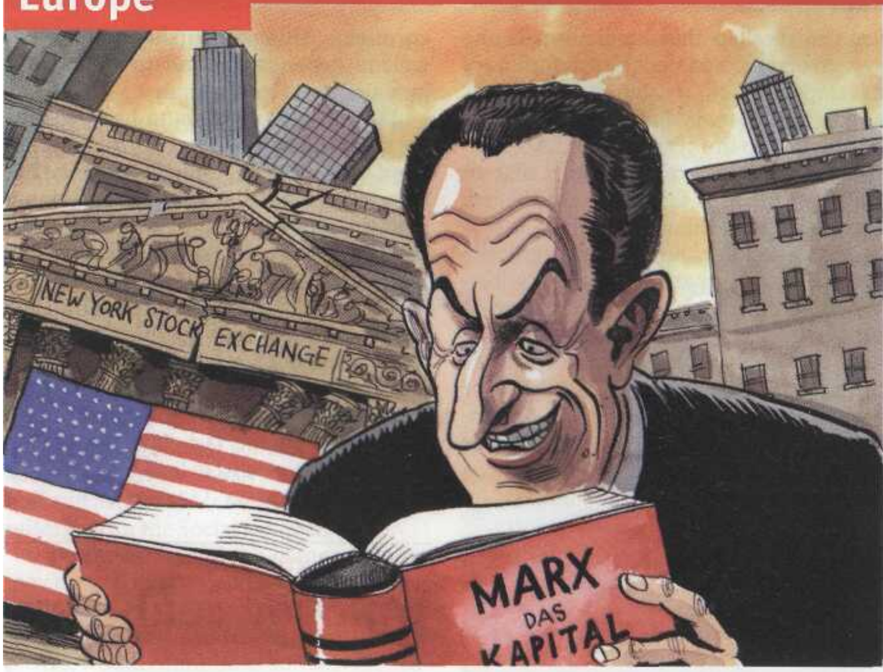

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Europe and America

Lessons from a crisis

European Schadenfreude over the ills of American capitalism does not signify a dramatic move away from the free market

ONE by one, European leaders have lined up to hail the triumph of welfare over Wall Street. "The idea that markets are always right was a mad idea," declared the French president, Nicolas Sarkozy. America's laissez-faire ideology, as practised during the subprime crisis, "was as simplistic as it was dangerous", chipped in Peer Steinbriick, the German finance minister. He added that America would lose its role as "financial superpower". The Italian finance minister, Giulio Tremonti, claimed vindication for a best-selling book that he wrote earlier this year about the dangers of globalisation.

It would be wrong to exaggerate Europe's sense of self-righteousness over Wall Street's fall. This week governments in Belgium, France, Germany, Ireland and the Netherlands all scrambled to bail out their troubled banks (see page 77), confirming how exposed Europe's economies are to knock-on effects from America. Even left-wing editorialists in France, quick to sneer at degenerate American capitalism, have tempered their glee. "There would be something comical, even pleasurable, in watching the frenetic agitation of the banking world", wrote Laurent Joffrin, editor of *Liberation* newspaper, "if millions of jobs were not at stake, not to mention the economic balance of the planet."

A common thread can nonetheless be detected in European responses to America's troubles. It goes as follows. We always knew that unbridled free markets were a mistake, yet we were derided for saying this; now we are all paying the price for your excesses. In the face of popular consternation at capitalist decadence, the activist state is back in fashion-and we Europeans are taking credit for it.

Yet there are doubts whether this will actually alter any country's policies. There has been much *Schadenfreude* about America in Germany, for instance. The latest issue of Der Spiegel, a weekly, shows the Statue of Liberty with her torch out and the strapline, "The price of arrogance: an economic crisis is changing the world". Mr Steinbriick has called for the civilising of financial markets. His boss, Chancellor Angela Merkel, has cited the crisis as proof that she was right at successive international meetings to demand tougher regulation of hedge funds and financial markets-and that the Americans and British were wrong to resist it. Yet she is not going to abandon the free market. The slowing of reform in Germany is mainly caused by gridlock within the grand coalition and the approach of the next federal election.

A bigger test still is France, home of Colbertism and Gaullism, where I'Etat has both a capital letter and a cherished place in the popular imagination—as well as a heavy claim on the taxpayer's purse. Judging by his recent declarations, the centre-right Mr Sarkozy has taken a decidedly leftward turn. In the space of three days, he twice laid into free-market capitalism. "Laissez-faire is finished," he announced in Toulon. "The all-powerful market that is always right is finished."

It is not just rhetoric. With unemployment climbing, Mr Sarkozy has launched a scheme of state subsidies to supplement low pay, paid for by an extra 11% tax on capital income that dismayed his own party's deputies. Talk of tax cuts has been shelved. And he has failed to cut public spending to keep his promise of balancing the budget by 2012. Under the 2009 budget unveiled on September 26th, France's budget deficit will be 2.7% of GDP next year, falling to 0.5% in 2012.

Dumbfounded Socialist grandees have been caught off guard. Michel Rocard, a Socialist former prime minister, found himself describing Mr Sarkozy's welfare-to-work scheme as "an intelligent social measure". Laurent Fabius, another Socialist ex-prime minister, said that in Toulon Mr Sarkozy had made a "left-wing speech".

Mr Sarkozy has been labelled *I'Americain*, but Sarkonomics has always defied classification. In industrial policy Mr Sarkozy has a record of backing state bail-outs. As finance minister in 2004 he fought off European Commission disapproval to use state money to rescue Alstom, an engineering firm. In campaign speeches in 2007 he declared that "free trade cannot be a dogma" and called for financial capitalism to be "moralised". One of his first moves in office was to persuade his European Union peers to remove a clause from the now-frozen Lisbon treaty stating that competition was a key EU objective.

Yet Mr Sarkozy has also gone out of his way to impress on the French the need to respond to, not deny, globalisation. He has I

> implored the country that invented the 35-hour week to work more and expect fewer hand-outs from the state. He has exempted overtime work from taxes and social charges. He is tightening welfare rules to cut benefits if the jobless refuse more than two reasonable offers of work. He has strengthened the competition watchdog and made it easier for discount retailers to set up shop. France has moved a long way from the land of sweeping nationalisations under François Mitterrand a quarter-century ago. Mr Sarkozy was elected because French voters knew, however reluctantly, that they had to adapt to global capitalism.

In this respect, a close reading of Mr Sarkozy's Toulon speech is revealing. Alongside his tirades against financial capitalism, he recalled that "capitalism is the system that has enabled the extraordinary development of western civilisation," adding firmly that "anti-capitalism offers no solution to the current crisis." Ms Merkel has, similarly, expressed fears that attempts to discredit free-market capitalism may play into the hands of the left.

Ms Merkel may not wish to attack the free market, but what of Mr Sarkozy's liberalising reforms? He has said that "the crisis calls for an accelerated rhythm of reforms, not a slowdown." On regulation, he wants tighter accounting rules and a rethink of the global financial architecture. On domestic reform, he echoes others' demands for restrictions on executive pay. But he will stick to his efforts to trim bureaucracy, encourage entrepreneurship, discourage welfare dependency, undermine the unions and boost competition.

Most Europeans want to hear reassuring noises about the state taking matters in hand and curbing capitalist excess. But they also know that Europe's traditional high-tax, state-driven economic model had hit the buffers in terms of creating jobs and fostering growth. Some Americans may fret that European-style socialism has arrived on Wall Street. But the mainstream left is unpopular in almost all European countries; the Social Democrats in Germany are scoring record lows in the opinion polls; and the last time the French picked a real Socialist to lead their country was 20 years ago. •

Lessons from a crisis. **The Economist**, New York, v. 389, n. 8600, p. 55-56, October. 2008.