

15 June 2017

Can Macron change France and Europe?

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- **The new French president Emmanuel Macron has started his five year term...**
- **... by appointing a new centrist government composed of ministers from across party lines...**
- **... and re-affirming his pro-European agenda by immediately visiting Germany's Angela Merkel**
- **His party has risen in polls for 11 and 18 June legislative elections...**
- **....and is likely to get a majority of the seats in the lower house**
- **However, implementing his plans for the French economy as well as for Europe will by no means be an easy ride**

Macron appoints a new government,

The day following his investiture, President Macron announced the nomination of Edouard Philippe, a moderate centre-right politician, to serve as his Prime Minister. Picking Mr Philippe is a strategic choice that reinforces Mr Macron's self-affirmed goal to overcome partisan divisions and renew political life. Mr Philippe comes from the moderate wing of the Republican party (the "Juppéiste" camp), whose views on the economy are largely aligned with the President's. Macron has been ambitious in his choice of ministers, keeping a small cabinet (22 members) with a good balance among centre-left, centrist and centre-right politicians. As part of a broader push to streamline the executive, Macron decreed that ministers may appoint no more than 10 advisors.

... but the outcome of the legislative elections determine what he can do for the economy ...

The French economy has grown somewhat below the eurozone overall during the past few years. This is largely due to the fact that the country is lagging behind a number of countries that have implemented economic reform programmes during the years of the eurozone crises (e.g. Spain, Ireland, Portugal, Greece). For more on this please see: [Eurozone Watch – French election Q&A](#). Mr Macron has some ambitious plans for the French economy. He plans to push for a EUR 50bn public investment drive during the five years of his term (around + 0.5% GDP per year). This will be compensated by cuts in public spending, amounting to a total of EUR

60bn (2.7% of GDP) by 2022. Regarding weekly working hours, Macron has stated that he will maintain the limit of 35 hours, but will allow companies to negotiate different arrangements on a case-by-case basis. He wants to introduce universal unemployment insurance and pension schemes. Finally, he has explicitly stated that his government will keep the budget deficit below 3% of GDP. Still, Mr Macron has not yet been able to implement any policy changes, as his government exists in limbo until the new parliament is sworn in during the final week of June, following the second-round elections on 18 June (see below).

How does the lower house election work?

Each delegate represents a constituency (circonscription législative), of which the mean population is 120,000 people. Like the Presidential election, the vote uses the two-round "runoff" approach, albeit with slight differences. A candidate may be elected during the first round (premier tour) only if (s)he receives at least 50 percent of votes, which must themselves represent 25 percent of the electorate in the voting district. During the runoff, the candidate with the absolute majority of votes (among those cast) wins the election.

... and even a victory in the lower house election is no guarantee for radical change

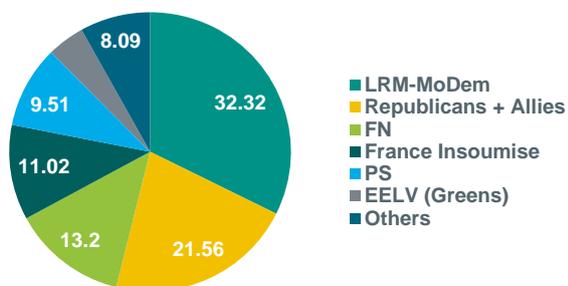
On top of that, regardless of the outcome of these elections, implementing reforms in France remains difficult, as they have been blocked by vested interests, street protests and strikes in the past. Indeed, the leader of the country's largest trade union has already warned Macron not to rush labour market reforms.

Macron on his way to a comfortable majority in parliament

The appointment of Mr Macron as president has certainly given a boost to the popularity of the political centre, including the president's own party, *La République en Marche!* (LRM) and its partner, the veteran MoDem. Polls from before the first round on 11 June indicated that the LRM/MoDem alliance would receive around 30% of ballots cast for the lower house of parliament, the *Assemblée Nationale*. These estimations are in line with the 32.3% votes cast REM received in the first round (see chart below).

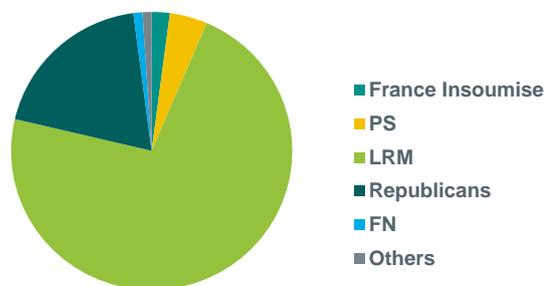
It is important to emphasise, however, that polls and national results do not reflect the *Assemblée's* future make-up, which is distributed on a per-constituency, not on a national basis. Estimates following the first round votes indicate that LRM/MoDem will receive between 350 and 450 seats out of 577; as one French newspaper put it — "this is a crushing majority". Indeed, such an outcome would give Macron the parliamentary majority he needs to advance his reforms.

Result 1st round 11 June, national vote percentage



Source: French Government

Seat distribution (projection 11 June)



Source: Various polling agencies

Re-alignment with Germany

One of Macron's central campaign promises was a renewed commitment to Europe and the eurozone with a special focus on renewing the Franco-German partnership. One day into his presidency, Macron took his first foreign trip to meet with Angela Merkel. Both leaders reaffirmed their commitment to further European integration and cooperation and said they were open to the idea of treaty changes. Moreover, the finance ministers of both countries have met and subsequently stated that they want to stimulate cooperation between their largest (energy) companies and plan to revive proposals for corporate tax harmonization, either bilateral or in the EU as a whole. The US President's recent decision to withdraw from the Paris Agreements on climate change offers the potential to enhance intra-European cooperation on environmental policy. In a statement responding to Trump's decision, Mr Macron re-iterated a campaign commitment that France would welcome climate scientists and researchers, which bodes well for Europe's burgeoning "clean tech" sector.

New impetus to further European integration ...

Following the election of Mr Macron a number of leading European political figures (including the Italian finance minister and Spain's prime minister) have expressed a renewed commitment towards enhanced European integration/cooperation. For his part, Mr Macron intends to push for the introduction of a common eurozone budget that will be used to support investments and to provide emergency financial assistance to individual members in the event of a crisis. In addition, Macron would like to create a form of oversight authority (a "parliament") for the common currency and installing a "eurozone finance minister". He also favours establishing a common European defence budget and a European border police. Finally, he wants to introduce a "Buy European Act", which would limit public contracts to companies which conduct operations primarily in Europe. However, Mr Macron has conceded to Germany by stating that he supports neither the concept of so-called "Eurobonds", nor the mutualisation of existing debt in the eurozone.

... but current plans do not go far enough to fix the eurozone's problems ...

We think the current plans for further European integration do not go far enough to underpin the eurozone. We think that eventually countries will have to relinquish a certain degree of their sovereignty. States must also be willing to participate in a sizeable common central budget and joint bond issuance. Moreover, mechanisms should be introduced to ensure fiscal discipline and structural reform. Last but not least, the currency system's democratic accountability should be enhanced.

... and differences of opinion between core and periphery remain

In addition, there remain wide differences in views between countries in the core and the periphery of the eurozone. Italy and Spain, for instance, would prefer to create a common deposit insurance scheme for banks and unemployment, as well as common debt management. On the other hand, Germany and most other core countries dread the idea that the eurozone will be transformed into a 'transfer union' if these plans were to be executed. In any case we do not expect any significant policy changes related to European integration before Germany's general election in September.

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