



# Economy

## French elections: plan A, plan B, plan M

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*Over the past few days, French politics has been thrown into an unprecedented maelstrom. Until very recently, everything appeared to be in place for a switch from the left to the right, auguring for welcome changes to economic policy. Nothing is less certain. A financial scandal has seriously undermined François Fillon's candidacy. With the right severely weakened, the other leading candidates, Emmanuel Macron and Marine Le Pen, are seeing their chances increase. This opens the field to different scenarios for the presidential elections and perhaps even more so for the legislative elections in June this year.*

### An update after “Penelopegate”»

In May 2011, the arrest and imprisonment of Dominique Strauss-Kahn, the IMF's managing director, accused of sexual assault, rocked the left. As a result, the socialists lost their champion for the presidential elections. In the event they had more than enough time to find an alternative. This alternative was François Hollande, who was elected in May 2012. This time it is the right that has been thrown off course by a scandal (financial, not sexual) affecting its candidate François Fillon, only two and a half months before the election. What are the facts? What are the likely political repercussions? And by extension, what are the implications for the French economy?

First, we note the list of declared main candidates, to which could be added a number of minor candidates. All told, there should be between eight and ten (the historic average is ten). In this case, it is more or less impossible to even hope to qualify for the second round of the presidential elections without gaining a minimum of 20% of the vote in the first round.

Name	Age	Party affiliation	Former candidacy	Highest position
Jean-Luc Mélenchon	65	Front de Gauche far left	2012	MEP (2009...)
Yannick Jadot	49	Les Verts far left	-	MEP (2009...)
Benoît Hamon	49	Parti Socialiste left	-	Education Minister (2014)
Emmanuel Macron	38	En Marche centre-left	-	Economy Minister (2014-16)
François Bayrou *	65	Modem center	2002/2007/2012	Education Minister (1993-97)
François Fillon	62	Les Républicains right	-	Prime Minister (2007-12)
Nicolas Dupont Aignan	55	Debout La France right	2012	MP (1997...)
Marine Le Pen	48	Front National far right	2012	MEP (2004...)

\*to be confirmed and conditional on obtaining the sponsorship of 500 elected representatives

➤ **The facts.** On 25 January a newspaper article accused **François Fillon**, the right-leaning *Républicains*' candidate of setting his wife Penelope up in a fictitious job as his “parliamentary assistant”<sup>1</sup>. On the same day, the *Parquet National Financier* (the financial prosecution service), which we had no idea could react so quickly, opened a preliminary investigation and the media circus began. Since then, every day the press has meticulously reported new evidence on this dossier, rendering François Fillon's denials inaudible. Last month, he was favourite as the next president after a sweeping victory in the right's primary elections<sup>2</sup>. Over recent days, his candidacy has been contested, even in his own camp, which is confronted by the following dilemma. The Plan A is to support a weakened, but at the time still legitimate, candidate (he has neither been charged nor convicted). Plan B is to hastily find a replacement, at the risk of dividing the right-wing party. Yesterday, 6 February, François Fillon held a press conference to refute the accusations in the press, apologise to the French people and take back the control of his campaign.

<sup>1</sup> In the French parliament, in contrast to the European parliament, it is not illegal to employ family members in this type of post, as long as real work is being carried out. This practice currently concerns around 5% of parliamentary assistant posts.

<sup>2</sup> See “French elections: the outsider becomes the front-runner” (21 November 2016) and “French elections: how things stand after Fillon's victory” (28 November 2016).

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➤ **Political repercussions.** The “Penelopegate” scandal, as it has become known, broke just as intentions to vote for **François Fillon** were already on the wane, after two months of repeated attacks against his economic programme (“ultra-liberal”<sup>3</sup>) and his own personal convictions (“ultra-conservative”). Unsurprisingly, the effect of these press accusations has been very negative. At end-November, François Fillon was front-runner in the intentions to vote for the first round with around 29%, this had fallen to 25% by mid-January and the latest polls, taken at the worst possible moment, had him at around 20% (table). To have any hope of qualifying for the second round, a candidate cannot fall durably below the 20% mark. François Fillon is in this danger zone, but not entirely without hope. Reaction of voters to his counter-attack will be key. The legal developments of the affair cannot be totally ignored either, since Fillon has said that he will withdraw from the race if he is indicted<sup>4</sup>.

	Voting intentions in the first round of the presidential elections					Number of polls
	Le Pen far-right	Fillon centre-right	Macron centre-left	Hamon left	Mélenchon far-left	
November	23-25%	28-31%	13-18%	5-7%	11-13%	3
December	24-25%	23-29%	13-19%	4%	13-14%	3
January						
- pre Penelopegate*	22-27%	23-28%	16-24%	6-8%	12-15%	5
- post Penelopegate*	25-27%	19-22%	20-23%	13-17%	10%	2
February	24-26%	18-21%	20-23%	14-18%	9-11%	6

\* Penelopegate is a financial scandal involving Fillon and his wife

in bold, ranked first, in red, ranked second

One candidate's loss is the other candidates' gain. Aside from Penelopegate, French politics have seen several interesting developments in recent days.

- Left – **Benoît Hamon** won the second round of the primaries for the Socialist Party and its allies, comfortably beating Manuel Valls (59% vs 41%). Mr Hamon's position is very far to the left<sup>5</sup> and he is a direct rival of **Jean-Luc Mélenchon**, the extreme left's main candidate. The latest polls show how interconnected these candidates are, with voter intentions ebbing and flowing between them. If they were to join forces or if one were to fully assimilate the other, the left would be in a position to qualify for the second round of the Presidential election. Until very recently, this was the least probable of all the scenarios.
- Centre-left – **Emmanuel Macron** has continued to pick up support for his party *En Marche (Forward)*, mainly from the socialists disoriented by Mr Hamon's programme and, to a lesser extent, the centre-right voters who have been put off Mr Fillon by Penelopegate. Unlike Mr Fillon, Mr Macron has been buoyed by a tailwind for several weeks and is supported by a large part of the media. His qualities, of which there are many, are taking care of the rest. He has now overtaken Mr Fillon by two-three in first-round voter intentions. In a run-off against Marine Le Pen, he would win by a large margin (see table).
- Centre-right – **François Bayrou** is clearly revelling in Mr Fillon's woes and displaying all the traits of someone about to embark on his fourth outing at the Presidential elections. His party is not a major political force. But under the current circumstances, a handful of points taken from one party or another could have significant consequences.
- Far right – **Marine Le Pen** officially launched her campaign this weekend with the publication of a manifesto of “144 presidential commitments”. This document does not contain a single reference to the party's name, *Front National*. What is even more surprising is that the Le Pen name is not included either. It is the platform of plan M... for Marine. Ms Le Pen has recently become the front-runner for the first round, but continues to trail significantly in the scenarios of her facing Mr Macron or Mr Fillon in the second. To our knowledge, no opinion poll has as yet tested the scenario in which her opponent would be a candidate from the far-left.

	Voting intentions in the second round of the presidential elections			
	Le Pen	Fillon	Macron	number of polls
scenario 1	29-40%	60-71%	-	22
scenario 2	34-38%	-	62-66%	9
scenario 3	-	42-48%	52-58%	3

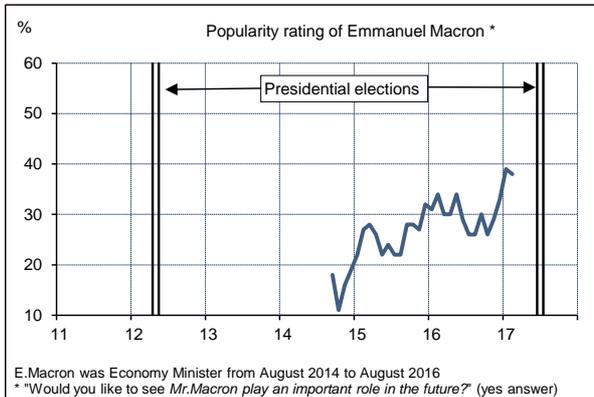
<sup>3</sup> See “France, the land of *infraliberalism*” (24 November 2016).

<sup>4</sup> The possibility of postponing the presidential election exists, but this is strictly controlled under article 7 of the constitution. If a candidate that has declared his intention to stand dies or is incapacitated in the seven days preceding the deadline for registering candidacies (this year on 17 March), the Constitutional Council may decide to postpone the election. Whilst this article has never been invoked for this particular case, it was used when the post of President became vacant after the resignation of De Gaulle in 1969 and after the death of Pompidou in 1974.

<sup>5</sup> See “French elections: Left turn!” (23 January 2017)

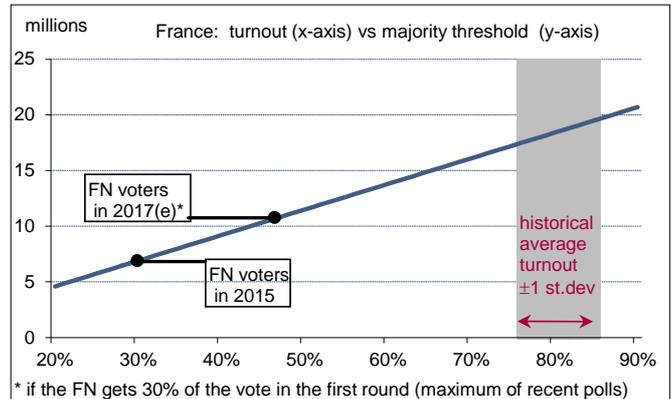
All in all, in recent weeks, the momentum in the opinion polls has been very positive for Mr Macron, as have his popularity ratings (lhs chart). The same is true of Mr Hamon, who started from a very low point and is currently riding on his surprise victory among the socialists. Voter intentions are more or less stable at a high level for Ms Le Pen. They are on a downtrend from a high level for Mr Fillon **At present, there are three candidates with a real shot of making it to the second round of the Presidential elections (Fillon, Le Pen and Macron). And given the speed at which politicians' careers are made or lost in France these days, we cannot rule out the possibility that the left might be a real contender too.**

France: Emmanuel Macron's popularity rating



Sources: TNS Sofres, Odo Securities

France: turnout and majority threshold



French elections are special because of a two-round electoral system. There is no such thing in Germany, the US, the UK, Italy, Spain, etc. This specificity is summed up in France by the following saying: **"In the first round, you choose. In the second, you eliminate"**. The system is designed to make it very difficult for France to elect a candidate who is the least capable of forming political alliances. This makes for a particularly high obstacle for a party at an extreme end of the political spectrum, as is the case of the *Front National*. Bear in mind that at the last regional elections of December 2015, the FN garnered 40% of the votes in the first round in two regions, but was beaten in the second.

For the Presidential election, it is worth doing a little electoral arithmetic<sup>6</sup>. There are around 46m voters in France. Average turnout is in the region of 80%. Therefore, the next President must receive over 18m votes. Let us assume that the FN obtains 30% of the votes in the first round (the polls tend to suggest around 25%), i.e. around 11m votes. To win, Ms Le Pen would then either need to find an additional 7-8m voters, or turnout would have to collapse to below 50% (rhs chart). Either option is highly unlikely in our view.

**The Presidential election on 23 April and 7 May does not mark the end of the election period. The parliamentary elections will be held one month later, on 11 and 18 June.** A president who has just been elected usually wins a majority at the National Assembly so that he or she can govern. The only instances of "co-habitation" (a President from one party and the parliamentary majority from another) were in 1986-1988 and 1997-2002 and came about in circumstances unrelated to the Presidential elections. That said, here too, the political upheaval must be considered. **There is a real possibility that the next President will not have the parliamentary majority needed to conduct his or her policies, either due to the lack of a structured political party (Mr Macron), or because the two-round political system makes it difficult to win at the local level (Ms Le Pen).** The problem seems less acute if ever Mr Fillon manages to make up his lag because his party and allies have the strongest local base.

➤ **Economic repercussions.** Penelopegate has, in recent day, drawn attention away from the content of the government programmes, particularly matters pertaining to the economy. We hope that this will change in the next few days and weeks. Without going into detail, the present programmes can be summarised as follows.

- Hamon – This is the programme the most clearly rooted in the left – and some would say the most idealistic – prizing the redistribution of labour (reduction of the working week to 32 hours), the redistribution of wealth (higher taxes), an increase in public spending (introduction of universal basic income) and awareness of environmental issues.

<sup>6</sup> See "Donald J. Le Pen on the verge of power, can it be true?" (10 November 2016)

- Macron – His programme has yet to be officially presented, but given his position as Economy Minister and the track-record of his advisers, we can assume that it will essentially be to broaden the objectives of Macron law, i.e. to open the economy to competition and to put an end to rent-seeking behaviour (it appears that this term even goes as far as including home ownership!). On Europe, Macron appears to be in favour of a considerable deepening of the Union, which implies the creation of a European budget and European defence<sup>7</sup>. It goes without saying that neither the euro nor the EU will be brought into question.
- Fillon – This is the most ambitious programme in terms of structural reform, particularly affecting the role of the state (reduction in the number of public sector employees, reduction in government benefits) and corporate tax (reduction in the cost of labour). The key assumption is that a system that generates mass unemployment and a heavy public debt burden is in need of sweeping reforms. On Europe, the aim is to deepen Franco-German relations, particularly in the light of Brexit, and this will be achieved by the strengthening of the French economy rather than via the pooling of resources with Germany. Fillon has often shown himself to be reserved on major institutional reform in Europe. Here again, neither the euro nor the EU is in any way called into question<sup>8</sup>.
- Le Pen – Hers is a bog-standard anti-European platform (referendum on exiting the EU, abandoning the euro), all strongly influenced by Trumpism (immediate implementation of national priority in terms of employment and public-sector orders, rejection of European treaties)<sup>9</sup>.

We can see that the election of the next French president will not simply be the choice of a person, with his/her qualities and drawbacks, but a decision that will have major implications for the French economy (status quo or reform) and for Europe (closing in on itself or opening up). We have 76 days before the first round and 90 until the second. Given the acceleration in the series of events, this feels like an eternity.

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<sup>7</sup> See Macron (2017), "Europe holds its destiny in its own hands", *Financial Times*, 24 January.

<sup>8</sup> See Fillon (2017) "Pour une alliance européenne de défense (For a European defence alliance)", interview in *Le Monde* on 24 January.

<sup>9</sup> See Le Pen (2017), "Taxer tout nouveau contrat d'employé étranger (Tax all job contracts for foreign workers)", interview in *Le Monde*, 3 February.



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