



# BULLETIN

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## Run Up to France's 2017 Presidential Election: Hollande, between a Domestic Hammer and a European Anvil

**Nathan Dufour**

*On 29 March, President François Hollande's Socialist Party conceded a fourth electoral defeat in less than a year. On this occasion, the sharp rise of the Front National among the leading political forces of the country was once again confirmed. In the run up to the 2017 presidential election, Hollande will have to seek reconciliation with his left wing allies and further pressure the European Union to help him deliver more on growth and investments. This quest should be supported across the EU, as a creeping radicalised political landscape in France, presents a risk to the European integration process.*

Before even the emblematic “Greek case,” the French Socialists were perhaps the first to bear the political costs of difficulties related to the implement of an “agenda for change,” in accordance with the policy of austerity. Pushed by the dominant EU paradigm, Hollande launched a German style supply side economic policy in early 2014,<sup>1</sup> which was presented as the only way to restore France's credibility in Europe and to return to growth and job creation. One year and four election defeats later, the balance sheet of this policy is far from convincing. There are high economic and political costs of the current EU-driven policy that may push Hollande to rethink, if he is to have a chance to win the coming presidential election.

**Recovery, Where Are You?** The continuous uncertainty surrounding the announced economic recovery speaks in disfavour of Hollande. Despite the launch of several major reforms aimed notably at restoring the predictability of economic policy and the confidence of domestic and external economic players, the main indicators continue to contradict such a scenario.

Contrary to Hollande's campaign promises to reduce unemployment, the number of full-time job seekers continues to rise dramatically, with the French national institute of statistics (Insee) even forecasting a 10.6% unemployment rate by mid-2015. In the meantime, even the effects of government flagship initiatives, which together envisage a €50 billion budget cut by 2017 with the aim of reducing labour costs and boosting external competitiveness (the “responsibility pact” and “the tax credit for competitiveness and employment”—CICE), have, according to the European Commission's winter review, been very limited so far. France's aggregate GDP is expected to rise by 0.7% in 2015, according to the Insee, and by 1%, according to the European Commission, but remain too low for a strong impact on the unemployment curve to be expected by 2017. In addition, investments are still shrinking, and stood at -0.1% in the last quarter of 2014. France's public debt is continuing to rise and has reached an unprecedented level (more than 95% in 2014), while its public deficit should remain around 4% in 2015.

**Rising Internal Defiance.** On the political side, Hollande's economic policy seems to have durably alienated many in his own camp who perceive it as treason against left wing ideology and a leadership failure regarding the German-led pro austerity coalition at the EU level.

<sup>1</sup> N. Dufour, “Hollande Chooses the German Path—and Poses a Challenge to Poland,” *PISM Bulletin*, no. 31 (626), 11 March 2014.

While the government was still able to close its own ranks to pass its flagship reform packages (a “responsibility pact” and “CICE”) in parliament last year, internal tensions have lately reached a tipping point regarding another reform package presented by the economy minister, Emmanuel Macron. Unable to ensure a clear-cut majority, the prime minister, Manuel Valls, resorted to a very contentious constitutional tool (article 49-3), which forced the Socialist MPs to decide whether they would risk a vote of confidence in the government instead of potentially accepting the text. As a result, internal opponents still did not push as far as to sacrifice the entire government despite clearly disapproving of this new text. But these divisions will increase in the absence of a significant policy change, and such a trial by strength is likely to take place again in the future.

**Bolstering the Far Right.** Another argument against Hollande is that his party is now facing the deep disillusionment of its traditional left wing electorate, which clearly contributes to a growingly unstable French political landscape. With abstentions at a record high, the last three main electoral defeats conceded by the Socialist Party—municipal (March 2014), European (May 2014), and departmental (March 2015)—have notably demonstrated the continuous bolstering of Front National at both local and national levels. This far right party, arguing that France has been cheated by the results of European integration, now criticises the socialists and liberals for leading precisely the same destructive policy, and requires the Eurozone, and the Schengen Area in particular, to be dismantled.

Boosted by the socio-economic hassle, the tendency is clear. In the 2014 European elections, based on a proportional voting system, the FN won with 24 out of 74 seats and 24.86% of votes cast, compared to three seats and 6.34% in 2009. In relatively comparable local elections (municipal and departmental), its score rose in one year from 6.75% to 22% of votes cast. In spite of falling short of winning even one department council presidency, the FN, while being unable to build a coalition was once again the first party of France in the votes cast at the March departmental elections. The party won 5,142,177 votes (25.24 %) in the first round, and 4,107,943 (22.23%) in the second round, compared to 1,379,902 (15.6%) and 915,504 (11.57%) respectively in 2011.

If most media and political attention focused on the so-called “blue wave” of Nicolas Sarkozy’s party, which won 67 department presidencies against 34 for the PS, the FN’s failure to win even one of them, despite being top-dog based on votes cast, may be explained by both an institutional disadvantage in the bi-partisan design of the French political system and by the successful coalition building strategy of the UMP with the “centrists” (MoDem and UDI). Even though it remains uncertain whether the traditionally much higher turnout in presidential elections (around 80%) could play this time in favour of the FN in 2017, the prime minister himself now seems to believe that a victory for the latter in 2017 is realistic.

**Meaning for the EU.** All signs seem to converge on a scenario of a collapse of the French ruling party at the upcoming December regional and 2017 presidential elections. Pushed to adopt an economic policy mostly associated with the centre-right, Hollande’s Socialist Party is now facing an ideological crisis that has deep repercussions on French society and increases support Marine Le Pen, the FN leader, in her attempt to present herself as the only genuine political alternative.

In the absence of quick and clear signs of economic recovery, this is likely to further radicalise the whole domestic political spectrum and increasingly concentrate the upcoming electoral debates on the need for France to re-assess its relationship to the EU. This, in turn, may have a negative influence on the European integration path in the near future, if it is not understood and addressed rapidly. Hollande knows this and has been promoting a shift away from the German pro-austerity posture in the aftermath of the European elections. But this expected “EU-turn” remains far too timid to support him domestically. On one hand, he may claim to have obtained additional room for manoeuvre in order not to avoid implementing genuine austerity policies (such as in Spain), with the French European commissioner for economic and financial affairs announcing, at the end of February, a new two-year delay in France’s obligation to comply with the Excessive Deficit Procedure, France still had to commit to a significant improvement of its structural balance (0.5 % of GDP in 2015, 0.8 % in 2016, and 0.9% in 2017). In addition, the European Commission required new fiscal measures (accounting for 0.2 % of GDP in 2015, 1.2 % in 2016, and 1.3% in 2017). Coupled with a still pending economic recovery, this will rather accentuate existing tensions among the majority and reduce the government’s ability to actually reform the economy.

In parallel, policy responses were negotiated at the EU level to try to address the growing investment gap in Europe and the over-evaluation of the euro for French companies’ external competitiveness. In particular, the upcoming settlement of the Juncker Investment Plan is generally seen positively from Paris, but its financial scope (a theoretical €315 billion) remains clearly insufficient to answer French and European investment needs.

It should be the highest priority of the EU to avoid a further radicalisation of society in France and the EU as a whole. Facing legitimacy problems relating to both output (the public assessment of the EU’s capacity to deliver) and input (the EU’s functioning as an institutional machine), it should urgently help Member States to boost growth and allow them to seek a better balance between supply and demand side policies. This could be done by further adapting the required fiscal consolidation path according to the level of growth, while countries with a budgetary surplus and facing structurally low domestic consumption should equally be pressured to play their part. In addition, France’s quest to withdraw respective national contributions to the Juncker Plan from public deficit calculations should be properly considered, and the EU could also engage in talks tackling the shrinking defence spending that is a problem in most Member States. In parallel, it should avoid using too much from the cohesion funds for the purpose of the Juncker Plan, and rather seek to focus them more on innovation and new technologies.