

**EMBARGO UNTIL DELIVERY**

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Ladies and Gentlemen, Heads of State and Government,  
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May I begin by thanking Professor Schwab and all the organisational staff for inviting me to give the opening address to this 40th Annual Meeting of the World Economic Forum.

Ladies and Gentlemen, let me make things perfectly clear: as a political leader, I have not come here to teach, but to learn together from the lessons of the crisis. We are all responsible for the crisis. And we are all responsible for the world we are going to leave to our children.

We all know what would have occurred, without State intervention to maintain confidence and support industry: total collapse. Not to draw the conclusion that we must, therefore, change our ways would be, quite simply, irresponsible.

This crisis is not just a global crisis.  
It is not a crisis in globalisation.  
This crisis is a crisis of globalisation.

It is our vision of the world which, at a given moment, revealed its failings.  
That is what we must correct.

There can be no prosperity without an efficient financial system, without the free circulation of goods and services, without situational revenues being called into question by competition.

But finance, free trade and competition are only means, not ends.  
From the moment we accepted the idea that the market was always right and that no other opposing factors need be taken into account, globalisation skidded out of control.

Let us look at the root of the problem: it was the imbalances in the world economy which fed the growth of global finance. Financial deregulation was introduced in order to be able to service the deficit of those who were consuming too much with the surplus of those who were not consuming enough. The perpetuation and accrual of these imbalances was both the driving force and the consequence of financial globalisation. In just the same way, the instability of financial markets was both the driving force and the consequence of the growth in financial trading.

Globalisation first took the form of globalisation of savings. It gave rise to a world in which everything was given to financial capital and almost nothing to labour, in which the entrepreneur gave way to the speculator, in which those who lived on unearned income left the workers far behind, in which the use of leverage, to an unreasonably disproportionate extent, created a form of capitalism in which taking risks with other people's money was the norm, allowing quick and easy profits but all too often without creating either prosperity or jobs.

One of the most striking characteristics of this type of economy is that, within it, the present was all that mattered and the future counted for nothing. The steady depreciation of the future could be inferred from the exorbitant demand for high yields in the present. Those yields, inflated by leverage and speculation, were the discount rate applied to future revenues: the higher they rose, the lower the value of the future fell.

The same depreciation of the future could be seen in accounting practices which valued assets at the prices set by a marketplace fluctuating constantly to keep up with the ups and downs in share values. When the markets were on a high, balance sheets were reassessed, and the very same artificially boosted figures would feed a new high. When confidence fell, the balance sheets would suffer as a result and bring share prices down.

During the financial crisis we saw, up close, the damage done by that kind of accounting, when the collapse of the markets led to a collapse in the banks' capital reserves and further tightened the credit crunch.

Our entire system of representation had been falsified: the economic value of a company does not change from one second to another, nor every minute, nor every hour... To gain a clear idea of just how absurd that kind of accounting can be, we need only think of the fact that, in a market value system, a company in trouble can report a profit simply because its diminished credit rating has reduced the market value of its debts!

Our entire system of statistical assessment had been distorted, too.

In the statistics, we noted the increase in revenues.

In life, we saw a widening inequality gap.

In the statistics the standard of living was rising, but meanwhile the number of those feeling ever more keenly the hardships of life was also constantly increasing.

Let us read through the report from the Commission led by Joseph Stiglitz, Amartya Sen and Jean-Paul Fitoussi on the measurement of economic performance and social progress: to ask ourselves questions about how we measure these things is to ask ourselves what our goals are.

Such reflections must not be the exclusive province of experts and statisticians. We have to leave behind the culture of experts who talk only among themselves, each in their own field.

We have to learn to think things through together, to discuss together problems which, whatever their technical specifics, are the concern of all.

We will not be able to change our set ways if we do not change the way we measure and represent things, our criteria. That is not an issue only for the experts. It concerns us all.

We will continue to make our economy run risks greater than it can bear, to encourage speculation and to sacrifice our long-term future, if we do not change the regulation of our banking system and the rules for accounting and prudential oversight. That is not an issue only for the experts. It concerns us all.

We will never put an end to hunger, poverty and misery in the world if we do not succeed in stabilising the prices of raw materials, which at present are completely erratic. That is not an issue only for the experts. It concerns us all.

We will not save the future of our planet if we do not pay the true price of scarcity. That is not an issue only for the experts. It concerns us all.

We will not reconcile our citizens to globalisation and to capitalism, if we are not capable of offsetting market forces with counterbalances and corrective measures. That, too, concerns us all.

By discarding all our responsibilities in the marketplace, we have created an economy which has ended up running counter to the values on which it was nominally based, and to its own objectives.

By over-mutualising ownership and risk, we have diluted responsibility.

By placing free trade above all else we have weakened Democracy, because citizens expect from Democracy that it should protect them.

By prioritising short-term logic, we have paved the way for our entry into a time of scarcity. We have exhausted non-renewable resources, devastated the environment, caused global warming. Sustainable development cannot be achieved if profits up front and dividends for shareholders are our sole criteria.

Through excessive deregulation, we have let dumping and unfair competition set in. We have let globalisation be based on external growth, with everybody trying to grow by taking the businesses, the jobs, the market shares of others, instead of by working harder, investing more, increasing productivity and capacity for innovation.

The globalisation we had dreamed of at the outset was of the kind where, instead of taking from others by means of monetary, social, fiscal or ecological dumping, each of us would found development on social progress, increased purchasing power, reduced inequality, improved standards of living, health and education...

Whether the venue is the ILO, the IMF, the World Bank, the FAO or the G20, at bottom we are always talking about the selfsame thing, seen from different points of view: how can we return the economy to the service of mankind? How can we act to ensure that the economy no longer appears as an end itself, but as a means to an end? How can we move towards globalisation in which the development of each will assist the development of others? How can we build a more cooperative, less conflictual form of globalisation?

Let us be clear about this: we're not asking ourselves what we will replace capitalism with, but what kind of capitalism we want.

The crisis we are experiencing is not a crisis of capitalism. It is a crisis of the denaturing of capitalism – a crisis linked to loss of the values and references that have always been the foundation of capitalism.

Capitalism has always been inseparable from a system of values, a conception of civilisation, an idea of mankind.

Purely financial capitalism is a distortion, and we have seen the risks it involves for the world economy. But anti-capitalism is a dead end that is even worse.

We can only save capitalism by rebuilding it, by restoring its moral dimension. I know that this expression will call forth many questions.

What do we need, in the end, if it is not rules, principles, a governance that reflects shared values, a common morality?

We cannot govern the world of the 21st century with the rules and principles of the 20th century.  
We cannot govern globalisation while relegating half of Humanity to the sidelines, without India, Africa or Latin America.

We cannot look at the post-crisis world in the same way as the world before the crisis.

Each of us must hold the conviction that the world of tomorrow cannot be the same as the world of yesterday.

There are indecent behaviours that will no longer be tolerated by public opinion in any country in the world.

There are excessive profits that will no longer be accepted because they are without common measure to the capacity to create wealth and jobs.

There are remuneration packages that will no longer be tolerated because they bear no relationship to merit. That those who create jobs and wealth may earn a lot of money is not shocking. But that those who contribute to destroying jobs and wealth also earn a lot of money is morally indefensible.

In the future, there will be a much greater demand for income to better reflect social utility and merit.

There will be a much greater demand for justice.

There will be a much greater demand for protection.

And no-one can escape this.

Either we change of our own accord, or change will be imposed on us by economic, social and political crises.

Either we are capable of responding to the demand for protection, justice and fairness through cooperation, regulation and governance, or we will have isolation and protectionism.

The G20 foreshadows the planetary governance of the 21st century. It symbolises the return of politics whose legitimacy was denied by unregulated globalisation.

In just one year, we have seen a genuine revolution in mentalities. For the first time in history, the Heads of State and government of the world's 20 largest economic powers decided together on the measures that must be taken to combat a world crisis. They committed themselves, together, to adopting common rules that will radically change the way the world economy operates.

Without the G20, trust could not have been restored.

Without the G20, we would have had the triumph of "every man for himself."

Without the G20, it would not have been possible to envisage regulating bonuses, closing down tax havens and changing the rules of accounting and prudential standards.

These decisions will not solve every problem, but just one year ago, would anyone have thought they were possible?

Now, however, they must be implemented!

I would like to seize the opportunity to say this: the signs of recovery that seem to herald the end of the global recession should not encourage us to be less daring; rather, we must be even bolder. If we do nothing to change world governance, nothing to regulate the economy, if we do not reform our systems of social protection, pensions, education and research, if we do not clean up our public finances, if we do not stringently prosecute the war against tax fraud, if we do not invest to prepare for the future, this recovery will be only a respite. The same causes will produce the same effects. Look at the new bubbles that are already starting to form. Here, we cannot be certain that the States will still have the means to guarantee trust.

And how can we hope that people will continue to trust the word of States if the commitments made are not kept?

If the absolutely crucial debate on accounting standards gets bogged down, if the private agencies to which we have delegated regulatory power deliberately flout the mandate given them by Heads of State and government, and we let them get away with it, what will be left of the credibility of the G20 and the prospect of world governance?

If competition is skewed by prudential rules that remain very different from one country to another, from one continent to another, whereas we had decided to implement the opposite; if we cannot coordinate our efforts, if we cannot even come to an understanding around a common definition of capital when we had promised to do so – how can we be surprised that so many players consider it normal to return to the habits they had before the crisis?

How can we conceive that in a competitive world, we can insist that European banks have three times more capital to cover the risks of their market activities, without demanding the same of American or Asian banks?

How can we accept the obligation for banks to retain in their balance sheets a portion of their securitised loans if this obligation is not included in the regulation of G20 member countries, given that the principle was adopted by unanimous agreement?

If we devise standards that do not draw the lessons of the crisis and that lead long-term investors to scale down their equity portfolios, then we must not be surprised that market prices become even more unstable and that a large number of companies find themselves even more threatened by speculative pressure.

Failing to do what we decided would be an economic error, a political error, a moral error.

Giving in to unilateralism, to "every man for himself", would also be an economic, political and moral error.

We must build our common future on the gains of multilateralism, on the gains of the G20, on the gains of Copenhagen.

Basically, we all know very well what we have to do together.

We must do away with a system without rules that drags everyone down and replace it with rules that draw everyone up.

But what is the point of agreeing on the rules if they are not applied?

This doesn't mean having the same labour legislation everywhere.

It doesn't mean imposing on poor countries the same standards as the rich countries.

But how can we accept that some 50 Member States of the ILO have not yet ratified the eight conventions defining the fundamental rights of labour? And how can we ensure these conventions are respected?

In Copenhagen, quantified commitments on climate change were made by all the big countries. How can we ensure these commitments are respected without a World Environment Organisation to monitor their implementation? How can we not see that the possibility of adopting a carbon tax at borders against environmental dumping would, without any doubt, constitute a strong incentive to respect the common rule?

The crucial advance would be to put environment law, labour law and health law on the same footing as the law of trade. This revolution in world regulation would imply that specialised institutions can intervene in international – and notably commercial – disputes through prejudicial questions to be decided before an action can be brought. As I said before the General Meeting of the ILO in June last year: the international community cannot continue to be schizophrenic by disowning at the WTO or

the IMF what it decided at the ILO or the WHO, what it proclaimed in Copenhagen. Establishment of such prejudicial jurisdiction would put an end to this schizophrenia.

But how can we conceive of implementing these social and environmental standards without helping the poor countries to achieve the capacity to respect them?

How can we demand such a huge effort from them, given their many difficulties, if we do not support them in their efforts?

The question of innovative financing is central. We cannot avoid the debate on a tax on speculation. Whether we wish to restrain the frenzy of the financial markets, finance development aid or bring the poor countries into the fight against climate change, it all comes back to taxing financial transactions.

Taxing the exorbitant profits of finance to combat poverty: who cannot see how such a decision – even if I am well aware of the complexity of implementing it – would contribute to putting us on the path of a moralisation of financial capitalism? I support without reservation the commitment of Gordon Brown, who was one of the first to defend this idea.

The other question we can no longer avoid is that of the role banks must play in the economy. The banker's job is not to speculate, it is to analyse credit risk, assess the capacity of borrowers to repay their loans and finance growth of the economy. If financial capitalism went so wrong, it was, first and foremost, because many banks were no longer doing their job. Why take the risk of lending to entrepreneurs when it is so easy to earn money by speculating on the markets? Why lend only to those who can repay the loan when it is so easy to shift the risks off the balance sheet?

President Obama is right when he says that banks must be dissuaded from engaging in proprietary speculation or financing speculative funds. But this debate cannot be confined to a single country, whatever its weight in global finance. This debate must be settled within the G20.

But I also wanted to say that it will not be possible to emerge from the crisis and protect ourselves against future crises, if we perpetuate the imbalances that are the root of the problem. Countries with trade surpluses must consume more and improve the living standards and social protection of their citizens. Countries with deficits must make an effort to consume a little less and repay their debts.

Currency is central to these imbalances. It is the principal instrument of the policies that perpetuate them. We cannot put finance and the economy back in order if we allow the disorder of currencies to persist. Exchange rate instability and the under-valuation of certain currencies militate against fair trade and honest competition. Employment and purchasing power constitute the adjustment variable for correcting monetary manipulations. The prosperity of the post-war era owed a great deal to Bretton Woods, to its rules and its institutions.

Today, we need a new Bretton Woods. We cannot have, on the one hand, a multipolar world and, on the other, a single benchmark currency across the globe. We cannot, on the one hand, preach free trade and, on the other, tolerate monetary dumping. France, which will chair the G8 and the G20 in 2011, will place the reform of the international monetary system on the agenda.

Until then, we must manage, prudently, the adoption of measures to support activity and the withdrawal of the surplus liquidities injected during the crisis. We must take care to prevent too abrupt a tightening that would result in a global collapse.

So, what remains to be done is to bring into being a new growth model, invent a new linkage between public action and private initiative, invest massively in the technologies of the future that will drive the digital revolution and the ecological revolution. We must now invent the State, the company and the city of the 21st century.

A few years ago, people were predicting the end of nations, the advent of nomadism. But in the crisis, even the most globalised companies and the most global banks rediscovered that they had a nationality.

A few years ago, people were announcing the decline of organisations, the end of companies. We wanted to apply to companies the principles of portfolio management. We are rediscovering the fact that they are, first and foremost, human communities and living organisations.

A few years ago, people were predicting that the city would spread, break up, and with it social cohesion, human relations and community relations. We are rediscovering the need for community, for urban cohesion.

Basically, it looked as if citizenship would dissolve in the global market. But it has found new springs in the ordeal of the crisis. In the world of tomorrow, we must again reckon with citizens.

Citizen is not a separate category, it is each one of us. The company head, the shareholder, the employee, the trade unionist, the non-profit activist, the policy maker – they are all citizens who have responsibilities towards others, towards their country, towards future generations, towards the planet.

Yes, in the world of tomorrow, we must again reckon with citizens, with the demands of morality, the demands of responsibility, the demands of dignity for citizens. We must see this not as yet another problem, but as part of the solution; not as an additional difficulty, but as something healthy and virtuous, that may, perhaps, allow us to feel happier with what we are, happier with what we accomplish.