

Special Report

Can Sarkozy Succeed?

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He is arguably the most audacious national leader France has seen since Charles de Gaulle. And in the 10 months since he moved into the Élysée Palace, 53-year-old Nicolas Sarkozy has moved swiftly to change his nation – tackling its all-powerful labor unions and their beloved 35-hour work week, rekindling the Franco-American love affair, successfully undermining his Socialist rivals, exposing his sometimes spicy private life to the public eye, and even managing to publicly invoke the name of God in a nation that prides itself on absolute division of secular and clerical.

The success or failure of Sarkozy's relentless campaign to change his country has profound implications for American business. Despite its economic woes, France remains one of the wealthiest nations in the world and a major force within the European Union. More important, a major part of Sarkozy's effort to make his nation more internationally competitive is a form of neo-protectionism. He has declared that there should be no national shame in government and business joining hands to defend French companies from foreign marauders.

Shaping Success From Perceived Failure

Sarkozy's very election was a political wonder. There are few things the French fear more than change, and nothing is more frightening to them than the prospect of a slash in the magnanimous social welfare system their state can no longer afford. Yet voters overwhelmingly elected a national leader whose sometimes arrogant campaign was based on his oft-pronounced conviction that sans social sacrifice and a radical reshaping of its eco/political psyche, France as the French perceive it would not survive the 21st century.

In the eyes of "Sarko's" most loyal supporters and political allies, he has already proved to be the tireless embodiment of political derring-do,

just the sort of initiator that France needs if it is to pull itself up by the socks. It was a quality that initially helped him attract some of the leading lights of the opposition Socialist Party to his centrist government, leaving the outraged left wing's leadership scrambling to reorganize.

But to Sarkozy's growing legion of critics, the President is proving to be less an initiator and more the epitome of macho recklessness, an immature leader who rules by instinct rather than careful planning. France's naysayers appear to have taken the lead, and Sarkozy's political honeymoon is clearly over. Since assuming office in May 2007, his popularity ratings have tumbled from an intoxicating 64 percent to a dismal 36 percent last month.

One immediate result of this loss of popular support was that Sarkozy's center right Union for a Popular Movement (UPM) suffered an embarrassing setback in this month's French local elections. The opposition Socialist Party and its allies racked up 49 percent of the overall vote. UPM candidates did receive 47.5 percent, maintaining control of key municipalities like Marseilles. Nevertheless, the party lost control of numerous cities, towns and villages, including the conservative strongholds of Toulouse and Strasbourg.

French Socialists were quick to call the overall results "a protest vote" against Sarkozy, and all indicators suggest that this is a valid reading of the elections.

The question that confronts France, therefore, is can Sarkozy recoup success or is he doomed to failure? What are the implications of this son-of-an-immigrant's success or failure on France's future, on its global role and most especially on its often-tattered ties to America? Will a working partnership with German Chancellor Angela Merkel reinvigorate the European Union and establish them as its leaders? Or will the relationship stall because of their oil-and-water personalities?

Economic Anticipation Amid Fiscal Reality

France's dismal economy remains Sarkozy's greatest challenge. French national productivity, which has been faltering for decades, is increasingly in decline. Growth in 2007 was barely 1.9 percent – among the European Union's lowest. Most French government economists predicted a brighter 2008. But hopes have been dashed and an impressive number of Euro-economists now expect the French growth figure to drop even further this year. To make matters worse, France's consumer inflation rate recently proved the highest in 11 years.

All this has helped to shrink the French job market – already almost anorexic for all but graduates of the top schools. One result: an increase in the brain drain that has drawn hundreds of thousands of young French professionals to the international job market, especially in the U.K.

Will slim national coffers and an inability to face down France's often self-defeating unions undermine Sarkozy's reforms and thrust France into even worse economic straits? Possibly.

But Sarkozy is keenly attuned to France's economic struggle and is determined to increase productivity not only for the sake of French workers and the French economy, but on behalf of France's capitalists. Indeed, he is closely linked personally and politically to many of France's senior business figures.

Nationalism Versus Globalization

It should not be forgotten that for all its economic woes, France remains one of the world's richest nations. Sarkozy is determined to make it even richer. And while he has said he is no fan of globalization, he has also urged French business interests to face up to the fact that globalization is a reality that France must confront in its own special neo-Gaullist way – as he puts it, “by playing the globalization game collectively.”

That, according to one Paris-based analyst, means “government making conditions more business friendly at home to allow French companies to compete better in the world.”

Reduced Holidays and Added Productivity

Sarkozy is well into his campaign to convince the French that to compete globally they must accept one of his primary rules: start working harder. He has already launched his drive to abolish – or at least bypass – the rule that limits French workers to a 35-hour workweek. Not only is it economically unsound, but thanks to prohibitive income and social taxes and complicated sub-rulings, the rule all but forbids the French working overtime, thus seriously hampering competitive productivity.

By promising that voluntary overtime will be largely excused from excessive taxes, Sarkozy has begun to seduce the labor unions away from the 35-hour week. With much less success, at least thus far, Sarkozy has also proposed ending many of France's cherished early retirement plans and tightening fiscal controls on welfare benefits – for example, withdrawing payments to unemployed workers who turn down two or more legitimate job offers.. He has also proposed reductions in high income taxes and death duties as well as a wholesale reform of the frequently abused French national health insurance system, which currently covers almost everything from medication to taxi fare to the doctor.

Minorities, Myopia and Government Mishandling

Sarkozy is also keenly aware of the decades-old time bomb facing his nation: the growing schism between the “French French” and the rapidly expanding minority of mostly North African Muslim immigrants. Early this year, Sarkozy announced a sweeping plan to better integrate poor suburban youth – most of them children of poor black African and Islamic immigrants. He has

sworn to tackle the racism they often face in the French job market and to offer them new training plans.

If he succeeds, it could divert the dangerous national drift toward civil unrest, a development that has already produced fiery suburban riots. Failure to do so will exacerbate the growing problem.

One of Sarkozy's ultimate weapons may be the French preoccupation with Cartesian logic, a centuries-old way of life that has led to an almost worship of divinely inspired reason – or at least the French version of it. But that worship of *logique* and its accompanying belief that rulers know the right way has also led to a frequently churlish French obedience to authority. Along with it, say many observers, come an all-too-frequent public tolerance for conflicts of interest and a disturbingly myopic view of government, corporate and financial leadership – even if it involves corruption and mishandling.

Consider the recent scandal involving Société Générale, one of France's largest banks. A rogue trader (or traders) cost the bank some \$7.3 billion in losses that not only seriously damaged the bank's future, but may ultimately precipitate substantial losses for the international economy. Reportedly, supervisors in the Bank were aware that problems existed. Arrogantly, they chose to delay making the news public until the damage had been done. The subsequent scandal aroused considerable public outrage and even demands for resignations – but already much of the scandal has been swept under the carpet and the public has grown quieter.

Planning The Future While Protesting The Past

Indeed, some believe that for all their republicanism, the French are still dominated by clerical-monarchical values. *Liberte, egalite et fraternite* notwithstanding, France generally adheres to authoritarianism. If the United States is a hori-

zontal society where ethics and standards are set by a consensus of the public, France is a vertical society where rules and regulations come from on high. In pre-Revolutionary days, it came from the king and princes of the church; today, laws, rules and decrees come down from the central government. Under the rules of the Fifth Republic, the French presidency carries far more executive power than its American counterpart.

Sarkozy has already used that extensive power to push a number of proposals for change that even some of his most fervent supporters question as “possibly too spontaneous” and his critics as “incoherent seat of the pants politics”.

For example, he recently announced that French state television should become advertisement free. Only later did he call for a commission to consider the actual means of financing an ad-free network.

In a first speech ever by a French president before the official body of the French Jewish community, Sarkozy proposed that every 10-year-old French primary school pupil “adopt” one of the 11,000 Jewish children from France killed in the Holocaust and learn the young victim's background and fate.

“It is ignorance that prompts the repetition of abominable situations, not knowledge. Make our children into children with open eyes,” Sarkozy said.

The announcement was met with praise from some French scholars, especially those who've long argued that France must pay closer attention to its wartime collaborationist history and the enthusiastic role French police played in rounding up Jews for the Nazis.

But many psychologists, teachers, parents and even French Jewish leaders protested the personalized plan as too traumatizing for 10 year olds. Within days, Sarkozy's Education Minister, Xavier Darcos, was forced to soften the presidential proposal saying the plan could be adjusted so that

perhaps an entire class could collectively honor an individual child victim. And now a national commission appointed to discuss the proposal has effectively sidestepped it further.

Repositioning French Foreign Policy

Sarkozy's foreign policy is no less an innovation for post-war France. Unlike his recent predecessors, who all too often seemed intent on pursuing the hate end of the historic Franco-American love/hate relationship, Sarkozy earnestly wants to improve France's transatlantic ties. He is a fervent admirer of the American work ethic, and while not agreeing with all of Washington's policies, he has embraced the idea that the most important challenge facing the Free World is the ideological clash between Islam and the West. He has softened France's often knee-jerk support for the Arab world.

His position on Iran, and that of his foreign minister Bernard Kouchner, is frequently tougher in public than even the stand voiced by the Bush Administration. The prospect of an eventual open war with Tehran, Sarkozy has said, is nothing less than "a contingency to be prepared for." And according to the influential French daily *Le Monde*, Defense Minister Herve Morin has indicated that "France may resume its full place in the integrated military structure of NATO."

Sarkozy's relations with the ever expanding European Union, are even more complicated. He flew to meet with Germany's powerful Chancellor Angela Merkel the very day he assumed the presidency. At first, both appeared eager to implement a leadership partnership and publicly agreed on such major issues as whether Turkey should be allowed to have full membership in the EU (both prefer a "limited association"- in other words, no). But more recently they have almost come to political blows over Sarkozy's proposal for a separate union of Mediterranean nations, an organization that would implicitly compete for funds with the already financially strapped European Union – and by nature exclude Germany.

One immediate result of rising tensions: Sarkozy and Merkel have cancelled a scheduled March mini-summit. The Paris/Berlin diplomatic battle has opened broad debate in the French press and confused the French public.

Private Affairs In Public View

Ultimately, however, few things have roiled the French electorate more than Sarkozy's not-so-private private life. The president's divorce from his second wife, Cecilia, came within weeks of his assuming office. Once one of his closest political advisors, and herself a very private person, Cecilia Sarkozy was generally considered somewhat aloof by the French public. She won considerable plaudits for engineering the release from a Libyan prison of a group of Bulgarian nurses and a Palestinian physician jailed on trumped up charges of infecting Libyan children with the AIDS virus. But her separation and then divorce from the President surprised no one and caused relatively little public dismay.

Not so his whirlwind romance and marriage to the beautiful former model and pop-star singer Carla Bruni. The well-educated 41-year-old daughter of one of Italy's leading industrialists, Ms. Bruni has considerable intellectual talent and is reputed to be an accomplished poetess. In the public eye, however, she is probably better known for her portfolio of naked fashion photos and her romantic liaisons that reportedly ranged from Mick Jagger to Donald Trump.

Traditionally, the French public displays far more tolerance for the private antics of their political leaders than do Americans. Indeed, French presidential infidelity is an accepted practice – as long as it is kept relatively discreet.

Ms. Bruni's romantic relationship with Sarkozy was hardly that, and when the story broke, it produced banner headlines for weeks. The couple's displays of "public canoodling from Euro-Disney to the pyramids of Egypt," as one Paris based journalist put it, clearly outraged the president's

constituents and helped drive his popularity ratings dangerously low.

Since their marriage – and the publication of the latest dismal poll results – Sarkozy has tried to put something of a lid on his private life.

Kicking And Screaming Toward Success

The bottom line is that after 10 months of ups and downs, Sarkozy has begun to really focus on his policy planning and parliamentary strategy. As one of his top-ranking supporters says, “Monsieur le president is trying to keep his ego in proper perspective”.

Therein may lie the answer to the question of whether Nicolas Sarkozy – whose intellectual energy and devotion to reforming France’s outmoded economic and political structure are his greatest assets – will ultimately succeed in dragging France into the 21st century.

Implications For Business

Any executive doing business in France, or contemplating a venture there, will need to keep a weather eye on the progress, or lack of it, of Sarkozy’s multi-pronged drive to restore French competitiveness and national gloire.

Implementing radical change in deeply entrenched institutions is never an easy task, as Mr. Sarkozy is fast discovering. It is also instructive to note how the French president’s approach to globalization and protectionism may give some hints as to how the next U.S. president, if the Democrats gain the White House, will act.

Sarkozy plans to use as much government intervention as he can get away with. In return, he is urging French companies to consider French national interests when they set prices, negotiate wages, and make investment decisions. To the annoyance of the European Union’s Central Bank, he has also called for a weaker Euro as a means of bolstering exports.

Underscoring this neo-Gaullist/neo-Liberal approach, Sarkozy has declared that there should be no national shame in government and business joining hands to defend French companies from foreign marauders.

There is probably a lesson, too, in how even the normally tolerant French public’s view of the private lives of business and government officials has its limits. Mr. Sarkozy is, evidently, learning that the hard way.