First Trust
Monday Morning OUTLOOK
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Vive La France?

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It's not happening just in America. France will also elect a President this year. The French go to the polls on April 22 and, if necessary, a run-off vote will happen on May 6. The two top candidates are current president Nicolas Sarkozy – center-right by French standards, center-left by American – and the Socialist nominee Francois Hollande.

Last week, Mr. Hollande announced he wants to raise France's top income tax rate to 75% from the current peak of 41%. He said "patriotism" and "justice" should convince French citizens to support his candidacy and his tax hike. The new tax rate would apply to those making more than one million euro per year (about $1,300,000). Those making more than €150,000 ($200,000) would face a tax rate of 45%.

One thing most people know about us is that we are not friends of higher tax rates – they slow growth and undermine economic activity. Nonetheless, we see Mr. Hollande's proposal as a "win-win" for global supporters of small government and free market capitalism.

Hollande is currently up by 10+ points over Sarkozy in polls. We would be very surprised if his lead doesn't shrink substantially in the next several weeks.

If it does, then France – France! – can actually lead the advanced economies of the world in repudiating the left-wing effort to push income tax rates back up to pre-Reagan era levels. To paraphrase Frank Sinatra, if those kinds of tax rates can't make it in France, they can't make it anywhere.

But what if Hollande goes on to win? Right now, the top income tax rate is 41%. For every euro a worker in this tax bracket generates as income, he keeps 59 cents to spend. When spent, this money faces a value added tax (VAT) of 19.6%, meaning that every euro of earnings generates 52.6 cents for the government and 47.4 cents of personal consumption.

In Hollande's France, one additional euro's worth of output would get taxed at 75%, leaving the worker with only 25 cents on the euro. Then, the same VAT would apply to any spending, meaning that the worker gets to consume only 20.1 cents out of every euro. In other words, the marginal return to additional work would fall by more than half (from 47.4% to 20.1%).

The natural result will be a combination of less work by France's most productive citizens, a demand by these workers for higher pre-tax pay (which will spread the burden to those with more modest incomes), and some of France's best and brightest seeking their fortunes elsewhere.

During the 1980s, President Reagan's tax cuts helped re-make the US as an example for the world, "a shining city on a hill." The world copied Reaganomics, with virtually every country in the world following suit. Hollande's tax hikes would make France a "dingy city in a ditch" and, after watching what happens there, we doubt the US or world will follow, no matter who wins US elections this November.

Either way, through repudiation or bad example, we think the US will eventually be the better for it. Vive La France.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-5 / 9:00 am	Factory Orders - Jan	-1.5%	**-2.2%**	-1.0%	+1.2%
9:00 am	ISM Non-Man. - Feb	56.1	**56.9**	57.3	56.8
3-7 / 7:30 am	Q4 Non-Farm Productivity	+0.8%	**+1.5%**		+0.7%
7:30 am	Q4 Unit Labor Costs	+1.2%	**+2.6%**		+1.2%
2:00 pm	Consumer Credit – Jan	$11.0 Bil	**$10.0 Bil**		$19.3 Bil
3-8 / 7:30 am	Initial Claims - Mar 3	351K	**351K**		351K
3-9 / 7:30 am	Non-Farm Payrolls - Feb	210K	**225K**		243K
7:30 am	Private Payrolls - Feb	220K	**240K**		257K
7:30 am	Manufacturing Payrolls - Feb	20K	**18K**		50K
7:30 am	Unemployment Rate - Feb	8.3%	**8.2%**		8.3%
7:30 am	Average Hourly Earnings -Feb	+0.2%	**+0.2%**		+0.2%
7:30 am	Average Weekly Hours - Feb	34.5	**34.5**		34.5
7:30 am	Int'l Trade Balance - Jan	-$48.6 Bil	**-$48.4 Bil**		-$48.8 Bil