Joined at the Hip, But Pulling Apart? Franco-German Relations, the Eurozone Crisis, and the Politics of Austerity

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Abstract

This article situates analysis of French macroeconomic policy developments under Hollande's presidency within a wider context of macroeconomic policy autonomy under conditions of capital mobility, and the political economy of European economic governance. It focuses on the crucial Franco-German relationship because of its centrality to the evolution of the Euro since its inception. The analysis unearths different state traditions informing the distinct economic ideas about austerity, economic policy, economic governance and regulation which underpin French and German visions for the future European economic integration and European economic policy. It establishes the historical and ideational conditions of German approaches to European integration and European Monetary Union (EMU), and how these have shaped continuities within French European economic strategy, and Hollande's approach to the architecture of the Euro, focusing in particular on fiscal policy dimensions and their recent evolutions. The discussion explores the foundations of German veto power within European agreements by 'kicking the tyres' of the German Ordo-liberal political economic settlement and its social underpinnings, finding evidence of corrosive tendencies of declining mass party support linked to anaemic output and productivity growth, , rising inequality and deficient demand undermining German export surpluses. Yet, time is an important factor in politics, and these corrosive tendencies are unlikely to generate a change in the Franco-German relation during Hollande's Presidential tenure.

Keywords: Economic Policy, Eurozone Crisis, Franco-German Relations; French Politics, German Politics, Political Economy, European Union

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Introduction

Economic policy under Hollande's presidency needs to be understood in the context the politics of macroeconomic policy for advanced European economies in a post-Bretton Woods order where policy autonomy is limited. Below we set out how European economic integration emerged as a response to post-Bretton Woods US hegemony and monetary power, and how, *within* European monetary integration, German monetary power shaped the economic policy choices faced by governments. This article focuses on the crucial Franco-German relationship because it has been central to the evolution of the Euro since its inception, and argues that the historical, social and ideational conditions of German approaches to European integration and European Monetary Union (EMU) have shaped the limits of the politically possible for other European partners. Appreciation of these broader historical and structural conditions under which contemporary European governments make economic policy choices directs analytical attention towards different state traditions through which economic policy choices and constraints are refracted. It is these specific national social and ideational conditions which inform the distinct economic ideas about austerity, economic policy, and economic governance and regulation.

Understanding the political economy of European economic governance, and the politics of austerity in Europe since the outbreak of the Eurozone crisis, requires fine-grained appreciation of the economic ideas underpinning both French and German visions of European economic policy and the future European economic integration. It is against this backdrop that the analysis below delineates the positioning and policies of the Hollande presidency towards the architecture of the Euro, focusing in particular on fiscal policy dimensions and their recent evolutions. The analysis moves beyond the surface events of Hollande's policy initiatives to discern and explain underlying patterns and continuities between French Socialist economic policy under Hollande, Jospin and Mitterrand. In this light, Hollande's economic policy is a case of 'the more things change, the more they remain the same'.

Contemporary French economic policy is the latest iteration of a long-standing dilemma of trying to open a 'fiscal space' for growth-oriented policies from within European economic and monetary arrangements where key centres of power, notably the German Government, the European Commission, and the European Central Bank prioritise fiscal discipline and austerity. The dilemma is a long-standing one, going back to Mitterrand's famous U-turn of 1983, but the politico-economic effects are amplified by the magnitude of post-financial crisis imbalances. Foremost amongst these is the large German balance of payments

surplus which the IMF view as problematic, and belatedly even the European Commission recognise as requiring redress through measures to boost German domestic demand (European Commission 2013).

Relating this dilemma to Franco-German bilateral relations draws attention to the potential for French agency, and how any French capacity to increase the fiscal space would depend on the Franco-German axis that has been so foundational for EU integration. Unfortunately for Hollande, the current conjuncture is not propitious, since a German socio-political consensus sees its strict ordo-liberal stance comprising anti-inflationary monetary policy and tight fiscal discipline as vindicated by the financial and Eurozone crisis. The German 'crisis of competitiveness' interpretation erroneously identifies the roots of the Eurozone crisis in every case as exclusively down to profligate governments having been insufficiently vigorous in their pursuit of supply-side structural economic reforms, hence Germany's insistence of one-sided adjustment by deficit countries as quid pro quo for initiatives such as the European Stability Mechanism (ESM). Germany's reluctance to recognise that its trade surplus represents a problem, is arguably exacerbating the crisis and storing up problems of rising inequality for the German economy, and persistent mass unemployment and stagnation for 'Southern' Eurozone political economies (Stockhammer, 2011, 2012, 2014; Blyth, 2013; Scharpf 2013: 134).

In the first section, we set out the broader *problematique* of advanced economy macroeconomic policy autonomy in a world characterised by international capital mobility. In light of this, section two considers the historical and ideational conditions of German approaches to EMU, which provides a necessary backdrop for understanding contemporary austerity politics in comparative perspective. We propose a set of crucial determinants of post-Bretton Woods political economy that condition the Eurozone, and spell out how these assign a pivotal role to Germany and balance of payment surpluses. Thereafter we delineate French strategy to try and move the German position by shifting the economic ideas and intellectual underpinnings of approaches European economic integration and EMU. We then in section four explore contemporary French economic policy under Hollande, before analysing Franco-German interactions in relation to the EU fiscal rules regime and the Fiscal Compact and Treaty on Stability, Coordination and Governance (TSCG). In the final section, we highlight corrosive tendencies within German political economy, raising questions about whether the so-called economic powerhouse of Europe is in as healthy a condition as often assumed.

These corrosive tendencies may lead to a re-evaluation of Germany's European economic strategy. However, time is an important dimension in politics (Pierson 2004; Jessop, 2005), and it is unlikely that glacial shifts in German political economy will evolve on a timescale helpful to Hollande. In the medium term, short of a truly cataclysmic collapse of the Euro-zone, German policy is unlikely to change direction.

The Politics of Macroeconomic Policy under Conditions of Globalising Finance

This section explores the determinants of macroeconomic policy autonomy for advanced European economies in a post-Bretton Woods world characterised by heightened international capital mobility, as a necessary precursor to a fuller appreciation of the politics of economic policy under Hollande. A range of international political economy (IPE) scholarship has for many years sought to explain the constraints imposed on government economic policy autonomy by global financial markets, and to understand the degree of enduring room to manoeuvre. Such scholarship usually begins with mainstream macroeconomics and Marcus Fleming's (1962) and Robert Mundell's (1963) open-economy neo-Keynesian (IS-LM) formulation of the intrinsic incompatibility of exchange-rate stability, capital mobility, and national policy autonomy. The 'stringent logic' of this 'unholy trinity' imposes, according to Benjamin Cohen 'an increasingly stark trade-off on policymakers' which allegedly leads governments to eschew expansionary fiscal and monetary policies in favour of tight money and balanced budgets (Cohen 1993: 147; see also Oatley 1999). Cohen derived a broader politico-economic analysis when he subsequently argued that 'it is time to move beyond broad generalizations about the logic of the unholy trinity to more disaggregated analysis of the complex linkages between global finance and domestic performance (Cohen 1996: 283-4). A crucial aspect of these 'complex linkages' is the degree of credibility economic policy settings enjoy with financial market participants. This is an important determinant of the nature and degree of enduring macroeconomic policy autonomy (or conversely the constraints thereon), and understanding it draws our gaze to the institutional and ideational context in which 'credibility' is constructed (Mosely 2003; Clift & Tomlinson 2004, 2007).

The context of power relations within the wider world economy within which this process of credibility construction takes place is an important aspect affecting macro-economic policy choices. In specifying what factors matter, and when for macroeconomic policymaking, we foreground how US hegemony structured the environment within which

advanced European economies conduct macroeconomic policy in a post-Bretton Woods international monetary order of flexible exchange rates and liberalised financial markets. The United States, holding the world reserve currency and being at the centre of global financial transactions, was able to 'delay' and 'deflect' the need for domestic adjustments to expansionary policies (notably tax reductions and increased military expenditure) onto the rest of the world (Cohen 2006).[1]

Randall Henning (1998) has demonstrated that European cooperation on fixed exchange rates and ultimately monetary union was motivated by no less than seven episodes of US macroeconomic policy having destabilizing consequences for European economies, with particular pressure on France and Germany being immediately relevant to outcomes. The European nations sought protection which came in the form of cooperation over fixed exchange rates, but at the price of a reduced fiscal policy space. Since the participants were not in possession of the reserve currency, an alternative method of asserting autonomy and capabilities was devised, highly dependent on a system anchored in the capacity to accumulate surpluses and reserves. European monetary cooperation, from the European Monetary System (EMS) to the EMU, can thus be seen as a response to US hegemony, and a means to protect European economies and minimise the turbulence of the liberalised post-Bretton Woods international monetary order.

We explore here the particularities of European macroeconomic policy autonomy in the context of EMU, and the Eurozone crisis, noting that there are different ways to secure the aforementioned credibility. The particular sets of constraints imposed on advanced European economies in a post-Bretton Woods world are refracted through state traditions, ideational edifices which are built on specific social foundations. The deepening of European economic integration which culminated in the formation of EMU can be helpfully characterised as an 'Ordo-liberal' path to credibility could be pursued in the European context, by pegging to the Deutschmark and 'importing' German credibility - often initially at the cost of high interest rate premia, and restrictive fiscal policies (Clift 2003: 179-83; Dyson 1999; Ryner 2003: 204-6). German monetary power dominates within EMU, in key locations such as the mandate of the ECB. Thus ordo-liberal notions of appropriate macroeconomic policy institutions and settings, prevalent in Germany and to some extent reflected in the

[1] Cafruny (1990) has aptly called this 'minimal hegemony' in contrast to the immediate post-World War II 'integral hegemony' when the US provided considerable material support to its allies (for instance through the Marshall Plan). The constellation remains hegemonic because of the extent that it still rests on consent.

ECB and European Commission, constitute the ideational parameters within which macroeconomic policy-makers have to operate.

The European approach to preserving economic policy autonomy and capabilities from the 1970s onwards favoured the most powerful export-economy of the bloc: Germany. In other words, whilst such cooperation generated autonomy and capabilities – and in the case of the EMU even some mitigation of national balance of payments constraints (Jones 2003: 217-19) - it was autonomy of a particular sort and not always entirely commensurate with French conditions and aims. Mitterrand was initially sceptical about European monetary cooperation for this reason, but the repeated currency crises of 1982 and 1983 illustrated to him the costs of not having pan-European support against financial market turbulence (Muet & Fonteneau 1985; Lombard 1995; Halimi *et al*, 1994; Cameron, 1996). Since then, France has sought to influence the parameters by participating in European arrangements and especially through its special bilateral relationship with Germany.

The European Context of French Austerity Politics: Patterns of Remarkable Continuity in German Political Economy and European Integration

Having established the international political economic context of post-Bretton Woods macroeconomic policy for advanced economies, this remainder of this article 'drills down' into these issues in the context of Franco-German relations within the process of European integration and EMU. It notes how the social and ideational sources of Germany's policy stance are important for understanding the conditions of French economic policymaking, and thus how Franco-German relations help explain austerity-centric macroeconomic policymaking in France in the wake of the Eurozone crisis.

We can only understand French fiscal policy settings under Hollande and the current approach to the management of the French economy and the Eurozone crisis if we first understand crucial continuities within European and German political economy. Given Germany's key structural power within the EU and especially within the Eurozone, the way Germany has approached European economic governance, and the economic ideas through which it has managed the process and sold it to domestic electoral constituencies crucially shape the limits of the politically possible for other European partners (Dyson & Featherstone 1999; Dyson 2013).

At an ideational level, there is remarkable continuity in German adherence to ordo-liberalism, cementing what Dyson and Featherstone call the German 'ordo-liberal coalition' (Dyson & Featherstone 1999: 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 (Bonefeld 2012; Young 2011). 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 for this public constitution of the market, and ordo-liberalism is highly influential on EU anti-trust and competition policy (Gerber 1998).

Ordo-liberalism informs a powerful 'stability culture' within German Politics, which shapes how German elites approach domestic and European economic policy issues (Howarth & Rommerskirchen 2013). Ordo-liberal strictures on macroeconomic policy favour fiscal conservatism and balanced budgets, and consider price stability as *the* public good that must be guaranteed (Dyson & Featherstone 1999: 20). It is perhaps no accident that Germany pioneered independent central banking. Ordo-liberal sound money anti-inflationary precepts regarding monetary policy, and the corollaries for fiscal policy, became central in Europe's monetary union. Ordo-liberals are particularly suspicious of the French *dirigiste* tradition of discretionary economic policy. From the EMS and onwards, monetary cooperation could proceed only on the condition that France and other members were effectively locked into a market-constitutional framework (Young 2011).

This ideational continuity helps explain the stability of Germany's stance, and the remarkable similarity between the original terms under which the Federal Republic agreed to the European Monetary System (EMS) in 1979 and contemporary German approaches to Eurozone crisis management. Before the late 1970s, Germany had been reticent about closer European monetary cooperation in the absence of close convergence on macroeconomic fundamentals. In line with so-called 'Coronation-Theory', monetary union would be the *outcome* of macroeconomic convergence. From the EMS onwards, however, Germany has been willing to take the lead in monetary cooperation provided that certain conditionalities, notably low inflation and fiscal balance are pursued (Scharpf 2013: 111-13). This is in recognition that such cooperation can be a *lever* for convergence. Initially, in the EMS, financial markets

served as the chief disciplinary mechanism in the fixed exchange rate area. Risk-premiums (higher interest rates) on the liabilities of states pursuing expansionary policies that were deemed likely to generate inflation rates higher than that of the German Mark counteracted the initial expansionary impulse.

When the launching of the Euro eliminated the option to exit out of one national currency into another, fiscal discipline had to be juridified. EMU has always raised concerns about potential fiscal indiscipline of powerful insiders (Eichengreen & Wyplosz 1998: 67-113; Eiffinger & Hahn 2000: 81-87). This was countered through the Stability and Growth Pact (SGP), wherein member state deficits and debt should not exceed 3 percent and 60 percent of GDP respectively. Although France and Germany were able to use their power within the Euro to flout these targets in 2003 and avoid sanction (see Clift 2006, Howarth 2007), the environment became much less tolerant of fiscal imprudence. Indeed, Merkel had eradicated Germany's deficit by the time the financial crisis hit. By 2010 German policymakers played a leading role in framing the Eurozone crisis not as a contagion of the American subprime crisis but as a consequence of insufficient fiscal prudence and competitiveness in the countries on the brink of insolvency (Heinrich & Kutter, 2013; Blyth 2013; Scharpf 2013: 129). Hence, 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 (TSCG) 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 is evident in the terms of the Fiscal Compact and the TSCG (European Council, 2012). With it, the nominal deficit norm of 3 percent has been supplanted by a structural deficit norm which must not exceed a 0.5 percent/GDP. When states exceed this norm, the 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 '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.

Crucial for German agreement to the EMS was that the German Mark would be the anchor currency in the Exchange Rate Mechanism (ERM), and therefore Bundesbank ordo-liberal policy dictated monetary policy for the EMS-zone as a whole. The risk premiums would serve as a disciplinary devise on member states tempted to pursue more expansionary macroeconomic policies with higher inflation rates. The standard macroeconomic IS-LM model, and the Mundell-Fleming impossibility theorem discussed above posits that fiscal policy autonomy is not possible in a world of fixed exchange rates and capital mobility. To the extent that the real conditions that obtain in international financial markets diverge from textbook conditions, we may expect limitations on the operation of the constraints on policy autonomy identified by the 'unholy trinity'. Nevertheless, the conditions that the Bundesbank forced through in negotiations over technical details of the EMS do reflect the Mundell-Fleming impossibility theorem logic.

Key here, and a remnant of Coronation Theory, were conditionalities on EMS membership, limited credit facilities, limitations of the usage of Marks in the intervention, and limitations on the obligations on the Bundesbank to intervene (Dyson & Featherstone 1999: 300-01 cf. Emminger 1975). German veto over the usage of its accumulated reserves in the European Monetary Cooperation Fund (EMCF) was central to the whole construction from a German perspective. It allowed Germany to exercise structural power dictating the rules of the game through the potential of 'exit' – in the dual sense that it could potentially refuse to support other currencies under speculative attack and potentially force currencies out. This power of exit is, of course, lost in a monetary union and it explains the original Bundesbank resistance to the idea of EMU, as well as the importance assigned by Germany to the SGP and successor agreements, and to the non-lending clauses of the Maastricht Treaty.

This motivation can be found in the original agreement in 1979 and the particular politico-economic constellation that made Germany abandon its 'Coronationist' reticence and agree to the EMS. This constellation was reconstructed admirably by Lankowski (1982: 95-

97) in Andrei Markovits' anthology *The Political Economy of the German Model.* The agreement was entered with Helmut Schmidt as the Chancellor of a coalition between the Social Democratic SPD and the Liberal FDP. The primary aim was to ensure price-stability at home, and a revaluation of the Mark in relation to dollar-denominated consumer- and industry-input imports (especially oil and other strategic raw materials). This benefited German export competitiveness because, on average, the costs of raw materials fell more than the rate of price increases for German exports. A second and intimately related aim was to prevent price competition to German exports by European competitors as a result of this revaluation; Europe was the largest market outlet for German producers but not proportionally significant for industrial input imports. Turbulence arising from the depreciation of the US Dollar in 1978 served to augment Germany's motivations in this regard (Henning 1998: 557-58).

Hence, after the collapse of the Bretton Woods, Germany abandoned its pre-Werner Report scepticism towards European monetary unification and took the lead in instituting the EMS. Other EMS members agreed to German conditions because of their interests in stabilising prices of their German-supplied investment goods. Internally, the revaluation reduced the costs for the import of consumer goods and made it possible for unions to deliver real social wage increases to its members whilst agreeing to restraint in wage increases as dictated by the export constraint. This included taking care of workers laid off by increased capital intensity through early retirement and other schemes that has been called *Spaltungspolitik* (Esser, Fach & Simonis 1980). Germany's approach to the EMS could be seen as the pursuit of 'Spaltungspolitik through other means' (Ryner 2003: 207).

Consistent with the framework for analysis outlined above, it is crucial to understand the social foundations of Germany's European ordo-liberal economic policy stance. This focuses attention on the particularities through which German organised labour and social democracy was integrated into Germany's Christian Democratic welfare state accord (cf. van Kersbergen 1995), which was conclusively achieved during Schmidt's tenure as Chancellor. Because of the continued central reproductive function performed by the patriarchial family, there has been less 'need' to finance an expansion of public sector services and employment, and less intra-union rivalry between the 'exposed' and (feminised) 'sheltered' sectors qua Scandinavian social democracy. While German unions favoured a more expansionary and proactive employment policy, after the peak of their power during the brief spell of Keynesianism during the period of the Brandt administration, they accommodated themselves to or-

do-liberalism and higher unemployment under Schmidt. Unions have tried to influence wage policy, workplace organization, and terms of economic restructuring within this constraint. This general pattern continued under the Kohl years (Esser 1982, 1997; Streeck 1994).

In the 1980s, unions tried (with considerable success) to mitigate the pressure on unemployment increases through negotiations for worktime reduction and early retirement (Swenson 1989). Wage equality and the overall wage-share as a proportion of GDP was maintained and even improved (Clayton & Pontusson 1998; Canry & Lechavalier 2006). Expansive wage policy served as a crucial channel in translating export orientation into the boost of internal aggregate demand through consumption growth (Allen & Markovits 1984; Swenson 1989). Policies pursued under Schröder and Merkel, such as the Agenda 2010, and the remaining consensus around the export oriented model, should be seen as the successful continuation of the Spaltungspolitik. In the face of increased global, financialised and postindustrial challenges, this now places more emphasis put on activation rather than early retirement and work-time reduction (Streeck 2009; Vitols 2004), although as we will see below, this strategy may be reaching its limits

French Economic Policy within the EU and the Eurozone: The Long Game and the Fraught Pursuit of Fiscal Policy Space

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 the comparative politics of austerity in Europe. In this section, we explore the implications not just for contemporary French fiscal policy, but also French economic policy-making since the early 1980s. There are remarkable commonalities between Hollande's 2012 approach and Jospin' European economic policy strategy in 1997. The parallels between Jospin's and Hollande's electoral and policy strategies and the dilemmas they face reflect the post-Bretton Woods condition of French policymaking outlined above. This 'long game' requires French economic policy elites to reconcile themselves to ordo-liberal underpinnings of European economic integration, whilst at the same time seeking to re-orient the policy settings, and perhaps the policy architecture, in a direction more consistent with *dirigisme.*

In 1997, Jospin led the Socialist Party to an unpredicted parliamentary election victory by thematising discontent over the effects of the Maastricht convergence criteria. 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 2012 Presidential campaign tapped into similar discontent, this time over Eurozone crisis management, pledging to renegotiate the Fiscal Compact to balance fiscal consolidation with Keynesian-inspired macroeconomic measures to boost growth. In both cases, French leaders promised to renegotiate core European agreements. Hollande, like Jospin before him, had to settle for very little change.

This 'long game' explains why actors such as Pierre Bérégovoy – to ensure credibility – took up more ordo-liberal stances than the ordo-liberals. It is against this backdrop that we should see Mitterrand's U-turn and France's active role in the consolidation of the EMS at the 1983 realignment of the ERM (Muet & Fonteneau 1985; Cameron 1996). This French 'long game' has been a consistent feature of the European political economy since the 1980s (see e.g. Clift 2003, 2006). Paradoxically, this served some French Ordo-liberal elites very well, as it allowed them to play an active role in construction of neoliberal multilateralism on the European and global level (Abdelal 2006, 2007).

Set in the context of this 'long game', French macroeconomic policy settings since 2008 have revealed both the existence of some 'fiscal space', but also its limits. When the financial crisis hit, a relatively bold and successful fiscal stimulus was enacted, amounting to €38.3 billion in 2009 and €9.6 billion in 2010 or roughly 2.5% of GDP (OECD 2011: 48-9). The IMF argued initially for a bolder French stimulus, but by 2010 considered France's 'temporary, well targeted' fiscal stimulus and to have 'helped sustain domestic demand and avoid a sharper recession' (IMF 2010b), a situation aided by the fact that French automatic stabilisers are comparatively large, such that public spending increased as unemployment rose.

Both public spending and public debt in France had been on a gentle downward trajectory in the pre-global financial crisis (GFC) period. The aftershocks of the crisis saw a sharp rise in French public expenditure by 3.9% of GDP between 2007 and 2011 to reach 56 % of GDP. Public debt, which again had been approaching 60% of GDP before the crisis, rose steeply – by nearly 30% of GDP in four years to reach nearly 90% of GDP in 2012 (IMF

2012: 17; Plane 2012: 32-3). A large proportion of the deterioration of the French public finances was due to the loss of output and tax revenues arising from the French economy falling substantially and enduringly below its potential growth rate. 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. France entered the SGP's excessive deficit procedure in 2009, public finances having deteriorated as a result of the crisis and its response. The EDP committed the French Government to ambitious fiscal adjustment targets of 4% of GDP over 4 years from 2010 onwards. Thus austerity politics became progressively more entrenched.

As a result of a lively international debate about austerity policies, their merits and shortcomings, for the first time in many years the debate about macroeconomic policy has revived in terms of interest and breadth, broadening the range of policy options (see Blanchard *et al* 2010, 2013; Blanchard & Leigh 2013; Corry 2013; Blyth 2013; Schafer & Streeck 2013; Spilimbergo *et al.* 2008; Stockhammer 2012, 2014). International debates about appropriate economic policy responses to the global financial crisis evolved from a brief flourishing of Keynesian thinking in 2008-9, when Strauss-Kahn (then Managing Director of the IMF) called for a co-ordinated global fiscal stimulus amounting to 2% of global GDP in November 2008. This was superseded by a shift towards prioritising restoring the public finances, and addressing increased public debt through cuts in public expenditure and austerity policies, captured in the oxymoron 'growth friendly fiscal consolidation' at the June 2010 Toronto G20 (Blyth 2013). Pro-austerity 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 without being widely accepted or believed.[2] The focus on fiscal consolidation, however, did align with the strong conservative liberal preferences for fiscal discipline, 'sound money' and budget and wage discipline of many senior officials within key French economic power houses - the *direction générale du Trésor*, the *Banque de France* and the Budget ministry (Dyson 1999: 37, 42; Howarth 2002: 147-149; Bezes & Le Ledic 2013).

French Governments were committed to very ambitious fiscal retrenchment to bring down high deficits and debts. The plan detailed in the Stability Programme for 2011-14 submitted to Brussels in April 2011, targeted a reduction of the deficit by €60 bn. As the sovereign debt

[2] Interview with Senior Finance Ministry official May 2013.

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. Bond market participants were in this period regularly contacting the IMF seeking reassurance about French sovereign creditworthiness, and Sarkozy strained every sinew to demonstrate French fiscal rectitude. The scale of fiscal consolidation was then ramped up twice in August and November 2011, even as anaemic French growth disappeared. There was a view that the financial markets were so irrational, and their propensity to distrust French fiscal prudence so deep-seated, that almost super-human demonstration effects were required. Sarkozy's conversion to the faith of fiscal rectitude and his commitment to restoring sound public finances came too late for Standard and Poors' bond ratings agency. They stripped France of its triple 'A' rating in early 2012 with surprisingly little consequence of impact on French borrowing costs.

After Hollande's May 2012 Presidential election victory the Socialist Ayrault Government maintained the focus on fiscal consolidation. France has not balanced its budget since 1974, with public spending as a proportion of French GDP creeping up since the 1970s, not least because of the costs of mass unemployment. The combination of this French reputation for profligacy and historical record of 'unrepentant sinning' on the public finances (see Clift 2006), compounded by jitteriness at markets regarding some of Hollande's more economically radical campaign pledges threatened to erode confidence in French creditworthiness. There was a concern that financial markets were particularly quick to distrust French Socialist governments. French policy space was limited, and this helps explain Hollande's commitment to fiscal consolidation even *before* the French socialist primaries in 2011. Demonstrating the ongoing constraining power of ordo-liberal rules enshrining fiscal conservatism, Hollande promised to cut the deficit (in the Maastricht and SGP sense) to 3% by 2013. Although the budget balance target date was put back to 2017 (Sarkozy had pledged 2016), this still envisaged a herculean fiscal consolidation effort - attempting a 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). Fiscal consolidation under Hollande was front-loaded, with 2013 and 2014 particularly contractionary, but the budgetary stance remaining restrictive throughout the *quinquennat* (Heyer, Plane & Timbeau 2012: 13, table 2).

Within the international macroeconomic policy rethink, the IMF had engaged in an extensive and somewhat Keynesian rethink about fiscal policy efficacy since 2008 (see e.g.

Spilimbergo *et al* 2008). There could have been scope for Hollande and the Ayrault government to draw on the IMF's string of research papers, chapters of *World Economic Outlook* and editions of *Fiscal Monitor* which set 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 multipliers 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; Cottarelli & Jaramillo 2012; IMF 2010a).

The Fund's Keynesian-influenced rethinking of fiscal policy effectiveness has been backed by empirical assessments of post-crisis fiscal multipliers (which capture the adverse effect on growth of fiscal retrenchment) which provoked much international policy debate (IMF 2012a; Blanchard & Leigh 2013), including within the French government and administration. These insights underpin Fund surveillance missions' calls for a slower pace of fiscal consolidation in France (IMF 2013: 24-5). Integral to the revived debate about fiscal policy post-crisis is IMF counsel against 'front-loading' fiscal consolidation, given the adverse effects on growth (Blanchard & Cottarelli 2011). This is advice Hollande has taken on board only in part. Under Hollande, reference to Keynesian ideas about fiscal multipliers and the positive role of fiscal policy in supporting economic growth has been incorporated in a specific and limited way. Work by the Fund and others on differentiated assessment of fiscal multipliers for different kinds of fiscal consolidation measures has shown that the adverse effects of tax rises on employment/growth is less than for reductions on core public spending and public investment. This assessment, which aligned with French Treasury views, has been used to choose what kinds of fiscal consolidation measures to pursue. Fiscal adjustment packages were selected by reference to those measures which had the lowest fiscal multipliers and thus in theory would undermine growth less. Such thinking has also been used to inform and justify the sequencing of fiscal consolidation in France – with tax increases coming early on (since they will hurt growth less), and public expenditure cuts to follow from 2014 (by which time, it was hoped, growth would have returned).

Furthermore, the French Government has been more receptive to ideas about which fiscal consolidation measures have higher multipliers. Following a Keynesian logic, the

government of Jean-Marc Ayrault has shifted emphases in terms of where the burden of increased taxation falls, and what spending commitments should be preserved. The Socialists increased taxes on wealthier earners in 2012 and 2013, and consistently reasserted the increased taxation component of fiscal consolidation on more affluent households and large corporations. This aligns with their egalitarian and redistributive ideological commitments, but it has a rationale rooted in the post-crisis rethink of fiscal policy, relieving the burden of higher taxes on the most liquidity constrained households, thus doing more to support (or less to hurt) 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. The extent to which growth and demand concerns are successfully reconciled to the fiscal consolidation effort within Hollande's strategy has been widely questioned, not least by the bond ratings agencies, as French growth outcomes continue to disappoint. The contractionary budgetary stance has had predictably adverse effects on French growth and employment.

The limited take-up of counsel advocating more *dirigiste* or Keynesian approaches to fiscal policy is revealing of French economic policy elites' perceptions of degree of policy space available to them in the context of the Eurozone crisis. Politicians and officials were powerfully affected by the view that the financial markets were fickle and irrational, and that their propensity to distrust French Socialists on fiscal prudence was ingrained. There are also domestic and internal party dimensions which help account for Hollande's policy (see Clift 2014). It sits comfortably with prevailing 'conservative liberal' thinking in powerful economic policy ministries noted above. Furthermore, within the Socialists' camp, Finance Minister Moscovici needed to counter calls for a complete relaxation of austerity measures coming from left and radical elements, and spending ministries within the Government and the presidential majority. 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 fiscally conservative position aligning the Socialist Finance Minister with the powerful French administration.

Under Hollande the French government has prioritised fiscal consolidation both through raising taxation and the stabilisation in cost terms of public expenditure. There are also ambitious undertakings to effect drastic cuts in the functioning cost of government, projected to be reduced by 15% or €8.8bn each year between 2012 and 2015 (Heyer, Plane & Timbeau 2012: 19). The plans to ensure that cost containment oriented state reform programme extend beyond central government to include local government as well.

Expenditure and public employment containment commitments contained within multi-year public finance planning mean that the politics of fiscal rectitude in France has become bound up with protracted and difficult politics of state and local government reform (see Cole in this issue). This is perhaps sub-optimal, since ambitious fiscal targets play an important signalling role for Hollande vis-à-vis financial markets, and falling short can undermine market credibility.

The *loi de programmation des finances publiques* (LPFP) which transposes the EU Fiscal Compact into French law is seen as qualitatively different from preceding attempts to control budgets and limit public spending, more binding, institutionally and procedurally, and with a legal basis enshrined in EU law. Furthermore, the 2012 budgetary programming framework improves on the 2001 one tied to SGP in taking better account of cyclical conditions and automatic stabilisers, and avoiding pro-cyclical fiscal tightening. That is one reason why we might anticipate more 'ownership' by French policy elites of this compared to the last. This, allied to the well-established state capacity in terms of execution, audit and control of the budget leads officials at Bercy[3] and the IMF (2013) to see good prospects for success.

That said, some economic ideas and underlying assumptions built into France's multi-year planning, projections and forecasts which are central to its new fiscal policy institutions (Clift, 2013b) give cause for concern. The nuances of sequencing, and who bears the burden noted above notwithstanding, French macroeconomic policy has continued on a contractionary trajectory prioritising restoration of the public finances over growth. There is a risk of underestimating 'fiscal multiplier' effects (of the kind highlighted by the IMF) - in this case the adverse effects of spending cuts or tax rises in undermining growth. Such concerns, along with unease generated by vocal and highly visible disagreements on economic policy within the French Socialist Government, help explain the downgrade of French bonds to 'AA' in November 2013.[4] The downgrade had more to do with the historic French track record on fiscal indiscipline since the 1970s than close appreciation of the character of the current fiscal consolidation architecture and enforcement mechanisms in France.

Contemporary Franco-German Relations, the Politics of Austerity & EU Fiscal Rules

[3] Interviews with Senior French Finance Ministry officials, Paris, September 2013.
[4] L'agence S&P abaisse d'un cran la note de la France *Le Monde.fr* avec AFP et Reuters, 08.11.2013

Whilst these market confidence concerns present one manifest constraint of French economic policy, a less discussed, less visible, but arguably more powerful constraint are the contemporary nature Franco-German relations. In this section we return to this guiding thread of the article, and 'drill down' into the contemporary dynamics of Franco-German relations, highlighting how this is a very uneven alliance, and how asymmetric power relations play out at the level of economic ideas. This is problematic not just for France but for the comparative politics of austerity in the Eurozone, since the Franco-German relationship is, as noted earlier, crucial to providing the stability and solidity the Euro needs. France's own inglorious debt, deficit and growth situations, and the lack of a clear EU strategy under Hollande, undermine France's capacity for European (joint-) leadership.

Some link the declining functionality of Franco-German relations to structural dynamics of external imbalances of the two countries, with Germany as the major creditor state within the Eurozone at present, and France as a very large deficit country (Dyson 2013). One key question is whether, in the eyes of Germany, France can *credibly* commit to German austerity centric ordo-liberal influenced approach to strict fiscal rules? The old narratives about French 'profligacy' and German 'responsibility' have not disappeared. When he took office in May 2012, Hollande demonstrated a similar approach to Sarkozy's strenuous fiscal consolidation efforts in the second half of 2011. Yet French fiscal consolidation targets proved counter-productive. The targets set to demonstrate French fiscal rectitude to Germany are so tough (and assumptions made within the strategy for meeting them somewhat unrealistic) such that some of them cannot be all met. This was the case, Finance Minister Moscovici recognised in early 2013, with 3% budget deficit target for 2013.[5] Falling short on these targets fuels concern in Germany and European institutions that France cannot be trusted on fiscal discipline. The credibility-sapping upshot of this is perhaps indicated in the November 2013 downgrade.

French Governments have had a tortured relationship with the SGP rules-based fiscal regime (Clift 2006; Howarth 2007) and the sovereign debt crisis has made concerns about possible French profligacy all the more salient, with Germany seeking to limit its liability. In this interpretation, the Fiscal Compact and TSCG constitute attempts to move towards what Dyson has termed 'mutual liability', and where 'liability must be accompanied by control'

[5] 1 Finance Minister Moscovici's communication to the French Cabinet, 27 February 2013 http://www.gouvernement.fr/gouvernement/la-strategie-de-finances-publiques

(2013: 5). Within that process, the relationship with France has been re-configured somewhat. Gone is the public presentation of a united front *à la* 'Merkozy' of 2010-2012 which saw emergence of the Compact and the Treaty. Under Sarkozy the dynamics of the 'long game' involved fulsome agreement in public with Merkel on the German approach to Eurozone crisis resolution. Meanwhile, in private, the French pressed hard and argued vociferously for shifts to limit the automaticity and binding nature of EU Fiscal Rules, or to alter the approach to Banking Union and the European Stability Mechanism[6] – with very limited success.

Under Hollande, France demonstrates still less scope to reorient European economic governance. Dyson goes so far as to suggest that France under Hollande now an outsider, ousted from the inner sanctum organised around Germany of Eurozone creditor countries which call the shots in crisis response proposals (2013). Reflecting these limits, Hollande's hoped for renegotiation of the Fiscal compact never materialised. The LPFP transposed an unamended Fiscal Compact into French law, setting up the five year budget planning exercise which, in fact, Hollande had committed himself to before the electoral campaign began. Whether Hollande has been able to carve the necessary flexibility into the new French fiscal rules regime is disputed. The Keynesian insights into fiscal policy impacts which underpinned the 2012 Hollande campaign have been somewhat lost in the translation of a new set of fiscal rules on the French statute books. The need for fiscal activism in support of demand amidst the ongoing downturn has not been manifest in the enactment of those fiscal rules in conditions where policy elites are using challenging targets to restore public finances to signal fiscal rectitude to financial markets and European partners.

It is important to note that thinking on fiscal rules had evolved since the SGP with its 3% nominal deficit target which took no heed of the economic cycle and could potentially induce damagingly pro-cyclical policy. In recessions the public finances deteriorate, and this can require governments to pursue restrictive policies to meet nominal deficit targets at just the time in the economic cycle when fiscal stimulus is needed. The structural balance framework attempts to distinguish between *discretionary* and *nondiscretionary* elements of fiscal policy, excluding automatic stabilisers (defined as tax revenues and unemployment benefits according to the SGP) and the 'portion of spending and revenue over which

[6] Interview with French economic policy advisor, November 2013.

legislators have no control' from assessment (Camdessus & Guidée 2010: 38). Some officials and advisors report that selection of, and degree of emphasis on structural balance targets over nominal balance targets provoked debate with European policy elites, and disagreements between France and Germany. Germany accepts the merits of structural balance targeting, indeed the notion underpins its Schuldenbremse 'debt brake' introduced into the German constitution in 2009. However, it retains more attachment to nominal targets, partly because in the current conjuncture their policy corollary is a more steadfast commitment to fiscal consolidation. French authorities, supported by the IMF, argued for more emphasis on structural balance targets and downplaying the significance of the nominal targets still dear to Germany. France also sought to attenuate the automaticity of sanctions of fiscal indiscipline in the new Fiscal Compact.[7]

A perennial concern in French debates about balanced budget frameworks is their potentially pro-cyclical pathology. Choosing the 'structural balance' fiscal target as the lynch pin of the regime was designed to avoid excessive pro-cyclicality, and to require governments to build up fiscal buffers in good times. The Fiscal Compact, in avoiding nominal 3% deficit target and deploying a structural balance target, marks evolution from Maastricht in terms of understanding the fiscal policy/growth relationship. This tempers anti-Keynesian bias at the heart of the SGP. In the eyes of French policy elites who still harbour *dirigiste* activist fiscal policy aspirations, utilisation of a structural balance framework carves out a role for counter-cyclical fiscal policy, as well as sheltering automatic stabilisers from fiscal adjustment efforts. This, along with the slight attenuation of sanction automaticity in the form of the reverse qualified majority[8] represent (rather minor) victories for a French quasi-*dirigiste* approach within the new Fiscal Compact, insisting upon the potential role for counter-cyclical fiscal policy, and retaining some discretion over enforcement.

The structural balance is, however, a problematic target from an ordo-liberal perspective prioritising binding rules-bound macroeconomic policy regime. The structural balance is 'an estimate, not a firm number. It relies on computation of the *output gap*' (Camdessus & Guidée 2010: 38). Defining the structural balance requires specifying the economy's potential growth rate, and the output gap. Assessment of each of these is predicated on, and highly sensitive to, contestable assumptions and measurement techniques,

[7] Interview with Senior French Finance Ministry official, May 2013, Interview with economic policy advisor, November 2013. Interview with Former Senior French Finance Ministry official, November 2013.
[8] 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. Germany was pushing for automaticity of sanctions.

where there is no settled or agreed methodology.[9] The IMF, OECD, European Commission, OFCE and French and German Governments all have different assessment techniques for potential growth rates and output gaps, plugging in different assumptions. These assessments are now of first order political significance, since they have major implications for the conduct of macroeconomic policy and acceptable fiscal policy settings. An OFCE study analysed the tendential French economic growth rate 2003-2007, and estimated an 8% output gap by 2012. In this scenario, much of France's budget deficit is cyclical, not structural. This contrasted with the OECD's 2.5% output gap assessment (assuming a lower tendential French growth rate). In this assessment, the majority of France's budget deficit is deemed structural (Heyer, Plane & Timbeau 2012, 5; see also Heyer, Cochard, Ducoudré, Péléraux et Plane 2012: 117-118). Significantly different degrees of fiscal space (or requirements for further fiscal effort) ensue from each scenario. Some within the French authorities argue that potential growth assessments of the IMF are rather low.[10] 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's 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 current post-GFC context is in some ways a very bad time to turn to structural balance targeting predicated on assessments of potential growth rates and output gaps. It is not clear to what extent European economies will return to pre-2008 growth paths, or how far the crisis permanently reduced growth potential. Economic policy technicians agree this will only become clear after the fact, in a few years. At the same time, they note how inevitably somewhat arbitrary assumptions about this have a major impact on the assessments that are arrived at. At the policy level, this debate is conducted between economic policy technicians within finance ministries and at the European Commission, or within the output gaps working group of the Economic Policy Committee of the European Council.[11] Whilst some commentators note that European Commission assessments will form the basis of the Fiscal Compact, and express reservations that these assessments will err on the side of restrictive fiscal policy (Mathieu & Sterdyniak 2012: 110), French finance officials assert that their own

[9] Interviews with IMF officials, French Finance Ministry officials, and economic policy advisors, May, September, November 2013. As noted in the Eckert Commission of the French Parliament – which identified differing approaches amongst French authorities, let alone between France, the European Commission, and its partners http://www.assemblee-nationale.fr/14/pdf/rapports/r0244.pdf, pp 49-50.
[10] Interviews with French Finiance Ministry officials, September 2013.
[11] http://europa.eu/epc/working_groups/output_gaps_en.htm

assessment will form the basis of policy and 5 year budgetary planning under LPFP.[12] Thus the output gap and structural balance calculation – whilst apparently technical – is very significant in its policy implications for the politics of austerity. The French government has retained its own assessment of the structural balance (at the epicentre of the new rules regime), relying on its own finance ministry rather than the European authorities. 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 tightly constrained limits of the politically possible for autonomous French economic policy-making within the Eurozone economic policy architecture and its current reform.

Another indication of limited French influence is the June 2012 Euro Area Summit's potentially significant recognition of the 'imperative to break the vicious circle between banks and sovereigns', distinguishing the problem of bank debt from that of national debt (Euro Area Summit Statement, 2012). This was an attempt to sketch out a vision for Eurozone crisis management somewhat at odds with German priorities of fiscal conservatism and reducing German liability for footing the bill. The initiative had the potential to change the politics of austerity and expand the range of policy options open to governments. This could have put an end to the automatic policy reflex to protect the banks by socialising their losses, recognising moral hazard as a problem of the banks, not of profligate governments.

This decisive shift in the politics of fiscal rectitude promised at this June 2012 meeting indicated a commitment to deploy the €500bn ESM 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. So-called direct recapitalisation could open up 'fiscal space' for the growth-oriented economic policies, albeit at the cost of tighter banking supervision under the auspices of the ECB. However, a lack of French leadership at the European level on this means that, despite some encouraging official statements at the time of resolution of the Cyprus crisis in March 2013, the 'vicious circle between banks and sovereigns' has not been broken. European direct bank recapitalisation mechanisms which could spare sovereigns greater debt burdens have not come to fruition due to ongoing German resistance to increasing the scale of ECB or EU financial intervention in ways that will increase German liabilities and temper European partners' commitments to domestic supply-side structural economic reform.

[12] Interviews with Finance Ministry senior officials and economic advisors, September 2013.

The Limits of German Power within EU Economic Governance: Corrosive Tendencies

Crucial to the prospects of French agency within the politics of austerity, then, is Germany's stance on the political economy of European economic governance. The French 'long game' sought to activate 'Russian dolls' in European agreements (Ross 1993; 1995), to realise French Keynesian and *dirigiste* aspirations for substantive European 'economic government'. If successful, this could have led to a different political economic approach to the Eurozone's sluggish growth and high unemployment. Germany's capacity to veto has thus far locked in a primary focus on austerity at the European level. In this section we explore the foundations on which this veto power is based by 'kicking the tyres' of the German Ordo-liberal political economic settlement, understood here as a complex, composite, and potentially contradictory constellation (Ryner 2003).

Germany has played a central role as the ordo-liberal anchor of post-Bretton Woods monetary cooperation, endorsing the neoliberalisation of European political economy through financial market liberalisation (Story & Walter 1997). However, paradoxically Germany also had one of Europe's most extensive welfare states and most labour inclusive and decommodified forms of industrial relations. This seemingly contradictory combination of ordo-liberalism and the social market could only be maintained by the particular character of the German export sector. Technologically advanced high value added commodity production especially in industry input goods, and favourable terms of trade, made it possible for Germany to support high social wages despite, indeed through, ordo-liberal macroeconomic policy and liberalised markets. Whether this strangely composite German political economic settlement is sustainable becomes in this light a crucial question for Europe.

The most obvious indicator of stress of the German model is its anaemic growth rates, notwithstanding the post-financial crisis rhetoric of a 'German miracle' continued (Figure 1).

Figure 1 about here.

Whereas in the first decade after the EMS agreement, Germany seemed to have found a viable post-Fordist growth model that combined the social market with ordo-liberalism, the last three decades, shaped by the Single European Market and the EMU tells a different story. Notable here since the mid-1990s is weak (labour) productivity growth, and a reversal of the

trend whereby wage increases are higher than productivity growth, signalling the shift to a leaner competitive corporatism (Figure 2):

Figure 2 about here.

The low growth rates were used as a motivation to advocate retrenchment in industrial relations and the welfare state. However, none of these reforms have boosted output or productivity growth. Rather, it seems that the anaemia lends itself to a Keynesian account emphasising the weakness of domestic demand: It has become increasingly difficult for German unions to pursue expansive wage policy, whereby they previously transmitted export-led growth to internal growth in consumption.

This makes Germany's export-oriented economy ever more dependent on external demand-pull. Previously, within the structural coupling to other European economies in the EMS, the demand-pull of French 'profligacy' was the other side of the coin of German 'responsibility' (Deubner, Rehfeld & Schlupp 1992). Paradoxically, macroeconomic convergence has corroded these relations to the detriment of German growth prospects. Prior to the Eurozone crisis, finance-led growth in the Eurozone periphery, fed by zero exchange rate risk, facilitated German export led growth and provided financial outlets for accumulated reserves. It is very hard to see what will replace the southern Eurozone in that regard. The aggregated national action plans of the first 'Sixpack' fiscal semester indicates a Eurozone balance of payment surplus of 6 percent of Eurozone GDP to the rest of the world (Grahl 2013). Who will absorb that in the form of a deficit?

The German employment rate that has increased from about 65-68 percent from the 1960 through to the mid-1990s to over 75 percent in the 2010s (European Commission, 2012: Table 80), due in part to the Agenda 2010 and other reforms. This however, has coincided with a substantive increase in inequality. An OECD study from 2008 noted an increase of inequality and poverty throughout the OECD world, but noted that it has increased more in Germany than in any other member state and that it increased more between 2000 and 2005 than during the previous 15 years combined. The GINI-coefficient increased from 0.26 in the 1980s and the early part of the 1990s to 0.30 in 2005. Labour market changes, such as the gross distribution of wages, and an increase of jobless households from 4 percent in 1995 to 19 percent (the highest in OECD), were key causes. Whilst taxes and benefits mitigated inequality and poverty somewhat, (quintessentially Christian democratic) transfers did not target lower income groups as in most other countries. Furthermore, wage shares as a

proportion of value added have dropped dramatically also in comparative terms (Hancké 2012).

These developments suggest that the complex, composite, and potentially contradictory constellation of German ordo-liberalism and the social market is becoming increasingly fragile. This makes the confident continuity in the German position on European economic policy all the more remarkable. Tensions within this German political economic settlement may have implications for Germany's hegemonic mass parties, whose success always has depended on hailing and bridging a broad range of constituents in composite electoral coalitions under the umbrella of the 'social market economy' (Schmid, 1998; Lösche & Walter 1992). One indicator of this is the remarkable decline in recent years of the proportion of the electorate that vote for either of the two mass parties (Figure 3). This highlights the vulnerability that low growth rates posed for party capacity to engage in a 'politics of meditation' in Christian Democratic welfare states (van Kersbergen 1995).

Figure 3 about here.

Conclusion

Hollande's 2012 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. In office, such clarity of focus and purpose within French economic strategy as has been achieved has cohered around commitments to fiscal consolidation. The further public expenditure cuts programmed in over the full five years of Hollande's presidency within the medium-term budgetary programme process only makes the task of delivering French jobs and growth harder.

This article has explored dynamics and drivers which help explain this outcome, set in the context the comparative politics of austerity-oriented economic policies across Europe. Growth-oriented macroeconomic policy has not been in evidence due to the limits on policy space imposed by the economic conditions, uncertainties surrounding the Eurozone crisis, the state of French public finances. Following the bruising experiences of market credibility concerns and increasing borrowing costs during 2011, French policy elites recognise their policy space is limited. One crucial source of those policy constraints is the ordo-liberal fiscal orthodoxy, built on particular social and ideational foundations, which Germany exports to the rest of the Eurozone through its structural power within the institutions and rules of the

Euro. This sits comfortably with prevailing economic ideas within the European Central Bank and the European Commission. German status as the economic powerhouse of Europe and key creditor country at the summit of an informal creditor grouping who call the shots of Eurozone crisis response (Dyson 2013) assures the dominance of its economic ideas.

This current state of Franco-German relations hinders French efforts to alter the politics of austerity domestically. The aspirations for an injection of Keynesian insight into French and European economic policy have been tempered by the German ordo-liberal model of political economy, and its pervasive influence over Eurozone crisis management. German aversion to a reorientation away from austerity-oriented European economic policy priorities helps explain why the fiscal compact did not get renegotiated, and why the LPFP faithfully transposed it into French law. As the IMF put it, '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 2012b: 30).

Could the corrosive tendencies identified above, the tenuous equation between German ordo-liberalism and the social market, and the adverse growth and demand effects of co-ordinated Europe-wide austerity for German export oriented industries, tempt German mass parties to consider alternative growth strategies? If so, this could be of crucial significance for Franco-German bilateralism, and for the politics of austerity. So far, there have been only isolated instances of brief German flirtations with Keynesianism by Schiller under Brandt, and Lafontaine in the early days of the Schröder administration (Ryner, 2003). German 'stability culture' is an enduring and powerful ideational force (Howarth & Rommerskirchen 2013), and the consistency of the German position since 1979 should caution us from reading too much into the signs of corrosion. Indeed, so far predominant response to mass party corrosion has been the formation of 'Grand Coalitions' underpinned by an essential ordo-liberal consensus. In the absence of such a thorough-going re-evaluation of Germany's ordo-liberal and austerity-focused approach, the French Socialist government and President have been hamstrung in their aspirations to articulate an alternative vision for Eurozone crisis management, perhaps even an alternative model for European political economy.

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