

# Economy

The Global Human Capital Journal

## **France 2.0: French Finance Minister Declares French rEvolution in Economic Policy**

By Christopher S. Rollyson — Tuesday, 27 May 2008

### **Real-time Case Study Holds Lessons for G7 Knowledge Economy Transition—"Courage" to the Rats—A New French Realism?**

Illinois leaders were addressed by **Her Excellency Christine Lagarde, Economy, Industry and Employment Minister, Republic of France** at the special luncheon held in her honor by the Executives' Club of Chicago at the Westin on 23 May 2008. Attending were **Chicago Mayor Richard M. and Maggie Daley**, a French delegation that included the **Ambassador of France to the U.S. Pierre Vimont**, the **Head of Cabinet Christian Dufour**, **David Appia, Minister Counselor for Economic and Commercial Affairs**, and numerous executives of Chicago Fortune 500 firms.

If one were not listening attentively and willing to question stereotypes, it would have been too easy miss this intriguing story. However, as in all things "2.0," profound change manifests slowly at first, and I detected a glimmer of disruption in France's status quo.

Having lived in West Berlin surrounded by the concrete reality of a wall that subsequently, unbelievably, came down, I ask myself, "What if France were to vanquish some of the sacred cows and become, gasp, pragmatic and entrepreneurial?"

Lagarde's message was precisely that, and she delivered it with the aplomb that reflected extensive business and policy success at the boardroom table.

### **The Stamp of Pragmatism**

Although this event was held in a formal venue, remarks by Mayor Daley and Mme. Lagarde contained a very personal element that was refreshing and vigorous. Lagarde had an exceptional career with Chicago law firm Baker & McKenzie that culminated in her chairing its Executive Committee and spearheading a "clients first" initiative credited with significantly increasing profits. She lived in Chicago from 1999-2005 and, when she said that she considered Chicago a second home, she sounded sincere. She remarked that Chicago was a guiding light for people looking to carry out transformation and that Daley's leadership was inspiring. Chicago is known for its conservatism, yes, but also for a strong work ethic and for getting things done.

What would you get if you mashed up Chicago pragmatism, rigorous legal experience at a global firm, *une bonne tranche de charisme*, and you were faced with France's challenges? I will address that in Analysis and Conclusions, but first, here is a summary Lagarde's remarks, from my notes.

### **Ça Ira: France on the Move**

To cynical ears, this might sound like an oxymoron, but results are beginning to show promise, as Lagarde referenced these numbers:

- Unemployment in France is 7.5%, the lowest since 1983.
- Level of business startups is unprecedented.
- France surpassed projections for 2007 GDP growth (2.2%), and Q1 2008 is even higher (2.8% annualized).
- In 2007, France enjoyed the #2 position worldwide for inbound FDI (foreign direct investment) after the U.S. Moreover, France and the U.S. were each #1 investors in each other.



As Lagarde spoke about these French stereotypes, she did not sound the least bit defensive:

- "France as lazy"—Through the TEPA ("[work, employment and buying power](#)," *Loi en faveur du Travail, de l'Emploi et du Pouvoir d'Achat*), the government is incenting companies and workers to work longer than the notorious 35 hours per week and features a 50% maximum tax burden (down from 60%). The Sarkozy government has an explicit focus on replacing the sense of entitlement with a more competitive philosophy: work first to earn more, then play (vacation).
- "Perpetual dole"—Following the U.S. government's example during the Clinton years, the French government is now making individual agreements with laid off workers: rather than automatically giving generous unemployment benefits, it now incentivizes people to get back to work. The government is merging the unemployment bureau with the career assistance bureau (ANPE and Unedic) to increase coordination and accountability. They used to be separate and incur significant inefficiency: one would pay the laid off worker and the other would help him find a new job. Now the worker must work with the agency to define the new job specifically, and he can only refuse twice before beginning to lose benefits.
- "The land of civil servants"—The government is reevaluating the government payroll and slashing it. One half of retiring civil servants will not be replaced.
- "Working on the next strike"— There are new regulations that, while not infringing on the people's right to strike, take steps to reduce disruption in target areas such as transportation and education.
- "Permissive"—New legislation is harder on repeat offenders, and the government has significantly reduced the number of illegal aliens.
- "Loose educational system"—Universities have a new accountability for their budgets, and the campuses of ten major universities are undergoing extensive expansion (to increase capacity).
- "The selfish parochial"—France was the first major European country to ratify the [Treaty of Lisbon](#) and its economic reforms.

### Goals

- President Sarkozy has given the government clear objectives: higher growth and full employment.
- Six of ten companies are already using the new system (adopting the TEPA); the government has also assumed a far less adversarial stance with unions; it knows that France must move forward together.
- New legislation for business start-ups has slashed the bureaucracy. The new flat tax is far easier to understand.
- Significant FDI tax credits for innovation: for the first 100 million Euros, the investor receives a 50% tax credit the first year, 40% the second year, 30% the third year. This is the most aggressive in the OECD.
- Sarkozy is personally involved in helping to resolve the global financial system. The government's point of view is that it must help to balance bankers' greed and guilt. However, regulation of financial services must be reviewed and corrected carefully by coordinating with global financial powers (other countries, bodies).
- France is open for business. Lagarde encouraged executives to revisit their assumptions and consider France for new ventures.

### The New France

- In true French form, Lagarde described France's situation by referencing one of La Fontaine's fables, "[Conseil tenu par les Rats](#)" (Council held by the Rats). The lesson, broadly, is that the rats, when faced with a cat that had been reducing their population alarmingly, actually risked more by doing nothing than by trying to tie a bell on his collar. Lagarde seems to see the French status quo as the rats' fear. The government understands that France must change, and it is pushing as hard as it can to motivate people to understand and act. "Courage!"
- In general, the liberalization is analogous to Spain in the 1980s and Germany during the early 2000s. Down with the sacred cows and taboos.
- Paris has much to offer as a financial center, and reforms are opening it up. The government has significantly reduced the French language requirements for financial services firms doing business in Paris, making dual listing far easier.
- When asked how she intended to gain support for significant reform, Lagarde responded that one had to smile (confidence, grace) while gritting teeth (listening and negotiating). Realize that people are afraid, that the world is globalizing, and France has to change to compete effectively. The government wants to lead France to a place of more confidence, to improve its position in a changing world.
- Asked to advise the incoming U.S. president, Lagarde advised him/her to listen and respect differences, to appreciate the strength in diversity. France has had its differences with the foreign policy of the Bush Administration, but she emphasized that the relationship has always been good. Sarkozy has made a concerted effort to reach out to the U.S. since being elected last year.
- Responding to my question about her vision for France in the emerging Knowledge Economy, Lagarde pointed to two things: France's advanced fiber infrastructure, and its highly regarded educational system, which the government is expanding.

## Analysis and Conclusions

- Many U.S. business executives labor under the assumption that France is the country of philosophy and pleasure and is not terribly competitive (Lagarde's stereotypes). Mme. Lagarde is the first member of cabinet I have met, but if her realism and pragmatism reflect the beliefs and approach of the Sarkozy government, there could be significant progress. Lagarde did not flinch in the face of criticism that France is not going far enough fast enough. She acknowledges that France was at a turning point, that people had to be led, that the country had to act. Her unapologetic matter-of-fact explanation of France's challenges and the government's plans to meet them felt realistic and grounded. Pragmatism can reconcile philosophy with compromise and action.
- As [India's Minister of Commerce commented](#), the world is moving to a new "global economic architecture," which is a nice way of saying, "Move over boys, there are some new players in town." To take a business metaphor, established market leaders are forced to reevaluate their value propositions during times of transformation. Based on Lagarde's business experience and attitude as well as her explanations of the government's plans, I think that they understand the stakes. As leaders, then, they need to produce enough change to sustain their credibility long enough to lead the country through profound change.
- Let's abstract up a layer and apply France's situation to "rich countries with entitled populations." During prolonged periods of prosperity, it is normal for people to take wealth for granted and to expect higher rewards for less work. Business journals are littered with stories about corporations that got fat and happy, and countries and all other human organizations are little different (except countries' exit strategies are more problematic). France's situation is certainly analogous to many other European countries', which have seen many more prosperous generations than the U.S., for example, and the latter now exhibits many of the symptoms of entitlement as well.
- Convincing entitled people to confront outmoded beliefs that used to work is very difficult. As [Adam Hartung astutely points out](#), leaders lock onto a "success formula" and (usually) ride it over a cliff because they refuse to let go of it.
- The context of the Knowledge Economy is pervasively global and competitive, and it is worthwhile to reflect on the destiny of market leading countries that lose their way. The world is far less flexible now than in any time in history. In the past, empires fell, and weak countries were taken over or otherwise ceased to exist. Today, however, most countries are global legal entities, and those exit strategies would be inappropriate. The alternative for "mature" countries is to confront the reality that the past success formula must be rejected or radically remade. This is the true significance of France's situation, and it is refreshing to see that Lagarde understands it.
- As an attorney with executive experience managing a global knowledge enterprise, Lagarde has had a ringside seat at the emergence of the global Knowledge Economy and what it might hold for commercial and governmental organizations. That bodes well for the government.
- France has some interesting elements to its unique selling proposition (USP) because it represents the apex of European grandeur and prestige. This is arguably due to the fact that France's prolonged dominance in Western Europe was more recent than that of the ancient Mediterranean empires, and England followed a different model. Paris is still the most touristed place on Earth. French style, cuisine, art and philosophy are admired because they are, well, French. Although French scientists and engineers contributed to some of the world's major breakthroughs, today the country's most *unique value* isn't building a better car, chemical or pill, which can prove to be more fleeting, as Germany is learning. This "culture USP" has advantages—it carries unique and high value, especially in a western-centric world, and it cannot be copied or recreated. However, it also has disadvantages, namely that it has limited scalability and upside. Moreover, it is closely related to identity and lock-in, and it may be difficult to reconcile with competing in the Knowledge Economy.
- As I wrote in [Geography 3.0](#), the Knowledge Economy will redefine the significance of place as well as the sources of economic productivity. The Knowledge Economy is about ideas, culture, discovery, collaboration and action, an interesting proposition for France. Here, Lagarde's theme of having more confidence (but not the imperial flavor) will prove to be key to success. The government is appropriately focused on galvanizing people to change their relationship to their history and leading them to be more entrepreneurial.
- France 2.0, if it turns out to be a fully baked release, will afford valuable lessons for all rich countries, including the U.S. Watch carefully.

## About the Author

Christopher S. Rollyson launched *The Global Human Capital Journal* in 2005 to address the most poignant issues of day for chief executives, namely global transformation, the reinvention of the enterprise, technology and culture. Mr. Rollyson has been a technology and marketing visionary and pioneer for over fifteen years, with distinction in corporate strategy and innovation. As a consultant and marketing executive, he has had a leading role in launching such game-changing offerings as: Java with Sun, e-business strategy with PwC Consulting, and SOA, Web services and architecture solutions with IBM and nVISIA. In 2006, he launched The Consumer Empowerment Adoption Curve™ and Transourcing™, a new approach to innovation that leverages high performance collaborative partner networks. He currently advises global enterprises on collaborating with Web 2.0-enabled customers

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Recently the Vice President of Marketing at nVISIA, he developed executive marketing programs and service offerings to drive the value of software transformation through service-oriented architecture and Web services, working with IBM, Rational and Grand Central. Previously a subject matter expert for e-business and knowledge strategy in PricewaterhouseCoopers' Strategic Change practice, Mr. Rollyson developed original models and services frameworks for e-business strategy consulting. He consulted to clients in automotive, software, telecoms, consumer electronics, chemicals and petroleum industries, advising global enterprises in e-business strategy and technology start-ups on innovation and business strategy. Prior to PwC, he led marketing for KPMG's Midwest High Technology practice, where he built one of the firm's first intranets to transform the marketing organization to a real-time team. Before that the head of marketing at a leading edge Java consultancy, he played a key role in co-launching Java via marketing alliances with Sun and Netscape. Mr. Rollyson has done graduate work in corporate strategy and economics at the University of Chicago, with additional studies at Die Freie Universität Berlin, L'Université de Clermont-Ferrand in France and il Liceo Americano d'Aviano in Italy. He earned his undergraduate degree from Kalamazoo College. <http://rollyson.net>

## **About the Global Human Capital Journal**

The Global Human Capital Journal addresses the global shift from the Industrial Economy to the Knowledge Economy, which is changing how human beings work and deliver value. In the Industrial Economy, products encapsulated the value of human work; in the Knowledge Economy, information produces the lion's share of value, and customer experience itself is the focus of commerce and government. A greater degree of collaboration among people of the world is possible than ever before, and increased interaction will bring unprecedented surprise and opportunity, especially because the potential is great to "level the playing field" among people of the world. Obviously, these developments hold significant ramifications for business and organizational strategy.

Global Human Capital covers two prongs of economic transformation: 1) strategically, how organizations can rejuvenate their relationships with customers and constituents by collaborating with them to drive innovation and 2) operationally, how organizations can build strong collaborative cultures and skills to engage the world's emergent network of expertise, both within and without their walls. We analyze how global sourcing and collaboration are transforming enterprise and government organizations, as they transition from relatively self-contained, closed entities to more networked, open organizations.

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