The bad accounts of Emmanuel Macron, thematic contribution economics

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The COVID-19 pandemic is taking a heavy social and economic toll in Europe and France. By mid-October 2020, more than 240,000 people have died from the disease in Europe, and nearly 7 million have been infected with the virus. Containment measures implemented in early spring and voluntary physical distancing have disrupted supply chains and reduced demand, leading to an unparalleled collapse of economic activity.

After a year 2020 marked by the violent effect of the health crisis for all economies, the question of the evolution of 2021 is more acute. The second wave of coronavirus now leaves new uncertainties about the recovery, and the IMF has just delivered its latest activity forecasts in October. Now, at the global level, projections now foresee a recovery in 2021 with a growth of 5.2%, after a 4.4% decline in 2020. The reason for this growth is a recovery in the third quarter which was strong, but without returning to pre-crisis levels.

In France, the choice of a neo-liberal policy is not equal to the stakes: in 2021, France will experience a higher rate of unemployment and no major structural reform will have been carried out in this five-year period.

1/ A more favorable global environment in the third quarter.

With estimated growth of 5.2% in 2021, the euro zone, led by France and Spain, would fare better than the United States or Japan, while the recession experienced by Europeans in 2020 was more severe. Surprisingly also, China would return to growth of more than 8% in 2021 without experiencing a recession in 2020. On the other hand, growth would be much more moderate in Russia and Brazil because of their high exposure to raw materials.

GDP growth forecast (%)				Unemployment (% of GDP)		
Country	**2019**	**2020 proj.**	**2021 proj.**	**2019**	**2020 proj.**	**2021 proj.**
United States	2,2	-4,3	3,1	3,7	8,9	7,3
China	6,1	1,9	8,2	3,6	3,8	3,6
Eurozone	1,3	-8,3	5,2	7,6	8,9	9,1
Germany	0,6	-6	4,2	3,1	4,3	4,2
France	1,5	-9,8	6	8,5	8,9	10,2
Italy	0,3	-10,6	5,2	9,9	11	11,8
Spain	2	-12,8	7,2	14,1	16,8	16,8
United Kingdom	1,5	-9,8	5,9	3,8	5,4	7,4
Japan	0,7	-5,3	2,3	2,4	3,3	2,8
India	4,2	-10,3	8,8	nd	nd	nd
Russia	1,3	-4,1	2,8	4,6	5,6	5,2
Brazil	1,1	-5,8	2,8	11,9	13,4	14,1
Advanced countries	**1,7**	**-5,8**	**3,9**			
Emerging countries	**3,7**	**-3,3**	**6**			
World	**2,8**	**-4,4**	**5,2**			
Source: IMF October 2020						

Given the very difficult situation in the last quarter of 2020, in all regions of the world, these forecasts include a high degree of uncertainty because they are based on health factors public and economic randomness. The resurgence of the pandemic will certainly lead to a decrease in these forecasts. Second, again according to the IMF, after the rebound in 2021, global growth will gradually slow to about 3.5 percent. The pandemic will thus undermine all the progress made since the 1990s in reducing poverty and inequality.

GDP results in the second quarter delivered positive surprises, and the first results for the third quarter point in the same direction. As countries reopened their economies and lifted spending restrictions, overall activity has normalized. The recovery from the April lows was first seen in the retail sector, thanks to an increase in household spending. Firms remained more cautious about this surge, as industrial production in many countries is still well below December's levels. World trade grew from June onwards, due to the strength of the Chinese recovery. China's exports have recovered from the sharp falls at the beginning of the year, thanks to an earlier recovery and a sharp increase in foreign demand for medical equipment and equipment to facilitate the transition to teleworking.

However, the news has not been positive everywhere. GDP in the second quarter was lower than expected in countries, for example, where domestic demand collapsed following a very sharp drop in consumption and investment (as in India) and where the pandemic continued to spread (as in Mexico). In the United States and the euro zone, the economy contracted at a record pace in the second quarter, but less than initially expected, thanks to government support to supplement household income.

The outlook has worsened in certain emerging countries where the number of infections is increasing rapidly. Excluding China, these countries will suffer a heavy loss of production, which will call into question the prospects for global convergence of income levels.

As a result of the second quarter publications, particularly in China, and the various measures taken by central banks and governments, the IMF expects growth to improve in 2020 compared with its previous June estimates. These various actions have helped to preserve household income, corporate solvency and credit. The 2008/2009 financial crisis was thus avoided.

2/ The European situation, points of divergence between France and Germany

The VIDOC-19 pandemic and the associated containment measures have prompted unprecedented government fiscal measures that totaled $11.7 trillion, or nearly 12% of global GDP, in September 2020. Half of the fiscal measures were expenditure or revenue shortfalls, including temporary tax cuts, and half were liquidity support measures, including public sector loans, guarantees and capital injections. The authorities' response has saved lives, helped vulnerable people and businesses, and mitigated the impact on economic activity.

Analysis of the evolution of the outlook for GDP and unemployment in the euro area shows significant divergences. In 2020, the euro zone is expected to decline in terms of GDP by 8.3%. The gap is substantial between Northern and Southern Europe, since Germany would lose only 6% of growth with an unemployment rate of 4.3%, while France, Italy and Spain are expected to be around -10% and -12.8% for Spain and an unemployment rate of between 8.9% for France and 16.8% for

Spain, with no improvement over 2021. On the contrary, according to the IMF, France would still have an unemployment rate in 2021 of 10.2%, the highest increase with Great Britain, see previous table.

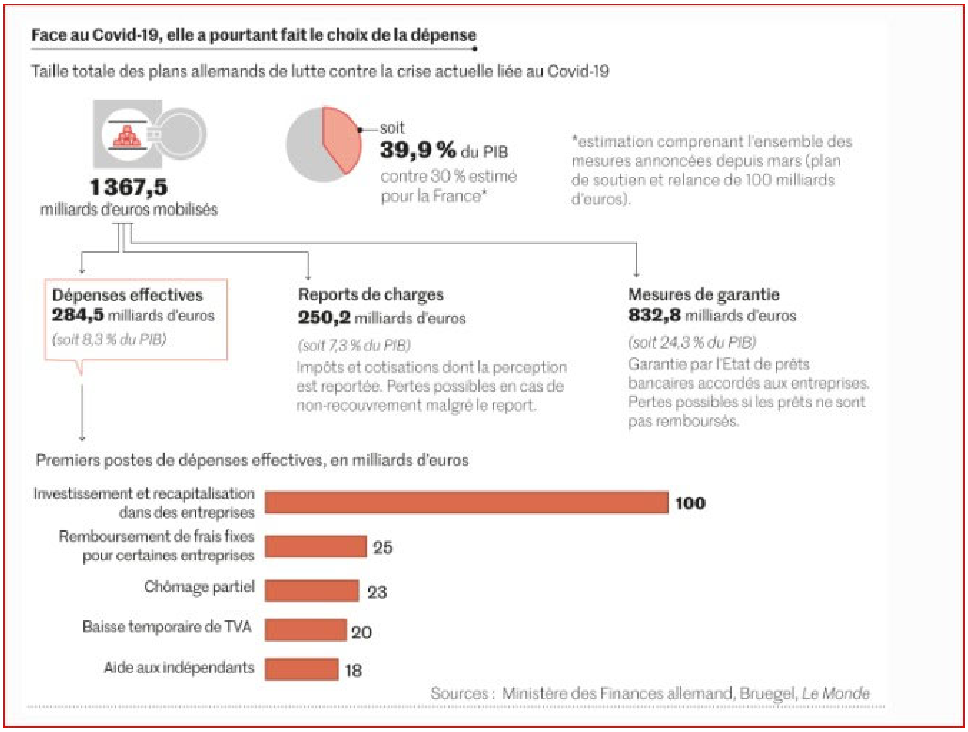
The means implemented by Germany to counter the crisis seem to be much more effective and these results confirm the delay of Southern Europe and particularly of France compared to the Rhine model. Germany's energetic reaction to the crisis risks putting us far behind it for several years to come. Let's analyze the main factors differentiating the two models.

The first favorable element for Germany is that it is tackling this crisis with greater room for maneuver due to more virtuous public finances. Before the crisis, Germany's budget was in surplus and its debt did not exceed 60 per cent of GDP. After this crisis, the debt-to-GDP ratio is not expected to exceed 75 per cent, which is a comfortable level. In comparison, France's public deficit is expected to reach a record 11.4 percent of GDP at the end of the year, while the debt could be close to 120 percent of GDP. Germany has thus been able (or able) to adopt a better strategy for fighting the virus, with more tests and a more appropriate containment policy. It has emerged from this health crisis less affected than France or Southern Europe. Nevertheless, it is not spared by the crisis and moreover, due to the slowdown in world trade, it was in recession even before the Covid crisis. The German export model suffered very early on from the Chinese slowdown and the closure of European outlets, hence Merkel's acceptance of the European recovery plan. Stimulus measures were then much more substantial. Thus, in France, the aid plan represents (excluding loan guarantees and payment deferrals) only 2.4% of GDP, while German aid represents 11% of GDP, for a GDP that is around 40% higher. These measures do not only concern the healthcare system or corporate cash flow, but are part of a real industrial recovery project in favor of businesses and households. Germany will thus provide €50 billion for its healthcare sector, €50 billion for e-mobility and distance working and a reduction in VAT (from 19 to 16%) and other taxes to the tune of €35 billion.

The recovery plan comes on top of the huge plan of more than 1 000 Bd€ set up in March, at the height of
the pandemic, providing aid to businesses and billions of euros in guaranteed loans.

Germany has thus committed itself to a substantial fiscal stimulus. On the business side, Germany is planning €50 billion in direct aid to micro-businesses and the self-employed, and a €100 billion program to recapitalize companies that are victims of the health crisis. This means that nearly €300 billion of effective expenditure will be injected into the economy and post-confinement investment.

France seems to expect too much from the hypothetical European Recovery Fund, which will be implemented late. Out of the €349 billion European plan, only 5.9% will be mobilized in 2021, and the French share is 10.4%: in other words, the impact of the European recovery in France in 2021 will only be €2 billion. With the €100 billion recovery plan, France is therefore far from meeting the requirements.



France is therefore not reacting fast enough to the contraction in GDP, as it did in 2008, and will still pay the price in 2021. Conversely, Germany will have partly recovered by 2021. After ten years of stronger growth on the other side of the Rhine, the balance of economic forces is therefore far from being reversed.

3/ Recommendations for getting France out of the crisis and combating unemployment and inequality

Faced with a situation that is likely to become even more complex, it is important to propose fiscal countermeasures, particularly to mitigate revenue losses, encourage hiring, increase social assistance, provide credit and inject capital into businesses. To preserve jobs, there is a need to continue to support businesses, but with constraints on job preservation. Moratoriums on debt service and equity or similar asset injections will be required as the role of the BPI is deployed and strengthened. As the crisis subsides, workers will need to be supported, including through income transfers, retraining projects and retraining programs, resulting in increased training budgets.

The objective is to devote a larger share of GDP to direct spending and liquidity support. The social component is also important. Persistent output losses imply a sharp decline in living conditions compared to what was expected before the pandemic. This will increase the incidence of extreme poverty and increase inequality, as the crisis disproportionately affects women, workers in the informal economy, and people with relatively low levels of education. The decline in human capital accumulation after the widespread closure of schools is also an additional challenge.

A debate on the taxation of persons and companies must be set up immediately. It is necessary to increase the progressivity of taxes, ensure that companies pay their fair share of tax burdens and, at the same time, eliminate unnecessary spending and favour companies that hire and invest. These short-term support measures must be designed to in order to place France on the path to stronger, fairer and more sustainable growth. To achieve this, we propose a strong push for environmentally friendly public infrastructure, a gradual increase in carbon prices and compensation for low-income households to make the transition fair. More generally, a strengthening of the social protection system to fill the gaps identified can help protect the most vulnerable while supporting activity in the short term. Investments in health and education (especially to address losses incurred during the pandemic) should also help ensure participatory and inclusive growth.

We will need to make a strong case for public investment in these times of heightened uncertainty. These initiatives have prevented even more extreme collapses and are a powerful reminder that effective and well-designed measures can protect individuals and preserve collective economic well-being. Based on these initiatives, the measures taken during the next phase of the crisis must be aimed at achieving lasting improvements in the French economy in order to create a secure and prosperous future for all.

Sustaining the recovery will also require enhanced international cooperation in the health sector.

Conclusions

The current crisis has accentuated existing problems and created new ones. Existing ones include low productivity growth, climate change, the digital transition, ageing and growing inequality. The crisis has undermined potential supply, led to increased debt and hindered human capital accumulation. Addressing all these issues is essential for public authorities to foster recovery, limit the medium-term impact of the crisis and enable the French economy to become more resilient, greener and smarter as it emerges from the pandemic.

The French government's proposed plan does not live up to expectations. Our strategy is to propose a new investment plan financed by launching a major national loan, in the form of grants and not loans, since companies and local authorities are already sufficiently indebted. As indicated above, this plan will have to be used for targeted investments in health (public hospital), transport, mainly railways, an energy rehabilitation plan for housing (public buildings and social housing) and education (resolution of the social divide linked to digital access).

In summary, the question of the budget envelope posed and the investment objectives,
Reindustrialization will be done by :

• the resumption of investments in productivity and capacity to restore the competitiveness of the offer

Training and research are the essential points to counter deindustrialization.

• the revival of demand to provide companies with a solvent domestic market through wage increases.

• Financing of companies through public and private investments and measures strong tax incentives

Key Proposals :

To affirm the role of the state as an industrial strategist, an incentive for industrial development, regional balancing and funding assistance.

Define with Germany a first roadmap with the objective of fiscal convergence

Define priorities with the territories in the fields of competitiveness on a European scale.
industrial sectors in which we are competitive.

Modulation of corporate income tax by taxing distributed profits and share buybacks more heavily. Increased taxation of stock market transactions and in particular high-frequency trading activities.

Simplification of taxation and rebalancing between the actual contributions paid by the major countries.
groups and SMEs.

Fight against fiscal and social dumping at the European level.

Draining household savings towards SME financing (reflections on a redeployment of life insurance).

Doubling of the PEA ceiling even for old contracts from €150,000 to €300,000).

Decrease in the unit-linked tax rate and increase in taxation for contracts guaranteed in euros.

Launch of a sovereign fund to support investments in the energy transition **Jean-Noël Vieille,**

section secretary and voted by the entire section (06 85 91 26 26) Frédérique Dutreuil

Pierre-Michel Escaffre

Romain Girard

Nicolas Larmagnac

Yannick Dejoie