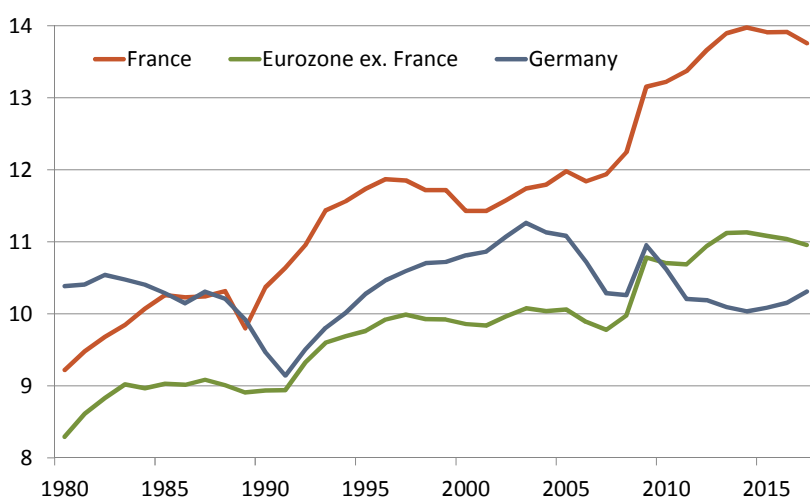


13 December 2019

French pension protests: a crucial test for Macron

Too generous to last for France? Government spending on pensions in % of GDP



Government spending on pensions, in % of GDP, annual data. Source: OECD, Berenberg

- Grasping the nettle:** Unlike most of his predecessors, French president Emmanuel Macron is not shying away from serious and unpopular structural reforms. Halfway into his term, he faces another crucial test. For the last week, striking public sector workers have paralysed the public transport system in protest against Macron's plans to overhaul the pension system. We expect him to prevail in the end, as he did against the gilets jaunes a year ago.
- A system unfit for the future:** For two reasons, France's pension system needs to change. First, it is too expensive. Workers retire early with an official retirement age of 62 versus Germany's age of almost 66. Blessed by a long life expectancy, they can usually enjoy a generous pension for many years. For women that now averages almost 27 years. Second, it is unfair. The panoply of 42 separate systems in the public sector awards costly privileges to some high-earning minorities such as train drivers. Unsurprisingly, train drivers are leading the protests against change.
- Slow-motion reform:** With his plans, Macron is on the right track. He wants to unify the system and phase out the special privileges of some sectors. To make the system fairer, he also wants to raise the minimum pension from €870 to €1,000 per month. Macron's reforms would not generate major savings fast. Aware of the French penchant to revolt against any change in entitlements, he intends to phase in the reform only slowly. Most cuts in entitlements would affect only workers born in 1975 or later, but not those closer to retirement age already. Instead, new incentives to work past the official retirement age of 62 will put the system on a more solid financial footing over time. By 2027, workers will have to remain on the job until they are 64 to receive a full pension.
- The French advantage:** By international standards, France's pension system would remain generous even if Macron's reforms are fully implemented and phased in. For two reasons, France can probably afford this. First, women in France have more babies, on average, than in most other countries in Europe (an average fertility rate of 2.0 in the last 10 years versus a 1.55 average for the other EU countries). Second, we expect Macron's recent labour market, welfare and education reforms to raise the French employment rate from 66% at least halfway towards the German rate of 77% over 10 years. If so, the ratio of people who work and pay into the system relative to those who draw pension benefits could develop more favourably in France in the next decades than elsewhere in Europe.
- Still on track for a golden decade:** Macron's comprehensive set of pro-growth reforms can usher in a golden decade for France. To unlock the French potential, the other reforms matter much more than the speed at which the pension reform is implemented. However, Macron must see to it that the reform gets passed. For that, he may need to leave the Élysée Palace and personally explain his policies across the country, as he did in early 2019. If he were to back down to such an extent as to spoil France's new reputation as a [reform leader](#) and a good place to invest and create jobs, the damage could be substantial. His record so far suggests that he is ready and able to persevere.

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