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EUROPE

Macron, Facing Protests, Departs From EU Fiscal Strictures

France’s planned tax cuts could embolden Italy and others to push back against EU budget rules

France’s President Emmanuel Macron, center, flanked by Prime Minister Edouard Philippe, left, and Finance Minister Bruno Le Maire, attending a meeting Tuesday the Élysée Palace in Paris. PHOTO: THIBAULT CAMUS/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Matthew Dalton and Marcus Walker

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PARIS—French President Emmanuel Macron’s plan to defuse antigovernment protests with tax cuts risks bending European Union rules on budget discipline, threatening to anger Italy and other countries in the bloc that complain France gets special treatment.

Mr. Macron wants to hand cash to minimum-wage workers and cut taxes on payrolls and pensions to boost the meager purchasing power of lower-income French—one of the core complaints of the *gilets jaunes*, or yellow vest, movement that has swept the nation and threatened his presidency.

Mr. Macron also pressed employers that can afford it to pay year-end bonuses to their workers. Several large businesses immediately stepped up. Advertising giant Publicis said it would give staff a €1,000 ($1,140) bonus, and telecommunications company Altice said it would also pay bonuses. The CEO of telecommunications group Orange said it would soon propose measures in response to Mr. Macron's appeal.

The embattled president's fiscal concessions risk hurting his credibility as a standard-bearer for the EU and, more broadly, a rules-based international order. Mr. Macron ran for office promising to improve France's fiscal discipline, in part to persuade Germany to back his proposals for a deeper union among eurozone countries.

Having largely failed to win Germany over, he now faces pressure to follow a more traditional domestic policy: loosening the purse strings to the limit of EU rules or beyond to shore up his popularity.

"What he promised last night is a clear violation of European fiscal rules, intentionally so," said Zsolt Darvas, an economist at the Bruegel think tank in Brussels.

A bigger French deficit would embolden Italy's EU-skeptic government, which is currently wrestling with Brussels over its own expansive budget. Italian politicians including the far-right Deputy Prime Minister Matteo Salvini have accused the EU of hypocrisy by indulging France but seeking to punish Italy.

Accommodating Mr. Macron while taking a firmer stance with Rome risks deepening Italy's alienation from the project of European integration that it helped found.

"The task now is to avoid a big political crisis in Europe," said Xavier Rogat, an economics professor at Sciences Po in Paris. The pro-EU liberal internationalist Mr. Macron and the EU-skeptic nationalist Mr. Salvini represent two poles of the current political struggle over Europe's future. Mr. Salvini and other antiestablishment figures want a looser EU and more room for national divergence.

Mr. Salvini said on Tuesday he hopes the gilets jaunes achieve all their goals, and dismissed Mr. Macron as "a laboratory product" created by Europe's establishment to block change from the nationalist right.

French officials Tuesday sought to assure the EU executive, the European Commission, that Mr. Macron's plan won't push next year's deficit much over 3% of gross domestic product, the threshold deemed excessive by EU treaties.

Before Monday's announcement, France was targeting a deficit of 2.8% next year. Mr. Macron's new measures will cost €10 billion, or around 0.4% of GDP, according to French Finance Minister Bruno Le Maire. He said the government would look to cut spending on public administration to offset the new fiscal measures. “We want to stick to our European commitments,” Mr. Le Maire told reporters. “We will do our best to reduce public spending for the sake of being as close as possible to the 3% [deficit rule].”

The Commission says Italy’s spending plans would raise the country’s deficit to nearly 3% of GDP next year and over 3% in 2020. Italy’s public debt stands at 131% of GDP, compared with France’s 99%.

The commission is charged with reviewing EU countries’ annual budgets and can demand changes to budgets that are likely to result in excessive deficits. It can also fine governments that don’t listen, though that power has never been used.

The commission will probably tolerate a small and temporary breach of 3% by France, an EU official said.

French officials are exploring changes to corporate tax credits previously enacted by the government, which are set to boost the deficit temporarily in 2019 but to bring it down in 2020.

Still, Mr. Macron’s concessions this week appear to challenge the EU’s fiscal compact, signed at the height of the eurozone debt crisis, and which requires governments to run a “structural” deficit, adjusted for the economic cycle and one-time effects, of no more than 0.5% of GDP.

Countries with structural deficits above 0.5%, such as France and Italy, are supposed to make annual reductions toward the target. Mr. Macron’s plan is likely to increase France’s structural deficit, the EU official said.

That is a problem for Brussels as it fights against the rising structural deficit in Italy sought by Mr. Salvini and his governing allies.

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