

**Viability of Sarkozy's euro crisis ideas in question**  
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PARIS, Aug 18 — In trademark showman style, French President Nicolas Sarkozy has unveiled a slew of proposals aimed at driving panic-sellers away from the euro zone, but some look poorly thought through or even unviable.

Flanked by German Chancellor Angela Merkel, Sarkozy unveiled a package of ideas on Tuesday to restore investor confidence in the embattled bloc, centred on closer fiscal co-operation and more rigorous economic governance.

While Merkel looked stony-faced at times, Sarkozy brimmed with eagerness as he voiced plans to tax financial transactions and harmonise corporate taxes in France and Germany.

As markets slammed the revived idea of taxing financial transactions and analysts forecast a long and difficult road to harmonising taxes or budget rules, there was a sense that Sarkozy's love of headline-grabbing may have run ahead of examining the feasibility of, and support for, some of the proposals.

"This is the usual Sarkozy strategy. He calls a high-level summit and portrays himself as a statesman of international character," said Domenico Lombardi, a former IMF executive board member now at the Brookings Institution think tank.

"Media-wise he looked pretty successful but if you look at the sustainability of the decisions then clearly they are pretty weak and irrelevant in terms of impact on the current crisis."

The measures, set out in a document sent to European Commission President Herman Van Rompuy got a lukewarm response from several euro zone states and failed to persuade markets the bloc's debt crisis is any closer to being resolved.

Sarkozy called on euro zone members to set constitutional rules by the middle of next year on balancing their budgets — a measure he has failed to get sufficient backing for in France — without saying if the idea could be enforced with sanctions.

Commentary from banks and brokerages resoundingly called for more detail and the German government admitted other euro states had to agree before they could be implemented.

Meanwhile, Sarkozy, who broke off his Mediterranean holiday with pregnant First Lady Carla Bruni to meet Merkel, was back by the seaside yesterday and not due back at work until next week.

"It's hard to say if all this constitutes a media repackaging or a true Franco-German thrust," remarked daily Les Echos columnist Jean-Marc Vittori in an online blog.

France has played second fiddle in recent euro zone politics, with the more economically powerful Germany calling the shots, yet Sarkozy was clearly leading the show on Tuesday.

Lagging in the polls eight months before an election where he risks defeat by the Left, Sarkozy is battling to woo back former supporters who have defected to the far-right or centre.

Making the most of being at the centre of the world economic stage during France's G20 presidency — where dramatic promises made early on have also had to be scaled back — Sarkozy led the West's military intervention in Libya and was the first foreign leader to fly to Japan after its nuclear disaster.

His performance this week, under the gaze of world markets bruised by last week's dramatic selloff, came as opinion polls show eight out of 10 French people are worried about the public deficit and one in two rank it as a priority.

While he looked assertive on French TV, sagging stock markets indicated the wider world was disappointed there was no boost to the bloc's rescue fund or move to issue common bonds and was sceptical further-reaching plans may ever see the light of day.

"Yet again, European leaders are trying to convince markets through words but not through costly and credible actions," Lombardi said. "The markets expected credible actions and credible commitments and we got neither."

The idea of taxing financial transactions is to be put to the rest of the euro zone in September, but German banks and the Irish Finance minister dismissed the idea as ineffective.

Such a tax — first put forward by economist James Tobin in the early 1970s — could only function if imposed across the board, otherwise trading would flee to tax-free markets, but the European Central Bank and non-euro member Britain oppose it.

"It is hard to understand how they can do something on that within the timetable of September. The ECB has made it clear it is totally opposed to the tax, as have several other governments," said UBS senior European economist Stephane Deo.

Only Austria and Italy said they would support the tax.

The plan to harmonise corporate taxes could be politically tricky in France, which has lower tax rates for companies but a narrower fiscal net. It would be a cumbersome process for both countries which would also leave their hands tied fiscally while competing euro zone states can tweak taxes freely.

"It's the tax base which is important here. It will be easy enough for France and Germany to set the same tax rate but there are lots of exemptions and different brackets in each country and it will be really complex to reform that," Deo said.

Forced to combat rumours that France's 'AAA' credit rating was at risk, Sarkozy interrupted his holiday last week to meet key ministers and order new deficit-cutting measures.

His months-old push to get parliamentary approval for a constitutional rule limiting future public deficits has so far hit a wall of opposition from the main opposition Socialist Party, but now looks set to become a key election issue.

Francois Hollande, the left's frontrunner for the 2012 election, said the Socialist Party was open to discuss writing deficit controls into the constitution if Europe demanded it.

Given most countries require large parliamentary majorities to change their constitutions, getting budget-balancing rules enshrined across the euro zone could be a tortuous process.

Finland's finance minister sounded a wary note, saying targets carved in stone "rarely worked." Austria said it was not prepared to completely relinquish its power to set policy.

"Tough questions about sanctions for fiscal misbehaviour and the degree of sovereignty nations are prepared to pool remain unanswered," JP Morgan analyst Malcolm Barr wrote in a note. — Reuters

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