Third-way à la française: What do Macron’s reforms involve and how likely are they to succeed?

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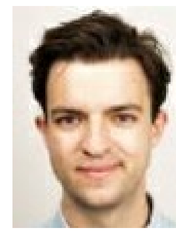
Now that Emmanuel Macron has won a large majority in the French parliament, there are few obstacles preventing him from implementing his ambitious reform agenda. But what exactly will Macron’s reforms involve and are they likely to be successful? **Philip Rathgeb** *and* **Fabio Wolkenstein** *draw a parallel between Macron’s agenda and the ‘Third Way’ politics of Gerhard Schröder. But they suggest that the dynamics of the French economy and the large potential for social unrest over his planned labour market reforms may make Macron’s task far more challenging than that faced by his German counterpart.*



On 18 June, in the second round of the French parliamentary election, Emmanuel Macron’s newly founded party *La République en Marche* won a clear parliamentary majority. Macron is now in a position to govern largely without opposition. This is exactly what he needed to pursue his ambitious pro-EU, business-friendly reform plans — in particular, his labour market reforms, which have been the death knell of many previous governments. Even if voter turnout is estimated to have reached a record low of about 42%, he can claim to possess a strong mandate for realising his agenda.

Looking closely at this agenda, one is likely to experience a strange feeling of déjà vu. Not only the language used by Macron to present his proposals, but also the proposals themselves smack of mid-1990s Third Way politics. One commentator recently noted that “Macron’s critics accuse him of neoliberalism, (…) he is neither Reagan nor Thatcher.” This is true, but one need not be Reagan or Thatcher to be a neoliberal: Tony Blair or Gerhard Schröder were unashamedly neoliberal, although they were candidates of long-established social democratic parties. It is this peculiar sort of neoliberalism “with a social-democratic face” that Macron has brought back to centre stage in France.

It is especially tempting to compare Macron with Schröder, who was German Chancellor from 1998 until 2005. Schröder was a social democrat who undertook painful labour market reforms – the so-called *Agenda 2010* – at a time when Germany’s economy was severely stagnating and the country was being called the “sick man of Europe.” He opted for labour market dualisation – creating one of the largest low-wage sectors in Europe – and introduced the *Hartz IV* unemployment scheme that has by now become synonymous with a new underclass. Today, the French economy faces problems that are broadly similar to those confronting Germany during Schröder’s government, and Macron’s labour market reforms are also meant to overcome them against all odds.

Emmanuel Macron – Thierry Ehrmann (CC BY 2.0)

Unlike Schröder's Agenda 2010, however, Macron's strategy is to emulate the Danish "Flexicurity" model – which in the eyes of many commentators has social democratic credentials merely by virtue of being Scandinavian in origin. Flexicurity refers to a specific set of policies Denmark implemented in response to its employment crisis almost thirty years ago, which since then have turned into a blueprint for labour market reformers around the world.

In practice, Flexicurity may mean very different things, which has led scholars of industrial relations to view it with scepticism. Putting these conceptual ambivalences to one side, the basic idea is this: If employers are provided with greater discretion in firing workers, they will feel more confident in hiring workers under permanent contracts ("flexibility"). Workers, on the other hand, will be compensated with enhanced access to unemployment protection and training, and thus more secure expectations of a new job once they get laid off ("security"). It is this proposed compensation that would make the Macron-like labour market reform more "solidaristic" than the German *Agenda 2010*.

However, Macron's announcement to couple this policy with shifting collective bargaining to the company level – by executive decree – is bound to meet with fierce resistance from the trade unions whose political support is still crucial for maintaining social stability in France. To make matters worse, it is by no means clear whether Macron will succeed with this strategy in terms of job creation.

In sharp contrast to contemporary France, the Danish reformers of the 1990s could not only build on an institutional legacy that was favourable to the Flexicurity approach, but also had the fiscal means necessary to kick-start the economy and create temporary leave options at times of weak aggregate demand (e.g. sabbaticals, educational leave). By contrast, Macron's proposed five-year stimulus package of 50 billion euros is hardly more than 2 percent of France's annual GDP, while private investment in fixed assets remains stubbornly low. In the absence of increasing aggregate demand, another round of job security deregulation will therefore not create jobs but rather reduce permanent employment in the first place.

There is yet another obstacle to Macron's long-term success. Since his reform agenda relies on aggregate demand, Macron is furthermore calling for EU-wide investment programmes and a federal fiscal union designed to provide transfers from the export-led "winners" of the Eurozone to the countries disadvantaged by the common monetary policy. Although this makes a lot of sense for France, however, it will likely face opposition from the Eurozone core, especially the German electorate.

After all, it was Angela Merkel and Wolfgang Schäuble who repeatedly told their voters that France – like Greece, Portugal, Italy, and Spain – must do “their homework” and implement “structural reforms” themselves to get back on track. The implication is clear: if Germany resists Macron’s vision of EU-wide investment programmes and a federal fiscal union, this seriously undercuts the viability of his policy strategy.

Let us return at this point to our Schröder-Macron analogy. As is well-known, Schröder’s labour market reforms were considered “successful” – in the sense that they contributed to Germany’s excessive export surpluses – but they cost him his chancellorship and seriously undermined the social democratic party’s (SPD) long-term credibility as the party of working people. Insofar as Macron aspires to implement his labour market reforms, he might suffer an even worse fate, namely losing public support without managing to boost economic growth.

A crucial point to bear in mind is that the French economy lacks the strongly export-oriented outlook of the German one (and indeed that not every country may rely on exports without damaging the current account balance of everyone else inside the Eurozone). Hence it is highly uncertain whether Macron-like “Flexicurity” could succeed, and there is a very real risk that Macron’s reform plans end up making *La République en Marche* a short-lived political phenomenon.

Another important difference between Schröder and Macron is that the latter’s party is not a mere “updated” version of a long-established party, but a newly-founded movement that includes politicians from the right and left. This peculiar disentanglement of Third Way politics from social democracy ironically gives the French *Parti Socialiste* – which has been all but annihilated in the recent elections – time to re-invent itself as a credible movement on the left.

To be sure, the Hollande presidency has done plenty of damage to the PS, and it is unclear how long a recovery will ultimately take. But the unilateral implementation of labour market reforms that are likely to cause social unrest is precisely the kind of thing social democrats worth their salt ought to oppose. If the PS manages to transform into a credible alternative on the political left, thereby essentially absorbing the left-wing platform of Jean-Luc Mélenchon and perhaps even undercutting the hard right Front National with its protectionist-xenophobic agenda, Macron might go down in history as the first Third-Way Politician who helped reinvigorate social democracy.

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