

CERCLE DES ECONOMISTES

9th "RENCONTRES ECONOMIQUES" of AIX-EN-PROVENCE
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FINAL DECLARATION

In this summer of 2009, there is a great temptation to hope for a rapid exit from the current economic difficulties and to imagine that the pattern of worldwide economic relations can be preserved apart from a few marginal institutional changes. **This is the "business as usual" view.**

The "Cercle des économistes" wishes to clearly distance itself from this reassuring, inoperative and hazardous point of view, insofar as it prevents the institutional reforms and coordination vital for the emergence of a new growth model from being devised and implemented.

Last year, we brought to light the end of the growth cycle. Today we are talking in terms of breakdowns and radical transformations in the world economy. **If appropriate frameworks for negotiations are not found for all issues related to international economic tensions, it is hard to imagine that the world economy will recover before several years, perhaps more than three.** The damage will be enormous, particularly for European countries, our own country and even more so for the least developed countries. A response consisting of half-measures could increase poverty, unemployment, populism and could lead to tragic events such as conflicts and food crises.

THE ASSESSMENT:

THE WORLD HIT BY SIMULTANEOUS ECONOMIC SHOCKS

The world has been hit by four economic shocks with combined effects, for the first time in the last two centuries: a monetary crisis; the appearance of latent conflicts between emerging countries and OECD countries; the unexpected scale of the world

consumers' demand and the ageing of the population. All this has been accompanied by transformations in the labor market, savings and financing conditions, the nature of the market for goods and services and obviously the social protection equilibrium.

The likely outlook for the world economy can be predicted for the next six months, but the unknown factor resides in its recovery during the second half of 2010. As of today –July 2009– the cleaning up of banks' balance sheets has been partially, albeit insufficiently, carried out particularly in Europe and no global scale regulation allows to hope that systemic shocks will not happen again.

Stimulus packages, particularly the American one, combined with the impact of temporary decumulation of inventories will result in a mechanic rebound of the US and European economies during the last quarter of 2009 and first quarter of 2010. **Beyond that, there is no guarantee for a self-sustained growth of the world economy.**

The situation is serious and requires drastic decisions to be made.

"CERCLE DES ECONOMISTES" PROPOSALS

The "Cercle des économistes" understand the fears of those who predict a return of inflation and major difficulties with public finances. The "Cercle des économistes" believes however that those fears in no way diminish the need for a bold response to the crisis. Stimulus packages must not only be explicitly temporary in their design and effects but must also lead to indispensable structural reforms if we are to achieve sustainable public finances. The structural difficulties that we experienced before the crisis must not prevent us from responding to the current situation.

Proposal 1

The G20 must become an institution equipped with a permanent secretariat and act as the international economic coordination body in replacement of the G7/G8. It will need to undergo reforms including membership allocation in order to be more efficient and address issues related to trade, exchange rates and the stabilization of commodity prices. **As regards trade and given the new**

protectionist threats, the G20 should ask the WTO to immediately resume the Doha negotiations with an extended agenda integrating technology transfers as well as social and environmental items. **As far as raw materials are concerned, the oil forward market must be more strictly regulated than other over-the-counter markets** considering its impact on both Northern and Southern economies. The oil market volatility is a recurrent item at G8 summits: nobody ever tackles the issue seriously and this is a major threat to recovery.

Proposal 2

The strengthening of banking and financing regulations initiated in London last April must finally be materialized. The G20 only has until the end of 2009 to do this. The consensus reached between Anglo-Saxon countries and the rest of the world is fragile and will have disappeared by then. **All the pro-cyclic regulatory provisions such as IFRS standards, Basel II and Solvency II need to be first frozen then reviewed.** In this context, the London G20 decisions aiming at reaching a level-playing field on returns, capital requirements and the behavior of State controlled banks will have to be deployed rapidly.

Proposal 3

The IMF and Financial Stability Board will have to be repositioned so that they can explicitly take on their roles in terms of anticipating and addressing the issue of financial imbalances. The IMF must also modify its voting system so that it is based on the real economic weight of the represented countries.

Proposal 4

We thereby make a solemn plea to organize an international conference with a view to redefining the rules of the world governance by the end of the first quarter of 2010 at this crucial conjunctural crossroads: let's call it the RENAISSANCE CONFERENCE. In fact, the "Cercle des économistes believes that a decisive initiative is indispensable if the G20 is to become the forum economic debates and conflict resolution at world level.

To prepare for this conference, the G20 should:

1. Come up with new stabilization tools and a better-balanced distribution of central banks currency reserves.

2. Launch an analysis on what the world's energy and food needs will be by 2015 and what production systems could improve the balance between offer and demand on these markets.

3. Design new mechanisms for transferring funds to Southern countries and match private capital flows with a view to doubling public development aid in the next five years.

4. Take responsibility for the implementation of the commitments that will be made next December at the Copenhagen conference in the post Tokyo framework especially regarding financial solutions for a better management of climate issues –a true global public good.

Proposal 5

Regarding the economic environment, G20 must ensure that one essential condition is met, i.e. that interest rates be not raised before growth has safely settled above potential.

AT THE EUROPEAN LEVEL

Proposal 6

Faced with the brutal collapse of national employment markets, the European Union must strengthen support plans in a coordinated manner. It is the perfect time to really activate the Lisbon strategy, which has been the failure of the last decade. This requires **reinforced coordination** between the major European countries on infrastructures, research and development, the organization of higher education systems, as well as investment in growth enhancing sectors (energy, ITC, agri-food, water, transport, waste management, biotechnologies).

Proposal 7

For the European Union and its partner countries to come out stronger, it is necessary to develop a new monetary architecture around the Euro zone and to entrust the European Central Bank together with the Euro group with the capacity to actively manage exchange rates. In the very short-term, Europe will be faced with the need to get organized beyond the Euro zone *per se*, as authorized by the Maastricht treaty through anchoring inter-currency processes.

Proposal 8

In the short term, we recommend that true European “stress tests” be organized and published rapidly in order to contribute to restoring trust in the financial system –banking and insurance.

AT THE FRENCH LEVEL

For France, this crisis is a moment of truth and perhaps an opportunity. France is faced with an indisputable relative loss of competitiveness, at least has been in the last decade, and counts a very large number of poor and excluded citizens. On the other hand, in all the above-mentioned growth enhancing sectors, the country can rely on outstanding scientific and technical expertise and top-ranking global players.

Proposal 9

Over the last quarter of 2009 and the first quarter of 2010 the economic policy’s priority must be to massively boost investments in our country, which has not been done in the previous years. The allocation of the State Loan must be based on a consensus between stakeholders and a rigorous selection of priority sectors as well as the types of funding schemes and investment modalities. The funding of high potential sectors and the development of research capacities must be based on a long-term view and normal profitability returns in order to pay back the loan. They should also be managed by specific institutions –agencies– dedicated to said sectors. Let there be no mistake, the decisions made will set course for the French growth for the twenty years to come.

Proposal 10

A quarter of the resources allocated to recovery must be dedicated to the upgrade of the higher education and research system. This will be a decisive step forward towards the resolution of the youth unemployment issue. Yet it will be inadequate to curb the unemployment of young qualified jobseekers. **All expenditures dedicated to labor market policy** must be reviewed. Hence most of the available margins of maneuver will be devoted to the fight against exclusion due

to low qualification, poverty and inactivity traps. The necessary reinsertion measures such as the so-called RSA scheme could thus be expanded.

Not everything boils down to finance: **we must do much more in France and in the rest of Europe to improve the insurance against labor market risks.**

In this context, the time has definitely come to move ahead with structural reforms.