Bank of France: The challenge of escaping politicization

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Prior to 1994, the Bank of France could be described as the quiet giant of European central banking. Most comparative studies of central bank independence rank the pre-1994 Bank of France as one of the more dependent in its relationship to government. While responsible for the range of operations typical of central banks and exerting potentially considerable influence on policy making, the Bank was very much in the policy making shadow of the Treasury direction of the Ministry of Finance, which held ultimate control over most aspects of monetary policy and considerable influence in prudential supervision (Goodman 1992; Prate 1987). Establishing its subordinate position in republican policy making, the 1936 and 1945 acts that nationalized the Bank placed it under the 'tutelle' of the Prime Minister's office. While in a weak position in relation to the Treasury, the pre-independence Bank and its Governors firmly asserted the importance of defending the value of the national currency during periods of strong inflationary pressure and refused to accede to certain demands that touched upon the limited range of areas under the Bank's control according to legislation (see Prate 1987 for examples). The Treasury had direct say over monetary policy and dominated credit provision until the financial market liberalization that took place from 1985 onwards. The end of the *encadrement du credit* system – by which the state directed credit provision – and liberalization enhanced the relative power of the Bank by increasing the importance of interest-rate policy, over which the Bank had considerable influence by virtue of its unrivalled capacity to monitor French money supply and inflation (Goodman 1992).

Europeanization has had a significant impact on the power of the Bank of France since the 1970s. The operation of the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) and the strong (stable) franc policy of the second half of the 1980s and the 1990s reinforced the importance of interest-rate policy and currency reserve management, also controlled by the Bank, although the need to follow closely German monetary policy effectively limited Bank of France (and French government) margin of manoeuvre (Howarth 2001). The German insistence on the privileged position of the EU central bank governors in the negotiations on EMU also reinforced the position of the Bank Governor in relation to the Treasury. Governor Jacques de Larosière, former head of the IMF, played a crucial role in the discussions on EMU leading to Maastricht both as a credible interlocutor of the Bundesbank and through his efforts to convince President Mitterrand and others of the need to accept German demands on independence (Howarth 2001).

This chapter will show that Europeanization since 1993—the independence of the Bank of France in 1994 and the transfer of monetary policy powers to the European Central Bank (ECB) in 1999—had a clear and direct impact on the power and roles of the Governor and the members of the *Conseil de la Politique Monétaire* (MPC), but a less obvious impact on the organization and responsibilities of the Bank itself. Independence and the 1999 transfer have also had a direct impact upon the Bank's role in public life.

Well over a decade since independence, monetary policy remains more politicized in France than in most Eurosystem member states, thus bucking the trend of apoliticisation (Marcussen chapter). In terms of the Bank's core operations, however, political hostility has created only marginal difficulties.

The Difficult Move to Independence

The failure to move towards apoliticised monetary policy in France is due to history and the politically motivated claim that the monetary policy pursued by the independent Bank of France and then ECB has had a negative impact upon the French economy. Following the Second World War, opposition to the delegation of policy-making powers to autonomous agencies was embedded in a new Republican consensus (Fabre Guillemant 1998). Briefly, there are four additional sources of French aversion to central bank independence**:** the negative perception of the experience of independence prior to the Second World War, when economically powerful private interests were seen as dominating monetary policy; the belief that control over economic and monetary policy should not be separated; the perception — rooted in the history of French political economy — that low inflationary economic policies could be maintained by democratically elected officials guided by enlightened bureaucrats and advisers; and power considerations within the French administration, notably opposition to independence in the Treasury and the elite network of the Financial Inspectorate.

On various occasions prior to independence, the Bank Governor asserted to governments the importance of price stability and the need to maintain the value of the currency (Koch 1986; Mamou 1988; Patat and Lutfalla 1986; Prate 1987; Valance 1996) and occasionally did so in very stern terms. Yet between 1944 and 1994, they rarely intervened publicly in economic and monetary policy and, when they did, could be sorely rebuked and even replaced, as in 1974 (Prate 1987: 210-11). The precise nature of government control and the legal status of the Bank were not defined in the laws on nationalisation. Assertions of autonomy depended upon the personalities involved and the degree to which governments diverged from the goal of monetary stability. A January 1973 law clarified Bank powers and granted it greater scope to modify its monetary mechanisms. The 1973 reform set out certain basic principles, allowing the Bank's General Council free rein in their practical application. However, the reform did not eliminate ultimate State control over monetary policy. Various requests from the Bank of France to gain greater autonomy were opposed by governments and the Treasury (Prate 1987). Pre-1994 relations with the Treasury and debates on monetary policy have been frequently described as difficult, with the Treasury maintaining the final say and considerable influence (Koch 1983; Mamou 1988; Prate 1987).

There was strong political opposition to independence right up to the signing of the Maastricht Treaty in 1991**.** None of the political parties supported the concept of central bank independence (Balleix-Banerjee 1999). Yet, public opinion was generally in favour of the EMU project and the transfer of monetary policy to the European level. The prioritisation of European objectives resulted in French government support for EMU and tolerance of central bank independence. In the context of global ideological trends in favour of independence, EMU created an historic opportunity to overcome strong domestic political and institutional resistance. Moreover, the rapid move to independence at the start of Stage II of the EMU project (1 January 1994) was justified as building confidence in the franc in the context of record levels of speculation, not the desirability of independence per se.

The support threshold necessary to pass legislation on independence was raised even further because the French Constitutional Council initially blocked legislation in 1993 on the basis of a constitutional provision that effectively prevented the delegation of policy-making powers to an independent body. The support of three-fifths of the members of both chambers of parliament was also necessary to modify the constitution to achieve independence. Moreover, two core elements of EMU found in the Maastricht Treaty that block governments from soliciting the central bank on monetary policy and establish price stability as the primary objective of monetary policy were removed from the French law on independence.[1] They were successfully challenged by parliamentarians in the Constitutional Court on the grounds that they contradicted the constitutional principle that the government defines the policy of the country. Nonetheless, the real effect of removing these core elements of the EMU bargain from the French law was negligible because they applied by virtue of the provisions found in the Maastricht Treaty. In the Monetary and Financial Code, which replaced the 1993 law at the start of 2001, the wording of the Statute of the ECB and the ESCB was incorporated and the goal of price stability established as primary for the Bank of France. As with the ECB, no requirement of transparency was imposed upon the Bank of France. Article 3 of the 1993 law grants the MPC the power to determine the conditions according to which its minutes could be made public. The non-renewable, nine-year fixed terms of the six external MPC members and the renewable, six-year fixed terms of the Governor and deputy governors (with an age limit of 65) provided a much stronger guarantee of personal independence than was previously the case – when no guaranteed fixed term was provided.[2]

Politicised Monetary Policy in the Post-independence Era

Despite the broad support for the EMU project in the French political class and consistent public support for EMU, leading French government and opposition politicians have refused to desist from politicizing monetary policy. From early 1994, Government politicians have repeatedly 'scapegoated' the Bank of France and then the ECB for French economic difficulties – worsened by high interest rates and then a strong euro. A surprising number of both government and opposition politicians have been persistent in their challenge to ECB goals and independence, particularly during electoral periods. Several recent examples can be provided. As Finance Minister, Sarkozy called for the ECB to adopt a Federal Reserve-style target that includes economic growth (*Financial Times*, 11.6.2004), comments that he repeated as presidential candidate[3] and then President. Proposal 89 of Ségolène Royal's 2007 Socialist Party presidential electoral programme called for the inclusion of an employment creation objective in the ECB's statute.[4] In December 2006, when criticising the ECB's decision to raise its interest rate, Royal insisted that the Bank be ‘submitted to political decisions’ because it is not its job ‘to order [*commander*] the future of our economies’.[5]

Politicised Appointments to the Monetary Policy Council

The French law on independence provided less protection against overtly political appointments than the TEU. Members of the Bank’s MPC did not have to have any monetary policy experience – the legal requirement was that proposed candidates have experience and recognised competence in monetary, financial and economic spheres. This opened the way for highly partisan political appointments, with limited or no technical understanding of monetary policy and central banking – unusual in the Euro Area – which was the norm from 1993 to the early 2000s. Moreover, the process of appointment of the MPC and Monetary Committee members created the possibility of strongly divergent perspectives on monetary policy-making and a less orthodox Bank leadership than that of the pre-independence Bank of France. Initially (from 1994 to 2002) there were six ‘external members’ and three ‘internal members’. Every three years the President and the prime minister selected two external members from a list of six, with two nominees presented by each of the presidents of the National Assembly, the Senate and the Economic and Social Council. However, given the reach of the President’s and prime minister’s influence it can be assumed that at least some of the nominees were pre-approved. On one occasion, the President of the Senate complained publicly that his preferred nominee was not appointed. The President alone selects the three ‘internal members’: the Governor and two deputy governors. Table 6.1 demonstrates that few of the MPC and Monetary Committee members had or have any direct experience of monetary policy making, and few had or have any training in the field.

<Insert Table 6.1 here or where appropriate in this section>

In the first MPC selected in 1993, only one deputy governor had worked previously in the Bank. Four of the first six external members of the MPC could be labelled uncontroversial supporters of the strong franc policy and EMU. However, the two members nominated by the Euro-sceptic president of the National Assembly, Phillipe Séguin, were known opponents of both the strong franc policy and EMU (see Table 6.1). Three of the following four appointees (between 1994 and 1997) held similar opposing positions. In 1997, in a very overt demonstration of his dislike for Bank independence and the strong franc policy, President Chirac appointed Jean-René Bernard and Pierre Guillen to the MPC – both leading conservative opponents of the Maastricht Treaty and the EMS with strong links to senior neo-Gaullist (RPR) politicians. Chirac ignored the preferences of the centrist and pro-EMU president of the Senate, René Monory, who complained to the press. Thus, from 1997 to 2000, five of the six external members, the majority of MPC members, had previously been opposed to EMS membership, the strong franc policy, central bank independence, EMU and the Maastricht Treaty. *All six had opposed EMU*. Members of this anti-EMS majority called publicly for a rapid drop in French interest rates (*Le Monde* 29.11.96; 21.10.98). In November 1996, two of the externally appointed members, Marchelli and Gérard, publicly expressed their disapproval of the EMU convergence criteria and argued in favour of an additional criterion emphasizing employment levels (*Le Monde* 22 and 29.11.96). Given the necessity of respecting the French government's commitments to the inflation and interest-rate convergence criteria of the Maastricht Treaty, the members of the MPC were unable to modify French policy in any significant way. Moreover, the MPC did not modify its monetary policy strategy (established in 1994) of two per cent inflation and M3 targeting, which corresponded to Bundesbank practice. Since 1999, the appointments to the MPC have been less controversial and more pro-Maastricht. Nonetheless, they remain noteworthy for their highly political character.

Political allegiance also likely determined the appointment of both Trichet and Christian Noyer as governors (in 1993 and October 2003 respectively). Both had previously served in ministerial cabinets in centre-Right governments. Trichet had been the head of Minister of Finance Edouard Balladur's cabinet (1986-88). Balladur was Prime Minister at the time of Trichet's appointment. Noyer was a technical advisor to Balladur as Finance Minister and then head of the cabinet of two centrist (UDF) ministers of finance in the 1990s, Edmond Alphandéry and Jean Arthuis. There was some speculation in the French press (*Le Monde* 8.10.2003; 23.10.2003) that the two other leading candidates for the post of governor in 2003 (Hervé Hannoun, the first deputy governor and the candidate publicly endorsed by Trichet as his preferred successor, and Jean-Pierre Jouyet, then Treasury director) lost out in large part because of their proximity to the Left.

The two Bank governors of the post-independence era – Trichet and Christian Noyer (since 2003) – were former heads of the French Treasury (respectively in 1987-93 and

1993-95) with strong links to the Financial Inspectorate – the financial administrative elite – although Noyer himself is not a member. The result is the continuation of a long-standing tradition according to which Bank legitimacy relies upon credible leadership and reputation for managerial and policy making competence that can only be secured by a high-flying career in the French Ministry of Finance. It is unlikely that this situation will change for many years to come. Senior Bank of France officials whose careers have been entirely within the Bank lack this legitimacy, the personal contacts of top-level Ministry of Finance officials and a public profile. However, the strong career links between the governors and the Treasury (Ministry of Finance) should not indicate a lack of autonomous judgement. Direct experience in central banking has not been prized as a criterion of a strong nominee for governor. Moreover, Noyer's appointment to the ECB's Executive Board in 1998 was unusual, although acceptable according to the ECB statute given his experience in the area of monetary policy. He was the only member of the ECB Governing Council (then 18 members) with no prior direct professional or academic experience in central banking.

The Bank as the Public Defender of 'Sound Money' and Structural Reform

Prior to independence, Bank of France governors were known for their criticism of government policy, especially during the Fourth Republic. However, most refrained from commenting publicly on government policy-making. Following independence, the Bank had to accommodate itself to a more active and public role in promoting a 'stability culture' in France which is the one of the clearest expressions of increased bank power since 1994. Governor Trichet made several thinly veiled attacks on the economic and monetary policy statements of presidential candidates in 1994 and 1995 and regularly critiqued government economic policy decisions which appeared to menace the pursuit of 'sound money' policies, the move to EMU, and respect for the Stability and Growth Pact (Aeschimann and Riché 1996; Milesi 1998). Trichet repeatedly criticised the lack of sufficient structural reforms in France. He attacked the new Plural Left's brief freeze on deficit cutting (*Le Monde* 25.6.97), the 35-hour week policy (*Le Monde* 13.12.97), and in 1999 its handling of the unexpected budget windfall: 'How is it possible to have a windfall when we have debts' (cited in Patat 2003: 110, ft. 1, author's translation). Indeed, in his final public letter to President Chirac as Governor, Trichet urged the President to push for lower public spending and undertake structural reforms *(Financial Times*, 3.8.03). In June 2004, in response to Sarkozy's attack on the ECB for targeting a very low inflation rate, the Bank of France published a response by Governor Noyer defending the policy in several leading newspapers (*Le Monde*, 13.6.04). Noyer's concern about rising French government deficit and debt were expressed publicly on several occasions. Most notably, the Bank joined forces with *Insée* (the national institute for statistics and economic studies) and the national court of auditors (the *Cour des comptes*) to produce a succession of reports in June 2004 to express dismay at the state of public finances and to insist on the need for on-going structural reform. The personal style of the Governor is likely to be of some significance in determining the public profile of the Bank of France. Since his appointment in 2003, Christian Noyer has intervened much less in the national debate on government spending and economic policy than his predecessor.[6]

The Bank attempted to respond to government attacks on its monetary policy by appealing directly to the French public. A 1998 poll by Sofres (27-29 May), undertaken on behalf of the Bank of France and published in the *Le Monde* newspaper, showed that 58 per cent of French people approved of the strong franc (or stable franc) policy, a result that nearly matched the results of a June 1996 poll (56 per cent) which was also published with the 1998 results (*Le Monde*, 2.07.1998). Moreover, four years after independence, 74 per cent of those polled had a positive impression of the Bank (5 per cent 'very much' and 69 per cent 'rather positive'), which is an accomplishment for an institution that was rarely in the public eye prior to 1994. The relatively strong economic growth of 1998 no doubt helped boost these support figures. Only 15 per cent had a negative opinion (12 'rather negative' and only 3 'very negative') with 11 per cent 'without opinion'. On the strong/stable franc policy, only 15 per cent were opposed the policy and 27 per cent did not have any opinion. French public opinion was thus supportive (or at least tolerant) of the need to maintain low inflation. Trichet, as Governor and then as ECB president, used these polls on several occasions to defend ECB policies within France. The polls also suggest that French public opinion has been at odds with the French political class.

Ongoing Debate on the Bank's Powers

The Bank of France holds all the responsibilities typical of national central banks in addition to several less typical or atypical roles. Since 1999, the Bank ensures the smooth operation of the payments system and the security of financial transactions; monitors the security of the banking system and the stability of the financial markets; conducts bank inspections; runs the committee responsible for granting licenses to new credit institutions and allowing bank mergers; contributes to the drafting of regulations on credit institutions; collects and analyses French monetary, financial and economic data, including balance of payments data; produces three annual growth and inflation forecasts; manages French exchange reserves, including gold; and provides banking services to individual clients. Independence and EMU have had only marginal impact on these core responsibilities of the Bank. The services of the Bank—notably the Macro-economic Studies directorate—provide the Governor with quality expert advice on the state of the national and international economy and price developments. Since 1999, they do so to enable him to make competent recommendations on Euro Area monetary policy. The Bank also has a range of atypical roles, two of which it has developed or been assigned since 1999. It provides—uniquely in the Eurosystem—a port of entry to non-EU banks that want to set up euro-accounts; and it provides advice on personal debt management.

Prudential Supervision

The Bank of France has long been the centre of intelligence in the French state on the national banking sector and the financial markets. Prior to 1994, the Treasury's control over prudential supervision—via the Banking Commission chaired by the Governor of the Bank of France but under the '*tutelle*' or control of the Treasury—rested on expertise within the Bank. The latter provided most of the salaried staff to the Banking Commission on temporary secondment (approximately 400 officials at any time) and most of the detailed information about the banking sector by carrying out operational supervision. In 1994, the autonomy of the Banking Commission from the government was established in law, while the Treasury's influence was retained through a single vote on the Banking Commission's governing board of seven members (five of which are nominated by the Minister of Finance). In terms of the day-to-day operation of banking supervision, little changed because of Bank of France independence. However, the elimination of the Treasury's '*tutelle*' ensured the reinforcement of the Governor's leadership position as Commission president with a deciding vote.

This leadership role has been seen in dealing with major problems in the French banking sector, as in the difficulties at *Société Général* of unprecedented losses caused by a single trader. In January 2008, the head of the bank, Daniel Bouton, met with Noyer who, in effect, chaired a secret crisis committee that also included the head of the Financial Market Authority (Gérard Rameix) to decide how to deal with the massive fraud in the bank and when to make the information public. For a period of five days (19-23 January), in his capacity as President of the Banking Commission and Governor, Noyer discussed the difficulties with Bouton and Rameix without informing the government (let alone other members of the Banking Commission). Despite the Bank's longstanding role in prudential supervision, prior to independence the Governor never played such a central role in the management of a major banking crisis.

Some (*Cour des Comptes* 1996) see the continued influence of the Ministry of Finance, via the selection of five Banking Commission board members and the voting position of the Treasury representative as unacceptable. Other observers would prefer the elimination of the Commission altogether and the transfer of prudential supervision (indeed, all responsibility for monitoring the financial markets) to the central bank, as in the

Netherlands and Belgium. France is one of the few countries in the world with shared control over prudential supervision that involves several public bodies, including the Ministry of Finance. The French Court of Auditors (*Cour des Comptes*) (1996 and 2005) and the National Assembly's and Senate's Finance Committees (Auberger 1996) have called for the full transfer of prudential supervision to the Bank of France as one possible preferred option.

However, transfer to the Bank of France is not the only recommended option. Both the *Cour des Comptes* (1996) and the National Assembly's Finance Committee (Auberger 1996*; Le Monde* 29.6.96) called for increased autonomy and capacity for the Banking Commission: the removal of the Treasury representative; the diversification of the recruitment of the Commission's staff (thus decreasing the reliance on the Bank of France); the increased representation in the Commission's decision making body of members with direct experience in the banking or business sectors (since 1993, only two of the seven members of the Commission necessarily have expertise in the banking and financial sector); the reinforcement of the collegial body in relation to the Commission's Secretariat (dominated by the Bank of France officials) so that the collegial body can gain greater direct control over the process of banking supervision; and the assignment of legal personality to the Commission so that it can pursue banking supervision cases in the courts if necessary.

Thus, the future reform of prudential supervision in France will not necessarily result in a reinforced role for the Bank. An option closer to the British and German models of an autonomous agency might be preferred. Nonetheless, the National Assembly's Finance Committee (1996) also accepted the logic of maintaining a strong link between the central bank and the Banking Commission: 'The role of the Bank in adjusting the liquidity of the entire banking system imposes on the Bank a surveillance role of the liquidity of financial institutions. There is thus a certain logic in assigning Bank of France officials the job of prudential control of banks' (Auberger 1996, author's translation). Banking supervision officials within the Bank (interviews 28 January 2008) insist that the present organisation of supervision works well and that full transfer to the Bank is necessary. Rather, a clarification of certain rules of intervention (as with the difficulties in the *Société Générale*) would be helpful. Another option is the transfer of prudential supervision to the ECB or, at least the transfer of supervision over financial institutions with a strong presence in other EU member state markets. Senior officials in the Bank of France were opposed to this transfer as unnecessary. However, the unofficial position in the bank has shifted and there is growing support for the transfer of some responsibility for prudential supervision to the ECB (interviews 28 January 2008).

Other Roles

Since 1984, the Bank of France Governor has held the presidency of the CECEI (*Comité des établissements de crédit et des entreprises d'investissement*), the body in charge of granting individual licenses and authorizations to credit institutions and investment firms and responsible for approving banking mergers, and one of twelve votes on the Committee (another is held by the Treasury Director). Since the CECEI's creation in 1984, the Bank has been one of its principal sources of information and advice, in addition to the Financial Markets Authority (*Autorité des Marchés Financiers*), the French stock market regulator. Moreover, since 1984 the Bank has been in charge of the CECEI's Secretariat. As such it prepares the examination of applications submitted to the Committee. Independence has not had any significant impact on the role of the Bank in this body.

Since 1994, the Bank has also had full responsibility over surveillance of the security of the payment systems, a responsibility possessed prior to 1994 under the '*tutelle*' of the Minister of Finance. From 2001, the Governor gained control over the presidency of the newly established *Observatoire des cartes de paiement*.

The Bank's legitimacy in these areas—banking supervision, financial sector supervision, payments systems and credit cards—rests upon its unrivalled monetary, financial and economic data and well-established capacity for analysis. It also exercises a range of functions that in other EU member states are either conducted by the state or left to the private sector. The Bank manages the circulation of fiduciary money, provides a service to analyse local economic development, and is engaged in personal debt management for individuals faced with excessive debt. This unwanted responsibility for personal debt management – '*surendettement*' – was imposed on the Bank in 2006 by the government, which pays the bank for the service. Personal debt management became the central role of 1300 bank staff members – approximately 10 per cent of the total – and several of the regional branches that were not closed in the 'down-sizing' from 2003-06, which also explains why staff and branch cuts during this period were not as large as initially intended. This new social role consists of helping those who are refused bank accounts / credit to sort out their financial affairs. The relatively large number of responsibilities assigned to the Bank of France—and '*surendettement*' in particular—has attracted criticism from the *Cour des Comptes* (2005) which has called for the Bank to be allowed to concentrate on its core tasks.

Down-Sizing at the Bank of France

Prior to 2004, the Bank was not a model of cost-effective public-sector management, which weakened the strength of its calls for structural reform and public sector staff cuts. The Bank has long suffered from a problem of over-employment and very generous social provisions for its staff including a special pension regime. Prior to independence, the Bank engaged in hesitant cuts, watered down in the face of determined union action and the opposition of local politicians, who baulked at staff cuts in regional branches or their closure. Bitter and lengthy strikes were sparked by reform attempts in 1974 and again in 1987, which led to the resignation of one of the deputy governors. The weakness of New Public Management ideas in the French administration also helps to explain the failure to adopt efficiency enhancing reforms—such as the outsourcing of certain technical functions as in Sweden—which could have also achieved staff cuts. In 2003, the total staff (included seconded staff) reached 15,755. Independence and the transfer of monetary policy in 1999 exposed Bank inefficiency to greater public and government criticism. This criticism intensified when, in 2002 and 2003, the Bank ran deficits. In

February 2003, a Bank of France report called for the closure of three-quarters of its regional branches (166 out of 211), over a period of three years, with 3,200 job cuts (out of 9000 in the branches), amounting to nearly one-third of the Bank's annual budget. A second report called for the elimination of services for individual clients.

Cuts have been significant but were less ambitious than those initially called for by the Bank's own management and other government sources: from 2003 to end-2006, 2,200 jobs were cut leaving 13,500 staff and 120 branches were closed (less than the three-quarters called for) leaving 91 branches. The dilution of cuts allowed the Bank to avert major strikes. Firings were avoided with early retirement packages, which transferred costs onto pension provision. However, the Bank achieved an operational profit in 2006 for the first time in many years. Sixteen of the remaining 91 branches were transformed into 'local economic observatories', debt management centres or money sorting centres. In December 2005, after eighteen months of difficult negotiations, the Bank achieved a major reform to its special pension plan. Further cuts are likely. In its 2005 report, the *Cour des Comptes* recommends the closure of additional branches and insists that the Bank remains over-staffed and suffers from a particularly high unit labour cost in relation to other comparable administrations and from excessively generous social policies. While it is difficult to present the Bank of France as a model of public sector reform, some observers, notably trade-union officials representing Bank staff, have pointed to the Bank's strong financial position since 2005—due to cuts, the strength of its investments and the sale of gold—to argue that the internal reform was excessively brutal, stretching the staff available for some Bank services—notably debt management (*Le Monde*, 19.01.2006).

The *Cour des comptes* (2005) and the Finance Committee of the National Assembly also criticised the continued existence of the Monetary Policy Committee, a body without an obvious role following the transfer of monetary policy to the ECB at the start of 1999 and the independence of the Bank Governor in determining his stance on ECB monetary policy. Responding to these criticisms, in 2002 the government reduced the number of external members to four and then, in 2005, to two. In 2006, the de Villepin Government adopted a law transforming the MPC into the Monetary Committee consisting of seven members (Governor, 2 deputies and four independent 'experts', nominated by the presidents of the National Assembly and Senate). The independent 'experts' are paid only expenses, and their advisory role is emphasised. The 'experts' can also hold other posts (although not in parliament and government), whereas the external members of the MPC could not.

The failure to develop the Bank's research capacity

The Bank of France has long possessed a strong capacity for data collection and analysis, which Bank officials argue is unrivalled by other Eurosystem central banks. Through its regional offices, the Bank collects detailed monetary, financial and economic data and information on French companies that is unavailable to other French and international institutions, and thus has an unrivalled understanding of price developments in France. This data is analysed within the well-staffed and resourced Macroeconomic Studies Directorate of the Bank to produce a detailed monthly update on the state of the French economy. The Bank’s capacity to produce growth and inflation forecasts distinguished it from many of its peers, which as in Italy and the UK, rely on Ministry of Finance forecasts. The Macroeconomic Studies Directorate also includes staff who analyse international economic trends. Interlocutors at the Bank claim that the credibility of their Governor’s discourse in ECB Governing Council meetings on the impact of international economic developments and the development of prices depends on this analytical capacity and gives the Governor more influence in relation to his peers. There are, however, obvious chinks in the mail of the Bank’s analytical armour, as demonstrated by the lead role assumed by the Bundesbank and Banca d'Italia in developing and managing the shared computer platform for TARGET 2—which suggests their superior expertise.

In November 2007, for the first time, the Bank published its own updated growth forecast for the year (2007), which in effect updated and corrected the government’s own forecast. Bank staff see this development as a small but significant assertion of the Bank’s independence (interviews 28.01.08; 30.01.08). In early 2008, the Bank published for the first time its own growth forecast for the year ahead (the Bundesbank began the same practice for Germany in late 2007). Bank of France staff argue that different analyses by the Ministry of Finance and the Bank of France, based on their individual models, result in different forecasts and mutual and productive criticism. The publication of Bank of France figures also serves as a useful counterpoint to politically manipulated government figures. The government, relying on Ministry of Finance analysis of data collected by the national statistical agency, INSEE, publishes the more optimistic upper range economic growth figures, whereas the Bank of France publishes a 'forchette' of upper and lower forecasted rates. Given the Bank's monthly economic studies, it is also in a better position to provide accurate forecast updates than the government.

In juxtaposition to its capacity to conduct statistical and macroeconomic analysis, the Bank is very weak in academic research output, which in turn weakens the intellectual power of the Bank in the 'competition of ideas' in the Eurosystem and its weight in discussions on growth and inflation forecast models. Although a research division was first created in the bank in 1909, there is little tradition of academically-oriented research at the Bank. According to one leading historian of the Bank (Olivier Frietag, interview 28.01.2008), the Bank's hierarchy has had little respect for academically-oriented research. No top officials in the Bank have a background in advanced economic research. Many are graduates of the elite Ecole Polytechnique: they possess a strong analytical capacity that is not, however, academically and theoretically oriented. Bank careers are developed through practical training in a diverse range of the Bank's activities. With more open recruitment and career progression procedures in place, this situation may change with time. There have been no powerful directors of research, who might have been able to attract increased resources. Moreover, the governors, drawn from the Ministry of Finance, possess little academic training and thus limited appreciation of the importance of academic economic research. Governor Noyer, with his experience of top-quality research at the ECB, might be different in this regard, but his appointment did not result in any significant increase in research capacity at the Bank. The small number of Bank staff members with PhDs is in marked contrast to the central banks in many other countries. Several Bank officials also commented on the historic weakness of economic research in France – and notably the weakness of market-oriented research – and the tendency for some of the country's best academic economists to seek training and employment in the United States.

Those working in the Research Directorate of the Bank claim (interviews 28, 30, 31.01.2008) that, following independence, the Bank directors recognised that the lack of research output damaged the credibility of the Bank as an independent policy making authority and its influence within the Eurosystem. They deliberately set about to increase the output of research publications that could be accessed outside the Bank. However, the officials interviewed also note that the desire to gain a reputation for the production of academically excellent research has not been supported by a willingness to provide increased financial resources. The financial difficulties of the early 2000s and the power of trade unions that have made the reallocation of resources from the branches to the centre difficult provide additional explanations for this failure. The more academically-oriented output of the Bank is limited; the number of peer-reviewed academic journal articles published by Bank staff remains very low in comparison to central banks in the other large EU member states. The reputation of the Bank's research in international banking and academic circles is very weak. It has few research staff: in 2008 only approximately 17 full-time researchers work in the Bank's Research Directorate and publish work in academic journals. The Bank organizes relatively few seminars, although the number has increased since 2000 and four were held in 2007. It is not seen as an important centre of debate, discussion on macro-economics and monetary economics. There is some concern for this weakness in French political circles. A French Senate report (May 2001) criticised the contribution of the Bank to economic research.

The Bank has undertaken a partial response with a small increase in the number of research staff, although repeated requests from the head of the Research Directorate for more researchers have been rebuffed. The Research Directorate has attempted to make the most of the limited resources at its disposal: a visiting academic programme has been created, a seminar was organised in cooperation with academics at the Chicago-based Northwestern University, and in early 2008 the Bank was in the process of finalising a link with an internationally renowned research centre on companies at the University of Toulouse, through which the Bank will finance and be associated with top-level academic research—albeit research that is not connected to monetary policy.

All the interlocutors at the Bank accepted that their employer suffers from a weak presence in both national and international discussions and debates on economic developments, despite the occasional interventions of the Governor. Since 1994, the Bank has made some efforts to improve its public profile with new publications, targeted principally at financial journalists and economists working in central banks and the financial sector. The Bank began a working paper series in 1994 (*Notes d' Étude et de Recherche*, NER) published in French and English, with Bank staff writing in a personal capacity but subject to quality validation by other qualified Bank staff. Only one paper was published in 1994 and none in 1995, but the number has increased considerably since then, with 23 published in 2006 and 30 in 2007. By April 2008, 203 working papers had been published. The working papers are written by the full-time researchers but, more often, by officials who engage in applied research for the Bank (forecasting, macroeconomic, balance of payments and statistical analysis) in the Macroeconomic Studies Directorate. From 2002, annually or biannually, the Bank publishes a *Revue de la Stabilité Financière*, with papers by Bank staff, other French and foreign public and private-sector officials and leading academic economists, writing on major financial and monetary issues for a non-academic audience, principally finance sector professionals. For example, the April 2007 issue focused on the impact of hedge funds on financial stability and included articles by top central bank officials (from the Federal Reserve Board, ECB Executive Board and national central banks), leading economists from the London School of Economics and University of Chicago, and major private-sector financial companies.

The present first deputy governor, Jean-Pierre Landau, with experience in the European Bank for Reconstruction and Development (EBRD) and inspired by Bank of England practice, has been a key advocate of improving the communication strategy of the Bank. In 2006, he launched what the Bank labeled its 'publicly-oriented' economic debate series: 'Debats Economiques' Occasional Papers series (five to date). In 2007, the Bank also launched 'Documents et débats' (only one to date on whether the euro was inflationist) to address major economic issues in a 'simple but serious manner' but also ensure accessibility to a wider audience (interview 28.01.08). No other editions are in the pipeline, however, because of Bank sensitivities about covering controversial topics (interviews 30, 31.01.08). The head of publications at the Bank (interview 30.01.08) believes that not enough is done to disseminate the impressive data that it collects. Though few central banks collect the kind of detailed data on national companies, this information is not disseminated to a wider public. Other efforts have been made to increase the public presence of bank officials in national economic debates. Deputy Governor Landau served on the Attali Commission, examining reforms to stimulate French economic growth. The head of the Macroeconomic Studies Directorate, Gilbert Sette, is a serving member of the Prime Minister's Council for Economic Analysis.

Conclusions: Europeanization, Power and Convergence

The operations of the Bank of France have been shaped by Europeanization since the 1970s. The strong franc policy of the 1980s and 90s, the increased importance of interest rate policy and currency management, owed a great deal to the influence of the German preference for 'sound money' and the low inflation bias of the EMS and the EMU project. Intensified international financial pressures through increased capital flows and the rising exposure of the French economy to non-EU investment further increased the importance of interest rate and currency management. Thus, both Europeanization and international pressures encouraged convergence to the German standard and increased the power of Bank of France in relation to the Treasury prior to independence. The EMU project was the catalyst for independence which in turn enhanced the role and power of the Bank of France governor in a range of bank activities—notably in his chairmanship and voting role on banking supervision and financial sector accreditation and competition—and in national and EU-wide public debate on economic policy and structural reform. Europeanization brought about convergence in the monetary policy strategy of the Bank of France, which—emulating the Bundesbank—in 1994 adopted a two pillar monetary policy targeting inflation and M3 (rather than the M2 targeted previously). EMU has allowed the Bank to engage in some specialised operations. Notably, it provides, uniquely in the Eurosystem, a port of entry to non-EU banks that want to set up euro-accounts. However, apart from the obvious transfer of monetary policy to the ECB, Europeanization since 1993 has had only limited impact on the core operations of the bank.

As the pre-EMU Bank of France lacked the policy making, research and public role possessed by the Bundesbank and the Banca d'Italia, EMU did not result in the diminished power and status that the German and Italian central banks have suffered in the domestic context because of the transfer of monetary power and research capacity to the ECB. Prior to 1994, the Bank of France sought to influence monetary policy decisions decided upon by the Treasury. However, the power of both French institutions were constrained by the need to follow monetary policy set by the Bundesbank. Attempts by the French government in 1993 to challenge the anchor role of the Deutschmark in the ERM failed (Howarth 2001). Since 1999, the Bank of France Governor is free of both Treasury control and Bundesbank diktat. France has lost monetary autonomy but the Bank of France has gained an important autonomous voice in setting Eurosystem monetary policy.

Independence transformed the Bank of France into an autonomous public actor able to express views on—and often indirect criticism of—government policy. The Bank has made some—albeit limited—effort to increase its publication output. The Bank's publication of its own growth forecasts—undertaken by few EU NCBs—can be seen an expression of its independence. Yet the Bank's public role has been limited since 1999, which is surprising given its independence, the diversity of its roles and its relative size—it employs more people than any other EU NCB. All officials interviewed at the Bank agree that the independent Bank of France, as a non-majoritarian institution, should be cautious in its public role and in its dealings with government and, whilst recommending reform, should refrain from direct criticism of government policy. Since 1999, Europeanization has allowed the Bank to side-step much of the persistent politicisation of monetary policy and central banking in French politics: French politicians direct most of their antagonism at the ECB. However, French governments have continued to express frustration with activities of the Bank of France when they contradict government preferences—as with the handling of the difficulties at the *Société Générale*. Based on its 1996 and 1998 opinion polls, the Bank appears to have achieved a measure of public support for its operations, at least in monetary policy. However, these polls are now dated, and the Bank has not revealed if it has undertaken more recent soundings of public opinion on its operations since the transfer of monetary policy in 1999.

There has been a limited degree of convergence with the operations found in other Eurosystem central banks. With independence and the loss of monetary policy making powers, the Bank of France has faced intensified pressure to downsize and staff cuts have been significant. However, typical of French public administration, the Bank of France has long suffered from overstaffing, inefficiencies and failed reform efforts due to a strong trade union presence. When staff cuts came they were diluted and far less severe than those faced by the Bundesbank. The Bank maintains the largest staff of the EU central banks and the greatest diversity of roles. The Bank's currently stable financial situation enables it to resist pressure from the government and the *Cour des Comptes* to downsize further in the near future, unless the Bank manages to shed unwanted tasks, notably '*surendettement*'. On the core operations of the Bank, Europeanization has had a limited effect of convergence. Unlike the Banca d'Italia which has shed its atypical roles, the Bank of France continues to perform a range of functions not held by most other EU central banks and has gained some responsibilities since 1994—for example on '*surendettement*'. There is some pressure from elements within the French administration to reform banking supervision to move to either an autonomous regulatory body as in the UK and more recently Germany or the full transfer of supervisory powers to the central bank as in Dutch/Belgian model. However, the *sui generis* French system of banking supervision is likely to persist for some time given that it has already survived over a decade and a half of high profile bank failures and the Treasury is reluctant to surrender its role. The failure of the Bank of France to reinforce its research capacity is particularly surprising given the relevance of research to national central bank influence in the Eurosystem. Some Bank of France officials suggest that the impressive data collection and analysis and the relative importance of the French economy in the Euro Area ensures the Bank sufficient influence (interviews 28.01.08; 30.01.08).

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Friertag, O., interview at the Bank of France, 28 January 2008.

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[1] Law no. 93-980, 4 August 1993. LOI no 93-980 du 4 août 1993 relative au statut de la Banque de France et à l'activité et au contrôle des établissements de crédit

[2] Prior to independence, Governors had no guarantee of longevity and no fixed mandate of sufficient length to protect their independence. Nonetheless, Bank Governors generally occupied their post for long periods: seven years for Jacques de Larosiere (1987-93) and six years for Renaud de la Geniere (1978-84). Even so, politics intervened regularly. The Socialists removed De la Geniere, and Olivier Wormser had only a short mandate.

[3] *'Sarkozy wants "protective EU" to offset globalisation',* Euroactiv.com, Friday 23.2.2007, updated Wednesday 28.2.2007, http://www.euractiv.com/en/elections/sarkozy-wants-protective-eu-offset-globalisation/article-161948, accessed on 10 March 2007.

[4] The Socialist candidate appears not to have noticed that the ECB already has this as a secondary goal.

[5] The precise wording that the Socialist 2007 presidential candidate used was 'soumise à des décisions politiques' *(Le Monde*, 22.12.2006).

[6] Bank officials interviewed and journalists have put this down to Noyer's personality, described as lacking the charisma of Trichet, timid, secretive and averse to risk (*Le Monde* 23.10.2003). Difficult internal reform at the Bank – of which Noyer had to take charge immediately following his appointment – might have encouraged him to engage in a less public role. Indeed, Trichet, as ECB president, has been more actively engaged in French public debate, appearing several times on high-profile French television and radio talk shows to deflect blame for French economic difficulties from the ECB's monetary policies and the strong euro and to call for further domestic structural reform.