

Will France Become a Farming and Perfume-Exporting Nation?

by Christine Bierre

This is the question posed in a report on the state of French industry authored by Jean Louis Beffa, the CEO of St. Gobain, one of France's top multinational companies. It calls on the state to help in a massive effort to reorient French private companies towards investments in high technology.

The report was commissioned by President Jacques Chirac, clearly in an effort to stop a dynamic which could lead to a total decline of France as an industrial power. It was not innocently that he asked Jean Louis Beffa to author it. Beffa has the reputation of a "Colbertiste," or of following in the tradition of former Gaullist President Georges Pompidou, and who thus remains attached to the great public investment programs of the Gaullist era, which have determined France's areas of excellence in the domains of nuclear power, aeronautics, space industries, and railroads.

This reports reflects a general outcry of the French political elites as a whole, plunged into a crisis by the stronger and stronger competition from countries like China, India and the Eastern European states, and fearing, as Laurent Fabius (a former prime minister, and later Minister for the Economy, Finance and Industry, from March 2000 through May 2002) stated in a recent speech, that if present trends continue, France will become nothing more than a name tag on the door of a museum! Beffa's contribution to the debate follows closely a report published last year by a working group of the Senate Economic Affairs Commission, entitled "Outsourcing: For a Neo-Colbertiste Europe." That policy paper pleaded strongly for France to concentrate on developing its domains of excellence, rather than competing in areas where emerging countries are developing strongly, while having 30% lower production costs.

The Socialist Party is also beginning to contribute to this debate. Jean Louis Levet, their "national delegate to industry," authored a recent editorial on the party's website along the same lines. It stated that three myths must be de-

stroyed in order to restore the industrial power of France: the "myth of the post-industrial society, characteristic of the end of the 1980s, which confused mutation with the end of industry; the "myth of the new economy of the 1990s, whose postulate was that the creation of shareholder value should replace creation of wealth"; and the current myth that service jobs have a stronger value added than manufacturing jobs.

The Industrial Decline of France

Before going into the specific situation of French industry and the solutions proposed by his report, Jean Louis Beffa pleads for the cause of industry. Forbidden for years by France's financial and consumer economy, where the word production became almost a sin, Beffa's and the other reports insist on the "essential role played by industry in economic development."

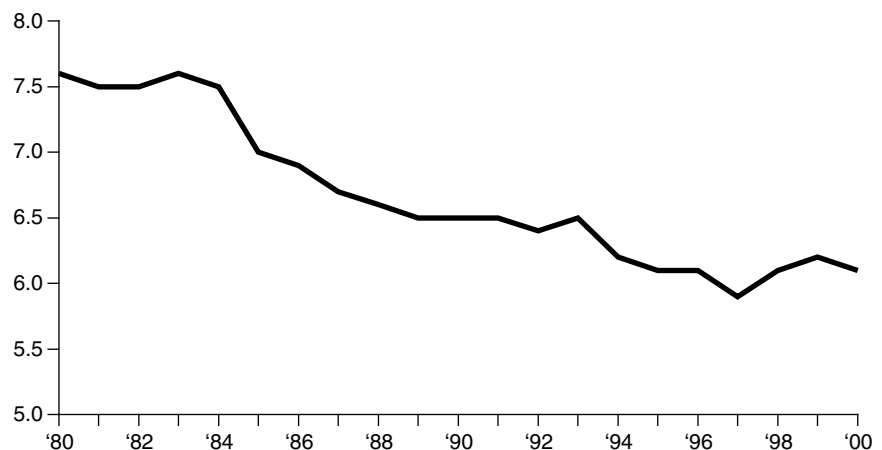
What is the present state of French industry? Compared to 1974, the height of the post-war reconstruction years often referred to in France as the "30 glorious years," the decline of French industry has been most dramatic: Employment in industry went from 38% of the work force to 17% in 2004! Of course the enormity of these figures can be slightly lessened by different factors: 1) decreased employment in industry because of high technological productivity investments in industry which made it possible that, in spite of fewer workers, "value added" in manufacturing remained the same in volume in the last 20 years; 2) externalization of industrial services which are now part of the "service" category; 3) more and more recourse to temporary workers, which in France belong to the category of services as well.

Beffa and the other experts estimate that France has been

FIGURE 1

France's Proportion in Total Value Added of 15 OECD Nations' Industrial Manufactures

(Percent)

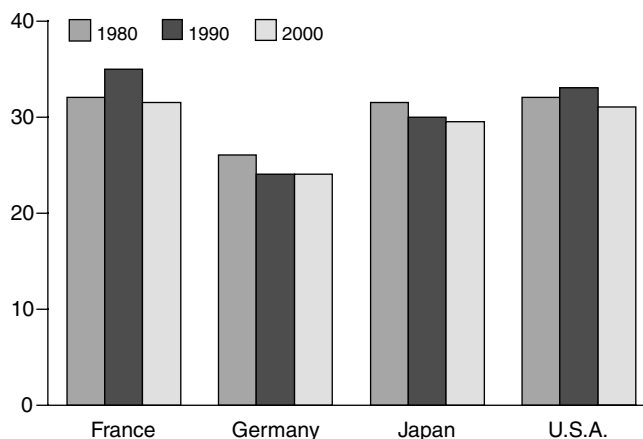


Source: Organization of Economic Cooperation and Development.

FIGURE 2a

Value Added: Low-Technology Industry

(Percent)

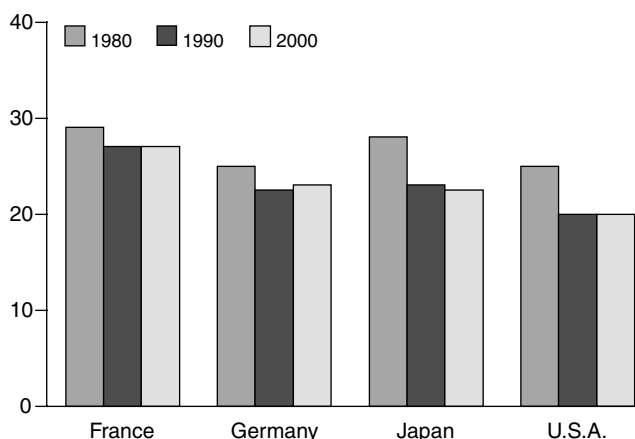


Source: O.E.C.D.

FIGURE 2b

Value Added: Low-Medium-Technology Industry

(Percent)

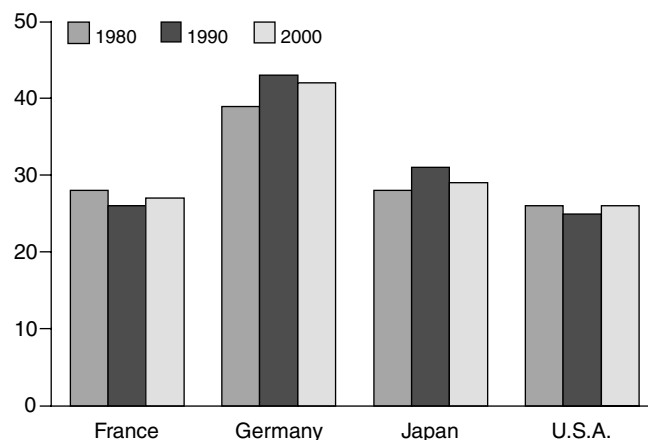


Source: O.E.C.D.

FIGURE 2c

Value Added: Medium-High Technology Industry

(Percent)

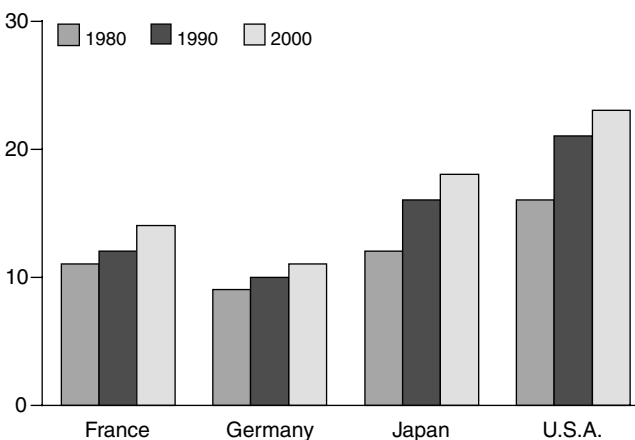


Source: O.E.C.D.

FIGURE 2d

Value Added: High-Technology Industry

(Percent)



Source: O.E.C.D.

able to preserve, sometimes better than its partners, its front-running companies in the areas of steel, chemical products, cement, glass, aeronautics, automobile, and transport (rail-road) equipment. Interestingly, all these were the areas developed in the post-war reconstruction period which France is still living on. The domains defined by the great state programs from the Gaullist era—aeronautics, space, civilian nuclear power, electronic components, and nano-technologies (added in the recent period), are still the domains of excellence of French science, technology, and industry.

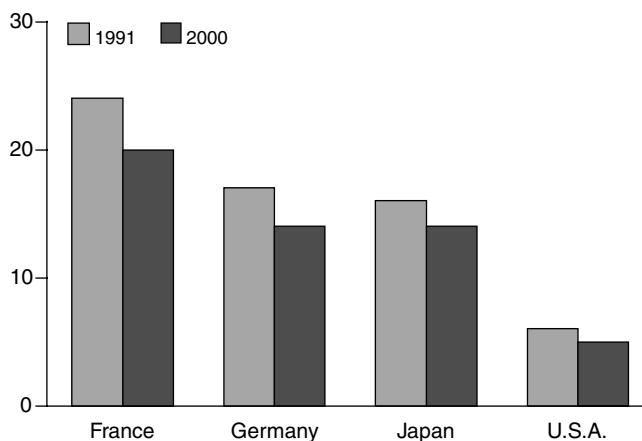
France contented itself, at best, with maintaining its

achievements of the post-war reconstruction era; and at this point, it is clearly declining more and more. “The global downshift in industry is perceptible in the creation of jobs, in its contribution to value added, and in its contribution to the commercial balance,” states Beffa. This downshift is due to a “too strong specialization in low-technology industries,” and in a public/private research and development effort which is not closely coordinated with industrial development.

A series of graphics speak better than many words:

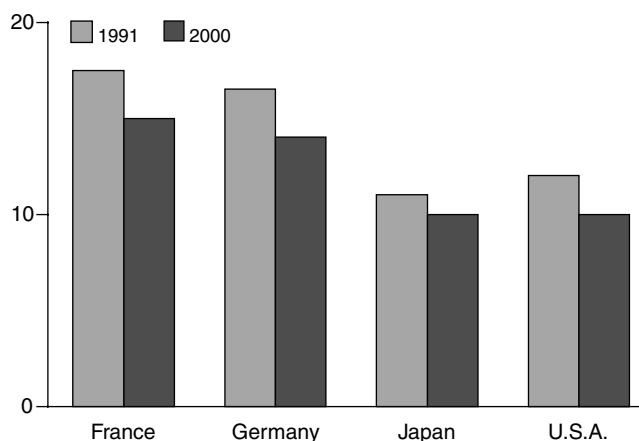
Figure 1 shows “the decline of France’s weight in the value added of manufacturing since 1980” compared to 15

FIGURE 3a
Exports: Low-Technology Industry
(Percent)



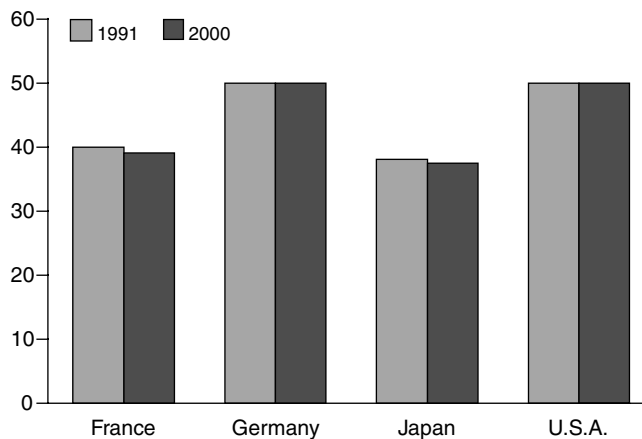
Source: O.E.C.D.

FIGURE 3b
Exports: Low-Medium-Technology Industry
(Percent)



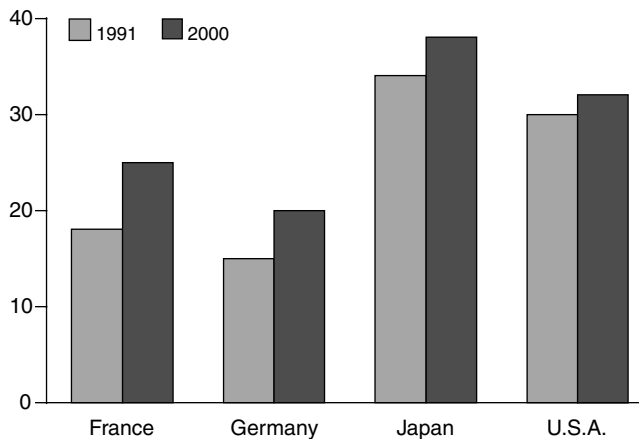
Source: O.E.C.D.

FIGURE 3c
Exports: Medium-High-Technology Industry
(Percent)



Source: O.E.C.D.

FIGURE 3d
Exports: High-Technology Industry
(Percent)



Source: O.E.C.D.

other OECD countries. It reveals that the transformation of imported raw materials to finished or semi-finished products, has severely declined compared to the results of France's partners.

Figures 2a-d show "a too-weak specialization in the industries of high technology," aside from those sectors concerned with the older state programs of the Gaullist era. Established on the basis of OECD statistics, those graphics divide technologies into four large categories: low, medium-low, medium-high, and high technology. The comparison with Germany, Japan and the United States, shows to what extent value added by French industry is strongly in the low and

medium-low technologies.

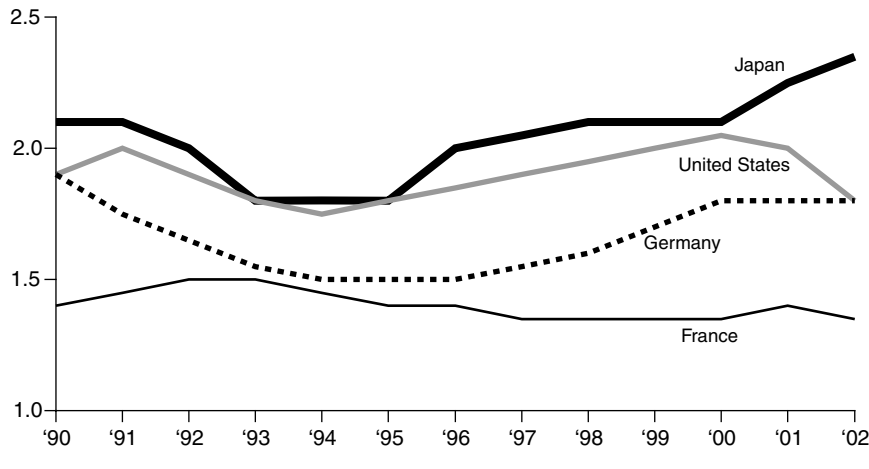
Figures 3a-d show the weaknesses of French industrial specialization relative to the commercial balance. Comparison of the export structure of French manufacturing industries with those of Germany, Japan and the United States, shows a clear-cut pattern: French exports are clearly in the low- and medium-low-technology brackets, which puts France in direct competition with all the emerging countries, whose production costs are unbeatable from the standpoint of any advanced-sector nation.

Figure 4 shows an additional great weakness, in the research and development investment of French companies;

FIGURE 4

Business R & D Expenditures as Percent of Gross Domestic Product

(Percent)



Source: O.E.C.D.

and a comparison once again with Germany, Japan and the United States shows that the French in decline private R&D goes back to 1992. The statistics of the Office of European Patents confirms this tendency, and shows France as the little red caboose, at the end of a list of 18 countries for its declared industrial patents!

What To Do?

In light of this dramatic situation, Jean Louis Beffa calls on the French state to intervene with public aid, in order to create the conditions for a reorientation of French industry towards long-term research and high technologies. Beffa explains that under present conditions of instability of rates of exchange, of oil prices and the rest, private companies cannot afford the risk of going into high-technology long-term investments. Also, the demands of investors for short-term profits are so high that they entirely forbid long-term ventures of this type.

Beffa proposes, therefore, that France move towards the Japanese or American models of state support to both public and private R&D. His proposal for the creation of an Agency for Industrial Innovation has already been approved by Jacques Chirac, and it will start functioning sometime around April.

This Agency will choose, every year, a certain number of projects, and will provide half of the required R&D, the companies providing the rest. The total financing capacity of the agency will be 1 billion euros per year. This aid, aimed at large private companies able to constitute large and solid French or European groups in order to resist competition, will be medium- and long-term, and will have to be paid back.

The criteria for the projects are 1) their economic feasibility, where sales would be in the area of 1 billion euros in markets estimated at 10 billion; 2) their very high scientific and technical content, demanding the solution of difficult scientific problems, and able to provoke “technology discontinuities”; 3) their duration, which must be between 5 and 10 years; 4) their involvement of public and private players; 5) their requirement to enhance Europe’s capacities worldwide.

Among the main projects proposed in energy, transportation, health, environment, and computer and communication technologies, as exemplary categories, are: fuel cells (aimed at replacing gasoline as fuel for vehicles), the fourth generation nuclear power plants; in the medical field, the fight against infectious (AIDS) and degenerative diseases (Alzheimer’s, multiple sclerosis, etc.), in transports, a new generation TGV

(high-speed rail) is proposed, as well as rapid maritime transportation.

Having rejected the post-industrial “revolution,” EIR fully supports the diagnosis of the Beffa report; his proposals go in the right direction. This proposal, however, cannot replace the total reform needed by the global economic and monetary system. The problems of French industry are the result of the monetary order which replaced the Bretton Woods system in 1971, and which is based on short-term financial profits to the detriment of long-term scientific/technological investment in industries and in the formation of, and adequate living standards for, a qualified workforce. One cannot introduce a “little bit of technological progress” in a system which is not compatible with high technology.

Jean Louis Beffa’s proposals would, however, be relatively adequate for private industry in the context of a global change back to the public economic policies of the post-war reconstruction in Europe. The LaRouche project for a financial reorganization of the system, and the reorientation of investment towards large infrastructure projects aimed at rapidly industrializing the Eurasian countries, will open up large opportunities for the private sector in all the countries involved—undoubtedly more interesting than some of the projects proposed by Beffa. While fuel cells and the fourth-generation nuclear plants are very interesting, a new generation of high-speed rail TGVs, that would not go in the direction of the magnetic-levitation trains of the German and Japanese models, is not really a technology which provokes discontinuities. And the renewable energies proposed by Beffa, are rather a jump back to the Middle Ages.