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Final Statement

The goal of this introduction is to propose and to describe the conditions necessary if the OECD, and above all the European continent, are to regain their prominent place in the global economy within the next five years. We have a resolutely optimistic perspective on the future of Europe, but to fulfill our goals we must do more than just make declarations –we must make an unprecedented human investment and an unprecedented investment of capital. Furthermore, while avoiding a simplistic vision of sustainable development, it is clear that Europe must concentrate a portion of its efforts on some areas that are in the minority today, such as technology and the "green" business market. These sectors will not remain minor for long, and their early competitive promise is strong. We must not lose the advantage of having identified the earliest signs of the new environmental constraints, and the advantage of having taken a leadership role in moving in this new direction. In a broad sense, the world will not be able to experience true development if Europe, and the United States, are in a state of growth crisis.

We do not deceive ourselves. The crisis is long from over, and economic debate rightly focuses on the different possible means of returning to global growth. Nevertheless, the next three years are most importantly the first steps toward a new form of growth. We are confronted with the strongest global economic crisis in a century, and the long-lasting effects of our political economic choices will radically define the path towards growth. Faced with such profound decisions, it is the economists' responsibility to prove their intellectual audacity, to help conceive a new economic paradigm that incorporates a plan for the development of green technologies, and to succeed in balancing high-quality economic growth with sustainable economic growth. But above all, the role of economists is to work together to demonstrate that growth is possible.

Today's world has many illusions and accepted ideas that point toward a grave future, if taken at face value:

- Europe, and in particular Southern Europe, is said to be on a path toward marginalization. Supposedly, this is because the aging population has difficulty finding a place in the new international work division and because immigration levels have reached their limits;

- It is said that the economy will inevitably continue to be oriented toward the short term;
- It is said that the world is headed toward a society in which the innovations of goods and services will no longer play the same role as they used to in the past two centuries;
- It is said that inequalities remain at an unsustainable level, creating major social difficulties in developing countries, aggravated by the anxiety of economic austerity;
- The African continent, left behind in global growth, would have little future;
- It is said that the major currency areas will be condemned to live with persistent, long-term global disequilibrium, notably in the commercial sector, which presents the difficulty of managing the explosion of monetary liquidity on a global scale –and we know this to be at the heart of the economic crisis. The exchange rate would be of secondary importance, an idea that is reinforced by the G20's silence on the subject.
- There would be nothing to be done about the volatility of capital flux and financial bubbles;
- It is said that technological progress and concern about the environment are contradictory and the chosen solution would at best be a mediocre compromise;
- The Euro Zone would only function within the framework of a uniform socioeconomic model for both economic sectors and institutions.

If these ideas were to be confirmed, the trends would converge, leading to a drying-up of growth in the next five years. If this occurs it will exert considerable global pressure, both on the half of the world that is trying to recover and the other half that is in semi-stagnation. If we don't commit to thinking about tomorrow's growth, Cassandre's predictions have a strong chance of coming true.

This is the reason for this year's topic Aix-en-Provence economic forum. We will continue what has been developed at the four previous "Rencontres" on this rather long-term but nevertheless highly practical subject. Realism has once again become essential in the European market, but diversity and solidarity are also necessary, since the members of the Euro Zone have been strengthened in their respective advantages by the stability of change. This necessarily includes intra-union balance of commercial flux and transfer of funds.

I. The Risks for Europe in the New World Order

The financialized and globalized model of capitalism that has gained prominence at the turn of the millennium has run out of steam. The "tectonic" forces at work are:

- Demography, with the aging of populations according to a more or less definite system (first the developed countries age, and then the emerging countries).
- The exhaustion of the raw materials that are at the foundation of the modern consumer society.

These forces necessarily alter the situation. The world is changing radically, and hundreds of millions of new individuals will take on the rhythm and the mode of developed countries, rendering the present trajectory of growth unsustainable.

Taking into account these tectonic forces, there are six major threats are looming on the model for growth in tomorrow's Europe. In reality, the changes have taken place simultaneously on a global scale and at the heart of the social organization of each area and each country.

1) The risks of non-growth

A world that no longer innovates and moves towards non-growth is a world that destroys itself. Even if the findings of Malthus are truer than ever, we vigorously reject his recommendations. De-growth, that old Malthusian refrain, does not take into account the hundreds of millions of individuals freed from poverty thanks to technological progress.

It is vital that we avoid a simplistic vision: growth is not the enemy of the environment or of ecology. We must believe in technological progress, and we must not look at it only as source of pollution and delocalization. Technology is the only response to the challenge of striking a balance between high-quality growth and sustainable growth. We must move away from Malthusian logic –it is a condition sine qua non if we are to find economic growth despite unfavorable demographic dynamics.

But there are also risks associated with environmental imbalance and the scarcity of resources. The summit at Copenhagen was a great display of selfishness: the South wanted money, the North wanted to stay in a comfortable position, and the European Union, despite its good intentions, was unable to foster any progress.

2) The risks of a financialized world, favoring short-term investments and thus vulnerable to a slowdown in technological progress

Reform of financial regulation will change nothing: the world is still driven by the short-term behavior of the financial sector. The systemic risk has not been correctly internalized. Careers in this sector continue to attract human capital, and the goal of putting the financial industry back in the service of the actual economy remains remote.

Beyond the imbalances that result from the swelling of the financial industry, there is another, far more worrying danger in the long term: the attraction of an excess of talent in this sector constitutes a misallocation of resources and precipitates a slowdown in technological progress, overall.

3) The risks of ill-conceived austerity

A poorly thought-out and badly coordinated policy of austerity may stifle fragile potential growth.

In particular it would be dangerous to lower funding for education and digital infrastructure, and/or to substantially raise employers' taxes on salaries.

4) The risks associated with the displacement of existing social models

This is the foremost risk for Europe. Only national governments have the capacity to support the plan for social transition. The economic crisis reveals the social pathologies in the modern world: excessive domestic debt conceals the dizzying rise of inequality, as the working world polarizes dangerously between stable, skilled jobs and unstable service jobs. On a more fundamental level, the middle-class must regain the sense of a satisfying living standard, with genuine prospects for the future. This can only happen through a reorganization of the State, by a rise in deductions that don't penalize work, and by a hunt for profit windfalls in industries like finance and raw materials.

5) The risks of excessive externalization of the forces that drive growth

One cannot count on the unbridled growth in emerging countries such as the BRICs, nor believe that in them the world economy has found the long-awaited path toward growth and technological progress. These economies are still largely economies of *imitation*, catching up rapidly to Western levels of wealth. This economic model cannot be the sole source of long-term growth.

6) The risks of a head-to-head competition between the United States and the major emerging countries

At Copenhagen the G2 triumphed over Europe. But dual authority is always instable and would lead to unsustainable growth, especially with Europe responsible for imbalanced global growth.

When considering whether it is still possible to have cooperation without war, one can't be too cautious. The future will certainly not be cooperative. We can expect a chaotic coexistence between peaceful, balanced, egalitarian, and decentralized growth in the advanced countries, and strong, imbalanced, centralized and non-egalitarian growth in the developing world, sparking a volatile flux of immigrants and capital.

The economic battle has already begun on the question of exchange rates, in anticipation of the flow of mining resources and commercial protectionism. Without a doubt, the battle will continue in the effort to secure long-term savings.
How can the G20 be useful in this area? A global government and a system for the collective management of global problems seem almost utopian considering the previous G20s. That said, the G20 is a major opportunity after these past two years, because it situations decisions in the framework of a global vision of the economy. The G20 takes on a crucial role in this period of transition.

II. Inventing tomorrow's growth

Affirming our faith in Europe's capacity for growth is only the beginning. To begin with, there is the question of methodology. The terms "sustainable growth" and "equitable growth" are so commonly used that they have become almost meaningless concepts.

Furthermore, despite global warming and the environmental stakes, we cannot be satisfied with low-cost growth. Excessive development of the service sector results in the rise of unskilled jobs with low average salaries.
We must determine what sectors and what actors will carry this new growth.

1) New Sectors

With regard to economic sectors, we can enumerate certain forces that drive economic growth, it being understood that the following is to be read in terms of industry rather than in terms of services.

a. Green business: carbon-free energy, green transportation and buildings.
b. Elderly oriented economy: bioengineering for healthcare and life sciences.
c. Digital culture, nanotechnology, robotics.
d. Rethinking production processes to make them more economical in their use of raw materials.
e. Agronomy and hydraulics to respond to the limitations of arid climates.

But initial quantitative estimates of growth potential using these new sectors indicate that they are too limited and generate too few jobs to be able to spark the growth of the future. Therefore, technological breakthroughs are vital in all of these areas to allow for high-quality, sustainable growth.

2) Breakthroughs in business models

These technological breakthroughs will most likely come from the hybridization of different scientific fields. Beyond information technology, which has already matured, areas such as biotechnology are full of promise. Scientific development is moving into a phase of creativity and synthesis.

At the same time, it is clear that new modes of production and consumption are blooming. Customer value and interactivity (Web 2.0 and quaternary society) are today's marketing buzzwords. Naturally, this goes along with the business models that are emerging –in particular, the industry/service interface. These new business models also pose new challenges, such as the question of intellectual property, "free" culture, privacy, security, and the question of access for underprivileged and peripheral populations to the digital world.

3) Some constraints to consider

It is often tempting to oppose, in a somewhat artificial way, high-quality growth in the manner of Stiglitz, and sustainable growth in the manner of Stern. The only issue to overcome is the three constraints that are imposed by the global population explosion. They are, in fact, the three fundamental scarcities: raw materials, capital, and skill. This means we must invent efficient technology, channel money towards long-term investments that are socially and economically profitable, and create training that is adapted to the jobs of the future.

4) Putting a new industrial policy into place

Public powers must engage the correct forces to stimulate the structural factors of growth: productive investment and the global productivity of factors (R&D, innovation, and skill, for instance). This means not to promote an all-out industrial policy, but a policy making selective bets on a small number of areas in the future, which public efforts focus on –possibly as a public-private partnership. In order for this to happen, it is clear that a more pragmatic policy on competition must be implemented –as American doctrine has shown. This is fundamental in the era of the creation of the great common market.
More precisely, it is necessary to adapt to global competition, without abandoning the idea that certain sectors generate profits that are difficult to justify.

The green economy will only be possible if public powers support clean technology immediately, without waiting for a breakthrough in exogenous technology that would cut the cost of clean energy overnight. The process of innovation must begin with the State, through subsidies, or taxes that are advantageous to the green sector, carefully calibrated to verify what effects might be induced. Only once this sector has caught up to the technology of environmentally harmful industries can we let market forces decide on the allocation of resources.

But just making goals is insufficient – this was the failure of the plans at Lisbon. It is necessary to *catalyze* the research effort by launching major projects –to direct research towards sectors that will drive tomorrow's economy, through public-private partnerships and technological platforms, to create a plan for research on the long term.

But in order to develop a productive system that is balanced and sturdy, it is necessary, of course, to consider two major policies: employment policy and fiscal policy. In the first case, the major difficulty is integrating young people, the elderly, and immigrant

populations in a substantial way. As for fiscal production policy, there is a choice: is it better to aid (through decrease of employers' taxes on salaries) skilled workers or unskilled workers?

5) Innovation at the heart of growth

Technological breakthroughs lead to profound social transformations. It is for this reason that the public authorities must be involved. It is well known that the trajectories of technology may or may not bring growth. The role of the State's power is not to make major final decisions, but to highlight the many interactions between different technologies – to orient and to guide technological change through taxes (such as a tax on carbon emissions) that favors investments in clean technology and green innovation. The State must be an initiator.

6) Protection against major long-term risks

What is the best financial model for long-term growth and for future innovation? The price signals are not enough to attract private investors. Slow-downs in innovation and the glaring absence of technological breakthroughs are largely due to funding problems. This is illustrated by the difficulty in structuring the industrial field around the electric car.

New growth can only occur if long-term investors are interested. This touches on the challenge of financing growth. The State can no longer be the benchmark for long-term investment, but it plays a role in directing investment.

It is an epistemological reversal: the goal is not so much quantitative as qualitative. The investment war will be won if we succeed in directing growing private savings toward productive investments in profitable long-term social and economic investments.

Above all, this necessitates a significant reduction in the strong risk aversion of today's capital, which was the cause of the shortened horizon of private investment. Public authorities must be facilitators, channeling long-term investment by means of a reconsideration of the allocation of long-term risks. It is the State's responsibility to take on the most significant long-term risks through guarantees and securities.

III. Ten steps to build European growth

Do our countries have a future? The answer is most certainly yes.
Europe has no objective vision –neither of its power nor of the reality of its present situation. Europe, the primary commercial power in the world, has developed a unique market of 500 million consumers –an incomparable force. Europe possesses exemplary social systems, and is also a source of exceptional innovation, though today European innovation is underutilized. These assets must be used to work towards a type of growth that is distinct from the type of progress that existed before –in particular, that of the American "technology/ services" model. We hope to maintain an extremely solid production base. This is not to say widespread re-industrialization is necessary, except in specific cases, notably in France, where deindustrialization has been felt the most strongly. There are seven themes that seem central, each of which suggests a true breakthrough strategy:

- Innovation and industrial policies
- Education and qualification
- Growth funding and financial regulation
- Growth in green sectors
- Macroeconomic policies
- The social contract
- Multilateral cooperation

Of course, it would be unrealistic and inefficient to itemize a complete catalogue of measures, but it is nevertheless an indispensible means of illustrating the absolute necessity of a radical change in European politics. Thus, the Cercle des économistes has formulated 10 measures that would allow Europe to become a principal actor in future economic growth.

1. Towards an industrial policy that favors the sectors that will bring new growth

The meaning of the term "industrial policy" has changed greatly over the years. For this reason, it is important to identify the three principles that allow us to define the term thoroughly, from a perspective that is appropriate for this time period.
First of all, we must identify the sectors that should be privileged: health, energy, green technology, transportation, digital technology, and nanotechnology.
Action is necessary in a very diverse set of circumstances. Some areas, like energy, constitute major European projects. Some need capital funding. Others, as in the case of

startups and businesses that are in development, consist in helping the development of new technology.
In the end, the difficulty is to find the means to finance this growth in the long term, keeping in mind that countries can no longer play their former role as long-term investors but that European savings are plentiful. And so it is necessary to direct several hundred billion Euros each year toward productive investments that are economically and socially lucrative in the long term. The difficulty is in the existence of a strong climate of risk aversion, which can only be overcome through a specific system of risk-sharing between States and private investors, wherein the State assumes the major long-term risk as a reinsurer. But this is far from being financially sufficient. Naturally, another method that must be taken into account is the creation of a European debt agency, which will be better than the European States at managing a large European loan fund dedicated to this diversified industrial policy. It is important to note that, in order for the States to rebalance their accounts and thus ensure more traditional finances, it will be necessary to reinforce the strength of obligatory deductions. The challenge is to damage neither the development of innovation nor the development of the workforce.

2. Toward an ecological industrial policy

As we have seen, Copenhagen was a failure with regard to global environmental policies and Lisbon was a failure for the policies of European innovation. We believe that it is necessary to retrace the steps taken at Lisbon, but this time States must commit to green technologies in a substantial way. This strategy will lead, rather naturally, to a tax on carbon emissions, to be used exclusively to finance research and innovation in green technology. Such a tax will also have the effect of directing technological change towards clean technologies, and could be combined effectively with a policy of funding research and development.

3. Toward a European Small Business Act

This has been in demand for a long time, and has not yet been carried out but is nevertheless vital. The American SBA is a formidably effective tool, because it is better than traditional investments for financing innovation, and it guarantees a portion of the public market for small and medium businesses. It is urgent that such a measure be put in place in Europe, despite potential difficulties with the WTO.
This has relevance both for startups and for fast-growing businesses. The European SBA, like its American cousin, must put a variety of mechanisms into place, concerning the public markets as well as funding.
To simplify the process, this policy must be coordinated at the European level, but perhaps directed on a regional level, based on the German Länder model.

4. Toward a policy of education and research

Much has been said on this subject, but little has been done. First of all, we think that it is necessary to examine the entire system of elementary and secondary education, and to do so in all European countries. Europe's power lies in its education, and this power has been somewhat damaged. Likewise, higher education is an education of the masses, and we must commit to it 2% of the GDP. This is more than our current allocation and less than what the US spends. At the highest level of education, we must create a European doctorate and also a European academy for assessment.

Finally, business and research clusters have been very successful initiatives in certain European countries. We must implement them on a larger scale, giving them greater means and more projects. The creation of a European network is the best and most realistic path towards achieving this, and improving the relationship between research and innovation.

5. Toward the regulation of European financial markets

In this area, the approach can only be international. On the other hand, as early as the next G20, Europe can define which priorities it needs to debate and implement in order to render the international financial system less volatile. *We are thinking of the three following points*: the convergence of accounting and financial norms, notably between the United States and Europe, the progressive oversight of markets by mutual agreement, and the establishment of clearing houses *for a large part o*f derivative products*; and, following the lead of the United States, the establishment* of powerful punitive policies for savings banks that trade for their own profit.

6. Toward an active macroeconomic policy

Effectively, it is a question of inverting the logic of the Stability and Growth Pact and giving it a specifically countercyclical character. For a recovery of public funds, it is necessary to be extremely strict about deficits during periods of positive growth, and more lax during periods of recession.

More generally, it is necessary to manage the interest rate, exchange rate, and the deficit while considering that Europe has a strategy that privileges growth. As for the currency policy put into place by the European Central Bank, we cannot allow it to submit to the markets' volatility, especially during the difficult period that will come. Our defined strategy must be cooperative, and therefore we must have discussions with the other major currency zones on the stability of exchange rates. However, it is important to approach these conferences with the interests of European growth in mind.

7. Toward intelligent and differentiated macroeconomic oversight

Such oversight cannot be limited to the Stability Pact and must respect the diversity of the different countries' models. At the same time, it must avoid the financial variances and imbalances that put the Euro Zone in danger.

From this perspective, the policy of economic austerity, which, in all likelihood, will spread over the next five years, must make certain that no budgetary cuts will affect the investments that will be fundamental for the productive base, and that no additional taxes will harm labor or negatively impact innovation.

8. Toward selective immigration

To support the dynamism of the European job market, we are favorable to a selective immigration, based on qualification and directly linked to integration in the labor market

In particular, as this is the case in the other major zones, the attractivity policy for students constitutes a powerful factor when it comes to cooperation with the home country.

9. *Toward a unified labor market*

All of the European countries are touched by intergenerational conflict. The difficulties are numerous, but the first decisions that must be made are on the topics of education and employment.

If we want to see a unified labor market, it is of course necessary to have a labor market that is integrated –in other words, internationally interconnected, many times the level of today's Erasmus. The same education/employment connection applies to the movement of immigrants. There are numerous imaginable measures, but one of the foremost ideas is that of the portability of the pension system.

10. Toward a definition of a common European policy on the transfer of technology

The key issue of the coming decade will be the transfer of technology. In this area, only cooperation between European countries can protect Europe from being ransacked for its technology.

The situation with Africa is exactly the opposite. Africa is a continent that has surprised the world by it vigorous growth. It is likely that the challenge of obtaining raw materials, rather than technology, will fall to developing countries. This still represents an opportunity for us. We must reinforce our policy of aid for Africa, for its development, finance, decentralization, and education.

In conclusion, having reminded ourselves of the seriousness of the environment in which these “Rencontres” take place, this year the “Cercle” is resolved to bring hope. Our countries can bounce back, if they begin the process of working towards new growth. The key is to keep pace with the United States and the major emerging countries. In the absence of cooperation, we must learn to make a place for both balanced, decentralized growth in Europe, and fast-paced growth, as developing countries begin to catch up with Europe.