

# The political economy of French social democratic economic policy autonomy 1997–2002: credibility, *dirigisme* and globalisation

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## Introduction: the crisis of social democracy

The U-turn of French Socialism in 1983 saw a retreat from egalitarian redistribution, full employment and social justice as the priorities of economic policy. A prolonged period of ideological and programmatic flux ensued. The manifest failure of a decade of Socialist Government to make any impression on the soaring unemployment figures was devastating. This, acting in tandem with widespread disdain for a sleaze-ridden Socialist elite, heralded the biggest defeat in the history of French Socialism in 1993. These developments were grist to the mill of the ‘end’ of social democracy thesis, which has been pronounced repeatedly, with varying degrees of conviction in recent decades (Dahrendorf 1990; Giddens 1994; Gray 1996, 1998). However, French social democracy was not dead. In fact, it rose under Lionel Jospin like a phoenix from the flames in 1997. This attests to the capacity for ideological innovation, and renovation, within social democracy. How could reports of the death of social democracy, pronounced so assertively by such eminent scholars, have been so mistaken? The answer lies in *how* social democracy is conceived, and some hidden assumptions within these commentaries.

There is a tendency to identify social democracy first with a particular set of institutional ‘means’ (such as corporatism) and second with the policy paradigms within which those means were couched (such as ‘Keynesianism’). The fortunes of social democracy are then evaluated in terms of particular means through which the political aspirations of social democracy have been channelled. There is an elision within some of this analysis, which assumes that because the political claims of social democracy were advanced through a particular set of policies or institutions, therefore social democracy is ultimately *reducible* to those elements. It ‘follows’ that the continuing viability of these institutions

or policy approaches is a necessary condition of the enduring viability of social democracy.

Yet this ahistorical conception misconstrues the relation between social democracy's programmatic goals and the means deployed in pursuit of social democratic ends. Fundamentally, it misunderstands the nature of social democracy and prematurely discounts its capacity for renewal (Clift 2003a). A changed international economic and domestic political context (the end of embedded liberalism) requires us to look at how social democratic goals are pursued today, and to trace the outline of a new political economy of social democracy. The ends – securing equality of outcome and opportunity, redistribution to the most needy in society, and facilitating the widest possible access to employment within society – can, in the broadest terms, be summarised as the attempt to reconcile social justice with economic efficiency. These ends have remained the same across time. The *means*, however, have evolved significantly. With this in mind, this chapter explores the successes and failures of the Jospin era (1997–2002), and interrogates its implications for the analysis of social democracy more broadly, and its compatibility (or otherwise) with globalisation, and deregulated financial markets.

This chapter charts how the credibility built after the 1983 U-turn through firstly competitive disinflation and subsequently the 'ordoliberal'<sup>1</sup> foundations of EMU generated policy space exploited by the Jospin Government. It then assesses enduring *volontarisme* in French Socialist economic and social policy-making, analysing the employment and redistribution oriented economic policies central to the 1997–2002 period. Finally, it explores successful attempts at institutional re-engineering of the EMU architecture, notably expanding scope for *dirigiste* fiscal policy, and rearticulating *dirigiste* policy approaches at the supranational level.

### Social democracy, credibility and globalisation

As Eatwell argues, 'today the sheer scale of speculative flows can easily overwhelm any government's foreign exchange reserves . . . Credibility has become the keystone of policy-making in the nineties . . . Governments which fail to pursue "sound" or "prudent" policies are forced to pay a premium on the interest costs of financing their programmes. Severe loss of credibility will lead to a financial crisis' (1995: 278). This can pose particular problems for social democratic governments, since their policy aspirations are more likely to fly in the face of such prudence, and the markets tend to be slower to trust them. Social democratic governments have found themselves constrained to pursue tight monetary policies in order to avoid incurring a 'risk premium' imposed on borrowing by investors suspicious of potentially inflationary macroeconomic stances. Thus capital mobility

and financial deregulation have changed the cost–benefit analysis of social democratic macroeconomic strategies. Social democrats have become increasingly convinced of the merits of ‘stability’, or low and stable rates of inflation and fiscal discipline, as a means of securing credibility. Many adopt ‘risk-averse, cautious macroeconomic policies seeking to second-guess the reactions of global financial markets and to secure their approval’ (Held *et al.* 1999: 230).

Yet, while it is undoubtedly the case that the power balance has shifted in favour of private capital holders, such a disparate and diverse group of actors do not, in any uniform or predictable manner, ‘impose’ a policy agenda on states. Nor is it necessarily accurate to characterise all aspects of the new policy package as neo-liberal. Some of the changed parameters of economic policy-making relate to changed realities of the global economy. It is important to draw distinctions between different elements of economic policy packages, and recall that while certain aspects may be closely linked to neo-liberal policy agendas, others are perfectly compatible with social democratic ones. The credibility demanded by financial markets does have ideological dimensions, often rooted in a broadly neo-liberal view of economic activity, but it is also to an extent a reflection of changed economic realities. The size, scale and speed of global financial flows mean that governments have to pay close attention to their credibility rating with financial markets (Eatwell 1995; Balls 1998).

Such discussion often segues into talk of the exhaustion of the Keynesian political economic paradigm, and to the decisive renunciation of Keynesianism (and indeed a commitment to full employment). This is a familiar refrain of many authoritative works in comparative and international political economy. These are usually placed in the context of the breakdown of ‘embedded liberalism’<sup>2</sup> internationally, and of the rise of the New Right and monetarism ideologically. The supposed repudiation of Keynesianism is often ‘explained’ by a changing international political economic context within which Keynesian economic policies are deemed increasingly incompatible (Giddens 1998: 16–17). Gray’s pessimistic account infers from the assumed centrality of neo-liberal orthodoxy to ‘credibility’, and the changing cost–benefit analysis of national economic policies, that ‘global mobility of capital and production in a world of open economies have made the central policies of European social democracy unworkable’ (Gray 1998: 88–9).

Yet the mooted incompatibility of economic strategies inspired by Keynesian thinking with the new international political economic context of global financial markets has been exaggerated (Clift and Tomlinson 2007). Particular Keynesian policies are sustainable in principle in a ‘globalising’ world. The role of public investment reserved for fiscal policy

within Keynesianism is not ‘ruled out’ by the new global economy. Rather, globalisation requires new institutions and prerequisites in order to secure credibility with financial markets, thence to exploit the policy space available to pursue the politics of social democracy. Securing credibility through stability-centric macro policy stances is compatible with a wide range of different priorities in other areas of economic policy. Arguably, the French Socialists’ political economy between 1997 and 2002 (and New Labour’s since 1997), was able to reconcile *both* the securing of credibility with international financial market actors *and* substantial fiscal policy space within which to pursue domestic economic policies of a broadly Keynesian character. Within a framework of a commitment to macroeconomic stability, there remains room for manoeuvre over the *degree* of ‘orthodoxy’, as well as a whole range of other economic policy tools which may be exploited to prioritise ‘social democratic’ goals. A commitment to stability does not condemn a social democratic government to budgetary *immobilisme*, and even opens the door, despite the rejection of ‘fine tuning’, to a significant Keynesian influence on policy in pursuit of full employment.

### Jospin, the rebirth of French social democracy and *dirigisme*

The remainder of this chapter explores the relationship between French social democracy and globalisation in the period 1997–2002, centring on the role of credibility within French socialist political economy. Securing credibility was one important means by which French socialists reconciled themselves to globalisation whilst retaining *dirigiste* policy space for egalitarian economic interventionism. Jospin’s policy record, detailed below, offers evidence that the degree of room for governmental manoeuvre is not as heavily circumscribed as the neo-liberal rhetoric of globalisation suggests. The Jospin government’s activism gives the lie to the hyper-global discourse on globalisation. This suggests more complex responses to the process of globalisation *in practice* than neo-liberal rhetorical deployments of globalisation.

To understand the political economy of French social democracy, it is important to appreciate the distinctive French state tradition of state–economy relations known as *dirigisme*. *Dirigisme* has been succinctly defined as ‘a set of interventionist policies and directive policy-making processes’ (Schmidt 1997: 229). A concept central to understanding *dirigiste* policy impulses throughout the twentieth century is *volontarisme*, a political term which refers to an activist, interventionist economic policy approach which places emphasis on the discretionary actions of policy-makers. Jospin translates *volontarisme* as ‘the active state’ (1999).

Central to France’s *dirigiste* interventionism after the Second World War was the state’s role in providing funds for industrial investment (Zysman

1983). The state's centrality to the system of 'institutionally allocated credit' (as opposed to 'asset-based credit') from private and public banks gave the French state extraordinary leverage to act as 'gatekeeper' in providing access to 'strategic', cheap capital. The degree of dependence of industrial and financial capital on the state was highly distinctive. State loans tended to be conditional upon meeting specific restructuring targets, incorporating subsidiaries into parent companies, or merging with other big firms. In addition to the 'economy of administered finance', a further characteristic of the French model was the 'inflationist social compromise' (Cohen 1995). The state's inability to control the inflationary growth of credit was compounded by 'the consensual refusal of the state, the trade unions, and the employers to control nominal changes in incomes and prices' (Cohen 1995: 26). As well as macroeconomic policies such as competitive devaluation and a broadly Keynesian set of fiscal and welfare state policies (Rosanvallon 1989), there was a panoply of instruments and institutions geared towards microeconomic interventionism in the French economy. The making of economic policy in France was a source of national pride for much of the post-war period, widely credited as the reason behind France's *trente glorieuses* (thirty glorious years) of post-war economic growth and widening prosperity and affluence.

Post-war French *dirigisme* was predicated on the international economic institutions of Bretton Woods, what Cox calls *Pax Americana* (1987: 7). As that system unravelled amidst the Nixon shock, oil crises, and advancing liberalisation and deregulation in the 1970s, France's *dirigiste* policy paradigm came under increasing strain. International financial liberalisation, for example, rendered the *dirigiste* 'credit rationing' approach to monetary policy increasingly unworkable (Cohen 1996: 351).

In the international political economic context of the 1990s and 2000s, which differs markedly from post-war 'embedded liberalism' (Ruggie 1982), *dirigisme* is articulated in a different, more circumspect, manner than was the case in the heyday of the French model (Zysman 1983). This presupposition in favour of *dirigiste* interventionism has come under increasing threat in the last twenty-five years from structural changes in global financial markets, from the European Union, and from the ideological ascendancy of neo-liberalism.

The process of European integration, which gathered momentum after the 1984 Fontainebleau Summit, was built upon decidedly non-*dirigiste* economic foundations. The 1986 Single European Act, and the neo-liberal understanding of state-economy relations that underpinned it, had wide-ranging implications for French political economy. Drawing heavily on US anti-trust regulation, the new competition regulation framework saw state industrial subsidies, protected sectors, and preferential public

procurement – all key weapons in the *dirigiste* arsenal – as trade-distorting practices. *Dirigiste* industrial policy was decreasingly viable, given the weakening of traditional policy instruments, advancing Europeanisation, and a Commission policing competition with increasing vigour. Yet *volontariste* instincts and policy approaches endured, despite the French government's means to direct the economy (through the 'old-style' *dirigisme* of the Mitterrand experiment) being undermined.

French Socialists' *dirigiste* aspirations endured, and indeed revived in the mid to late 1990s, particularly in the field of employment policy where the *laissez-faire* approach failed so miserably in the 1980s and early 1990s (Lordon 1998). French Socialists recognised the constraining context of the post-Bretton Woods international political economy, but sought to carve out *dirigiste* policy space. This policy space was illustrated between 1997 and 2002 by attempts to find a new path to full employment. In the face of macroeconomic constraints at the national level, they sought to transcend these by pursuing a dual-level strategy. This combined national level reforms with a reorientation of the process of economic integration towards greater emphasis on employment, creating a new *dirigiste* policy space at the European level:

As the Prime Minister [Jospin] is often saying, the problems of growth and unemployment are also European problems . . . that is why the strategy for fighting unemployment has two facets: a national dimension, and a European one seeking to re-orient European construction in favour of jobs and growth. (Muet 1998: 85)

The successes and failures of this strategy are discussed below after providing historical context by briefly discussing the 1983 U-turn and competitive disinflation. This chapter then proceeds by setting out how the French Socialists sought to secure credibility and then create and exploit *dirigiste* policy space.

### **The U-turn, competitive disinflation and the 'long game'**

The Mitterrand era began in 1981 with an ambitious 'redistributive Keynesian' (Hall 1986) demand boost and a dash for growth in the context of a world slump. However, within two years, a ballooning trade gap led to balance of payments problems which generated financial crises. The resultant external pressures, perhaps most importantly in the form of commitments involved in staying in the European Monetary System (EMS), proved incompatible with this macro-economic stance and by mid-1982 it had been abandoned (Hall 1986; Cameron 1996). One policy option in 1983 was a protectionist and *dirigiste* 'solution' which remained within

the established *referential* of French economic policy-making. Mitterrand received representations from both 'camps' right up until the decision was made. The *dirigiste* approach was rejected in favour of an 'ordo-liberal' (see above), anti-inflationary and market-conforming solution. This accepted EMS conditions for revaluation, and a distinctly German-influenced conception of what constituted sound macroeconomic policy, and indeed macro-policy making institutions.

This was a pivotal moment for French Socialism, and the nature of France's engagement with the international economic context. Once the decision to remain part of the EMS was taken, the 'appropriate' path of development was conceived in very narrow ordo-liberal terms, despite the absence in France of the wider framework of (corporatist) institutions upon which German ordo-liberalism is predicated. The effects of the 1983 policy choice were, in Cameron's term, 'regime defining':

In failing to negotiate a devaluation immediately upon entering office, in failing later to negotiate devaluations large enough to offset the cumulative inflation differential with Germany, and, ultimately, in failing to leave the EMS the government consigned itself to remaining in the EMS with an over-valued currency. In so doing, it consigned itself to the pursuit of an orthodox deflationary policy marked by fiscal restraint and tight money that inevitably resulted, over time, in low growth and high unemployment. (Cameron 1996: 75)

The French case is often cited as powerful testament to the power of global finance to erode policy autonomy. As Lordon notes of the 1983 U-turn, 'this major shift, in fact, corresponds to the acknowledgement by the Socialists of the new rules of opened and internationalised economies' (1998: 96; see also Halimi *et al.* 1994). The 'competitive disinflation' strategy (Lordon 1998) was pursued by the Socialist, hitherto *dirigiste*, governments after 1983. It assumed the route back to a full employment economy lay not with Keynesian macroeconomic demand management, or *dirigiste* interventionism, but microeconomic manoeuvres to bring market discipline to bear in order to improve French firms' competitiveness in the context of tight budgetary discipline and a strong currency.

Finance Minister Bérégovoy implemented a macroeconomic strategy of 'competitive disinflation'. The logic is simple, 'under fixed exchange rates, a country with higher inflation loses competitiveness, and as a result demand for output falls. An increase in unemployment follows which makes inflation decrease sufficiently so that competitiveness is eventually re-established' (Fitoussi *et al.* 1993). The strategy was a crucial determinant of all aspects of economic policy from 1983 onwards. Competitive disinflation comprised three elements. First, the nominal stability of the *franc fort*, pegged to the DM. Second, wage restraint and wage discipline,

initially through a de-indexation of wages, and third, the prioritising of public deficit reduction (Lordon 1998: 103-5).

The causes of the paradigm shift in the *referential* from *dirigiste* macroeconomic framework and credit rationing to the market and rules-based ordo-liberal regime are to be found not only within French politics, but also in the changing European, and global, political economic conditions (see Clift 2003 a and b). The policies pursued between 1981 and 1983 displayed an incompatibility with the post-Bretton Woods international economic context, and after 1983, competitive disinflation was to an extent a reflection of changed economic realities. As Lordon notes, 'the 1983 decision was grounded on a strong – even if somewhat fuzzy – European commitment, based on an acceptance of the evolution of the world economy' (1998: 102). Desires to facilitate European construction, and shift the macroeconomic framework so as to be consistent with European priorities, were reinforced by domestic priorities and budgetary constraints. The French state's severe lack of funds, and cavernous trade gap, had presented serious problems when funds were diverted to defending the franc against repeated speculation.

Currency crises demonstrated the need to secure credibility with financial markets as a precondition of any political economic strategy. Competitive disinflation illustrated this centrality of credibility within the French Socialist mindset. French Socialist policy elites have, since the 1980s, achieved their main macroeconomic policy goals in the context of European integration by committing to stability-bolstering rules. This was part of a wider strategy, or 'long game' – to use the credibility gained through competitive disinflation, and thereafter a strongly German influenced architecture of EMU, to expand their room to manoeuvre in economic policy. Subsequently, once credibility had been achieved, French Socialists sought to rewrite and reinterpret the rules (Clift 2003b and 2006).

Within the Maastricht negotiations, French Socialists' aspirations for more *volontarisme* to counter the perceived 'monetarism' of the European Central Bank (ECB) crystallised into the proposal for an 'economic government' (EG) as a political counterweight to the ECB (Dyson and Featherstone 1999: 172–245). The proposal had eventually to be sacrificed in the face of unstinting German hostility. Such political influence was counter to the German model, and the Maastricht Treaty explicitly outlaws such interference. Nevertheless, the political support and the opportunities for the kinds of reorientations to EMU that the likes of Mitterrand and Bérégovoy had sought at Maastricht presented themselves in the years immediately following its inception in 1999. The stability and growth pact (SGP), the budgetary policy rules limiting deficit and debt levels for euro members, had secured credibility for France and other European members. This



credibility, in combination with the political context of a Franco-German axis on deficit forgiveness, *created* areas of room for manoeuvre, notably in revising the interpretation and implementation of the SGP to align more closely with French *dirigiste* preferences.

### **French socialism and *dirigiste* aspirations for European economic governance**

In 1997, the Jospin Government's attempts at institutional re-engineering of the supranational economic policy regime advocated a political role in the determination of exchange rates, and a balancing of stability with other economic priorities, notably employment and growth (Clift 2003a). Jospin's four 'conditions' on the transition to the euro of the 1997 election manifesto (PS 1997: 12-13) distilled the diverse elements of the *dirigiste* aspirations of French Socialists. Notably, Jospin insisted that, alongside the ECB, there must be established 'a European economic government, representing the people and charged with co-ordinating the economic policies of the various nations'. Jospin further argued that 'Europe must be social and political,' therefore, 'we want the relations between participating euro countries be founded not on an austerity pact [an explicit reference to the German-inspired SGP], but on a solidarity and growth pact, permitting policies in favour of job creation and social cohesion' (PS 1997: 12-13).

In April 1999, then Finance Minister Dominique Strauss-Kahn offered a further iteration of *dirigiste* French preferences in relation to the SGP and economic government. The euro, he argued, 'should make us more autonomous in the conduct of our economic policies', and this autonomy should be directed towards the 'political priority' of employment and growth (Strauss-Kahn 1999). Specifically, Strauss-Kahn argued: 'Fiscal policies, within the framework of the Stability and Growth Pact, should promote strong and sustainable growth, especially in the event of a sharp drop in activity. This assumes that we accumulate enough room for manoeuvre during periods of high economic growth so that automatic stabilisers can be allowed to act when the economy slows down'. The aim being to 'enable automatic stabilisers to play their full part . . . [making] fiscal policy an instrument for smoothing out ups and downs in the economy without compromising objectives for correcting structural deficits' (Strauss-Kahn 1999).

Pisani-Ferry (Jospin's chief economic adviser) advocated 'a suitable policy mix for the Euro zone through coordination and dialogue'. The path to full employment entailed, for him, a 'balance between monetary and budgetary policies and between macro-economic and structural policies' in the context of a 'macro-economic policy that can take risks in favour of growth and employment' (2000: 23-4).

In May 2001, Jospin renewed calls for the full establishment of the 'economic government' of Europe in a speech setting out his European agenda (Jospin 2001). Pisani-Ferry and then Trade Commissioner Pascal Lamy further elaborated French Socialist euro reform proposals (Lamy and Pisani-Ferry 2002). Celebrating the creation of the Eurogroup as a 'notable success' of the 'French left's European project' (2002: 49–50), they contrasted this favourably with 'a Europe constructed on rules and procedures, whose ideal model of the world seems to be one in which there would no longer be a need to make discretionary decisions' (2002: 51). Criticising the ECB inflation target of a price increase of between 0 and 2 per cent as 'inappropriate' (2002: 110), they noted 'while the Americans have given an equal weighting to monetary stability and growth, the Europeans have decided to give their central bank the narrow task of ensuring price stability' (2002: 109).

Lamy and Pisani-Ferry advocated 'a more French model', 'based on an institutionalized dialogue [between the ECB and] the political authorities (Eurogroup and Council)' (2002: 111), a strengthening of the Eurogroup (2002: 116), and a symmetrical target for inflation (potentially committing the ECB to *re*-flation if inflation drops too low) in a range between 1 and 3 per cent. The *dirigiste* justification for these reforms is that 'economic policy does not boil down to a collection of disciplines and rules of good conduct . . . there are times when it is necessary to have the ability to decide and act' (2002: 114). The aim was to preserve 'the proper management of budgetary policy' and its 'role as an instrument of national economic policy' (2002: 115). Pisani-Ferry and Lamy betray the influence of Karl Polanyi over their *dirigiste* position in their reservations about untrammelled free markets, recognising the potentially 'pernicious effects of a market-controlled economy' (Polanyi [1944] 2001: 80):

there are those who, in the fashion of the gold standard of the nineteenth century, seek to depoliticize the currency, ensure that it is managed as much as possible by a set of fixed rules, placing the onus on societies to make the adjustments required for monetary stability . . . on the other hand, there are those who, in the tradition of the twentieth century, regard monetary policy as one of the instruments of an active macroeconomic policy, which takes responsibility for reacting to shocks and attempts to minimize the adjustments imposed on society. These two views are both compatible with the goal of price stability and a scrupulous respect for the central bank's independence . . . this key choice [between rigid rules and political discretion] underlies all the debates about the single currency. (Pisani-Ferry and Lamy 2002: 77)

French Socialists share Polanyi's reservations about the danger of subordinating 'the substance of society itself to the laws of the market' (2001:

75), and the need for the 'protective covering of cultural institutions' (Polanyi 2001: 76) to contain the fundamental contradictions inherent in the *laissez-faire* self-regulating market system. Accordingly, the French Socialists' approach to European economic governance continually emphasised the discretion of national economic policy-makers over EU-level rules. Dyson notes that the French Socialists 'sought to draw a line between embracing rules of 'sound' public finance and money and taking on the whole apparatus of neo-liberal and monetarist policy discourse' (1999: 202). The mooted balancing of stability with other economic priorities, notably employment and growth, was alien to traditional German 'ordo-liberal' monetary arrangements. Nevertheless, the Jospin Government continued to flex *dirigiste* muscles in order to pull macroeconomic policy levers in the face of low growth, which had been slowed down by prohibitive interest rates and unemployment in excess of 10 per cent (Moscovici 1997: 58). The aim was for a negotiated rebalancing of the policy mix, notably carving out a role for economic and social policy geared towards growth and jobs.

### **Jospin's socialism: domestic *volontarisme*, employment creation and redistribution**

The failure of all French governments in the 1980s and early 1990s to deliver on pledges to reduce unemployment led to a re-evaluation of Socialist economic strategy. Too much, it was felt, had been sacrificed at the altar of economic orthodoxy, with resultant gains in financial credibility and profitability, but not jobs. The set the tone for Jospin's 1995 presidential manifesto:

We must learn the lessons of the past, in order to instigate the reorientations of economic policy which today are necessary and possible without increasing the public deficit, nor putting our currency, our external balances, or the competitiveness of our firms in peril. I reject the idea that the state is powerless, and believe that it should deploy all its capacities to aid job creation. (Jospin 1995)

The Jospin Government came into office in 1997 committed to *dirigiste* activism to tackle unemployment and a number of redistributive social and economic policies. The need to be seen to be credible by investors and speculators, Jospin argued, did not rule out policy activism (1995, 1999). A questioning of the dominant economic orthodoxy informed the philosophical foundation of 'Left Realism'; an insistence upon the existence of '*marges de manoeuvre*' (room for manoeuvre), and a belief that all the means of tackling unemployment had not been explored (Clift 2003a). While accepting the need to reduce public deficits, and meet Maastricht

convergence criteria, Jospin insisted on sufficient room to manoeuvre to change the priorities of the system. The 1997 budget was modified in the wake of the change of government, with new spending and supplementary taxes, in particular on firms. Overall, however, 'not wishing to interrupt the up-turn, the state's budgetary policy in 1998 was next-to neutral' (OFCE 1999: 17). The Solidarity Tax on Wealth (ISF) was made more progressive. It was increased in the 1998 budget, its coverage was extended to close a number of loopholes, and a new band introduced in the 1999 budget (OFCE 1999: 19, 63). In 1998, part of the receipts from increased growth went into reducing the public deficit, whilst part went into active expenditure. More redistributive measures were introduced in the 1999 budget (OFCE 1999: 19, 63; PS 1997: 6–7)

From 1998 onwards, the fruits of economic growth enabled more social security spending to be combined with an incremental deficit reduction strategy so as not to hinder growth. Public spending accelerated in 1999 (+2.4 per cent in volume, compared with an average of 1.2 per cent increase 1993–97) (Dupont 2001: 63–5). The role of automatic stabilisers retained its importance within the French fiscal policy framework (Clift and Tomlinson 2004). This, combined with some redistribution to lower income brackets with a higher propensity to spend, was a means of keeping demand buoyant during the growth period. Purchasing power as a proportion of household revenue increased by 16 per cent between 1997 and 2000. The existence of room for manoeuvre was demonstrated by the 15 per cent tax levied on non-reinvested profits (reduced to 10 per cent in 1999) by the Jospin Government in 1997, justified in terms of the need to reduce the budget deficit in order to meet the convergence criteria. This was replaced in 2000, by a *contribution sociale* on profits to part finance reduced social security contributions for lower earners. Furthermore, a number of exemptions and tax breaks for firms were removed (Dupont 2000: 68–9).

Although remaining within the framework of a commitment to stability, the strategy had a Keynesian feel to it. Firms had to anticipate solvent levels of demand – which presupposed mass consumption, and therefore higher salaries. This explains the commitment to limited redistribution from capital to labour, particularly towards those lower earners with a higher propensity to spend, albeit tempered by an appreciation of the importance of the profitability and competitiveness of firms. While careful to point out that this was *not* a return to old-style Keynesian policies, the different ideological suppositions underpinning this different view of the economy were explicitly highlighted (Moscovici 1997: 59–60).

*Dirigisme* in employment creation was a core theme of the Jospin government. Nowhere was the state's enduring role in the job-creation strategy

more in evidence than in the Jospin government's orchestrated shift to a 35-hour week, aiming to reduce unemployment and to have a redistributive effect between labour and capital. The law which the Assemblée passed in 1998 emphasised job creation, with state aid in the form of reductions in social security contributions offered to firms creating new jobs as a result of the reduction of the working week. The fixed levels of these state financial aids meant they were relatively more generous for lower earners (Milner 2002).

In ideological terms, the 35-hour week policy was a rejection of the neo-liberal interpretation of globalisation, and its implications for structural reform of labour market institutions. The 35-hour week was integral to the French Socialist 'model' of capitalism, which prioritised employment (PS 1996). Such new social democratic employment policies indicated an activist role for the state in a strategy compatible with an open economy in a globalising world. The 35-hour week involves negotiated redistribution among workers as a means of furthering social democratic egalitarian employment policy. As Fitoussi puts it, 'workers have to agree to share both their jobs and their salaries with the unemployed' (1998: 81). The 35-hour week stands out as a slight return to the 'heroic' policy-making style of earlier *dirigiste* French governments (Schmidt 1996: 50–5). The estimated Fr 110 billion cost of the policy was met through a mixture of 'cost-shuffling' and increased public debt (Levy 2001: 204).

In the run up to the 1997 election, the PS manifesto noted: 'Only an engagement of public power can triumph over massive unemployment. A master budget, re-orienting public expenditures towards employment, will be a powerful lever of action'.<sup>3</sup> 'Active' employment policy takes a number of forms, from apprenticeships, and work placements, to state-subsidised jobs, and employers' social security exemptions. These targeted particular groups 'excluded' from the labour market, notably the long-term unemployed, the uneducated and young people. These groups have borne the brunt of increased labour market flexibility in France.

The Jospin Government insisted upon the role of the state as guarantor of employment, using public sector job creation to tackle unemployment. The resources devoted to employment policy increased markedly, reaching 4.5 per cent of GDP in 2000 (Ministère des Finances 2001: 15). The French Socialists' *Plan Aubry* pledged to create 350,000 public sector jobs, which, it was anticipated, would be matched by 350,000 new private sector posts. The state's role as employer within an active employment policy remained central to the PS approach. The results of the *Plan Aubry* were encouraging, with 274,900 jobs created in the public sector by March 2001, and a total of 308,000 private sector jobs under the *Plan Aubry* framework. The 2001 budget included measures further expanding state employment. In all,

25,000 new *emplois-jeunes* were created in 2001 (Ministère des Finances 2001: 9).

The commitment to credibility was a linchpin of the Jospin political economic strategy, and his commitment to a safe transition into the euro was testament to that. Moreover this proved compatible with a wide-ranging, *dirigiste* and at times redistributive domestic economic and social policy agenda. These measures, in conjunction with a favourable macroeconomic context provided by a 'soft' euro, enabled the Jospin Government to claim some successes on the employment front between 1997 and 2001. Unemployment fell below 10 per cent in 2001, with a total of 2,371,300 unemployed – down from 3.2 million (12.5 per cent) when Jospin took office. He spoke about the creation of a full employment society – unheard of in France since the dramatic policy U-turn of 1983. That said, with the downturn in 2001–2, unemployment began to creep up.

### **Moving the goalposts: French fiscal policy, EMU and the SGP: constrained discretion, or discrete latitude?**

Turning now to the supranational institutional re-engineering element of the French Socialists' *dirigiste* dual-level strategy, it was under Prime Minister Juppé's right-wing RPR Government that the reorienting process began, at the Dublin European Council in 1996, with the (cosmetic) insertion of the word growth. Under the Jospin Government, the reorientations would take on a much more concrete, politically and economically significant form. French macroeconomic policy thinking was always more equivocal about the 'sound money and finance' agenda which inspired the Pact's rules. Attempts to rebalance the relative importance of acceptance of the German model in the pursuit of 'sound money' with more familiar, French *dirigiste* elements have been most consistently and successfully pursued in relation to the SGP.

Jospin's European Minister Moscovici highlighted the price paid for anti-inflationary myopia in terms of low growth, slowed down by prohibitive interest rates and mass unemployment. 'That is why such dogmas are today seriously challenged, not only on the grounds of social justice, but also on the grounds of economic efficiency' (1997: 58). The aim of the Jospin Government in the area of European economic governance, as noted above, was for a negotiated rebalancing of the policy mix. At its most ambitious, *dirigiste* aspirations hoped to generate coordinated fiscal, monetary and structural policies across the EU which would be geared towards jobs and growth. The strategy was one of continued critical engagement from within – arguing at every turn for reorientations, such as a European Jobs

and Growth Pact (at the Amsterdam European Council), and a European Growth fund (at the Portsach European Council) (Clift 2003b).

As the economic slowdown, beginning in 2001, gathered momentum, the 'long game' French Socialist policy-makers had been playing with EMU began to bear fruit. The credibility-bolstering rules-based regime and the earlier fiscal consolidation generated policy-space which was exploited by the Jospin government in its redistributive, indeed opportunistic, tax cutting in 2000. The macroeconomic stance of the Jospin Government betrayed a certain antipathy towards the constraints of the SGP, which incurred the Commission's wrath. The Jospin Government's use of the *cagnotte* (tax wind-fall) to increase public expenditure and delay public sector reforms aimed at reducing spending, rather than reduce deficits, illustrated the power of *dirigiste* instincts. As Howarth notes, the 'stabilisation goal of "economic government" 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' (2004: 20).

This set in train the almost inevitable French breaches of SGP targets that were to follow between 2002 and 2004. This provided the background to what would become, under the Raffarin Government, a period of 'unrepentant sinning' (in the eyes of the European Commission) (Creel *et al.* 2002). Credibility nevertheless continued to be an important concern for the Socialists, rhetorically at least. They pledged, in the context of the 2002 election campaigns, to respect the SGP conditions, and accurately criticised Chirac's profligate tax-cutting plans as incompatible with European commitments (Howarth 2004: 22). One can only speculate as to whether this pledge would have been honoured had Jospin won, although the policy record 1997 to 2002 suggests it probably would not.

One notable achievement of French objectives has been the appointment of a formal leader of the Euro-group (of Euro-member economics and finance ministers), as French Socialist finance minister Fabius had called for in 2001. French aspirations for a strengthening of the Euro-group also received a boost in the wake of agreements to elect the leader of the group as of the beginning of 2005. The role and significance of elected politicians, through the Euro-group, was further enhanced.

Although the French Socialists were not in power and therefore not directly involved in its revision, it is notable that revisions to the SGP were consistent with their preferences noted above. The Commission's 2004 SGP revision proposals addressed explicitly 'how the instruments for EU economic governance could be better interlinked in order to enhance the contribution of fiscal policy to economic growth' (European Commission 2004: 2). That this refrain recalls the *volontarisme* characteristic of French *dirigiste* approaches to macroeconomic policy, and could have been taken

from a speech by Bérégovoy or Mitterrand in the early 1990s, illustrates the fruits the 'long game' has borne.

French *dirigiste* desires for more political interpretation and discretion in applying the Pact's rules have been substantially realised. Key shifts include a more differentiated approach to deficits, notably *which* aspects of public expenditure are included in deficit calculations, and a widening of the definition of the exceptional circumstances clauses permitting a breach of the 3 per cent deficit target. This has generated more fiscal room for manoeuvre by governments in interpreting and enforcing the Pact. French Socialists continue to champion a 'political' reading of fiscal rules in keeping with their *volontariste* and *dirigiste* policy traditions.

### Conclusions

The analysis presented here highlights the PS's economic and social policy activism, which sits uncomfortably with neo-liberal versions of the implications of the global economy for social democratic governments. Credibility was central to the French Socialist government's strategy, as it must be within any political economy of social democracy, in the context of deregulated financial markets slow to trust governments of the left. Augmenting credibility through the process of European construction was an important dimension of French Socialist political economy, but it did not undermine the government's broader social democratic ambitions.

The record of the Jospin Government demonstrates the potential for combining credibility with social democratic policy activism in a world characterised by globalisation. A crucial facilitator of this was the credibility-bolstering qualities of EMU. So solid have been the *ordo-liberal* sound money and finance foundations of the EMU project, and the prevalent perceptions arising from them, that French Socialists were able to attenuate, indeed neglect, budgetary rigour, without a loss of confidence and credibility. The virtues of sound money and sound public finances remain a priority – but they now coexist with other priorities. The potential for conflicts and trade-offs between 'sound finance' and jobs and growth has been recognised, as has the need to allow the free play of automatic stabilisers, without strait-jackets of tight, deficit rules insensitive to the economic cycle, or economic circumstances. Credibility could be retained whilst breaching (for 'sound' economic reasons given the economic conjuncture) the rules.

The 'long game' has borne fruit in terms of enhanced policy autonomy. France's budgetary policy was unconstrained and supported growth between 1999 and 2001, and became sharply expansionary in 2002. Although the electoral losses of 2002 meant the Socialists were only spectators in later phases of the 'long game', the shape of subsequent



evolutions of the SGP and Euro-group have nevertheless been consistent with French Socialist preferences outlined above. Aided by stronger growth than many had anticipated, and some *dirigiste* creative accounting, France has successfully defused the Commission's antagonism without effective constraint being wielded upon its activist, growth-oriented fiscal policy.

In terms of the wider debate about the political economy of social democracy, the Jospin Government demonstrated that the securing of credibility through stability-centric macro policy stances was compatible with social democratic priorities in other areas of economic and social policy. A commitment to stability evidently did not condemn a social democratic government to budgetary *immobilisme*. This has important implications for the viability of social democracy in a world characterised by globalisation, and presents a challenge to the 'end of social democracy' thesis, and the social democratic crisis literature more broadly.

### Notes

- 1 Ordo-liberalism is a political science term referring to a German economic ideology which shares some common ground with Anglo-Saxon neo-liberalism. Rooted in the historical experience of hyper-inflation, ordo-liberalism prioritises the constitutional enshrining of central bank independence and price stability (as with the German Bundesbank). More broadly, ordo-liberalism favours market liberalisation (of labour, product and capital markets) and strict, enforceable rules of fiscal discipline (see e.g. Dyson 2002: 174–86, 193–7).
- 2 Inspired by Karl Polanyi's insights, John Gerard Ruggie has characterised the establishment of the post-war regulated international economic order at Bretton Woods as the era of 'embedded liberalism' (Ruggie 1982). This entailed 're-embedding' (international) economic relations in regulated multilateral international trade and payments regimes, crucially including capital controls. This allowed national governments in advanced economies the domestic policy autonomy to pursue Keynesian full-employment economic strategies and welfare state expansion.
- 3 *L'Hebdo des Socialistes*, 9 May 1997, 4.

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