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France's president

Is Sarkozy a closet socialist?

A question that worries a few and excites others

WiTH delicious unintended symbolism, the French Socialists are meeting in Reims, capital of champagne country, between November 14th and 16th to elect a new leader. The party is deeply split by personal rivalries, with four front-runners for the top job. One contender, however, will not appear on the ballot, even if on recent form he might deserve to: Nicolas Sarkozy, the centre-right president.

Mr Sarkozy was elected last year on a promise to get the French back to work, to allow them to earn more, to end the welfare culture and to encourage risk and reward merit. But recently the president has sounded a different note. He has declared that "laissez-faire capitalism is over" and railed against the "dictatorship of the market". He is setting up a "strategic national investment fund" to take stakes in French companies so as to protect them from foreign predators. His prime minister, Frangois Fillon, has threatened to nationalise banks unless they lend more to companies. And Mr Sarkozy has also pledged to create 100,000 state-subsidised jobs of just the sort favoured by a former Socialist government, which he denounced vigorously during his election campaign.

This lurch to the left has not gone unremarked by real socialists. Martin Schulz, German leader of the Socialist group in the European Parliament, has congratulated the French president for "speaking like a real European socialist". It was a taunt that the president chose, uncharacteristically, not to dismiss. "Have I become socialist?" he wondered. "Perhaps." The ambiguity is such that some on the left now see a need to reclaim their ideology. A testy Pierre Moscovici, a French Socialist, insisted to the newspaper *le Parisien* recently that "No, Mr Sarkozy is not a socialist."

Part of Mr Sarkozy's enthusiasm for state intervention can be explained by the financial crisis. With even the Americans and British bailing out companies with public money, the state is back in favour in the least likely places. The word "French", which during the invasion of Iraq in 2003 was sometimes employed in America as an abusive synonym for "spineless", is now more likely to be used to mean "socialist". When Jim Bunning, an American senator, heard that the government had taken control of two big American mortgage lenders he said he felt as if he had "woken up in France". In some ways, indeed, Mr Sarkozy is simply returning to French interventionist tradition, with the economic crisis providing a ready excuse.

Yet the Americans and British consider such policies least-bad solutions, to be reversed as soon as possible. Mr Sarkozy actually believes in an activist state in certain areas. He has long advocated a forceful industrial policy, for example, on the ground that "once the factories go, everything goes." Well before the financial crisis, he championed, against German doctrine, a political counterweight to the European Central Bank. Such talk has delighted European socialists, who have found unlikely common cause with the centre-right president. The same goes for his calls for a cap on executive pay and an end to golden parachutes, which might have been lifted from socialist scripture.

The more intriguing question is how far Mr Sarkozy will follow up his leftish-sounding rhetoric with concrete policies. So far, for pragmatic rather than ideological reasons, the French state has bailed out just one troubled bank: Dexia, a small Franco-Belgian institution. Certainly, Mr Sarkozy would not hesitate to do more. As finance minister in 2004, he rescued Alstom, an engineering giant, from bankruptcy; the firm recovered, and the state later sold its stake for a large profit.

In other cases, however, there seems to be more noise than results. When ArcelorMittal, a steel giant, announced the closure of part of a factory at Gandrange in eastern France earlier this year, Mr Sarkozy rushed to the scene with promises to keep the plant alive-even if it meant investing state money. Since then, however, ArcelorMittal has confirmed the partial closure, transferring nearly 600 workers elsewhere within the company.

Other examples abound. Earlier this year, Mr Sarkozy dropped in on angry fishermen in the port of Boulogne-sur-Mer, and promised a thorough review of European Union fishing quotas during the French presidency of the EU. France gives up this position at the end of December, yet nothing of the sort has happened. Or consider the curbs on executive pay. Mr Sarkozy threatened to legislate to enforce these, but he has since accepted a form of ▸▸

self-regulation in the shape of a code of good governance for companies.

Charitable observers would call Mr Sarkozy's approach pragmatic. He tries to find solutions, not to apply ideology. Confronted by angry workers in overalls or oilskins, he may think that he can save a factory or abolish fish quotas. But, in calmer moments, realism prevails. Launching his subsidised-jobs scheme last month, Mr Sarkozy declared: "We can't be ideological in the face of human misery."

Another explanation could be strategic. As recession beckons and joblessness rises/Mr Sarkozy cannot leave the plight of the unemployed to the left. The Socialists, under their new leader, may become bolder. He may also hope to thwart the rise of the anti-capitalist left under Olivier Besancenot, a revolutionary postman, just as he managed to squelch the far-right National Front during the presidential election by taking a hard line on immigration.

A third reason could be that Mr Sarkozy hopes to use state intervention in some areas as political cover to press ahead with more liberal policies in others. When he announced his new state-subsidised jobs programme, for example, he also said that he would loosen the rales to make it easier for small firms to employ temporary workers. Shortly afterwards, his government said that it would make it legal to work until the age of 70.

It is a delicate path to tread. Mr Sarkozy cannot plausibly head off the anti-market left unless there is enough substance behind his fiery talk. Yet too much and he will lose those who backed him precisely because he was ready to tell the French that they could not live beyond their means. So far the French seem to like what he is doing: in November, his popularity climbed eight points to 49%, according to Ipsos, a pollster. And Mr Sarkozy is nothing if not agile. But even he will find it hard to straddle the entire political spectrum. ■

Germany's economy

A little stimulus

BERLIN

Even in recession, Germany is the last of the small spenders

CHINA is to spend $586 billion to prop up growth. Japan plans $275 billion-worth of economic stimulus. America's government is expected to pump out still more cash. Into this fiscal pot Germany has tossed a few coins: it has unfurled an "umbrella for jobs", 15 small-bore measures that include €12 billion ($15 billion) of fresh spending over two years, or roughly 0.25% of GDP. This will trigger €50 billion of investment, promised Chancellor Angela Merkel. But pressure is on the world's third-largest economy, which sank deeply into recession in the third quarter, to do more.

The German budget was close to balance in 2007 and may be in surplus this year, a claim few other rich countries can make (see chart). The world's biggest exporter of goods boasts a current-account surplus that is expected to reach 7% of GDP this year. Rather than spend, Germans have been paying higher taxes and exercising wage restraint to make their firms more competitive: consumption has been flat. This suggests that Germany should be among the first to seize the Keynesian moment that the financial crisis has brought about. Its trading partners certainly think so. Germany "has the possibility to use tax policy to support demand," says the European Union's economics commissioner, Joaquín Almunia.

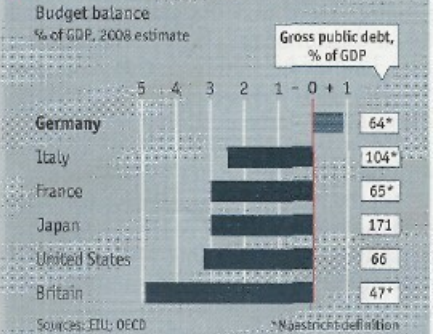
So what holds it back? Spending packages enacted to fight slumps in the 1970s produced little but new debt. Since then the prevailing wisdom has been that they do not work. Governments that boost spending in bad times rarely pare it back later. When people see that debts, and thus taxes, are heading up they tend to save more rather than spend, says Joachim Scheide of the Kiel Institute for the World Economy (this phenomenon is known as Ricardian equivalence). The grand coalition of Ms Merkel's Christian Democratic Union (CDU) and the Social Democratic Party (SPD) was set on balancing the federal budget by 2011. The target will not be met, the government admits, but that is no reason to splurge. Even the term economic package is taboo. The umbrella "is not a stimulus package of the old style," insists the finance minister, Peer Steinbrück.

Yet resistance is crumbling as the economy wobbles. On November 12th the council of five economic "wise men", which has long defended fiscal prudence, called for a "cyclically justified growth policy" to fight the recession. The government should spend a lot more than planned—0.5-1% of GDP—on first-aid measures that would also improve the economy's long-term health. Investment in transport and early education are top of its list. While the recession is on, the government can let the deficit expand to cover the cost; thereafter it should cut spending elsewhere or boost revenues.

Ms Merkel's umbrella is far from what the wise men have in mind. It includes help for the car industry, subsidies for energy conservation and more lending to small and medium-sized companies by KfW, a state-owned bank. But Ms Merkel faces an election as well as a recession: next September she will fight to keep her job against the SPD's Frank-Walter Steinmeier, now foreign minister. By then the question for both may be not whether to administer more fiscal medicine to a sickly economy, but how.

More room at the top

Budget balance
% of GDP, 2008 estimate



Sources: EIU; OECD
*Maastricht definition

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