Capitalism and morality

NICOLAS SARKOZY
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We consider that in Europe we have already invested a lot for the recovery

French President Nicolas Sarkozy will be hoping to maintain the initiative and international influence at the London April G20 meeting he has gained from organizing its predecessor in Washington last November.

The French leader's then role as president of the European Council enabled him to initiate a series of unprecedented summits.

He was the first world leader to propose a top-level meeting on the world financial crisis, in a speech at the United Nations on September 23rd.

As European governments rushed to shore up collapsing banks, President Sarkozy convened the first summit of the heads of state and government of the 15-member Eurogroup at the Élysée Palace in October.

Their plan, to rescue banks and guarantee interbank lending, as well as to regulate ratings agencies, hedge funds, tax havens, and reform accounting procedures, was endorsed by the European Council four days later. The same document was the foundation of the declaration issued after the November 15th G20 summit in Washington, which set out a broad policy response, based on closer macro-economic cooperation to restore growth, avoid negative spillovers, and support emerging market economies and developing countries.

Furthermore, G20 countries agreed to take whatever further actions necessary to stabilise the financial system; to recognise the importance of monetary policy support, as deemed appropriate to domestic conditions; to use fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability; to re-affirm the importance of the development assistance commitments already made; to help emerging and developing economies gain access to finance in current difficult financial conditions, including through liquidity facilities and programme support.

Leaders stressed the International Monetary Fund's (IMF) important role in crisis response, ensuring that the IMF, World Bank and other Multilateral Development Banks have sufficient resources to continue playing their role in overcoming the crisis. In addition to these actions, G20 leaders also agreed to implement reforms to strengthen financial markets and regulatory regimes so as to avoid future crises.

Since then he has talked up the need for further regulation of the financial system, striking a chord as Europe's leading practitioner of state intervention. In a protectionist vein he has also insisted that carmakers that receive public aid stop shifting production to cheaper sites abroad.

In the run up to the G20 meeting in London, Sarkozy has repeated his call for an overhaul of the capitalist system. In a September speech, the French leader reiterated his resolve to "moralise capitalism".

He wants the European Union to demand that all financial institutions, including hedge funds, be subject to regulation, that incentives for financial market players be reformed, and that financial flows to off-shore tax havens be made more transparent.

"We consider that in Europe we have already invested a lot for the recovery, and that the problem is not about spending more, but putting in place a system of regulation so that the economic and financial catastrophe that the world is seeing does not reproduce itself," President Sarkozy said in Berlin on 12th March.

The issue of key currencies should also be on the G-20 agenda, he has said, asserting that the US dollar could not be the world's dominant currency.

President Sarkozy has reiterated that without fiscal discipline at the government level and without solidarity among member states, the cohesion of monetary union was at risk.

At home he has pledged to pursue the reforms needed to bolster economic competitiveness he has proposed new measures to protect those most hurt by the recession. The credit crunch has brought further pain, with unemployment rising steadily, budget deficits set to swell due to stimulus spending, and concerns about the future.

President Sarkozy's domestic popularity never reached the levels of his US counterpart, but he was elected in 2007 on a platform of sweeping economic reforms aimed at optimising growth, which he pledged to fetch "with my teeth". He will have been mindful of the nationwide strikes in January and March that attracted more than one million people to protest against his response to the crisis.

Since President Sarkozy unveiled his stimulus program in December, voters' outlook for the economy has eroded, according to polls conducted in February. Three out four people said they were less confident for the future of the economy. The President's support has fallen as soaring commodity prices increased many people's cost of living, but he says there is little he can do to help.

The public's assessment of government policy has improved slightly since December. In that time Mr Sarkozy has acted to protect French jobs, notably by pumping some US$7.6 billion into Renault and Peugeot-Citröen. The car industry directly employs 700,000 people in France, and 2.5 million indirectly. With unemployment already at 8.3 per cent, and global car sales collapsing, the French are particularly worried about job losses and stagnant pay.

President Sarkozy believes that his relatively modest – compared to the US$787 billion that President Obama has pushed through – US$26 billion stimulus package is the right way to tackle the economic downturn.

And to make industry more competitive, President Sarkozy says he will eliminate local business taxes in 2010 and find alternative revenue sources, like a tax on CO_2 emissions.

The president has also met with employers and trade unions to discuss ways to aid workers facing reduced hours and those with short-term contracts who risk losing their jobs. Among his proposals are abolishing income taxes for those in low tax brackets and providing more public aid to families, but not a hike in the minimum wage. The French Government has said it has no intention, for the moment, of putting together a second stimulus package.

"I have no intention of increasing the debt for our children," he said, explaining that deficit spending must be limited to investments that reinforce the country's economic potential. "We must modernise France to create more jobs," the President added. "It is the only way for France to emerge stronger from the crisis."

Mr Sarkozy has called for reforms to the French model, and has begun to implement them. But the global crisis hit at the same time as he launched measures to improve competitiveness, slim the civil service, cut red tape, and liberalise the labour market. The question now is whether he will back away from implementing change at home, and if his proposals at the international level for reform rather than spending, will hold sway. F

G20 priorities

- *Closer macro-economic cooperation*
- *Restore growth*
- *Support emerging and developing economies*
- *Implement reforms and strengthen financial markets*
- *Moralise capitalism*
- *Question of key currencies*
- *Bolster economic competitiveness*
- *Importance of fiscal discipline at Government level*
- *Modernisation of France to create jobs*

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French Republic