

# What kinds of capitalism for the 21<sup>st</sup> century?

## Final declaration of Le Cercle des économistes

Aix-en-Provence, July 8, 2007

Capitalism has triumphed. Will it be able to take advantage of its victory? The Aix-en-Provence forum focused on the existence or non-existence of various forms of capitalism, on the possibility of their convergence and on the forms this cohabitation might take.

The Cercle des économistes believes that the dominance of the Anglo-Saxon model of capitalism is not a certainty. On the contrary, a multiplicity of capitalisms will eventually prevail. Hence, economists must concentrate on the consequences of this lasting pluralism. Even if today, as in the past, multiple capitalisms are based on common values, there is no guarantee that the tensions arising from their competition will be easy to overcome. This declaration looks to address questions of world governance and of efficient and fair rules of the game, in the economic, financial, social and environmental domains.

### I. Assessments

The hard core of capitalism is private ownership of the means of production, coordination by the market and respect for property rights. But beyond this, capitalism can take a number of different forms. For example, the social economy of markets, for a long time a distinctive feature of continental Europe, allows all the parties involved, notably the State and trade-unions, to play their parts in the running of public affairs, with the expectation that the State will correct any major inequalities. Anglo-Saxon capitalism tends to rely on individual responsibility, on the part of both the rich and the poor, and on the free circulation of people, goods and capital. There is little state control over private companies in Anglo-Saxon countries, more so in France, and strong state control in Russia and China, two de facto capitalist countries, although they refuse to admit it.

The Aix-en-Provence forum has allowed us to draw conclusions along five lines, some of them unexpected.

#### **1. All forms of capitalism are based on values.**

These values are of different kinds: capitalism did not grow out of a single soil, be it religious or secular. Three categories of values can be singled out:

- The diversity of the values in the first category should be respected, as they do not affect the others. A good example is the weight of the State in companies.
- The diversity of the values in the second can threaten the others. The lack of transparency in the companies and markets provides a good illustration.
- The third category of values is comprised of those we consider to be universal with which there can be no tampering, for example, respect for people and for the environment.

These values are all the more indispensable in that capitalism, whatever its form, generates inequalities, which are particularly acute today. In democratic societies, a political process based on common values makes it possible to determine the acceptable degree of inequality and the corresponding degree of social protection. Such is not the case elsewhere.

**2. There are various forms of capitalism.** These forms evolve in directions that no one has anticipated. Contrary to expectations, market capitalism is not the only form. Family-based capitalism is thriving in southern Europe and in Mexico. In China, Russia and the Middle East a new state-based capitalism is emerging, financed by a surplus of current accounts, which in turn is invested in European and American companies.

**3. Capitalisms will have to coexist.** Complex processes govern the coexistence of the various forms of capitalism. Certainly, there are converging forces at work, notably under the pressure of financial

markets. But there is also competition between capitalisms that will lead to a sort of natural selection. The dominant model will not necessarily be the most efficient or the most socially acceptable.

**4. The peaceful coexistence of all forms of capitalism cannot be taken for granted.** Because progress is born from difference, because economy must respect the diversity of values, and because we believe in the positive role of competition, we believe the diversity of capitalisms presents an opportunity. But we fear that their coexistence might generate increasing tensions and lead to conflicts. The first modern globalization movement, which saw an unprecedented development of exchanges, was fractured by World War I.

**5. There is no supranational authority to organize this coexistence.** It is common knowledge that today's world governance is woefully insufficient. In many areas, such as the environment, competition or intellectual property, there is no global authority. The existing institutions, especially the IMF and the World Bank, lack political legitimacy. In other words, there are no rules common to the various forms of capitalism. Any Chinese firm can launch a hostile takeover bid with public funds; in Europe, this is almost impossible. Europe refrains from manipulating the value of its currency, Japan or China do so using their currency reserves, and the United States via declarations of its administration.

## II. Our proposals

We face a wholly new situation, one that raises challenges that could bring into question the very survival of capitalism. It is in the interest of meeting these challenges that we make the following propositions.

### 1. Aim for a harmonious coexistence of capitalisms and establish the means to create it.

The only way to avoid uncontrollable tensions is to devise adequate rules and make sure they are respected worldwide. The objective is not to converge on a single model of capitalism, but rather to organize the coexistence of its diverse forms.

#### Proposition no. 1:

**Create an L 20:** International institutions must be profoundly reformed, to become more legitimate and to better integrate the interactions among the various dimensions of political economy. The relevant forum for discussion of world political economies would be an "L 20", a regular meeting of the heads of state of 20 important developed and emerging countries. It should have a double agenda:

- Reform international institutions and make them more representative (IMF, World Bank, BIS, WTO), and create a new world organisation for the environment.
- Define a minimal set of common rules for corporate law, competition, and intellectual property, as well as for controlling capital and coordinating monetary and exchange policies.

#### Proposition no. 2:

**Make sure the rules are respected.** Everybody knows that this is not the case today. Efficient means of control have to be created, through a series of graduated disciplinary measures including sanctions for countries that transgress the rules in the above-mentioned domains, as is already the case for the WTO. It might be necessary to create a new institution, whose mission would be to investigate cases and eventually impose sanctions through rapid and efficient processes adapted to the new globalization.

**2. Support our own form of capitalism by reforming it.** Le Cercle des économistes believes that we must defend the model in which we have faith. This is the continental European model: a market economy that benefits from the stability of the rule of law, one that consults with and involves all of the parties concerned, and one that corrects the most unfair consequences of capitalism through an efficient redistribution system that does not smother the economy.

#### Proposition no. 3:

**Have Europe lead the effort to develop global norms.** Europe has a shared, coherent body of norms for the regulation of markets. It is time that Europe assert its positions in global negotiations with respect to financial and accounting domains, the environment, and the protection of individuals.

Proposition no. 4:

**Implement systematic rules of reciprocity.** If we discover that an optimistic vision of global regulation cannot be put into place, we ask that systematic rules of reciprocity be conceived, discussed, and implemented. If our partners do not respect our rules, and only in this case, we should protect ourselves, for example, by excluding from participation countries that do not apply principles of reciprocity in the concerned areas.

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There are still a billion forgotten human beings, for whom the word “capitalism” has no meaning. Our challenge, at the start of the twenty-first century, is to integrate them. This means helping them develop economies sufficient to meet their basic needs, while at the same time creating the institutions required, there as elsewhere, for the emergence of capitalism.

<p>The members of the Cercle des économistes declare their belief in a plurality and diversity of economic information in France. Today’s debates have shown that capitalism can be expressed in multiple ways, and it is both healthy and necessary that, in a market economy, different voices are heard.</p>
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