

Macron's Compromise Government

How Businesses Should Engage With French Policymaking

Brunswick Regulatory and Public Affairs, Paris Office

August 2022

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Following Emmanuel Macron's victory in the April presidential elections with nearly 58.55% of the vote against Marine Le Pen, his party and allies obtained the largest number of seats in the National Assembly (245) but not enough to obtain an absolute majority (289).

President Macron finds himself in a constitutional dead end, with a government unable to pass reforms in parliament on its own, but an opposition too divided to form an alternate government. Macron's only solution to govern and attempt to reform France over the next few years will be to secure the support of his more moderate opponents through compromises on the major reforms he is seeking.

While parliamentarism has not historically worked very well in France, the current situation significantly strengthens the role of parliament in the French legislative process.

President Macron's recent comments suggest that he will mostly focus on parliamentarians from the moderate right-wing opposition bloc (the Republicans) to continue to implement his pro-business, liberal-leaning economic policy, against a backdrop of budgetary austerity expected in the second half of the year.

Parliament in the law-making process

Without a formal government agreement with the Republicans, **Macron and his government will be forced to negotiate on a case-by-case basis for each bill**, potentially securing majorities with different opposition parties depending on the text.

For the record, the opposition is currently divided in three blocs:

- Jean-Luc Melenchon's NUPES (bringing together Socialists, Greens, Communists and Radicals)/radical left with 131 seats;

- Marine Le Pen's Rassemblement National/far right with 89 seats;
- Les Républicains/moderate right with 61 seats.

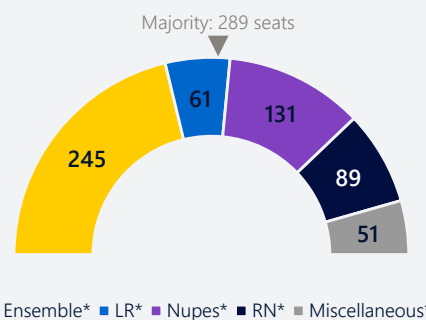
On key economic reforms, Macron will try to secure the support of the moderate right with whom he shares a liberal and pro-business approach.

On social reforms, Macron will court the left. If the most radical members of the NUPES alliance (131 seats) reject compromise, the Socialists (31 seats) may be more inclined to support the government on specific bills.

Macron's government could potentially get the support of the far right, who, under the impetus of Marine Le Pen and her "normalization" strategy, are showing a constructive approach. So far, the government has ruled out any direct negotiation with them.

France's New National Assembly

Macron falls short of majority by **44 seats**



Source: French Interior Ministry, June 20, 2022

*Ensemble: President Macron's coalition of his own party, LREM, and mainly centrist allies MoDem, Agir, TDP, Horizon and DVC

Nupes: Dominated by left-wing, Nupes is an alliance of left-wing and green parties LFI, PS, EELV, PCF

RN: Le Pen's far-right party, Rassemblement National

LR: The traditional leading right-wing Republicans are allied with other center right groups UDC, UDI, LC, DVD

In any case, **Macron hopes to corner opposing MPs from both sides**, who will find it difficult to vote against measures proposed by the government that they support, even if they believe the measures do not go far enough.

President Macron has repeated his desire to "build compromise" and "listen more to the

opposition." In practice, this will be a difficult exercise, as laws passed with right-wing support risk damaging left-wing backing on other texts, and vice versa.

Indeed, Macron also warned that in case of blockage in Parliament, he would not hesitate to use other constitutional tools such as a referendum to pass reforms. Many also expect – or even hope for, as much as the far left is concerned – a possible dissolution of the National Assembly and the organization of new elections in the coming months, which is a power granted to the president by the French constitution.

The role of Parliament will therefore be more important than ever in the law-making process. Indeed, since 2002, elected presidents have always had an absolute majority in the National Assembly, which had become in many ways a mere "registration chamber" for bills proposed by the government. This return to a form of parliamentarism may reinvigorate gloomy political debate in France, if it does not completely block the policy making process.

For now, this method seems to be working. **Macron's government passed its first real test when it succeeded in getting its purchasing power bill through the first reading in the National Assembly** on July 22. This bill aims to support the working classes in the current context of inflation (e.g. revaluation of pensions, social and housing benefits, etc.). Macron's government also managed to pass a rectifying budget bill to allocate a budget for these new measures.

The bills were passed with **the support of the right-wing and far-right parties**, after the government took up some of their proposals. The left, on the other hand, was divided on the issue: the Socialists abstained, while the more radical members of NUPES voted against it, risking isolating themselves politically by appearing unconstructive.

A new government leaning toward the center-right

Following the legislative elections, Macron reshuffled his government and appointed or kept

on a mix of center-right, centrist and loyalist figures for key government positions in an attempt to consolidate alliances.

Among the main ministers are several important figures of Macron's first term: **Elisabeth Borne** as Prime Minister, **Bruno Le Maire** as minister for the economy, finance, industry & digital sovereignty, **Agnès Pannier-Runacher** as minister for energy, and **Roland Lescure** as junior minister for industry.

New personalities from the center-right include among others: **Sebastien Lecornu** as minister of defense, **Christophe Béchu** as minister of ecology, and **Jean-Noël Barrot** as junior minister for digital.

Upholding a liberal economic policy

Fundamentally, **the new government's economic policy is expected to remain pro-business**, with the lowering of corporate taxes and the promotion of investments, both foreign and domestic.

Prime Minister Elisabeth Borne confirmed that the government wishes to go even further in implementing its supply-side policy strategy, **with a reduction in taxes on business production, which remains higher in France than in most EU countries.** Hence, the abolition of business value added tax will reduce corporate taxes by €8 billion.

President Macron has made clear that he intends to move ahead with **pension reform** in the coming year and reiterated his objective of "gradually shifting the statutory retirement age to 65" in the mid-2030s.

He also plans to introduce **a labor reform bill** before the end of the summer, which would include a reform of unemployment benefits and impose new obligations on benefit recipients, a measure long supported by the moderate right.

Even as France managed to become the most attractive destination for FDI in Europe – with Macron announcing a further €6.7 billion of foreign investment in France at the Choose France summit in July – the country has also tightened FDI control regulations in recent years,

concentrating power at the political level in the hands of center-right Economy Minister Bruno Le Maire, and expanding the scope of FDI screening. Considering the more protectionist economic policies favoured by the opposition parties, it would not be surprising to see **an even more cautious stance towards FDI deals in France** in the coming years. The government is likely to do so in the name of the preservation of France's sovereignty (in matters of defense, but also health, food, etc.), a theme increasingly used to reassure those across the French political spectrum who are worried about globalization.

Going forward, Macron and his government will also seek to make concessions to the left by providing **further incentives for companies to become greener**, or consider coercive measures to accelerate the environmental transition in the corporate world. Measures that favor **diversity** can also be expected, such as increasing the proportion of women in upper management (although there has already been recent legislation on the matter). Eventually, the possibility of **regulating the compensation of senior executives at the European level** could also be back on the table (as it was part of Macron's campaign policy platform), or even taxation on windfall profits, which will be the subject of a parliamentary fact-finding mission this coming fall.

In addition, the government will have to move fast to appease the concerns of the general population, who is facing increased inflation, especially on energy prices. This is why the government's first bill is aimed at protecting French purchasing power. There is no doubt that President Macron and his team are keen to avoid a resurgence of populist protests – how long they can afford to do so remains to be seen.

However, in an uncertain economic context and following a period of increased public spending during the COVID-19 pandemic, the government's ability to allocate vast sums of money on new social programs or large investment projects is rather constrained. **While we should not expect the official discourse to pivot toward fiscal discipline and frugality, in practice the government no longer has the means to leave the tap running for too long and will have to implement a stricter budget control starting in September.**

Indeed, the public deficit reached stratospheric heights of 9.2% of GDP in 2020 and close to 7% in 2021, even though it is expected to amount to "only" 5% this year – although this estimate depends heavily on the evolution of the war in Ukraine and the global economy.

What this means for business

In this new political context, companies must rethink the modalities of their engagement with French policymakers.

The **inauguration of a new government** is always a good time for a company to present its activities in the country as well as its potential challenges, in order to inform public decision-makers.

But more than ever, a **detailed understanding of the French parliamentary process and the balance of power in parliament** – both in the National Assembly and the Senate – will be key. The work of the rapporteurs, the parliamentary committees and the various political groups will now be crucial in shaping the major reforms and policies of the next few years, and should be considered in any public affairs engagement strategy.

In this context, the Brunswick Paris office and its team of public affairs experts remain available to help you navigate this new political environment.

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