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Macron's 2017-2022 economic policies: predominantly supply-side, before Covid shifted the priority to fiscal support

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The first half of Emmanuel Macron's term (from H2 2017 to the Covid outbreak, in Q1 2020) featured a significant number of "structural" or "supply-side" reforms, of the type generally considered favourable to long-term growth.

In fact, this policy prolonged a shift that had already occurred during the second half of François Hollande's term. Although elected in 2012 on a clearly left-leaning platform, Hollande made a sharp turn towards supply-side policies in 2014 while maintaining a somewhat ambiguous communication. Macron, incidentally, led some of these efforts as minister of the economy from 2014 to 2016. He could thereafter, as President, continue this momentum, while openly communicating on it as it was in accordance with his electoral platform.

Therefore, throughout the 2014 to 2019 period, France took the lead among large Euro countries in terms of supply-side reforms, after the champions in this field had been Germany (in the early 2000s) and **Spain** (forced down this road from 2012 to 2015) after the Eurozone sovereign crisis.

On the whole, the main directions of reform then being conducted in France (generally in line with the Nordic "flex-security" model and the recommendations of major business-friendly international organisations) consisted in: 1/ reforming taxation to make it more favourable to labour, corporations and investors; 2/ making the job market more flexible; 3/ opening several sectors up to more competition; 4/ retaining a large welfare state in volume terms but one that is more transparent, easier to manage and whose benefits are less dependent on which professional sectors recipients belong to.

Significant economic regulatory and tax changes were thus decided between 2017 and 2020 *(see box)*.

Throughout the 2014-2019 period, France took the lead in terms of supply-side reforms

Main economic reforms conducted under Macron

2017-2018 (before the "Yellow Jackets" crisis):

- Shifting some employee-paid social contributions towards broader-based contributions (including on wealthier retirees) that are administered less by trade-unions.
- Other pro-capital tax reforms, e.g., a flat tax on capital income, elimination of the wealth tax on financial assets, and a gradual reduction in corporate taxes.
- Gradually abolishing local taxes that were based on obsolete property values.
- Reform of SNCF (French railways), a bastion of traditional trade-unionism, in order to phase out its employees' special status.
- Job market reforms, including an easing of conditions and procedures of dismissal, change in rules on jobless benefits, and reworking of professional training mechanisms.
- Reforms of the markets for goods and services, including in very large, heavily-administrated sectors, such as education, health and public housing.

2019-2020 (after the "Yellow Jackets" crisis but before the Covid-19 crisis).

- Civil-service reform, facilitating the mobility of public-sector workers across various administrations and reducing trade-union powers.
- 2[d] round of reform of jobless benefits. However, the implementation of certain provisions was delayed, by the Covid crisis.
- Announcement of a complete reform of the pension system to unify all of the more than 40 regimes into one and to establish a points-based matching of dues paid and benefits received. The shift towards the new regime was nonetheless planned to be very gradual. However, this reform's parliamentary approval process was suspended due to the Covid crisis, and the horizon of a complete reform of the pension system has been postponed to beyond the 2022 presidential election.

Momentum from the "supply-side" reforms outlasted the "Yellow Jackets" social crisis

Some of these reforms were what triggered severe social unrest during the "Yellow Jackets" crisis of late 2018 and early 2019 (particularly the fuel tax, even though other taxes had been lowered). Nonetheless, supply-side policies were maintained beyond this episode at the cost of additional tax cuts and public money giveaways, which helped restore calm.

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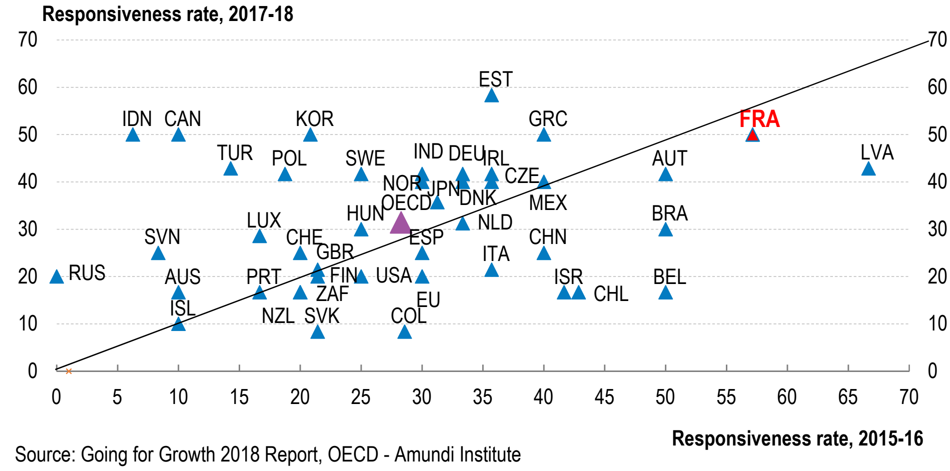
"Pro-market" international organisations have judged favourably the measures put through during this period.

As part of its **"Going for growth"** evaluation, the OECD considered in 2019 that, of all euro zone countries, France had one of the highest responsiveness rates to its 2017-2018 reform recommendations (alongside Greece, with only Estonia faring better). The OECD had also ranked France among its top countries from 2015 to 2016 (behind only Latvia).

1/ Responsiveness to Going for Growth recommendations

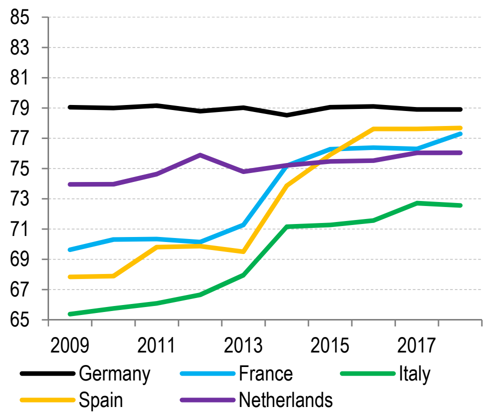


Source: Going for Growth 2018 Report, OECD - Amundi Institute

- In its **report on France** of April 2019, the OECD also stated that the reforms of 2017 and 2018 could **boost its GDP by 3.2% within 10 years.**
- **France's rating or ranking has also risen significantly in the major indices of competitiveness and economic openness** as calculated by organisations such as the World Bank and the World Economic Forum.

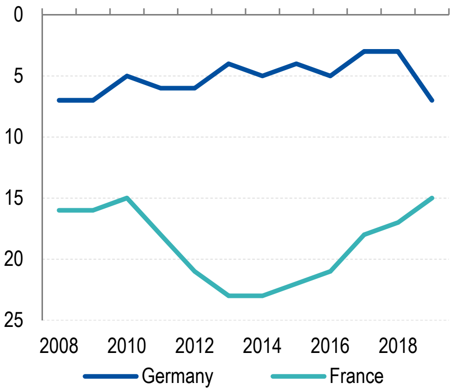
Covid shifted priorities towards fiscal support and stimulus

2/ World Bank's Ease of Doing Business Index distance to frontier



Source: World Bank, Amundi Institute - Data as of 31/03/2022

3/ Global Competitiveness Index, Ranking



Source: World Economic Forum, Amundi Institute - Data as of 31/03/2022

Just before the Covid crisis, some macroeconomic figures appeared to show that these policies were beginning to pay of

- **Even when well-designed, a supply-side policy usually takes several years to produce benefits and in the short term can even have negative repercussions on economic activity** (the "J-shaped" curve). Meanwhile, the short-term gap between the economies of France and its neighbours often reflect mainly differences in sector exposure; for example, France's clear lead over Germany in 2018 and 2019, a reversal from the situation in 2016 and 2017, was due mainly to trends in the global manufacturing cycle, to which Germany is more exposed.
- That being said, it is worth pointing out that, just prior to the Covid crisis, economic indicators such as the **unemployment rate** (7.7% in February 2020) and **corporate profit margins** (33.2% in 2019) had hit their best levels since 2008 and that France displayed good figures on attractiveness for international investments[1].

[1] *According to Ernst & Young's Attractiveness Survey of January 2020, in 2018 France was the top destination in Europe for setting up manufacturing facilities financed by foreign capital.*

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However, as a corollary to these reforms, France has fallen behind in shoring up its public accounts, even before Covid. From the start of Macron's term, the choice was made not to accompany reforms with austerity measures that would have made those reforms even less palatable to part of the population. This was even more the case with spending measures and tax cuts granted to ease the "Yellow Jackets" crisis. All in all, France's structural deficit actually widened slightly between 2017 and 2019 (from -3.1% of potential GDP to -3.3%).

Major macroeconomic figures, 2017-2021 : France, Germany and the Euro area

	France	Germany	Euro area
Real GDP Growth, %, Q4 2017- Q4 2019	2.4	1.0	2.3
Real GDP Growth, %, Q4 2019- Q4 2021	0.9	-1.1	0.2
Unemployment rate, %, Jan 2022	7.0	3.1	6.8
Structural gov. budget balance, % of GDP, 2019	-3.3	0.9	-1.2
Structural gov. budget balance, % of GDP, 2021	-6.7	-5.0	-5.7
Debt/GDP ratio, %, 2019	97.5	58.9	86.4
Debt/GDP ratio, %, 2021	114.6	71.4	101.0

Source : Eurostat, DG ECFIN (latest forecast for some 2021 figures)

However, in France, as elsewhere, the Covid crisis radically shifted economic policy priorities from early 2020 on towards fiscal support for the economy

Whoever wins the election, current economic and social conditions may not lend themselves to a return of aggressive supply-side policies

The major channels of these measures in France were similar to those of other Eurozone countries – protection of working contracts through job retention schemes, assistance to independent workers, state-guaranteed loans to businesses, grace periods on corporate social contributions, and spending on healthcare and preventive measures. These efforts were generally evaluated by international organisations as generous in international comparison, notably when it comes to the job retention scheme and the finance terms of loan guarantee schemes[2] (amounting to about €150bn in effective take-up). The cost of emergency measures was around 2.9% of 2019 GDP in 2020, and 2.6% in 2021[3]. At the end of 2021, real GDP of France, Italy and Germany were all three back very close to their pre-Covid levels (Q4 2019), whereas France's public debt burden had ballooned, from 97% in 2019 to 115% of GDP in 2021, higher than in Germany but lower than in Italy and France.

The last portion of Macron's term has featured the announcement of ambitious stimulus plans. Like their equivalents in other European countries, these plans aim both to prolong the post-Covid recovery and to address climate-change challenges and enhance long-term growth. Announced on 3 September 2020, the ***France Relance*** plan (€100bn over two years, including about 40% funded by the NGEU mechanism) earmarked €35bn to competitiveness and innovation, €35bn to social and territorial cohesion, and €30bn to the energy transition. An additional plan, *France 2030,* announced on 12 October 2021, adds an additional €30bn investment over five years in green energy, decarbonisation of economic activities, food, healthcare, culture, space and deep sea exploration. Taking these two plans into account, the OECD has qualified France as ranking "in an intermediate or high position" in terms of estimated recovery expenditures[4].

Emmanuel Macron's first term was therefore a two-stage process, as Covid forced the rapid transition from an agenda dominated by structural measures meant to be more or less fiscally neutral (regulatory and tax reform) to the prioritization of spending, first on economic support, then on recovery and, finally, on long-term investment. As the post-Covid economic situation moves back to normal, the French economy should (judging by past experience in this type of reform) continue to benefit from the lagging impact of the 2014-2019 supply-side policies. This could give it at least a small edge on growth vs. its neighbouring countries for a few years. Meanwhile, investments should provide at least short-term support to economic activity, pending longer-term productivity and labour supply benefits.

Note that Macron's 2022 electoral platform does include a number of additional reforms that can be qualified as supply-side (see previous article). Even so, and regardless of who wins the 2022 presidential elections, economic and political conditions (high inflation, social tensions, and the fact that anti-Covid measures may have led some citizens to believe that fiscal resources are unlimited) may not lend themselves to a rapid return to policies as aggressive as those conducted during the pre-Covid years.

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[2-3-4] *OECD Economic Surveys, France, November 2021.*

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