Getting Over with the Competitiveness

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Competitiveness is an evergreen topic of the economic policy debates. This is a long-lasting obsession, despite the difficulty of providing a clear definition of it accepted by all. Mostly in such a vague way that the term can be interpreted in many ways : « the generally chosen definition of the competitiveness of a nation is the ability to improve durably its citizens' standards of living and to provide them a high level of employment and social cohesion. » (Conseil d'Analyse Economique). The authors don't hide « the methodological concerns that the concept arises » and even reference the words of Paul Krugman « against « the dangerous obsession » with competitiveness of the Clinton administration and the European Union » because « competitiveness is a word devoid of meaning when it is applied to national economies ». Devoid of meaning, but embodying very well the employer strategies to push forward the liberalization of the economy and of the labor « market » in particular, despite the inclusion of the social cohesion in the competitiveness policies » stated by the Lisbon Strategy.

With regard to France, the old yarn is known: our country would suffer from a competitiveness deficit due to excessively high labor costs. The losses of market share and the comparison with Germany are mentioned to justify this diagnosis. The employers' organization advocates for a « competitiveness shock » based on a massive reduction of social security contributions transferred to households through an increase of the CSG (*Generalized Social Contribution*) and/or of the value added tax. On October 28th 2012, the weekly newspaper *Le Journal du Dimanche* ran a headline: « The Ultimatum of the Large Employers ». In this newspaper, the lobby of the largest employers, gathered in the AFEP (*French Association of Private Companies*), claimed strongly their demands: a massive lowering of public spending and labor costs.

The real reasons of the fragility of French industry

True, the aspects of the non-price competitiveness aren't completely ignored. If one sticks to the comparison with Germany, it would be indeed hard not to see the insufficient level of the research and development in France: 2,1% of the GDP vs 2,8%. This differential is also very pronounced regarding the expenditure on research and development of the private sector: 15 billions euros vs. 31 billions on the other side of the Rhine in 2008.

Similarly, everyone agrees to put the spotlight on the problems of the relationships between the large companies and their subcontractors. The outsourcing of activities aims solely to lower costs by laying them off to the subcontracting SMEs, thus increasing significantly the number of abusive practices. The dependence on the large companies, which can abandon them to boost their profitability, partly explains why the SMEs experience difficulties to have access to bank loans. On these elements too, the difference with Germany is obvious.

Finally, the sensitivity of French exports to changes in exchange rates of the euro is widely spread. Between January 2002 and April 2008, the euro was revalued by 78% against the dollar. As a consequence of this, this raising has slowed the French exports of 0,3 point by quarter since 2002. The contrast is obvious with Germany, who is less sensitive to price changes thanks to its focus on premium products.

These weaknesses of French industry are too often ignored by most of the commentators. The results of external trade are evoked to dramatize the situation without the validity of the numbers ever being interrogated. Hence, the strategy of the companies in the globalization is rarely evoked. The redeployment of the productive processes results in an ever widening and variable gap between a country's competitiveness and its companies' competitiveness. In the case of the German companies, the international subcontracting is systematically used, but the final assembly stage is always done in Germany. A significant part of German exports is in fact re-export for a large portion of the end product. On the contrary, one can mention the example of the imports into France of "Logan" produced by Renault factories in Romania that are counted are Romanian exports. The contribution to a country's performance can deteriorate when an increasing portion of the companies' revenues is achieved abroad. That is the case for the large French groups, whose revenues achieved in France increase very slowly and whose growth is done in Europe and the rest of the world.

The Labor cost as scapegoat

The public debate focuses on labor cost on the basis of often-questionable data. Indeed, the Eurostat reference data raise concerns when it comes to the working time accounts, which underestimate the real amount of working hours in France, or to the wage bill calculation, which overestimates the weight of the professional education in the French labor cost. Moreover, the debate is usually biased. On the one hand, it only rarely takes the work productivity – that is to say the unit labor cost, into account. And yet, the productivity gaps between countries are wider than the hourly labor cost gaps. On the other hand, the labor costs in the industry and in the market-related services aren't differentiated, even though the productivity increases in the services than in the industry.

The unit labor cost declines on average in the Eurozone, except in the UK, Denmark, Italy, Spain and Greece. In France, it showed a drop of 0,5 % per year from 1996 up to 2008. In Germany, the drop was of 0,7% per year. Overall, there is a tendency to the convergence of unit labor costs in the Eurozone, declining in the industry and increasing in the services. These observations, combined with the biased character of some statistic data, provide a different picture that the one asserting that there has been an uncontrolled increase of labor cost damaging the companies' competitiveness in France.

The cost of capital is being silent up

More importantly, the labor cost is always put forward when the cost of capital is hardly ever evoked. However, the distributed net incomes represent today 9% of the added value of the non-financial corporation – historical record since the end of World War II-, against 5,6% in 1999. The share given to the stockholders has been strongly rising in the last twelve years. To put it differently, the employers union's complaint making the decline of mark-ups the reason of the low investment and of the least effort to develop further research and development ignores the fact that the increasing share willingly given by the companies to the capital owners jeopardizes their ability to tackle all aspects of competitiveness.

In this situation, the demand of the employers union to transfer massively social security contributions to households appears for what it is: the refusal to reduce the share given to the stockholders. This is all the more unjustified given that the appraisal of the current exemptions is problematic, to say the least (…).

However, the Gallois report prescribes further reduction of the social security contributions. The argument of employment is left out in favor of the argument of competitiveness. The thirty billions of reduction it recommends would consist of a twenty billions cut in employers' contributions and, much more of a novelty, a ten billions cut in employees' contributions. In the case of a reduction of the employers' contributions, there is a gain for the employers, neutrality for the employees and a decline in household purchasing power if there is a compensation of the loss through a rise of the VAT. In the case of reduction of the employees' contributions, there is neutrality for the employers and a direct wage gain for the employees, which could be however neutralized by a corresponding increase of the taxation. In the end, it is a question of making the employees and the households pay for an alleged failure of competitiveness. Without contesting the level of profits, especially the distributed ones.

Competitiveness at the expense of labor is a non-cooperative dead-end

The lower of the labor cost isn't only achieved by a reduction of social security contributions. In addition, there is an increasing flexibility of the labor. The brutal deregulation of the labor market is a key element of the competitiveness policies. There is an attack against the workers' right across all Europe.

In theory, these policies are supposed to favor exports. Cutting costs to gain global market shares is the categorical imperative they wish to impose upon us. But this logic is trapped in contradictions impossible to exit from. Indeed, most of the EU trade occurs within the EU. The clients of some are the providers of others and the deficits of some make the surpluses of others. In this situation, it is impossible that every country follows the German model and turns into exporter. The contraction of internal demand in all countries, resulting from lowering labor costs and in cuts of public expenditures, would have consequences on the foreign trade of all. Where to export when all countries are reducing their demand? The lowering of the internal demand can only lead to a general recession. This is the current situation in Europe, where even Germany is today affected by the economic contraction.

Towards a new development model

Competitiveness is a dead-end, economically absurd and socially destructive. We need to advocate for another development model, for ecological and social reasons. We need to put an end to the very logic of competitiveness, which leads to a permanent state of economical war impoverishing populations and destroying ecological balances. This new development model must be based on the principles of cooperation, the breaking of a destructive consumerism, the response to social needs and the opening of an ecological transition. The latter implies a true energy revolution diametrically opposed to the leap forwards represented by the nuclear energy, the exploitation of non-conventional fuels such as shale gas – as recommended in the Gallois report -, or useless and destructive infrastructures projects rejected by the population.

The debate on competitiveness cannot be reduced to a narrow discussion on recipes to revive growth. It must ask the question of the society we want to live in.