Developing UK Industrial Policy

Lessons from France

Executive Summary

This paper is designed to contribute to discussions about the next phase of industrial policy in the United Kingdom. It is based on the history and traditions of industrial policy in France. It makes clear that France operates in a different political culture to the United Kingdom and, therefore, it does not seek to impose wholesale French industrial policy solutions on the UK. It does, however, seek to learn some lessons. The fact that France has suffered significantly less in the economic downturn than some other European countries has led many policy makers, previously critical of France's traditions of a large role for the state and its perceived nationalism, to look at France with renewed interest.

Two distinctive aspects to France's response to the economic downturn are the creation of the Fonds Strategique d'Investissiment (FSI, or Strategic Investment Fund) and the introduction of 'Le Grand Emprunt' (literally, "the big loan"). This paper argues for the creation of a body similar to the FSI in the UK. Such a body should have a budget of £5 billion. It should be managed at arms' length from the government and it should make strategic investments in companies looking for a long-term partner. The government should expect a return on its investment over a long-term timescale: a UK Strategic Investment Fund should back companies with potential, with the aim and expectation that government will get at least its money back (and should return a profit) over a five- to ten-year period.

Other conclusions of this paper are:

- The importance of leadership. A second phase of 'New Industry, New Jobs' should be pursued after the next General Election, but a clear, visible commitment to industrial policy, as has been offered by Nicolas Sarkozy in France and Peter Mandelson in the UK, is necessary, to convince industry of the seriousness of the government's vision. The private sector will only invest in the key industries of the future if they are convinced that the government will pursue this agenda;
- The need for a statement of industrial intent by the Prime Minister, setting out the ambition to create and sustain a modern manufacturing sector in the UK. This should be linked to a Public Service Agreement on the future of industry and be part of 'New Industry, New Jobs' phase two.
- The role of procurement in underpinning both infrastructure investment and in developing the key strategic sectors of the future;
- The need for aerospace and automobiles to be incorporated in the next phase of 'New Industry, New Jobs'. The need for aircraft and motor cars that produce lower CO_2 emissions should be central to their place in industrial policy;
- Dialogue at a European level to develop a European industrial policy.

Introduction

1.1 The last 18 months have seen the resurgence of industrial policy in the United Kingdom. The degree to which this development has come about because of the economic crisis, or whether it is because of a personal policy preference on the part of the Business Secretary, Lord Mandelson, is unclear. It is probably some combination of the two. Whatever the reason, this development is both long overdue and very welcome.

1.2 The previous UK position, which was characterised by the absence of an interventionist policy and a preference for letting the market identify optimum industrial outcomes, was, at best, naïve. Less charitably, it could be seen as a deliberate attempt to allow some industries, especially those in manufacturing, to slowly decline, in the mistaken belief that China, the other BRIC economies and Eastern Europe, with their lower labour costs, are better placed to manufacture goods, while the UK focuses on services, especially financial services.

1.3 This belief is patently mistaken. There is a range of industrial sectors where the UK either currently is or could become, with targeted government interventions, in a strong position. Financial services have been important for the British economy and that will continue. However, there has been an excessive faith in financial services in the past decade and, especially in the light of the economic downturn and the reasons behind it, a more balanced economy is required.

1.4 Moreover, the economies that are most comparable to the UK's are those of France, Germany, Italy, Spain and, albeit on a different scale, the United States. Those countries have most certainly not given up on their manufacturing sectors. They don't assume, whatever the new challenges brought about by globalisation, that their manufacturing industries will decline; indeed, they strongly believe that those sectors can grow.

1.5 Furthermore, the fact that the last ten years has seen a new understanding of the crucial importance of protecting the environment poses new questions about how and what we manufacture. These questions will only become more important. This means that lower polluting cars and aircraft, as well as the direct environmental technologies such as building wind turbines and solar panels, will be central to the thinking of those interested in manufacturing. This point has not been lost on the 'New Industry, New Jobs' agenda, which includes a focus on composites, among other sectors, partly because composite materials, with their much lower weight, enable aircraft to fly while emitting lower CO_2 emissions.

1.6 The question, then, is not will manufacturing remain relevant to the United Kingdom. The answer to that is clearly yes. The question is what will our manufacturing sector look like. An equally important question is: what can government do to shape the future of manufacturing, so that it provides for economic growth, investment, exports and jobs.

1.7 This paper focuses on industrial policy in France. It recognises that France has a particular tradition of high government investment and state direction. It understands that the industrial policy language of France can seem old-fashioned, or worse, to Anglo-Saxon ears (although the Americans and Germans can be decidedly interventionist as well, in spite of their free market rhetoric). This paper doesn't try to argue that France has all the answers or to suggest that UK industrial policy should mirror that of France. However, it does cast an admiring glance at a country where manufacturing is considered to be of fundamental importance to the national economy and where the President, Nicolas Sarkozy, appears intent on using the full power of his office to support French manufacturing.

1.8 As well as literature reviews of French industrial policy, central elements of this paper have been made possible by interviews with major stakeholders in French industrial policy. Interviews have taken place with Gilles Michel, Chief Executive of the Fonds Strategique d'Investissiment, and with Mathieu Louvot, Adviser to President Sarkozy on industrial policy. The paper benefits from interviews with industrial policy officers from two French trade union confederations, Henri Catz of CDFT and Jens Tinga and Sebastien Dupich of Force Ouvriere. Finally, a brief German critique of French industrial policy comes from Henrik Uterwedde of the Deutche-Franzosisches Institut.

A Short History of Post War Industrial Policy in France

2.1 The end of the Second World War marked the beginning of a major French effort to industrialise. The reasons were partly economic and partly political. Unsurprisingly, French citizens sought protection against future industrial and military might from their German neighbour. Supported by Charles de Gaulle, a multi-year blueprint for reconstruction and modernisation was drawn up by the businessman and diplomat Jean Monnet. This plan, scheduled to run from 1947 to 1950 (but eventually running until 1952, so that its end coincided with the end of Marshall aid), targeted the expansion of the coal, steel, electricity, cement, agricultural machinery, and transportation industries. Steel, in particular, was associated with national security.

2.2 By increasing domestic supplies of steel and other basic products, the Monnet plan promised to enhance that security, which in turn gave the French the confidence to remove ceilings on German industrial production. Germany had, of course, been the engine of European industrialisation since the previous century, and the removal of these ceilings created a more favourable environment for economic revival and growth across the continent.

2.3 In 1958, the Rueff plan, adopted in conjunction with a 17.5 per cent devaluation in France, imposed drastic cuts in subsidies. It was seen as being indicative of France's rededication to market led growth, a sign that France was now ready to join Europe in pursuing growth based on exports and investment. And France certainly enjoyed growth. The Rueff plan, along with the export opportunities provided by the Treaty of Rome, allowed a growth rate of nearly six per cent. On 1 January 1960, 90 per cent of all trade with European markets and 50 per cent of trade with the dollar zone were freed – and France took full advantage.

2.4 The period from 1948 to 1973 has been described as a golden age of economic growth for Western Europe. This age came to an abrupt halt with the oil shock of 1973. In France, the years 1945-1975 are referred to as 'Les Trente

Glorieuses', "the glorious thirty". This name was first used by the French demographer Jean Fourastie, and refers to a period when the French economy grew rapidly and the French standard of living, which had been ruined by both World Wars, became one of the world's highest. During this time, France's economic policy was decidedly 'dirigiste'.

Dirigisme

2.5 Dirigisme describes an economy where the government exerts a strong directive influence. The phrase was invented by Jean-Baptiste Colbert, Louis XIV's Finance Minister, which indicates how old the idea actually is. Post war French Governments, of differing political perspectives, sought rational, efficient economic development, with the long term goal of matching the highly developed and technologically advanced economy of the United States. Charles de Gaulle's lifelong campaign to restore French 'grandeur' is part of the reason for the tradition of dirigisme that emerged.

2.6 Prior to the Second World War, French industry had been weak due to fragmentation. French companies were much smaller than their international competitors, making economies of scale difficult. In order to overcome this, the French Government, with the support of large industry groups, sought mergers and the formation of "national champions". Two further areas where the French Government sought greater control were infrastructure and the transportation system. The French Government owned the national railway company SNCF, the national electricity utility EDF, the national gas utility GDF and the national airline Air France. Phone and postal services were operated as the PTT administration. The French Government also directly intervened in the defence, nuclear and aerospace industries (Aerospatiale).

2.7 Dirigisme flourished under the centre right governments of Charles de Gaulle and Georges Pompidou. The policy was viewed as a middle way between the American policy of little state involvement and the Soviet policy of total state control. An obsession with modernising France led to a variety of ambitious plans imposed by the state, including the extensive use of nuclear energy (close to 80 per cent of French electrical consumption), the Minitel, an early online system for the masses, and the TGV, a high speed rail network.

2.8 Ironically, Francois Mitterand, the Socialist President who broke the stranglehold of the centre-right on the French Presidency, is less associated with dirigisme, partly because after initially being elected on a left-wing platform, the French economy hit problems and the demands of controlling inflation, in order to secure France's place in the European Monetary System, took precedence in economic policy-making. Whilst the role of the French state remained, dirigisme went out of vogue in the years that followed.

The Beffa Report

2.9 A sea-change in attitudes came with the 2005 publication of 'For A New Industrial Policy' ('Pour une nouvelle politique industrielle'), by Jean Louis Beffa, the Chief Executive of the glass making company St Gobain. This report was drafted at the behest of President Jacques Chirac. M Beffa was assisted by a task force of 12 people, including industrialists, experts and two trade unionists.

2.10 The Jean-Louis Beffa report focused on 'signs that French manufacturing industry is starting to lose ground', due primarily to the fact that French manufacturing specialisation was not sufficiently high-technology oriented. This degree of specialisation was one of the factors underlying the relative lack of research and development in France, since French industry focused primarily on activities that were not traditionally research oriented. Overall, a significant amount of research was done in France, but it tended to be concentrated on a small number of areas such as nuclear science, aeronautics and space, which were often linked to the defence sector and were formerly funded through major government spending programmes.

2.11 More specifically, the Beffa report recommended the definition and implementation of 'industrial innovation stimulation programmes' (Programmes mobilisateurs pour l'innovation industrielle, PMIIs). These would aim to identify industrial initiatives involving major technological innovation and addressing new growing European or worldwide markets. Their time frame would be five to 15 years.

2.12 PMIIs would receive public financial backing and provide various forms of insurance coverage and incentives with a view to fostering partnerships between companies, large and small, and other entities involved in the various initiatives, such as research laboratories. The terms and conditions underpinning public backing, which would take the form of subsidies in the early stages and of repayable loans at pre-competition development stages, would have to be in line with EU rules. The various PMIIs would be administered by an Industrial Innovation Agency (Agence de l'Innovation Industrielle), which should have sufficient resources to enable it to acquire the necessary expertise and to act as a project 'driver'. The range of programmes would be wide enough to diversify and help to bear collectively the brunt of the inevitable risks associated with innovation.

2.13 President Chirac was quick to indicate that the Beffa report would result in tangible initiatives. The proposed Industrial Innovation Agency was to be set up under the direct control of the Prime Minister. It would double investment from the private sector and would be allocated a budget of EUR 2 billion by 2007.

Sarkozy and dirigisme

2.14 Two years after the publication of the Beffa Report, Nicolas Sarkozy was elected President of France. Casting himself as a reformer, championing a clean break with France's traditional ruling elite, Sarkozy has advocated cutting taxes, slimming down the public sector and reviving the work ethic. His language, however, often bears the hallmark of French scepticism towards Anglo Saxon capitalism.

2.15 Sarkozy has been quoted, in The Economist, as having said (with more than a hint of satisfaction, according to the magazine): "The main feature of this crisis is the return of the state, the end of the ideology of public powerlessness." Sarkozy believes that the crisis presents the perfect opportunity to impose his long-held view that the EU puts free market dogma ahead of the true political needs of governments and ordinary people. He has also proclaimed "the death of the all powerful market, which is always right". More recently, in comments following the appointment of Michel Barnier to the European Union's internal market portfolio, President Sarkozy has spoken of French ideas on regulation triumphing in Europe.

2.16 Speaking to the European Parliament in October 2008, Nicolas Sarkozy suggested that European countries should establish their own sovereign wealth funds to take ownership stakes in key industries. Sarkozy told MEPs:

> "Stock markets are at a historically low level. I wouldn't like European citizens to wake up in a few months time and discover that European companies belong to non-European investors who purchased them at next to nothing when share prices were at rock bottom, with European citizens left asking: what have you done? I ask each of you to think about whether it might be opportune for us too to create sovereign wealth funds in each of our countries and perhaps whether these national sovereign wealth funds could, from time to time, be co-ordinated to provide an industrial response to the crisis as well."

2.17 According to Business Week, Sarkozy added that state funds could later sell their stakes at a profit, in a policy similar to that pursued by France's Strategic Investment Fund (see below).

2.18 Nicolas Sarkozy went on to suggest that European States should co-ordinate their industrial policies:

> "I noted with great interest the American plan for the automobile industry. $25bn dollars at unbeatably low interest rates to save the three American automobile manufacturers from bankruptcy. I'd like us to dwell on this for a moment. We're asking our manufacturers, and we're right, to now build clean cars, completely change their production apparatus … Can we leave the European automobile industry in a market where there is a serious distortion of competition with its US rivals without looking at the possibility of a European sectoral policy to defend the European industry? This doesn't mean calling the single market into question. It doesn't mean us undermining the principle of competition. It doesn't mean undermining the principles governing state aid. It means that Europe must put forward a united response, one which mustn't be naïve, in the face of the competition from the other major world regions. Our duty is to ensure that, in Europe, we can go on building planes, ships, trains and cars because Europe needs a robust industry."

2.19 This demonstrates a clear French view of the central importance of manufacturing to its economy and a preparedness to galvanise the instruments of the state in protection of that industry. This was particularly noticeable in the government's six billion euro rescue of Renault and PSA Peugeot Citroen captured the political mood. There was little debate over whether the state should bail out carmakers or whether such action would distort competition. Rather, Sarkozy had said that it was "not justified" for a French carmaker to build a factory in the Czech Republic in order to sell cars in France. Furthermore, criticism of Sarkozy has come not from any anti-competitive remarks, but from those who feel he should be doing even more to protect French jobs, keep factories open and curb executive pay. The French car industry directly employs 700,000 people and indirectly employs 2.5m more. The industry is regarded as strategic and its protection is opposed by no-one.

The Economic Downturn in France

3.1 What is more, the French claim some moral authority in economic and industrial affairs, because France has suffered less than the US, the UK or other comparable economies during the downturn, and its recession appears to be ending faster than that of others, as table one shows.

Table One – Selected Advanced Economies: Real GDP, Consumer Prices and Unemployment
(Annual percentage change and percent of labour force)

	Real GDP				*Consumer Prices*				*Unemployment*			
Year	**07**	**08**	**09**	**10**	**07**	**08**	**09**	**10**	**07**	**08**	**09**	**10**
U SA	2.1	0.4	-2.7	1.5	2.9	3.8	-0.4	1.7	4.6	5.8	9.3	10.1
Germany	2.5	1.2	-5.3	0.3	2.3	2.8	0.1	0.2	8.4	7.4	8.0	10.7
France	2.3	0.3	-2.4	0.9	1.6	3.2	0.3	1.1	8.3	7.9	9.5	10.3
Italy	1.6	-1.0	-5.1	0.2	2.0	3.5	0.7	0.9	6.1	6.8	9.1	10.5
Spain	3.6	0.9	-3.8	-0.7	2.8	4.1	-0.3	0.9	8.3	11.3	18.2	20.2
UK	2.6	0.7	-4.4	0.9	2.3	3.6	1.9	1.5	5.4	5.5	7.6	9.3

Source: IMF World Economic Outlook October 2009, p. 69

3.2 According to the International Monetary Fund, economic growth in France will fall to -2.4 per cent in 2009, but that compares with a fall to -5.3 per cent in Germany and -4.4 per cent in the UK. GDP will grow by 0.9 per cent next year.

3.3 Forecasts from the OECD in November predict a slightly better performance. GDP in France will fall by 2.2 per cent in 2009, but will grow by 1.4 per cent in 2010 and 1.7 per cent in 2011.

3.4 There are many reasons for this performance and French industrial policy will only be one. Among other reasons, French banks were more conservative before the crisis than their counterparts in the USA, the UK or even Germany, so the issue of reckless bank lending didn't arise. French households also had a relatively high savings rate, of about 12 to 15 per cent, compared to the US rate, which hovered around zero pre-crisis. This meant that, while in many countries consumers began saving as trouble began, the French saw no need for sudden extra savings, allowing them to go on consuming and for demand in the economy to hold up better.

3.5 One of the most important reasons for the French experience was France's generous welfare system, the so-called 'automatic stabilisers', which maintain economic activity through the spending of those receiving benefits. The average size of the automatic stabiliser in the Group of 20 countries was 1.2 per cent of GDP in 2009. In France, it was 1.9 per cent.

3.6 Nevertheless, an unashamedly interventionist industrial policy, which kept people in work, at least in part by retaining industrial production in France, will have played an important part in France's economic performance. What is more, as France (and other countries) emerges from recession, having strong industries in place, providing quality jobs, will help the economy to recover. Le Monde, the French daily has noted, "In the crisis, the French model, formerly knocked, finds favour once more". Le Monde has added, "France is better equipped than the United States or some of its European partners to deal with the recession, because its model limits social damage." In 2002, public spending accounted for 52 per cent of GDP in France, compared with 45 per cent in Britain and 44 per cent in Germany. Some argue that this might have held back the economy in boom times, but with its welfare cushion, it helps to keep it afloat in recession.

The New French Industrial Policy

4.1 The French Government is currently embarking on a number of new industrial policy initiatives. Like the UK's 'New Industry, New Jobs', the French approach is long term, but is under pressure to deliver short term success, in response to the economic downturn.

4.2 Some elements of the French approach are at a very early stage: a comprehensive new industrial approach is being discussed and a series of meetings on ten industrial sectors have taken place between unions, employers and the Minister of Industry. Different horizontal policy prescriptions, such as supporting skill development among the ten sectors, have been debated.

4.3 Trade unions, while engaging with the new industrial policy approach, are concerned about the short time scale.

Fonds Strategique D'Investissement

5.1 A major initiative of the new industrial policy, which originated in November 2008 and began work in January 2009, is the Fonds Strategique D'Investissement (Strategic Investment Fund, FSI). This initiative is expensive and France is well aware that it has not been tested. Indeed, its Chief Executive, Gilles Michel, acknowledges that intense political debates around the FSI are taking place. Nevertheless, its boldness underlines the commitment to industrial policy in France.

5.2 The FSI is the direct result of a political decision by the President. In the words of Gilles Michel: "It is a public body to support French companies in growth and competitiveness, to reinforce the French nature of their capital structures (i.e. to provide for a stronger proportion of their capital structure that is French) and to support SMEs."

Governance

5.3 The FSI is incorporated as a company. It has two shareholders – the Caisse des Depots, which has a 51% stake and the Government has a 49% stake. The Caisse des Depots was established in 1816 to restore economic confidence following the financial crisis after the Napoleonic wars. Using private investment funds, notably pension funds, it is, itself, a long term investor, able to commit the time needed for sustainable growth. It also invests in projects in which it is deemed that the market itself cannot satisfy. However, the FSI was established to meet a unique objective, i.e. to strengthen French competitiveness. The FSI does not invest in areas that are traditionally covered by the Caisse des Depots, such as infrastructure or financial services, but invests only in equity.

5.4 FSI funds are managed through a board of seven people, four from government and three from the private sector. A governance body, composed of 20 people from unions (all three French trade union federations have a seat), MPs and business associations, is asked to advise on investment strategies. The staff of the FSI is composed of corporate/investment professionals. Gilles Michel worked in the private sector for 20 years before taking the post of CEO. The FSI invests in large, listed companies; in mid-sized, often not listed companies; and in SMEs. Some SME interventions are private investments, of which the FSI is one part, but not the only part. This allows investment in technical areas, start-ups etc.

Investment Strategy

5.5 The FSI's money is utilised exclusively through investment in the capital structure of private companies, with the FSI taking a role as a minority shareholder. The FSI seeks to be a long-term investor, investing for up to 8-10 years, possibly longer. It invests an amount of money that gives it presence and allows a say in governance (through seats on boards). It also makes a commitment to exit in a way that supports the company in question. Rather than offering subsidies, it associates itself with entrepreneurial risk. It is emphatically not nationalising companies.

5.6 The FSI has 20bn euros at its disposal: 6bn euros in cash and 14bn in equity stakes in companies. This money and equity comes directly from its two principle shareholders, the government and the Caisse des Depots. It is permanently established and has a permanent investment capacity of 2.5bn euros a year, by virtue of a rotating portfolio and dividends from companies in which it has invested.

5.7 So far, 750m euros have been invested in 18 companies, 600m of which have been invested in funds established in partnership with private companies, especially in the biotech sector and in the motor industry.

Policy Debates

5.8 With such a large amount of money available to the FSI, expectations have to be managed. The FSI seeks to work with the grain of the market, but there is little market activity at present, as a result of the financial crisis. As there are not many private investors wanting to be long-term, friendly, strategic investors at this time, it is necessary, in Gilles Michel's words, to "adjust the financial horizon to the industrial horizon".

5.9 Important policy discussions take place, of course, around the issue of how companies are selected. Is the FSI picking champions? Is it only interested in strategic companies? Gilles Michel argues that the fund, not the companies, is strategic. The FSI analyses opportunities on a case-by-case basis. It would invest in a "non-strategic" company, provided that company has a case. However, a more sectoral industrial policy vision exists, where appropriate. If it was agreed that it was important to foster growth in environmental technology companies, the FSI would do that. It is already helping to "green" the automotive sector.

5.10 Debates also exist around the role that the FSI should play in companies in which it invests. Gilles Michel is strongly promoting the view that the effective use of public money is through support, but not pretending to be in control. If the FSI promoted a given agenda in the companies where it currently invests, its future investments would not be welcome in other companies. The ability of the FSI to fulfil its mission would therefore be undermined.

5.11 The use of public money must be considered carefully, of course. The FSI runs the risk that it uses public money to make investments that would have been made anyway by the private sector. It also risks investing in companies that ultimately fail, thereby wasting taxpayers' money.

5.12 Gilles Michel said that with regard to these investments, some will fail, by definition. However, the FSI wants more successes than failures overall. The FSI takes its share of the industrial risk borne by the companies in which it invests. In the long term, it seeks to profit from all companies, which is a condition of its existence, but people would understand that it does not always win.

Nexans

5.13 A particular controversy has existed in France relating to one recipient of FSI funds, this being the cabling company, Nexans. Formerly Alcatel Cables, Nexans is a world leader in its sector, addressing the energy infrastructure (high and medium voltage), industry, building and local area network markets.

5.14 Nexans recently increased its exposure to businesses with long growth cycles and fast growth potential (energy and emerging markets) thanks to selective acquisitions and disposal of its low profitability and non-core businesses. In response to a desire by Nexans to strengthen its shareholder base, the FSI acquired a five per cent equity stake on the stock market in July 2009. The FSI aimed to support Nexans' future acquisitions, consolidating the fragmented cable industry and increasing its market share.

5.15 However, soon after the FSI made its investment, Nexans sought to restructure, with the loss of 387 jobs in France. There was a great deal of debate and this is not over, but the FSI is withstanding the pressure. The question, according to the FSI, is whether Nexans will be stronger tomorrow than today. The FSI believes it is better to have companies in a leadership position, even if their focus is on the world outside of France, because such companies will have

Marguerite Fund

Other, similar initiatives are afoot across Europe, one of which is the Marguerite Fund.

Speaking at a conference organised by Confrontations Europe on 10^{th}-11^{th} December 2009, Franco Bassanini, Chairman of the Italian Cassa Depositi e Prestiti and one of the founders of the Marguerite Fund, set out its context. The question before us, said Bassanini, is how to repay public debt in ways that do not undermine our social infrastructure. To do this, we must accelerate growth. China, South Korea and other Asian economies have done this through public investment, but they have low levels of debt.

Bassanini said Europe has three strengths: it has high savings levels; a stable currency; and emerging companies with diversified reserves. If Europe could utilise private savings, it could invest without incurring public debt. To attract private capital into desirable long-term investments, European tax incentives were necessary.

This approach should have an anti-cyclical role. It could spread risk between generations and could accept moderate profitability and long term commitment.

The Marguerite Fund was established by the four founding institutions of the Long Term Investors Club – the European Investment Bank, the Caisse des Depots (France), the Cassa Depositi e Prestiti (Italy) and the KfW (Germany). Initiated in September 2008 under the aegis of the European Council as a key measure of the European Economic Recovery Plan, Marguerite is the European equity fund to invest in the Member States' environmental, energy and transport infrastructures. Regarding its investments, priority will be given to projects addressing the climate change goals of the European Union.

In addition to the four bodies listed above, the Spanish Instituto de Credito Oficial and the Polish Powszechna Kasa Oszczednosci Bank Polski have committee to support this initiative, on a parity basis. Following Decembers Pre Budget Report, so has the United Kingdom, but with £50m invested. Each of the six other bodies has invested one hundred million euros each, giving the Marguerite Fund approximately 650m euros. It has a fund-raising target of 1.5 billion euros by December 2011.

suppliers, relationships etc, that support the economy, through jobs, R&D, exports, etc in France.

Le Grand Emprunt

6.1 Le Grand Emprunt is another major French policy initiative. It was unveiled in November 2009, when the French Government proposed a 35bn euro loan to support forward-looking strategic investments and to help France emerge from the economic crisis in a stronger position.

6.2 Le grand emprunt (literally, 'the big loan') was outlined in a report prepared for President Sarkozy by two former Prime Ministers, Alain Juppe and Michel Rocard. It sets out seven strategic priorities for the spending. In December President Sarkozy announced that the report's proposals would be broadly followed, meaning that universities and research laboratories will receive the largest share of the loan, totalling 16bn euros. Of that 16bn euros, 10 bn will serve to fund endowments for the top five to ten universities, which will be allowed to use only the interest and not the capital. Such a funding system for public universities does not exist in France at present. Mr Sarkozy earmarked 3.5 billion euros for commercial spin offs from universities and public research institutes, explaining that the French were "champions in discovery but very behind in patents".

6.3 According to the Juppe-Rocard report, the rest of the special loan will go towards priority sectors, including the digital economy, which will get 4 billion euros under the commission's recommendations. A further 2 billion euros will go to investments in nano- and bio-technologies, while 3.5 billion will go to renewable energy and 4.5 billion to sustainable urban development such as reducing the energy consumption of social housing blocks. Innovative SMEs will get 2 billion euros, while 3 billion will go towards the development of vehicles such as electric cars, that have lower carbon emissions.

Paying for le grand emprunt

6.4 As interesting as the proposal for 'le grand emprunt' itself is the debate over whether or not it can be afforded and whether or not it amounts to sound economics. President Sarkozy said France would begin to put in place a strategy for reducing the public deficit in 2010, the year in which that deficit would hit 8.5 per cent of GDP. Sarkozy ruled out tax rises and said proceeds from the return of economic growth would be earmarked for deficit reduction.

6.5 Needless to say, this approach has many critics. In the short term, it will worsen France's public finances. Last year, France spent 55bn euros servicing its total debt of 1.3 trillion euros. The OECD has said the loan "risks being pro-cyclical, coming too late to aid the recovery and making the task of inevitable fiscal consolidation more difficult."

6.6 However, addressing concerns over France's debt, the Juppe/Rocard commission said the best way to assure France's future success was to invest rather than hold back. "Borrowing is, in fact, justified when it is about investing to target a future return on investment. And a loan allows for quick action," it said in its report. Moreover, President Sarkozy is expected to reduce the actual borrowing on the market by using the 13bn euros that banks will pay back in return for state aid during the financial crisis.

6.7 Economists say that while France can afford to raise 20bn euros or more in new debt, the important question is how it will be spent. “Twenty billion euros is not a huge sum of money: 1.2 or 1.3 per cent of GDP. The question is whether it will be wisely spent, and what impact it has on France’s ability to bring its deficit down,” according to Simon Tilford, Chief Economist at the Centre for European Reform in London.

6.8 Rocard himself has said, “The markets won’t be too sensitive to an increase of 10 per cent (of the total 250-300bn euros that the French state borrows every year). Meanwhile, Moodys Investor Services has said that, at 35bn euros, the loan would not “pose a threat” to France’s rating. At this amount, Moody’s believe the scheme would only marginally weaken Frances’ position in the Aaa rating category over the short term.

6.9 Moreover, in stark contrast to political debate in the UK, Sarkozy is under pressure not to introduce a smaller loan, but to introduce a bigger one. “The big loan must not become a little loan”, said 63 members of parliament from Sarkozy’s own UMP party, writing in Le Monde on 3rd November. They argue that the TGV high speed rail network, the motorway system, and aerospace giant EADS are successes that would never have got off the ground without high infusions of state cash. “To construct the France of the 21st century … we have to be able to mobilise a critical mass of more than 50 billion euros”, according to the deputies.

French Perspectives on French Industrial Policy

7.1 France can easily be pigeon-holed as a country where the state is strong, belief in manufacturing and wider industry unwavering and the limits of the free market are widely acknowledged. Of course, there are nuances that are difficult for the outsider to see, and these must be considered for a full appraisal of the lessons of industrial policy in France.

The limits of intervention

7.2 First, the Sarkozy Government will not spend public money on industrial policy unless this is supplemented by finance from the private sector. Despite its public self-confidence, the Government is aware that France has had its industrial policy failures too. Furthermore, it recognises the embarrassment caused by such failures. Were the FSI to fail badly, this would be embarrassing for the President, so the FSI is told to invest only in companies which have good prospects. Whilst the French people want strong action, the Government will not bail out loss making companies. The Government takes comfort in the fact that most state enterprises, including SNCF and even EdF, which is 84 per cent state owned, must answer to minority shareholders. This is considered to be an important safety valve.

7.3 The French believe that most countries involve their state in their industry, so if the French don’t do it, they will be left behind. The Government accepts that research and development, for example, is often too risky for private money to finance, as ideas end up being copied and patents only last for so long, so companies do not get the full benefit of their investment. The government believes that it is sometimes more efficient to co-invest in a company than to subsidise it. Companies feel more reassured if state money is invested as well.

Prerequisites for success

7.4 To make industrial intervention work, the French Government believes that the skills of the civil service are of critical importance. For example, France wishes to introduce high-speed, fibre-optic internet access, and believes there is a strong role for the state in making that happen, but there is concern that the civil service doesn't currently have the skills to do so.

7.5 Understandably, France compares itself to its neighbour across the Rhine and this is where its mask of self confidence can sometimes slip. Compared to Germany, France has lost competitiveness and market share in the last ten years. The Government blames higher costs, brought about by the 35-hour week, which, with hindsight, the Government believes to be a mistake, and changes to the minimum wage. The Government dates the relative decline of French industry to the year 2000, the year in which the 35-hour week was introduced. Needless to say, this position is disputed by the French unions.

How important is nationality?

7.6 The French Government privately denies that the nationality of companies is important, arguing that one in seven French workers works for a foreign company. It also argues that the French people have worries about international takeovers of French companies, but admits that this is instinctive and is not totally rational. However, it says the Germans, the Spanish and the Italians have similar fears. Having said this, French officials cite the recent GM/Vauxhall/Opel case as evidence that all governments want plant closures to take place in countries other than their own. As noted in paragraph 2.19 above, President Sarkozy has called for European countries to co-ordinate their industrial policies. Elysee officials admit that they do not have a blueprint for what a European industrial policy would look like, but believe that rational discussions would be preferable to a beggar thy neighbour policy. They also cite the recent US bailout of General Motors, a policy that, they argue, would never have been tolerated by the European Commission. When the European motor industry faces US competition, they believe the European faith in free markets within European borders to be naïve in the light of such action across the Atlantic.

7.7 The French Government also believe that Germany industry can be more nationalistic than its own. Officials point out that German car makers choose very precisely what they want to outsource and what they want to keep in Germany. As a result, most high tech content is kept in Germany, while they still export a lot of cars.

A trade union perspective

7.8 Meanwhile, French trade unions believe that the French Government adopts an employer-led agenda. Business cries for labour costs have been heeded. Unions point out that, whilst President Sarkozy adopts a very social tone in international speeches, he can be much more liberal when talking to his domestic audience, arguing the case for spending cuts in social areas. Trade unions are critical about the lack of investment in social areas, such as pensions and childcare. As public sector workers retire, only one in two are replaced, leading to job cuts in public services over a period of time.

7.9 Force Ouvriere, one of the main French trade union federations, supports the industrial policy debate, but believes its timescale is too short, it does not have clear objectives and fears that it is focused only on communication and publicity. Neither does Force Ouvriere know what will follow the debate. It seeks a strengthening of social dialogue, at national and regional level, to take these discussions forward.

7.10 Force Ouvriere believes (no doubt with an eye on Germany) that other large industrialised countries have more ambitious industrial policies than has France. Among its proposals, it calls for a national public bank to support manufacturing, in order to evaluate and co-ordinate all existing structures and public interventions, to favour investment and employment, and to support research and development.

The German tradition: "implicit" industrial policy

Henrik Uterwedde (Deputy director, Deutsch-Französisches Institut, Ludwigsburg)

Compared to France, Germany seems to have no explicit industrial policy; indeed, the term itself has been criticised and the French approach is rejected as state-interventionism. However, Germany practices an implicit industrial policy, but in doing so, it relies on a multitude of public and private actors, rather than on the state.

After 1945, German economic reconstruction was concentrated on the industrial sectors which have become the leading engines of post-war growth in the western world (automobiles, chemicals, engineering, electronics). Germany's economic policy has always been influenced by an industrial culture, and this culture has been the base of the German model of capitalism after 1945.

A main feature of German industry is its export orientation: hence a constant concern for the competitiveness of German industry. This competitiveness has been realised by specialising in high quality products, which makes German industry less dependent on cost competitiveness. However, Germany's historic fear of inflation has produced an orientation to price stability, helping to contain costs of production.

In reaction to both the history of Nazi Germany and, later, to the communist economy in eastern Germany, leading politicians developed the concept of the Social Market Economy (Soziale Marktwirtschaft). This concept tries to merge a liberal attachment to markets with a concern for social justice. It fosters social partnership both at the micro and macro level, channelling industrial conflict into a system of social negotiation. The Social Market Economy is seen as a provider of market rules, a certain ethics of responsibility and limits to "wild" capitalism, principles which have been "forgotten" in the past.

German capitalism has been characterized by institutions and behaviour patterns favouring negotiation, compromise and cooperation in all fields of the economy: social partnership in the firms (co-determination of employees), at branch and national level (highly developed collective bargaining system, which is independent from government intervention); cooperation between state and business; devolution of public regulations to business organizations; inter-firm cooperation; bank-industry cooperation (banks rather than financial markets funding the large industrial firms; strategic partnerships between banks/insurance and industrial companies via large blocks of shares. Hence, partnership behaviours according to a stakeholder philosophy.

In the German political system, public actors share decision making with organized interests (business; trade unions, etc.) through consultation, partnerships or devolution. Moreover, in the federal system, "the state" is represented not only by the federal government but also by the 16 regional state governments (Länder), which have the legal status of federated states and are able to participate in national law making via the second chamber of Parliament (Bundesrat). The regional governments are also powerful actors in economic and industrial policy.

In fact, whereas the federal Economics Ministry often acts in a liberal tradition, the Länder governments have been repeatedly interventionist: For example, the governments of North Rhine-Westfalia (17 million inhabitants) have led the transformation process of a mining and steel region into a modern high-tech industrial and services region; Bavaria (population: 12 million) has developed an energetic public policy fostering high tech industrial development; in a similar way Baden-Württemberg (population: 10 million) has modernized its automobile and engineering industries.

The best policy for industrial development is still seen as generating a stable and favourable, general regulatory and fiscal framework for business. Furthermore, a comprehensive, cross-sectoral approach has been developed since the 1990s, trying to enhance conditions for industrial production in Germany and attract foreign investors. This implies public action in the fields of education and job training, research and development, innovation, facilitating technology transfers, conditions favouring the creation of new firms, efficient public administrations, etc.

Sectoral policies sometimes exist. In recent years, renewable energies such as wind and solar energy have been favoured by price support (guaranteeing a high price for the producers) and contributed to the development of new industries. Moreover, the federal Economics Ministry assures a coordination of kinds in some industrial sectors such as aerospace or shipbuilding, through "sectoral dialogues" with the industries and trade unions concerned. Their aim is to identify problems and to work out common solutions.

Economic patriotism is an issue. As in France, there is a concern in Germany about large national companies threatened by unfriendly foreign take-overs. Public discussion is controversial on this point, divided between "liberals" and "protectionists", but a certain number of regional decisions have been made in the sense of a protection of German capital: several years ago, the tyre producer Continental was saved from a takeover by Pirelli; more recently, the Hamburg state government assured "local solutions" for two local companies Nivea (Beiersdorf) and Hapag Lloyd, in order to prevent a foreign takeover. In Baden-Württemberg, the regional state government incited a group of local public utilities firms to take a 40% share in the energy group EnBW, in order to reach parity with the French EDF, which also holds 40% of EnBW. In 2009 the federal government, along with the relevant regional state governments, was actively engaged in the operation to save Opel (the European branch of General Motors) and especially the German sites.

In conclusion, industrial policy follows different paths in both Germany and France, due to different economic cultures and industrial structures. Yet the differences are less sharp in practise than in discourse. Germany and France share a concern about the future of industry, and in many ways their differences may be interpreted as complementary rather than opposed.

Lessons from French Industrial Policy

7.11 France clearly operates in a very different political atmosphere to the UK. Their culture supports a strong state, one that is believed to be active, effective and benign. Interventions by the state are considered positively. Indeed, when industry struggles, the state is expected to step in. In the United Kingdom, by contrast, state intervention in industry (as opposed to other state interventions, most obviously the National Health Service) is treated with suspicion. The role of the private sector is presumed to be both morally superior and likely to be more successful. The history of British Leyland is the example most often used as example of how the state fails, although Edward Heath's rescue of Rolls Royce in 1973 is easily forgotten and rarely quoted as a success.

7.12 Under Margaret Thatcher, and continued under Tony Blair, active industrial policy was considered to be unnecessary and unwelcome. In this sense, the intervention of Peter Mandelson, by initiating 'New Industry, New Jobs', is a break from thirty years of cross party agreement on the lack of need for an active industrial policy.

7.13 The French Government does have a presumption towards a private sector lead in industry, but it appears obvious to them that some interventions, especially those with high up-front costs, will not be undertaken without state support.

7.14 There are a number of lessons to be learned from the French experience.

Leadership

7.15 If a more active industrial approach is to be successful, the first priority is that such an approach benefits from leadership, especially from politicians. The ability of political leadership to attract support should not be underestimated. The TUC, along with some others, has advocated an active industrial strategy for many years, with very few supporters, yet since Lord Mandelson began arguing for industrial activism, it has been astounding (and a little amusing) to see how many industrialists have supported this approach all along!

7.16 President Sarkozy has been giving firm support to French industries. Cynics argue that much of this amounts to style, not substance, and there could be a grain of truth in this. However, whilst Sarkozy clearly knows how to attract headlines, he has backed up his words with the euros of enough French taxpayers that there can be little doubt of his support for industry. Such leadership is important; industrialists will behave differently if they believe that a government is serious in its support for industry, rather than if a government is not.

7.17 Whatever doubt there might have been about Labour's attitude towards industry, the change in climate since the publication of 'New Industry, New Jobs' is tangible and it must be sustained into 2010 and beyond, whoever wins the next General Election.

7.18 To this end, it was most encouraging that Ed Miliband's article in The Observer, 10th January 2010, included the lines: "We need to rebuild our economy in a different way from the past, with more jobs in real engineering not just financial engineering." That is a phrase borrowed from Peter Mandelson and the fact that it has been quoted by a rising star of the Labour Party, irrespective of the outcome of the next election, gives hope that the ‘New Industry, New Jobs’ agenda can continue in the months and years to come.

7.19 And continue it must. This means the serious engagement with industry and unions that takes place, on issues such as skills, innovation, infrastructure, and so on, must also carry on. However, it is clear that all industries will lobby for government support. This is only natural yet, especially in the current climate, the government has a finite amount of money to spend. Ultimately, governments have to decide on the strategic direction of the economy, building on our strengths and our potential, but also bearing in mind the risks associated with its decisions (so we do not see a repeat of the excessive faith put in the City of London in recent years), and then support the industries that lead the economy towards that strategic direction. British Governments do not like to “pick winners”, yet failing to support key strategic sectors risks the UK being left behind in the increasing pace of globalisation.

Procurement

7.20 Procurement has a crucial role to play in a modern industrial strategy. The public sector – central and local government, as well as major public sector bodies such as the National Health Service and the Ministry of Defence – spends £220 billion procuring goods and services each year. What it buys, and how it buys it, can have a crucial impact on the development of industry.

7.21 Where the public sector is a major purchaser of large scale manufactured products, such as a new bus fleet, that purchase could help to sustain manufacturing facilities in the United Kingdom. Of course, European rules require open competition in such procurement processes, so a simplistic ‘buy British’ approach would not work, but this does not mean that procurement has no role to play.

7.22 In 2005, the UK’s Defence Industrial Strategy set out the long term needs of the UK armed forces, regarding the defence equipment needed, and assessed the capability of UK industry to meet those needs. By setting out its needs in the long term, the Ministry of Defence, working with the Treasury and the Department of Trade and Industry, sent a clear message to manufacturing companies about the types of manufactured goods for which there would be markets.

7.23 Whilst defence is a special case, as military equipment is considered to be linked to national security, a similar approach could be used with other industries. This is exactly what happens in France. The Government will set out the areas of the economy in which it wishes to invest. It will bring together local authorities, government agencies and other actors who can provide the infrastructure and require them to dedicate a certain amount of their budget to this venture. With the infrastructure put in place, leading private sector companies will dedicate their skills, their research and development and other forms of investment towards these sectors, secure in the knowledge that there will be major contracts forthcoming in these sectors and that the French Government would like, within European rules, to award them to French companies where possible.

Strategic Industrial Sectors

7.24 The industrial sectors highlighted by ‘New Industry, New Jobs’, such as advanced manufacturing, composites and plastic electronics, are clearly sectors with great future potential. All will be vital as we seek more environmentally friendly industry. Indeed, the Low Carbon Industrial Strategy set out in 2009 is vital for the UK’s industrial future.

7.25 Yet industry will only believe we have a truly active industrial policy if that policy creates high volume industries, providing high volume jobs, in the United Kingdom. Any work to take ‘New Industry, New Jobs’ to the next stage must include strategies for aerospace and automobiles. Rightly or wrongly, these industries are symbolic and they send a sign to business, academia, trade unions etc that governments take industrial policy seriously. Volkswagen, BMW, Mercedes Benz and Porsche are symbolic brands in Germany, as are Renault and Citroen in France and Fiat, Alfa Romeo and Ferrari in Italy.

7.26 The UK has a thriving motor industry, albeit based on foreign brands. They are not all foreign, of course, with MG, for example, continuing to produce here. However, Nissan and Toyota’s UK operations have been hugely successful, as has, more recently, BMW’s operation in Cowley, which builds the new Mini. Ford, General Motors and Honda have major manufacturing plants in the UK. Taken together, in 2006, 1.4 million cars and 208,000 commercial vehicles were built on these shores. What is more, British success in Formula One is not confined to the last two winners of the drivers’ championship being British: brands such as Brawn GP (now part of Mercedes GP Petronas), Williams and McLaren are based here.

7.27 The motor industry in Western Europe, including the UK, employs millions of people directly and in its supply chain, so this is not an argument for holding onto dying industries for reasons of prestige.

State Aids

7.28 In the re-industrialisation that will take place after the financial crisis and as Europe meets the challenge of globalisation, it is necessary to look again at state aid rules. According to ‘The Guardian’, 4th December 2009, Lord Mandelson is pushing for the European Commission to relax state aid rules to make it easier for governments to provide funding for key low carbon industries. This approach is surely correct and, in a sense, addresses the point made by President Sarkozy to the European Parliament in October 2008 and quoted in paragraph 1.15 above. This is not to question the value of competition in the European Union, nor to undermine the importance of state aid rules. Yet there have always been other elements to the European project, apart from competition, and the building of sustainable industries must be one of them.

'Building a better balanced UK economy' – IPPR

The French are not the only ones thinking about these issues. An important contribution to the debate about the future of UK industrial policy has been offered by the Institute of Public Policy Research (IPPR). This comes in a document entitled 'Building a Better Balanced UK Economy: Where will jobs be created in the next economic cycle?' by Jonathan Clifton et al, published in July 2009.

This document seeks to identify a vision of a more balanced UK economy. It makes important proposals, such as for an Ideas Bank and an Infrastructure Bank. The paper makes valuable observations about the need for a culture of innovation, a greater commitment to skills training and, particularly pertinent to government, the importance of support for infrastructure, if such necessities as industrial clusters are to be developed.

On manufacturing, however, this paper is not ambitious enough and certainly does not have the ambition of the French. The IPPR argues that China and the other BRIC economies represent a challenge to the UK's ability to capture the high end niche markets in manufacturing, pointing out, for example, that by 2001 China had nearly three times as many workers in Research and Development as Germany. The IPPR is correct to identify this as a massive challenge, but wrong to suggest that it is a challenge which cannot be met. The IPPR is also correct to say that countries such as Germany and Denmark have an established base in green tech manufacturing, but that is only because their governments have actually built such a base. There is no reason why the UK government cannot do the same.

The IPPR calls on the government to have a vision of the future shape of the economy and to target its actions accordingly. The IPPR also rejects the false dichotomy between a hands-off government and a government that picks winners, as does the French Government. It argues that there are a number of areas where government can support the market without actually owning firms or making investment decisions. This is true, although if the government has a vision of the future state of the economy, it is likely to have a sense of which industries will be most important. It may not "pick" individual firms (to use an unhelpful phrase) but the logic of the government's economic vision will have particular consequences for some strategic companies in those industries that will be central to that vision.

The IPPR identifies six broad areas where horizontal government support will be important. Those areas are: innovation; skills; small business growth; high sunk costs and infrastructure; regional policy; and a supportive financial services sector. Environmental sustainability must run across all of these areas.

The IPPR highlights Britain's existing strengths and comparative advantage in, for example, the creative and pharmaceutical industries and professional services. These strengths are well observed and the IPPR also notes the importance of knowledge-based manufacturing. However, there is a continuing role for the UK as home to major industries in motor cars and aerospace, as well as in these newer sectors. This will not be easy. It is obvious that there is over-capacity in the global motor industry, for example. But the scale of the challenge should not mean that we give up on these industrial sectors. This is one of the lessons from France that we seek to identify in this paper.

A British approach to industrial policy

7.29 How different is the UK approach? Speaking at the SMMT International Automotive Summit on 24th November 2009, Lord Mandelson outlined the value of motor manufacturing to the UK: "This commitment to motor manufacturing is not because it exerts some kind of special sentimental tug on Ministerial hearts. Sorry to say it. It's a cold hard judgement of what this industry means to our skills base, our engineering supply chains, our niche manufacturing skills, especially in design, low carbon and ultra high tech. It's a measure of what this business means for the UK's industrial future."

7.30 Mandelson extolled the virtues of the market: "It's absolutely vital that that process is guided by commercial logic, not politics. That's why I put up such a stiff fight against any suggestion that the future of plants in Luton and Ellesmere Port might be decided by political considerations rather than productivity."

7.31 This is a British approach. The political hegemony in the UK has great faith in markets, more so than in France. Yet it is possible to fashion active industrialism in this context. Mandelson then spoke of a "commitment to making Britain the best place in Europe to manufacture low carbon vehicles" and of "a determined strategy to build strength at all levels and sustain the industry's critical mass here in Britain." Furthermore, according to the Daily Telegraph, 25th November 2009, Mandelson indicated that he is willing to provide loans or loans guarantees to support General Motors, but warned its plans "need to include good news for the UK if they want to receive UK taxpayers money." At the end of the day, is this latter attitude so different from Sarkozy's?

A new British Strategic Investment Fund

7.32 The UK, of course, has a Strategic Investment Fund as well. Announced in Budget 2009, to financially underpin 'New Industry, New Jobs', the UK's Strategic Investment Fund had £750m at its disposal (a further £200m was included in the Pre Budget Report of 2009). This is, of course, a fraction of the 20 billion euros budget given to the Fonds Strategique D'Investissement in France. There are some similarities. The UK fund had bids from far and wide and had to make tough decisions about where to spend its money. However, there are major differences. The UK fund was directed from BIS, rather than being managed at arm's length. The UK fund made grants, pure and simple, and it was a one-off fund, with no published plans for its extension.

7.33 On 20th January 2010, the Fonds Strategique D'Investissiment reported on its first full year of operation. It has invested 1.4bn euros in companies such as Meccano, the construction toy maker, and Daily Motion, the internet start up that aims to rival YouTube. 800m euros has been invested directly into 21 companies and 600m euros has been invested through funds. Even its critics recognise that it has proved its credibility with its choice of investments. All are currently profitable.

7.34 This paper makes the following proposal: now that the Fonds Strategique D'Investissement has reported such a positive start, the TUC calls for a pilot scheme, on a smaller scale, in the United Kingdom. We call for a new Strategic

Investment Fund, managed at arm's length in the French style, with a budget of £5 billion, which could be a combination of cash, loans and loan guarantees . This fund should make strategic investments in companies looking for a long-term strategic partner, in exactly the same was as happens in France.

7.35 A budget of £5 billion reflects the necessary role of government intervention, as set out in the active industrial strategy, while also reflecting British reticence about an over-active state. Consideration must be given to whether this £5 billion is given as direct funding, as happens in France, or whether some of the money could come from other sources, including private investors or grants from bodies such as the European Investment Bank.

7.36 Investments should be made in strategic companies, with the UK investment body taking the same entrepreneurial risk as happens in France. This is emphatically not a plan to give grants to companies. The government should expect a return on its investment over many years. However, as happens in most private sector investments of this kind, there must be an understanding that some investments will provide a poor return. The aim is not to be so risk averse as to back only winners. It is to back companies with potential, with the aim and the expectation that government will get at least its money back (and should return a profit) over a five to ten year period.

Conclusions

8.1 From the outset, the intentions of this paper were to explore what lessons might be learnt from the French experience of industrial policy. As was made clear, the TUC does not believe that the French have all the answers; nor do we wish to introduce an industrial policy that mirrors the one in France. We do believe, however, that there are lessons to be learned.

8.2 The UK is not in the position of France in 1945. We do not need to build large industries, either from scratch or to bring together fragmented industrial sites, into concrete entities. But nor are we in the position of Germany, where successive governments, of every political hue, have supported large scale, world class competitive industrial sectors. We still have important motor industry, aerospace, defence and pharmaceutical sectors. We have attracted world class investors, such as Toyota and Nissan. A very important building block, 'New Industry, New Jobs', has led to the development of strategies for composites, plastics electronics, advanced manufacturing and, most crucially of all, a Low Carbon Industrial Strategy. 'New Industry, New Jobs' has now been followed by 'Going for Growth'. Emphatically, we do not begin from a standing start, but we do need to map out the next phase of our journey.

8.3 This paper hopes to have raised some ideas for taking industrial policy forward. Our proposals for the future can be summarised as follows:

- 'New Industry, New Jobs' phase two. This should include statement of industrial intent, by the Prime Minister, setting out the ambition to create and sustain a modern manufacturing sector in the UK. That statement must describe the development of strategies to maintain and strengthen the UK motor, aerospace, defence and pharmaceutical sectors, along with the vital sectors set out in 'New Industry, New Jobs' and 'Going for Growth'. It should also set out those industries where the government seeks to be a world leader by 2020, such as the offshore wind sector.

- Linked to the above, a Public Service Agreement (PSA) on the future of UK industry. This should set out the state of industry that the government envisages in five years time, regarding strategic sectors, levels of investment, GDP created, and jobs. The TUC is less interested in whether every aspect of the PSA agreement is achieved, word for word, and more on the government setting out its ambitions for industry policy and developing a credible strategy for bringing those ambitions about.

- An arms length strategic investment fund, as described in paragraphs 8.24 and 8.25 above, to invest in strategic companies in those sectors, along the lines of investments made by the Fonds Strategique d'Investissiment. As with the FSI, this investment should expect to break even or, better still, make a profit over a period of 5-10 years. Its investments must be made in companies with potential and decisions should be guided by an investment panel, including representatives of trade unions and business. Its overall aim should be to support the statement of industrial intent and the PSA target as described above.

- A pharmaceuticals industrial strategy, describing the long term procurement needs of the NHS, should be developed, giving certainty to producers of medical equipment to plan and invest over many years. Other, similar industrial strategies must be considered.

- A revamp of UK procurement rules, so that public sector contracts are presumed to support efforts to upskilling the workforce, unless there are compelling reasons why they should not, as well as to develop environmentally friendly public services, such as through greener modes of local transport. A recent government initiative, the Policy through Procurement Action Plan, supported the role of procurement to promote skills, youth unemployment and carbon emissions reductions, although such actions were voluntary. If voluntary action does not deliver the required outcomes, mandatory targets should be introduced.

- There must be dialogue at a European level to develop a European Industrial Policy. Whilst there are many areas of legitimate competition between European nation states, and that competition should remain, there are other industries such as the motor industry, where governments such as the US Government intervene in a way that European governments cannot. In such circumstances, a unified European response is necessary. This European level dialogue must also consider the future of the Lisbon Strategy, a major plank of which must be to build a programme to develop European industry over the next 10 years within the EU. It must also address the future of European state aids, so that legitimate competition is protected but national or European level efforts to develop or sustain industries is respected.