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## **Between a rock and a hard place: Preference formation in France during the Eurozone crisis**

### Abstract

This article analyses the causal factors underlying the formation of French preferences during the Eurozone crisis solving process (2008-2017). Going beyond the clear distinction between national preference formation and interstate bargaining of liberal intergovernmentalism, this article combines new intergovernmentalism, political economy and feedback loops to study the horizontal linkages between different actors included in the process of domestic preference formation. Based on the EMU Choices dataset, which includes semi-structured interviews conducted with French policy-makers involved in the EU negotiations at the highest level, we will concentrate on French preference formation in four negotiations at the EU level: the May 3 2010 agreement on bilateral loans to Greece, the initial capitalization amount of the European Stability Mechanism (ESM), the negotiations on the legal nature of the “debt-brake” included in the TSCG, and the Reverse Qualified Majority Voting (RQMV) procedure. The article shows that confidential and restricted administrative networks played a central role in reducing the uncertainty stemming from the fragile financial positions of the hypertrophied domestic banking system. At the same time, French negotiators found themselves between a rock and a hard place during negotiations at the EU level, not crossing the red line fixed by Germany, on the one hand, and ensuring that policy solutions were compatible with governmental political stance and domestic economic interests. Contrary to recent research pointing out to the increasing influence of domestic public opinion on national preference formation, however, feedback loops between the outcome of the crisis solving process and French politics and policies had very little impact.

## Introduction

The newly elected French President Emmanuel Macron made it very clear in 2017 that France is forcefully returning to the European Union negotiation table. In his speech at the Sorbonne on September 26, 2017, he advanced his proposals for a reinforced Economic and Monetary Union (EMU): “What we need is a long-term economic and political strategy, and our challenge within the eurozone is to work out how to make it an *economic power* which can compete with China and the United States [...] And I am shouldering and will continue to *shoulder France’s responsibility*, because it is in the interests of France and Europe, but we also need *common rules and instruments*. We need convergence and stability through national reforms, but also by coordinating our economic policies and a common budget<sup>1</sup>.”

This statement is in line with French preferences on the Eurozone institutional architecture. Since the end of the 1980s, French governments have been seeking to complement rules-based EMU with a “gouvernement économique” which is a fuzzy concept aiming at increasing economic policy coordination and fostering EU-level interventionism in order to promote growth and create jobs without losing sovereignty (Howarth 2007, p. 1062). At the same time, French politicians have been using EMU rules as a “useful external constraint” to reform their economies in the face of domestic resistance (Howarth 2007, p. 1061). When Emmanuel Macron underlines that he will “shoulder France’s responsibility,” he relies on the EMU imperative to legitimise domestic reforms, but he also hints at a new external constraint. Indeed, the new French government is trying to overcome previous policy deadlocks between Paris and Berlin by restoring French credibility with the implementation of structural reform in order to push forward new Eurozone arrangements<sup>2</sup>.

These elements, while crucial to understand France’s position in the EU, however, are focusing on the president’s office only. The aim of this article is to open up this institutional black box and to understand how and through which mechanisms France’s national preferences with regard to the EU are established. More precisely, the article analyses the causal factors underlying the formation of French preferences on the reforms of Eurozone governance during the crisis (2010-2017). In line with the overall puzzle of this special issue, which studies how political actors arrive at their ‘preferences’ in EU decision-making, we use an original framework based on the combination of three conceptual perspectives: new intergovernmentalism, the effects of feedback-loops between public policy and public opinion and the political economy literature on the state-finance nexus.

France in this context is to be considered a hard or most likely case (Bennett 2004, p. 50). Due to the centralised French political system, the French government has a high

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<sup>1</sup> <http://www.elysee.fr/declarations/article/initiative-pour-l-europe-discours-d-emmanuel-macron-pour-une-europe-souveraine-unie-democratique/> accessed July, 24, 2018. Emphases are ours.

<sup>2</sup> Brunsden Jim, « EU certifies Emmanuel Macron has delivered on deficit promise », Financial Times, May 23, 2018

level of policy autonomy regarding interstate bargaining issues. In particular, under the Fifth Republic, authority over European affairs is concentrated in the hands of the president, supported by a small number of high-level civil servants. Cole and Drake (2000, p. 28) contend that the presidential pre-eminence in European affairs was so pronounced that Europe was considered to form part of a 'reserved sector' where the main European decisions have been taken by French Presidents, in coordination with a small group of high civil servants and the main economic interest groups. This understanding of preference formation would be consistent with the core aspect of liberal intergovernmentalism (LI), which argues that the interaction between the government and the main economic interest groups explains how governments form their preferences. These preferences (demands) are then defended at the EU level, where 'a process of interstate strategic interaction defines the possible political responses of the EC political system to pressures from those governments (supply)' (Moravcsik, 1993, 481).

We argue, however, that in order to understand the process of preference formation, even in an extremely centralised country such as France, it is crucial to take into account the political economy of the state-finance nexus, horizontal influence stemming from other EU countries (in particular Germany), and feedback loops. Indeed, French negotiators found themselves between a rock and a hard place during negotiations at the EU level. They integrated the red lines fixed by Germany and other creditor countries in order to build a space for policy compromises and combined those with the strong level of economic patriotism existing at the domestic level. The strong autonomy of French negotiators also had an impact on domestic politics.

From a methodological perspective, we rely on the EMU Choices dataset<sup>3</sup>, which includes semi-structured interviews conducted with high-level civil servants in every EMU country. More precisely, two out of the four French interviewees<sup>4</sup> were sitting at the Economic and Financial Committee (EFC), which is the preparatory committee of Eurogroup, Ecofin and European Council meetings and, hence, the heart of Eurozone governance (Grosche & Puetter 2008, Fontan 2013). In order to triangulate the gathered data, we also include interviews with EFC members from Belgium, Netherlands and Luxembourg and secondary sources. These interviews aimed at outlining the construction of national preferences related to four case studies: the initial Greek rescue, the capitalisation of the European Stability Mechanism, the legal nature of the debt brake enshrined with the Treaty on Stability, Coordination and Governance (TSCG) and the Reverse Qualified majority voting.

The article is structured as follows: in a first section, we present the combination of the theoretical frameworks guiding the article. A second section applies this framework to the empirical analysis.

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<sup>3</sup> <https://emuchoices.eu/>. A quantitative database concentrates on all major issues relating to EMU reforms since 2010. Amongst those, four have been selected as most different cases by the consortium members in order to conduct in-depth interviews with key decision-makers in all 28 member States: the May 3 2010 agreement on bilateral loans to Greece, the initial capitalization amount of the European Stability Mechanism (ESM), the negotiations on the legal nature of the "debt-brake" included in the TSCG; the Reverse Qualified Majority Voting (RQMV) procedure.

<sup>4</sup> The other two were respectively part of the European Affairs division of the French Treasury and of the French Permanent Representation in Brussels.

## 1. Accounting for preferences

Preference formation in the European Union in general has been analysed prominently by liberal intergovernmentalist (LI) approaches (Moravcsik 1993, 1998; Schimmelfennig 2015). Based on a three-step model – domestic preference formation, intergovernmental bargaining and supranational institution building.

According to Moravcsik (1998: 24), national preferences are an ‘ordered and weighted set of values placed on future substantive outcomes’ which are driven by geopolitical and economic interests in relation to European integration. Preferences are ‘not simply a particular set of policy goals but a set of underlying national objectives *independent of any particular international negotiation*’ (Moravcsik 1998, p. 20). As underlined in the introduction to this special issue, this definition implies a series of elements that are open for discussion. First, it claims that preference formation precedes European level dialogue and thus implies a temporal sequencing. Second, the definition allows for an analytical differentiation between ‘preference formation’ and what is labelled here as ‘position-taking’ (on positions during intergovernmental negotiations, see also Degner & Leuffen 2017, p. 3). The latter occurs during intergovernmental meetings and may be the result of compromises, side-payment, alternative coalitions, etc. (Moravcsik 1998, pp. 64-66.) While national ‘positions’ can thus change, LI assumes that national ‘preferences’ are stable.

Third, LI also argues that the preferences of governments regarding the creation and the rules of EMU result from a small number of actors. In the case of macro-economic policy coordination, most economic agents have ambiguous and variable interests since it is difficult for them to calculate their net costs and benefits (Moravcsik 1993: 493-494). This is the reason why French banks and other economic agents showed a ‘cautious and conditional support’ for the single currency, and, while present in the debate, did not play a central role in the formation of preferences (Moravcsik 1998: 409). Moravcsik (1993: 493) also underlines that, in times of economic crises, governments ‘may act without direct pressure from interested parties’ since the level of uncertainty rises. In other words, according to the LI framework, the French government should enjoy considerable leeway from domestic interest groups during the Eurozone crisis negotiations.

While LI offers a parsimonious account of preference formation, which seem well-suited for a centralized country like France, it does not account for three structural elements which became increasingly important during the Eurozone crisis: the horizontal aspect of preference formation, i.e. the influence of debates taking place in other member states on domestic preference formation as analysed by new intergovernmentalism and the concept of “nested games”; eventual feedback loops, i.e. the debate triggered by the implementation of decisions in the domestic realms which feeds back again into domestic preference formation (Hooghe and Marks 2009; Schmidt & Crespy 2014; Saurugger 2014, Hix 2018); and the role played by policy networks at the heart of the “state-finance nexus” in times of financial uncertainty. Hence, our aim is to go beyond the LI framework to explain more accurately the formation of French preferences during the Eurozone crisis.

### *Taking other States into account: new intergovernmentalism and nested games*

The management of the Eurozone crisis has been considered as an intergovernmental process, excluding de facto the European Parliament and the Commission, but empowering the European Central Bank (ECB). The weakness or even absence of the community method in the management of the euro crisis left Member states with unanimity decision-making rules. New intergovernmentalism stresses that in this context, consensus-seeking and iterative negotiations have become the guiding norms in EU intergovernmental politics (Puetter 2012, Puetter 2014, Bickerton et al 2015). In this context, preferences of other member states are scrutinised in advance by their partners and influence domestic preference formation since their inception, and not only during the bargaining phase as argued by the LI framework.

This understanding of preference formation not only as a vertical channel (from interest groups to the government) but also as a horizontal channel is also consistent with Tsebelis (1990) nested games. Nested games are considered to be a way of transplanting context into game theory. Instead of assuming that actors play games in a vacuum, it shows that these games are embedded in some higher-order network. In Tsebelis approach this higher-order game determines the payoffs of the players: deviation from the optimal outcome of the negotiations on a given policy subject might be compensated by gains on another topic. In fact, the iteration of nested games was crucial during the creation of the single currency as “it opened opportunities for political players to redefine what constituted appropriate strategy and optimal outcomes in EMU negotiations” (Dyson & Featherstone 1999, pp. 46-47).

According to new intergovernmentalism, the institutional environment of the European Council and its preparatory committees align the preferences of member state administrations including senior bureaucrats and political decision-makers within a transnational policy-making environment. Preference formation, as a process which involves governmental elites, thus, has become transnational. An example of such transnationalisation of preference formation is the Franco-German couple. In the context of EMU reforms, the Franco-German couple has indeed not only strongly influenced the intergovernmental bargaining process as Degner and Leuffen (2017) have underlined, but also domestic preference formation. France and Germany forge their preferences through bilateral contacts between governments and the subordinated bureaucracies (Degner and Leuffen 2017). Even though German and French political economy and economic cultures diverge (Clift 2013, Clift & Woll 2012), their pre-negotiation exchanges lead to a rapprochement on a large number of points.

### *Feedback loops: EU Decision-making under domestic public scrutiny*

As pointed out in the introduction to this special issue, policy approaches allow us to model the circular relationship between preference formation, decision-making and, again, preference formation. Decision-making takes place in complex environments (Simon 1985, 1997; Jones 2001). The multilevel character of the European Union adds further complexity to this understanding of preference formation: preference formation is a more complex process than the result of a series of linear “push factors.” It is a circular process through which political elites and experts, interest groups and social

movements as well as the media frame a problem and influence state actors in defining national preferences. Decisions taken on the basis of these preferences at the European level then influence again domestic actors who adjust and adapt their positions, and ultimately transform national polities.

According to the public policy literature, feedback loops understood here as the interplay between the domestic public opinion and decision makers (Campbell 2003, Pierson 1993) should play an increased role in times of economic and financial crises since the salience of economic issues should increase. In other words, when the salience of an issue, understood as the perception of the importance of the issue for the public, increases, even complex and very technical issues become more resistance-prone (Wlezien 2005). Indeed, a publicly perceived threat and a high degree of uncertainty increase the salience of an issue and might lead to an increased probability for actors to oppose governmental decisions. In turn, a higher degree of politicisation, understood as the process of making citizens and concerned actors more involved in politics, is often perceived as having influenced policy positions of member states, such as France, which searched to renegotiate policies at the EU level (Hooghe and Marks 2009; Paterson et al. 2010). Domestic opposition is taken up by national representatives and translated again at the EU level: Member States reopen debates on specific policy instruments, insisting on the difficulty of implementing them at the domestic level and ask for a reinterpretation of these issues.

#### *Reducing uncertainty: policy networks and the state-finance nexus*

While the new intergovernmentalism approach and the public policy literature postulate that feedback loops increase politicisation, deliberation and the number of players involved within policy-making processes in times of crisis, another stream of literature focused on crises show that opposite dynamics are at play. In times of crisis, uncertainty increases and standard operating procedures can rarely be applied. Crises trigger a perception of urgency which usually leads to a decrease in the number of actors involved in finding solutions to the problem (Boin et al 2005; Saurugger & Terpan 2016; Degner 2018). In fact, these unexpected critical junctures reveal the balance of power within political systems since it is only the most powerful players who are participating in emergency meetings (Dobry 1992).

In this context, tight and small policy networks between civil servants and private banks play a preeminent role to reduce the high-level of uncertainty caused by financial markets destabilisation in a short period of time (Fontan 2013, Woll 2014). To grasp why these networks are so powerful, we rely on the political economy literature on the “state -finance nexus”, which explains how the financialization of French economy led to an intertwining of states’ and banks’ interests. Since the 1970’s, political leaders have been increasingly governing through financial markets, i.e. they relied on financial markets and instruments as a form of statecraft to achieve economic goals, which they could not attain anymore with fiscal and budgetary policies (Epstein 2017, Braun et al. 2018: 104).

With the support of the State, French banks’ balance-sheets expanded up to the point that they became “too-big to bail”: in 2008, the size of the three largest banks was equivalent to 350% of the French GDP (Blyth 2013). Moreover, since these banks

became the main dealers of the French sovereign debt, the French state has become dependent on them to refinance its debt at low cost (Lemoine 2016). Finally, since the creation of the Eurozone, the links between French banks and the balance-sheets of peripheral Eurozone member-states dramatically increased following a wave of transnational mergers and acquisitions and the purchase and recycling of peripheral sovereign debt on repo markets (Gabor & Ban 2016). In other words, although French banks were indecisive about their interests during the creation of the Eurozone (Grossman 2004), they quickly learned to recognize the opportunities offered by this new context and they engaged in a cross-border expansion.

We mobilise this political economy literature on the state-finance nexus to have a more fine-grained view on the formation of domestic preferences. While the LI framework distinguishes between states' and banks' interests, this political economy approach underlines that the financialization of our economies led to an entanglement of their interests. Hence, the policy networks located at the heart of the state-finance nexus play a preeminent role in the crisis resolution process because they have an insider knowledge of states' and banks' respective exposures and they are used to form coalitions to defend their intertwined interests. In other words, these policy networks were the main promoters and defenders of French "economic patriotism" during the Eurozone crisis (Clift & Woll, 2012).

How to reconcile the contradictory crisis-induced effects observed by the public policy and the political economy literature? Braun (2015) offers a solution to this conundrum by distinguishing two distinct public policy phases: a phase of emergency crisis management and a subsequent institution-building phase. In an emergency, decision-making is usually restricted to a small number of actors, whereas in the follow-up process leading to policy change, these focusing events (Kingdon 1984, Birkland 1997) often lead to a broadening of the policy community, including the media and a large number of groups.

### **French preferences during the Eurozone crisis**

French officials have pushed forward the idea of a *gouvernement économique* since a declaration made by Pierre Bérégovoy in the early 1990s, in which he argued in favour of broad orientations of the ECOFIN in both monetary and economic policy (Howarth 2007: 1067). The last three French presidents reiterated this position: Nicolas Sarkozy in a statement made at the European Parliament on October 21, 2008 (Jabko and Massoc, 2012; Clift & Ryner 2014), Francois Hollande on the campaign trail of the 2012 French presidential election (Clift 2013) and Emmanuel Macron in his speech at the Sorbonne in September 2017<sup>5</sup>. In fact, the underlying tension beneath the concept of *gouvernement économique* studied by Howarth (2007) in pre-crisis times continues to exist. On the one hand, French governments try to deepen the Eurozone economic integration and fiscal-sharing mechanisms by promoting instruments such as Eurobonds. On the other hand, they seek to avoid the automaticity of sanctions attached to strict fiscal rules, or any form of binding economic policy coordination that would leave to a loss of sovereignty.

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<sup>5</sup> See footnote 1

In this section, we analyse the process of French preference formation on four EMU crisis measures identified as nodal and controversial by the EMU Choices project. While the first two measures were taken during the emergency crisis management, the two following ones belong to the institution-building phase. First, we focus on the May 3, 2010 agreement on bilateral loans to Greece since it is the outcome of a five-month negotiation on financial rescue mechanisms. Second, we turn to the capitalisation of the European Stability Mechanism (ESM) whose size was fiercely debated between Eurozone member states. Third, we study negotiations on the legal nature of the “debt-brake” included in the TSCG because it crystallised long-lasting debates on the compliance to the EMU rules-based systems. Fourth, we pay attention to the Reverse Qualified Majority Voting (RQMV) procedures, which also touches upon the sensitive issue of sovereignty losses since it aims at strengthening the sanctions attached to the infringing of fiscal rules.

### *Policy networks and uncertainty*

Since at least the 1980s, networks of high-level civil servants and private bankers defend and promote French interests within the EMU policy-making process (Cerny 1989, Dyson & Featherstone 1999, Hardie & Howarth 2009, Clift 2012, Jabko & Massoc 2012, Bezes & Le Lidec, 2015, p. 502). These networks unite key sectors of the French administration in charge of European Economic governance (the head of the Treasury and the economic advisers of the French presidency) and the chairpersons of the six largest banks (Crédit Agricole, BNP Paribas, Société Générale, Crédit Mutuel, Caisse d'épargne and Banque Populaire). Close to this small core of civil servants and private bankers, the governor of the Banque de France and the Finance minister are also involved in the formation of French preferences, albeit on secondary and non-urgent issues.

These networks are characterised by a strong homogeneity, which is caused by the similar social backgrounds of its members and revolving doors between high-level French administration and private banks. This homogeneity was a powerful strategic asset for the French governments when it had to provide financial support to its banks after the collapse of Lehman Brothers. Compared to other national arrangements, the French bail-out was costless for the taxpayer<sup>6</sup> because of the swift agreement between the State and its banks (Woll 2014). Unsurprisingly, the homogeneity of French policy networks allowed to bridge potentially different interests between the different actors involved (Jabko & Massoc 2012). In fact, scholars argue that the French economic governance is *post-dirigist* because these networks align the interests of private banks and the state (Clift 2012, Clift & Woll 2012). Hence, French economic policy-making is characterised by a close co-operation between banks and the State, a situation that fits well within the liberal intergovernmentalist approach because their interests are aligned and not confrontational (Grossman & Woll 2014).

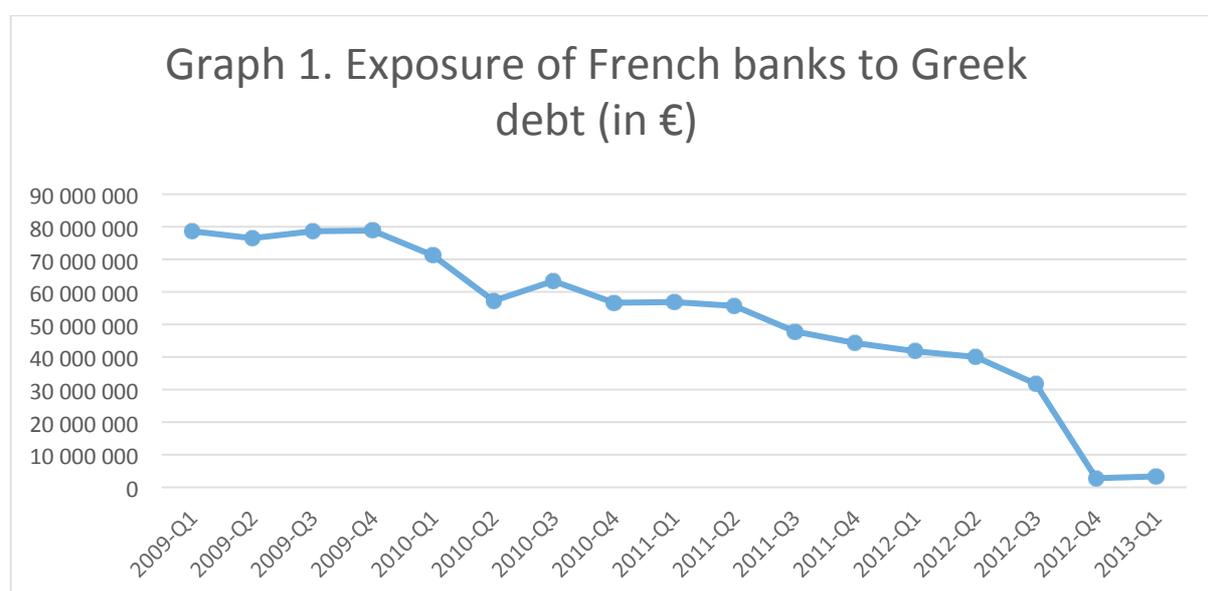
While the academic literature has studied these networks in the early stages of the subprime crisis, it has not yet thoroughly scrutinized their role in later stages of the crisis, when the locus of policymaking moved from the national stage to the EMU circles. Our interviews show that these small French policy networks have been crucial in

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<sup>6</sup> One important exception, however, is the bail-out of Dexia.

reducing the high level of financial uncertainty caused by the crisis. Two players were central in the formation of French preferences during the negotiations on the first Greek bail-out (February-June 2010): the top civil servants at the Treasury and the cabinet of the French presidency. More precisely, these players were at the heart of policy networks at both national and supranational levels.

First, information sharing within French policy networks helped civil servants to determine precisely the extent of banks' exposure to Greek sovereign debt (and later on, on the sovereign debt of other peripheral countries) and, hence, to design policy solutions accordingly. More precisely, French civil servants made a deal with French banks – based on the Vienna initiative template<sup>7</sup> – as early as in February 2010: banks committed to keep Greek debt on their balance-sheets in order to stabilise its value while the French government ensured that Greek debt would not be restructured and that it would provide liquidity to the Greek government in order to ensure the payment of coupons to its creditors (Interview 2). Indeed, in late 2009, French banks and insurance groups held 26% of the Greek severing debt purchased by foreign investors, well above German financial institutions (15%)<sup>8</sup>. If the Greek debt would have been restructured, BNP Paribas, the largest French bank whose assets are worth 120% of the French GDP, should have been recapitalised (Interview 3). As Figure 1 shows below, the evolution of French banks' exposure to the Greek sovereign debt is in line with this bargaining: French banks held their level of exposure to the Greek debt from the first half of 2010 until they started to fire-sale Greek bonds just before their restructuring in mid-2012.



Source : BIS statistics warehouse, compiled by the authors

In parallel, the Presidency's cabinet played a key role in persuading Nicolas Sarkozy that a common rescue fund was compulsory to stabilise the French banking system and alleviate systemic risks within the Eurozone (Interview 2). In short, the first Greek

<sup>7</sup> The Vienna initiative is a private-public framework where large banks and supranational institutions coordinate to maintain bank exposure in East, Central and South East Europe.

<sup>8</sup> Jack Ewing "Germany Already Carrying a Pile of Greek Debt". *The New York Times*, April 28<sup>th</sup>, 2010. <https://www.nytimes.com/2010/04/29/business/global/29banks.html>.

rescue was aligned with the French preferences (financial assistance without debt restructuring). Insider reports underline that French officials were at the forefront of the resistance against the option of debt restructuring because of French bank exposure during the Spring 2010 meetings involving agents from the International Monetary Fund (IMF), the Commission, the European Central Bank and European member state governments (Blustein 2015: 9-11<sup>9</sup>).

Second, members of the Treasury sit at the most important meetings in the Eurozone governance: the Eurogroup and, even more importantly, its preparatory councils: the Economic and Financial Committee (EFC) and the Eurogroup Working Group subcommittee. For example, the European Financial Stability Fund, the predecessor of the European Stability Mechanism, was set up behind the closed doors of a Eurogroup working group meeting during the weekend of May 9, 2010 (Fontan 2013). Treasury members relied on their participation to these meetings to gather information about the crisis resolution process before other French civil servants. This ensures a strong leverage in favour of the Treasury when interministerial struggles occur. For example, the Treasury and the Foreign Office hold opposite views on the future of EU integration. On the one hand, the Treasury supports an integrationist perspective because the topics on which it is competent are already negotiated at the EU level. From this perspective, more transfer of competences at the EU level gives more power to the Treasury, which is in favour of a new EU treaty (interview 1). On the other hand, the Foreign Office is more focused on the defence of French sovereignty and is opposed to a new Treaty. This was especially true when Laurent Fabius, a proponent of the 2005 “No” campaign was the Foreign Affairs minister (2012-2014). This asymmetry of power might explain why France has been advocating for further integration of the Eurozone during the crisis (Schimmelfenning 2015).

In short, the French Eurozone governance system is strongly dominated by small policy networks of civil servants and private bankers. At the administrative level, the policy positions of Treasury and the Presidency are homogenous because of the strong personal links between their members, which are fostered by similar education and career paths (interview 4). In the case of the first Greek rescue, the positions of these small policy circles were unambiguously influenced by a strong degree of economic patriotism: the priority of the French government was to protect its banking system and avoid a second recapitalisation. In other words, the exposure of French banks to peripheral sovereign debt heavily influenced national preferences. More generally, they are supporting further integration of the Eurozone, which follows a historical French stance on EU economic integration. The homogeneity of positions within the French administration stands in strong contrast with Germany, which was riven by administrative division between the minister of Finance and the minister of Economy, which mirrors the political struggles between the members of the governmental coalition (see Degner & Leuffen in this SI).

### *The horizontal dimension of Eurozone policy-making.*

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<sup>9</sup> See also Catan, Thomas & Ian Talley. « Past Rifts Over Greece Cloud Talks on Rescue ». Wall Street Journal, October 8<sup>th</sup>, 2013, sect. Europe.  
<http://www.wsj.com/articles/SB10001424052702304441404579119180237594344>.

According to the LI framework, the formation of national preferences is independent from international bargaining (cf. section I). Here, however, our research results strongly undermine this assumption: French preferences were influenced from their inception by German preferences and by the iterative nested games, which characterise Eurozone policy-making.

First, the formation of French preferences is historically intertwined with German preferences. Academics who study the central role played by the Franco-German couple in the Eurozone answer to the financial crisis disagree, however, on the power balance between the two countries and their impact on the Eurozone crisis regulation process. On the one hand, some scholars argue that Germany is a “reluctant hegemon” since its representatives rely on its economic power to play a “waiting game” during the Eurozone crisis negotiations (Bulmer 2014). From this perspective, France is merely another Eurozone country affected by German strategies without being able to modify them (Clift & Ryner 2014, Lux 2018). On the other hand, a small number of researchers claim that Germany’s preferences were strongly undermined by French ones’ (Rothacher 2015; Degner & Leuffen 2017; Schild 2013). According to these scholars, post-crisis Eurozone policies were mainly influenced by the French governments, which managed to “invert the rules of the Maastricht Treaty” (Rothacher 2015). Between these two opposite poles, a third group of scholars recognise that post-crisis policies stem from a compromise struck between the two largest Eurozone countries whose preferences gradually converged (Schmidt & Crespy 2014, Van Esch 2014).

Our research findings show that while French policy space was constrained by German preferences, the outcome of Eurozone negotiations did not contradict French “red lines.” When Eurozone countries set up the European Stability Mechanism, French negotiators recognised that they would have preferred a higher capitalisation (which was set at €500bn) but they did not ask for it since German negotiators would not agree with it. In the words of a Treasury agent: “French negotiators internalise German preferences when building their policy positions. We would not propose a policy blueprint that would go against German red lines” (Interview 3). French negotiators are updated about the evolution of German red lines because they are in constant contact through direct phone lines with their German counterparts sitting at the Eurogroup preparatory committees (interviews 1, 2, 4). These open lines of communication between EFC members occur because they meet each other on a very regular basis and they are sharing the willingness to strike policy compromises, which are constrained by the red lines set up in Berlin and Paris. In the words of one member of the French permanent representation “these channels of communication are open in order to find a proper balance between the logic of conditionality and debt mutualisation “(interview 4). These research results are consistent with the main tenets of the new intergovernmentalist framework, which emphasises that transnational policy-making environment increases consensus-seeking behaviour (cf. section 2). While LI accounts would argue here that the process of preference formation still remains distinct from the intergovernmental bargaining phase, we see here empirically that these two are interlinked.

Second, even though Germany constrains its policy space, France is still one nodal point of Eurozone negotiations. Indeed, Luxembourgish, Dutch and Belgian EFC members underline that the Eurozone policy space is shaped by three groups of players: Germany

and other ordo-liberal countries (Finland, Netherlands), France and Southern Europe countries (Spain, Italy) and supranational institutions (European Commission, European Central Bank). Other countries usually follow the positions defined within one of the nodal points or try to build bridges between them (interviews 5, 6, 7). This is because smaller Eurozone countries do not have the necessary expertise or the structural power to define their policy positions autonomously for each EMU negotiation. France, like Germany or the European Commission, does.

In addition of having the ability to build its policy position autonomously, France relied on iterative Eurozone nested games to ensure that policy compromises did not deviate too far away from its preferences. For example, French negotiators underlined that the capitalisation of the ESM was less important than its instrumental use, which was enlarged to bank bail-outs following French pressure (interviews 2 and 3). In other words, French negotiators “caved in” on the capitalisation of the ESM but they put a constant pressure on German negotiators in order to increase the flexibility in the use of its instruments. In a similar vein, France agreed to implement the “debt-brake” enshrined within the TSCG for two reasons. First, French negotiators did not cross their “red lines”: the debt brake was not written down within the Constitution because the government wanted to avoid a constitutional revision. Instead, France built an alliance with Italy to push forward the idea that the implementation of an organic law was a sufficient commitment (interview 2). Moreover, French negotiators obtained implicit counterparts from their partners. More precisely, the TSCG was part of a Franco-German compromise in which Germany accepted the creation of a Banking Union and France agreed on stricter fiscal rules (interview 3). The ECB was also part of the compromise according to one EFC member: “The decisive moment was the ECB measures. When the ECB announced its Long -Term Refinancing Operations in late 2011, the implicit counterpart for these measures was the implementation of the TSCG. This is how it has been “sold” to French Members of the Parliament” (interview 2). Moreover, even when a policy contrary to French interest is negotiated at the Eurozone level, French negotiators ensure that the final agreement offers enough caveats before accepting it. For example, French negotiators agreed on the RQMV<sup>10</sup> reform, when they were convinced that the proposal was blurry enough to avoid automatic sanctions and that the European Commission would not have enough political power to start the adequate procedures (Interviews 1&2).

In sum, the formation of French domestic preferences is strongly influenced by the dynamics of Eurozone negotiations and represents what can be called a ‘multilevel and iterative nested game’. On the one hand, Germany and France are engaged in an asymmetrical power game in which French negotiators ‘internalise’ German preferences, while the opposite might not be true. On the other hand, France is sufficiently powerful to exploit the policy spaces offered by the Eurozone iterative nested games and it manages to strike policy compromises that do not infringe its red lines. Finally, the open communication lines and the high level of trust between the EFC members help member-states to formulate initial policy positions that are sufficiently close to each other for policy compromises to be struck.

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<sup>10</sup> The RQMV proposal was put forward by the Benelux countries in order to avoid breaches of the Stability and Growth Pact by large member-states, as it occurred in 2005 (interviews 5,6,7). Hence, it is not part of a specific Franco-German deal.

### *Feedback loops*

As already underlined, the French Fifth Republic gives a high-level of autonomy to the government and its administrative branches in European negotiations. Moreover, this autonomy was strengthened in 2002 when the French political system became unambiguously presidential. Finally, the temporal pressures induced by financial markets pressures in times of crisis reduce the number of players directly involved in the negotiations (cf. section 1).

These factors explain why French negotiators were isolated from the pressures of political parties and other administrative bodies during the crisis management stages. For example, during the week-end preceding the set-up of a €125bn rescue fund to recapitalise the Spanish banking system in 2012, two members of the Treasury confirmed the financial commitment of the French government by phone to their EFC partners without consulting other domestic players (interview 1 & 2). In fact, all our interviewees agree that, outside the Treasury and the Presidency's office, other administrative and political bodies, including the Parliament, the governing and opposition parties, did not play a role during the crisis management phase (Interviews 1,2,3,4). They point out the temporal pressures induced by financial instability and the high level of expertise needed to deal with financial rescue schemes to explain this outcome. In addition of the institutional and contextual factors outlined above, French political history provides other explanatory elements. Since the 2005 referendum on the EU constitutional treaty, the Socialist party dodges European issues because they proved to be divisive (interview 1). Interestingly, the EMU choices dataset shows that this high level of power concentration within the hands of a few players is only found in those Eurozone countries that were granted financial loans or were under severe financial pressures, such as Spain, Italy and Greece.

Our research results therefore question previous studies on French preferences about financial rescue schemes, which are supposed to shift in 2012 because of increasing popular discontentment. Indeed, Rothacher (2015, p. 272) relies on five non-longitudinal polls to state that growing popular aversion against the ESM led to a shift in governmental preferences. In a similar vein, Crespy & Schmidt (2014) rely on polls and discursive analysis to point out that French leaders' discourse was influenced by shifting stances of their constituency on this issue. This divergence of research results may be explained by different methodologies. Whereas we rely on interviews with policy-makers at the highest level to analyse the impact of public opinion on the formation of French preferences, other studies rely on polls (whose significance on complex economic matter should be seriously questioned<sup>11</sup>) and the analysis of political discourses (which are not necessarily aligned with policy preferences).

The French situation stands in high contrast with other countries, such as Germany and Netherlands, where EFC participants must obtain a negotiation mandate from their parliaments and report on the final agreements in front of them. Sometimes, these auditions were broadcasted on national TV (Interview 5). Counter-intuitively, these strong controls gave some leverage to the Dutch and German EFC representatives.

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<sup>11</sup> On the issue of citizens' « non-attitudes » on complex policy tools, see Zaller (1992).

Indeed, tying its own hands proved to be a winning strategy for these countries during the Eurozone negotiations since it narrows down the set of policy options in their favour, a strategy in line with Putnam's two-level games and win set theory (Putnam 1988). A French EFC member acknowledges that they did not discuss policy options such as Eurobonds in early 2010 because its German counterpart repeated that he did not have the negotiating mandate allowing him to participate in such talks (interview 2). This can be considered to be the reason why Finance ministers asked the *Assemblée Nationale* to hold ex-post hearings after the negotiations. This option was, however, declined by the members of parliaments who argue they were lacking time and technical skills (Interview 4).

While the autonomy of French negotiators is the general rule of thumb in crisis emergency times, the salience of policy issues during institution-building phases brings back into play other administrative bodies and political institutions. The ratification of the TSCG is a point in case. During our interviews, French negotiators framed the TSCG as a political issue while the Greek rescue, the set-up of the European Stability Mechanism and the reverse Qualified majority voting were considered as technical issues (Interviews 1 and 2). Why was the TSCG the most politicised topic of our four case studies?

First, members of parliament (MPs) return in the policy-making process because the TSCG was designed as an intergovernmental treaty, which needs parliamentary approval for ratification. In addition, there was more interministerial coordination because the TSCG impacted more public policies than the set-up of financial rescue schemes. An EFC member underlines that when the TSCG was negotiated, they were in constant liaison with MPs in order to ensure that they would accept to ratify the Treaty (Interview 1). Moreover, the Prime Minister and its administrative body tasked with interministerial coordination for EU issues (*Secrétariat Général des Affaires Européennes*) also went back into play. Second, fiscal issues are more salient than other economic policies<sup>12</sup>. In the words of an EFC member, "parliamentary hearings were tough and MPs worked on their issues more intensively than in usual times to corner the government" (Interview 1). Because the TSCG was more politicised, public opinion, political parties and media put French negotiators under more pressure than with other Eurozone issues. In other EU countries such as Netherlands and Belgium, the TSCG negotiations were also a window of opportunity for the political parties and administrative bodies to increase their participation in the EU negotiations, from which they had been excluded in the earlier stages of the crisis (Interviews 5 & 6).

Because the TSCG was the most politicised topic, we would expect feedback loops to play a more important role in the policy-making process: governmental positions should be affected by the outcomes of public debates and/or partisan dynamics. The campaign of the 2012 French presidential election hinted that this would be the case. Indeed, European issues were at the centre of the two main political parties' manifestos and speeches (Grossman & Sauger 2014; Crespy & Schmidt 2014). More precisely, Francois Hollande pledged that, if he would be elected, he would renegotiate the TSCG

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<sup>12</sup> Similarly, during the creation of the Eurozone, monetary policy was framed as a technical issue whose management should be left in the hands of independent central bankers whereas fiscal coordination was considered to be within the realm of politics (Dyson and Featherstone 1999).

in order to put more emphasis on growth issues. Our interviews show, however, that the Treasury played an important role in “reminding previous French engagements (made under Sarkozy presidency) to its EU partners” to the newly elected French President (Interview 1). Despite intense pressures from its own political party, which would eventually lead to the secession of a group of MPs nicknamed “*Les frondeurs*<sup>13</sup>” President Hollande caved in on its campaign promise and did not renegotiate the TSCG. This outcome led one of our interviewees to state “On Eurozone issues, the Treasury matters more than the Socialist party” (interview 1). In a more nuanced light, while the Treasury and its networks played a role in the continuity of French positions, other factors were at play, such as the refusal of Germany to reopen the negotiation on the TSCG (interview 3).

Grossman & Sauger (2014) underline that the rapid fall of popular support towards F. Hollande after his election was not different from secular Fifth Republic trends<sup>14</sup>. Yet, it would be short-sighted to conclude that the U-turn on the TSCG did not impact the Hollande presidency. Indeed, the secession of “*Les Frondeurs*” five months after the election of Francois Hollande weakened the internal cohesion of the Socialist Party during the whole term. Moreover, like other European social-democracy parties, the implementation of fiscal austerity policies enshrined within the TSCG weakens considerably the ideological cohesiveness of the Socialist party, which traditionally promote Keynesian-inspired economic policies (Escalona et al. 2013). In turn, the lack of internal and ideological cohesiveness were conducive to the historical collapse of the Socialist party in the 2017 presidential elections (Lefebvre 2017). Beyond partisan consequences, our observations are also consistent with the “post-democracy” theoretical framework, which emphasises that political change between centre left and centre-right parties does not lead to different economic policies (Crouch 2004, Streeck & Schäffer 2013, Glencross 2018). These authors also claim that this lack of change weakens voter turn-out, which was observed in the 2017 elections (Braconnier et al. 2017).

In sum, French policy networks enjoy a very high level of autonomy when they set up the French policy positions on Eurozone issues, especially during the crisis emergency phase. On matters that are deemed as “technical,” they are virtually the only players involved in the negotiations, with the cabinet of the French Presidency. While this high level of autonomy was a strategic asset when bailing out the banking system in the early stages of the financial crisis, the “tying hands” strategy of Dutch and German negotiators proved to be more successful in the Eurozone negotiations.

On more politicised topics, these policy networks are challenged by other administrative bodies and political parties but they manage to retain control over the build-up of French preferences. Indeed, on the TSCG, which was a highly politicised topic, French preferences remained surprisingly stable because the Treasury managed to circumvent political resistance. In other words, the centrality of autonomous policy networks within the French governance circumvent the feedback loops that should

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<sup>13</sup> *Les frondeurs* did not leave the Socialist Party, nor its party group in the Parliament. Yet, their opposition to Hollande’s economic stance was reflected in the media and their dissenting votes (Clift & McDaniel 2017: 408).

<sup>14</sup> The hyper-personalisation of power under the 5th Republic leads Presidency candidates to overpledge on their capacity to govern on the campaign trail and disappoints voters later on.

nourish policy-making within liberal democracies, even when topics are highly politicised.

## Conclusion

This article argued that the formation of French preferences during the Eurozone crisis (2010-2017) is influenced by three factors. First, our research results show that French economic governance is dominated by a small number of civil servants and banks' representatives who form homogenous policy networks. Thus, the convergence of preferences between the French government and its banks foster the emergence of "economic patriotism" within a "post-dirigist" state. The temporal and financial pressures stemming from the financial crisis exacerbate these dynamics of entanglement and reinforce the "state-finance nexus" (Braun et al. 2018). It is also important to note that economic patriotism does not mean a shift of preferences towards intergovernmental governance. Rather, the policy networks defining French economic patriotism advocate for further EU integration and would actively support a new EU treaty if it would be politically feasible.

Second, French preferences are influenced by the Eurozone institutional structure and power games even before member states start the intergovernmental bargaining process. On the one hand, Germany's economic power and legal organisation nudge French negotiators to internalise German's red lines when building-up their own policy preferences. On the other hand, the iterative nested games that characterise Eurozone macroeconomic policies are a window of opportunity for French negotiators to further their interests and protect their own red lines.

Third, and finally, contrary to the German and Dutch cases domestic politics and electoral outcomes did not affect the formation of French preferences during the negotiation of the four policy items we focused on (entails different results however). Yet, the logics of negotiations at EU level influenced domestic politics in a rather impressive manner: the French policy U-turn on the TSCG was conducive to the historical collapse of the Socialist party in 2017.

One important venue for further research on the formation of domestic economic preferences in times of crisis is the study of the intertwining between issue salience and the influence of a member state's public opinion. First, policy salience does not automatically rise when economic crises occur. Rather, the salience of a given policy varies according to its *perceived* complexity and the stages of the crisis resolution process. Financial rescue schemes were not salient in the French polity, contrary to fiscal issues. Above all, the TSCG was certainly the most politicised topic of our four case studies. Second, even when policy salience leads to more pressure from voters, political parties and other administrative bodies, these pressures do not automatically shift the member state's policy preferences, as shown by the continuity of French positions on the TSCG. Studies focusing on polls and discursive analysis are not yet well-equipped to assess the impact on outside pressures on the policymaking process and, more generally, to open up the black box of the formation of preferences. From our perspective, interviewing high-level policy-makers is the most reliable methodology to assess whether the politicisation of post-crisis Eurozone policies translate into policy change.

## List of interviews quoted in the article

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Interview 2, French Treasury/EFC member, Paris, October 2017  
Interview 3, French Treasury, Paris, November 2017  
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Interview 5, Dutch Ministry of Finance/EFC member, Brussels, November 2017  
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