



Cautious French Leadership for the G-20?

Nicolas Véron says that Nicolas Sarkozy may step carefully into the role of president of the G-20 because of the continuing financial difficulties in Europe.

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Steve Weisman: In 2011 the G-20 will turn to France for leadership with President Nicolas Sarkozy serving as its president. Nicolas Véron, visiting fellow at the Peterson Institute for International Economics, is here to discuss what the G-20 may look like under French leadership. This is Steve Weisman—thanks, Nicolas, for joining us.

Nicolas Véron: Thanks to you, Steve.

Steve Weisman: Is this a big moment for President Sarkozy?

Nicolas Véron: Of course we're at the beginning of a year-long presidency, so it's a bit early to tell. But clearly it's important from a domestic political perspective for Sarkozy. He faces a presidential election in 2012. He will very certainly run for reelection; he has a possibility to be reelected. It's a fairly open situation at this point, and there is every indication that what [he needs is] to stand tall on the world stage. That can be a significant plus, as it was when he held presidency of the European Union in 2008 when the financial crisis struck. So yes, this is not a small issue for him and for the French government.

Steve Weisman: If the president wants to exhibit his global leadership, what do you think are the things he will try to do with the G-20?

Nicolas Véron: The indications he had given last year before taking over the presidency were very much centered on the question of the international monetary system and the very high ambition to reform what he described as a dysfunctional international monetary system because of the dominance of the dollar or the volatility in exchange rates, global imbalances [resulting from] excessive reserve accumulation by some countries. So there were high ambitions, of course. It's difficult to see what could concretely be achieved in the presidency and it may be that we have a bit of a toning down of this agenda. And then there are all the issues on the agenda of the G-20: issue[s] of IMF and other global institutions, governance reform, issues of financial regulation, issues of macroeconomic coordination, and the like. So from this perspective there will be continuity from the Korean presidential agenda to the French agenda.

I think another element which is very much in the mind of Sarkozy, from indications he gave late last year, is that he sees himself as a very skilled crisis manager. He expects a lot of crisis movements to happen in 2012, as was the case in the previous two or three years. I think there will be also a lot of opportunistic agenda setting, depending on the short-term developments of the policy agenda.

Steve Weisman: The crisis of the last year has centered in Europe. Will he be able to bring Europe around his proposals?

Nicolas Véron: I think this is one of the most fascinating questions about this G-20 presidency by the French. There are opposite impulses, or incentives, for Sarkozy as the chair of the group. On the one side, it's very clear that France is a mid-sized country at a time where many new players are rising fast. If Sarkozy speaks for France itself, he can only go so far. He will carry much less weight in the discussions he will chair than if he's able to speak for the whole of the European Union or the eurozone, depending on the topics in which France is embedded.

On the other hand, there will be an obvious temptation, largely for domestic political purposes, to play it alone to a certain extent, or at least to grab the opportunity to be seen as the leader. Even though the European Union is no longer a group in which France can claim natural leadership, supposing this was ever the case, now Germany is much more central and France less central than say in the 1970s or 1980s. But for the French public, there is a tradition for French presidents, especially Sarkozy recently, to overplay his capacity for leadership by picturing himself and being relayed in the media as basically presiding over France that punches above its weight.

So there are these two opposing forces, one towards cooperation in Europe, doing perhaps what Gordon Brown did when he chaired the G-20 in 2009, doing Europe-only meetings before every important meeting of the G-20 presidency to call the nature of European positions; relying a lot on the advice of Angela Merkel as a leader of the most important country in the group, etc., on the one hand. On the other hand, trying to appear as a leader; one who basically shapes agenda more unilaterally.

Steve Weisman: Two or three years ago when this crisis began, there was a feeling in Europe of some superiority toward the United States. Now some in Washington feel that Europe has lagged in getting its financial system in order, and its banks on a sounder footing. Perhaps the United States and maybe the rest of the world are not going to easily be lectured to by a European leader.

Nicolas Véron: I think even more powerful is the impact of the eurozone crisis, which has really shattered whatever self-confidence vis-à-vis the United States there was—certainly in the eurozone and in France. So a eurozone crisis, by threatening what is widely seen in continental Europe as a crowning achievement of European integration, is really leading to a lot of soul searching and certainly diminishing whatever temptations there might be on the part of Sarkozy or others to lecture the Americans on how they should have done better. So yes, there has been a huge shift in the past two years from this perspective. It's likely even if there are financial aftershocks in the United States in 2011, which could happen if the foreclosures continue to pose a problem and if the real estate market goes down. Even then I don't think we'll have the same asymmetry as at the beginning of the crisis in 2007, 2008 where basically Europeans were blaming it on the United States, and the Chinese, for example, blaming the United States saying, "We have nothing to do with this."

Steve Weisman: It's a little hard to imagine Europe being as humbled as you are somehow describing.

Nicolas Véron: I think there are very contradictory currents in Europe, not only in the analytical community, but even in the political community. I think both in France and Germany, and actually in other European countries, you have both overconfidence and

underconfidence exemplified by different leaders at different moments. Germany is fascinating from this perspective because it has displayed a lot of what could be termed as overconfidence in the last year. But at the same time, this is a country that has probably very significant problems in its banking sector and certainly an export boom at this point. But who knows how long this will last? We could have fairly significant shifts from low confidence to high confidence, or the reverse, in different countries over the course of the year.

At this point I think France has been—I would not say humble—but certainly made more cautious by the eurozone crisis, not only because of what it means for the euro, but also because of the particular position of France, which is at this point seen as one of the more robust, more solid countries in the eurozone. But it is also in a relatively fragile state, and a downgrading of France by one of the major rating agencies would have a huge market impact. So that has had actually a big impact on domestic policy. Its [impact comes from the] way in which Sarkozy pushed—in spite of significant opposition from the public and from social movements—the reform of pensions in 2010, and the link to the understandable expectations that if he failed to push this through, it would be seen by the rating agencies as a very negative thing for future French fiscal soundness. So these issues are linked between domestic political developments and international aspects in ways which will be really interesting to watch this year.

Steve Weisman: Is Sarkozy at all nervous about the growing prominence of his rival Dominique Strauss-Kahn at the IMF? Could that explain some of why France wants to make IMF reform a major issue?

Nicolas Véron: This is obviously a great issue for the press to comment on and it's colorful in many different ways. I'm not downplaying its importance. But I also think that some comments have perhaps overhyped a bit the ease with which Strauss-Kahn could reenter the domestic political scene in France. Even in his party, the Socialist Party, actually there are very contradictory currents on waiting for him as a potential savior, but also a lot of resistance from significant segments of the party to what is seen as very much a centrist, or even center-right in the French context, approach of the IMF. How much does Sarkozy consider Strauss-Kahn a political threat, and how much does this impact his policy choices? Probably it's not a nonexistent concern for him, but I think it may have been a bit overhyped in some comments in the past year.

Steve Weisman: Nicolas, thank you very much.

Nicolas Véron: Thank you.

