First Trust
Monday Morning OUTLOOK
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France and the Euro

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When the French elected François Hollande as President in 2012, the global left rejoiced. Mr. Hollande ran on a platform of protecting workers from capitalism. He wanted to raise the top income tax rate to 75%. Analysts predicted a political turn to the left across Europe, if not beyond.

But, anti-capitalist policies create blowback. We argued that in the high-tech age, Hollande's policies simply wouldn't work. If enacted, they would almost immediately do so much harm that others would not follow. The pendulum would swing the other way soon.

As we now know, Hollande figured this out. As a self-interested politician, he reversed himself to prevent a tailspin in the French economy. France's top income tax rate is 45%, not 75% and instead of increasing labor market regulation, Hollande made it easier for businesses to fire workers. He also gave companies the flexibility to reduce workers' hours and pay when the economy was in recession.

None of these shifts made France a free-market juggernaut. But, in the end, Hollande's Administration bears a resemblance to that of German Socialist Gerhard Schröder. He ran as a man of the economic Left, but governed as a man of the Center, enacting much of the labor-market deregulation that has made Germany the strongest economy in Europe.

Now, the pendulum has swung even more. In an election over the weekend, the French Establishment lost, while a political-upstart, Emmanuel Macron, emerged from a crowded field and is likely to win a run-off in two weeks to be the new president of France. Macron supports expanded free trade, a lower corporate tax rate, a lower payroll tax rate, limits on France's wealth tax, and more labor market deregulation.

From the standpoint of free markets, Macron was not the best candidate in the race. That title belonged to Francois Fillon, who ran on a platform as close to Margaret Thatcher and Ronald Reagan as any Frenchman could ever get. Fillon faced allegations he gave family members no-show jobs in his political office. In spite of this, he finished a strong third in this past weekend's election after leading in the polls last year.

Fillon received 19.9% of the vote, while the "French Trump" Marine Le Pen received 21.4% of the vote. Le Pen will now challenge Macron, who won with 23.9% of the vote, in the run-off election. As a group, these three candidates show the people of France clearly voted for a shift from France's historically left-leaning policies.

Our view is that this is a further vindication of the Euro. Countries like France are no longer able to let their currencies depreciate to temporarily hide the economic damage done by high tax rates, too much spending, and too many regulations. Just like in the U.S., if a French president wants to preside over a more prosperous economy, he has to tackle the burdens of a large bureaucratic state. There's no other choice.

Some argue that the Euro is too strong for countries like Italy, Portugal, Spain, and Greece. But voters in these countries want to keep the Euro in order to make sure their local leaders don't confiscate their hard-earned wealth through inflation.

What this does is force European leaders to find better fiscal policies. It's true that many countries were enticed to join the Euro with subsidies and rules that treated their government debt like it was German or U.S. debt. But this is bad fiscal policy, it has nothing to do with monetary policy. It may have been the political cost of creating the Euro, but it doesn't negate the benefits of a monetary union.

That Union is now bearing fruit as citizens realize the benefits of a single currency and understand the terrible cost of left-leaning fiscal and immigration policies. In spite of all the doom and gloom you've heard about Europe, and in spite of many real problems with governments that are still way too big, the European economy has better days ahead.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-25 / 9:00 am	New Home Sales - Mar	0.583 Mil	**0.588 Mil**		0.592 Mil
9:00 am	Consumer Confidence – Apr	122.5	**123.1**		125.6
4-27 / 7:30 am	Initial Claims – Apr 22	245K	**243K**		244K
7:30 am	Durable Goods – Mar	+1.3%	**+1.1%**		+1.8%
7:30 am	Durable Goods (Ex-Trans) – Mar	+0.4%	**0.0%**		+0.5%
4-28 / 7:30 am	Q1 GDP Advance Report	1.0%	**1.1%**		2.1%
7:30 am	Q1 GDP Chain Price Index	2.0%	**2.0%**		2.1%
8:45 am	Chicago PMI - Apr	56.4	**58.4**		57.7
9:00 am	U. Mich Consumer Sentiment- Apr	98.0	**98.0**		98.0