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The Hollande Presidency, the Eurozone Crisis and the Politics of Fiscal Rectitude.

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Introduction

Since winning the French presidential election in May 2012, President François Hollande has struggled to develop and pursue a clear, consistent, cogent economic strategy. Hollande's campaign was built somewhat anachronistically on commitments to *both* a harsh fiscal consolidation *and* a re-orientation of economic policy in a more growth-oriented direction. It is perhaps no surprise, therefore, that current French economic policy strategy is hard to read, appearing to point in different directions. This ambiguity, combined with a lack of economic recovery and stubbornly high unemployment, explains why Hollande has been plumbing new depths in low popularity. The hopes of a decisive shift in economic policy raised by the tenor of his campaign have gone largely unrealised. Whilst low growth and high unemployment is a Eurozone-wide phenomenon, and thus not in a direct sense his fault, the impression has gained ground that Hollande's presidency is not doing enough, and certainly not doing all that he said it would, to tackle French and European economic problems.

Looked at in longer historical perspective, there is nothing particularly unusual about the mismatch between Hollande's campaign rhetoric on economic policy and his governing practice. For decades French electoral politics under the Fifth Republic has been characterised by over–ambitious promises by candidates – whether of a neoliberal character, as with Nicolas Sarkozy in 2007, or of a more *dirigiste* and Keynesian character, as with Hollande in 2012. In office presidents come up against European, domestic and party political constraints which curtail their reforming zeal. Some of the central economic policy planks of Hollande's 2012 campaign, notably major reform of the tax system and expansive aspirations for a re-invention of industrial policy, have not materialised in office, nor is there any prospect of them doing so. Since the mid-1980s, major changes in economic policy have been the exception, not the rule for incoming French leaders, despite consistent rhetorical flourishes intimating otherwise to an increasingly exasperated electorate. This repeated raising and then dashing of hopes about economic policy transformation offers further explanation of Hollande's historically low popularity ratings.

Nevertheless, there have been economic policy achievements, and far-reaching qualitative changes to French economic-policy, such as reform of the labour market and to a lesser extent pensions. Perhaps the most significant has been the institutional and policy mechanisms of the fiscal consolidation strategy. Indeed, the introduction of new independent fiscal council may prove a game-changer for the credibility and the conduct of French fiscal policy. However, Hollande's principal achievements, such labour market reform to increase flexibility, augmented control of budgetary processes and public expenditure, or European initiatives to bring 'banking union' closer to becoming a reality, have not come in areas or ways instantly convertible into enhanced political capital with the core constituencies that make up the already beleaguered presidential majority. Furthermore, these key changes have not chimed with the expectations raised during the campaign of the emergence of a new activism in support of jobs and growth. Along with divisions within his government and a lack of authoritative governing style, this has been the main factor that has contributed to a sense of Hollande's lack of clarity of political economic purpose.

A key aim of this paper is to place an evaluation of contemporary French economic policy into an appropriate understanding of the constraints Hollande faces. These constraints are powerful, as detailed in the next section. They explain a good deal about Hollande's performance. However, there does remain a degree of room to manoeuvre within these parameters. The argument made here is that the way Hollande has played the hand dealt him has contributed to the sense of drift which has become attached to his presidency. This is in part due to his mode of party, government and presidential majority management. This has costs in terms of the French electorate not being sufficiently convinced that he is doing enough to tackle unemployment and low growth, whilst the financial markets are less than wholly convinced that he is doing enough to tackle the public finances problems France faces.

Constraint 1 – The Eurozone crisis and the Politics of Economic Credibility

The most pressing constraint has been market confidence concerns, given the uncertainties surrounding the ongoing, unresolved Eurozone crisis. The sovereign debt crisis in Europe which first erupted in 2010 provides the backdrop for assessing Hollande's presidency. During the summer of 2011, as French borrowing costs began to rise and the French economic situation seemed to be on a path to emulate the recent trajectory of Spain and Italy, French policy elites and advisors were staring into the abyss. Back of the envelope assessments of French levels of public expenditure, public debt, and the size of the deficits showed just how problematic French debt dynamics could swiftly become if borrowing costs rose to approximate Italian or Spanish levels. This convinced French policymakers that securing and sustaining credibility with financial markets was economic policy priority number one. It was imperative for the French leaders at the time that they align with, and be seen as 'like Germany', and not 'another Spain or Italy'.

As French borrowing costs rose, and the vulnerabilities of the French banking sector combined with parlous public finances threatened to draw France closer to the Eurozone crisis's damaging core, Sarkozy strained every sinew to demonstrate French fiscal rectitude. This took the form not only of ambitious fiscal consolidation targets and efforts, but also the increasingly fulsome embrace of new fiscal and public finances rules to frame and constrain French policy. French policy elites were powerfully affected by the view that the financial markets were fickle and irrational, and that their propensity to distrust France on matters of fiscal prudence was deep-seated.

The level and degree of financial market concern has lessened since those dark days of mid to late 2011, which were experienced as a period of political trauma by French policy elites. Nevertheless, French leaders, first Sarkozy, and now Hollande, still fear that – given financial market irrationality – the sanguine market conditions (and low borrowing costs) that France has enjoyed since 2011 could evaporate very quickly in the context of what remains ultimately an unresolved Eurozone crisis. This has generated, on Left and Right, strong incentives to over-compensate with almost super-human demonstrations of fiscal rectitude designed to stave off an anticipated erosion of financial market confidence, given how dire its consequences could be.

Following a broadly successful, if in comparative terms limited, fiscal stimulus during 2008 and 2009, expansionary French fiscal policy taps were turned off abruptly from 2010 as the European sovereign debt crisis loomed, and the François Fillon Government appointed by Sarkozy moved to try and avert the loss of France's cherished AAA status. France entered the Stability and Growth Pact (SGP)'s excessive deficit procedure in 2009, public finances having deteriorated as a result of the crisis and its response. The French Government was obliged to undertake substantial fiscal adjustment and, from 2010 onwards, austerity politics became progressively more entrenched. The excessive deficit procedure committed France to ambitious fiscal adjustment targets up to 2013. 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. The scale of fiscal consolidation was then ramped up twice in August 2011 and again further in November 2011 in a bid to reassure market sentiment, even as anaemic French growth disappeared.

The incoming Socialist Government inherited from its predecessor promises to European authorities and partners to cut the public deficit to 3% by 2013. There was a concern that financial markets were particularly quick to distrust French Socialist governments. It was thought that credibility and creditworthiness concerns could revive at any moment, which explains the bold and ambitious targets issued and the tough stances on restoration of the public finances, deployed by Hollande and his government as signalling mechanisms to demonstrate their fiscal prudence and rectitude. This presupposed further herculean efforts of fiscal consolidation. Although Hollande delayed the target date to achieve budget balance from 2016 to 2017, this still envisaged an historic 7% turnaround in the structural balance between 2012 and 2017, half through increasing the tax take, half through reducing public spending (Heyer, Plane & Timbeau 2012: 17). Both these key aspects of fiscal consolidation have been pursued boldly, although the phasing of each has been different, as we shall see below.

Prioritising such tough fiscal targets might seem strange in a context where French borrowing costs have remained historically low since mid to late 2011, and when the International Monetary Fund (IMF) and other influential international bodies have intimated that the French Government may enjoy more 'fiscal space' than their policy stance suggests (IMF 2012b; 2013). However, within French Government circles there is recognition that current low borrowing costs are linked to the highly unusual and unpredictable conditions of the Eurozone crisis. The uncertain context and unfavourable condition of the French public finances is compounded by recent French economic history. 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 fear of an erosion of market confidence, given the Eurozone context and the depletion of French public finances, is one major explanatory factor behind Hollande's ongoing prioritisation of fiscal consolidation.

Constraint 2 – European Leadership and Franco-German Relations

The second pressing constraint, demonstrating reduced French influence on the European stage, has been the politics of European integration, and prevailing political economic ideas amongst European partners (notably Germany) and the European Union institutions (notably the Commission and the European Central Bank (ECB)). The Franco-German relationship historically provided the organisational core of European integration, and without it there would be no Euro (Dyson & Featherstone 1999). Once the motor of European Integration, the Franco-German relationship has, under Hollande, gone off the rails somewhat. France's self-image is as equal partner with Germany, but France has deeper, more intractable economic problems of flagging competitiveness and deteriorated public finances. France's inglorious debt and deficit positions, its low growth and high unemployment all hinder its bid for European (joint-) leadership. Given this asymmetry, Germany plays a crucially important powerful role within European crisis responses. German economic ideas, notably the anti-inflationary, 'sound money', rules-based underpinnings of Germany's economic policy approach, shape the limits of the politically possible in relation to all economic governance reform initiatives. In short, the model of political economy which underpins attempts to resolve the Eurozone crisis and reform EU economic governance sits somewhat uneasily with a French appetite for *dirigisme* and, to a degree, Keynesianism.

French economic policy elites are constrained to reconcile themselves to Germany's economic policy approach as a price they pay for European joint-leadership. At the same time, French leaders seek to re-orient European policy settings, and policy architecture, in a direction more consistent with *dirigisme.* This has been a consistent feature of the European political economy since the 1980s. There are remarkable commonalities between Hollande's approach and Lionel Jospin's European economic policy strategy in 1997. In 1997 Jospin galvanised discontent over the effects of the Maastricht 'convergence criteria', highlighting especially unemployment. He championed a longstanding French call for reform of the mandate of the ECB to incorporate targets for growth, and/or employment, alongside its inflation target. This has long been desired on the Left and Right of French politics alike, but, since German hostility put such a reform out of reach, Jospin set his sights on much more modest rebalancing of the priorities underpinning the infrastructure and architecture of European Monetary Union (EMU).

Hollande's Presidential bid tapped into similar discontent over the management of the financial and Eurozone crisis. In both cases, the French Socialist leaders promised to renegotiate core European agreements. But, just like Jospin's before him, Hollande's pledge to renegotiate the Fiscal Compact to balance the stress on fiscal consolidation with macroeconomic measures to boost economic growth led in the end to very little change. The Fiscal Compact was a *casus belli* for Germany, and no renegotiation or revisiting proved possible. As we approach the middle phase of Hollande's presidency, France seems somewhat remote from the engine-room that is now driving the Eurozone. Given the breakdown of the Franco-German relationship, scope for the kinds of economic policy reorientation that, as we have seen, French leaders often seek is, under Hollande, at perhaps its lowest ebb.

The strategy during the Sarkozy era was to align publicly with the German position in favour of Eurozone-wide austerity as the central crisis response, done with a view to bolstering and enhancing credibility for fiscal prudence within financial markets. Meanwhile, in private, strenuous efforts were made to encourage shifts in the German position, notably avoiding automaticity of sanctions within the 'six-pack' introduced to enhance macroeconomic and fiscal surveillance across the EU in December 2011 which strengthens the SGP, reinforcing both the preventive and corrective arms of the Pact (see European Commission 2012). France ensured that the six-pack's financial sanctions would not be automatically applied, but subject to reverse qualified majority voting. Under Hollande, no clear strategy has emerged. The Hollande presidential campaign clearly assumed a degree of European-level policy activism which anticipated that France would be able to move Germany's position on Eurozone crisis responses somewhat. When it became clear, following his first meeting with Merkel, that he was not going to be able to use the Franco-German axis to leverage a more activist, growth-oriented European economic policy strategy, Hollande was left with limited options.

Some link the declining functionality of the Franco-German relationship 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. German status as the economic powerhouse of Europe and key creditor country at the summit of an informal creditor grouping which calls the shots of the Eurozone's crisis response assures the dominance of its economic ideas. France, by contrast, no longer automatically sits at this top table (Dyson 2013), a reflection not only of its economic position, but of Hollande's much less prominent and clear position on EU and Eurozone leadership in general. German opposition to French ambitions for a rethink of EU/Eurozone economic policy architecture have in effect prevented Hollande's vision for Europe, sketched out during his 2012 campaign, from emerging.

Constraint 3 – Hollande's Internal Party and Presidential Majority Management

Hollande's lack of a clear European policy strategy has its roots in asymmetric power relations at the European level, but also in fractious internal party management. A consistent feature of French Socialism is the need under Hollande's presidency, as under François Mitterrand's before, to manage ideologically diverse factions that espouse differing political economic visions. Within the Government and the presidential majority, there are always competing programmatic positions. In light of this ideological variety, it is sensible not to assume *a priori* the internal cohesion, perhaps even the internal coherence, of the economic strategy pursued under Hollande.

In order to make sense of these different ideological positions it is helpful to provide an overview of the ideological make-up of the modern day *Parti Socialiste* (PS). The factional picture is complex, confusing and changeable. There are fewer fully fledged factions today than in the 1980s and 1990s, but still a number of discernable 'sensibilities'. French Socialist factionalism is often more organised around personalities (especially potential future presidential candidates) than genuine ideological differentiation. There is a significant Left wing within the party, and a good deal of charged ideological debate, but some use ideological positioning in a more instrumental fashion. Indeed, key figures like former Prime Minister Laurent Fabius (currently Minister of Foreign Affairs) have, during their thirty years at the top of the party, travelled from the modernising centre-left to the staunch Left of the party, and back again. Furthermore, they have taken their foot-soldiers and supporters of their faction with them on their journey. In 2005, in a bout of somewhat opportunistic radicalism, he campaigned against the EU Constitution, and nearly split the party on Europe. Subsequently, he moderated his stance and sought to mend fences and return to the party mainstream – and was rewarded with the Foreign Affairs post.

The factional infighting of the PS is occasionally very vocal, visceral and visible, as it was at the Rennes Conference in 1990 where the war of succession about who would dominate the party when Mitterrand's reign eventually ended broke out and all but tore the party itself apart, pitting Michel Rocard's supporters against Fabius. At the Reims conference in 2008, the party was at loggerheads over who would succeed Hollande as first secretary (a post he occupied from 1997 to 2008). It was a very hard and close fought battle, more about control of party resources than ideology or programmatic visions, between labourist Martine Aubry and the party's flamboyant 2007 presidential candidate Segolène Royale. Aubry prevailed by a very narrow margin, though the Royale camp refused to accept the outcome and the party descended into bitter recriminations.

In normal times, however, the factional peace is maintained through a long tradition of the various factions aligning within a composite motion in support of the leader. At each party conference this forms the basis of the dominant internal coalition (*ligne majoritaire*), with the leadership distributing posts within the party's leadership structure to each grouping, proportionate to their size and weight within the party, and within the leadership coalition. Within French Socialism's process of building dominant internal coalitions, economic policy ideas, as well as ministerial or party posts, are a currency of internal factional exchange.

Hollande's political economy reflects the ideological lineage of the Michel Rocard/Lionel Jospin dominant internal coalition (*ligne majoritaire*) that prevailed in the post-Mitterrand era PS and which Hollande had presided over as the party's first secretary. This in itself was an ideological amalgam between the more centrist, liberal Left of Rocard and the more statist left, with a stronger commitment to egalitarianism and interventionism, espoused by Jospin. There is always an issue for French Socialism of the gap between maximalist rhetoric and more moderate policy activism in office, but Hollande's ideological and programmatic positioning within the party has always been moderate centre-left. It should be noted here, however, that the centre of gravity of the French 'centre-left' remains further to the left and more radical than its British equivalent in terms of its commitments to state intervention, redistribution, egalitarianism and the need to reform capitalism and seek to control and regulate global economic flows.

Within that overview of French Socialist factionalism, two more groupings need brief mention to understand the politics of economic policy under Hollande. Firstly, Pierre Moscovici, who was European minister in the Jospin Government and is now Finance Minister, is the inheritor of Dominique Strauss-Kahn's political clan within the Socialist Party. This grouping combines some Keynesian economic policy inflections with a stronger commitment to sound public finances compared to those further to the left in the party. It has always aligned with the Rocard/Jospin *ligne majoritaire* and generally has no difficulty reconciling itself to Hollande's ideological position.

Further to the Left, the party's energetic and vocal Left wing has taken a number of guises in recent years, variously named the 'New Socialist Party', 'Renewal Now', 'Campaign of the Sixth Republic' and 'Utopia'. The composition of these groups changes, but its centre of gravity is consistently well to the left of the *ligne majoritaire.* French Socialism has always had, by comparison to the British Labour Party since the 1990s, a much better-supported and more ideologically strident and egalitarian Left wing. The current iteration of the French Socialist Left, like its predecessors, promises more radical and intrusive re-regulation of capitalism, redistribution of wealth and substantive economic policy reform of the EU (for example, to reinvigorate industrial policy). This has been mixed with anti- or alter-globalisation themes. A number of personalities, such as Benoit Hamon (currently a junior minister), have led these various factions and groupings, but the Left's most significant figure is now Arnaud Montebourg, currently Minister for Industrial Renewal. Montebourg's significance grew in the context of the primaries to choose the French Socialist Presidential candidate during 2011.

Indeed, the configuration of Hollande's *ligne majoritaire* bears the imprint of Hollande's victory in the Socialist primaries of October 2011. He fought those on a moderate line staunchly committed to fiscal consolidation, but, when Montebourg eclipsed Royal to emerge as 'kingmaker' after the first round, Hollande moved to incorporate him. The coalition forged by Hollande on winning the second round of the primary reflected this. So too, eventually, did the Government he formed after presidential victory. An ideological and programmatic settlement was reached by November 2011 which retained commitments to restore the public finances, and thus secured the assent of the Strauss-Kahnians, notably Moscovici. It also sought to reconcile these with the incorporation some of Montebourg's interventionist (*dirigiste*) 'de-globalisation' and more muscular industrial policy themes. As Hollande's industry minister, Montebourg promised an interventionist industrial model, involving 'less liberalism' and 'more public power'. This ideological accommodation helps explain the somewhat radical rhetorical themes of Hollande's 2012 campaign, notably promising a more ambitious approach to financial and bank regulation, redistributive taxation and revitalised industrial policy. This stance also reflects political competition further to the Left within the French party system, notably from gadfly Jean-Luc Melenchon's Left Front (*Front de gauche)*.

Thus the third set of constraints arises within internal party and governmental management. Hollande's strategy on this front is a consequence of how he came to the candidacy, and his dominant coalition contains different and not easily reconciled views of domestic and European political economy and economic policy strategy. Hollande has allowed these competing visions to endure, and disagreements within the government to play out in public, which has further hindered the emergence of a clear, consistent approach to economic policy.

Austerity and the Politics of Economic Ideas

Having established the constraints under which Hollande is operating in seeking to pilot France's economic strategy, it is now necessary to establish the context of his presidency in terms of the politics of economic ideas. 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 is getting interesting again (see Corry 2013; Blyth 2013; Schafer & Streeck 2013). This provides the backdrop of economic ideas against which we need to delineate French economic policy.

Highly unorthodox monetary policy, be it quantitative easing by the Bank of England or the US Federal Reserve, or outright monetary transactions by the European Central Bank, has become the norm, and economic policy thinking is struggling to keep pace with what is happening on a gargantuan scale 'on the ground'. Furthermore, in the wake of the global financial crisis and the Eurozone sovereign debt crises, there has been a wide-ranging and extensive rethink about fiscal policy efficacy, and a rehabilitation of a number of Keynesian insights into economic policy and political economy. This has been particularly notable in relation to fiscal multipliers, which are the assumptions plugged into economic models about how much effect increasing (or reducing) government spending has on economic activity. This apparently arcane, technical topic is in fact revealing of crucially important underlying ideas about which economic policy levers governments can pull, and to what effect, when faced with a prolonged downturn. Put crudely, a higher estimate of fiscal multipliers reveals a more Keynesian understanding of the economy, whereas low fiscal multiplier assessments reflect neoliberal economic assumptions.

International debates about appropriate economic policy responses to the global financial crisis have 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 October 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). As the European sovereign debt crisis rumbled on in 2012 and 2013, the adverse effects on economic growth (and prospects for restoration of the public finances) of a stringent focus on fiscal consolidation became increasingly clear. With growth stagnating, notably in the Eurozone periphery economies, a more differentiated menu of economic ideas fed into the European debate. None doubt the imperative of the restoration of the public finances and the need to stick to medium-term objectives and trajectories designed to achieve that end. However, there did emerge questions over the timing and pacing of fiscal adjustment and over the degree of prioritisation of public expenditure cuts, alongside, for example, other priorities such as trying to support the economic recovery and boost economic activity (and therefore tax receipts).

In particular, IMF Chief Economist Blanchard's analysis in late 2011 (Blanchard 2011) suggested that too rapid a fiscal consolidation might be perverse even in its own terms, as financial markets might see the adverse effects on growth of such excessive pace as *reducing* the credibility of such policies. A lack of growth affects the denominator of debt/GDP ratios, meaning government debt levels get apparently higher, whilst tax revenues continue to fall or flatline. Moreover, bondholders get ever more concerned about the repayment prospects of governments in growth-less economies. This has a lot to do with the sovereign debt fears and interest rate rises in Europe since 2010 but especially during the second half of 2011. At around the same time, the influential Reinhardt and Rogoff analysis which posited that, above a threshold of 90%, debt necessarily undermines economic growth prospects came under high profile scrutiny as no-one could reproduce their results. This fed a climate of intellectual and policy elite opinion that increasingly accepted that balancing the appropriate prioritisation between debt and growth might be more complicated than the single-minded austerity focused advocates had hitherto presumed.

As part of the IMF's extensive rethink about fiscal policy efficacy since 2008 under the very specific conditions of the global financial crisis (see Spilimbergo *et al.* 2008), a string of Fund research papers have set out good reasons why we should expect fiscal policy, targeted towards lower earners, to be more effective in a downturn. Theoretical arguments and operational advice advanced by the IMF chief economist and others have put the case that fiscal multipliers are particularly high during downturns, particularly in those caused by financial crises. This is because recessions mean more unused capacity in the economy, and financial crises normally mean more 'liquidity constrained' (or cash-strapped) households. Thus fiscal multipliers are 'asymmetric' rather than constant, varying to significant degrees across the economic cycle, and fiscal policy was more likely to be effective when monetary policy was doing all it could, with interest rates at or around zero (the so-called 'zero lower bound') (IMF 2012a). These Fund ideas and pronouncements were important in providing intellectual justification and support for the co-ordinated fiscal stimulus in 2008-9.

The Fund's somewhat Keynesian rethinking of fiscal policy effectiveness has been backed by empirical assessments and sharp upwards re-evaluations of post-crisis fiscal multipliers (IMF 2010, 2012a; Blanchard & Leigh 2013). One IMF research paper found that fiscal multipliers for expenditure cuts in France undertaken during recession are around 2% (Batini *et al.* 2012: 55), although it should perhaps be noted that this figure is an outlier at the upper end of Fund assessments. In October 2012, the IMF's flagship *World Economic Outlook* publication explored the 'systematic relationship between fiscal consolidation and growth', finding that 'the multipliers used in generating growth forecasts have been systematically too low since the start of the Great Recession', and arguing that, whereas default assumption have tended to use 0.5 as a reference value, 'actual multipliers may be higher, in the range of 0.9 to 1.7' (IMF 2012c: 41). As Blanchard (2012c: xv) put it in the foreword, 'while this consolidation is needed, there is no question that it is weighing on demand, and the evidence increasingly suggests that, in the current environment, the fiscal multipliers are large'. This second wave of fiscal multipliers research accompanied and pushed the above noted rebalancing of emphasis from an exclusive focus on austerity policies, tempering these concerns with the need to support growth.

These Fund interventions gained some traction within European policy debates, notably through IMF input into Group of 20 (G20) summits, IMF Spring and Autumn meetings and via invitations for key IMF thinkers such as Blanchard to contribute to seminars at which European Commission and ECB officials were present. The German Government continues largely to espouse the merits of austerity policies, whilst the IMF advances the case for a more balanced approach to macroeconomic policy and cautions against the adverse growth implications of fiscal consolidation. The European Commission, early in the crisis, was firmly wedded to Germany and the prioritisation of austerity policies. Indeed, in 2008-9, it took a lot of convincing that the global financial crisis represented extraordinary economic circumstances of the kind which might induce temporary relaxation of the SGP's strict criteria. However, during 2012-13, it has been tempted into a more balanced assessment, not least by the IMF, even recognising the merits of some of the Fund's insights into higher fiscal multipliers (i.e. the higher adverse growth effect of fiscal consolidation) in the middle of a post-financial crisis downturn. This has had important implications for French policy space and France's European commitments, as detailed below.

French Economic Policy Settings

Some of the above arguments for revived fiscal policy activism, from such authoritative sources of economic policy wisdom as the IMF, could be mobilised to make the case for more fiscal stimulus, or less restrictive fiscal policy, or a pause in the fiscal consolidation effort. However, French policy elites were not convinced they enjoyed sufficient policy space to act on such insights. Even before winning office, Hollande had committed himself firmly to fiscal consolidation and the medium-term restoration of the public finances, and this has been the central underpinning of his economic policy since May 2012.

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 would thus in theory undermine growth less. Such adjusted 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 somewhat 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 have 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 growth outcomes continue to disappoint. Hollande's fiscal consolidation is front-loaded, with 2013 and 2014 particularly contractionary, but the budgetary stance remains restrictive throughout the quinquennat (Heyer, Plane & Timbeau 2012: 13, Table 2). These fiscal policy settings have had predictably adverse effects on French growth and employment.

Part of the reason that Hollande's embrace of the revived Keynesian thinking was not more fulsome is explained by France's obligations within the Eurozone and under the SGP. The country was committed, under the obligations and recommendations of the excessive deficit procedure agreed in 2009, to pursue harsh fiscal consolidation. The Commission's recommendation was for a total of 4% of GDP structural fiscal adjustment from 2010 to 2013, which is very considerable. Hollande inherited these fiscal commitments, and his initial economic policy settings, and the programme for restoration of the public finances, were predicated on a commitment to meet the 3% deficit target in 2013. Tough fiscal consolidation targets are a very important element of Hollande's approach to economic management, part of his signalling strategy to demonstrate French economic credibility with financial markets and European partners.

Yet this presented a difficult predicament in 2012-13. As growth disappointed, it became clear that the 3% was out of reach. This was, of course, partly due to the adverse effect on growth of fiscal consolidation. The tough targets and signalling exercise proved somewhat counterproductive because the initial targets were too tough, and assumptions made about a return to growth which would make the target reachable (through increased tax receipts) proved too optimistic. Hollande and his economic policy advisors did not take sufficient heed of, or rather were not in a position to heed, IMF insights about higher fiscal multipliers in the crisis, leading them to underestimate the adverse effect of fiscal consolidation and spending reductions on growth. Indeed, things came to a head in 2013 when – given the phasing outlined above - it was time to move from raising taxes on the wealthy to the more growth-undermining public expenditure-cutting forms of fiscal consolidation, on the assumption (which proved erroneous) that growth would have returned to the French economy by this point.

The ideas about a more balanced approach to fiscal consolidation, championed by the Fund, and gradually partially accepted within the European Commission, were certainly mobilised by French officials seeking to gain assent for the delay on meeting the 3% deficit target. The Commission and other European partners, having undergone the partial change of heart regarding the relative prioritisation of fiscal consolidation and supporting growth, in the end revised the deadline to reach a nominal deficit of 3% from the initially scheduled 2013 to 2015. This at least alleviated, if it did not entirely resolve, France's economic policy dilemma.

French Economic Policy and the Politics of Hollande's Presidential Majority

The marriage between Hollande's firm fiscal consolidation commitments, Montebourg's ambitious interventionist aspirations, and the more centre-left, sound-finances economic policy instincts of Moscovici was always going require delicate management. Rather than seek to resolve the tensions and contradictions, Hollande's leadership style has seen them remain significant undercurrents in the economic policy debate. In his dealings with governmental colleagues, it is said, Hollande keeps his own counsel and no-one is ever sure who or what he is in agreement with. That is one thing, but in the Hollande era the diversity of governmental views on economic policy is particularly noticeable because Hollande's' method of internal management in the first 18 months of his presidency has permitted such competition to play out publicly. The economic policy disagreements between Montebourg and Moscovici, for example, have been as deep-seated as they have been frequent. Nor does Prime Minister Ayrault enforce strict observance of the government line. Hollande seems to follow a rather hands-off approach to the management of the parliamentary forces in theory offering him support – such that it is perhaps a bit of stretch to talk about Hollande's presidential majority at all. This is unusual in the politics of the French Fifth Republic and increases the number and variety of 'voices off' that articulate differing economic views from *within* the president majority.

The space for disagreement between Montebourg and Moscovici was in part opened by Hollande's 2012 presidential campaign, promising as it did fiscal consolidation and budgetary responsibility, on the one hand, and renewed economic policy activism in support of growth, on the other. This anachronistic amalgam hinted at both the Montebourg and Moscovici conceptions of what French Socialist economic policy would look like. We can certainly identify a struggle within French Socialism over its political economy. Its traditional Keynesian and *dirigiste* orientation has focused on aggregate demand and the advocacy of state intervention and spending to reduce inequality as a response. One reflection of this *dirigiste* approach was Hollande's public sector youth employment scheme – which resembled that of Jospin in 1997. The cost is estimated at €2.3bn over five years, and the aim is to create 150,000 jobs. This was significant, but costly, and not sufficient to turn the tide of rising unemployment. Perhaps in part because of this, such a tradition French Socialist approach to unemployment is being increasing challenged or tempered by a supply-side focus emphasising structural reforms to improve French competitiveness, labour market flexibility, and increased acceptance of balancing budgets, sounder public finances and the idea that raising taxes and spending may be reaching its limits.

A key distillation of the economic policy approach under Hollande was the November 2012 *Plan de Croissance*, which drew on the report by industrialist Louis Beffa about how to kick-start French economic growth and industrial dynamism. Ayrault presented the 'national growth plan' in November 2012, which ambitiously (and not for the first time) set out a 'new model' for the French economy, in keeping with French values and 'exceptionalism' and incorporating job-rich growth. Interestingly, this was less inward-looking than some earlier new models of French growth touted by French administrations during the last 20 years. The 2012-vintage new vision for the French economy sought 'to place France once more at the heart of the world economy' (Premier Ministre 2012).

Key initiatives included making the tax and regulatory environment more simple and stable. The eight 'competitivity levers' outlined in the plan including reducing the cost of work (through social contributions and tax relief), investment in and stimulation of innovation (especially directed at small and very small firms and notably through the creation of a public investment bank) as well as the above noted state support for youth employment (Premier Ministre 2012). The role of macroeconomic policy in this pursuit of national economic growth was, at best, under-elaborated in the plan. Reducing labour costs through the 'Competitiveness and Employment Tax Credit' was the main emphasis on the taxation side. Nor has macroeconomic policy dimension of national economic growth plan come into sharper focus since November 2012.

The *Plan de Croissance* signalled something of a victory for what we might term the 'supply-siders' inside government and the parliamentary coalition over the demand-siders who focus primarily on macroeconomic measures to boost demand in seeking to cure French economic ills. The supply-siders tend to be more on the moderate centre-left, 'social liberal', wing of the French Socialist Party and find opponents from the party's Left wing, and within Melenchon's *Front de Gauche.* 'Supply-siders' recognise a Europe-wide demand problem, rooted in austerity-centric economic policy responses to the Eurozone crisis, championed in Berlin. They also acknowledge that a demand-boost at the EU level would be welcome. Yet, even if it were in prospect (which it clearly is not), supply-siders argue that this would not begin to solve all France's economic problems. The French economy, they argue, has entrenched supply-side problems of labour costs, and of product, labour and services markets which are not as competitive or flexible as they might be. Some even accept that taxation and levels of public expenditure ought to come down. This is a line that has been pursued by the Organisation for Economic Co-operation and Development (OECD) and the IMF for decades, although French Socialist 'supply-siders' do not envisage going as far, nor as fast, as the OECD might wish.

Some 'supply-side' reform initiatives have come to fruition under Hollande, notably 'flexi-curity' style French labour market reform wherein unions and employers can negotiate to protect jobs during economic crisis. This included provisions for agreeing temporary changes in conditions and reductions in wages and working hours in return for employer undertakings not to enforce redundancies (EIRO 2013). For a French Socialist government to preside over a negotiated increase the flexibility of French labour markets is an unusual and significant step. The facilitating of lay-offs, for example, contained elsewhere in the package constitutes a radical departure from former French Socialist approaches to labour market reform. This success in bringing about 'structural reform' to French labour and product markets is a considerable achievement for Hollande. However, its political sensitivity (upsetting as it does the radical, more left-wing elements of his governing coalition, as well as within the trade union movement) prevents him making more political capital out of such economic policy achievements.

The macroeconomic policy contradictions of the dual commitment to fiscal consolidation and expensive economic policy activism have become all too apparent, undermining the coherence and impact of some high-profile measures. The *Plan de Croissance* centre-piece was labour cost reductions through the 'Competitiveness and Employment Tax Credit' (CICE). This proposed reduction of social charges for small and medium sized firms was designed to inject a positive growth and jobs boost 'shock' to the French economy, allowing these firms to hire more. It is a Socialist version of the so-called 'social VAT' championed by the Right, and much discussed within French political economy since the Germans introduced something similar some years ago. The IMF describes such measures as 'fiscal devaluation' – shifting labour costs from firms to reduce the production costs of exports, and hence the price of commodities, on international markets.

However, in October-November 2012, when the *Plan de Croissance* was being finalised, all hope had not been abandoned of hitting the 3% deficit target for 2013. At this stage, the attenuation of the emphasis on austerity had not fully gained ground. The Germans in particular, and to a lesser extent the European Commission, were still convinced that the French *had* to meet the target, in order to demonstrate their commitment to the new Eurozone governance mechanisms. With that in mind, the reduction in social charges, whilst announced in 2012, would in fact be *delayed* until 2014. All that was introduced was a promissory note that firms' social costs would be reduced the following year. So the upfront cost reduction for firms would be nil. Whilst defended by policy-makers as playing on the forward-looking expectations of firms, this clearly robbed the initiative of much of its mooted impact. A year later, the take-up of the scheme was half that which had been anticipated. This emasculation of its own principal growth and jobs 'shock' initiative is indicative of how far the French Government was prepared to go, or perhaps how constrained it felt, to compromise the growth/jobs ambition for fiscal rectitude. More immediately, it demonstrates the constraining context of Eurozone's strengthened economic policy rules and fortified governance mechanisms, with the SGP now supplemented by enhanced macroeconomic and fiscal policy surveillance, co-ordination and control through the 6-pack, the 2-pack and Fiscal Compact (for detail see European Commission 2012).

The French Politics of Fiscal Rectitude

The relatively high levels of public expenditure as a proportion of GDP, coupled with concerns about the efficiency of state spending, colour the assessments of French public finances offered by influential international bodies such as the OECD (2011, 2013) and the IMF (2010, 2012b, 2013). One element of their commentary upon and fiscal policy advice to successive French Governments since the 1990s has been that public expenditure needs to be cut, and that structural reforms of the French state need to enhance efficiencies, for example through reductions in the number of public sector workers and wage moderation to reduce the public sector wage bill. This constant refrain has been expressed in rather more pointed terms in recent years as the global financial crisis and then the Eurozone crisis have taken their heavy toll on the French public finances. It is in part to counter adverse perceptions of these particularities of the French economy, as well as to tackle the realities, that France has become increasingly enamoured of rules-based economic policy-making.

Fiscal and other economic policy rules have for some time been gaining ground within the making of French economic policy, belying somewhat the *dirigiste* reputation for discretionary French economic policy-making. This is in part due to the process of European monetary union, and the SGP, but there are also more home-grown economic policy rules, alongside EU-level initiatives. Whilst not, until recently, a feature of high politics in France, under-the-radar rules have becoming increasingly important. In a spat over fiscal rules in the run-up to the 2012 election, Hollande rejected Sarkozy's plan for a constitutionally enshrined balanced budget 'golden rule'.

In effect, Hollande's legislation of the EU Fiscal Compact or Treaty on Stability, Coordination and Governance (TSCG) into French law in the form of the 2012 *loi de programmation des finances publiques* (LPFP) increases, if anything, France's already deepening commitment to a rules-based public finances regime. Hitherto, however, the constraining effect of fiscal rules on economic policy discretion was questionable. Co-existing as they do with *dirigiste* policy reflexes, fiscal rules have often been observed in the breach, as in the early 2000s and during the fiscal stimulus period of 2008-9. In this light, the LPFP, with its 5 year budgetary programming framework, which locks in a trajectory towards structural balance, represents an important qualitative change in the binding character of French economic policy rules. The independent Fiscal Council now oversees and publicly comments on whether government budgetary policy remains on course and is based on appropriate assumptions. This has lasting implications for how fiscal policy gets made in France and the degree of discretionary latitude enjoyed over the budget and fiscal policy generally by elected French politicians.

These new fetters, rooted in the Eurozone governance reform initiated by Sarkozy and Merkel during 2011-12, will constrain French economic policy more than anything experienced in the 1990s or 2000s. The new EU Fiscal Compact - based on cyclically adjusted structural balance targets, not nominal targets (although these remain 'in play' through the SGP and the 6-pack) - is less pro-cyclical than previous EU fiscal rules. Nevertheless, the commitments to fix a course towards structural balance and to reduce incrementally public debt both have the potential, under certain conditions, to induce recessionary fiscal policy in France. The new framework certainly limits the potential for fiscal policy activism in support of growth in the short term. Hollande's presidency has built into the French administration an increasingly effective audit and control of public spending. This has seen an end to the rise in public expenditure in real terms under Hollande – for the first time since the 1970s. By comparison with other EU states, the 'fiscal effort' of consolidation in France since 2010 is very significant (OFCE 2013).

Within the Socialists' camp, Moscovici needed to counter calls for relaxing austerity coming from left and radical elements (such as Montebourg) within the *ligne majoritaire*. With unemployment rising, and government popularity falling, Hollande and Moscovici were faced with calls to turn on the spending taps to pursue the growth and jobs oriented measures promised during the 2012 presidential campaign. Convinced of the need to signal and demonstrate fiscal rectitude, and constrained by European commitments, Moscovici resisted spending ministries' wishes. Prioritising fiscal consolidation sits comfortably with the prevailing 'conservative liberal' thinking (favouring balanced budgets and reductions in public spending) which dominates within the French administration. This conservative liberal thinking, and its permeation through powerful economic ministries within the French state, perhaps constitutes an additional constraining factor for a French Socialist president. It is one that Hollande is comfortable with, but it is a source of chagrin to the likes of Montebourg and the party's left wing.

Not for the first time, during 2012 and 2013, the desire to retain market confidence and manage the internal party politics of French Socialism led to a commonality of position and purpose between the Socialist Finance Minister and Budget Minister and conservative liberal elements within the French administration. The IMF Mission was also enlisted in support to provide additional political cover for the fiscal consolidation focus. Reading between the lines of its 2012 and 2013 reports, it is clear that the Fund could have been sympathetic to a slower pace of fiscal consolidation, but the French Finance ministry was keen to convey that it was tied to the mast.

Hollande's Vision for Eurozone Crisis Resolution

Hollande's initial hope was to marry a domestic economic policy agenda committed to medium-term fiscal consolidation with shifts in the European economic policy agenda to institute more growth-oriented activism at that level. The centre-piece of the French Socialist approach, and the manifestation of his alternative vision for the political economy of Europe and of Eurozone crisis management, was Hollande's 'plan for growth' prepared for the June 2012 European summit. This gives a good indication of both the contours of his hoped-for recalibration of European economic policy responses to the crisis and the limits of its viability and feasibility in the face of resistance from key European partners, notably Germany.

In truth, analysis of what the June 2012 Plan amounted to illustrates well the limits of the politically possible for Hollande. Although it included €120bn of public works funded by redirected EU structural funds and 'project bonds', as well as other employment creation measures, the reality is that much of this was already in the pipeline and was simply re-announced by Hollande. Initiatives on the European Investment Bank (EIB) are credited with helping improve liquidity and avert a deeper credit-crunch by preventing an EIB move to deleveraging. Other proposals, like the EU transaction tax proposition, have not really moved forward since the summer of 2012 for lack of widespread political support. Similarly, the introduction of Euro-bonds to fund mooted new growth-oriented EU spending never materialised due to unstinting German opposition.

A potentially more significant evolution, thanks partly to Italian and Spanish brinksmanship, was the recognition by the June 2012 Euro area summit of the 'imperative to break the vicious circle between banks and sovereigns', distinguishing the problem of bank debt from that of national debt (Euro Area Summit Statement 2012). Hollande also deserves some of the credit for moves made towards the EU's emergent 'banking Union' and single resolution mechanism. This has the potential to change the politics of fiscal rectitude and open up 'fiscal space' for the growth-oriented economic policies favoured by Hollande, although at the cost of tighter banking supervision under the auspices of the ECB. However, there was a limit to how much credit or political capital he could make out of rather technical reform to help sure up Europe's bankers – not the most popular category of European citizen in recent times.

There was in June 2012 agreement in principle on ambitious measures, notably to deploy the €500bn European Stability Mechanism bail-out funds both directly to support troubled European banks (thus not adding to government debt) and also to purchase government bonds in order to lower borrowing costs. However, 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 would spare sovereigns greater debt burdens have not come to fruition due to ongoing German resistance. Increasing the scale of ECB or EU financial intervention in ways that will increase German liabilities would, Berlin fears, temper European partners' commitments to domestic economic reform. This has, to date, seriously undermined Hollande's hoped-for re-orientation of European economic policies.

More generally, Hollande sought to change the balance of emphasis in European economic policy responses to the crisis, seeking to enhance that on growth supporting measures, whilst retaining firm medium-term commitments to restore the public finances. This did not, in summer 2012, find favour in key Berlin and Brussels. It was a case of bad timing. When Hollande wanted to attenuate the austerity emphasis, the Commission and Germany were unmoved, interpreting this as French *laxisme* – a view which was scarcely justified given the scale of the French fiscal effort since 2010. By the end of 2012 and early 2013, following the IMF's intervention on fiscal multipliers, and in the face of ongoing absent growth, the Commission at least had become much more accommodating. The need for more emphasis on growth had gained wider traction as the downsides of a myopic focus on austerity had become all too evident, with European-wide growth continuing to stagnate and public finances stubbornly refusing to improve. This culminated in the Commission's change of heart in 2013 noted above, agreeing to a delay in the deficit reduction targets for France and other European partners. By then, though, the moment had passed and the wind had gone out of the sails of Hollande's push to reconfigure Eurozone crisis management. When Hollande proposed his alternative vision for Europe during the campaign, the 'mood music' emerging from EU institutions, such as the Commission, had not really begun evolving in this direction.

Hollande's disappointment at not being able to move the debate and the policy reform agenda further in his desired direction in the summer of 2012 caused him frustration and disappointment. This disappointment exacerbated tensions and divisions over Europe within Hollande's *ligne majoritaire.* Competing visions for Europe, and for France's role in Europe, within his Government hinders the emergence of a clear European policy strategy. Finance Minister Moscovici espouses a largely federalist line close to the mainstream within the PS. Montebourg, on the other hand, seeks to re-orient the EU's political economy, enhancing EU-level industrial policy and discriminatory trade policy. He has a vision for the EU as a motor for the re-industrialisation of France through protection of strategic sectors, which surely few in the Commission share (Montebourg 2013: 78-82).

These alternative political economic visions for Europe were aired very publicly in the early Hollande presidency. A number of government members offered stinging critiques of Berlin in particular, and also of Brussels, for their degree of commitment to austerity. This was followed up within the French Government by unprecedented levels of withering personal attacks on Merkel. This ill-advised diplomatic strategy was perhaps born of Hollande's frustration at the limits of the European-level activism he favoured to tackle the Eurozone crisis and the economic problems it had foisted upon France and others. All of this, of course, did nothing to enhance Hollande's credibility on the European stage or his prospects of articulating or gaining assent for an alternative vision of Europe's political economic future. Eventually, during 2013, Hollande curtailed these voices, but by then the damage to France's standing and traction within European policy debates had been done.

Conclusion: Walking the Growth/Fiscal Consolidation/ Economic Credibility Tightrope

The limits of Hollande's leadership internally of his own government allows differing views on economic policy and European strategy to emanate from Moscovici, on the one hand, and Montebourg, on the other. This contributes to a perceived lack of clear direction for the Hollande presidency on the key economic and European policy questions. It also combines with a general sense of unease disquiet about the Eurozone crisis, its impact on French economic performance and the absence of French hands on the tiller steering a different path to crisis resolution. Although the internal party and governmental disagreements over economic policy and their imperfect management muddy the waters a little, it is, nevertheless, still possible to discern the centre of gravity of Hollande's economic policy priorities. This remains the steadfast pursuit of the fiscal consolidation he championed before even securing the presidential nomination during the PS primaries in the summer and autumn of 2011. French fiscal policy under the Hollande presidency has subsequently not been found wanting in terms of 'fiscal effort' to restore the public finances.

There are some creditable achievements on Hollande's economic policy report card, notably on labour market reform, and addressing, if not solving, French problems of youth unemployment. His January 2014 re-commitments to improve the competitiveness of French firms, lowering non-wage labour costs, flexibilising labour markets and making significant reductions in public expenditure, all mark departures from past French Socialist economic policy thinking. Containing public finances growth is very difficult to achieve in France, as is reform of the central and local state. Previous administrations have tried and failed. Yet successful completion of the spending reductions legislated in the LPFP's 5-year budgetary planning pre-supposes significant reform on these fronts. In other words, Hollande's plan for the French state and the French public finances is not simply picking the low-hanging fruit.

It must be noted too that the cumulative lack of clarity of vision emerging hitherto from the Hollande's administration was somewhat at odds with his confident affirmation in January 2014 of a core 'social democratic' ideological identity - a novelty for a French Socialist leader. It was noticeable, though, in this relaunch that the 'supply-side' agenda seemed to be gaining ground and beginning to 'crowd out' the more Keynesian discussion of demand-side policies.

So far, this more coherent vision has not translated to the European stage. Since Hollande's early initiatives at the June 2012 European Summit, we have not seen a clear direction being piloted by Hollande. At the wider European level, bound by European commitments under the ramped-up rules-based governance of the EU and the Eurozone, not only the SGP and its excessive deficit procedure but also the 2-pack and the 6-pack, the more thoroughgoing re-evaluation of the link between fiscal policy and growth, and Hollande's hoped-for re-orientation of the Eurozone's crisis response, have not materialised. The Socialist President in France has found himself constrained to operate within the parameters of the structural power of Germany at the heart of the Euro and the consequent, pervasive influence of its crisis response ideas. German economic ideas also prevail within Eurozone crisis response debates and initiatives partly because they are hard-wired into EMU and the Euro's institutional architecture in important places, like the constitutional remit of the ECB. The limits of French achievements here are in some ways, then, a reflection of the increasingly asymmetric and dysfunctional nature of Franco-German relationship in its Hollande-Merkel iteration.

Hollande's early aspiration to renegotiate of the EU Fiscal Compact never materialised; indeed, the LPFP faithfully transposed it into French law. Although less pro-cyclical than the nominal targets of the SGP, the targets for structural balances contained in the LPFP still have potentially recessionary effects. The combination of European partner and financial market constraints means that the Keynesian insights into the need for fiscal activism in support of demand, so accentuated during the Hollande campaign, have been somewhat lost in the translation of a new set of fiscal rules on to the French statute books. Keen to avoid further damage to French credibility with financial market participants, the president has in the final analysis anchored France on a course of medium-term restoration of the public finances and introduced mechanisms of budgetary control and planning more binding than anything seen before in France.

This step-change in the control and containment of French public finances, combined with Hollande's commitment to fiscal consolidation and steadfast embrace of tough fiscal rules, ought to buy Hollande significant 'fiscal space'. The fact that it has not yet done might relate partly to presentational failings. Hollande's 'management' of economic policy divisions through public dissent and disagreement has left markets underwhelmed, giving the appearance of an administration not unambiguously committed to fiscal consolidation. Thus the potential for increased economic policy space potentially generated by these tough choices is being squandered. The ratings downgrade of November 2013 suggests that France is being given much less latitude from financial markets than the strength of its commitment to fiscal consolidation 'on the ground' might seem to merit.

The result is damaging for Hollande in two ways. Firstly, French citizens interpret the absence of a very clear economic policy line as evidence that Hollande's presidency is insufficiently focused on tackling unemployment. IMF concern over the adverse effect of growth of fiscal consolidation also chimes with some French economic commentators, who forecast a widening output gap during the Hollande *quinquennat* if a more growth-supporting macroeconomic policy is not brought into place (Heyer & Timbeau 2012; iAGS 2012, 2013; OFCE 2013). The fiscal consolidation strategy moving to a (more growth-harming) public expenditure cutting phase for the remainder of Hollande's presidency will do nothing to improve French unemployment. The costly attempts to tackle youth unemployment through public sector job creation are not on a scale sufficient to turn the tide. The prevailing sense that the Socialist government has been insufficiently vigorous in its efforts to tackle France's longstanding high structural unemployment problem is of itself a significant explanatory factor behind Hollande's record low presidential popularity ratings. This obviously adversely affects his political credibility.

Secondly, the financial markets may also perceive the mixed economic policy messages as evidence that Hollande's administration is insufficiently committed to fiscal consolidation. Such an assessment would not be accurate (as detailed above), but perception here is very important. This has undermined any sense of the clarity of purpose and resolve within Hollande's economic strategy, even though he has used economic policy rules and European imposed targets, notably the 3% deficit target for 2013, boldly as signalling mechanisms to financial markets. Paradoxically, it was his steadfast pursuit of fiscal consolidation which prevented the achievement of that target. That is more telling of the nonsensical nature of nominal deficit targets in the current conjuncture than any shortcomings of Hollande's economic management, but it all goes to undermine Hollande's economic credibility.

The disappointment of the hopes raised during 2012 of increased economic policy activism to tackle the Eurozone crisis and French growth and unemployment woes leaves Hollande floundering in the opinion polls. There has been some talk of a reshuffle, perhaps replacing Ayrault as Prime Minister with the combative Manuel Valls. It remains to be seen if the January 2014 relaunch of Hollande's now more self-assured 'social democratic', centre-left economic policy strategy will be accompanied by a resolving of the tensions over economic policy within his government, or a change changing Hollande's mode of governmental and presidential majority management. That seems unlikely, but, without it, it is hard to see how Hollande can forge a coherent economic strategy and thereby address effectively the high unemployment and low growth problems facing the French economy.

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