



EQUITY

Is France on the Cusp of a Thatcher Moment?

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French President Emmanuel Macron is preparing to take on France's powerful unions as he attempts to overhaul the country's labor code. Here, Philippe Brugere-Trelat, Franklin Mutual Series executive vice president and portfolio manager, Franklin Mutual European Fund, explains why a Macron victory on this front could open up opportunities for investing in French equities.

French President Emmanuel Macron has vowed to sign five decrees to loosen the country's restrictive labor code and make it easier for companies to hire and fire workers. Now France is waiting to see if trade unions will derail those reforms.

The General Confederation of Labour (CGT), France's most militant trade union, kicked off a strike on September 12 to protest against Macron's labor decrees. The protest is likely to gain widespread media attention and rattle some French voters, who have seen union opposition defeat past labor reform efforts from Macron's predecessors. Just last year, union strikes forced former French President Francois Hollande to backtrack on his proposals to limit court-imposed severance pay.

However, unlike Hollande, Macron has the support of the French Parliament. And, he didn't surprise the French public with his labor reform plans. He outlined his agenda during his presidential campaign. He and his cabinet fine-tuned those proposals after 100 meetings with representatives of employer groups and labor unions.

Historically, France's trade unions have had very extensive political power well above their original mandate to protect labor rights. However, they haven't previously encountered a potential roadblock like Macron. After Macron's party's rounding victory in the June French parliamentary elections, his party gave him the power to enact his decrees without a formal parliamentary debate or vote.

I think this is Macron's moment to show his strength. If he enacts French labor reforms despite union opposition, I think it could be France's "Thatcher moment." Like Macron's predecessors, the UK's anti-union governments had failed to implement labor reforms until former Prime Minister Margaret Thatcher's victory over the National Union of Mineworkers in 1985.

I believe Macron's labor reforms could lower France's high employment rate, which has been stuck around 10% for four years. There is a simple reason for this: companies have been by and large reluctant to hire as they have had to contend with onerous, rigid and complex labor regulations that have been negotiated at the national level with little regard to the different needs of local companies.

One of the main planks of Macron's proposed reforms is precisely to de-centralize labor relations away from a one-size-fits-all model negotiated at the national level back to more flexible local contracts negotiated at the company level. This should radically transform labor contracts across all sectors, but labor-intensive industries, such as retail and manufacturing, stand to potentially benefit the most from a more flexible labor market.

Higher employment, combined with Macron's proposals to cut payroll taxes, could also lead to higher disposable income. I believe that could benefit consumer cyclical stocks.

What's more, I think if Macron is also successful in efforts to lower corporate taxes and free up investment rules, it could boost consumer-banking revenue in the French banking sector.

There is momentum which is ready to start rolling if Macron proves he is indeed the man who can deliver on the long-expected reforms of France's labor market.

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