GED
Global Economic Dynamics

Focus Paper

Electing the Future

The Presidential Candidates' Visions for the French Economy

BertelsmannStiftung

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Content

In Brief

When France elects a new president on April 23rd and May 7th, socio-economic issues will be of utmost concern to many voters: How can stagnating unemployment rates be reduced, particularly the high rates among the young? How can economic growth, that is picking up only slowly, be stimulated further? How can France and its economy define their place in a globalised world?

The challenges France is currently facing are manifold, as are the main candidates' visions for the French society and economy. This paper gives an overview of both, the socio-economic issues at stake and of the corresponding solutions the main candidates propose.

France's economy has rarely been among the fastest growing in Europe. But whereas industrial production has experienced a double-dip recession since the financial crisis, the service sector remained more stable.

Unemployment is the most pressing issue in these elections. Since 2012, unemployment in France has been stagnating around or slightly above 10 percent. Youth unemployment is particularly high and the majority of new employment contracts are of a temporary nature. The Hollande administration has introduced several reforms that inter alia aim at introducing more flexibility to the labour market.

Fiscal Policy: France has made some efforts to reduce its deficit but still struggles to comply with the criteria of the Stability and Growth Pact. Public debt has been rising sharply since the financial crisis.

Trade Policy: France is strongly integrated into the global economy and is among the world's top trading nations. The country does most of its trade with its European partners, with Germany being by far France's most important trade partner.

Among the **main candidates** for the presidential elections, Jean-Luc Mélenchon *(La France insoumise)* is the most left-leaning candidate. He promises wide-ranging constitutional and welfare state reforms and has sceptical positions regarding the European Union and globalisation. Benoît Hamon *(Parti socialiste)* represents the left-leaning wing of his party. His campaign gravitates around reforms of the welfare state and retracting the labour market reforms of the incumbent government. At the centre of France's political spectrum, Emmanuel Macron (*En Marche!* movement) is the surprise candidate who promises a course of moderate reforms and who is openly pro-European. François Fillon's *(Les Républicains)* course is characterised by economic liberalism and social conservatism. Finally, Marine Le Pen *(Front National)* on the far-right wants to withdraw France from the Euro as well as the EU and reaffirm national sovereignty.

Several cleavages run traditionally through both, French politics and society. But a fundamental difference of this year's elections to previous ones is the massive impact of the voters' choice between reclusion and internationalism, between an open society or one that is closed.

Considering the candidates' different visions for Europe's future and France's central role in European integration, these elections will certainly have a decisive **impact on the future of the European Union**, too.

Editorial

By Joachim Fritz-Vannahme

On May 7th, France will elect a new president. With their vote, the French will not only decide upon the future direction of their country, but also upon that of the European Union (EU). Are we therefore witnessing what The Economist has already called "France's next revolution"?

For the first election round on April 23rd, the polls predict a neck-and-neck race between Marine Le Pen, the candidate of the far-right *Front National,* and Emmanuel Macron, the candidate of the *En Marche!* movement. Just at a time when the EU is celebrating the 60th anniversary of the Treaties of Rome, Le Pen on her part is crudely pushing her campaign on the promise to rip France out of the Eurozone, to reinstate a national currency and to eventually withdraw the country from the EU completely.

However, for the election's second round, the picture looks somewhat different as no poll indicates Ms. Le Pen coming first. But it is in this very second ballot that the two strongest candidates of the first round will compete to become the next French president, and the favourite to win this final round is the former minister of economic affairs and the surprise candidate of this year's election, Emmanuel Macron. A non-member of any of the existing political parties, the head and founder of the *En Marche!* movement is leading ahead of former prime minister François Fillon, candidate of the conservative party *Les Républicains,* now embroiled in an embezzlement affair, the socialist candidate Benoît Hamon as well as the far-left candidate Jean-Luc Mélenchon. The latter pair is only accorded an outside chance.

The 39-year-old Emmanuel Macron, who created *En Marche!* only in 2016 and has since become Le Pen's strongest rival, is the favourite of the liberal, pro-European press in France. Compared to the fresh breeze the charismatic and charming Macron brings to the French political landscape, Le Pen looks like one of the usual, long-time party leaders – and of a party which has already been part of the French political scene for decades, whose leadership was just passed on from one Le Pen to another, that is from father Jean-Marie to daughter Marine, who "inherited" the party's leadership in 2011.

A revolution is not only about the possession of power, but also about future models of society. But which model do both candidates, Marine Le Pen on one side and Emmanuel Macron on the other, offer?

Le Pen, for her part, campaigns for a France without Europe, which she brushes off coldly. Macron, meanwhile, is committed to a Europe with France as one part of a leadership duo together with Germany. Whereas Le Pen's rhetoric is nationalist, protectionist and xenophobic, especially towards migrants and migrant children, Macron pleads in favour of an open society and a strengthened economy within a globally connected world. Whereas Le Pen constructs her strategy around the fears of many French people, Macron appeals to their desires and aspirations and, judging by his programme, promises nothing less than a "Révolution".

Both streams strongly represent today's France as they reflect the severe fragmentations, rifts and inner conflicts that are inherent to the country and its society. But which one of the two is the stronger? This will be the essential question when the French electorate will finally vote upon who will become their next president. Yet, if we are to get a better understanding of the country generally, both streams need to be analysed more closely and profoundly. On one side, a country that is grim and totally self-absorbed, on the other a France which is bright and open-minded. Yet these contradictions are increasingly masking the traditional cleavage within the French electoral system, between left and right.

Should we be expecting "Le Suicide français", the "French suicide", as just recently foretold in a bestseller? Or will the presidential elections cause an eruption in this great European country, will the French, when at the ballot-box, dare for a new revolution, will they even reverse the current worldwide trend of ethnic nationalism and neo-protectionism?

French Economic Policy in the Election Year: Challenges Ahead

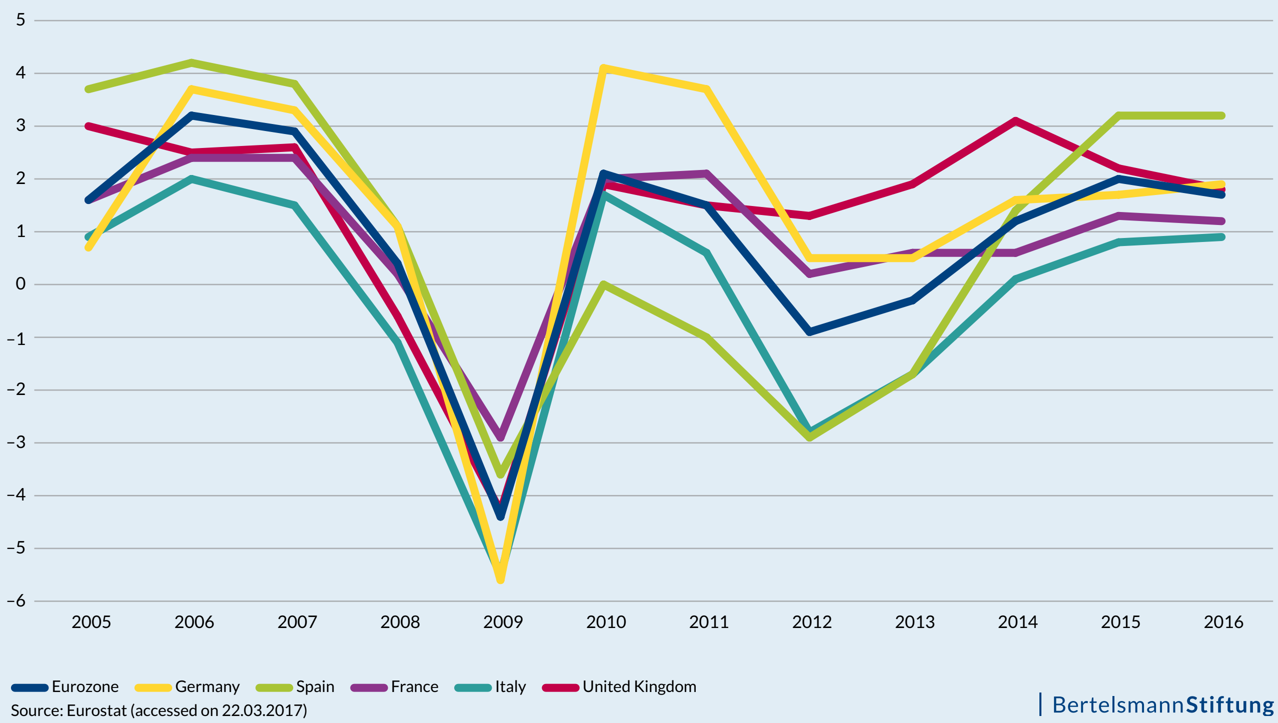
After years of sluggish recovery following the financial crisis and continuously rising unemployment, economic policy is central to the presidential elections: For French voters, the issues of employment (59 %), social protection (51 %) and purchasing power (48 %) are of utmost priority (Landré, 2017). Whether the candidates promise reform or revolution, restoring the health of the socio-economic fabric will be a priority for the next administration. Therefore, this focus paper will first examine the issues at stake within the realm of France's economic policy, the challenges ahead concerning employment and social affairs as well as the country's performance as a globally integrated economic actor. Each section will pay close attention to public opinion on the matters in focus in order to assess their significance for the elections. Finally, the manifesto of each candidate will be examined for their economic proposals.[1]

A Few Basic Facts on the French Economy

For decades, France's economy has rarely been among the fastest growing in Europe. This lower trend growth has been offset by a lower degree of volatility than in other countries. But since the financial crisis, France struggles to reach even its pre-crisis trend growth. Last year it achieved

1 The text has been finalised by 23 March 2017 and therefore covers information up to this date.

FIGURE 1: **Annual GDP growth rate (in percent)**



Source: Eurostat (accessed on 22.03.2017)

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a growth rate of 1.2 percent (European Commission, 2017b), which is relatively paltry but above the levels of most post-crisis years (cf. figure 1). Since the financial crisis, especially industrial production has experienced a double-dip recession whereas the services sector, making up almost 80 percent of the value added in GDP, withstood the financial crisis.

Employment Policy

Employment is generally a hotly debated issue in France and therefore also a core issue in the presidential elections. With the country's unemployment rate on the rise since the financial crisis hit Europe in 2008, a central promise of François Hollande's 2012 campaign was to boost job opportunities. However, unemployment rates remained high, which put Mr. Hollande under immense pressure to deliver upon his campaign promises.

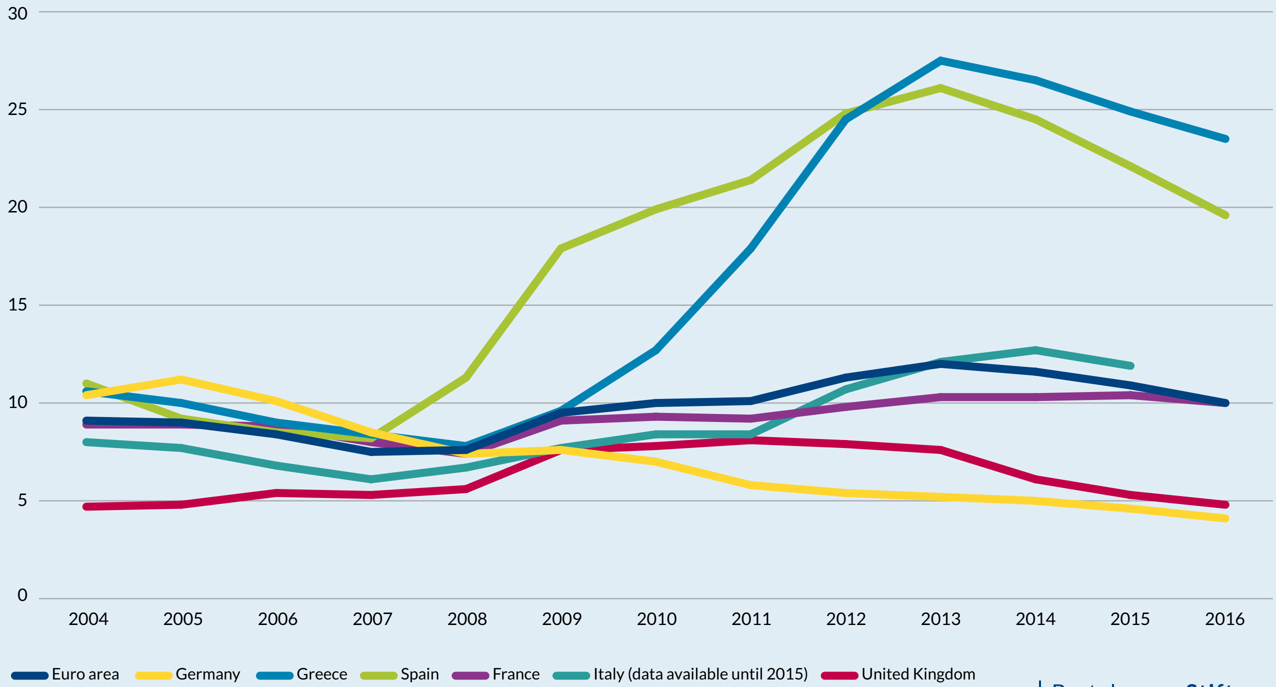
Since 2012, unemployment in France has been stagnating at around or even slightly above 10 percent (Eurostat, 2017b). According to the OECD, 44 percent of the unemployed have been jobless for more than 12 months, which suggests high structural unemployment. Another issue is that France's share of temporary employment is relatively high compared to other OECD members. This points out a critical duality in the French labour market: Even though about 85 percent of employment contracts are of a permanent nature (French: contrat à durée indéterminée, CDI), about 87 percent of new hiring is based on temporary contracts (French: contrat à durée déterminée, CDD), sometimes lasting as short as only a month (Rabreau, 2016). Whereas one side of the French labor market is hence characterised by highly regulated and protected jobs, another part is marked by insecurity, precarity and limited labour protection (Bertelsmann Stiftung 2016c). Young people, immigrants and the low-skilled are the most vulnerable groups on the French labour market. The high youth unemployment rate of 24.6 percent represents a particular challenge (OECD, 2017). Both, overall unemployment as well as youth unemployment in France, are the 6th highest in the whole OECD (ibid.). The OECD therefore emphasises the necessity of undertaking structural reforms to put the country back on track (OECD, 2016a).

Several labour market reforms have been successfully introduced by the Hollande administration. However, the Sustainable Governance Indicators of the Bertelsmann Stiftung underline that, even though French economic and labour market reforms are moving in the right direction, they do so without consistency (Bertelsmann Stiftung, 2016c). Concluded in 2013, an agreement with social partners aimed at introducing more flexibility into the labour market and improving health services. The *Loi Macron*[2] and the *Loi Rebsamen*[3], both introduced in 2015, aimed at lowering bureaucratic and procedural barriers. The *Loi El Khomri*[4] was put into law in summer 2016 after facing extensive protests and controversial debates. Whereas the original draft aimed at loosening up the 35-hour week, the final law does not touch upon this issue, but aims at introducing more flexibility into employment relations in general. The original bill was adjusted several times, and faced strong opposition by trade unions and employees, students but also by members of the governing party, the *Parti socialiste.* Mass rallies culminated in the "nuit debout", a regular assembly of protesters in Paris.

Whereas the left criticises the reforms as putting workers' rights at risk, conservatives think the changes still do not go far enough. The divisive potential of such reforms is underlined by an Ipsos survey (Teinturier and Dusseaux, 2016): Whereas 51 percent of French people think that more flexibility should be introduced into the labour market,

2 LOI n° 2015-990 du 6 août 2015 pour la croissance, l'activité et l'égalité des chances économiques.
3 LOI n° 2015-994 du 17 août 2015 relative au dialogue social et à l'emploi.
4 LOI n° 2016-1088 du 8 août 2016 relative au travail, à la modernisation du dialogue social et à la sécurisation des parcours professionnels.

FIGURE 2: **Unemployment rate (percentage of active population)**



Source: Eurostat (accessed on 21.03.2017)

43 percent prefer to strengthen employment protection. Whereas voices backing further flexibility are especially strong within the conservatives' camp (80 %) and among older French people (63 %), far-left voters (84 %) as well as the under-35-years-old (53 %) are favourable towards stronger protection systems. These dividing lines can also be seen starkly in the different election manifestos of the presidential candidates. Yet, generally the French seem to think that something must change: Only 6 percent state that nothing should change in the current labour market situation (ibid.). Keeping this and the above numbers in mind, it is no surprise that according to the recent Eurobarometer, 49 percent of the French people name unemployment as their biggest concern at national level, followed by terrorism in 2nd (31 %) and immigration in 3rd place (19 %) (European Commission, 2016).

Social Policy

Public awareness of inequality levels in France is rising: The Ipsos survey shows that a large majority (85 %) thinks that inequality has risen during the last few years, more than half (54 %) even think it has risen sharply (Teinturier and Dusseaux, 2016). Only 7 percent say inequality has decreased. This trend is present throughout all political camps, but particularly strong among far-left voters (93 %). In particular, the gap between rich and poor is perceived by 82 percent of the French to have increased.

As for intergenerational inequality, the authors of the Social Justice Index (SJI) of the Bertelsmann Stiftung note that several indicators reveal a gap between young and old in France (Bertelsmann Stiftung, 2016b). The SJI finds that French poverty prevention works generally good, but is better for elderly people than for younger ones. This applies similarly to the risk of material deprivation and income poverty. France scores slightly above average on intergenerational justice and slightly below the EU average on matters of child and youth opportunity.

As regards wages, income inequality in France is slightly below the OECD average. After a period of high wage growth between 2008 and 2010 as well as a year of wage moderation in 2011, wages are growing again in France at the average pace of the OECD area (OECD, 2016a). French labour productivity is basically equal to German labour productivity, so there is no need for competitive wage adjustments ("internal devaluation") as in Spain or Greece (Piketty, 2017). Disposable income stagnated during the financial crisis, so France has circumvented basic income losses such as witnessed in Greece, Italy, Portugal or Spain.

French relative income poverty rates remain below the OECD average. One potential factor to explain this relatively stable performance is the well-funded social protection system in France: At 32 percent of French GDP, the total of social expenditures is the highest within the OECD (OECD, 2016b).

By international and European standards, the French welfare state is generous and provides substantial benefits (Bertelsmann Stiftung, 2016c). Generous support is provided for child care and parental-leave benefits; in general, women's labour-force participation is high. Even though France performs generally well on quality of education, it has one of the largest deficits concerning the link between social background and learning success (Bertelsmann Stiftung, 2016b). Equal access to education is an issue, in particular for working-class and immigrant students (Bertelsmann Stiftung, 2016c). France has a high-quality health care system, which is accessible to all residents but generates regular deficits. The overall sustainability of the French welfare state has been improved by pension reforms (ibid.).

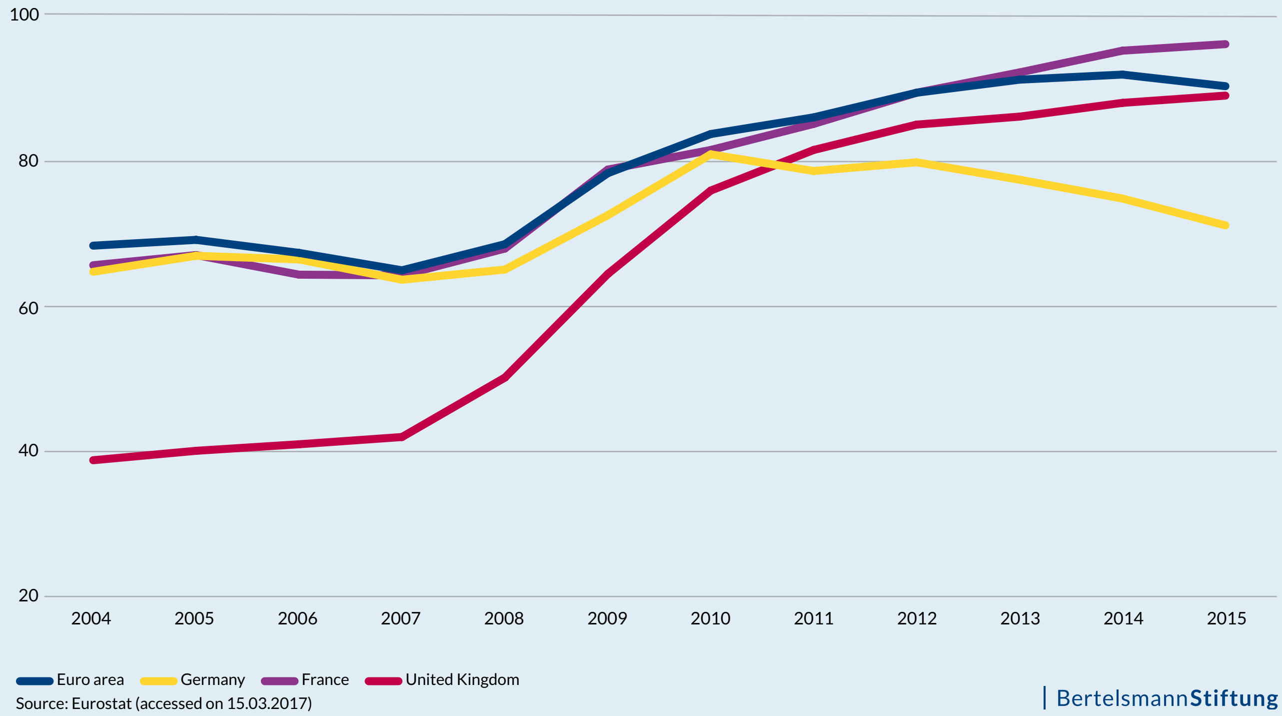
Fiscal Policy

France's public finances face three important challenges, which are interlinked and thus even harder to address: taxes, deficits and debt. Despite high taxes, France exhibits high fiscal deficits. As a result, national debt has risen considerably over the last two decades and is at 96.2 percent of GDP (2015) but is forecast to surpass 100 percent in the near future (Eurostat, 2017b). While an overall strong economy with a healthy demography such as France is capable of sustaining a relatively large burden of public debt, there are essentially two dangers associated with this. First, the country expanded its public debt massively – by 34 percentage points – between 2007 and 2015. Much of this debt was issued at comparatively low bond yields, which arose from a flight to quality prompted by the European sovereign debt crisis and the quantitative easing programme of the European Central Bank. The latter is likely to be retrenched over the coming months or years, which will lead to a general rise in bond yields. Also, many other countries have taken ambitious steps to improve the health of their public finances since the financial crisis, implying that the flight to quality from which France has benefitted is likely to end. The extraordinarily good refinancing conditions for France[5] are thus not likely to persist in the long run, hence it will be hard to keep debt service costs at the current relatively low level of 10.8 percent (Légifrance, 2016). Second, the improved public finances of France's neighbouring countries imply a larger capacity for public investment by them in the future. France, which already suffers from the problem of sluggish public and private investment, thus risks falling behind in the provision of public infrastructure and top level research.

These dangers associated with France's high public debt imply a need to get the strong budget deficit under control. France has been placed under the surveillance of the European Commission as part of the Excessive Deficit Procedure since 2009. While still breaching the Stability and Growth Pact (SGP) ceiling of 3 percent, it has improved its structural balance between 2013 and 2015 by 1.9 percent. This falls short of the 2.1 percent target but still represents a considerable effort. In light of this effort, "[t]he evidence did not lead the Council to conclude that no effective action had been taken" (Council of the European Union, 2015). Thus, the period for correcting deficits has been extended to 2017. The new targets set by the Council for 2015 were 4.0 percent (actual 3.5 %) and for 2016 3.4 percent (actual 3.3 %). The deficit is forecast by the European Commission to fall below the 3 percent ceiling in 2017 (European Commission, 2017b).

5 The average French bond yield has fallen from 4 percent in 2008 to 2.5 percent in early 2017 (European Central Bank, 2017).

FIGURE 3: **Public debt as percentage of GDP**



Source: Eurostat (accessed on 15.03.2017)

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Whether this fiscal consolidation can be maintained is a different question. Out of the five main candidates, three propose to reduce the tax burden and all, except for François Fillon, plan higher spending on public investment. In the medium term, there is some scope for further economies in public expenditure through a streamlined sub-central government, a more efficient organisation of the healthcare system and reduced unemployment. In the short term, it is not out of the question that deficits will widen again, as a result of the adjustment process.

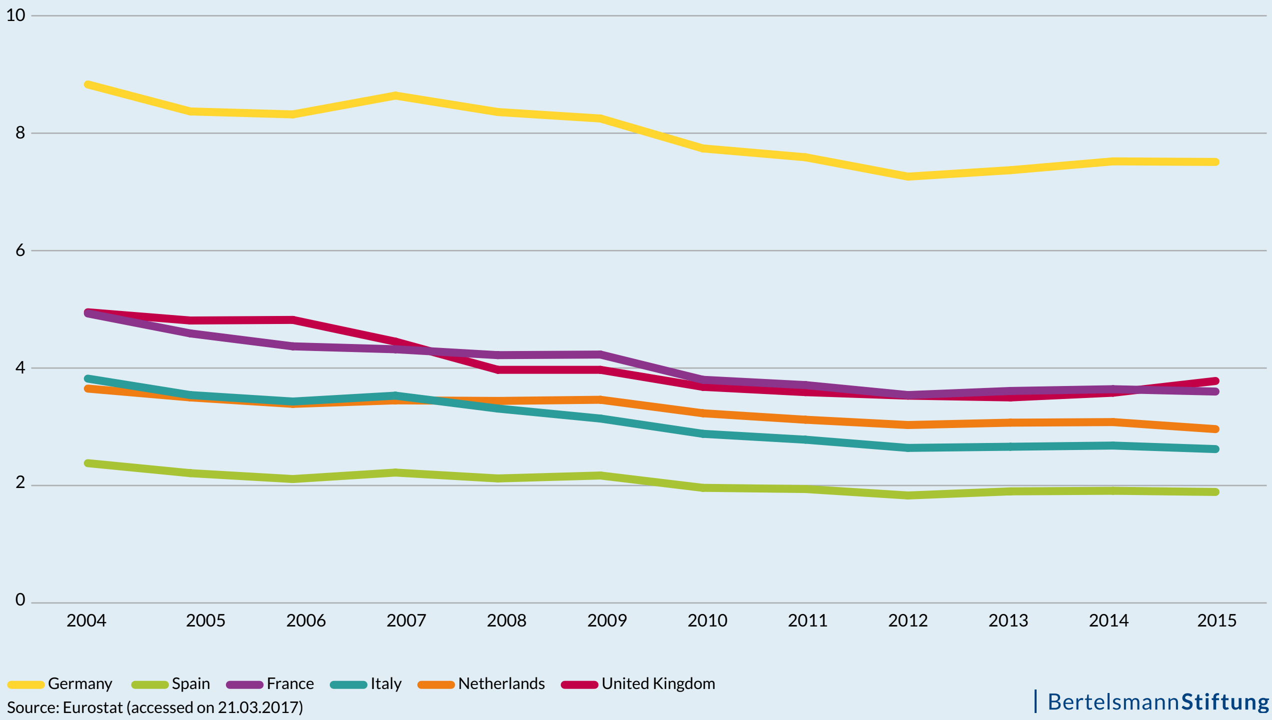
Trade Policy

France is strongly integrated into the global economy: The Globalization Report 2016[6] of the Bertelsmann Stiftung ranks France's global integration stronger than for example Germany's (Bertelsmann Stiftung, 2016a). But overall, its shares in global exports in goods and services have decreased both in value and volume since the 1990s (Fekl, 2017). This loss also reflects a loss of competitiveness and impacts on French growth outcomes (European Commission, 2017a). France nonetheless makes it into the Top 10 of global trade nations as its share of global trade in goods in 2015 amounted to 3.1 percent of exports and 3.4 percent of imports, ranking it 8th and 6th respectively. By way of comparison, Germany's share as a traditional exporting nation amounted to 8.1 percent of exports (3rd) and to 6.3 percent of imports in goods (3rd). The Netherlands, as the EU's second biggest exporter rank 5th in exports (3.4 %) and 8th in imports in goods (3 %). France's share in global trade in services is slightly higher, ranking it as the 5th biggest exporter (5 %), right behind Germany (5.2 %) at fourth place and as 4th biggest importer of services (4.9 %), right behind Germany at 3rd (6.3 %) and ahead of the UK at 5th (4.5 %) (World Trade Organization, 2016).

In 2016, France continued to do most of its trade with its EU partners: 60 percent of French exports went to and 58 percent of French imports originated in the EU (Ministère de l'économie et des finances, 2017a). With a share of 8.7 percent, French exports in goods were the 3rd largest within the EU28, after Germany (1st) and the Netherlands (2nd) (Eurostat, 2017b). Germany is France's most important trading partner. It is by far the first destination for French

6 The Globalization Report is very closely based on the KOF Globalization Index of the ETH Zurich, which inter alia includes indicators of economic globalisation, but also of social globalisation (such as migration and tourism) as well as political globalisation (institutional integration, foreign relations etc.). Based on these data, an index for each country and each year can be developed and which refers to values between 1 and 100. The higher the index' value, the more the country is globally integrated with other countries in the world.

FIGURE 4: **Export market shares (goods and services, as percentage of world total)**



Source: Eurostat (accessed on 21.03.2017)

exports and most important origin country for imports to France. The second most important export market for French goods is Spain, followed by the United States. After Germany, China and Hong Kong are the second most important source of imports to France, followed by Italy (Ministère de l'économie et des finances, 2017a).

The most important product groups of French foreign trade are industrial products, such as pharmaceuticals; transport materials, such as aeronautic products and cars; machinery as well as electronic equipment and further agricultural products (Ministère de l'économie et des finances, 2017a, 2017b). French exports in goods decreased by -0.6 percent in 2016 after growing by 4.4 percent in 2015, and growth in imports stalled at 0.1 percent compared to 1.1 percent in 2015 (Ministère de l'économie et des finances, 2017a, 2017b).

Altogether, the foreign trade deficit of France remains high. Within the EU, France is a huge net importer and therefore its intra-EU trade deficit amounted to -€ 88.8 billion in 2016 (Eurostat, 2017a). For French trade outside the EU, however, the situation is somewhat different, with a surplus of € 23.9 billion (ibid.). With an overall trade deficit of -€ 64.8 billion[7], France ranks second last compared to the other EU28 states and just ahead of the UK, which comes last with a an intra-EU trade deficit of -€ 114.8 billion and an even higher overall trade deficit of -€ 204.5 billion. Stand-out reasons for this are the declining surplus of the aeronautic and the agricultural sector as well as the increasing deficit of the automobile sector (Fekl, 2017). The

7 Different to Eurostat, the French government reports a trade deficit of −€ 48.1 billion for 2016 (cf. Fekl, M. 2017).

service balance declined strongly in 2016, with the tourism industry experiencing a serious deterioration in particular.

France and Globalisation

Even though a majority of the French (54 %) thinks of globalisation as more of a threat to their country than an opportunity (46 %), according to Ipsos, the number of those viewing it as an opportunity has increased since 2008 (Teinturier and Dusseaux, 2016). Traditionally, especially far-left (72 %) as well as far-right voters (81 %) perceive globalisation as a threat, whereas a majority of socialist (60 %) and conservative voters (62 %) view it positively. Equally distributed are the proportions of those who favour free trade (48 % on average), that is mainly socialist (62 %) and conservative voters (64 %), whereas an overall 51 percent of French and a majority of far-left (71 %) and far-right (74 %) voters favour a protectionist path. This is underlined by a recent eupinions survey of the Bertelsmann Stiftung, which examines different sources of populist support: Among *Front National* supporters, 76 percent are afraid of globalisation (de Vries and Hoffmann, 2016). According to Pew Research, in 2014 49 percent of French think that trade destroys jobs, compared to a global median of 19 percent. Only 24 percent of the French think that trade induces job creation. 47 percent think that trade also lowers wages (global median of 21 %) and 68 percent think that foreign companies buying domestic companies is bad (46 %) (Pew Research Center 2014).

On free trade agreements, French opinion is quite similar to the average of the EU28: 45 percent of French were in favour of TTIP, whereas 44 percent were against (European Commission, 2016). Even so, the politicisation of the TTIP debate increased with time and spilled over into a broader, more critical stance towards greater integration with the US. French debates on free trade in general as well as debates on TTIP in particular embrace issues of culture, agriculture, as well as social and labour conditions, economic liberalisation plus strategic independence (Xavier-Bender, 2015). Exemplarily during the TTIP negotiations, France emphasised the importance of "l'exception culturelle"[8] as a condition sine qua non if it was to agree to a transatlantic partnership with the US. The French government demanded in particular to exclude audiovisual services from TTIP (Bricq, Filipetti, 2013).

CETA is another story. Just after the free trade agreement between Canada and the EU was backed by a comfortable majority in the European Parliament in early 2017, 106 left members of the French parliament, including deputies from the French Green party, former Socialists, radicals and *Front de gauche*-members, decided to appeal to the French Constitutional Council in a bid to block CETA. These parliamentarians justified their position by arguing that by signing CETA, countries transferred sovereignty "beyond what they agreed upon in favour of the EU" (Gotev, 2017).

8 „L'exception culturelle" (eng. cultural exception) was initially introduced by France in the context of the GATT negotiations in 1993. It aims at treating cultural issues as exceptions in international treaties and agreements. Thereby, a country could sovereignly protect and promote its domestic culture (for more information see European Parliamentary Research Service Blog, 2014).

Solutions Proposed by the Candidates

Jean-Luc Mélenchon

Among the major candidates in this presidential election, the former teacher and journalist Jean-Luc Mélenchon, candidate of *La France insoumise* (Unsubmissive France), is the most left-leaning. His manifesto starts with nothing less than calling for a new constitution for a 6th republic, which should be "democratic, egalitarian, instituting new rights and imposing the ecological imperative" (LAEC, 2016). A similar logic should be applied to the EU: Since the manifesto is incompatible with several European treaties, it proposes consequentially to leave these unilaterally and immediately. Mélenchon is not fundamentally opposed to European integration, however he wants to engage in renegotiations to establish a new kind of union, closer to the ideals of his movement. This would mean a union that does not contain rules limiting the discretion of national governments in the realm of public finances. The new Europe should also stop pursuing policies of free trade and privatisation. Should such negotiations prove to be impossible, Mélenchon calls for leaving the EU altogether.[9]

Economic Policy

Mélenchon's economic policy is characterised by an emphasis on redistribution and imposing stronger constraints on corporations and managers so as to achieve a more egalitarian society. His suggestions for the labour market are inspired by a logic of better redistribution of the work currently available. He wants to raise taxes on high incomes and on capital and diminish the influence of shareholders and managers within firms.

Employment and Social Policy

Mélenchon's agenda for the labour market is marked by a similarly radical spirit. The candidate intends to rescind the reforms implemented under Hollande's presidency, especially the *Loi El Khomri* which he views as an "open door to internal dumping (…) and the regression of all workers' rights" (LAEC, 2016).

But Mélenchon does not contend himself with retracting the reforms of a previous government – he has his own ambitious agenda: To cut unemployment, he calls for a massive public investment plan worth €100 billion and to reduce working time to 32 hours per week. He also intends to raise salaries for workers and to introduce a salary cap of €400,000. For salaries above this threshold, he proposes to introduce a 100 percent tax rate. In order to reduce youth unemployment specifically, he advocates a special contract that would allow young people to work in the public or non-profit sector and acquire qualifications/skills that would improve access to the regular labour market. He also proposes to lower the pension age to 60 while raising the minimum pension to the level of the minimum salary, a measure that is aimed both at reducing unemployment and raising pensioners' living standards.

Fiscal Policy

The measures proposed by Mélenchon imply a sharp rise in public expenditure. He wants to finance these through a reformed taxation system. He proposes to close current loopholes, to subject capital gains to the same tax rates as wages, to boost the existing wealth tax and to raise the inheritance tax. Mélenchon also proposes to renege on a part of the public debt and to call on the French central bank (Banque de France) to finance further fiscal expansion.

Trade Policy

By blaming current policies for undermining social rights and labour standards, Mélenchon's manifesto proposes a radically different kind of trade policy. Consequently, he intends to raise tariffs for imports from countries with low labour standards and to launch countervailing measures against tax havens. He is also calling for anti-dumping measures in strategically important sectors such as steel and solar panels.

9 Information on this section is based on LAEC, 2016 unless otherwise indicated.

Benoît Hamon

The candidate of the *Parti socialiste,* Benoît Hamon, is a former minister for education of the Valls administration and a former Member of the European Parliament. Hamon won the socialist primaries as the candidate of the party's left over the former prime minister Manuel Valls, who campaigned on a more social democratic policy platform.[10]

Economic Policy

Hamon does not oppose the temporary nationalisation of firms and wants to abolish state aid for firms that outsource their production. Further, he plans to reserve up to 50 percent of public markets to small and medium sized firms (SMEs), even if this constitutes a breach of EU law (Poingt, 2017).

While not opposed to the EU in general, Hamon is convinced that in its current state Europe "does not work" (de Royer and Bonnefous, 2017). He wants to implement a treaty among the Eurozone members "to democratize the governance of the Euro area" (Hamon, 2017a). Such a treaty would inter alia establish a Eurozone parliament (made up of 80 percent national parliamentarians but only 20 percent European parliamentarians), which would decide upon a Eurozone budget and upon the partial mutualisation of national debt. He also urges that defence costs and those of accommodating migrants be excluded from the public deficit calculation. He strictly opposes austerity measures and plans to introduce a European investment plan of € 1,000 billion.

Employment and Social Policy

Hamon plans to replace the *Loi El Khomri* with a new labour law. This law shall encourage the reduction of working hours on a voluntary basis and improve working conditions. The social economy sector would be enlarged from 10 percent now up to 20 percent of French GDP by 2025.

Hamon intends to increase the minimum wage as well as basic benefits. An issue getting widespread attention during the election campaign is his idea of a basic income (Revenue universelle d'existence, RUE or UBI in English). He proposes that everyone between 18 and retirement age who earns less than 1.9-times the minimum wage (that is a gross income of € 2,812), would be eligible to receive the basic income. Unlike with current unemployment benefits, eligibility is unconditional. Hamon states the RUE would amount to € 600. Yet, as it would be individually calculated depending on other personal revenues, including wages and social benefits (e.g. family, housing, unemployment benefits), not everyone would receive the same amount (Geoffroy and Durand, 2017). According to Hamon's campaign, 19 million French, i.e. 30 percent of the population, would be eligible, at an estimated cost of € 35 billion. To finance his plans, Hamon proposes to reduce corporate tax credits in order to generate € 15 – 20 billion. He also proposes the idea of a tax on robots to generate € 5 – 10 billion, a "superprofit tax" for banks and an increase in public debt by € 5 – 10 billion, thus financing the basic income mainly by increasing public debt and adjusting corporate taxes (ibid., and Poingt, 2017).

Fiscal Policy

Hamon's manifesto aims at configuring the tax system more progressively and simplifying it. He therefore plans to inter alia combine several groups of taxes and introduce further tax tranches. Hamon further proposes to introduce individual taxation (Institut Montagne, 2017).

10 Information on this section is based on Hamon, 2017b and 2017c unless otherwise indicated.

Trade Policy

Hamon is generally against free trade agreements, opposing both CETA and TTIP. He states his immediate intention to suspend the application of CETA due to environmental, health and social protection issues. For him, "the obsession with GDP growth and free trade agreements is characteristic of Europe's failure" (Robert, 2017). However, his supporters are divided on the issue: Whereas the "Frondeurs" (the rebels, strong critics of Hollande and Valls) in the *Parti socialiste* share his opposition to free trade agreements, the pro-government party members have voted in favour of CETA.

Emmanuel Macron

Founder and head of the *En Marche!* movement, the 39-year-old Emmanuel Macron is the surprise candidate of these presidential elections. By representing the open-minded and internationally integrated France, the non-partisan candidate and former minister for economic affairs has not only a very good chance of getting into the second round, but also of clearly beating the far-right candidate Marine Le Pen in the final round on May 7th and, therefore, becoming the next French president.[11]

Economic Policy

Emmanuel Macron plans to revive the French economy with various reforms and to strengthen the country's European position. His plans for a new growth model are built on three pillars: an investment plan of € 50 billion, a "more just" fiscal policy, and a cut in public spending (see below). For him, achieving these objectives is a prerequisite for fellow EU members (that is particularly Germany) to perceive France as a reliable partner for constructive discussions on Europe's future. Macron's economic growth goals are rather cautious: with anticipated GDP growth ranging from 1.4 percent in 2017 to 1.8 percent in 2022.

A fervent European, Macron wants to pursue the European project and is the only one among the presidential candidates to truly push for deepening European integration; he also supports the idea of a multi-speed Europe, in which the most willing candidates would lead the integrationist approach. For him, France is only capable of handling its global challenges together with its European partners and as a strong, embedded part of the EU.

The core of his European project is the deeper integration of the Eurozone. Macron proposes creating a Eurozone budget of which the purpose is not only to stimulate future

11 Information on this section is based on Macron, 2017a and 2017b unless otherwise indicated.

investments within the Euro area, but also to more effectively react to financial crises. A proposed Eurozone parliament, composed of MEPs from Eurozone member states, as well as a to-be-installed Eurozone minister for economic affairs and finance would control and be accountable for the Eurozone budget. Access to the budget would be conditional upon strict adherence to common rules of fiscal and social policy in order to prevent dumping.

Employment and Social Policy

Macron's programme does not touch the 35-hour work week and proposes that, where possible, collective negotiations shall be decentralised and take place at firm-level. The conclusion of firm-level agreements is prioritised to the conclusion of agreements covering the whole sector. Social charges shall be reduced in order to push purchasing power.

Macron plans to introduce a universal unemployment insurance, also covering those who quit their job upon their own wish. But Macron links this universal coverage to the condition that the recipient actively engages in searching for a new job; if two job offers fitting the individual's qualifications are refused or if the individual's job search lacks commitment, he/she may lose the right to receive unemployment aid. Additionally, as part of the investment plan (see below), Macron wants to invest greatly in further education and skills training. He further proposes a universal pension system, replacing the separate systems currently in place in France. Macron intends to adhere to the retirement age of 62, but also proposes that those who want to work beyond that shall have the opportunity to do so.

Fiscal Policy

Macron wants to respect the European deficit rules by reducing public spending at least down to 3 percent of GDP. He therefore intends to save € 60 billion by 2022: € 25 billion in social spending, that is in the health sector and due to an expected decline in unemployment to 7 percent by 2022; € 10 billion by cutting the outgoings of local authorities, and finally €25 billion by decreasing government spending, due to further digitisation of administration and cutting the number of civil servants by 120,000 over five years, except for sectors such as defense and national education.

An integral part of Macron's programme is an investment plan amounting to € 50 billion. Over five years, € 15 billion would be invested in education and skills training, especially of the young and unemployed; € 15 billion to deal with ecological change and energy transition. Finally, € 5 billion each for agriculture, public health, public transport and the modernisation of public administration. Local authorities would also profit therefrom, such as to deal with the structural changes they are facing.

Macron further wants to abolish housing taxes for 80 percent of the French, intends to add a 13th month salary to the minimum wage (French: SMIC), which would give an extra € 100 per month, and wants to introduce the option of individual taxation. At corporate level, he wants to decrease corporate taxes from 33.3 percent to 25 percent. He further intends to introduce a one-time 30 percent tax on capital gains.

Trade Policy

Macron is the only candidate clearly in favour of free trade agreements. He assumes that CETA would objectively improve trade relations with Canada. As the Belgian region of Wallonia was blocking ratification in autumn 2016 owing to concerns about protecting public services and social and environmental norms, Macron acknowledged these concerns as pertinent, but underlined the fact that trade policy lies within the realm of EU competencies and that in matters of both trade and competition policy, the EU is strongest when it acts commonly (Le Soir (n. n.), 2016).

François Fillon

François Fillon, a lawyer by training and prime minister under president Sarkozy, won the primaries of the centre-right party *Les Républicains* in November 2016 on the basis of an economically liberal reform agenda. Until allegations of embezzlement were put forward in January 2017, he was second in the polls to the far-right candidate Marine Le Pen and was therefore declared favourite to become France's next president in the elections' second round. Presently, François Fillon ranks only third in the polls for the first round, behind Le Pen and Macron.[12]

Economic Policy

Fillon's economic policy is the most ambitious liberalisation that has been proposed by any French politician for a long time, hence he has been likened in his economic ideas to Margaret Thatcher. His promise to reduce the size of the public sector, liberalise working hours in the private sector, streamline employment regulations and reduce the tax wedge demonstrates a clear agenda. Fillon promises that these liberalisations will lift the growth rate above 2 percent of GDP after five years.

However, this embrace of liberalism does not extend to free trade: Fillon has adopted a sceptical stance on TTIP and flip-flopped on CETA. Future trade agreements should contain a stronger reciprocity element of social and environmental standards, he asserts. On European economic policy, he would give the Eurozone a stronger institutional structure with a General Secretariat independent of the Commission and an economic strategy that would be coordinated with the ECB. Fillon also wants to renegotiate the EU Posted Workers Directive, governing the conditions under which workers can be dispatched across borders within the EU, and even suspend its application if no such renegotiation ensues.

12 Information on this section is based on Fillon, 2016 unless otherwise indicated.

Employment and Social Policy

Liberalising the labour market is a high priority for Fillon, as he sees it as a key measure to improve France's competitiveness. One of his central propositions is to abolish the 35-hour working week and let social partners set working time at company level. As for the public sector, Fillon intends to introduce a 39-hour working week. In tackling high youth unemployment, Fillon wants to create a better system of apprenticeships and alternating in-company training that would facilitate better integration into the labour market.

Fillon's manifesto sets out the intention to reduce unemployment not only via better conditions for job creation but also stronger activation of unemployed persons. This is supposed to take place by introducing a reduction of unemployment benefits should the recipient reject a job offer.

Fiscal Policy

Fillon's aim of liberalising the French economy is also clearly visible in his fiscal policy. A central element of his ideas is to reduce the public deficit from currently 3.4 percent to below 3 percent in 2019. He plans to cut public spending by € 100 billion over five years and therefore to reduce the share of government expenditure in GDP from 57 percent to under 50 percent within the next five years. To achieve this, he inter alia plans to reduce the number of public servants by 500,000. This would apply to all ministries except for officials working in defence, justice, the police and gendarmerie. The above-mentioned rise in public sector working hours would offset these jobs cuts and thus keep the functional capacity of the public service unchanged.

Fillon equally plans to gradually raise the retirement age to 65 and to reduce spending on public health. He says these two measures would each save another € 20 billion.

Fillon intends to use these savings to finance tax cuts. He proposes simplifying and cutting social security contributions as well so as to lower the cost of labour by € 25 billion. He wants to reduce the tax burden on companies by € 44 billion annually, reduce income tax progressively and scrap the 75 percent tax rate on incomes over € 1 million introduced under president Hollande. In addition, he proposes a harmonisation of corporate taxes at European level so as to avoid tax competition for multilateral companies.

Trade Policy

Compared to labour and tax reforms, trade policy is less prominent in Fillon's manifesto. He rejects TTIP as it presently stands, as he does not believe it to be in the interests of the EU. As for CETA, he is less clear: While supporting it in principle, he believes there are agricultural and environmental aspects that require further discussion (Caravagna, 2017). Fillon is also opposed to official EU recognition of China as a market economy.

Marine Le Pen

Marine Le Pen, a lawyer by profession, is the presidential candidate of the far-right *Front National.* After she succeeded her father Jean-Marie Le Pen in 2011 as party leader, she tried to soften its image and make it less associated with naked anti-semitism and racism. This strategy allowed her to win over a larger electorate and she is presently leading in polls on the first round. The party remains, however, firmly anti-immigration and anti-Islam.[13]

Economic Policy

In her electoral campaign, the far-right candidate is lashing out against the EU and globalisation, urges protectionist measures and strict limits on what she calls "mass immigration". Her anti-EU stance is underlined by her promise to withdraw France not only from the Eurozone and to introduce a national currency, to end the Schengen agreement and reintroduce border controls, but also eventually hold a referendum on France's EU membership in order to withdraw the country from the union altogether. In her manifesto, Le Pen promises to strengthen the protective role of the state, shielding French workers and companies from competition. For example, she would no longer apply the EU Posted Workers Directive. She also puts forward several measures to strengthen small and medium-sized enterprises, through a reduced "fiscal and administrative complexity" of the labour code as applied to them as well as via lower social security contributions.

Employment and Social Policy

Le Pen has harshly criticised the labour market reforms under Hollande's presidency and would scrap the *Loi El Khomri.* While keeping the 35-hour working week as a general rule, she would allow certain branches to negotiate 37 or 39 working hours a week which would have to be fully paid. She also wants to set the entry to retirement

13 Information on this section is based on Le Pen, 2016 unless otherwise indicated.

at 60 years or after 40 years of contribution payments. Le Pen further proposes to introduce a "national employment priority", by which she would introduce "a tax on every new contract with a foreign employee" – which would be incompatible with the EU rules governing the Single Market. Her main strategy against high unemployment is a re-industrialisation policy further underpinned by protectionist measures (see Trade Policy). In addition, she intends to privilege French companies for all public procurement.

Fiscal Policy

In terms of tax policy, Le Pen is committed to lowering taxes for low and middle incomes. The tax cuts would target smaller and medium enterprises for which the relevant tax rate would be cut to 24 percent. Similarly, she intends to lower income taxes for the three lowest tax brackets by 10 percent.

The expected revenue shortfall would supposedly be offset by savings to the tune of € 60 billion over five years. These are to come from lower spending on policies supporting immigration and from renegotiating on payments to the EU budget.

Trade Policy

Le Pen has adopted a critical and protectionist stance towards free trade and is strictly against any free trade agreement, including CETA and TTIP. She wants to put in place an "intelligent protectionism" that would protect French companies against dumping. Imports of all goods not conforming to French standards would be prohibited. She also wants to adopt a control mechanism for foreign direct investment into France so as to protect the national interest.

Outlook

When the French head to the polls on April 23rd and May 7th, questions of economic and social policy will be at the centre of many people's concerns. And indeed, the socio-economic challenges the country is facing are manifold. But even though they are of vital importance, the story of these presidential elections cannot be told without taking into account the massive impact of the deep cleavages that run through both the country's political landscape and its society.

There are the well-known and traditional cleavages, such as the polarisation between left and right; between workers and capitalists, Catholicism and secularism; between Paris and rural France, the inner cities and the banlieues; between labour market insiders and outsiders – to name but a few. Something has nevertheless changed, and it is something not unique to France, but which has put immense pressure on many Western societies: First, people seem to have lost faith in their political establishment, which could not be more drastically shown than by the run-offs to this year's general elections: None of the traditional parties' candidates, neither Benôit Hamon of the *Parti socialiste* nor François Fillon of *Les Républicains,* is likely to get into the final election round on May 7th, let alone become the next French president.

The second and fundamental difference to previous elections is the overriding impact of the voter's choice between reclusion and internationalism, between an open society and one which is closed. As in other Western societies which face the menacing rise of populism, the fear is great in France that the gap left by the traditional parties will be filled the by far-right *Front National* candidate, Marine Le Pen. To only think of the consequences that a victory of hers would yield for France but also for the European project is appalling.

For weeks, the polls predict two "outsiders" from the traditional political landscape in France to get into the final election round. Yet, some uncertainties remain, such as the potentially high share of non-voters and those who are still undecided which candidate to vote for. This electoral uncertainty is not identical across the political spectrum, as for example far-right candidate Marine Le Pen's electorate stands firmly behind her. But even though she paints herself as the anti-establishment candidate, she, a long-term member of French political life and leader of a long-standing party, can by no means be counted as much of an outsider as she wishes. If the polls prove at least partially right, the final round on 7th May will see the contrast between hers and another vision of a future France which could not be more different: It will be the sharp contrast between Le Pen's grim vision of a protectionist, secluded France, that closes the door on immigration, breaks with the Euro and potentially the EU altogether and isolates itself; and, on the other hand, the vision of the candidate of the En Marche! movement, Emmanuel Macron: an optimistic and open-minded France which defines itself as a driver of European integration as well as part of a globally integrated world.

The contrast is sharp, reflecting those deep rifts and confrontations within French society which are fundamentally shaping these elections: Between whether the French want to have an open society or shut themselves off. Whether they want to shield themselves from Europe and the world, or actively embrace a global and European vision for the country. It is a clash between openness and seclusion that is not uniquely French, but has rather strongly shaped political discussions and democratic choices in the Western world for some time now. It is now up to the French voters to decide: Will France choose protectionism, exclusion and international isolation? Or will it find the courage to shape a new future, for itself, within and for Europe?

One thing is clear: Whichever path France chooses, it will define not only its own future but that of Europe, too.

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Responsible
Dr Christian Bluth,
Sylvia Schmidt

Authors
Sylvia Schmidt,
Dr Christian Bluth,
Joachim Fritz-Vannahme (Editorial)

Editorial Review
David Gow and Sabrina Even

Design
Dietlind Ehlers, Bielefeld

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Shutterstock / Ioan Panaite

Address | Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Straße 256
33311 Gütersloh
Phone +49 5241 81-0

GED-Team
Program Shaping Sustainable Economies
Phone +49 5241 81-81353
ged@bertelsmann-stiftung.de
www.ged-project.de

www.bertelsmann-stiftung.de

BertelsmannStiftung