

François Hollande says Non

9 February 2012

Summary

- Polls suggest that François Hollande begins the French Presidential campaign as clear favourite to defeat Nicolas Sarkozy in April/May. Although the race is still contestable, Hollande currently leads Sarkozy across almost all demographics and professional cohorts.
- The rhetoric of Hollande's campaign is a blunt reassertion of French autonomy and a rejection of the prevailing political mood in elite circles in Berlin and Brussels. Although a pro-European, Hollande rejects the current draft EU Treaty and proposes an expansionary French budget balanced chiefly by tax rises on business and the wealthy.
- Much of what Hollande pledges looks undeliverable in the face of the markets, the constraints of office and the resistance of his European partners. It will also be impossible if he does not secure a large victory in the French Assembly elections in June. We may yet discover the pragmatist under the rhetorical radical.
- But in tone his programme marks the first major statement of the political backlash against the consensus for public spending cuts and austerity that Berlin has made the central plank of its Eurozone strategy over the last six months. It raises difficult questions about how quickly Franco-German cooperation could revive in the event of a Hollande victory.

French Socialist presidential candidate Francois Hollande launched his platform with an impassioned speech in Paris on January 26, alongside a manifesto of sixty policies that will define his candidacy. They present a picture of a candidate who defines himself explicitly against the direction of European policy up to this point. German Chancellor Angela Merkel's announcement that she would actively campaign alongside his rival Nicolas Sarkozy is an indication of the extent to which Hollande is perceived in Berlin as a threat to the consensus of the last year.

Hollande is effectively running as the candidate of the European backlash: against finance, skeptical of globalization, against market-imposed fiscal discipline. As Sarkozy positions himself as a realist and pragmatist and explicitly tells the French they

to define his candidacy by an almost nostalgic reassertion of French autonomy and exceptionalism. Whether he can govern on these terms is deeply unlikely. This Global Counsel Insight note looks at his platform, his prospects and the wider implications for Europe.

The platform

The French Budget

Hollande pledges to meet Sarkozy's fiscal tightening plans, meeting the Maastricht criteria of 3% deficits by 2013 and balancing the French budget by 2017. He proposes to do this not chiefly through spending cuts - indeed his spending plans for youth employment, home building, new teaching posts and industrial policy are expansionary - but by higher corporate and

personal taxes, the elimination of tax exemptions for large companies and some natural attrition in the French civil service. Corporate tax rates for large companies will rise to 35%, personal tax rates for those earning more than €150000 to 45%. Privatisation of businesses majority-owned by the state is ruled out. The President himself and his ministers would take a 30% pay cut.

Business and Finance

Where Sarkozy has edged himself into a tense truce with French business and banking, Hollande seems more than willing to resume hostilities. The Hollande programme essentially proposes a new social contract for French business, with tax advantages and public support for businesses that locate production in France and focus on exports. Businesses that move production outside of France will be required to reimburse prior public support.

The financial sector comes in not just for suspicion but outright antagonism. It is the chief target of Hollande's resentment and first on his list of those responsible for the current crisis. His programme includes the breaking up of France's large universal banks, limits on bonuses in both cash and equity and the imposition of a financial transaction tax.

Europe

Hollande is probably more pro-European than Sarkozy by instinct, but he proposes to refocus the European agenda away from austerity. He would refuse to ratify the current EU Fiscal Stability Treaty signed at the end of January 2012, seeking to renegotiate it to include additional measures on jobs and growth and a revised mandate for the European Central Bank that widens its obligations from price stability to a more explicit commitment to driving growth. Although he says nothing about the future direction of Eurozone economic governance, Hollande supports the creation of a system of Eurobonds.

Labour Market Reform

Hollande's commitment to labour market reform is unclear. He pledges a wide-ranging debate with France's unions, but no specifics. He does however propose to reverse the recent rise in the

retirement age and return it to 60 for those who have reached their maximum contributions by that age.

Energy

Hollande proposes support for alternative energy sources and to reduce the presence of nuclear power in France's energy mix to 50% (from the current 75%) by 2025.

The polling

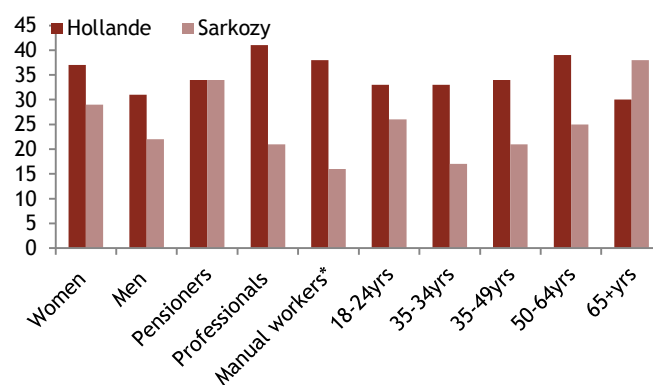


Chart 1: Support for Hollande and Sarkozy, selected cohorts (%) Feb 2012

Source: LH2, 5 Feb 2012

The French election is conducted in two rounds, the first to select two run-off candidates and the second to choose between them. Current polling suggests Hollande and Sarkozy will win a first round vote and that Hollande will beat Sarkozy in the second (Charts 2 and 3). Sarkozy has the benefits of incumbency: the Franco-German summits and the massive platform of the presidency. But he also has the disadvantages: the French have generally concluded that they do not like his flashy profile and assertive personal style. He is also the only EU leader not to have faced the electorate since the banking crisis. In the majority of these cases incumbents have not survived such encounters with the voters.

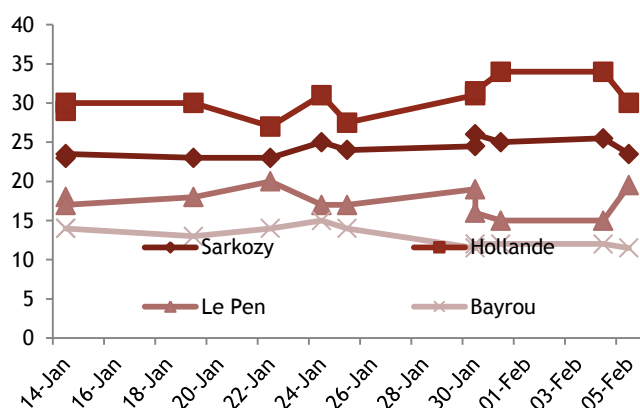


Chart 2: French Presidential Voting preferences, first round Jan-Feb 2012

Source: Ifop, BVA, LH2, TNS Sofre, Opinion Way, CSA Harris, Ipsos January-February 2012

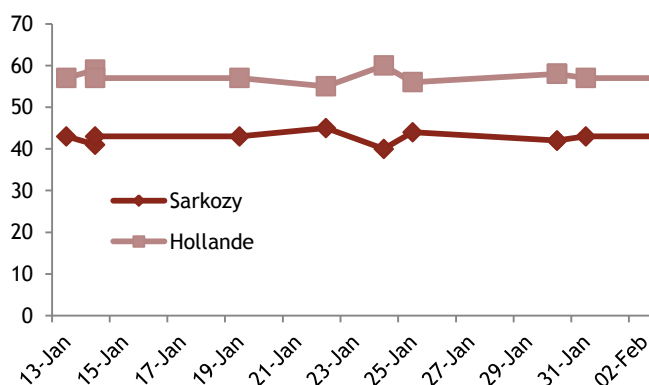


Chart 3: French Presidential Voting preferences, second round Jan-Feb 2012

Source: Ifop, BVA, LH2, TNS Sofre, Opinion Way, CSA Harris, Ipsos January-February 2012

Hollande is currently matching or leading Sarkozy in all social and demographic categories except the over 65s (Chart 1). His lead is particularly strong with blue collar workers and professionals, and in double figures for 25-34 and 35-49 year olds. He leads Sarkozy by 15 points with voters between 50-64, the primary beneficiaries of his pledge to reverse the raising of the retirement age. Hollande leads Sarkozy by 12 points with female voters, by 9 with men.

How the votes of other first round candidates break in the second is clearly of great importance. For both Sarkozy and Hollande the votes of blue collar men are central to this, as around a fifth of

this cohort in France are declared supporters of National Front candidate Marine Le Pen. These voters are currently Sarkozy's weakest constituency and polling suggests that around 60% of Le Pen's working class vote would vote for Hollande in a second round; something his anti-globalisation rhetoric will be tailored to ensure. Francois Bayrou's centrist voters would probably support Hollande to the same degree. Supporters of far-left party candidate Jean-Luc Melanchon would universally support Hollande.

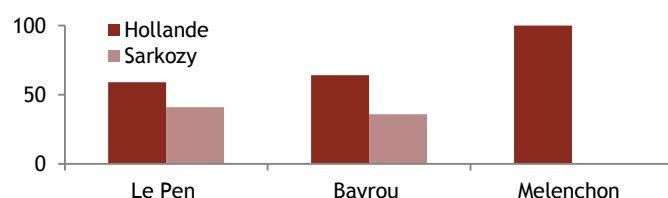


Chart 4: Second round votes, by first round preference (%) Feb 2012

Source: LH2

What comfort exists for Sarkozy comes from the fact that around 20% of French voters remain undecided, and with eight weeks of campaigning ahead much of this electoral arithmetic is obviously vulnerable to change. Although supporters of Hollande and Sarkozy declare themselves in general to be already committed, large parts of the support of both Bayrou (51%) and Le Pen (33%) tell pollsters that they could still change their minds.

What is certain is that the broad outline of Hollande's campaign has resonated with a large part of the French electorate. Sarkozy's strategy will be to persuade them that they are thinking of voting with their hearts rather than their heads. This campaign will be about whether Sarkozy can convince France that Hollande's platform is not credible.

The President of Non?

Anti-globalisation and anti-finance language is not the sole preserve of the left in France; Nicolas Sarkozy's own playbook is heavy on both. The language of intervention and national interest has always trumped abstract commitments to the value of free markets at almost every point on the

French political spectrum. The significance lies more in the resistance to the general direction of travel in European politics. Hollande's rhetorical Non is directed at the idea that external pressure - from global markets, Berlin, and Brussels can force fundamental change on France.

What is of course unclear is the extent to which this kind of rhetorical radicalism gives way to a more pragmatic approach in government. Hollande's ability to deliver on his programme will require that he also secures a majority in the French Assembly in the June elections. Failure to do this will result in stalemate.

What is certain is that a Hollande victory has considerable potential to upset the European applecart. Hollande's apparent rejection of the treaty signed by EU states in January is enough to have Angela Merkel campaigning alongside Sarkozy and officials in Berlin briefing French newspapers that a Hollande victory would be a "catastrophe".

What will be tested in the coming weeks is whether the surfeit of rhetorical radicalism here is enough to spook the markets. In particular the perception that Hollande's election would rupture the Berlin-Paris axis on handling the Eurozone's problems will be a cause of serious external concern.

There is a very big question about how quickly Hollande could establish a modus vivendi with Angela Merkel if he wins. Both will recognise the ultimate necessity of doing this, but the risk is that the time it takes the two of them to pirouette towards an understanding deeply unsettles markets and ratings agencies. Much of what Hollande says he wants at a European level is probably unachievable. This is the latest round of a long history of the French wanting the Germans to change to a less German kind of economic policy. As before, it is unlikely to succeed.

At a more general level Hollande's campaign rhetoric represents a deep popular resistance in the EU to austerity politics. Should he win, Hollande would inevitably embolden critics of Europe's single-minded austerity drive in Spain, Italy and elsewhere. Whether he can deliver much of what he promises in the face of financial

markets, ratings agencies and the inevitable pragmatism that comes with office is an open question. But in a roundabout way, Hollande's supporters will only regard the failure as having proved his point about the forces shaping France's future.

The prospect of this campaign spilling over into the wider Eurozone crisis makes Hollande's rhetoric and the French Presidential race key to 2012 in Europe. Hollande's refusal to engage with the dominant argument about cutting back Europe's social welfare systems and the need for austerity may not last. But it is more than a French curiosity. It is a symptom of a wider discontent in European politics. He is the first mainstream European backlash candidate. He is very unlikely to be the last.

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