

News Analysis: Is Sarkozy an old-style Gaullist in disguise?

By Katrin Bennhold

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PARIS: When Nicolas Sarkozy was appointed finance minister in 2004, a collective sigh of relief passed through Brussels - finally a Frenchman with free-market instincts was in charge. A month later, as Sarkozy fought to bail out the train maker Alstom, European Union officials were forced to reconsider their enthusiasm.

The past few weeks have seen the seeds of a similar revision. Sarkozy's election in May as president and his bold reform promises were praised in many European capitals, and his whirlwind initiative to help Germany clinch a deal on a simplified constitutional treaty bolstered his political capital in the 27-nation bloc.

But in recent days, criticism of Sarkozy's interventionist language and unapologetic intent to ignore EU budget rules is mounting. The question that Eurocrats, central bankers and fellow politicians are asking is the same they asked three years ago: Is the man who wants to shake up France's labor market and ignite economic growth with a flurry of tax cuts the liberal European he claims? Or is he an old-style Gaullist in modern disguise?

The answer may be more mundane, says Elie Cohen, an economist at the National Center for Research and Studies. Sarkozy's election program, which includes some €13 billion, or \$17.7 billion, in tax cuts, is not compatible with a commitment by Euro zone countries to balance the budget by 2010, heralding more clashes in the months and years ahead.

"There is a fundamental contradiction," Cohen said. "He is respecting his campaign promises and that is getting him into trouble with Brussels. He has put himself into a bind."

This contradiction has come into sharper focus in recent days. Sarkozy has been quick to take credit for saving the EU from its constitutional impasse and misses no opportunity to display his pro-European credentials. His presidential portrait, which graces city halls across France, shows him against the backdrop of both a French and European Union flag. The traditional Bastille Day parade next week will be held under the European banner, with units from the other 26 EU countries participating.

But at the same time the new president has stepped up his rhetoric against several of the bloc's institutions.

In a speech Monday in Strasbourg, home of the European Parliament, he sometimes struck a Euroskeptic tone, questioning the independence of the European Central Bank by calling for a devaluation of the euro, and reiterating his view that competition should not be considered a pillar of the EU's identity. Next week, he will make an unusual appearance at a meeting of EU finance ministers to explain his decision to put off balancing the French budget until 2012, effectively undermining the EU's budget rules that are known as the growth and stability pact.

"Institutions, procedures, directives and rules are not ends in themselves," Sarkozy declared in Strasbourg, calling for a Europe "that does not submit itself to the pseudo-dictatorship of the market," and one "where the euro will finally be put to the service of growth."

Reactions were swift. On Thursday, the European Central Bank president, Jean-Claude Trichet, took a thinly veiled swipe at Sarkozy's plans to stretch out the time that France will take to balance its budget, expressing "concern" at the "pressures emerging in a number of countries to relax previous fiscal consolidation targets."

On Wednesday, the German finance minister, Peer Steinbrück, whose country has made debt and deficit reduction a priority, warned that if Sarkozy ignored the 2010 deadline "there would be a problem." German officials have also pointed out that the euro's exchange rate has not stopped their country from being a top exporter.

Meanwhile, the new chancellor of the Exchequer in Britain, Alistair Darling, lashed out at Sarkozy's goal of nurturing national industrial champions, a policy known as economic patriotism. "Economic patriotism is protectionism, there is no other name for it," Darling told The Financial Times.

French officials dismissed concerns that Sarkozy's pro-Europe enthusiasm was more spin than substance.

"The enthusiasm is still there - more than ever," David Martinon, Sarkozy's spokesman, said Thursday. "The objective to balance the budget was put off by two years but obviously that does not mean we're abandoning our objective. Obviously, France will continue to respect its European obligations."

Martinon confirmed that Sarkozy was serious about trying to sell his counterparts in the euro area on the idea of "a different monetary policy and economic governance" - another reason he will accompany his finance minister to the meeting Monday. "On subjects that are this essential and that he talked about throughout his campaign, he prefers to speak himself," Martinon said.

Many economists agree with Sarkozy that the euro's high level is not justified by European productivity growth. Like him, they blame artificially low exchange rates in some Asian economies. But most consider his vague proposals to rein in the European Central Bank and intervene in currency markets at best ineffective and at worst harmful to price stability and economic growth in the region. Some accuse him of populism in proposing changes that would require an unlikely consensus among all 13 countries sharing the single currency. "No one will support him in the EU," said Cohen, the economist.

"You can't create new credibility for yourself in the EU by criticizing EU institutions or ignoring EU rules," said Cohen, who is a member of an independent panel of economists advising the prime minister.

For all his pro-European symbolism, Sarkozy has shown little willingness to abandon certain nationalist instincts of past French leaders. He has defended EU agricultural subsidies against demands for greater trade liberalization. He has shown little inclination to withdraw from France's aim of creating national champions, particularly in the energy sector. On Thursday, he debated the future of the state-controlled gas company Gaz de France with his prime minister and finance minister. And rather than encouraging globalization, he has appeared to reinforce French fears of unfettered capitalism - for example, by fighting to remove a largely symbolic affirmation of EU competition policy from the revamped treaty agreed last month in Brussels.

"Sarkozy talks right but rules left. Portrayals of him as a French Thatcher who will shake things up are vastly exaggerated," said one EU official in reference to the former British prime minister Margaret Thatcher. "He is, after all, French."

Dan Bilefsky contributed reporting from Brussels and Carter Dougherty from Berlin.