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France

Competitiveness: victory goes to the pack

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French employers have just won a victory on the issue of competitiveness. The government has accepted their main demands concerning lower costs for employers, an increase in VAT for consumers and restrictions on public spending by the state.

The offensive has been remarkably conducted: leaks organized around the contents of the Gallois Report on competitiveness; a battle engaged on Internet by the "pigeons" against the (very limited) planned increase in capital gains tax on share transfers, in the name of the "entrepreneurial spirit"; a barrage of interviews and statements by the MEDEF, the national employers' organisation, against "anti-business racism" and the "tax burden"; an ultimatum by the bosses of a hundred of the biggest companies, grouped in the AFEP (French Association of Private Entrepreneurs), defending their own interests without mixing them up with those of smaller companies); publication of the Gallois Report, followed by the announcement of government measures, reinforced by the press conference of the President of the Republic. In less than a month it was all cut and dried.

This victory of the pack is a lesson: the employers have used every lever to defend their options, being relayed (if there was still any need for it) by the mainstream media, making themselves heard by attentive ears in the spheres of power, not hesitating to make barely veiled threats, and finally imposing their policy as the only possible and legitimate one ("there is no alternative..."). You begin to dream that workers, with their different organizations, would be able to do the same - even though the means are disproportionate - by an ideological, political battle on a large scale.

The measures are being prepared to be adopted by parliament: a reduction (of approximately â‚¬20 billion) of tax on businesses, an increase in the rate of VAT (â‚¬10 billion), a reduction (â‚¬60 billion) of government spending, with a timescale of two to five years, depending on the measures. The bill is a hefty one and it will not fail to have rapid effects on consumption, on public (and also private) investment, on employment and purchasing power. Europe is in recession; France is close to being so. With this jackpot, it will not just get there - it will run! What is happening, on quite a different level of course, in Greece, Spain, Portugal and Italy gives us a foretaste. This also confirms that Southern Europe is not an exception or a borderline case, but a training ground for the pack of the employers and their ideologues.

The violence of the tone employed, the determination of the protagonists, their excessive invective, really amounts to a global political offensive against the present government (aimed at making it give in easily, as the Right explains very well), but especially against workers and all those who oppose this policy of austerity. It is quite simply a question of blaming workers by holding them responsible for the crisis in general and the problems of competitiveness in particular. What is involved is nothing less than the deployment of forces for the next phase, where the remaining social gains and rights, which in the eyes of the rich and powerful hinder the recovery of the market economy market and of profits, will come under serious attack.

To clearly define this so as to understand that the battle is and will be harsh, difficult and crucial should not make us neglect to take apart the arguments used by the opposing camp. This is also a condition of the credibility of the solutions that we propose and of making all those who defend them convinced of what they are arguing. So let us talk about competitiveness.

Competitiveness: what are we talking about?

In the wake of the famous Gallois Report and at the origin of all the reasoning of the employers and now of the government, we find the lack of competitiveness of the French economy. The share of France in global trade declined by 42 per cent between 2000 and 2011 and its share in European exports by 25 per cent over the decade. France is therefore losing market share on the international level and the contribution of industry to the production of wealth (Gross Domestic Product or GDP) continues to decline in the country, with imports from Asia for goods of current consumption and Germany especially for industrial equipment (machines, etc.).

Competitiveness therefore concerns the international market in sectors involved in exports, so that means mainly the products of manufacturing industry (and almost no services). This definition, commonly taken as a revealed truth, deserves to be discussed, because it is far from clear that the purpose of the economy is to sell more and more goods abroad. It could easily be argued that its aim should be to meet the priority needs of the population in the best possible conditions of quality and cost. Moreover, this is the case, including within well-established international institutions.

But in the world as it is, let us recognize that these are today the instruments for measuring competitiveness. This loss of competitiveness is due to production costs and in particular the “cost of labour”, say the advocates of the “competitiveness shock”, even in its governmental version of the “confidence pact”. Nothing is less sure, even by comparing with Germany, as has become the rule.

”Cost of labour”: not so sure!

The employers and the media always hammer on this nail. However:

â€¢ Despite the 35-hour week that is so much denounced by employers, the French work more than the Germans: **an average of 1,476 hours per year, compared with 1,413 in Germany. The actual weekly working time**, on average for the workforce, **is 38 hours in France** (the 35-hour week was got rid of a long time ago), **compared to 35.7 hours for German workers**, due to the many part-time and casual jobs that flourish on the other side of the Rhine. At the end of 2011, the share of these mini-jobs in Germany was nearly 22 per cent (the same as in England, another social paradise) compared to 14 per cent in France (the same as in the United States) – which is already high.

â€¢ Per hour worked, **productivity is higher in France: â‚¬45.4** of wealth produced (value added) per hour, **compared to â‚¬42.3 in Germany**.

Figure 1

https://www.internationalviewpoint.org/IMG/jpg/aubin1.jpg

Source: INSEE, Eurostat and OECD (data for 2011)

â€¢ **The overall cost of labour** (wages plus social contributions from employers) appears to be higher in France (â‚¬35.3 per hour) than in Germany (â‚¬32), but this is because a part of the social contributions paid by employers have been transferred to workers in the form of various taxes and duties, or even to private insurance (the dream of the big French bosses!). But **in manufacturing industry, the industry that exports, the costs are pretty much the same (â‚¬35.9 as against â‚¬35.4)** and the slight (50 cents!) difference can explain nothing.

Social security contributions by employers: too heavy?

The social security contributions of employers (SSCE) are too heavy, say in chorus their spokespersons and devoted advocates. Compared with Germany SSCE represent in France about 2 per cent more as a proportion of the wealth produced in the country (GDP) and 10 per cent more compared to the United Kingdom and the United States. The gap comes from the levels of social protection (sickness, old age, unemployment).

If we reduce public funding of social protection, then the door is open (it is already half-open) to the private insurance companies which will make those who sign up pay not according to income, like today, but according to the risk the companies consider they are taking. The countries which already practise this give an illustration: insurance against chronic illness or a precarious situation is so expensive that whole layers of the population no longer have access to it. According to the CSA-Europe Assistance barometer, 30 per cent of Germans stated in October 2012 that they had chosen not to have health care in the previous 12 months. They were only 15 per cent a year before. In France, on the same date, they were already 27 per cent.

National accounts, accessible via INSEE, make it possible to compare the respective shares in value added (VA) of social security contributions (SSC) by employers and net dividends (dividends paid minus income). This is what Henri Sterdyniak did group for the OFCE. [1]

https://www.internationalviewpoint.org/IMG/jpg/aubin2.jpg

â€¢ Since 1984, due to multiple exemptions from contributions, **the share of employers (SSCE) has declined quite clearly**, from almost 17 per cent to slightly more than 15 per cent before the crisis; since 2009 it has risen a little because value added has stagnated or decreased. So we can hardly accuse the SSCE of being responsible for the loss of competitiveness of the French economy...

â€¢ On the other hand, **the share of value added transferred to the dividends of shareholders has more than tripled** over the same period (from 1.5 per cent to 5 per cent of VA). A real choice.

This is one expression, among others, of the deformation of the sharing of wealth produced over the past 30 years - for the benefit of big business and the privileged at the expense of workers. Over this period, the transfer is gigantic: nearly a dozen points of the added value generated by enterprises (or of GDP, which is the national sum of it), estimated at â‚¬2,000 billion.

Wages and exports: a link?

In France, over the last 25 years, it is interesting to compare the evolution of wage competitiveness (measured by the gap between unit labour costs in France compared to the competition, as liberal writers advocate) with export performance (as measured by market share, Export market share on the graph).

https://www.internationalviewpoint.org/IMG/jpg/aubin3.jpg

The work of Michel Husson (see note 1) enables us to distinguish three phases:

â€¢ **Between 1995 and 2001**, wage competitiveness improves by about 15 points. Despite this export performance does not increase.

â€¢**Between 2001 and 2005**, the loss of competitiveness causes a fall in export performance, partially due to the rise in the level of the euro during this period, which makes French production more expensive outside the euro zone.

â€¢ **From 2004**, the drop in exports is continuous. However the cost competitiveness of France has remained stable. So we cannot blame the loss of export market share on that.

? **First conclusion: France's loss of market share is not mechanically linked to "excessive" wage costs or too heavy social contributions for employers**. Any plan to improve FranceÂ´s performance that is focused on a "lower cost of labour" is based on a flawed analysis. Moreover, it is not an analysis but a real ideological prejudice, a selling point for another antisocial product.

Zero effect on exports

If we apply the recommendations of the big employers and the policies they have decided on, what will be the effect on the export performance of French products, which has actually been declining for years now?

Depending on the industrial sector concerned, labour costs represent between 20 and 40 per cent of the final cost of the product - which in addition incorporates the profits of the manufacturing firm. The transfer of the social contributions of the employers to VAT or the CSG (or by reducing tax, which comes to the same thing) at a level of 2 per cent of the cost of labour would thus have a maximum impact of 0.4 to 0.8 per cent on the price (counting large). In other words, for an average car costing â‚¬15,000 â‚¬, for example, the theoretical reduction of the export price would be between â‚¬60 and â‚¬120. And for an industrial machine costing â‚¬150,000, it would be between â‚¬600 and â‚¬1,200. Can anyone seriously believe that it this would have on any impact abroad? Obviously not. It is real life that gives an answer to this false debate.

German products, to continue making the comparison, are more expensive than French products. In the car industry, the difference is of the order of 7-8 per cent. In industrial capital goods, it is even higher. And yet "made in Germany" sells well in Europe and elsewhere, because it is the guarantee of a quality that justifies its price in the eyes of the buyers.

On the other hand, the average positioning of French products (with few exceptions) prevents them from occupying this place at the upper end of the market and, therefore, raising their prices. And of course, lowering them does not solve this problem.

Competitiveness: substantial factors

Real competitiveness cannot be summed up by the "cost of labour" which is just one component and not the main one. Otherwise, what regions should be taken as reference points? Asia, Latin America, Central Europe? Admittedly, wages are lower there, but on the one hand, they are increasing under the pressure of workers in these countries, and on the other hand, they do not make these regions centres of innovation, competitors in the front rank - at least for the moment.

The case of Slovakia (included in the first three graphs on purpose) is eloquent. People work longer hours there, but with much lower productivity per capita. If Germany has built several production platforms there and outsources a lot, it is still Germany that is the reference point and not Slovakia. Unless we imagine France and Europe doing the same with Spain and Italy, which is far from possible and desirable. The refrain that we hear today in the media on the rapid recovery of the trade balance of these two countries is fraudulent. Exports continue to fall, but imports consumed are now falling faster due to the sharp reduction in household income – which produces a slight drop in the deficit: the bloodletting will kill the cured patient.

The critical factors of competitiveness are different and more substantial.

For decades under-investment in French industry has been patent, which reflects on the quality and positioning of its products. Some quite modern facts strongly attest to this (September 2012 Xerfi study):

â€¢ Industry missed **the turn to robotisation and automation**. There are less than 35,000 robots in France, against more than 62,000 in Italy and 150,000 in Germany. A little more than 3,000 new robots were installed in France in 2011, in Germany there were approximately 20,000. This small dispositive is completely outdated. A robot lasts more than 20 years in France, against a dozen elsewhere.

â€¢ **As regards heavy professional computerization**, France has barely more than 23,000 secure servers. Relating this to the number of inhabitants to take into account the difference in size of the countries concerned, France has 4 secure servers for 10,000 inhabitants, Japan 7, Germany 10, the United Kingdom and the United States 16. Thus, a ratio of 1 to 2 or even 1 to 4 with the best-equipped countries.

â€¢ Considering the age and the saturation of these systems, **14 million working hours are lost** in French enterprises with more than 50 employees, because of computer failures (survey CA Technologies, 2011). Relating to the number of enterprises, this is more than 1,000 hours per company, 20 per cent more than in Spain and twice as much as in Germany, England and Italy. During these breakdowns, productivity obviously falls; according to the same survey it is then at 57 per cent of its normal level, with all the costs that involves.

â€¢ France is behind in the field of **research and development**. It is now in 12th position, according to the latest ranking of the OECD, far behind the major developed countries (USA, Germany, Japan) and below the general average. To take just research in private enterprises, the German effort exceeds the French by 70 per cent. More than 4/5 of this private effort is centred in industry, but in Germany industry represents 22 per cent of the production of wealth (GDP), in France scarcely 11 per cent, half as much. How can we be surprised, under these conditions, by the lack of innovation and therefore of competitiveness?

Two elements complete this tableau:

â€¢ **Technical training courses** are undervalued in France and produce each year only a small trickle of technicians and engineers. This undervaluing continues on the labour market, in terms of pay for the engineers, technicians and skilled workers whom industry needs. This is not the case in Germany and even Italy.

â€¢ **Small and medium-sized companies (SMC)** are exploited by the major companies on whom they depend for orders. There are therefore half as many of them in France as in Germany and a third less than in Italy. In theory they provide jobs by their number, but with the crisis they have become a reservoir of unemployment. It is well-known that the situation and the position of these small and medium companies are different in Germany and Italy, where they are an important part of the system of production.

Finally the deficit of the French trade balance (the difference between imports and exports) will be roughly â‚¬75 billion by the end of 2012. In this context the industrial balance alone will be negative by more than â‚¬45 billion (60 per cent of the total). At the end of 2011the industrial surplus will be almost â‚¬270 billion euros in Germany and â‚¬60 billion in Italy. There you have competitiveness, but not primarily because of costs.

? **Second conclusion: a policy of strengthening competitiveness should address itself above all to these key issues.** Education and training, computerisation and automation, research and innovation, fiscal policy and cheap financial resources for SMCs. There is no lack of subjects and the "cost of labour" is not top of the list. First and foremost, an industrial policy is quite simply a policy, one that corresponds to long term priorities and needs to be given economic and social guidance: the opposite of liberalism (of left or right)!

The big employers who went on the offensive on the issue of competitiveness manage industrial groups, service companies, banks and high technology companies. For all of them, their complaints about the "cost of labour" are out of place. Globalised, having long since spread their investments and their sites all over the planet, these groups do not face a problem of export competitiveness in France.

Their offensive, as we know, is motivated by other French, European and global requirements.

To get an idea of what they are cooking up, here for example are some excerpts from a recent report from the European Central Bank (ECB) [2]
: **"The priority should be to make wages react (flexibly) to the conditions of the labour market[...].Increased wage differentiation between different types of workers and jobs is necessary [...] Such policies should also contribute to increasing the downward pressure exerted on wages by the unemployed... "**

These people know what they want and what they are doing.

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[1] The data and the arguments used here have been drawn from various sources, apart from statistics (INSEE, Eurostat, OECD). The *Lettre du CE et du SHSCT* published by the Apex-Isast is taken from its site, in particular the article *Après les pigeons, les vautours* ("After the pigeons come the vultures"). The economist Henri Sterdyniak has written for the OFCE a detailed note: *Competitivité, le choc illusoire...* whose content is also summed up on the site of the *Economistes atterrés*. Attac and the Fondation Copernic have published together a note: *En finir avec la competitivité*. All these articles are available on the respective sites. The economist Michel Husson, who took part in writing them, has published on his site a note, *Les mystères de la non-competitivité française*. The Gallois Report is online, on the French government site.

[2] "Euro area labour markets and the crisis", ECB, 8 October 2012

