

5sep24 – Alexandria, VA

To Francophile friends,

As Macron names Michel Barnier to be his new prime minister, I continue to think he was right to force French voters to “clarify” their growing propensity toward the extremes. Barnier is a veteran of *Les Republicans*, the party that has supported Macron’s government from the outside; and served as foreign, agricultural, and environmental minister in past governments, as well as key advisor to European Commission President Ursula von der Leyen. He gained respect as the expert and patient negotiator of the EU’s relationship with post-Brexit UK.

He will, I think, succeed in forging a coalition of Republicans, Macron’s Centrists and Socialists that can govern with a program of modest but needed reforms. He probably represents a nod to Marine Le Pen’s extreme right *Rassemblement National* (RN) since the new government is sure to be tougher on illegal immigration and adopt needed fiscal restraint. Barnier and Macron also offer Europe a leadership duo that is essential since Germany’s “red-orange-green” coalition is fraying badly. Relations with the UK’s new Labour government could also improve.

Why do I think Macron was smart to call a snap election ? The June EU Parliamentary election results were dramatically bad for Macron as his party came in behind the leftwing *Nouveau Front Populaire* (NFP), a coalition dominated by *La France Insoumise* party of Jean-Luc Melenchon, a leftwing extremist, the Socialists and the Greens; and the RN as the Olympics were about to start. If Macron had waited to call an early election until the *rentree* in early September, a pall would have been cast over the country and given the opposition time to prepare better.

There was also the brutal reality that “cohabiting” with a government led by Le Pen or Melenchon would be impossible. There have been three “*cohabitation*” governments during the Fifth Republic (1986-1988, 1993-1995, 1997-2002), but never one when the president had to govern with parties as extreme as the *Rassemblement National* and *La France Insoumise*. Mitterrand and Chirac got along reasonably well in the early cohabitations.

By surprising everybody, he forced Le Pen’s RN to offer programs they did not really believe in and were not adequately prepared to defend. The left was panicked into a *Nouveau Front Populaire* alliance dominated by Melenchon, even though the alliance name raises many ghosts, especially for the Socialists, notably ex-president Hollande. Decimated by Macron in 2017, the Socialists were/are very skeptical of an alliance with Melenchon because he is so personally domineering and extremist. By calling the early election, Macron threw down the gauntlet to French voters: Do you really want a neo-Fascist, anti-EU, anti-Euro, racist party to govern France ?

The snap election undoubtedly clarified the Republicans’ thinking since they had increasingly played games with Macron’s legislative program, forcing him to resort to government by decree, using constitutional Article 49(3) at least 20 times. The Republicans’ losses in the legislative election dramatized the decimation of the old ruling Gaullist party, like the Socialists, and the need to update itself to survive. Macron’s choice of Barnier may help it do that.

On economic policy, Macron had no leeway whatsoever with Brussels because France’s deficit was/is stuck at 5.6% of GDP and rising above the 2024-25 threshold negotiated, with difficulty, with the Commission. He knew neither the NFP nor the RN would be able to accept Brussels’

requirements and therefore risk a crisis in the Euro system and weakening of France's debt rating. (In fact, the OAT spread over the bund benchmark yield rose to a high of 79 bps in June and rating agencies put France on a warning list.) He also knew both Melenchon and Le Pen want to exit the euro but dare not.

On a personal note, Macron may be arrogant but he is used to assessing the odds as any brilliant investment banker must. And he has smart advisors, including Barnier behind the scenes.

Assuming Barnier negotiates a coalition that can survive no-confidence motions by the RN and *La France Insoumise* in the Assembly, he and Macron face some tough challenges over the next months: Tightening fiscal policy to reduce the deficit, renegotiating the deficit target with the Commission; holding Chancellor Scholz' hand; bolstering aid to Ukraine; possibly dealing with a new Trump presidency after Nov. 5; and, as always, facing down France's *casseurs et gilets jaunes*.

Macron and Barnier will need a lot of luck to lead France.

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