constrained households, framed in terms of trying to support demand in the economy. However, whether these measures are sufficient to offset the contractionary effects of other aspects of the fiscal policy package is debatable, and the extent to which growth and demand concerns are successfully reconciled to the fiscal consolidation effort within Hollande's strategy has been questioned. Furthermore, the previous Government had programmed increased taxes for the period 2012-2017 of €20bn, or 1% of GDP (Heyer, Plane & Timbeau 2012: 18). The burden of the Fillon Government's post-2010 fiscal consolidation fell to a considerable degree on the wealthy such that, as Sterdyniak notes, the scope for further tax increases for affluent social groups by Hollande was limited (see Sterdyniak 2012: 47).

French Economic Policy Elites' perceptions of degree of policy space available to them in the context of the Eurozone crisis is revealing of the diminished post-*Dirigiste* confidence in autonomous, interventionary economic policy-making. This has been true of Governments of both Left and Right. As the European sovereign debt crisis loomed, expansionary French fiscal policy taps were turned off abruptly as Sarkozy and the Fillon Government moved to try and avert the loss of France's cherished AAA status. From 2010 onwards, austerity politics became progressively more entrenched. International debates about appropriate economic policy responses to the GFC had shifted from a brief flourishing of Keynesian thinking in 2008-9 to a prioritising of 'growth friendly fiscal consolidation' at the June 2010 Toronto G20 (Blyth 2013). Arguments about 'expansionary austerity' and the positive confidence (and even growth) effects of fiscal consolidation were mobilised within the French administration to bolster support for the policy shift, albeit without being widely accepted or beleieved.[4] French Governments were committed to very ambitious fiscal retrenchment to bring down high deficits and debts. The plan detailed in the Stability

[2] Le ministre de l'économie et des finances a présenté une communication relative aux grandes orientations budgétaires et fiscales pour 2013, 12th September 2012, http://www.gouvernement.fr/gouvernement/les-grandes-orientations-budgetaires-et-fiscales-pour-2013

[3] http://www.performance-publique.budget.gouv.fr/le-budget-et-les-comptes-de-letat/les-lois-de-finances/approfondir/lactualite/lessentiel-de-la-loi-de-programmation-des-finances-publiques-pour-la-periode-2012-a-2017.html

[4] Interview with Budget Ministry *haut fonctionnaire* May 2013; interive wiwth Sarkozy era economic advisor, November 2013.

Programme for 2011-14 submitted to Brussels in April 2011, targeted a reduction of the deficit by €60 bn.

The scale of fiscal consolidation was then ramped up twice in August 2011 and again further in November 2011, even as anaemic French growth disappeared as a result. As the sovereign debt crisis deepened, French borrowing costs rose, and vulnerabilities of the French banking sector threatened to draw France closer to the Eurozone crisis's damaging core, Sarkozy strained every sinew to demonstrate the fiscal rectitude of France. There was a view that the financial markets were so irrational, and their propensity to distrust France on matters of fiscal prudence was deep-seated, so that almost super-human demonstration effects were required.

This was undertaken partly to try and allay concerns about French economic credibility and creditworthiness, and save its cherished triple 'A' bond rating. That particular battle was lost in early 2012. Yet French borrowing costs have been on a downwards trajectory and very low since mid 2011. Hollande demonstrated a very similar approach to Sarkozy regarding fiscal consolidation when he took office in May 2012. There was a concern that market credibility could easily ebb away, and that financial markets were particularly quick to distrust French Socialist governments. This explains the bold and ambitious targets issued, and the tough stances on restoration of the public finances, deployed by Hollande and his government as signalling mechanisms to demonstrate their fiscal probity, prudence and rectitude. These stances are perhaps surprising in a context where the IMF perceived somewhat greater room to manoeuvre and more 'fiscal space' at the disposal of French governments, as we shall see below.

French Socialist Economic Strategy

Just as it is wise not to presume a monolithic French state and French economic policy apparatus, so it is sensible not to assume a priori the internal cohesion, perhaps even the internal coherence, of the economic strategy under Hollande. There are always competing elements competing visions within any French government, but in the Hollande era this is particularly noticeable because Hollande's' method of internal management of the government seems to permit such competition to play out publicly. The economic policy disagreements between Montebourg and Moscovici, for example, have been as deep-seated as they have been frequent. The space for such disagreement was in part opened by the 2012 presidential campaign, promising as it did fiscal consolidation and budgetary responsibility on the one hand, and renewed economic policy activism in support of growth on the other. This anachronistic amalgam hinted at both the Montebourg and Moscovici conceptions of what French Socialist economic policy would look like. Some of the promised policy initiatives (e.g. large fiscal reform) during that campaign have been still-born because of too much internal disagreement, and a lack of the political will, or capacity, to overcome it.

A key distillation of the economic policy approach under Hollande was the November 2012 *Plan de Croissance,* which drew of the report by industrialist Louis Beffa about how to kick-start French economic growth and industrial dynamism. Key initiatives included making the tax and regulatory environment more simple and stable. This signalled something of a victory for what we might term the 'supply siders' inside government and the parliamentary coalition over demand siders. Whilst there is recognition of a Europe-wide demand problem, a demand-boost at the EU level – even if it were in prospect (which it clearly is not) would not solve all France's economic problems. France nevertheless has supply side problems of competitiveness, labour costs, and so on – and since then this has been the primary economic policy focus.

There are also contradictions in high profile measures enacted. For example, whilst the role of macroeconomic policy in the November 2012 *Plan de Croissance* was under-elaborated, its centre-piece was labour cost reductions through the "Competitiveness and Employment Tax Credit" (CICE). This is essentially a Socialist version of the so called 'social VAT' championed by the Right, and much discussed within French political economy since the Germans introduced something similar some years ago. The IMF describes such measures as 'fiscal devaluation' – shifting labour costs from firms to reduce the production costs of exports, and hence the price of goods on international markets. This high-profile proposed reduction of social charges for small and medium sized firms announced by Hollande in 2012 was designed to inject a positive growth shock, allowing these firms to hire more.

However, at the time, all hope had not been abandoned of hitting the 3% nominal deficit target for 2013. With that in mind, the reduction in social charges, whilst announced in 2012, would in fact be *delayed* until the next financial year. All that was issued in November 2012 was a promissory note that firms' social costs would be reduced the following year. So the upfront cost reduction for firms would be nil. Whilst defended by policy-makers as playing on the forward-looking expectations of firms, this clearly robbed the initiative of much of its mooted impact. One year on, the take up of the scheme was half what had been anticipated.

This emasculating of its own principle growth and jobs 'shock' initiative is indicative of how far the Government were prepared to go, or perhaps how constrained they felt, to compromise the growth/jobs ambition for fiscal rectitude

Internal party and government dimensions help account for Hollande's ongoing prioritisation of fiscal consolidation, in the face of intimations by the IMF and others that the pace of fiscal consolidation may be too harsh and undermine the prospects for an economic recovery (IMF 2012, 2013). Within the Socialists' camp, Finance Minister Moscovici needed to counter calls for a complete relaxation of austerity measures coming from left and radical elements within the Party's dominant internal coalition. With unemployment rising, and government popularity falling, Hollande and Moscovici were faced with calls to turn on the spending taps and pursue more of the growth and jobs oriented measures Hollande's 2012 campaign had promised. Convinced of the need to signal and demonstrate fiscal rectitude, Moscovici resisted the spending ministries' wishes. Prioritising fiscal consolidation sits comfortably with prevailing 'conservative liberal' thinking which dominates within the French administration, as noted above. Thus, not for the first time, the desire to retain market confidence and manage the internal party politics of French Socialism led to a commonality of position and purpose between the Socialist Finance Minister and conservative liberal elements within the powerful French administration. As a result, in their amendments to the 2012 budget and their drafting of the 2013 budget, the Ayrault government remained resolutely committed to the fiscal consolidation strategy. The IMF Mission was also enlisted in support to provide additional political cover for the fiscal consolidation focus. Reading between the lines of their 2012 and 2013 reports, it is clear that they could have been sympathetic to a slower pace of fiscal consolidation, but the French Finance ministry was keen to convey that it was tied to the mast.

IMF Economic Ideas and Commentary on French Economic Policy Since the Crisis

This draws attention to the role and place of the IMF, its thinking and commentary, within the French economic policy process. On this issue, there has been highly significant evolution since the GFC began in 2008. Relations between French economic policy making elites and IMF Missions to France in the pre-crisis period were always respectful and constructive, but Fund advice did not tend to be heeded very closely. The timing of the mission and the release of its report – whose publication tended to be delayed until the last weekend in July when

France is shutting down for the summer holidays, indicated the French state's desire to minimise the traction of IMF thinking in the French economic policy debate.

The reasons it did not receive more prominence is not a reflection of French officials not taking the interactions seriously. On the contrary, Fund missions noted the extremely assiduous work of French officials, and how the mission always meet with the Finance minister, which is not the case in every country. However, Fund advice tended to be little heeded. Partly this was because of a mis-match in expertise about the workings of the French economy between Fund mission officials and Bercy. Partly this was because the Fund tended to say the same things year in year out, with conclusions (about structural reform of labour and product and services markets, or about public spending containment); as one French official put it, 'the conclusions for what France had to do were always the same – so what was the point of doing the papers? It was not very interesting work … Either they said things that we had thought ourselves, already said to ministers etc., or sometimes it just wasn't very subtle'.[5]

With the advent of the crisis, the 'stock' of IMF economic ideas rose sharply. This was partly because in 2008 the IMF started saying something new and different. It demonstrated itself to be a more reflective, intellectually innovative institution as it sought to develop the economic policy advice appropriate for the extraordinary conditions of the GFC. The emphasis was on the need for activist fiscal policy measures in support of growth to stave off a global depression. Strauss-Kahn and Blanchard played an important role in seizing the initiative, and the moment, and crystallising revised economic thinking about appropriate economic policy responses with their calls for a co-ordinating global fiscal stimulus of 2% of GDP in October 2008. This was backed up with practical crisis-response oriented fiscal policy advice and commentary. The Fund quickly became a much more authoritative voice in the international economic policy debate, shaping and influencing economic policy thinking even in non-borrowing advanced economies where it had hitherto had little 'traction', to use a favoured Fund term. Indeed, such was the enthusiasm for Keynesian fiscal measures that the Fiscal stimulus enacted under Sarkozy in 2009 was initially criticised by the Fund as insufficiently large and ambitious.[6] The need for fiscal policy to support economic growth in the specific conditions of the post-GFC world economy remained a theme of IMF commentary from 2008 onwards. The Fund's somewhat Keynesian rethinking of fiscal policy effectiveness has been

[5] Interview with finance ministry *haut fonctionnaire*, May 2013.
[6] Interview with Sarkozy era economic advisor, November 2013.

backed by empirical assessments of post-crisis fiscal multipliers which provoked much international policy debate (IMF 2012; Blanchard & Leigh 2013), including within the French government and administration.

There was, therefore, possible scope for Hollande and the Ayrault government to draw on the IMF's extensive rethink about fiscal policy efficacy since 2008 (see e.g. Blanchard *et al* 2008). This rethink led to a string of Fund research papers, chapters of *World Economic Outlook* and editions of *Fiscal Monitor* setting out good reasons why in advanced economies we should expect expansionary fiscal policy, targeted towards lower earners, to be more effective due to higher fiscal multiplier in a post-financial crisis downturn. Recessions mean more unused capacity in the economy, and financial crises normally mean more 'liquidity constrained' (or cash-strapped) households. Thus fiscal multiplier are 'asymmetric', varying across the cycle, and fiscal policy effectiveness is particularly probable when monetary policy was doing all it could, with interest rates at or around zero (the so-called 'zero lower bound') (Batini et al 2012; Baum et al 2012; Corsetti et al 2012; IMF 2010).

Curiously, the French Socialist Government, for all the Keynesian inspired rhetoric which traditionally pervades French Socialist discussion of economic policy, takes a less Keynesian view of these assumptions about the relationship between fiscal policy and economic activity than does the International Monetary Fund (IMF). As a result, the current French Government and the last one understate the degree to which reductions in public expenditure contained in fiscal consolidation plans will eat away at demand and growth in the economy.

Successive Fund surveillance missions' calls for a slower pace of fiscal consolidation in France, informed by Fund assessment of fiscal multipliers, the adverse effects of fiscal consolidation on growth, and the focus of financial market actors on short-term growth (rather than debt levels) for advanced economies. These underpinning economic ideas also explain repeated Fund warnings for French authorities to pay close attention to conjuncture, and to downside risks associated with adverse effects (on growth) the current pace of fiscal consolidation. Such counsel notwithstanding, French macroeconomic policy has continued on a contractionary trajectory prioritising restoration of the public finances over growth.

How the Fund gets used in French and European economic policy debates

In the context of post-crisis French economic policy, the Fund's economic ideas are not primarily deployed by French economic policy-makers to expand domestic room to manoeuvre. Rather, the Fund and its economic ideas are utilised primarily in trying to shape or alter economic thinking at the European level. There is recognition of the role that the Fund can and does play in shaping the climate of economic policy opinion, including within European economic policy debates. Thus, for example, the Fund was seen as crucial in moving the goalposts at the time of the initial crisis onto grounds of support for fiscal stimulus. Germany, which despite its historic antipathy to such measures enacted a bolder fiscal stimulus than France was – some argued – swayed by the IMF's position.[7] It is this Economic policy thinking in Brussels, and amongst key European partners, notably Germany (see Clift & Ryner 2013) that French economic policy elites see as a pressing constraint on French economic policy autonomy.

In late 2012, early 2013, there was the slight change of heart within the European Commission during 2013, which led to the acceptance of a delay in France, and a number of other Eurozone countries, meeting the 3% nominal deficit target enshrined in Maastricht. The broader climate of opinion was evolving from a somewhat myopic focus on the need to enact the austerity measures to put the public finances back on the right track, towards greater recognition of the adverse effects on growth of austerity measures, and the need to secure growth in pursuit of that self-same objective of restoring the public finances and fiscal sustainability. This was a line which key Fund fiscal policy 'norm entrepreneurs' (Chwieroth 2010) such as Olivier Blanchard and Carlo Cottarelli had been pushing strongly for months if not years. The Fund putting its intellectual authority behind a rebalancing of the economic policy priorities is credited in many quarters as being important shaping the conditions of possibility for the European Commissions' volte face.

There is some criticism of the European Commission, notably of D.G. Economics & Finance within French policy circles. It is seen as rather excessively normatively attached to pursuit of SGP targets for debts and deficits come what may, and somewhat limited in terms of it analytical and reflective qualities. [8] This was demonstrated during the crisis of 2008-9 where the Commission took a lot of convincing to accept the economic conditions were extraordinary circumstances in the SGP sense. This is contrasted with a much more positive assessment of the Fund's economic thinking. The Fund is seen as an ally in trying to foster evolutions in European economic policy thinking, and attempting to recalibrate the Eurozone economic policy architecture. On issues such as favouring structural rather than nominal

[7] Interview with Finance Ministry official, May 2013; Interview with economic advisor, November 2013.
[8] Interview with Finance Ministry official, May 2013; Interview with economic advisor, November 2013.

deficit and balance targets (with structural targets seen as much less pro-cyclical than the SGP's nominal targets – see later) the IMF has long been 'on the same page; as the French authorities, both of them somewhat at odds with the European Commission and with the German authorities

The Eurozone crisis, European Partners and European Policy Constraints

To date, Eurozone crisis management has chiefly amounted to a substantive and procedural tightening of the SGP in the form of the Euro-Plus, Sixpack and Fiscal Compact agreements as quid pro quo for the European Stability Mechanism (ESM), the Long Term Refinancing Operations (LTRO) and the Outright Monetary Transactions (OMT) that were necessary to stave off a collapse of the Euro.

The substantive and procedural tightening can, for instance, be observed in the terms of The Fiscal Compact (European Council, 2012). With it, the nominal deficit norm of 3 percent has been replaced by a structural deficit norm which must not exceed a 0.5 percent/GDP. When states exceed this norm, the so-called Excessive Deficit Procedure (EDP) is activated. Since this currently includes most Eurozone member states, the EDP is of great formal significance. The EDP requires states to enter so-called 'Economic Partnership Programmes' (EPPs) with the EU, the objective of which is to devise an action plan to eliminate the excessive deficit. Notably, the remit of the EPP's is not restricted to macroeconomic policy but also includes 'structural policy'. Crucially, the EPP's are encoded in EU law, with all that that implies in terms of Direct Effect, Supremacy and State Liability. Hence, should member states breach the terms of their EPP, action can be brought against them by the European Commission or any other member state in the European Court of Justice. In contrast to the SGP, where a qualified majority in the Council of Ministers was required to activate an EDP (and which enabled France and Germany to avoid EDPs in 2003), with the Fiscal Compact EDP's are activated automatically in the case of a breach and can only be suspended by the qualified majority vote in the Council. This automaticity was an issue which France argued against in private bilateral discussions with Germany, but without prevailing.[9]

German state traditions help explain the content of EU and Eurozone economic policy architecture. At an ideational level, there is remarkable continuity in a German consensus which Dyson and Featherstone call the 'ordo-liberal coalition' (Dyson & Featherstone, 1999:

[9] Interview with Sarkozy-era policy advisor, November 2013.

pp. 261-62, 287-88, 293-94, 320, 325-26). Ordo-liberalism was formulated by a set of foundational German liberal thinkers, who against the backdrop of crises in the interwar Weimar Republic, concluded that market economies are not the products of natural propensities but rather must be publically constituted (e.g. Bonefeld, 2012). Indeed, the chief function of public sovereignty should be a rules-based system that produces such market constitution and any discretionary action that serves to undermine it is dangerous to social order and should be eschewed. Competition policy is a crucial domain and ordo-liberalism is highly influential on EU competition policy (Gerber, 1998). More closely related to the concerns of this article are ordo-liberal strictures on macroeconomic policy, which considers price stability as *the* public good that the public must guarantee (Dyson & Featherstone, 1999: p. 20), and there is perhaps no accident that Germany pioneered independent central banking. However, there are also the aforementioned corollaries for fiscal policy that become central in Europe's monetary union. Ordo-liberals are particularly suspicious of the *dirigiste* tradition of discretionary action. From the EMS and onwards, monetary cooperation could proceed only on the condition that France and other members be effectively locked into a market-constitutional framework (Young, 2011).

These two elements – the crucially important powerful role that Germany plays within European integration processes, and the particular content of the economic ideas underpinning German economic policy at the national and European level, are fundamental to understanding contemporary French economic policy-making. There are, for example, remarkable commonalities between Hollande's approach in 2012 and Jospin' European economic policy strategy in 1997. In 1997, Jospin led the Socialist Party to an unpredicted victory in the elections to the National Assembly by thematising discontent over the effects of the Maastricht Convergence Criteria, especially on unemployment (Clift 2000). A long-standing call for reform on the Left and Right of French politics alike is that the mandate of the European Central Bank (ECB) should be amended to incorporate targets for growth, and/or employment, alongside its inflation target. German hostility made such a reform out of reach, so Jospin set his sights on more modest rebalancing of the priorities underpinning EMU infrastructure and architecture. Hollande's Presidential bid tapped into similar discontent over the management of the financial and Eurozone cisis. In both cases, the candidates promised to renegotiate core European agreements. Hollande's pledge to renegotiate the Fiscal Compact to balance the stress on fiscal consolidation with macroeconomic measures to boost economic growth, like Jospin's before him, in the end led to very little change. The need for French economic policy elites to reconcile themselves to ordo-liberal underpinnings of policy, but at the same time their desire to re-orient the policy settings, and perhaps the policy architecture, in a direction more consistent with *dirigisme* has been a consistent feature of the European political economy since the 1980s (see e.g. Clift 2006).

The strategy during the Sarkozy era was to align publicly with the German position in favour of Eurozone-wide austerity as the central crisis response in the interests of bolstering and enhancing credibility for fiscal prudence with financial markets. Meanwhile, in private, strenuous efforts were made to encourage shifts in the German position. This revealed disagreements between French and German authorities over the appropriate economic and fiscal policy settings, and about the appropriate shape of EMU's economic policy archtecture. It unearthed, for example, disagreements about the content and binding character of the Fiscal Compact. Furthermore, there were differences of view over the role of the European Stability mechanism, and plans for EU-level initiatives to recapitalise banks and break the link between sovereigns and banks.[10] However, both in the 'Merkozy' period, and even more so under Hollande French influence, and agency within the European integration process is diminished (Dyson 2013). French authorities have enjoyed little success in 'moving the goalposts' of European economic governance, or the economic ideas underpinning it.

Post-*Dirigiste* Economic Policy in action – some illustrative examples.

French Fiscal Rules, the *loi de programmation des finances publiques* (LPFP)

Due to the deteriorating public finances context, the global financial crisis, then the sovereign debt crisis in the Eurozone, fiscal rules at the French and European levels have become progressively more integral to the new politics of fiscal rectitude. In fact, these Fiscal and other economic policy rules have for some time been gaining ground within the making of French economic policy since the mid 1990s, belying somewhat the *dirigiste* reputation of French economic policy making. Although not, until recently, a feature of high politics in France, under the radar rules have becoming increasingly important. These rules regimes bear the footprints of the economic ideas about fiscal policy which inform their creation.

Hitherto, France's five year plans had been at best loosely tied to budgetary practices. During the 1990s and 2000s, this began to change. As the political sociology of policy instruments

[10] Interview with economic policy advisor, November 2013.

approach suggests (Legalès & Lascoumbes 2007), the introduction of new instruments reflects re-conceptualisation of the economic policy process, identifying rising public spending as an inherent problem requiring redress. The Maastricht convergence criteria induced attempts to steer French economic policy onto the unfamiliar path of medium-term fiscal consolidation to get debt and deficit levels within the prescribed limits. Using the policy instrument of quantitative medium-term objectives, French governments attempted to adjust economic policy settings to curtail spending. At the national level, increasing emphasis on rules-based macroeconomic policy making and rules-based governance of the public finances was first introduced in a 1994 five year Guidance Law on Public Finance Control (see Martin *et al* 2011: 8-12). The rules regime then extended to other areas as French authorities sought to gain tighter control of economic policy levers associated with public spending.

In 2001, the fiscal responsibility law enacted by the French parliament, the *loi organique relative aux lois de finances* (LOLF) continued the path towards a more performance-based public management approach to budgetary politics in France, with increased oversight of parliament (see e.g. Cole 2008; Mordacq 2008). It forged a clearer link between medium-term planning and short-term fiscal policy making (Martin *et al* 2011: 14). In 2008, the Constitution was amended, inserting a commitment to budget balance in Article 34 (Camdessus & Guidée 2010: 38). At the same time, the programming laws requiring the definition of 3 year plans for the public finances were introduced, seeking to prohibit general government current spending from rising in volume year over year, and included the stated objective of a balance in the public budget. [11] The rationale behind the changes was a desire to lock in greater fiscal discipline in a context where the French state budget had not balanced since 1974. With the advent of deregulated financial markets, the need both to achieve greater fiscal discipline, and perhaps as importantly to signal this to financial market participants, was seen as useful for policy credibility.

Until recently, however, the constraining effect of fiscal rules on economic policy discretion was questionable. Co-existing as they do with *dirigiste* policy reflexes, fiscal rules have often been observed in the breach. As Mathieu and Sterdyniak point out, 'in times of crisis, multiannual guidelines rapidly lose any influence ... This was the case in 2002 and 2009'

[11] http://www.performance-publique.budget.gouv.fr/le-budget-et-les-comptes-de-letat/les-lois-de-finances/approfondir/lactualite/lessentiel-de-la-loi-de-programmation-des-finances-publiques-pour-la-periode-2012-a-2017.html

(Mathieu & Sterdyniak 2013: 209). There was always scope within fiscal rules regimes introduced in the 1990s and 2000s for interpretive flexibility in application. Governments of left and right in the 2000s, prioritising discretionary over rules-based economic policy, overstepped SGP debt and deficit targets, and domestic undertakings on budget balance in order to fund favoured economic policies (Clift 2006; Howarth 2007). In this light, the 2012 *loi de programmation des finances publiques* (LPFP), with its 5 year budgetary programming framework, represents a qualitative change in the binding character of French economic policy rules.

Former IMF managing Director Michel Camdessus was asked by Sarkozy in 2010 to look into the introduction of a 'golden rule' into the French Constitution. The Camdessus Commission on fiscal rules had a wider remit, seeking 'to join the missing links in the existing rules framework, by designing a comprehensive rule that would bind policymakers to medium-term objectives and provide operational tools to undertake the required fiscal adjustment' through 'a mandatory multiyear framework for budget programming, which would bind future yearly budget acts by setting *milestones* those budgets would have to meet to reach eventual fiscal adjustment' (Camdessus & Guidée 2010: 38). The LPFP realises that goal in transposing the EU Fiscal Compact into French law (IMF 2012: 18). As noted above, it is a much more binding constraint than the previous iteration of the SGP, with more automaticity of Excessive Deficit Procedure initiation.

Officials at Bercy[12] and the IMF see greater prospects for success for this state reform and cost containment exercise compared to earlier efforts due to the qualitative different of its legal basis, enshrined as it is, via the LPFP and the Fiscal Compact, in EU law. The new French fiscal rules regimes is seen as 'the right laws, the right enforcement of the laws … control-wise, audit-wise French system has absolutely no problems relative to any other we know of in terms of execution of the budget, audit of the budget'.[13] Fund sources see the current organic law as qualitatively different from previous fiscal rules in being more binding, procedurally and institutionally. Furthermore, the 2012 budgetary programming framework, unlike the 2001 one tied to SGP, is able to articulate the cyclical part and the

[12] Interviews with Senior French Finance Ministry officials, Paris, September 2013.
[13] Interviews with IMF Staff, Washington D.C., May & September 2013

automatic stabilisers aspects. That is one reason why we might anticipate more 'ownership' by French policy elites of this compared to the last.[14]

Hitherto there have been 'leakages' in attempts to control public budgets because of the French state's lack of constitutional capacity to limit local government and social security expenditure. On local government finance, constitutionally, central government cannot dictate to local government budgetary processes. However, given that sub-national governments in France are constrained at the local level by the golden rule (allowed to borrow only for investment) so their operational budget has to balance locally. The French Government identified reforms to the *taxe professionelle* which reduced local government revenues consistently and credibly – thus limiting local government expenditure. As one Fund staff member put it, highlighting the problems of devolving spending powers to local levels, 'we do need some adult supervision in the room' – and that's what the 2012 law, in combination with the earlier local tax reforms, achieves vis-à-vis local government finance.

These are important qualitative changes in French fiscal rules regime set up to deliver the five year budget planning exercise up to 2017 arising from Hollande's legislating of the EU Fiscal Compact or Treaty on Stability, Coordination and Governance (TSCG) into French law. The change was brought about by the heightened focus on fiscal sustainability, rectitude and credibility in the context of first the global financial crisis, and subsequently the Eurozone sovereign debt crisis. However, it has lasting implications for how fiscal policy gets made in France, and the degree of discretionary latitude enjoyed over the budget and over fiscal policy by elected French politicians. Given their significance and their binding character, a lively debate surrounds the merits, demerits and intellectual underpinnings of the Fiscal Compact, and the LPFP (see e.g. Mathieu & Sterdyniak 2013). Notwithstanding French efforts to attenuate the binding, ordo-liberal character of the new fiscal rules, and limits the fiscal conservatism at its core, these new fetters will constrain French economic policy more than anything experienced in the 1990s or 2000s. The conception 'appropriate' or 'sound' economic policy in Germany, and in Brussels in the post crisis period took on a distinctive character.

[14] Interviews with IMF Staff, Washington D.C., May & September 2013; Interview with Sarkozy era economic policy advisor, November 2013.

The Fiscal Compact and Structural Balance Targets

As noted above, the politics of economic policy ideas plays out on the terrain of rules regimes which bear the imprint of different understandings of the role, scope and limits of economic policy. EMU has always raised concerns about potential fiscal indiscipline of powerful insiders, and the sovereign debt crisis has made concerns about possible French profligacy all the more salient. French Governments have had a tricky relationship with the SGP rules-based fiscal regime which France was integral to creating. Germany is seeking to limit its liability for the fall-out. In this interpretation, the Fiscal Compact and TSGC constitute attempts to move towards what Dyson has termed 'mutual liability', and where 'liability must be accompanied by control' (2013: 5).

'Merkozy' of 2010-2012 which saw emergence of the EU Fiscal Compact, Nicolas Sarkozy was seemingly seduced by fiscal consolidation arguments and displayed an increasingly fulsome embrace of a rules-based macroeconomic policy regime. In the background, bilateral efforts were being made to the German position in a direction more attuned to French economic policy preferences. These attempts enjoyed some limited successes.[15] Within the new Treaty, the adoption of new policy instruments - structural balance and structural deficit targets - is significant. It entails a particular conception of economic policy incorporating a greater recognition (compared to the SGP) of the problems of pro-cyclicality associated with nominal budget rules.

Whilst the French Government continues to offer undertakings regarding the budget deficit (in the Maastricht and SGP sense) since these have been the main yardsticks of fiscal policy assessment and fiscal rectitude for many years, its central fiscal policy goal is a balanced structural budget by the end of the *quinquennat*.[16] This shift to structural balance targets was championed by under Sarkozy in negotiating the Fiscal Compact. It has been defended equally enthusiastically under Hollande. Importantly, for the understandings of appropriate fiscal policy settings underpinning the new fiscal rules in France, counter-cyclical policy, according to Moscovici, remains possible under France's new regime. This is because the structural balance is selected as the central target, which corrects for conjunctural fluctuations; 'En nous attachant à ce solde-là, qui donne l'état de santé réel de nos comptes,

[15] Interview with Sarkozy-era economic advisor, November 2013.
[16] Finance Minister Moscovici's communication to the French Cabinet, 27 February 2013 http://www.gouvernement.fr/gouvernement/la-strategie-de-finances-publiques

nous conservons la possibilité d'engager une politique économique contracyclique ou résistante au cycle en cas de conjoncture degrade ou de récession.'[17] Whilst this is accurate – the degree of fiscal activism and fiscal policy space compatible with the new fiscal rules regime depends on how the structural balance assessment is arrived at.

The structural balance target differs in important respects from the public deficit in the Maastricht sense in taking more account of the economic cycle and – in theory at least- allowing for counter-cyclical fiscal policy. This opens the door to the possibility of counter-cyclical fiscal policy. In the context of Franco-German relations, it is important to note that thinking on fiscal rules had evolved since the SGP with its 3% deficit target which took no heed of the economic cycle and could potentially induce damagingly pro-cyclical policy initiatives. The way fiscal rules are incorporated into the Fiscal Compact might seem to reflect a more 'French' than 'German' understanding of fiscal policy, economic activity and growth. Indeed, the search for economic policy autonomy – that familiar *dirigiste* policy reflex – now finds expression in some arcane and unlikely places. The focus on structural, as opposed to cyclical components of budget deficits within the new EU and National frameworks means that how potential growth rates and output gaps are defined are now of first order political significance. Each has major implications for the conduct of macroeconomic policy and acceptable fiscal policy settings.

Using structural deficit targets removes the cyclical element of the deficit or surplus from the calculation. This is not straightforward, and is predicated on contestable assumptions and measurement techniques relating potential growth and the output gap. To illustrate the point, a July 2012 OFCE study analysed the tendential growth rate of the French economy 2003-2007, and estimated that the output gap, by 2012, at 8%. In this scenario, much of France's budget deficit is cyclical, rather than structural. The assessment contrasted with an OECD assessment which posits a gap of only 2.5% (assuming a lower tendential French growth rate), and in this assessment, the majority of France's budget deficit can be considered structural (Heyer, Plane & Timbeau 2012, 5; see also Heyer, Cochard, Ducoudré, Péléraux et Plane 2012: 117-118). These differences are significant, because different degrees of fiscal space (or requirements for further fiscal effort) ensue from each scenario. Fiscal policy would need to be most restrictive under an OECD calculation, much less so according to the OFCE.

[17] http://www.assemblee-nationale.fr/14/pdf/rapports/r0244.pdf , pp 49-50.

There remain points of dissonances between French Finance Ministry officials and the IMF on these issues. For example, some within the French authorities argue that the assessments of potential growth emerging from the Fund are rather on the low side.[18] This is of first order political importance in the context of structural balance targeting, since the potential growth forecast underpinning structural balance assessment has crucial implications for whether fiscal policy settings are deemed too restrictive, or too expansionary. Assessments vary, with the OECD and European Commission tending towards more conservative, perhaps pessimistic potential growth forecasts than French officials. There is some disappointment that the IMF, which has in other ways become more enthusiastic about activist fiscal policy, has not aligned more closely with the French finance ministry and advocated a higher potential growth forecast for France, since the policy implications would be to open up more 'fiscal space' for activist policy without coming into conflict with structural balance targets.

The Eckert Commission which examined the new LPFP law in October 2012 picked the Ministers up on how French authorities were understanding structural balance, since many interpretations are possible; 'solde structurel, que votre commission des Finances a commencé à manier lors la précédente législature, renvoie à celle de croissance potentielle, à savoir la croissance que le pays aurait s'il ne subissait pas les effets de la crise internationale ... nous allons nous heurter à des problèmes méthodologiques qu'il faudra régler. La Commission européenne a une méthode de calcul de la croissance potentielle, la Cour des comptes en a une deuxième, la direction du Trésor troisième, et certains pays de l'Union en ont encore une autre. J'espère que les travaux menés au niveau européen trouveront une conclusion. Si l'on veut qu'une règle s'applique à l'ensemble des pays de la zone euro et que les comparaisons aient un sens, encore faut-il que la croissance potentielle soit appréciée de la même manière partout'[19]

At the policy level, this debate is conducted between economic policy technicians within finance ministries, or within the European Commission's output gap working group. It is little followed by academics or commentators, let alone the informed public. Yet the character and potentialities of economic policy is shaped, perhaps determined, by the upshot of these deliberations. The output gap and structural balance calculation – whilst apparently technical – is very significant in its policy implications. The French government has retained its own assessment of the structural balance (at the epicentre of the new rules regime), relying

[18] Interivews with French Finiance Ministry officials, September 2013.
[19] http://www.assemblee-nationale.fr/14/pdf/rapports/r0244.pdf , pp 49-50.

on its on finance Ministry rather than the European authorities. Thus economic policy room to manoeuvre is expressed through rejecting the EC calculation and metric in favour of Bercy's own assessments. This illustrates eloquently the condition of post-*dirigiste* French economic policy-making, and the tightly constrained limits of the possible – provided by ramped up Eurozone economic policy architecture.

France's Independent Fiscal Council

Another manifestation of the post-*Dirigiste* condition of economic policy is the advent of France's new independent fiscal council, the *Haut Conseil des Finances Publiques* (HCFP) – to oversee and comment upon the restoration of France's public finances. The historical context of French economic policy-making is one where the authorities build fiscal consolidation strategies on extremely over-optimistic growth assumptions. For example, both the Hollande and Sarkozy 2012 Campaign plans assumed 2–2.5% annual 2012-2017, compared to 1–1.5% (at best) predicted by most economists. These apparently small differences translate in fiscal consolidation terms into enormous sums. What this habit of over-estimating growth assumptions does is assume away all the pain of the cuts in public spending and service provision which will inevitably accompany any attempt to *actually* restore balance to the public finances.

To tackle the credibility-sapping effects of this bad habit, under some pressure from the European Commission[20] the French State created a fiscal council. The IMF has long called for independent growth forecasting (in France and elsewhere) as the optimal basis for medium-term public finance planning to restore debt and deficits to acceptable levels. This is something the Fund advocates in general terms when advocating reform of fiscal policy making institutions to bolster credibility and expand what it terms 'fiscal space'. It is also something it repeatedly underlines in more pointed fashion when commenting specifically on French economic policy in the context of annual Article IV consultations (see e.g. IMF 2010, 2011, 2012). The Fund thus rejoices in the advent of France's new fiscal council, the *Haut Conseil des Finnances Publiques* (HCFP), in the context of the transposition of the EU Fiscal Compact or TSCG into French law (IMF 2012: 18).

[20] Interview with Finance Ministry *haut fonctionnaire* May 2013.

In terms of enforcement institutions for the new fiscal rules, the New High Fiscal Council Moscovici defends its independence.[21] Meanwhile IMF Staff raised some questions about its degree of independence, and the possibilities of conflicts of interest arising for *cour des comptes* officials appointed to the fiscal council. It is also unlike the UK Office for Budget Responsibility, in that the forecasts themselves still originate with the Finance Ministry. In some ways, the curious amalgam which the haut conseil constitutes is revealing of post-*dirigiste* French economic policy. On the one hand, it is a further source of constraint on discretionary economic policy-making, its degree of independence seen as a step change in some quarters.[22] Yet at the same time, it modest in terms of its size and resources, it is staffed by *haut fonctionnaires* many of whom previously worked at the *cour des comptes*. These are enarques who *are* independent, but they are not *too* independent – being at the same time insiders within the French administration, reassuringly steeped in French state traditions.

Hollande's European Plan for Growth, June 2012

The final illustrative example of the politics of post-dirigiste economic policy in France is Hollande's 'plan for growth' prepared for the June 2012 European summit. This included €120bn of public works funded by redirected EU structural funds, the European Investment Bank, and 'project bonds', and the EU transaction tax proposition, as well as other employment creation measures. Although ambitious, the reception within Europe was quite warm. Even within EU institutions such as the Commission, economic ideas had been evolving during 2012, and the need for more emphasis on growth had gained wider traction as the downsides of a myopic focus on austerity had become all too evident as the Eurozone crisis deepened.

By the summer of 2012 Hollande's pro-growth thinking was beginning to find echoes within major European institutions, as well as with numerous EU member state governments. The plans for over €120bn of spending received broad agreement, if not the sourcing via bond issuance. But a more significant evolution, thanks largely to Italian and Spanish brinksmanship, was the recognition by the June 2012 Euro area summit of the 'imperative to break the vicious circle between banks and sovereigns', distinguishing the problem of bank debt from that of national debt.[23] This had the potential to represent a crucial shift in the

[21] http://www.assemblee-nationale.fr/14/pdf/rapports/r0244.pdf , pp 49-50.
[22] Interviews with French economic policy advisors, May 2013, September 2013.
[23] Euro Area Summit Statement, June 29, 2012
http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/131359.pdf

politics of fiscal rectitude. It could open up ‘fiscal space’ for the growth-oriented economic policies favoured by Hollande, although at the cost of tighter banking supervision under the auspices of the ECB. There was in June 2012 agreement in principle on ambitious measures, notably to deploy the €500bn European Stability Mechanism bailout funds both directly to support troubled European banks (thus not adding to government debt) and also to purchase government bonds in order to lower borrowing costs. However, there has been no further movement on these issues since. This more ambitious re-orientation of European economic governance has floundered in the face of ongoing opposition from the ECB and German Government. This has to date seriously undermined Hollande’s hoped for re-orientation of European economic policies.

Conclusion

French economic policy-making after the crisis is more rule-bound than in earlier periods. This begs the question whether post-*dirigiste* aspirations for economic policy-making are compatible with the increasingly rules-bound condition of 21st Century economic governance. How far will a deepening post Eurozone crisis process of European economic integration, with more muscular and intrusive governance mechanisms, transform French economic policy practice?

Achieving the structural balance objectives, debt on a downwards trajectory by 2017, and the more binding mechanisms to pursue and chart fiscal consolidation augur a significant transformation of French economic policy, one which will likely outlast the current crisis (and that crisis will probably last for many years yet). Although less pro-cyclical than the old SGP targets – the targets for structural balances and structural deficits contained in the LPFP still have potentially recessionary effects. The need for fiscal activism in support of demand amidst the ongoing downturn, so accentuated during the Hollande campaign, and the Keynesian insights into fiscal policy impacts which underpinned this analysis, have been somewhat lost in the translation of a new set of fiscal rules on the French statute books.

In explaining the puzzle of why the incoming French Government in mid 2012 did not pursue more growth oriented policies, a post-*dirigiste* reading highlights a number of factors. Firstly, one legacy of dirigisme is the lack of a balanced budget in France since the 1970s, and with that a reputation for profligacy and historical record of ‘unrepentant sinning’ on the public finances (see Clift 2006). This reputation, compounded by jitteriness at markets regarding some of Hollande’s more economically radical campaign pledges threatened to erode confidence in French creditworthiness. Coming on the back of the damaging loss of France AAA status in early 2012, and mindful that Socialist governments often have greater difficulties convincing the markets, policy space was perceived by the authors of French economic policy to be greatly limited, concentrating minds on a concerted focus on harsh fiscal consolidation.

This was compounded by France's European and Eurozone partners, notably Germany, who were averse a reorientation of European economic policy priorities. Such a position helps explain why the fiscal compact did not get renegotiated, and why the LPFP faithfully transposed it into French law. This is a reflection of the Franco-German relationship, and the attachment to ordo-liberal principles of budgetary orthodoxy which inform German approaches to the Euro architecture and to Eurozone crisis management. These are what is being referred to in the IMF Article IV Mission to France's December 2012 staff appraisal of the Ayrault government's policy settings; 'on purely cyclical grounds, a more measured pace of fiscal adjustment would be appropriate, but European and market imperatives have reduced fiscal space at this juncture' (IMF 2012: 30).

What is 'at play' in the rise and decline of dominant economic ideas is a contingent and to some extent open-ended struggle between different *socially and politically constructed* interpretations of economic policy logics and outcomes which are always contestable. The economic policies and policy prescriptions which flow from these are built on *socially and politically constructed* interpretations of economic rectitude. In the French and European case, the anti-inflationary and fiscally conservative principles of German ordo-liberalism shaped understandings economic policy rectitude from the 1980s onwards, and this became especially pronounced in the wake of the European sovereign debt crisis. The condition of post-*dirigisme* means that elite ambition to mould economic policy and steer the French economy remains, but the purchase over economic outcomes is significantly reduced. Rules-based policy-making co-exists (and conflicts) with *dirigiste* practices and aspirations. Attempts to reconcile the two (for example through structural balance targeting) have had some success, but the policy space remains narrow. The kinds of economic policy practice these rules proscribe and permit, and the trajectory for the public finances they inscribe into law, means that the reach of French post-*dirigiste* economic policy exceeds its grasp.

Bibliography – to follow …..