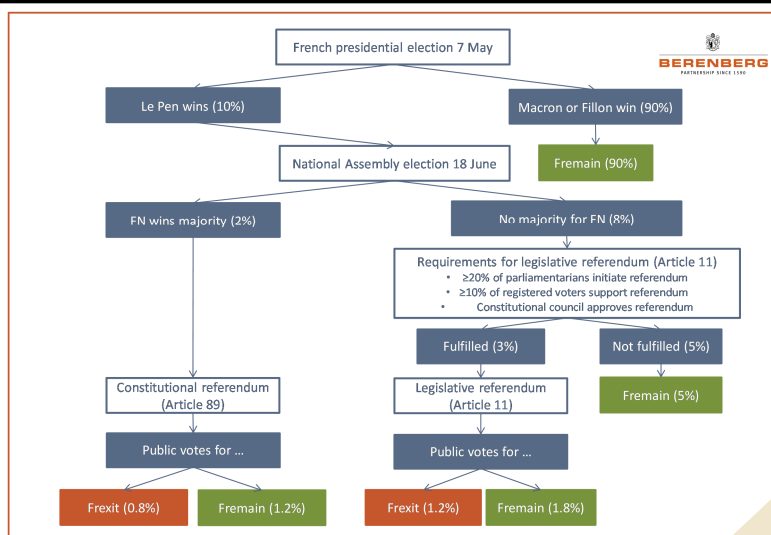


Frexit or not: what if Le Pen wins?

Chart 1: Scenario analysis of French elections



Dates for second round of elections only. Source: Berenberg

- The French elections are the key political event this year for the Eurozone. The outcome could present a great opportunity for France and the Eurozone if centrist Emmanuel Macron or centre-right François Fillon wins with a mandate for pro-growth reforms. This is our base case scenario (90% probability).
- However, the tail risk that Marine Le Pen, the leader of the far-right Front National, becomes the next president is not negligible (10% probability). Le Pen wants to pull France out of the euro and the EU. If successful, this would spell the end of Europe as we know it.
- Whether she would be in the position to do so would depend on the parliamentary elections in June (National Assembly) and – to a lesser extent – in September (Senate). In the unlikely case that Le Pen becomes president and also wins a majority in parliament (2% probability), she could largely implement her anti-European agenda, although a decision to leave the EU would need to be confirmed in a referendum. The same may hold for a decision to drop the euro.
- In this report, we look mostly at the scenario that Le Pen becomes president but does not command a majority of seats in parliament (8% probability). The question is whether she could still push through (parts of) her anti-European agenda. She would have to share power with a prime minister backed by parliament. That would make it very difficult for her to call an EU referendum against the prime minister or parliament. Whether she could call a referendum on leaving the euro would depend on the judgement of France's pro-European constitutional council.
- Our survey of the French political system is also relevant in case Macron or Fillon win the presidency but do not garner a majority of seats for their parties at the National Assembly elections in June. They would then need to form a coalition of pro-reform forces to advance their largely pro-European agendas.
- **We make two major conclusions in this report. First, a Frexit remains highly unlikely, although we cannot rule it out completely (2% risk). Second, even if Le Pen wins the presidential elections, many more hurdles would stand in her way. The parliamentary elections are probably the most difficult one for her to take, but getting the constitutional council on her side may be equally challenging. The damage she could do would probably remain limited.**

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Basics of the French political system

In France's semi-presidential system, both the president and the government (the prime minister and the council of ministers) exert executive powers. The prime minister is appointed by the president, but he/she is ultimately responsible to parliament. The two-chamber legislature consists of the Senate (the upper house) and the National Assembly (the lower house). While the French constitution grants almost similar legislative powers to both houses, the National Assembly ultimately has the edge over the Senate. Both houses may amend bills submitted by the government or submit bills themselves. But when they cannot agree on a bill, the government can decide which house makes the final decision under a procedure called "commission mixte paritaire". This is usually the National Assembly (except for laws related to the organisation of the Senate). The government picks the National Assembly since it is the legislative body that can revoke the prime minister and his/her cabinet through a "censure motion" and, therefore, is naturally on the government's side.

Competences of the president, the prime minister and the National Assembly

The president is the commander-in-chief, holds the keys for France's nuclear weapons arsenal and presides over the national defence councils and committees. While the French prime minister and his/her cabinet are in charge of most day-to-day affairs outside foreign and defence policy (their role is to "determine and conduct the policy of the Nation"), they are usually subordinate to the president if both come from the same political camp. The president rather than the prime minister heads the council of ministers. With the help of the National Assembly, the president can easily replace the government. With the help of the prime minister, the president can, under some circumstances, also overrule parliament: the prime minister can tie a "Finance Bill or Social Security Financing Bill" (Article 49 of the French constitution) to a vote of confidence before the National Assembly in which the bill passes parliament unless a resolution of no-confidence is submitted within the next day. However, "such procedure can be used for one other bill per session", where session means the nine-month period during which parliament meets each year. Controversial bills can be enacted this way as long as the National Assembly does not want to bring down the government.

The president's executive powers are, however, limited. Although the president appoints the prime minister, he/she cannot dismiss the prime minister. The president names and dismisses ministers, but he/she can only do that with the prime minister's approval. The National Assembly has the sole power to dismiss the prime minister and, thereby, the whole government. As a result, the president ultimately has to name a prime minister who can command a majority in the National Assembly. While the president can dissolve the National Assembly, forcing another election, he/she can only do that once a year.

When promulgating laws, the president can request another reading by parliament. However, this kind of suspension is limited to one single veto. Although the president holds the most senior office, most of his/her power relies on a supportive prime minister and ultimately National Assembly, and not on competences directly vested in the office of the president.

Cohabitation

The potential stalemate of the president versus a prime minister and National Assembly majority from a different political camp is called "cohabitation". In this case, the president's power is limited to the areas over which he/she can exert influence and authority on their own, such as foreign and defence policy. Domestic policy is set by the prime minister backed by the National Assembly. The president can merely slow down the legislative process, using his/her limited right to temporarily suspend new legislation through a veto.

In the history of the Fifth Republic, there have been three periods of cohabitation: 1) 1986-88: François Mitterrand (Socialist president) and Jacques Chirac (centre-right prime minister); 2) 1993-95: Mitterrand (Socialist president) and Édouard Balladur (centre-right prime minister); 3) 1997-2002: Chirac (centre-right president) and Lionel Jospin (Socialist prime minister). Between 1986 and 1988, Chirac used his control of parliament to reverse some of Mitterrand's earlier leftist reforms by lowering taxes and privatising many public companies. In return, Mitterrand refused to sign ordinances slowing down reforms by requiring Chirac

to pass his bills through parliament.¹ Eventually, Mitterrand dissolved the National Assembly and new elections ended the period of cohabitation in 1988. After Chirac became president in 1995, snap elections to the National Assembly in 1997 (Chirac called the elections one year ahead of time) yielded a left-wing majority in the assembly. From 1997 until 2002, in Chirac's words, "paralysis" hit the country. The left-wing majority in the National Assembly shortened the working week from 39 to 35 hours without President Chirac being able to prevent it.

Any president facing a parliament that does not share his/her views will struggle to refer treaties or certain types of laws to a referendum, especially if these laws amend the constitution. The president usually needs the approval of the prime minister and parliament in order to initiate a referendum.

Elections

Since 2000, the president and the lower house of parliament have been elected for concurrent five-year terms, with the parliamentary elections taking place roughly six weeks after the presidential vote. The president is elected directly by the French people with a run-off vote among the top two contenders if no candidate obtains 50% of the vote in the first round. This year, the first round is scheduled for 23 April followed by the second round on 7 May.

The votes for the National Assembly follow similar rules: the 577 deputies are directly elected by the French people in each constituency in a two-round system every five years. This year, the two rounds take place on 11 June and 18 June. If no candidate is elected with at least 50% of the votes in the first round, the two candidates who finished first and second in the first round advance automatically to the second round. They may be joined by more candidates since the second round is open to any candidate who has obtained the support of at least 12.5% of registered voters in the constituency. Currently, the Socialist party holds a majority with 280 deputies, followed by the Republican Party (194), the centrist UDI (30), the Green Party (17), the Social Liberals (13) and the Left Party (10). The Front National holds two seats. Eight deputies are independent.

The 348 members of the Senate are not elected directly, but rather by an electoral college. This college comprises approximately 150,000 officials, so-called "grands électeurs", including regional councillors, department councillors, mayors, city councillors in large towns and members of the National Assembly. Senators serve a term of six years, with half of the seats up for election every three years. Since the 2014 election, the Republican Party holds the most seats (143), followed by the Socialist Party with 112, the centrist UDI (43) and the Communist Party (18). Of the remaining 32 seats, only two have gone to the Front National. The next Senate election is in September 2017.

European elections (European Parliament) and some local elections follow a proportional voting system.

The message of the polls

Presidential elections

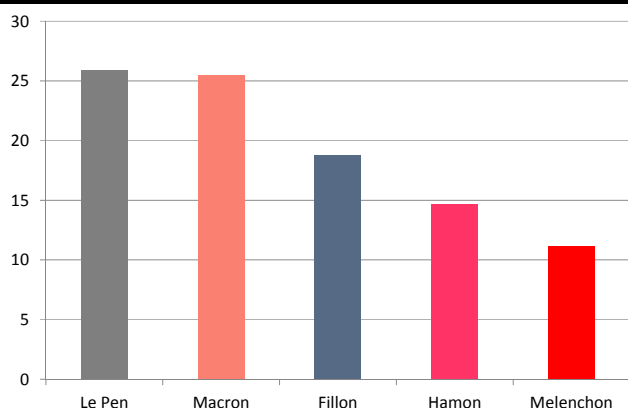
So far, opinion polls predict that no candidate will secure 50% of the votes in the first round, pushing the election to a second round run-off. The polls further project that one of the two reformers, centrist Macron or centre-right candidate Fillon, will make it into the second round of the presidential elections and beat Le Pen on 7 May. Furthermore, if ultra-left Jean-Luc Mélenchon could overcome his aversion to the Socialists and endorse their candidate Benoît Hamon, Hamon may shoot up and possibly make it to the second round instead of

¹ The constitution restricts certain legal fields to primary legislation to be enacted by the parliament (Article 34). Still, parliament may, by specific laws, authorise the president and government to issue ordinances in precisely defined areas. After the ordinance is issued, parliament is asked whether it wants to ratify it. During the cohabitation period of 1986-88, it proved tricky that before authorisation through parliament, an ordinance must be signed not just by the prime minister and relevant ministers, but also by the president. Mitterrand refused to sign ordinances even though it was controversial at the time whether he actually had the right to do so. The use of ordinances is normally reserved for urgent, uncontroversial texts. They are also sometimes used to push controversial legislation through. The use of ordinances in such contexts is then criticised by the opposition as anti-democratic and demeaning to parliament. Nevertheless, the National Assembly can always dismiss the government through a motion of censure if it finds the law too controversial.

Macron or Fillon. Against hard-line Socialist Hamon, Le Pen would have a better chance to win than if she faced either of the two reformers on 7 May. However, that Mélenchon may withdraw has become unlikely after he compared the Socialist Party to a corpse.

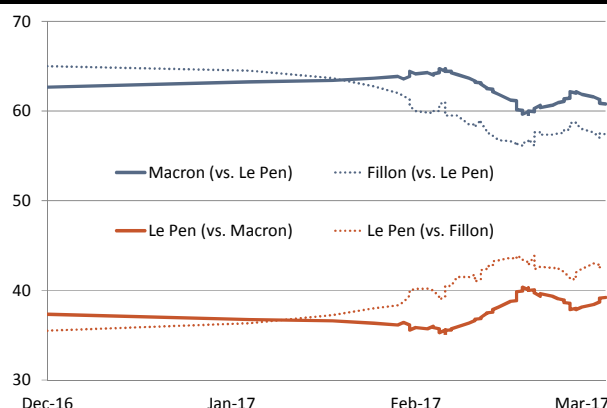
In opinion polls for the decisive second round, Le Pen has slightly narrowed the gap to Macron from 64%:36% at the beginning of February to 61%:39% now, and from 60%:40% to 57%:43% in a potential tie-up against Fillon. She has managed to use unrest in a Paris suburb and Fillon's "fake jobs for family" affair to her advantage (newspaper *Le Canard Enchaîné* reported that Fillon's wife had been paid a substantial sum for parliamentary assistant work that she had not really done). Markets saw this as a sign that the Le Pen risk had risen. As a consequence, French CDS spreads soared from 40bp to some 70bp in late February before falling back to 58bp at the beginning of March. The lead of the reformers over Le Pen in the polls is well above the three-point margin of error seen between pre-Brexit polls and the actual result in the UK last year. While the Le Pen risk remains modest, it is not negligible.

Chart 2: Opinion polls for the first round on 23 April, in %



Support for candidates in the first round of the presidential election, average of last eight opinion polls. Source: National opinion polls.

Chart 3: Opinion polls for the second round on 7 May, in %



Support for candidates in the second round of the presidential elections if either Macron or Fillon runs against Le Pen, average of seven last polls. Source: National opinion polls, Berenberg.

Parliamentary elections

While polling institutes conduct polls on a daily basis for the presidential elections, the most recent count for the National Assembly elections on 11 and 18 June 2017 was carried out by OpinionWay in June 2016. The poll projects that the Front National would garner 58-64 of the 577 seats in the National Assembly. While this would be a major increase from the two elected officials of the Front National currently in the National Assembly, the 10-11% share of seats would be far below the 25-27% of the popular vote Le Pen is likely to win in the first round of the presidential elections.²

The two-round system favours the two big mainstream parties, the Socialists and the Republicans. In recent elections, three candidates came close to each other in some constituencies in the first round: a candidate from the centre-right Republicans, one from the Socialist Party and one from the Front National. In many of those cases, the Republicans and Socialists joined forces to ward off the potential Front National candidate by withdrawing the weaker of their respective candidates in each constituency so they would not split the anti-Front National vote. This "Front Republicain" arrangement proved very effective at shutting the Front National out of parliament.

The question is whether the Front Republicain will work again this year. Both the Socialists (Valls against Hamon) and the centre right (Fillon against those who wanted him to withdraw) are more polarised and internally divided than before. Imposing a common line on the regional candidates could be very difficult this time. In addition, the "Front Republicain" would this time have to extend to Macron's "En Marche" movement. This year, quite a few candidates from the centre right and the Socialists may decide not to withdraw from the second round in such three-way (or more) contests.

² In the Senate elections that follow in September this year, the different setting – electoral college versus electorate – may favour the established parties even more than the two-round voting system of the National Assembly elections.

As a result of these serious divisions among other parties, the Front National can expect to do much better in the elections for the National Assembly this year than in the past. Still, the Front Republicain will likely hold in many constituencies. As a result, it would be a major surprise if the likely 25-27% of the popular support for Le Pen's Front National in the first round of the parliamentary elections would translate into far more than 100 out of the 577 seats in the National Assembly.

EU/euro exit referendum – the legal question

Le Pen wants to pull France out of the euro and the EU. In the first of her 144 presidential commitments, she has vowed to initiate “a negotiation ... with our European partners followed by a referendum on our membership of the European Union”. Presidential commitment 35 alludes to “the restoration of a national currency”.

Below, we discuss how and under which circumstances she could call a referendum on the euro or on membership in the EU.

Two types of referenda

The French constitution allows for two different kinds of referenda. The first is a constitutional referendum, the second is a legislative one. The key issue is whether a bill that would pull France out of the EU or euro would mean changing the constitution, or whether it would merely require a legislative act that would leave the constitution untouched.

Constitutional referendum – Article 89 of the French constitution

According to Article 89 of the French constitution, “the president of the republic, on the recommendation of the prime minister and members of parliament alike shall have the right to initiate amendments to the constitution”. Article 89 requires that any constitutional amendment must be “passed by the two houses in identical terms”, with the amendment taking effect “after approval by referendum”. A change in the constitution thus requires a majority in both the National Assembly and Senate ahead of a mandatory referendum.³

Legislative referendum – Article 11 of the French constitution

For legislative acts that do not touch the constitution, Article 11 provides a legal basis for an optional referendum. Submitted to referendum via Article 11 Paragraph 1 may be bills dealing with “the organisation of the public authorities, reforms relating to the economic or social policy of the nation, or which provides for authorisation to ratify a treaty which, although not contrary to the constitution, would affect the functioning of the institutions”.

1. The normal procedure for submission is, according to Article 11 Paragraph 1, that “the president of the republic ... on a recommendation from the government when parliament is in session, or on a joint motion of the two houses” submits the bill to a referendum.
2. Since 2008, Article 11 also includes a second option, a so-called “shared initiative referendum”. Paragraph 3 of Article 11 says that a referendum “may be held upon the initiative of one fifth of the members of parliament, supported by one tenth of the voters enrolled on the electoral lists.”⁴ At least 185 deputies and/or senators out of the total 925 elected officials (National Assembly: 577; Senate: 348) would need to initiate a referendum on a bill concerning a subject mentioned in Paragraph 1 of Article 11 which would then have to be supported later by about 4.6m French people (in the 2012 presidential elections, roughly 46m people were registered as voters).

If a legislative referendum is initiated – by the government or majority of parliament (option one) or by one fifth of elected parliamentary officials and supported by one tenth of registered voters (option two) – the constitutional council then checks the constitutionality of a proposed legislative referendum by verifying whether the bill in question:

³ The president can submit a law to amend the constitution to parliament for ratification and avoid a referendum if parliament then approves the bill with three-fifth majority.

⁴ The “shared initiative referendum” was added to Article 11 in 2008, under the presidency of Nicolas Sarkozy, and came into force in 2015. At the time, it was criticised mainly for two reasons. First, the number of conditions to be fulfilled is more restrictive than in other countries, such as Italy, where only 500,000 signatures, a ninth of the amount in France, are required. Second, it favoured the major parties (Republicans and Socialists) since only they had more than 185 parliamentarians.

- relates to subjects laid out in Article 11 Paragraph 1; and
- does not include provisions that are contrary to the constitution.

If the constitutional council considers these conditions to be fulfilled, the legislative referendum can be held.⁵

Both the constitutional referendum and legislative referendum then require a simple majority of the popular vote to approve the constitutional amendment or legislative act, respectively.⁶

EU exit referendum?

In the highly unlikely case that a President Le Pen commands a majority in both houses of parliament, she could call a referendum on French membership of the EU and – possibly – pull France out of the euro even without a referendum. The real question is whether she could trigger any “Frexit” referendum even without a majority in parliament. Previous periods of cohabitation suggest that the parliament has the upper hand on many issues. President Le Pen could turn out to be a lame duck.

With respect to EU exit, the legal situation seems clear. The constitution includes a whole section on the EU (Title XV, Article 88). For example, Article 88 Paragraph 1 states that: “The republic shall participate in the European Union constituted by states which have freely chosen to exercise some of their powers in common by virtue of the Treaty on European Union and of the Treaty on the Functioning of the European Union, as they result from the treaty signed in Lisbon on 13 December 2007.” France’s membership of the EU is an integral part of the French constitution. A bill on exiting the EU would count as a constitutional amendment. Since such amendments need to be passed by the two houses, according to Article 89, a bill to exit the EU would require a parliamentary majority before it could be submitted to referendum.

The – failed – process to ratify a European constitution in 2005 can serve as a useful example. In this case, the French constitutional council ruled that the European constitution would amend the French constitution as the two could not legally coexist. It would thus have to be ratified according to Article 89. At the beginning, Chirac ruled out a referendum and submitted the ratification to a joint session of the National Assembly and the Senate after each of the houses had voted separately in favour of the ratification (National Assembly: 450 “yes” votes versus 34 “no” votes; Senate: 263 “yes” votes versus 27 “no” votes). More than 80% (730 “yes” versus 66 “no” votes) approved the European Constitution in the joint session of parliament. Although this super-majority would have permitted President Chirac to proceed without a referendum, he bowed to public pressure and called a referendum in accordance with Article 11 on a formal proposal from the government.⁷ In this case, parliament did not have to explicitly endorse the referendum because both houses had already approved the bill beforehand.

To call a referendum on leaving the EU, Le Pen would need a majority in both houses of parliament. Even if she wins the presidential election, it seems highly unlikely that she could command a majority of seats in the National Assembly. That she could also win a majority in the Senate seems close to impossible. As a result, she would not be able to call a referendum on EU exit unless other political parties were to change their mind and suddenly support her call for such a referendum in parliament. While the probability of that may not be zero, it still looks remote.

⁵ Paragraphs 3 and 6 of Article 11 also require that the bill initiated does not repeal a provision enacted less than a year ago and is not on the same subject as a bill rejected by referendum less than two years ago. In the case of a referendum on a EU/euro exit, the constitutional council could easily confirm that requirements 3 and 4 are met.

⁶ There are no special majority requirements. In the context of the European Constitution referendum in 2005 Article 1 of the organisation decree of the referendum stipulated that “the electoral corpus (...) decides based on the majority of the expressed votes”. The French constitution does not explicitly mention that the result of a referendum binds the government. In the 2005 referendum the European Constitution referendum in 2005 confirmed and used the logic that as the French citizens are the sovereign, the result of a referendum is binding (Article 2 and 3 of the constitution).

⁷ The requirements for a constitutional amendment were fulfilled after the European Constitution was approved by a super-majority in a joint session of both houses of parliament. A constitutional referendum was not necessary under Article 89. However, it was up to the Chirac to decide on the ratification of the European Constitution, via Article 53’s approval by a mere “act of parliament”, or by holding a legislative referendum via Article 11. Public pressure made him chose the latter.

Euro exit referendum

Answering the question of whether or not a President Le Pen could call a referendum on leaving the euro against the wishes of parliament and government is more tricky. There are good reasons to argue that the legal requirements for exiting the euro should be similar to those for leaving the EU. First, according to the EU treaties, all member states that do not have a specific opt-out are required to adopt the euro.⁸ Euro membership could thus be seen as a consequence of EU membership which, in turn, has constitutional status in France. Calling a euro referendum would require the referendum process for constitutional amendments via Article 89, according to which a parliamentary majority in both houses has to agree to the Frexit law before it could be submitted to a referendum.

However, other arguments could point the opposite way. First, France's participation in the euro is not explicitly mentioned in the French constitution. The words "euro" or "Eurozone" do not appear once. Second, Sweden has stayed away from the euro although the country has no specific opt-out and has met the criteria for joining it. Third, the EU treaties do not explicitly state that leaving the euro automatically triggers the constitutionally relevant exit from the EU. If a euro exit would not necessarily amend the constitution, the legal door for a French legislative referendum via Article 11 on leaving the euro would be open.

20% of total elected officials and 10% of registered voters

The normal procedure of a legislative referendum laid out in Paragraph 1 of Article 11 would not be relevant in this context. After all, it would require – as with a constitutional amendment – government or parliament to approve the bill. The only realistic option for Le Pen to leave the euro would be the "shared initiative referendum". This would require that at least 20% of total elected officials in both houses together and 10% of registered voters support such a referendum with their signature.

As we explained earlier, Le Pen would probably fail to clear the first of the two hurdles. Even with some 15% of the seats in the lower house, which would be at the upper end of current estimates, she would be far away from the required 185 votes. The indirect elections to half of the Senate in September will probably raise her tally of seats only modestly. The vast majority of the electors are against the Front National. Winning the support from 10% of registered voters, ie 4.6m French people, could be easier. In the first round of the 2012 presidential elections, Le Pen won 6.4m votes.

Pros and cons for application of legislative referendum

Even if Le Pen could meet the above requirements to initiate a referendum, she would still have to convince the constitutional council that a vote on membership of the euro would not de facto amend the constitution and thus be within the scope of Article 11. Le Pen could follow different lines of argument.

First, she could argue that exiting the euro relates broadly to the "organisation of public authorities", the "economic ... policy of the nation" and/or "the public services".

Second, she could argue that, as the subjects laid out in Article 11 Paragraph 1 include the ratification of any treaty that is not contrary to the constitution, it would allow for the repeal of a treaty such as the one establishing the euro. While referenda on EU treaties in the past have been held under the provisions of Article 89 (except the 2005 referendum for reasons we explained earlier), they constituted changes to the constitution and required France to relinquish some of its sovereignty (Maastricht 1992 or European Constitution 2005).

Third, Le Pen could argue that Article 11 has already been used for bills that amended the constitution. Despite fierce criticism, Charles de Gaulle used Article 11 in 1962 to call for a referendum on the way the president was elected, being voted directly by the people, or via an electoral college. While the "shared initiative referendum" did not exist at the time of de Gaulle, the reasoning for using Article 11 rather than Article 89 may apply also with respect to Le Pen's plan of exiting the EU/Eurozone.

In 1962, De Gaulle argued that, as Article 11 permitted "any bill" on the "organisation of public authorities", this would also include the constitution itself. Furthermore, Mitterrand, who

⁸ While the issue is not absolutely settled in the legal literature, most scholars agree on that. So far this question has been answered with a resounding "no". Dammann (2012, "The right to leave the Eurozone") takes an opposite direction saying that "as a doctrinal matter, the case against a right to withdraw from the Eurozone is far from compelling". He goes as far as arguing that "a right to leave the Eurozone is desirable as a matter of legal policy."

had criticised the referendum in 1962, acknowledged once in office as president himself that “the use of Article 11 established and approved by the people can now be considered one of the channels of the review in conjunction with Article 89”. De Gaulle won the legal battle for holding a referendum – and won the referendum.

The debate about using Article 11 to amend the constitution remains unsettled.

The role of the constitutional council

As the constitutional council may ultimately have to decide whether Le Pen could ask the French people for a vote on leaving the euro against the wishes of parliament, the composition of the constitutional council matters.

The nine appointed members of the council serve non-renewable terms of nine years. Every three years, the French president, the president of the National Assembly and the president of the Senate each appoint one member according to Article 56 of the French constitution. Beyond these nine members, former presidents “shall be ex officio life members” of the constitutional council unless they are directly involved in politics. At the moment, ex-president Giscard d’Estaing serves as a member. Former presidents Chirac and Sarkozy used to be in the council but dropped out in 2011 and 2013, respectively.

The president of the constitutional council is selected by the president. The council’s current president, former Socialist prime minister Laurent Fabius, was appointed by Hollande in 2016. At least seven council members need to be present to make a valid decision. Votes are by simple majority, with the exception that, for decisions affecting the French president, a majority of all members (not just those attending the meeting) is needed. The president of the council casts the decisive vote in case of an equal split.

The composition of the council suggests that it reflects the pro-European French political mainstream. We would thus expect the council to use its leeway to interpret the constitution in a pro-European way. That further constrains the risk that a President Le Pen could table a euro referendum that is not backed by the government. Of course, the composition of the council will change over time. As president, Le Pen could appoint a member to her liking every three years starting in 2019. But even if Le Pen is re-elected in 2020 and holds on until 2025, she would be able to appoint only three out of nine members. She would struggle to change the composition of the council in a euro-sceptic direction unless parliament were to turn against the EU and the euro as well. For the time being, the constitutional council is likely to remain dominated by members who are broadly pro-European.

Legislative referendum through the backdoor

Theoretically, Le Pen may even try to change the rules for holding a referendum. However, this would itself require a change of the constitution to which parliament and the government would have to agree. That seems highly unlikely in case of a “cohabitation” between an anti-euro president and a prime minister backed by a pro-euro majority in parliament.

Last hurdle: majority in the referendum

Whatever the means Le Pen would use to win the legal battle, if she succeeds it would be up to the public to decide with a simple majority and without a quorum. The outcome would be uncertain. EU approval in France was net positive according to the referendum tracker by YouGov in December 2016. The “stay” lead was 12ppt, which was slightly up from the 11ppt just before and just after the Brexit vote (June and early July, respectively). The euro’s approval may be weaker, and of course, as we have seen with Brexit, a referendum can spring a surprise.

Block ESM bailout programme?

Even if a President Le Pen could not pull France out of the EU or the euro, she might still cause serious damage in Europe by blocking EU and Eurozone decision making procedures. Most importantly, she could try to paralyse the European Stability Mechanism (ESM). That would make the Eurozone much more vulnerable to financial tensions as an ESM programme is a pre-condition for any ECB interventions under its “do whatever it takes” outright monetary transactions (OMT) programme.

The ESM provides conditional financial assistance to Eurozone countries if such support is considered necessary to ensure the financial stability of the Eurozone as a whole. Currently, Greece is the only country still in a bailout programme.

Decisions on bailout programmes are made by the ESM's board of directors. The board of directors consists of 17 members of, in the ESM's words, "high competence in economic and financial matters". The voting rights of each country are equal to the number of shares allocated to it in the authorised capital stock of the ESM. Decisions which affect, for example, the approval of a bailout or the granting of payment tranches require "mutual agreement": in other words, unanimity of the members participating in the vote. In some cases, only a qualified majority of 85% of the votes cast is required, such as for an "emergency voting procedure". That is used where the European Commission and the ECB both conclude that "a failure to urgently adopt a decision to grant or implement financial assistance ... would threaten the economic and financial sustainability of the euro area" (Article 4, Treaty establishing the ESM). France with its 20.7% voting shares, can block not just those decisions that require "mutual agreement", like any other country, but also the critical "emergency voting procedure".

Fortunately, the French government, not the president, makes the relevant decision. The French representative in the board of directors is appointed by the French finance minister. While the finance minister is appointed by the president, this happens only after the prime minister's approval, ie the finance minister is the prime minister's choice. In case of cohabitation between a president Le Pen and a prime minister from a different political camp, the prime minister and the National Assembly would ultimately decide on the ESM policy, including possibly a new Greek bailout programme.

Le Pen's economic platform

Le Pen's economic platform combines measures to support small and medium-sized companies with protectionism and more public sector spending.

The 2017 budget bill released by the Hollande/Valls government on 28 September 2016 includes a reduction in the standard corporate tax rate from 33.3% to 28% from 2017 until 2020 on all profits from all corporates. Meanwhile, it keeps the reduced rate of 15% for companies with profit below EUR38.120 and turnover of less than EUR7.6m (from 2019 onwards the turnover threshold is increased to EUR50m). Le Pen wants to cut the standard corporate tax rate by even more, from 28% to 24%. She plans to merge social security schemes to ease the regulatory burden for small and medium-sized companies. Le Pen also proposes to reduce the income tax by 10% for households with annual income up to EUR26,631. Furthermore, she wants to remove the withholding tax, raise the ceiling of tax-free donations and simplify the tax code by eliminating very low-return taxes.

Le Pen's economic platform, however, comes with serious drawbacks, such as a repeal of the recently enacted labour law ("El Khomri law") that loosened hiring and firing rules and allowed for a working week of 46 hours with overtime compensation from the 36th hour onwards. Le Pen instead plans to maintain the statutory 35-hour week. She would also set the retirement age back to 60 for those with 40 annuities of contributions. Currently, the retirement age is 65 and is to be increased gradually to 67 years by 2023. Le Pen also proposes to beef up the social security system and increase staff in public hospitals. Taken together these measures would inflate the budget deficit which is already high (2016: 3.3% of GDP). These measures would reverse most of the few reforms president Hollande and former Prime Minister Valls managed to push through in the last few years.

Furthermore, Le Pen's plans of engaging in what she calls "intelligent protectionism" are worrying. First, in order to shield firms from globalisation, she would force the French state to order from French companies if the price gap with foreign competition is reasonable. Second, to give "national priority" for French citizens, she would tax firms that hire foreign employees. These proposals would break EU law. They would also drive up public sector spending and deficits, prevent immigration of qualified foreigners and push up consumer prices. A bad mix for a country like France.

Le Pen's other policy proposals

Besides her economic platform, Le Pen's anti-immigration stance is clear: she plans to slash the number of people entering France to 10,000 annually, down from about 10 times that number currently. Most radically, she wants to end birth-right access to nationality, replacing it with a hereditary principle. She proposes to create 40,000 additional prison places in five years and introduce a prison sentence "in perpetuity" for the "worst crimes",

which is a slightly softened stance after she had originally campaigned in favour of the death penalty. She wants to recruit 15,000 new police officers and invest heavily in the modernisation of their equipment. Le Pen also plans to raise the national defence budget to 3% of GDP, from currently below 2%, by 2022 to build an aircraft carrier, hire 50,000 additional military personnel and progressively reintroduce compulsory military service.

Although her presidential commitments on foreign policy are mostly vague, she clearly intends to pull France out of NATO's integrated command structure so that, she says, the country is "not dragged into wars that are not its own". She also plans to "engage France in the service of a multipolar world based on equality in the law of nations, their permanent consultation and respect for their independence". This can mean a lot. Most likely, it means a much friendlier approach towards Russia.

Whether she could pursue any of these plans as president depends on support in parliament. A parliament that does not share her views would probably successfully block most of the domestic proposals. However, it is unsure how much damage Le Pen could do on the European and international stage.

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