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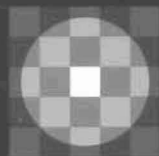
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Industry is our future

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Industry is our future. This assertion may seem odd, since a different view seems to have been accepted since the end of the 1980s: that we have become a 'post-industrial society' in which services have replaced industry, complemented by a 'new economy' of the Internet and of finance. With the entry of India and China into the global economy, the society of the immaterial is reckoned to be based in the West, and that of industry in the South and in Asia. With the need for sustainable development, industry should apparently be banned: it pollutes, and represents a threat both to human beings and to the future of the planet. Against arguments like these, our claim seems to be unreasonable.

And yet for many years now we have had to live with a world without rules, a Europe without projects, and a France which is searching for an economic strategy. In the current debate in Europe and in France, the solutions to this situation follow two different paths. For some, redemption lies in the generalisation of flexibility in all directions, and a continuous reduction in the cost of work. However, we know that this solution leads directly to increased exposure of our economy to the competition of the major emerging nations. For others, the answer lies in an unremitting technological race which would inevitably exclude a large number of workers, and also reduce our industrial base.

The role of politics is to open perspectives and make choices, and not to act as the vector of an argument advocating adaptation under constraint, resignation and a defensive approach. The real objective is our suggestion in this essay: to mobilise on the basis of an industrial development project by the creation of activities and jobs, by their localisation and their expertise.

For this we need first to understand why industry is an essential lever of our current and future prosperity; then to identify the difficulties that it is up against, in particular the influence of finance on the economy. After drawing lessons from the political experiences of other countries, we will be in a position to propose the main orientations of an industrial development project.

A new vision of industry

In France we associate the word industry with the manufacturing sector. Our statistics tell us that that industry represents only 20 per cent of national added value and concerns only 15 per cent of the working population; this data can be found in recent reports on industry. From this we should not be surprised by our collective belief that industry has become a minor component of our economy, and that its destiny is to fade away gracefully as the service sector grows. Nothing could be further from the truth.

Industry is at the heart of the creation of real wealth. Academic industrial economics¹ teaches us that industry comprises all productive activity, both material and immaterial. It thus includes activities such as food production; secondary industry (manufacturing); energy; building and public works (for instance, the building of the Millau Viaduct was of course an industrial undertaking); the cultural industries; services to companies; and of course activities linked to information and communications technologies. Its weight in terms of national added value is in reality of the order of 40 per cent and concerns 30 per cent of the active population.

Its importance is further enhanced by the powerful effects exercised on the whole of the economy and on society itself by productivity gains, with the growth that this implies; by the generalisation of technological innovation (in developed countries it is industry which is responsible for 80 per cent of R&D), and so on. The social foundations of industry are much more important than received wisdom would have us believe.

¹ See Jean-Louis Lévy, 'L'économie industrielle en évolution. Les faits face aux théories', *Economica*, 2005; Frederic M. Scherer, *Industrial Market Structure and Economic Performance* (Chicago: Rand-McNally, 1970).

The traditional separation between industry and services has been overtaken by events. Globally, the functioning of industry in the strictest sense (manufacturing) needs more and more services both upstream (design, research, engineering, financing) and downstream (logistics, transport, distribution, advertising, marketing). Production is a combination of goods and services in which the share of immaterial know-how grows in parallel with innovations; in this way it has a powerful draw on so-called 'tertiary' activities. For every euro of production, industry consumes €0.70 of intermediary products, against €0.40 for services. Industry thus represents more than 50 per cent of all orders made in the whole of the national economy. Reciprocally, most services involve some sort of industrial production.

New, sustainable growth means new industry. The latter is the vital element which will allow us to exploit the new knowledge-based economy. Industry remains the crucible of innovation and technological revolution, while at the same time playing a strategic rôle in terms of sovereignty; examples are space activity, the arms industry and information technologies.

Industrial activities still have to face up to the powerful contradiction that lies at the heart of globalisation: on the one hand an influential financial capitalism, on the other a capitalism of knowledge.

Knowledge capitalism versus finance capitalism

The past ten years have seen us pass from a capitalism based on the enterprise to a financial capitalism based on liquidity, with trading in shares. The real economy *is* now under the influence of finance. Since the beginning of the 1990s new and powerful global actors have appeared- the institutional funds (pension funds, insurance companies and hedge funds). These collectively manage a volume of financialliquidities which today exceed the GDP of the principal developed countries. A certain number of them demand an approach to the economy and to businesses which is based on an out-and-out search for the creation of value for their shareholders.

Capital has always meant both economic profit for the entrepreneur and financial profit for the investor. What is new is that the second of these now leads the dance. Its origin lies in the extension of a double movement. On the one hand, the rise of American institutional inves-

tors who aggregate the domestic savings of a country which believes in the system of pensions by capitalisation, and which diversify their investments with the aim of obtaining revenue with minimum risk, something which banking intermediaries cannot achieve. On the other, the information revolution has profoundly changed risk evaluation and management by splitting these into elementary factors, by codifying them in financial products which are easily traded, and by transferring them to all the financial institutions.

There have been cascade effects on the world economy since the year 2000, with two major crises: the bursting of an Internet bubble largely based on frantic share-based speculation and generalised panic-buying, and repeat'd major scandals (Enron, Worldcom, Parmalat, etc.). The new stock exchange crises of 2007 (linked to defaults in the United States on mortgages given to highly indebted families-subprime mortgages) is a sign of an insane financial world in which financiers have transmuted into sorcerer's apprentices: they no longer fully understand the complexity of the financial instruments they create. The financial system has spawned a situation in which banks are losing their money in speculative investment funds.

At the same time there is a major tendency towards development and the diffusion of technical progress. This is amplified with the advent of ICT (Information and Communication Technologies). It has always been the case that knowledge has been at the heart of progress.² However, since the 1920s education, training and research have become progressively the principal factors of growth. Since the beginning of the 1990s immaterial capital has become more important than material capital,³ and innovation (in all its forms) has become the principal factor in industrial growth and competitiveness.

The contradiction is an important one. How can we reconcile the characteristics of investment in creativity and education with the demands of financial profit at any price; the imperative of sustainable competitiveness with that of the creation of instant value for the shareholder; the future of the planet and short-term means? Tensions between these two major tendencies are worsening, the more so since the world economy is now extended to new country-continent (China, India and Brazil), whose actions magnify the intensity of competition.

² W. A. Lewis, *La theorie de la croissance economique* (Paris: Payot, 1971).

³ Daniele Archibugi and Bengt-Ake Lundvall, *The globalizing learning economy* (Oxford: Oxford University Press, 2001).

So it is fashionable to consider that states no longer have freedom of action. However, the understanding of our world is a source of hope. Countries, both large and small in terms of population, and whether developing or already developed, show that globalisation does not automatically mean making everything uniform,⁴ adhering to a unique model of optimal development.

Growth policies and power strategies

No modern state believes blindly in the ultra-liberal approach, which holds that the market acts on its own without any sort of constraint. Reality is more complex and more nuanced—nuances which can be found, moreover, in economic theories. Generally, two principal concepts exist in the economic literature, and can be associated with various public practices.

The neoclassical concept is that the State's intervention is justified only in cases of 'market breakdown'. The alternative (which groups together various theoretical strands of opinion) gives legitimacy to public intervention whose purpose is to act on the creation, the development and the orientation of production, and (in the long term) to generate advantages built in the context of market mechanisms.⁵

Observation demonstrates that most national technological and industrial development strategies (whether they are catch-up strategies or a bid for leadership) include varying forms of public intervention. Space does not allow us to list them individually. However, this is what emerges from a study of the situation in some major countries such as the United States, Germany and Japan, and also more recently China, India and Brazil. It also holds for countries of more modest size such as Canada, Finland, Ireland, Israel, Korea and even France in the past.⁶

The lessons we can draw from these many cases, together with their successes, difficulties and limits, may be grouped from three aspects:

⁴ Bruno Amable. *Les cinq capita/ismes* (Paris: Seud. 2005),

⁵ For an outline presentation, see Jean-Louis Levet, 2006, op. cit. in note 1,

⁶ Jean-Louis Levet, 'Les politiques industrielles nationales dans le monde: illustrations, enseignements et perspectives', in Lionel Fontagné and Jean-Hervé Lorenzi, *Disindustrialisation, délocalisations*, CAE report, La documentation française, 2005.

- Firstly, all made choices which defined priorities, thus considering that the market alone was not the unique regulator and driver of their present and their future.
- Secondly, all these states developed a capability not only of support (an environment favourable to companies) but also of anticipation, by exercising a function of forward planning, strategic orientation and then mobilisation.
- Finally, they developed policies for technology and industry whose aims were to improve the quality of national specialisations, to share in the growth of gains in productivity, a skilled workforce, and thus of distributed revenue. Modes of intervention evolved, with all the actors being involved; this was particularly true in Ireland, the Netherlands and Sweden. These policies combined horizontal and sectorial measures that were designed to encourage growth in certain economically promising activities. The interaction was increasingly strong between policy and research upstream, and industrial and commercial policy downstream. Good examples of this are the United States, Germany and (more recently) China.

The territorial dimension is characteristic of these structural policies, and it is possible for industrial and competition policies to be complementary. The exception here is the European Union (EU), which believes that competition policy reigns supreme. In considering itself as merely a vast common market, it tends to forget the importance of the strategies of its constituent countries, to the despair of its citizens. Competition, which is necessary, is a means and not an end in itself. It works to ease the logic of the markets which are indispensable to innovation. Industrial policy seeks to bend market policies with those of industrial specialisation. The relationship between these two policies is thus dynamic, and changes with time.

The challenge that faces us is important: it is the risk of dilution in the ocean of globalisation. European integration is almost behind us. Competition has moved from the interior to the exterior of Europe. Overall, many studies have demonstrated that what Europe currently has to offer is not keeping up sufficiently with global demand? and (in

⁷ CEPII report, 'L'insertion de l'industrie européenne dans la division internationale du travail: situation et perspectives', written for the European Commission, Directorate-General of Trade, July 2004

the case of France) competitiveness has weakened since the beginning of this century.⁸

If these tendencies are confirmed, Europe runs the risk of finding itself stranded from a competitive point of view between, on the one hand, a pole of high technology (United States, Japan), and, on the other, a pole which combines low production costs with rapid improvements in quality (China, India, Brazil).

The response: development by industry

Today it is impossible to reduce mass unemployment, to fight against precarity, to reduce our public deficits and our national debts, to guide our economy towards durable development and at the same time improve our global competitiveness, all by just the mechanical impact of a temporary recovery-always a random event. We need simultaneously to stimulate demand and greatly increase productive investment and innovation. We need annual growth of 3 per cent, with work productivity increasing at the rate of 2 per cent per year, allowing us to create 250,000 new jobs annually. In this way unemployment could be halved within five years.

In order to produce and implement a strategy of development by industry we need a method, a perspective, orientations and a realistic identification of the levels at which we need to intervene.⁹

- The method is to recognise collective negotiation as the method for defining and implementing actions favouring industry.
- The perspective is that of a Europe characterised by a prosperous economy, social progress and sustainable development.
- The structural orientations must be based on several pillars: a policy of territorial development by the creation of permanent activities; a policy of regulation of the financial industry, so as to make finance the servant of industry; and, finally, a global industrial policy.

⁸ On this subject, see the analysis of Philippe Aghion and Elie Cohen, 'Aroms et défis de la France dans la mondialisation', in *Mondialisation: les atouts de La France*, CAE report, La documentation française, 2007.

⁹ For a detailed presentation, see Levet Jean-Louis, 'Pas d'avenir sans industrie', *Economica*, October 2006.

- The level of intervention (which impacts on our everyday life) should be local. No national and European policy can be effective without active local communities. Clearly, it is companies which are at the heart of wealth creation. They must be allowed to evolve in a favourable environment, and in return recognise their responsibilities to society. And what of the State? It is the latter which must exercise the functions of anticipation, regulation and development at the European and national levels.

A global industrial policy: the State as development authority

What with outsourcing, inadequate technical dynamism, poor growth and an Asia experiencing a boom, industrial policy has returned to the forefront of national and European policy since 2003-04, having been out of fashion since the mid-1980s. Even in the European Commission the term had become taboo, and the practice itself almost clandestine.

The 'Lisbon Strategy' (as defined by EU member states in 2000 to bring Europe into the knowledge-based economy) has remained a dead letter; in its place, fiscal and social competition has blossomed. Many instruments have been created in France since 2004, but never in the context of any defined industrial strategy. Worse: when the Beffa Report¹⁰ recommended the launch of major scientific programmes supported by the State, and a contrary view was set out in the Datar and Christian Blanc Reports¹¹ (which recommended the American model of the 'cluster' and the creation of geographic poles of competitiveness), the two methods were then implemented independently of each other. As the economist Elie Cohen writes, '... to minimise everything, to avoid annoying any elected politician, to decline choice, to spread the misery, and to privilege the national context while at the same time pretending to be European ... the difficulties of the policy inaugurated in 2004 are patent.'¹²

So what can we do? An enormous task lies ahead. Our analyses above lead us, firstly, to propose that in order to regain legitimacy and

¹⁰ Jean-Louis Beffa, *Pour une nouvelle politique industrielle*, La documentation française, 2005.
¹¹ Datar, *Pour une politique industrielle des territoires*, 2004; Christian Blanc, *Pour un écosystème de croissance*, 2004.

¹² Elie Cohen, 2007, op. cit. in note 8.

efficiency the state must first of all embrace strong values: the rehabilitation of long-term planning (which in the past has sometimes been the case with technological programmes); but also democratic choices, systematic evaluations, and respect of the human and environmental dimensions.

It must then pay attention to the new microeconomic realities: the decisive factor of innovation is the long-term market presence of existing companies, and not the creation of new ones (which of course does not mean that this process should stop); what matters is the quality of the relationship between major groups and SME (small and medium-sized businesses), and not just the existence at opposite ends of the production system of small companies and giant groups. It is the increase in the profitability of capital which favours investment, and not the growth of company assets.¹³

The State is in a position to intervene when it has firm reference points, information systems in touch with the realities of companies and the market, and when it has the function of animating industrial strategy. It can bring together both sides of industry and local organisations, and work towards 'returning industry to its rightful place in society' - a long-term business. It can reinvest in research, reorient professional training towards those who need it, anticipate tomorrow's professions and the aging of the working population, and open up the industrial world to those who least benefit from it - young people from immigrant communities and women. It must not continue to exclude those who are sidelined as 'seniors', and not abandon those who are least qualified.

At the same time, we should work towards an industrial strategy structured round the three principal challenges of our current and future development:

- *The need to be present in the principal European areas of sovereignty* (space, armaments and energy, for example) and to meet the major needs of the future (notably culture, health and transport). What can certainly not be decreed is the willingness of EU member states to pool a significant portion of their investments in research. But from now on, the choices made by the majority of member states to allocate resources in activities which have high added value, and

¹³ Olivier Passer and Renaud Du Tern'e, *Promouvoir un environnement financier favorable au développement de l'entreprise*, Commissariat général du Plan, 2005.

common constraints (such as energy and security) are powerful factors in the definition of major programmes of technological and industrial cooperation. Achievements in aeronautics (ADS) and space (*Ariane*), together with the difficulties experienced with the implementation of the *Galileo* programme, are also a source of lessons for future action. The nationality of the company in a globalised world is still a reality: it is that of the social model which we intend to preserve and enrich. A new European law for takeovers, adapted to the new realities, is a necessity.

- The existence of a *network of SMEs which perform consistently*: there is no shortage of levers to conduct a policy for industrial growth: public contracts, a massive reorientation of aid towards SMEs, a more favourable financial, regulatory and fiscal environment, subcontracting relationships put back on an even keel, and reduction in delays of payment.
- *The mastery of continual industrial change*. Every day employees and the local areas concerned have to endure the damage caused by poorly prepared and imposed industrial restructuring. There, too, the challenge is substantial: to build a new and original regulative way to restructure based on the triptych of anticipation/local area/negotiation, instead of the traditional repair/company/consultation. Experience shows us that it is possible to renew the approach to restructuring, one in which government intervention (at the different national, European and local levels) is very much involved.

In conclusion, industry is an essential role:

- when it is in tune with the present, by fighting against unemployment and numerous forms of inequality, producing high-quality work and responding to real needs; and
- when it is in tune with the future, by participating in the fight for a planet that is fit to live in.