

# **Declaration of the Third Economic Forum of Aix-en-Provence 2003**

In 2003, the theme for our colloquium was “Europe, a new World Economy”. We met a few days after the publication of a proposal for a European Union Constitution as drafted by the European convention and on the eve of the European Union enlargement. Our focus was this planned constitution. But the internal constitutional stakes did not override the other important responsibilities of the European Union, notably those concerning its relationship with external partners.

The mandate of the Convention was limited. Its own objectives were ambitious and ultimately covered three areas: the clarification of the European system, the implementation of a new institutional balance and the pursuit of integration.

The first objective – clarification of the European system – was reached. The various treaties had become incomprehensible, now, the planned European Constitution is thick but readable. It was necessary.

Concerning the second area, the Convention was legitimately and correctly ambitious by reforming the voting rights but the future of the proposed institutional structure is uncertain. In particular, unanimity is still required in several key areas such as taxation, foreign policy, defense which will contribute to blockage.

As far as economy is concerned, the proposal is clearly insufficient. It allows for the coexistence of two economic approaches. According to the first approach, the role of the European Union is to institute an economic order relying on competition and currency stability. Member States whose economies are widely competitive set up policies concerning growth or full employment. According to the second approach, the Union mobilizes, coordinates national programs and carries out an overall leadership. On this particular point, the Convention proves disappointing.

Thus, the future of Europe remains confronted with three major challenges that “Le Cercle des Economistes” wants to examine in order to offer the following propositions.

## ● Initiatives for growth

The European Union and within the Union, the Eurozone, remains a collection of Nation-States. Accordingly, the Union struggles to define the modes of a collective action and of a common exercise of sovereignties. A first priority should be the creation of an institutional framework to coordinate macroeconomic policies notably by means of a decision-making power to the Eurogroup. Similarly, we suggest a qualified majority vote for taxation connected to the internal market.

In order to spur growth in Europe [1] and react to an aging population, it is urgent to increase employment rates, productive investments, R&D, education and training. This leads us to make the following recommendations:

- Considering that our potential growth is thwarted by an inadequate funding of research and the lack of government foresight to renew the pool of teaching researchers, it is urgent to set up a concerted policy. In order to reverse this trend and recapture the spirit of Lisbon the R&D expenses must increase from 2 to 3% of the Community GDP and include a coordinated program maximizing its impact on the productive sector. In the short term, this program must be financed outside of stability pact. In the longer term the program should have its own funding.
- In order to better target policies on employment incentives, cuts in Social Security contributions and taxes should be maintained on low wages as long as unskilled workers remain jobless but their future reduction should be planned, incentives for older workers provided and more broadly an increase in activity rates should be included.
- Encourage productivity gains in economic sectors employing skilled workers through research and investment.
- Introduce the objective to support innovation when setting up competition policies.

## ● A European model for Corporate Management

Europe as such has been largely absent from most debates following the financial scandals which broke out after the Enron affair [2] (corporate governance, conflict of interests in financial analysis, rating agencies). This fact allows for a purely US regulatory leadership. And yet, Europe must affirm the originality of its models of corporate governance not proven to be less efficient while pursuing their modernization. In this area our recommendations are the following :

Rather than persisting in hoping for a quasi-total convergence of the US GAAP and IAS norms it would be better to strive for a mutual recognition on both sides of the Atlantic. As far as Fair Value is concerned a reasoned application should be defended while eliminating the illusions concerning the Full Fair Value as a factor on artificial volatility. Concerning the periodicity of information regarding companies listed on the stock exchange a prompt publication of pertinent information is necessary, but the European directive requiring the quarterly publication of their accounts should be reconsidered. The regulation of rating agencies must be implemented by the rapid adoption of a code of good practice within the context of the G7. In order to reinforce the independence of financial analysts the traditional means mentioned are insufficient. The authorities or the profession must favor the emergence of financial analysis firms operating independently from financial intermediaries. In order to improve corporate governance, an audit board must be required for companies listed on the stock exchange and the status and role of the shareholders General Meeting must be restored.

## ● Reaffirming Europe's position on the World Scene

The last ten years have been marked by debates on globalization but all the controversies were based on the hypothesis that the multilateral dominated over the bilateral and economics over politics. Within this context Europe appeared as a precursor of a world governance in the making. The appearance of a new US doctrine and the rise of new sovereignisms (China, India) challenge this approach. Europe can defend its model only if it asserts its presence on the world scene.

In this area, five axes must be privileged :

- The weight of a united Europe in international economic and financial institutions would make it a key player. The Convention's proposal to create a Minister of Foreign Affairs must be the occasion to delegate increased competences in external economic and financial relations. With this prospect in mind the unification of the European representation within the
- IMF and the World Bank must be engaged.
- At the time of the Eastern enlargement of the European Union, a strong signal towards the South is necessary. Our ambition to reinforce a world governance must become credible thanks to increased commercial openings.
- Our historical responsibility vis à vis the Maghreb countries in particular must be assumed. The regional integration of this zone must be privileged by seeking a counterbalance to the enlargement in the food-processing and textile industries.
- Concerning the CAP, the fact that the United States are engaged in a clearly protectionist policy should not be used as a pretext for Europe to refuse to trim down its agricultural subsidies. A reform of the CAP must therefore be pursued, a reform that the European enlargement renders, in any case, unavoidable with the objective of a progressive but conditional suppression of subsidies. Finally, an economic debate concerning immigration seems indispensable within the demographic context of an enlarged Europe.