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Research Report

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SWP Comment

NO. 17 MARCH 2019

Macron, the Yellow Vests and the National Debate

Playing for Time, Not Solving the Political Legitimacy Crisis

Ronja Kempin and Pawel Tokarski

France's yellow vests (*gilets jaunes*) are heterogeneous, make contradictory demands, and refuse to give up. Since November 2018 they have been demonstrating for more purchasing power and greater democracy. Having made financial concessions, President Emmanuel Macron is now playing for time. He has initiated a "grand national debate", in which all citizens were called on to voice their opinions concerning future political issues. This debate is likely to help him win the European Parliament (EP) elections in May and facilitate splintering the yellow vests. To avert further protests that could paralyse the country, delegitimise his government and ensure that his presidency fails, Macron needs to improve the way he communicates his reform agenda. Merely playing for time will not make France reformable and governable for this president, any more than it did for his predecessors.

The protests never end. Since 17 November 2018, people wearing high-visibility yellow vests have been taking to the streets of France on Saturdays. The protests by the *yellow vests*, organised nationwide, were initially directed against the higher tax on fossil fuels planned by President Macron. They quickly evolved into a list of 42 demands. The *yellow vests* want the president to lower "all taxes", raise the minimum wage and pensions, and also to reintroduce the wealth tax abolished in 2018. Many of their demands are in line with the election promises Macron made during the 2017 campaign: lower taxes, more purchasing power, and greater democracy. The protests

are held by the rural lower-middle class, including craftsmen and women and shopkeepers. They can barely earn a living from their work and are afraid of sliding into poverty. Politically, according the *yellow vests*, they have no voice. They reject the support of the trade unions and parties of the political left, which previously channelled similar social demands. Politics, they insist, should be conducted by and for "ordinary people". There should be more political participation, for example by allowing citizens' or popular initiatives to launch referendums (*référendum d'initiative citoyenne*).



The Government's Response

President Macron rapidly came under pressure: despite the violent excesses that overshadowed the demonstrations, initially over 70 percent of the French population supported the protesters' demands.

Change of Course

In early December 2018, Macron therefore suspended the planned tax increase on petrol and diesel. Shortly afterwards, he announced four immediate measures: to subsidise the minimum wage by up to 100 euros per month with public money; to bring forward the tax and duty exemption for overtime payments originally planned for September 2019; to exempt all pension payments below 2,000 euros from taxes; and to pay out a tax-free premium to employees at the end of 2018 if companies are capable of doing so.

However, these concessions failed to end the protests. To date, President Macron has not been able to convince the people that his reform agenda is as necessary as it is right. Since taking office, he has transformed France at record speed: making labour laws more flexible, providing financial relief for companies, and reforming the education system and the SNCF state railway. In the course of these reforms, his popularity ratings have fallen. He ignored the fact that he received more votes when elected in April/May 2017 from the left of the political spectrum than from the conservative camp. He postponed the reform of the welfare state, which was particularly important for the left, instead abolishing the wealth tax (except on real estate) and introducing a flat tax of 30 percent on all capital gains. Macron is thus regarded as a "president of the rich" who furthers inequality in the country. However, France's inequality level – measured statistically by the S80/S20 average income ratio of 20 percent of the richest and 20 percent of the poorest people in a country – is lower than in most other EU countries: 13.3 percent of the French population were at risk of pov-

erty in 2017. This relatively small figure needs to be contextualised: about half of those polled say they have no money left in their account by the end of the month.

No Fiscal Leeway

President Macron cannot make any more financial concessions to the yellow vests: he lacks the leeway. The emergency measures adopted will cost the French government eight to ten billion euros per year, according to its own estimates. It is unknown whether this already includes the postponement of the planned eco-tax increase, but either way France is likely to miss the Maastricht criteria once again in 2019. With a deficit of 2.7 percent of gross domestic product (GDP), Paris met the Maastricht threshold of 3 percent in 2017 for the first time in nine years. For 2019, the government had planned a deficit of 2.8 percent of GDP. Ten billion euros more would correspond to an additional debt of 0.5 percentage points. According to an agreement with the EU Commission, France's deficit is allowed to exceed the 3 percent threshold in 2019, but not in subsequent years.

Moreover, social tensions are likely to have an impact on the labour market. Although the unemployment rate has fallen to its lowest level since 2009 (8.8 percent in the fourth quarter of 2018) and, according to experts, will continue to fall until 2022, the positive effects Macron had hoped for from his labour-law reforms have so far been modest. One problem is the high number of fixed-term contracts: almost 85 percent of new hires are temporary. There is also significant social exclusion from the labour market. In France, the proportion of 20- to 34-year-olds who were not in education, employment or training in 2017 was higher (18.2 percent) than in Germany (11.9 percent). Furthermore, France's tax-to-GDP ratio is the highest of all OECD countries. According to Eurostat, it amounts to 48.2 percent of GDP and is thus well above the eurozone average of 41.4 percent. Further taxation of the economy appears to be ruled out.

Finally, President Macron cannot meet the demands of the yellow vests to solve the country's economic and social problems through greater state intervention. At 56.5 percent of GDP in 2017, France's share of public spending was the highest among OECD countries. The country's oversized public sector is one of the main reasons for its chronic budget deficits.

The Debate: A Smart Move

Against this background, Macron's "grand débat national" is his only promising way out of the crisis. Since mid-January, citizens of the country have been invited to express their opinions and ideas on the following topics online and in organised debates: ecological change; taxes and government spending; democracy, participation, representation and coexistence; and state structures and public services. The discussions ended in mid-March, and the President plans to present their results in April 2019.

This debate is proving to be a clever move for three reasons: first, it allows President Macron to use the French mayors to his advantage. They organised over 60 percent of the debates. And yet almost all of them belong to the opposition, meaning the conservative, communist or socialist parties, or are non-partisan. Relationship between the president and local politicians have been frosty. Since 2014, 750 mayors have resigned — more than ever before. More than 50 percent do not intend to run again in the local elections in 2020. In France, mayors have a dual role: on the one hand, they are representatives of the state and, on the other, they are directly elected representatives of their community. They feel abandoned by the state in coping with everyday problems and increasingly see their competences curtailed. For example, they complain about the closure of police and fire stations, schools and post offices. In July 2018 they refused the president's invitation to a national conference on rural areas, and in September 1,200 mayors reminded him that they were above all com-

mitted to the well-being of their voters. Macron has now granted them this role again, while at the same time making them executive bodies of his policy.

Second, the debate helped to divide the yellow vests movement: they do not have a homogenous attitude towards it. According to surveys, about 40 percent of the French population wants to take part in the debate. Repeatedly, yellow vests also found their way to events of the "grand national debate". They are broadly in agreement with the issues raised by President Macron. In late January 2019, other yellow vests launched a "true debate" (*le vrai débat*) on France's future to compete with Macron's debate. The yellow vests who have been part of the movement from the very start, on the other hand, are arguing about whether the use of police force during yellow-vest protests may be met with violence. These disputes cost public empathy. While in November 2018 71 percent of the population still agreed with the demands and actions of the yellow vests, in March 2019 54 percent did so. Simultaneously, part of the movement is politicising — some are making initial attempts to draw up a list for the European elections in May.

This is Macron's third advantage. A yellow vest list would deprive both Marine Le Pen's far-wing *Rassemblement National* (RN) and the left-wing populist *La France Insoumise* (FI) of votes. It could therefore make a decisive contribution to Macron winning the EP election. Long before the yellow vests protests began, Marine Le Pen styled this election as a vote on the president's policy to date. While Macron's *La République en Marche* (LaREM) party is still looking for a prominent top candidate and suitable topics for its European election programme, Le Pen has been ready for the election campaign since mid-January 2019. However, the "grand national debate" prevents it from being heard. President Macron has thus also seized control of a key issue from his fiercest adversary: citizens' participation in political debate.

Reform after Revolt?

The “grand national debate” should thus help Emmanuel Macron to emerge victorious from the biggest protests since the student revolts of 1968. None of his political opponents has yet been able to capitalise on the popular dissatisfaction. Nevertheless, the remainder of Macron’s term in office is unlikely to be any calmer, especially since his announcement that he will resume his reform agenda as of May 2019. He plans to reform unemployment insurance and reduce the number of people employed in the public sector. His success depends on two factors. First, he needs to explain his economic and social reform agenda better: why is it necessary, and what are its goals? When will all those affected by the reforms today benefit from them? Young people in France in particular are asking themselves these questions. They are the ones Macron must win over. So far, he has not succeeded: 67 percent of 18- to 24-year-olds currently distrust him. Second, Macron must permanently shift the impression that the actions of the political class bypass society. This will only happen if political decision-making processes are decentralised once again. If he is not able to herd the population behind him in the long term, the younger generation in particular will probably return to the streets and sooner or later be driven towards the extreme left or right. The current economic slowdown provides an unpropitious framework for the reform programme – though the yellow vests protests have not impressed the country’s economy. Yet improved economic performance (and thus also the changes in unemployment) depends on growth momentum within and outside the eurozone.

The political success of the French president is in Germany’s strategic interest. There is no alternative to Macron in terms of the structural reforms required. However, the possibilities for support from Berlin are limited: France is debating its internal con-

stitution. Moreover, Berlin and Paris remain undecided about their economic cooperation in and for Europe. The 15 priority projects agreed by both sides for implementing the Aachen Treaty of January 2019 only mention new technologies, the digital economy, and the deepening of the internal market in financial services.

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