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EMMANUEL MACRON: NEITHER LUDDITE*, NOR RENTIER

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Photo : T.PAVIOT

Emmanuel Macron is the youngest president in any of the great western nations. Neither right nor left, or, conversely, both right and left, the real significance lies in the French people's decision to raise Emmanuel Macron to the presidency of the world's fifth-largest power, a country with a seat on the Security Council, co-founder of Europe...a decision we can only applaud.

Eight years on from the worst recession since the Second World War, it seems clear that we have two cycles running in opposite directions: **a global economy which is coming good,** in the United States, emerging markets and the euro zone, and the **a global politics that is backsliding** into populism of both right and left amid fears for the future: Brexit, Donald Trump, Austria,

** A member of one of the English bands of textile workers, led by Ned Ludd, who, from 1811 to 1813 and in 1816, organised to smash machines, which they held responsible for unemployment.*

Italy, Germany, Islamism in the middle East, North Korea, etc. and a broad critique of the globalisation choices made in the post-war years: international agreements, free trade, etc. The liberation from poverty of millions in the third world, particularly China, is being eclipsed by growing inequality, loss of national identities and industrial restructuring in western countries.

In other words, the world is moving in two opposing directions as the global economy corrects its excesses and moves back toward growth while global politics deteriorates, advocating a return to the past and, ultimately, a protectionism which can, in the end, offer people little protection.

In this respect, the election of Emmanuel Macron has resonances far beyond France. The challenge for the next presidential term is to avoid current divisions blowing the process of European reconstruction off course and, with it, France's chance to adapt to twenty-first century realities.

Opposition to reforms has intensified. Ricardo-ite Luddites who, as Daniel Cohen has commented, feel menaced by new technologies that threaten their jobs and want to tax robots, or rentiers who fear competition that will erode their rents and would like protectionism to shore up their margins. In general, both "parties" see Brussels as the incarnation of their evils. Hereditary enemies are joining forces and rallying around Jean-Luc Mélenchon and Marine Le Pen.

The uberisation of society is in a sense the quintessence of these changes where the new work environment, driven by technology, is ramping up competition and mounting a frontal attack on rents. The "worker of tomorrow" will be facing their customers rather than their employers.

So, for the first time in history, Luddites and rentiers are making common cause against the reforms imposed (and facilitated) by technology and social change, with a good dose of hypocrisy in the case of rentiers who are trying to give a social spin to their push for protection.

Our new progressive president, by definition controversial for Luddites and rentiers, therefore bears a key responsibility for the changes to come. The outcome of the legislative elections will either help or hinder France's transformation and Europe's adaptation to the new paradigm shifts: following the rise in unemployment linked to delocalisation societies must now adapt to digitisation, artificial intelligence, robotisation and the urgent need to transform our economies to meet environmental challenges.

In financial markets, I have been struck for more than a year by the bullish resilience of markets ... negative newsflow is increasingly quickly given a positive spin. The post-Brexit correction last spring, following the unexpected out vote, was wiped out within a month. The US elections repeated the pattern, with the correction correcting in less than a week. The no vote in the Italian referendum sank without a ripple and the threats posed by the French elections barely widened French long-bond spreads to Germany while the relative pre-election decline by bank stocks disappeared as soon as the first-round results came out.

Logically, then, we can expect the arrival in the Elysée of a pro-European progressive, in the deep sense of the term, to bring together the political and economic tendencies in Europe, creating a resolutely bullish equities market across the continent. Market volatility will return to more natural behaviour – more intense than in recent months when the cliff-edge prospect of one of two populist parties winning the French elections induced near-total paralysis – reflecting real and persistent geopolitical threats.

On interest rates, peripheral countries, including France, will see spreads to German rates narrow further while global long yields continue their slow normalisation toward higher levels than today...

European office property will remain an attractive asset in an environment that will still offer low rates and, for France, historically low levels of economic rent and a Greater Paris that is "simplified" and growing in this political and economic environment (a positive impact of Brexit will be to make Paris more attractive).

For individuals, incentives to invest in the economy is clearly a priority of the new president:

- a flat tax** which will incentivise remuneration of risk-taking,
- tax breaks to relaunch employee shareholdings and other policies that tie employees into companies' value creation,
- reforms to restrict the ISF wealth tax to investment in rent: investment in first or second homes, investment property - residential and commercial - logically being taken out of the tax's scope along with equities and bonds...

We have yet to find a complement/substitute for the TEPA law encouraging investment in SMEs, innovation or investment property, but no-one doubts that English-style pragmatism is the way ahead for the French system. We could, for instance, easily imagine an English-type system for equity investments with personal income tax deduction or a waiver of the need for building permits to convert offices into residential space which could stimulate a supply shock.

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*** A flat-rate tax of 30% on capital income*

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