

# France – 2017 presidential race

## This election is mostly about jobs

We have conducted some field research on the perceptions of French citizens about the current state of the economy, and their expectations for the upcoming elections and beyond. We have used this feedback to enrich our economic and political analysis of France.

On the back of the feedback we have collected, the priorities of voters across the income spectrum for the upcoming presidential election are: the labour market, taxation, and education. Migration, in a broad sense that includes the impact of the refugee crisis and the intra-EU labour flows, was a top-three priority topic for less than a third of our sample. Terrorism was mentioned as a top-three priority for only 10% of respondents, mostly in the Paris area.

In our view, the economic malaise that is driving voters' preferences stems from a subtle change in the industrial base: a drop in the average size of new companies. In today's global economy, a small company faces mighty hurdles: high competition, high fixed costs, less favourable credit availability and a high amount of red tape. That is to say: such companies are structurally disadvantaged. France, in recent years, has been experiencing a high birth rate of small businesses, some created because their owners want to build something new, while some have been born purely out of necessity. In both cases, the challenges are steep and this, in our view, is the core topic of this presidential election. Taxation and education are corollary items around this problem: the former directly affects the profitability of companies; while the latter is seen as the vehicle with which to mitigate economic risk.

Similar to other countries, French citizens are becoming increasingly dissatisfied with the European Union – an institution that, although still seen as important, is not responding to people's needs and is not facilitating a level playing field among the various member states. Most, including the majority of prospective Le Pen voters, are not yet willing to vote LEAVE in a hypothetical future referendum on EU membership. However, this could change in the future if the European Union does not implement reforms.

In our view, Marine Le Pen's views find approval with many citizens in France, spanning genders, ethnicities and incomes. However, we believe that she will be unlikely to be able to secure the presidency because her potential voter base is not yet sufficiently vast – in particular, she is missing the very high income bracket, particularly in the 35-45 age group. On the other hand, in our view, Francois Fillon's approval rating is underestimated in current surveys, and may be as high as Emmanuel Macron's at the moment. Our field study also flagged that Jean-Luc Melenchon's approval rating may also be underestimated by the surveys, but the likelihood of him surviving the second round remains slim, without a cooperation agreement with Benoit Hamon.

Raffaella Tenconi, 8<sup>th</sup> March 2017

## The bottom line

This report is based on the proprietary data we collected over 6-24 February. Our methodology and the details of the sample are only available on demand to our clients. The views we express in this report are based on the feedback we have collected, augmented by our own analysis of the economy and social trends. Thus, this report cannot be interpreted as a standard opinion poll, but rather as augmented economic and political analysis.

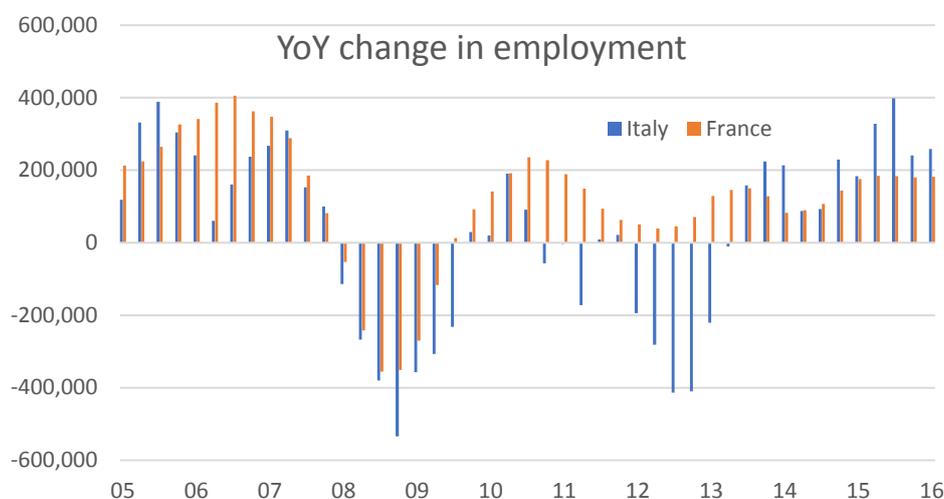
The support for Francois Fillon has been eroding quickly in recent days, but he remains the conservative party's candidate at the time of writing this report (the key court ruling that will dictate his fate will take place on 15<sup>th</sup> of March). Our research suggests that his popular support remains strong, despite Penelope-gate; in fact, he may well be the best-positioned to win the presidency, closely followed by Emmanuel Macron, if the two strongest left-wing candidates (Hamon and Melenchon) do not form a coalition of some sort.

Marine Le Pen, in our view, is not strong enough to win this time around. She is actually losing potential voters because of some of her boldest pledges (a referendum on the EU scares a sizeable chunk of the electorate), she is missing out on a large part of the electorate because she is not promising enough on some issues (insufficient potential gains to attract the very high income class), and she is not trusted enough by some parts of society. Her high approval ratings in the latest opinion polls suggest that she should make it through the second round, but our research has highlighted that, once there, she will struggle to collect endorsements from those that voted for the left-wing candidates, while the voter bases of Fillon and Macron are likely to back each other in the second round.

Even though we believe that Marine Le Pen may not win the presidency this time around, the odds of her being victorious in the next presidential election, in 2022, will improve significantly if the EU does not engage quickly in profound structural reforms, in our view.

This report includes voters' feedback on the economy, the EU and the presidential candidates.

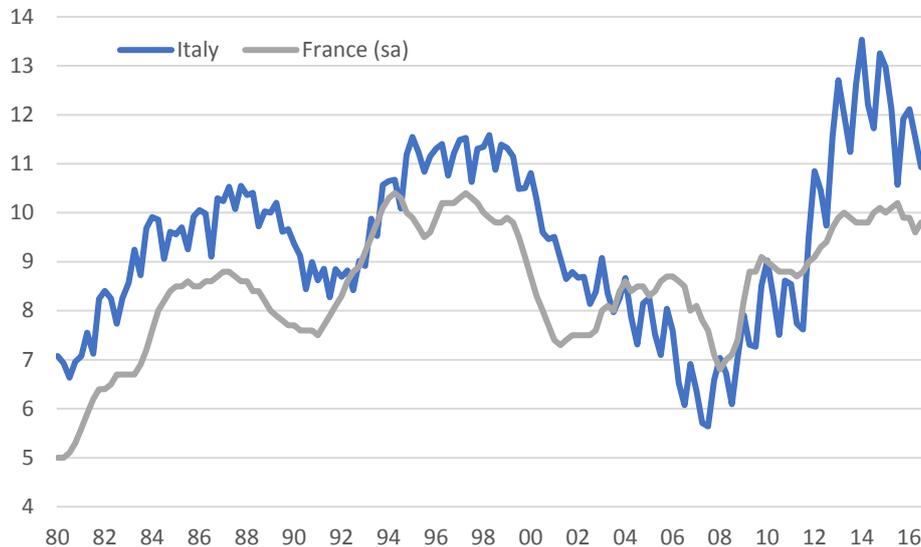
*Change in total employment: Italy exceeds France in 2014-16*



Sources: Eurostat, ADA Economics Ltd

## Two key charts that say it all...

*The unemployment rate is falling faster in Italy (a country with a potential growth rate of zero)*



Sources: Eurostat, Macrobond, ADA Economics Research Ltd

*Lots of new companies being created, but mostly very tiny*

	2008	2009	2010	2011	2012	2013	2014
total stock of companies							
Total	2,670,242	2,816,853	2,947,623	2,977,599	3,039,203	3,184,427	3,414,614
Zero	1,618,824	1,785,685	1,916,252	1,964,146	2,023,988	2,170,069	2,289,048
From 1 to 4 employees	663,431	652,986	650,329	635,974	640,126	641,723	803,427
From 5 to 9 employees	203,133	197,777	198,636	195,250	193,934	193,031	168,786
10 employees or more	184,854	180,405	182,406	182,229	181,155	179,604	153,353
Yearly change							
Total births	259,121	365,597	376,631	328,117	308,326	302,600	339,075
Yearly change - net (births - deaths)							
solo traders	72,681	177,022	195,918	154,046	149,180	140,461	119,751
with 1-4 employees	-11,963	-14,593	-13,343	-11,291	-7,028	-3,251	25,905
with 5-9 employees	-5,871	-6,286	-5,496	-5,121	-3,534	-2,093	851
10 employees or more	-2,282	-3,048	-2,722	-2,868	-1,725	-547	-38

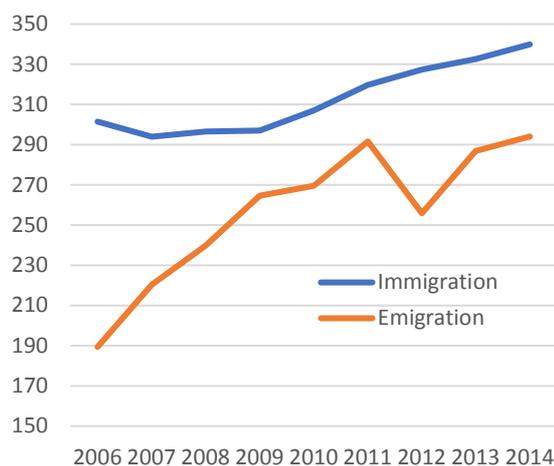
Sources: Eurostat, ADA Economics Research Ltd. Note: more recent data is presented later in the report from INSEE; however, Eurostat provides a more detailed breakdown, which gives a clearer message on the dynamics of the industrial sector

## Themes influencing the French presidential elections

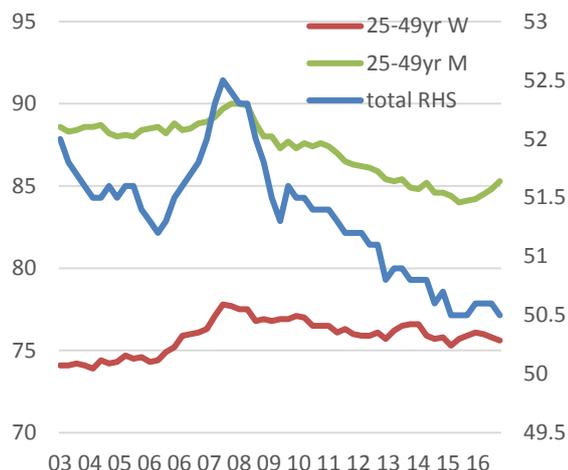
### Everyone's first concern: the labour market

The key issue spontaneously raised by those we talked to, across the income spectrum and irrespective of age, profession, gender and ethnicity, was the labour market. The perception of most is that the labour market is rigid and there are too few job opportunities. Those that have permanent jobs become too risk-averse to search for better opportunities, and there is a perception that people are being forced into temporary jobs with low pay and little career progression. Most feel that, in today's world, the labour market should be more flexible, but the State should make sure that sufficient social safety nets are in place to offset the potential risk of unemployment. The 35 hours/week cap is also seen by most, especially those without small children, as inadequate: the cap should either be lifted or should be age-dependent, allowing the young to work more if they want to and the older to work less if necessary.

#### Labour movement



#### Participation rate



Sources: Eurostat, Migration & emigration in thousands, ADA Economics Research Ltd

### Public sector education: underfunded, yet critical for the future of France

Education reform is a topic raised by virtually everyone we talked to, irrespective of their profession, age or gender, as it is seen as the means to offset the challenges of the labour market. The young feel that access to good quality education is expensive, so is fuelling inequality among workers. Those with some professional experience, or already retired, feel that the current school system is not providing enough skills for the realities of working life; that more money needs to be invested in the education system; and that a fresh new strategy should be put in place to make sure that students are sufficiently prepared at all educational levels for today's global economy. Many feel that trade schools need to be made more widely available as they could prove to be an effective way to improve the job prospects of the young.

## Taxation: too high for everyone!

The tax burden is perceived as too high by most. We also found recurrent complaints about the recent increases in local taxes, which most see as unmatched by improvements in services, as well as other tax increases for low income earners. In our survey, we found that people complained about the challenges of achieving the lifestyle they thought they deserved given the effort/hours worked, even in the 3<sup>rd</sup> and 4<sup>th</sup> income quintiles.

Small entrepreneurs complained that the tax burden on labour, on top of the high cost of labour, is severely limiting their ability to compete and hire. High income earners reported that their perception is that very small companies are, de facto, not paying enough taxes, while multinationals are very well-skilled in minimising their tax burdens, meaning that mid-sized companies are stuck with a very high tax burden, which puts them in an unfavourable competitive position on a global scale.

### *The race to the bottom on corporate tax rates – France still far away from having the lowest tax rate*

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E
USA	39.3%	39.3%	39.3%	39.2%	39.2%	39.2%	39.1%	39.1%	39.1%	39.0%	38.9%	15.0%
UK	30.0%	30.0%	28.0%	28.0%	28.0%	26.0%	24.0%	23.0%	21.0%	20.0%	20.0%	19.0%
Hungary*	17.3%	20.0%	20.0%	20.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	9.0%
Romania	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
Italy	37.3%	37.3%	31.4%	31.4%	31.4%	31.4%	31.3%	31.3%	31.3%	31.3%	31.3%	24.0%
Ireland	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
France												
Francois F	34.4%	34.4%	34.4%	34.4%	36.1%	36.1%	38.0%	38.0%	38.0%	38.0%	33.4%	25%**
Marine le Pen												***
Emmanuel Macron												25.0%
Russia	24.0%	24.0%	24.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%

*Sources: OECD combined tax rates. 2017E – showing policy pledges from the various French candidates, beware the promised corporate tax drop will be phased in over various years; \*10% for SMEs, France: rates based on election policy proposals, beware that implementation timing will likely be slow and varies among candidates; \*\*Fillon's plan proposes a progressive tax rate for corporates; \*\*\*Le Pen proposes to introduce a new tax rate bracket specific for SMEs in between the current 15-28-33% range on taxable profit, of 15-24% rates on taxable profits; ADA Economics Research Ltd*

## Migration: management, resources and intra-EU labour dumping

We discussed the issue of migration with all our interviewees, and found that, while virtually everyone thought it was an important issue, less than a third rated it as a top-three priority for the next president. The vast majority of the people we spoke with do not want France to close itself off from the world, but rather believe that the government is justified in taking a more pragmatic approach to immigration. Most were of the view that the recent refugee crisis was badly managed, not just blaming France, but rather a fallacy at the European level. Many would like the government to think more carefully about how many low-skilled workers the welfare system can cope with, and putting pressure on newcomers to contribute to society regardless of their incomes (this was actually suggested for taxation more broadly, not just for immigrants).

Aside from the question of the inflow of non-EU workers, we found an acute perceived injustice about the inflow of EU citizens from much lower income countries that are willing to work for low wages, often without the proper tax registration (intra-EU labour dumping).

*Cut-off points for the quintiles of income distribution data (years of presidential elections)*

	2007	2012	2015	07/12 change	12/15 change
1st	11,357	13,977	14,541	23%	4%
2nd	14,655	18,462	19,283	26%	4%
3rd	18,196	23,118	23,919	27%	3%
4th	23,725	30,458	31,387	28%	3%

*Sources: Eurostat – 2016 not yet available*

## Voters' perceptions of the EU: disappointing, but necessary

The European Union is failing the expectations of most: it is perceived to have failed to show enough solidarity during the Greek financial rescue, and is seen as too influenced by Germany's priorities. This perception seems to be widespread among the high income earners. At the same time, lower and middle income voters complained that the EU is not supporting a level playing field between countries, which should show more clearly in a coordinated corporate tax strategy and greater prevention of "labour dumping" within the union. The EU is seen as too detached from the needs and desires of the average person, whilst also being too responsive to the interests of multinationals and banks.

Despite the widespread criticisms, only 12% of our sample stated the intention of voting to LEAVE the union in a hypothetical referendum. Regardless of whether the respondents are supporters of the National Front or not, we found a dominant desire for France to leverage on a stronger president to influence the direction of the EU to a much greater extent. A significant share of people would like to see the EU with its own military force and greater fiscal coordination (which is not equivalent to a fiscal union) among countries. A noticeable amount of people also claimed that the EU's policy on agriculture has brought severe economic problems to France and should thus be revisited, with much greater emphasis on supporting small farmers, with more local and greener production.

## Voters' perceptions of the presidential candidates

**Francois Fillon** – Fillon's approval rating is underestimated by the polls currently (19-20%), in our view. We found support for him across incomes, while his strong points are: his Catholic background; voters' perception of him as a strong (and perceived to be the most effective of all the presidential candidates) leader; and his programme to reduce taxes and public sector workers. On the negative side, his pledged spending cuts are seen as too bold, which may exacerbate social tension. As he is seen as a credible candidate that should deliver on his pledges, more moderate voters appear to prefer Macron (or would have preferred Juppe). Fillon's pledge to raise VAT is also unwelcome for the low-middle income earners (but the threat of a higher VAT rate has not shifted voters away).

**Emmanuel Macron** is appreciated primarily because of his support for flexible work. Aside from that, in our view, his approval rating is largely the reflection of the fact that the strongest two alternative candidates are seen as too extreme. Macron is seen as an attractive alternative for many because he is perceived to be open-minded, pro-EU and very much supportive of the continuation of current conditions. In our view, this makes him a serious potential winner.

**Marine Le Pen** – we found that many parts of her programme have a lot of sympathisers. The main category that is least comfortable with her proposals, in our view, is the 35-45 age group, with high incomes/high levels of education, as this segment tends to severely distrust her true motives and is thus unwilling to consider her at all. We have also not found any evidence of a significant share of very high income earners that would be ready to vote for her, or suggest they may do so. This could be due to the campaign having almost two more months to go, or simply because her economic proposals are not bold enough to appeal to the high income

class. As a result, we believe that her approval rating may be somewhat underestimated for the second round, but she is still unlikely to win the race, in our view.

In our view, there is a gender bias that favours Le Pen – women are more likely to say they will vote for her, or consider her (across ages, but not if they are at the top end of the income scale, or from very highly educated professions). On the contrary, men may be less willing to consider her given the perceived compelling alternative represented by Fillon.

**Melenchon/Hamon:** we found widespread support for some of the ideas of both candidates, while Melenchon's approval rating may be underestimated currently as we found that he might benefit because of his bold ideas, as he is perceived as a strong leader and because some people want to use their vote as a sign of protest. Hamon did not come across as strongly in our survey, partly because he is seen as inexperienced and partly because his proposal of universal salary coverage is perceived as expensive/impractical. Without the closer cooperation of these two candidates, it appears unlikely that either will make it to the second round, in our view. In our view the majority of those that will vote either candidate in the first round are not willing to back Marine Le Pen in the second round.

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