

Yellow Vests: Western Economies Need a Paradigm Shift

Mustafa Metin Başbay

Yellow Vests: Western Economies Need a Paradigm Shift

Mustafa Metin Başbay

© TRT WORLD RESEARCH CENTRE

ALL RIGHTS RESERVED

WRITTEN BY

Mustafa Metin Başbay

PUBLISHER

TRT WORLD RESEARCH CENTRE

JANUARY 2019

TRT WORLD İSTANBUL

AHMET ADNAN SAYGUN STREET NO:83 34347

ULUS, BEŞİKTAŞ

İSTANBUL / TURKEY

TRT WORLD LONDON

PORTLAND HOUSE

4 GREAT PORTLAND STREET NO:4

LONDON / UNITED KINGDOM

TRT WORLD WASHINGTON D.C.

1819 L STREET NW SUITE 700 20036

WASHINGTON DC

www.trtworld.com

researchcentre.trtworld.com

The opinions expressed in this report represents the views of the author(s) and do not necessarily reflect the views of the TRT World Research Centre.

Introduction

France has become the latest example of political turmoil in the West. What started as a protest against a new tax quickly culminated into one of the most significant social mobilisations in the recent history of France. This grassroots movement, dubbed 'yellow vests' after the hi-vis jackets protestors adopted as a symbol, has continued for almost two months, resulting in incidents of violence and destruction of property. Most of the anger is targeted at President Emmanuel Macron, who came to power in 2017 promising to modernise the French economy with sweeping pro-business reforms. He was forced to make concessions to protestors as he decreed a "state of social and economic emergency", which, according to many, marks the end of years of austerity in France. However, the verdict is unclear as to whether this will be the end of the disruption.

The ideological boundaries of the movement are unclear while the sociological profiles of the demonstrators are diverse. Similarly, the demands that have been raised are sometimes contradictory even though they are mostly economic in nature, which arguably connects the Yellow Vests Movement to the growing pattern of populist backlash against established politics throughout Western countries. It can plausibly be argued that Brexit, the Trump

Presidency, Italy's Populist government, and rising far-right movements across continental Europe have one underlying theme. People are discontent with the status-quo and they demand deep change, despite the fact that there may not be a consensus on the form or direction it takes. Unlike their British and American counterparts, who are rather passive-aggressive in their revolt, the French seem to have taken a more activist approach, perhaps following a long-standing national tradition.

Now people are demanding change and I would argue that they will get it one way or another. Growing discontent with the established economic order can give way to reinvention of the welfare state in the West through democratic processes, which is more inclusive and egalitarian. Obviously, this is the best-case scenario. However, history has proven revolution can also have an ugly face. As both right and left wing populism are on the rise, xenophobia and anarchism have already started to show that ugly face in many parts of Europe and the US. This is not the first time we see a major paradigm change following social unrest and political protestantism. It seems that France and other Western countries are once again at the dawn of a new age, which comes with a new socio-economic agenda. We are yet to see the true nature of this change and hope that history repeats the better parts of itself.

1. What is the Problem?

To many, the mass protests in France came as a shock. Relative to the US and the UK, which have become more unequal societies in recent decades, France had been celebrated as having achieved a more equitable socio-economic state of affairs. France is indeed less unequal in many ways thanks to its more progressive taxation system and significant investment in public services. However, ranking higher than other countries, where inequality and financial insecurity is a much deeper problem, has not translated into a feeling of contentment and stability among a significant number of French citizens. They are facing a stagnating real income and a growing distance between the highest and lowest income-earners. The truth is France has followed, and not defied the pattern of growing economic inequality in advanced economies since the 1980s even though it may have done a better job than the US and the UK (Piketty, 2017). Furthermore, it has its own particular problems in the labour market and the education system.

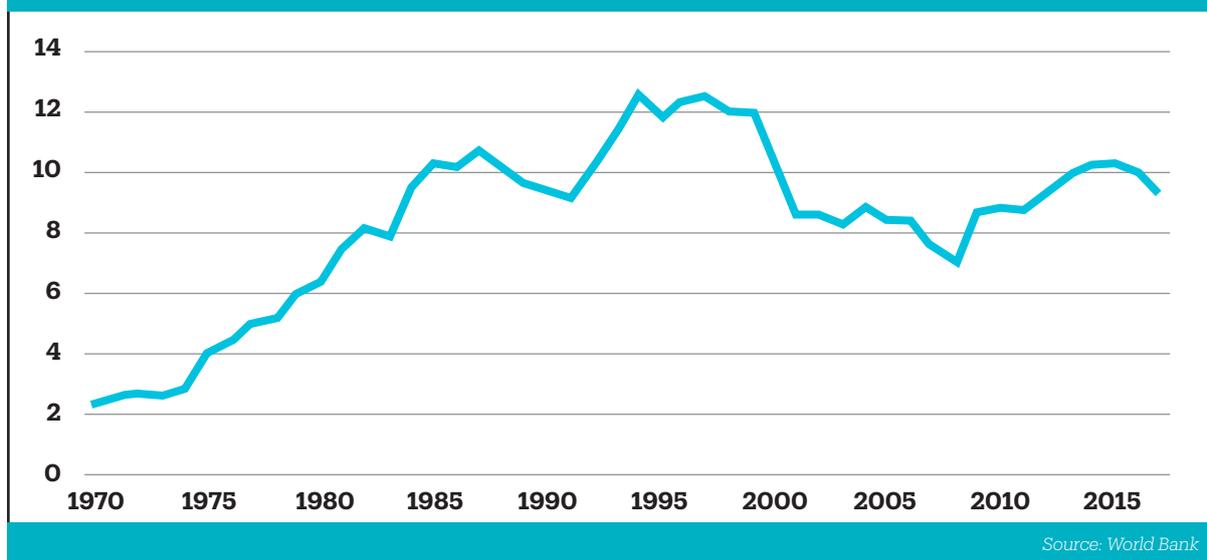
A careful inspection of the data reveals that the overwhelming majority of French people did not see much of a rise in their income even though top-income earners have experienced a sharp increase in recent decades. To be specific, between 1983 and 2014, the bottom 50% of French society has seen a 31% rise in their income whereas this number is 98% for the top 1% and 162% for the top 0.01%. Furthermore, this marks a dramatic change of pattern from the previous period. Between 1950 and 1983, the income rise of the bottom 50% was 236% while top income earners settled for a much, much smaller increase (Garbinti, Goupille-Lebret, & Piketty, 2018). This trend clearly indicates wealth concentration and stagnating living standards for the majority and that the young generation will actually have a lower quality of life than that of their parents.

Table 1: Income Growth and Inequality in France by Time Periods

INCOME GROUP	1950-1983		1983-2014	
	AVERAGE ANNUAL GROWTH	CUMULATED GROWTH	AVERAGE ANNUAL GROWTH	CUMULATED GROWTH
FULL POPULATION	3.30%	194%	1.00%	35%
BOTTOM 50%	3.70%	236%	0.90%	31%
MIDDLE 40%	3.40%	203%	0.80%	27%
TOP 10%	2.90%	157%	1.30%	49%
INCL. TOP 1%	2.30%	111%	2.20%	98%
INCL. TOP 0.1%	1.80%	81%	2.70%	128%
INCL. TOP 0.01%	1.80%	77%	3.20%	162%

Source: Garbinti, Goupille-Lebret & Piketty, 2018

Figure 1: **Unemployment Rate (% of working population), France (1970-2017)**



France also has, in President Macron's words, a "scandalous" unemployment problem (Viscusi, Deen, & Fouquet, 2018). The unemployment rate in France has steadily increased since the 1970s and is much higher than it is in other advanced economies. More importantly, French unemployment is not cyclical but structural, meaning it is not caused by the fact there is not enough economic activity or businesses to hire people but rather that the unemployed do not have the qualifications to be employed. French companies say they experience difficulty hiring while 9% of the French labour force is unemployed because they lack the education or talents that meet the demands of the fast-changing labour market in the digital age (Benoit, 2018). Consequently, these people do not have any prospects to find jobs even under favourable economic conditions and unemployment will remain a challenge in France, at least in the short-run. The problem, and the solution of course, lies in the education system, which brings us to the issue of social mobility in France.

It is true that France has a more or less accessible education system because it is free and open to all. However, this is not, in and of itself, a cure for social segregation. The French education system is critiqued as being elitist and undemocratic, providing little opportunity for social mobility. Most of the public funding for education goes to the high-quality 'grandes écoles' where children with privileged backgrounds usually go, while most pupils from disadvantaged

groups, namely minorities and the working class, do not even manage to make it successfully through secondary school. Even if they do make it to higher education, children from blue-collar households go to underfunded universities rather than high-quality grandes écoles. Only 2.7% of students in the grandes écoles are from lower socioeconomic backgrounds compared to 66% in other universities where only 27% of all students actually graduate with a degree (Aghion, 2018). Consequently, socioeconomic background is highly correlated with educational outcomes.

It is obvious from the data that France is no exception to the pattern of growing inequality in other Western countries and, in France too, low and middle income earners have been greatly disadvantaged by the changing socio-political dynamics of the recent era (Piketty, 2017). This is what President Macron means by "forty years of Malaise". So-called neo-liberal policies have created wealth, but only at the expense of working and middle classes. France, as all Western societies, is richer on average, however, there is more unemployment, more financial insecurity, and less income rise for the lower end of the economic spectrum. Furthermore, the unique nature of the French education system deepens the divide between the poor and rich rather than closing it. That's why fundamental tendencies in the French educational system, and especially those pertaining to social inequalities are a central focus of the ongoing discussion.

2. Socio-Political Background

It is not difficult to see the underpinnings of this dramatic pattern which made France an increasingly unequal and segregated society. As in the US and the UK, increasing inequality in France came in the aftermath of the great neo-liberal revolution in the 1980s. Ironically enough it was Francois Mitterrand's 'socialist' government that first adopted austerity policies in 1983. Since then, willingly or not, French politics has followed this trajectory. Ideas such as trickle-down economics fuelled policies, which mostly benefitted the rich at the expense of the poor, and capital at the expense of labour. It was assumed that tax breaks and incentives given to the rich would ultimately benefit the entire society through increasing employment and economic growth. However, forty years of experimenting with neo-liberalism and trickle-down theory have proven that it leads to nothing but increasing inequality and financial insecurity.

Data provided by Garbinti, Goupille-Lebret, and Piketty (2018) provides a fascinating account of the dynamics of growing inequality in France. As it was mentioned above, top earners' share in total income has steadily increased since the 1980s. According to the data they present, all this increase comes from capital earnings (income from stocks, bonds, real estate etc.) rather than labour income (wages) because, while bottom and middle incomes are primarily derived from labour, capital income becomes predominant at the very high end. Simply put, the wealth of the rich snowballed through portfolio assets which have risen much faster than GDP (overall economic activities). They also hint at the source of this pattern: It was driven by policy. A widening income gap between the poor and the rich is clearly due to pro-business policies, namely tax breaks provided to the capital income, following the belief that giving more wealth to the rich will benefit everyone.

However, unlike what was foreseen by the proponents of neo-liberal policies, this increasing income and wealth in the hands of the rich did not turn into more investment and employment. Instead, the poor paid a lot more in taxes and received a lot less in return while watching the rich get richer. Austerity programs squeezed the public services and benefits the poor get from the government while tax-breaks for the rich moved the tax burden towards them. As expected,

they gradually became suspicious of mainstream politics. The French middle and working classes now feel betrayed by their politicians, both on the left and the right, who slowly and consistently retreated from progressive taxation and dismantled the French welfare state for a promise that has never been realized, that is of creating more jobs and improving living standards.

President Macron exacerbated this feeling of discontent even further. Abolishing a wealth tax on financial assets and imposing a flat tax on capital gains, he relieved the rich from paying more taxes on their growing wealth and put more of a tax burden on the shoulders of the poor who already pay a lot on property (e.g. houses bought on mortgage) and labour income. He was referred to as a "president of the rich" and even likened to US president Donald Trump who, just like Macron, realized a similar tax reform shortly after he came to power. The French came to believe that he protects the interests of the elite and does not care about the well-being of the working people. Macron's background in investment banking and top-down leadership style seems to have reinforced that perception even more.

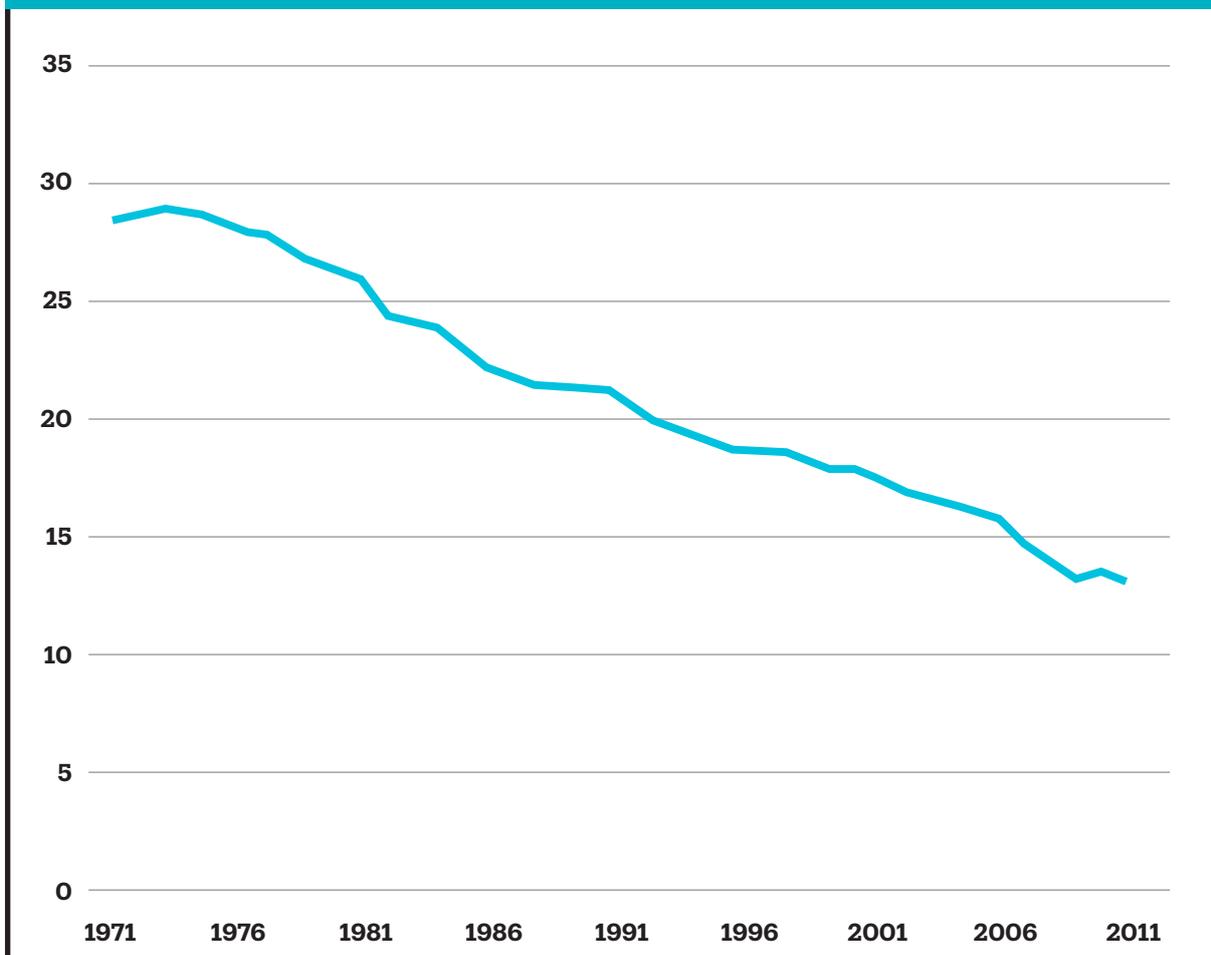
This did not start with Macron of course. A deep resentment towards the changing economic landscape was lurking in rural France for some time. Small-town resentment with the 'big city' is another dimension that connects the Yellow Vests phenomenon to the trend of rising populism in the West. From the rise of Trump to Brexit and the election of victory of populists in Italy, rural areas and small-towns have made their political voices heard in recent years. Similarly, most yellow vest protestors hail from small towns in the French countryside. Many interpret this as the revenge of the de-industrialized regions taken on financial centres, so-called 'global cities', of advanced economies (Guilluy, 2018). This has taken the form of anti-globalisation and anti-immigration rhetoric, seen particularly in the lead up to the most recent elections in France.

This is the other face of globalization. For the working class of developed economies, globalization is not a word that connotes positive developments such as innovation, diversity, multiculturalism etc. Rather, it often translates into unemployment, low pay, and less job security. With the rise of the financial sector and

the so-called knowledge economy, cities became the centres of educated white-collar employees as well as migrants serving them in their low-paying service jobs, while middle income working class people were gradually marginalized and eventually exiled from cities altogether. Not so long ago a working-class individual would assume a decent full-time job at a factory where he would work for decades. At the beginning of 2010s only 13% of French labour force was employed in manufacturing compared to almost 30% in 1973 (U.S. Bureau of Labor Statistics, 2018). This new social geography is the main source of the Yellow Vest phenomenon as well as the Western populist wave in general.

Therefore, the new tax on fuel was simply the straw that broke the camel's back. A populist backlash had been looming over French politics for a long while. Deepening economic problems of the poor and distrust in the established political order to effectively deal with these problems created a growing sense of resentment and anger among the middle and working classes. It is not ideology which gave rise to economic demands but the opposite. Dramatic shifts in Western politics can only be understood within a wider perspective of a changing power balance between the poor and the rich in recent decades. Rising populism in the west is largely driven by this deepening sense of losing power and economic security. Political action is motivated by these dynamics and it challenges the prevailing economic paradigm.

Figure 2: Manufacturing Employment (% of labour force), France (1971-2012)



Source: U.S. Bureau of Labor Statistics, 2018

3. What is Next for France?

In an attempt to make peace with the protestors, Macron has already pledged to meet some of their demands. Specifically, he promised to raise the minimum wage by 6% and discard some of the taxes recently levied on pensioners, minimum wage earners, etc.. However, despite President's reasonably generous concessions, people do not seem satisfied with the results. 80% of all French citizens still support the movement while protests continue to take place, though sporadically, in some parts of the country. People demand more than ad-hoc tax cuts and bonuses. Political instability is still considered one of biggest risks of 2019 in France as well as in other parts of Europe.

Western economies need a structural transformation in the way established economic order is functioning. The situation calls for an abolition of neo-liberal policies and the establishment of a new social contract, one that is based on a more collective mentality. The Average person does not care about average growth rates or stock markets moving up or down, instead, they want their privately experienced economic grievances to be addressed. Facing unemployment, a heightened tax burden, and stagnating wages, they see existing institutions as incapable of offering a bulwark against economic insecurity. Politicians and economists do nothing but make arguments about how all this social dislocation and economic marginalization will eventually make them better-off in the long run, which never seems to actually come true.

Unless these legitimate grievances and the anger they generate is addressed through democratic means, it will continue to give way to political unrest and disruption. Needless to say, this is not the first-time that the masses have taken the destiny of their country in their hands. In fact, students of history will realise that there is nothing new here. This happened in France before in 1789, in 1871, and in May 1968. Now it is happening again. Contrary to popular assumption, it is not that the French have a habit of revolting, risking their lives and freedom for uncertain political ideals, but rather that this is just a natural consequence of long-simmering socio-economic problems. When people are not represented in politics and their problems remain unresolved, they will use other ways to make their voice heard. This is just how

thermodynamics of society works everywhere. In the words of American President John F Kennedy, "Those who make peaceful revolution impossible will make violent revolution inevitable."

It does not have to take the form of street movements and violence either. In democracies, people will continue to punish those in power through elections. As always, populists capitalize on this. They will create the impression that they represent the concerns and economic problems of the underprivileged rather than the interests of corporations and the political elite, using legitimate demands for change as a vessel for their radical ideologies. In that regard, the latest French election provided a perfect showcase of what politics in France may look like in the future unless things change and change quickly. Marine Le Pen and her National Rally party (previously known as the National Front) have drastically increased their voter base and support for them continues to rise. Despite her efforts to de-demonize her followers' racist image in the eyes of the public and the media, Le Pen is still considered as a voice for nationalist populism due to her strong anti-globalization and anti-immigration rhetoric.

For France, there are two areas of reformation that may help the country avoid further political disruption. First, France needs labour market reform. According to French economist Jean Tirole, the current system is too strict as it overprotects currently employed workers. This may sound good but only for the workers who already have permanent, full-time contracts. For others, including the young generation who recently joined the labour force or those over-50, this means they will be pushed to less stable and unsatisfactory short-term jobs or unemployment. Firms are reluctant to hire more people because they do not want to face a high severance payment in case of an economic shock (i.e. a recession) when they need to reduce employment. Thus, the inflexible nature of permanent contracts in France adds to the unemployment issue. And, even when companies are really in need of more workers they avoid permanent, full-time contracts and employ workers only on a short-term basis (Tirole, 2017). The solution to this problem requires a more holistic and elaborate approach.

Second, as discussed above, France needs reform in its education system. Social mobility and the hope that comes with it, is a major force keeping a nation's social fabric intact. Currently only 20% of French students get high-quality education while the remaining 80% are offered only mediocre training. Young people realize that they will not be able to secure the same types of jobs as their parents because of the technological changes in the global supply chain. They need to be

equipped with the skills and training that is more in line with the rising knowledge economy. However, the inequality embedded in the French education system does not sufficiently provide the youth of less privileged backgrounds with this opportunity. This is an enormous waste of human resources. Additionally, lack of opportunity and vertical mobility in the social hierarchy places further strain on class antagonism.

Conclusion

The Yellow Vests are very angry with the political status-quo and the prospects of their future economic well-being. Now, they are protesting anything that represents established economic order. Perhaps it is no coincidence that France has produced one of the greatest inequality researchers of our time. Thomas Piketty not only addressed growing inequality in France but also successfully foresaw what has unfolded in French politics: *"...it is dangerous to address first and foremost those who have gained from globalisation and to invent a new French passion for the regressive tax, while the most vulnerable social groups have the impression they have been abandoned and are increasingly attracted by the sirens of xenophobia. It is urgent to face up to the fact that inequality does exist in France"*, he wrote in April 2017 (Piketty, 2017). Piketty's book, "Capital in the twenty-first century", is a best-seller but apparently his political comments are not that popular, at least among French policy-makers. Otherwise, they could have avoided a blow to their rule and a serious cost to their economy.

better chance to live a better life. All in all, it may be necessary for France to use a little bit of economic populism in order to counter the wave of political populism (Rodrik, 2018). In the process, a new social contract could emerge which gives lower economic classes better protection from economic insecurity in the age of digital capitalism.

The Yellow Vests' fierce resentment towards the existing institutions is not for nothing. People at the lower end of the economic spectrum feel they are economically marginalized by neo-liberal policies and their voices lost in economic arguments. People who are most affected by stagnating real wages, the massive wave of globalization and deteriorating work conditions that comes with it, will continue to punish the political and economic elite unless their problems are addressed. They want the burden that they carry to be relieved and to be given a

References

Aghion, P. (2018). 'Macron's Education Revolution'. Project Syndicate. 7 March 2018. Available at <https://www.project-syndicate.org/commentary/macron-education-reforms-by-philippe-aghion-and-benedicte-berner-2018-03>.

Benoit, A. (2018). '3.5 Million Jobless and French Companies Still Can't Find Staff'. Bloomberg. 12 February 2018. Available at <https://www.bloomberg.com/news/articles/2018-02-12/3-5-million-jobless-and-french-companies-still-can-t-find-staff>.

Garbinti, B., Goupille-Lebret, J., & Piketty, T. (2018). Income inequality in France, 1900-2014: Evidence from Distributional National Accounts (DINA). *Journal of Public Economics*.

Guilluy, C. (2018). 'France is deeply fractured. Gilets jaunes are just a symptom'. *The Guardian*. 2 December 2018. Available at <https://www.theguardian.com/commentisfree/2018/dec/02/france-is-deeply-fractured-gilets-jeunes-just-a-symptom>.

Piketty, T. (2017). 'Inequality in France'. *Le Monde*. 18 April 2017. Available at <http://piketty.blog.lemonde.fr/2017/04/18/inequality-in-france/>.

Rodrik, D. (2018). 'In Defense of Economic Populism'. Project Syndicate. 9 January 2018. Available at <https://www.project-syndicate.org/commentary/defense-of-economic-populism-by-dani-rodrik-2018-01?barrier=accesspay>.

Tirole, J. (2017). 'France must protect workers, not jobs'. *The Washington Post*. 30 November 2017. Available at https://www.washingtonpost.com/news/worldpost/wp/2017/11/30/france-jobs/?utm_term=.64819efe02bb.

U.S. Bureau of Labor Statistics, (2018). Statistics on Percent of Employment in Manufacturing in France. [online] retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/FRAPEFANA>. [Accessed 5 January 2019].

Viscusi G., Deen M., & Fouquet H. (2018). 'Macron Says French Structural Unemployment of 9% Is Scandalous'. Bloomberg. 13 February 2018. Available at <https://www.bloomberg.com/opinion/articles/2019-01-04/democrats-are-unified-on-the-shutdown-republicans-aren-t>.

World Bank, (2018). Unemployment Statistics for France, Data. [online] retrieved from: <http://data.worldbank.org> [Accessed 5 January 2019].

TRT WORLD
research
centre