

# Is Emmanuel Macron approving a new industrial policy for France?

By [Sarah Guillou](#)

Support for industry is an economic issue that wins adherence from both Right and Left. The entire French political spectrum agrees on the importance of industry for the economy's future. There is also a consensus among economists, who bring together a variety of sensitivities in recognizing the leading role industry plays in driving growth, mainly through exports and innovations – the manufacturing sector is responsible for over 70% of total exports and more than 75% of total R&D spending. This consensus is even international, to such an extent that, paraphrasing Robert Reich, it could be said that, “on the battlefield of national economic ambition, industry is the new boots on the ground”.

In France, everyone also agrees on deploring the decline in industrial jobs and more generally the de-industrialization that has seen industry's share of total employment fall from 25% in 1990 to 10% in 2014. Deindustrialization, which has intensified since the 2007 crisis, crystallizes all the concerns about globalization and all the reproaches made to the French fiscal and regulatory environment.

Governments in general have been quick to support industry and have set up programmes to support innovation, SMEs and R&D spending. The research tax credit (CIR) set up in 1983 has been reinforced by government after government, and perfectly illustrates the political consensus on the matter. But since then numerous programmes to aid companies have been added, creating a tangle of schemes and local and national institutions, leading [a recent OECD report](#) to label the result

relatively incoherent.

Unfortunately, it is clear that France's economic and political consensus has not led to making its industry a global singularity in terms of performance. The country's industrial policy has been unable to counteract the inexorable decline of industry in the face of the service sector.

But judging industrial policy in this way misconstrues its possible objectives. To understand what industrial policy involves, we need to shed our old habits.

On the one hand, opposing industry to services is outdated and is merely a statistical artefact. The services sector is poised to take over innovation and exports, but our statistics have not yet taken stock of these changes. We are still not very clear on how to measure productivity in services or how to understand the channels for innovation in this sector, which do not necessarily pass through R&D. Note, however, that among the companies that benefit from the CIR research tax credit, the number of services firms is increasing every year, reflecting their growing contribution to private R&D spending. Services are a very heterogeneous category: the "Information and communication" category, for example, is less distant from the manufacturing sector than from the real estate business. Furthermore, exports of services are still not well measured (or declared) and are not always very distinguishable from movements of capital. Veiled behind these imperfections in statistics, globalization is not sparing the services sector, which will form an increasing share of international transactions.

Still, for the moment, it is undeniable that the manufacturing sector governs R&D's share of GDP and that the decline in France's market share reveals the productive difficulties companies are experiencing. But we must begin now to anticipate the changes taking place in the boundaries between sectors and not become locked into a reading of economic

activity that is incapable of grasping the areas where added value will be created in the future. Re-industrialization in the sense of increasing the role of manufacturing (or “a return to the age of doing”) is not necessarily the salvation of the economy of the future.

At the same time, industrial policy as such was not responsible for de-industrialization, nor is it able to counteract the decline in industrial employment.

The reasons for de-industrialization – beyond the important role played by technical progress – are to be found in the conditions governing the exercise of economic activity in France relative to the rest of the world: from the incentives to innovate to the incentives to invest, from taxation to regulation, from skills to productivity.

To put it another way, industrial policy was not the cause of the difficulties of Alstom, of AREVA or of Nokia’s takeover of Alcatel-Lucent, and even less so of the logistics merger of Norbert Dentressangle and XPO.

It should be recognized that France’s industrial policy is sometimes erroneously confused with what some call “industrial engineering”. As public companies have historically been the spearhead of industrial policy, policy had the distinctive feature of combining industrial logic with the logic of the economic and political powers, and the two were not always in synch. These inconsistencies could exacerbate the difficulties facing State-owned enterprises.

Industrial policy should content itself with boosting technological trajectories and promoting business growth. The renovation of industrial policy will involve a comprehensive approach to future technologies. The mechanisms for this will include the development of public-private partnerships and the outsourcing of operations to long-term independent administrative agencies. In this respect the political

consensus needs to be extended to include the means for this in order to ensure the continuity of these agencies, so as to stabilize the institutional landscape in which business operates.

Industrial policy is the expression of technological orientations. It can be more or less interventionist and can go beyond more or less simple declarations of intent based on the budgets it is given, depending on overall budgetary constraints. It is especially critical that public funds are committed or private funds are directed so as to finance the demand placed on business. But it is necessary for this public financing to correspond to a genuine request by the State, such as the need for defence equipment to meet foreign policy or the conquest of space, or to a real decision to involve society in its use, such as green energy. Furthermore, in a democracy, the State's request needs to have the support of society, which should be willing to finance, for example, green energy by paying more for carbon and fuel, along the lines of what has been done in Germany.

In this sense, Emmanuel Macron's approach to industrial policy reflects a positive development. Cutting 34 future projects down to fewer than a dozen is relevant, because it helps to clarify the State's commitments and make them more credible. In addition, the digital commitment is the transcription of a technological choice. At the moment "re-industrialization" is focused around the industries of the future, the digitization and modernization of industrial facilities. It would be more honest to dispense with the goal of "re-industrialization" since what is needed is to deal with the economy as a whole and modernize the means of production in order to make France's productive tissue out of a new stronger fabric.

However, the stated objectives are not based on very risky technological choices and do not commit many resources: a 2.5 billion euro tax benefit for companies investing in their productive facilities over the next 12 months (the accelerated

capital cost allowance – “*sur-amortization*” – announced a month ago) and 2.1 billion euros in additional development loans by BPI France for SMEs and ETI over the coming two years. This will thankfully not entail creating another intermediation body for the new policy. As for the role of the State shareholder, the speech was more serene vis-à-vis globalization and more encouraging with regard to European cooperation – as has been shown in the reaction to Nokia’s merger process with Alcatel Lucent. The Minister’s decisions do not however seem to be departing from a full neutrality, as can be seen in the case of the double voting shares that the State has imposed on Renault.

The overhaul of industrial policy remains modest in terms of resources and goals, but it has the merit of setting objectives for policy that it might actually be able to meet.

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## **A fall in the unemployment rate according to the ILO: the false good news**

By [Bruno Ducoudré](#) and [Eric Heyer](#)

Two days following the announcement by France’s unemployment agency Pôle Emploi of an increase in Class A job seeker registrations in April, which comes on top of a first quarter increase, the INSEE statistics agency has published its estimate of the unemployment rate. Under the definition of the International Labour Office (ILO), the unemployment rate in metropolitan France fell by 0.1 point in the first quarter of

2015, meaning 38,000 fewer unemployed than in the fourth quarter of 2014. But according to Pôle emploi, over this same period the number of registered Class A job seekers rose by 12,000. In one case, unemployment is falling; in the other, it is rising: this does not make for a clear diagnosis of what's happening with unemployment at the start of the year.

### What accounts for the different diagnoses of the INSEE and Pôle Emploi?

In addition to differences in methodology (a labour survey for the ILO, administrative data for Pôle emploi), note that to be counted as unemployed according to the ILO, three conditions have to be met: a person must be unemployed, available to work and conducting an active job search. Simply registering at the job centre is not sufficient to meet this last condition. So someone who is registered in Class A [\[1\]](#) at Pôle Emploi but is not conducting an active search is not counted as unemployed according to the ILO. The ILO criteria are thus more restrictive. Historically, the number of unemployed registered at the job centre is higher than that calculated according to the ILO for persons aged 25 and over. Young people under age 25 generally have less incentive to register at the job centre [\[2\]](#).

**Table 1. Change in the number of unemployed - first quarter 2015**

1000s

Age:	15-24	25-49	50 et +	Total
Jobless as per ILO	8	-19	-26	-38
Registered with Pôle Emploi in Cat. A	-6	6	12	12
Difference	-14	25	38	50

Sources : INSEE, labour survey; Pôle Emploi-Dares.

Except for the under-25s, the unemployment figures from Pôle Emploi are therefore worse than those for the ILO and hence the INSEE (Table 1). The explanation is as follows. In labour market conditions that have worsened considerably, some unemployed people have become discouraged and are no longer actively seeking employment: they are thus no longer counted

as unemployed according to the ILO. Yet they are continuing to update their status with the job centre and thus remain registered as unemployed in Class A. This results in an increase in the “halo” of the unemployed, *i.e.* people who want to work and are readily available but are not actively seeking a job. This unemployment “halo” has increased by 71,000 people in one quarter.

### **In first quarter 2015, the ILO-based unemployment rate fell for the wrong reasons**

There are two reasons why the unemployment rate may fall: the first, virtuous reason is that people are exiting unemployment due to an improvement in the labour market; the second, less rosy reason is that some unemployed people are drifting into inactivity. The latest ILO statistics highlight that the 0.1 point fall in the unemployment rate was due entirely to the decline in the labour force participation rate – which measures the percentage of people in the population aged 15 to 64 who are active – and not to a recovery in employment, which, on the contrary, has declined. So the drop in the unemployment rate is due not to a recovery in employment, but to discouragement among unemployed people who are no longer actively seeking work (Table 2).

**Table 2. Breakdown in the change in the ILO participation rate first quarter 2015**

In points	15-24	25-49	>49	Total	Workforce Q1 2015 (in 1000s)
Employed	0.0	-0.4	0.2	-0.2	25 463
Unemployed	0.1	-0.1	-0.2	-0.1	2 852
Active population	0.1	-0.5	-0.1	-0.3	28 315

Source : INSEE, labour survey.

More specifically, the entry of young people into the labour market at a time when employment is declining is being reflected in a 0.1 point rise in joblessness in this category. Among seniors, the employment rate is continuing to increase (0.2 points) due to the postponement of the effective retirement age. It is true that ILO unemployment is falling

among seniors, but the rising numbers in this age group enrolling at the job centre (Table 1) undoubtedly reflects a change in their job search behaviour: more and more of them are no longer making a job search and are now classified in the “halo” of unemployment.

Ultimately, the fall in the ILO-defined unemployment rate, which is marked by both a lack of recovery in employment and discouragement among some of the unemployed, is not such good news.

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[\[1\]](#) People registered in Class A have not worked at all, even on reduced hours, unlike those registered in Classes B and C.

[\[2\]](#) To be entitled to unemployment compensation and to receive back-to-work assistance (“ARE”), 122 days of affiliation or 610 hours of work must be shown during the 28 months preceding the end of the job contract.