<u>The Outlook: June 28, 2017</u>

"How stupid do you think we are?" 4 years later, Mr. Macron answers Mr. Taylor.

Four years ago, an American CEO wrote one of the most astonishing letters in business history. Outlook wrote about it at the time, but today it became interesting all over again. The CEO, Maurice Taylor of Illinois-based tiremaker Titan International, broke every rule of business diplomacy, as he "explained" to the government of France why Titan was canceling further discussions about buying a money-losing French tire factory (which Goodyear was trying to sell after years of failure to make it profitable.) Mr. Taylor's letter was so offensive—as far as France was concerned—that it created a minor political uproar. Here's why:

> *"Goodyear tried for 4 years to save part of your factory's jobs but the French unions and government did nothing but talk. I have visited that factory a couple of times. The French workforce gets paid high wages but works only 3 hours. They get 1 hour for breaks and lunch, talk for 3, and work for 3. I told this to the French union workers to their faces. They told me that's the French way! Sir, your letter states you want Titan to start a discussion about buying the factory (to preserve 1,173 union jobs.) How stupid do you think we are? Titan is the one with the money and talent to produce tires. What does the crazy union have? It has the French government. You can keep the so-called workers. Titan has no interest in the Amiens factory."* Maurice Taylor, Titan International. (Mr. Taylor's nickname, it turns out, was "The Grizz.")

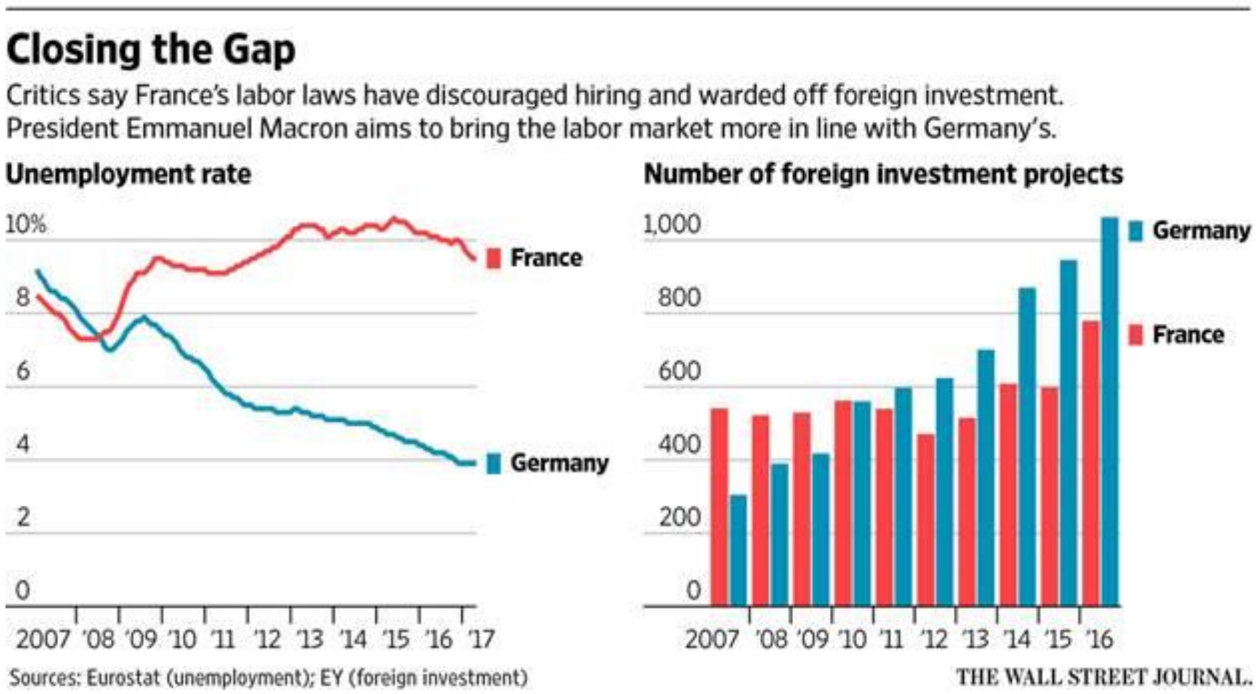
And here is today's headline concerning France: "Macron Outlines Plan to Overhaul France's Labor Laws."

Let's pause for just a moment to talk about simplicity versus complexity. During a lifetime in the investment world, about 99% of everything Outlook has ever read is complex. That's no compliment; it's a harsh criticism. At Outlook, having some scientists in the family, we accept that it's not easy to talk about geochemistry or biomedical engineering using words that all of us can understand. But economics, business, investments, politics, and every single "social science" are <u>not</u> science. They are not remotely close to science. So when that 99% of eminent authorities and distinguished pundits cannot talk plainly (or they choose not to) Outlook firmly concludes that they also can't think plainly—which means thinking straight. What we say, and how we write, are actually how we think, as well.

When Mr. Taylor wrote that letter 4 years ago, Outlook would bet a lot of money that many French business people—and even quite a few French politicians—said to themselves (in the privacy of their own minds, also possibly in a locked room just to be safe) "Of course he's right. But only a crazy American would <u>say</u> it, *nom de Dieu*." Outlook would also bet that not one of those private thinkers could have imagined today's headline: "Macron to Overhaul Labor Laws."

Mr. Macron, of course, is the newly-elected President of France—whose brand new party just won a downright incredible absolute majority in the French parliament . . . giving him the power to actually <u>do</u> something to lift the French economy from its awful, decades-long stagnation. The Wall Street Journal story under today's headline held a few nuggets of crystal clarity, unfortunately lodged in a sea of muddy complexity and confusion. The nuggets? 3000 pages of labor regulations; fines for dismissing workers, on top of piles of regulations which essentially make it illegal to lay off workers anyway; tremendous power for unions; near-helplessness for employers.

Germany faced the same swamp 15 years ago, and took dramatic action to give markets and businesses a chance to succeed. Here was the result:



Looking at that stark chart on the left—French unemployment 10%, German 4%--the Journal's keen analysts hemmed and hawed, allowing as how many complicated factors were at work to produce that result, and it would be naïve to think Mr. Macron's attempt to copy Germany's dismantling of growth-killing labor laws would work the same way. (It's well to remember that the only free-market, pro-competition part of the Wall Street Journal is the editorial page—not the "reporting" pages.) And Outlook's response to the "many complicated factors" notion is simple: "Never mind the complex statistics and studies. Here's the simple question: Why would a French employer hire anybody he could never fire, if he wanted to survive the constant ups and downs of every business? Why, in fact, would anybody in the world—French, American, businessman, bureaucrat, you name it—personally hire anyone for any reason, spending his own money to do so, if he would be stuck forever with the added cost?"

<u>The single most important thing going on in Europe right now is not Brexit. It's Mr. Macron's attempt to "fix" the French economy.</u> No political leader has seriously tried to do so for decades . . . so France has endured terrible stagnation and sky-high, hope-killing unemployment among the young for decades. Numerous surveys as well as more fact-based economic indicators have been signaling a small but distinct surge in economic activity, business investment and general morale in Europe, these past several months. If Mr. Macron is even partly successful, there will be good reason for that surge . . . and good news for the U.S. and global economies (and quite a few Outlook core companies), which would absolutely benefit from a Europe acting like it might know how to go about <u>growing</u>, again.

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