

## ANALYSIS ON THE NEW FRENCH GOVERNMENT

Please find hereafter an analysis of the current governmental situation in France after the resignation of the first Manuel Valls government and the subsequent reshuffling, which has clearly been imposed to the President of the Republic François Hollande by the Prime Minister Manuel Valls (1), and constitutes a gamble on the Prime Minister's future, with different possible outcomes (2).

### 1) A new Government that bears the mark of Manuel Valls

As explained in Monday's email, the resignation of the French Government was a consequence of last weekend's statements from Arnaud Montebourg, Minister of Economy, and Benoît Hamon, Minister of Education, two key members of the Government who called for a shift in the Government's policy towards less business-friendly measures and more gestures directed at the left-wing electorate, notably more purchasing power for the population and an economic stimulus package. They had also strongly criticized the European policy in general and Germany's doctrine in particular.

#### General overview

Manuel Valls' brutal and quick reaction is probably the catalyst of a long period of ongoing political, institutional and economic context that would have required strong adjustments. Indeed, deciding the resignation of his Government as a way to evict two Ministers who had questioned his policy, including putting his own position at stake, in order to force the President of the Republic to make this strong decision, may have been considered as an overreaction by certain commentators (including the two fired Ministers concerned). In fact, it should probably be considered as Manuel Valls' analysis of the current confusing political situation that needed to be clarified in order to implement his political line and address the economic challenges that need to be tackled.

The new French Government announced on Tuesday 26 August is now totally freed from its left-wing components and its potentially disruptive members, which puts an end to the previous choice made by François Hollande following his election in May 2012, to try and gather the broadest possible political spectrum in his team, from the far-left to the centre-left including the Greens, in order to build the largest possible consensus. In the current economic crisis, this has proved pretty inefficient in term of making tough decisions.

The new Government includes most of the centre-left personalities from the previous one with a few internal promotions, as well as a few newcomers, constituting a real political clarification towards a more pro-business and pro-competitiveness policy.

In this regard, the Prime Minister has managed to force his leadership onto François Hollande, and, should he keep the support of a parliamentary majority, he will gain the capacity to conduct his policy with freer hands. **But he has clearly entered a "make or break" dynamic for the short term and has taken a bet on his political future.**

This reshuffling also aims to send a message to the European Commission and the German Government, which also represents a change in paradigm compared to the traditional French

behaviour. Manuel Valls did not try to put the blame for France's difficulties on external factors (*i.e.* the EU in general and Germany in particular), and clearly chose to avoid antagonizing his European partners (indeed, he mentioned several times that Arnaud Montebourg's words towards the German Government were not acceptable). However, while showing that the new Government is now ready to tackle major reforms and intends to respect the European budget requirements, especially the decrease of public expenditures, it is very likely that he will try to negotiate the timing and conditions in order to obtain a more flexible budgetary framework and a re-launch of European investments.

### **Changes within the Government**

Regarding the new Government, the most visible change, and only (relative) real surprise, of this tightened political spectrum is the nomination of the 36-year-old Deputy Secretary-General of the Presidency Emmanuel Macron to the position of Minister of Economy, Industry and Digital Affairs, as a replacement for Arnaud Montebourg. Emmanuel Macron, a former investment banker at Rothschild, but above all the architect of the Responsibility Pact (*i.e.* competitiveness and pro-business deal with the French business leaders' organization, endorsed by the President at the beginning of 2014), is pro-market, pro-Europe, accepts the globalization context, and somehow represents the complete opposite of his predecessor, Arnaud Montebourg<sup>1</sup>.

Among the other significant changes appears the promotion of Najat Vallaud-Belkacem, spokeswoman of François Hollande during the 2012 presidential campaign and former Minister for Urban Affairs, Youth and Sports as the first woman to hold the position of Minister of National Education, Higher Education and Research. Former Secretary of State for Foreign Trade and Tourism Fleur Pellerin was also appointed Ministry of Culture and Communication as a replacement for Aurélie Filippetti, who has left the Government.

The nomination of Patrick Kanner as Minister for Urban Affairs, Youth and Sports must also be noted as he is close to Martine Aubry, the former challenger of the President at the socialist primary for the 2012 Presidential election and a politician close to the left wing of the PS, including the "*frondeurs*"<sup>2</sup>. It is difficult to assess at this point whether this nomination will have any political impact (meaning that part of the "*frondeurs*" could be ready to support the Government), or if it is rather the result of an individual choice from Patrick Kanner.

Last but not least, MP Thomas Thevenoud is replacing Fleur Pellerin as Secretary of State in charge of Foreign Trade and Alain Vidalies is replacing Frédéric Cuvillier as Secretary of State in charge of Transport.

*You will find attached the biographies of the new members of the Government we deem relevant.*

### **2) Manuel Vall's gamble and possible scenarios**

With this new Government, Manuel Valls has certainly increased his freedom with regards to François Hollande's authority, and takes full responsibility for the implementation of his economic policy, in addition to clearly endorsing a pro-business/pro market policy. As a matter of fact, his first external

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<sup>1</sup> We would like to nuance a little bit, even if it is not the purpose of this note, as Arnaud Montebourg is probably more pro-business than his statements make him appear, but with a very nation-centred conception of the economy.

<sup>2</sup> The debates at the National Assembly have seen the emergence of a group of left-wing MPs (around 40), called "*frondeurs*", who refused to support the Government's policy for various reasons: some of them come from the left wing of the Socialist Party and are concerned about their electorate, others belong to a more "nationalistic" movement inside the Left.

speech was symbolically given at the annual Summer Congress of the MEDEF, the main employers' union/business organization on the day following the nomination of his new Government (Wednesday 27<sup>th</sup> August), rather than at the Socialist Party Summer Congress, which is taking place this week-end and represents a traditional gathering. His speech was considered historical, as it is probably the first time that a French Prime Minister (right or left) has shown such a strong support to the business world (the media and commentators called it a "declaration of love"). Manuel Valls took this opportunity to confirm that his main economic political line was to support companies' competitiveness notably through a decrease of the tax and fiscal contributions. He has clearly gained during this week the enthusiastic support of the French business community, which had not occurred in a while for a politician in power and never under a socialist Government.

In addition, the Prime Minister has announced his decision to seek a vote of confidence at the Parliament, despite the fact that he is not required to (it is not a constitutional obligation, but rather a republican tradition), and that he already obtained one following his speech in April after his nomination. By doing so, he aims at putting every MP in front of their responsibilities in order to get the legitimacy he needs to implement his policy.

For now, it is difficult to predict the outcome of the upcoming confidence vote, due to the narrower political base of the new Government, and it is probable that important negotiations will take place in the coming weeks on this issue, but several scenarios are possible:

- The Prime Minister could manage to gather a majority composed of left-wing deputies only, coherent with the Presidential majority elected in 2012 and which would constitute a social-democrat and reformist majority (comparable to Gerhard Schröder and Tony Blair's former majorities in Germany and the United Kingdom). In this scenario, Manuel Valls would be working within the current Socialist Party framework but would have forced it to totally change its economic doctrine.
- Manuel Valls may end up with only a relative majority, due to the possible abstention of "frondeurs" MPs, and the possible informal support of members of the centre-right. A similar situation has already existed in France under socialist Prime Minister Michel Rocard (to whom Manuel Valls was a close advisor) between 1988 and 1992. This would lead to the constitution of *ad hoc* socialist-centrist (or socialist-communist) coalitions, depending on the bills presented to the Parliament, and would change the balance of powers of the 5<sup>th</sup> Republic towards a more parliamentary regime. This different majority could hold for an uncertain amount of time but would probably lead to a re-composition of the left in general and the Socialist Party in particular.
- Manuel Valls could finally fail to obtain a vote of confidence, or see his majority defeated in a parliamentary vote before 2017, which would open the scenario of a dissolution of the National Assembly. The right-wing party UMP would then be likely to win, but in a context where it is currently going through an important crisis and still lacks an undisputed leader. From there, two scenarios could be drawn:

- A cohabitation between François Hollande and a right-wing Government, probably not stronger than the current one, and further crisis to be expected<sup>3</sup>.
- A refusal by the UMP to govern with François Hollande and a call for his resignation, with unpredictable consequences.

In the end, Manuel Valls can bet that even such an instability could profit him and quicken the re-composition of the French political scene.

The Senatorial elections, which will take place on September 28<sup>th</sup>, could be a key element of the way forward: the defeat of the Left is the likeliest outcome, but the situation has become more complex due to this unexpected reshuffling, with a possible agreement between the Socialist Party and the centre-right to maintain an absolute majority.

Moreover, the important vote on the 2015 Budget Bill could be a decisive vote which is also likely to crystallize the gap within the Socialist Party.

In a nutshell, France has certainly entered a new political period that will probably have institutional but also social and economic consequences for the country in the coming months.

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<sup>3</sup> Some commentators believe that François Hollande is looking for such scenario as it could improve his chances of being re-elected in 2017, based on the 1988 and 2002 elections which had seen the re-election of François Mitterrand and Jacques Chirac over their respective opponent Prime Minister, after having lost the previous legislative election. However, the situation is different today as both Mitterrand and Chirac were unchallenged leaders in their own party in a time of rather polarized political landscape, which is clearly not the case for François Hollande.

**BIOGRAPHY : EMMANUEL MACRON**

Born in 1977, Emmanuel Macron is the new Minister of Economy in the Manuel Valls' government after the 26 August 2014 reshuffling.

Supporter of an economically liberal and pro-business line as well as the restoration of public accounts, and one of the main architects of the Responsibility Pact as well as former investment banker, Emmanuel Macron is well appreciated by the French business community. His nomination was therefore used as a clear sign of François Hollande and Manuel Valls' determination to implement a policy based on support to business competitiveness, and to break the remaining ties with the left-wing of the Socialist Party, and was consequently heavily criticized by the latter.

**Education and career**

Emmanuel Macron graduated from the Paris Institute of Political Sciences (Sciences Po), before joining the prestigious National School of Administration (ENA), which trains senior public servants. He also holds a master's degree in philosophy from the Paris-10 Nanterre University, where he wrote a dissertation on public interest, and was the assistant of the famous French philosopher Paul Ricoeur, between 1999 and 2001.

After leaving the ENA in 2004, Emmanuel Macron joined the General Inspection of Finances (*Inspection générale des finances*), a public supervisory body whose mission is to provide oversight, audit, analysis on economic, administrative and financial matters, and became project manager to the Head of Service. During this period, he became a member of the Socialist Party, and was a member and deputy general-rapporteur of the Committee for the Liberation of French Growth between 2007 and 2008.

In 2008, he joined the bank Rothschild as investment banker, where he became managing partner in 2011 and notably directed the €9-billion takeover by Nestlé of one of Pfizer's subsidiaries.

After the election of François Hollande, whom he supported during the socialist primary election, Emmanuel Macron was recruited as Deputy General-Secretary of the Presidency of the Republic and economic advisor to the President, and became one of the instigators of the Responsibility Pact, (*i.e.* competitiveness and pro-business deal with the French business leaders' organization, endorsed by the President at the beginning of 2014), and the Tax Credit for Competitiveness and Employment in favour of French companies. He left this position in July 2014, before being appointed Minister for Economy, Industry and Digital Issues after the governmental reshuffling of August 2014, where he will tackle the sensitive issue of the reform of regulated professions and Sunday work. As such, he also holds the position of President of the General Council of the Economy, Industry, Energy and Technologies.

Emmanuel Macron is also a former administrator of the Paris "*Théâtre de la Ville*" as well as a former member of the drafting committee of the philosophy magazine *Esprit*.

**BIOGRAPHY : FLEUR PELLERIN**

Born in 1973, Fleur Pellerin was appointed Minister for Culture and Communication in the new Valls Government, where she previously held the position of Secretary of State in charge of Foreign Trade and Tourism.

Fleur Pellerin entered the public arena during the 2012 Presidential election campaign as spokesperson for François Hollande, where she rapidly earned the reputation of being “the voice of business” within the socialist team, and joined the Government as Junior Minister in charge of SMEs, Innovation and the Digital Economy, under the responsibility of Arnaud Montebourg, then-Minister for Industrial Recovery. She made a name during her first ministerial portfolio, where her action was praised by the digital business world and where she showed her capacity to challenge Arnaud Montebourg.

She also is one of the few members of the Government with no electoral mandate, and draws her first political experiences from the Lionel Jospin’s 2002 Presidential campaign, under the supervision of Pierre Moscovici, the former Minister of Economy and Finance in Jean-Marc Ayrault’s government, then during the 2007 Presidential campaign, during which she was responsible for media relations for the socialist candidate Ségolène Royal.

Among the main political projects Fleur Pellerin will have to address as Minister for Culture and Communication are the reform of the French audiovisual sector, in the context of digital challenges, and the review of the social regime of intermittent workers’ in the culture area.

On a personal level, Fleur Pellerin was adopted by a French family after being born in Séoul, South Korea. She made public her familial status in the spirit of telling a positive story on adoption, but also to build tighter links with South Korea.

**Education and career**

Fleur Pellerin studied business management at ESSEC business school and public administration at the Paris Institute of Political Sciences (Sciences Po Paris). She also graduated from the National School of Administration (ENA, an elite college which trains high-ranking civil servant)

She started her career in 2001 as an auditor at the *Cour des Comptes* (French Court of Auditors, a public body charged with conducting financial and legislative audits of most public institutions, including the Government).

She briefly transferred to the private sector from 2007 to 2008 as director at Tilder, a communication and strategy consulting firm, before going back to the *Cour des Comptes* until 2012.

She also sat on the Board of Directors of several organizations: Unis-Cités (an association organizing civilian service for young people), Club XXI (a think-tank she founded and chaired which promotes ethnic diversity), the parliamentary TV channel Public Sénat, as well as ARJEL (an independent administrative authority in charge of regulating online gambling).

### **BIOGRAPHY : THOMAS THÉVENOUD**



Born in 1974, Thomas Thévenoud was appointed Secretary of State in charge of Foreign Trade, under the responsibility of Minister for Foreign Affairs Laurent Fabius in the new French Government.

A young and promising socialist MP appreciated and recognized by his peers, whose name had already been cited for previous governments, he supports an economically liberal, pro-market/pro-business policy limited by a necessary social compromise, and has distinguished himself as an active MP through his involvement on sensible issues: in February 2014, he was charged by the Ayrault Government with a « mediation mission » between the taxi drivers and chauffeured cars (VTC) companies, made difficult by the power and the capacity to cause trouble of the taxi lobby. He managed to get through this complicated mediation mission relatively well from his political standpoint, and has been the promotor of a bill on the issue which is supposed to be discussed in September.

Previously, he had been the author of an information report on the consequences of the VAT (value added tax) reduction on the catering sector, and had been involved in late 2013 in a parliamentary battle against the tobacco industry.

Thomas Thévenoud is often and wrongly presented as being close to Arnaud Montebourg, due to their same geographical attachment, Burgundy, but in reality has built his own career in opposition to him. He has been one of the “*protégés*” of Laurent Fabius with whom he has worked for several years and is now also close to the President of the National Assembly, Claude Bartolone, a sponsor of several young socialist MPs. His appointment at the Secretary of State for Foreign Trade is more the result of the vacuum created by the promotion of his predecessor Fleur Pellerin and his ability to work with Laurent Fabius to whom he is reporting as Secretary of State, than due to his personal competences on the topic. It is also possible that his nomination nomination could be a way to counter the influence of Arnaud Montebourg on his own territory.

#### **Education and political career**

Thomas Thévenoud graduated from the prestigious Paris Institute of Political Sciences (Sciences Po Paris) in 1995, and has a bachelor in Modern Litterature (1996). He started his career in 1997 as parliamentary assistant to André Billardon, MP elected in the Saône-et-Loire department (Burgundy).

In 1999, he became a technical advisor for the socialist group at the National Assembly, in charge of financial and budgetary control issues, before joining the cabinet of Laurent Fabius, Minister of Economy, Finance and Industry, in April 2000. After the defeat of the Socialist Party at the 2002 Presidential election, he continued working for Laurent Fabius inside his parliamentary cabinet.

Thomas Thévenoud was elected for the first time in his region in several local governments, before being elected at the National Assembly in June 2012 after François Hollande’s victory. He joined the Committee for Finance, General Economy and Budgetary Control, where he was strongly involved in business-related issues: he notably wrote a report on the development of companies and employment during the 2013 and 2014 Budget Bills and cosigned several law proposals on business issues.

### **BIOGRAPHY : NAJAT VALLAUD-BELKACEM**



Born in 1977 Najat Vallaud-Belkacem is the first woman to hold the position of Minister of National Education, Higher Education and Research after her nomination at this post in Manuel Valls' new Government, in replacement for Benoît Hamon who had chosen to leave his position.

Since the beginning of her political engagement, Najat Vallaud-Belkacem has been close to Gérard Collomb, one of the heavyweights and pro-market members of the Socialist Party, also the Mayor of Lyon where she spent the majority of her early political career. He later on introduced her to Ségolène Royal, whom she joined as spokeswoman during the 2007 Presidential campaign, then again in 2009, in preparation for the 2011 socialist primary, before holding the same position in François Hollande's campaign team during the 2012 Presidential election.

She became a member of the Government after François Hollande's victory in 2012, and has notably tackled the issue of gender parity in the business world and in sport federations, as well as the fight against sexist stereotypes in school curricula. She also created the High Council for Gender Equality in January 2013.

She is today, along with Emmanuel Macron and Fleur Pellerin, one of François Hollande's close supports, representing the younger and dynamic aspect of the new Government.

#### **Education and career**

Najat Vallaud-Belkacem graduated from the prestigious Paris Institute of Political Sciences in 2000, before joining a law firm specialised in judicial remedies to the Council of State and the Court of Cassation (respectively French Supreme Courts for administrative and private matters) until 2004.

Between 2004 and 2008, she held the position of regional councillor for the Rhône-Alpes local government, in charge of Cultural Affairs. From 2008 to 2012, she was Deputy-Mayor in Lyon in charge of Major Events, Youth and Associative Life, where she remained municipal councillor until 2013.

During this period, she unsuccessfully ran for a MP seat in 2007, and occupied the position of National Secretary of the Socialist Party, in charge of Energy Issues, then Societal Issues, between 2008 and 2012.

She held the office of Minister for Women's Rights, as well as spokeswoman for Jean-Marc Ayrault's Government from 2012 to April 2014.

After the April 2014 reshuffling, she was appointed Minister in charge of Women's Rights, Urban Affairs, Youth and Sports, before being appointed Minister for National Education, Higher Education and Research after the 26 August governmental reshuffling. Among the issues she will have to tackle is the difficult reform of school timetables, initiated by her predecessor.

**BIOGRAPHY : ALAIN VIDALIES**

Born in 1951, Alain Vidalies is Secretary of State in charge for Transport, Maritime Affairs and Fisheries in Manuel Valls' new Government.

A specialist of labour and employment with strong local roots in the South-West region of France, he has a reputation of diplomacy, discretion and efficiency, as well as loyalty towards François Hollande and Manuel Valls, despite the fact that he had supported Martine Aubry during the 2011 socialist primary.

**Education and career**

Alain Vidalies graduated in law from the University of Pau and the University of Bordeaux, and started his career a lawyer specialized in labour issues, after spending two years as parliamentary assistant for the socialist MP Roger Duroure, between 1976 and 1978.

His political career began in 1979, with his election to the Landes *Conseil général* (the main local government at the *département* level), and then then Vice-President for the Landes department until 1992, he was reelected at the *Conseil général* between before being reelected General Councillor between 1998 and 2011. During this period, he also led a local political career as Municipal Councillor, first in Saint-Pierre-du-Mont, then in Mont-de-Marsan, between 1983 and 2002.

Alain Vidalies was elected at the National Assembly for the first time in 1988, until 1993, then again between 1997 and 2012.

As a member of the National Assembly, he notably held the position of Vice-President of the Legislative Committee, as well as Vice-President, then Spokesman of the Socialist Group between 2007 and 2012. He was also Rapporteur for important social legislation such as the law on the prevention of accidents at work or the law combating clandestine labour, and took part in the legislation on family law.

Inside the Socialist Party, Alain Vidalies was National Secretary in charge of the Industry, New Technologies, Information and Communication between 2005 and 2008 and National Secretary in charge of Labour and Employment between 2008 and 2012.

After the election of François Hollande, he became Junior Minister in charge of Relations with the Parliament in Jean-Marc Ayrault's Government, until the nomination of Manuel Valls as Prime Minister in March 2014.

After the 26 August reshuffling, Alain Vidalies joined Manuel Valls' Government as Secretary of State in charge of Transport, Maritime Affairs and Fisheries, where he reports to Ségolène Royal Minister of Ecology, Sustainable Development and Energy.