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Interview with **Nicolas Baverez**, editorial writer for *Le Monde*, *Les Echos* and *Le Point*.

1983
Professor of economic and social sciences

1986
PhD in history

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Advisor to Philippe Seguin, Chairman of the National Assembly

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Director of Communications and Development, Fimalac (financial services group)

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EMERGING FROM THE CRISIS: FOCUS ON INDUSTRY

Economist, historian, writer and lawyer, Nicolas Baverez seeks to analyze the major transformations impacting the world, including the capitalism that has become nearly universal since the fall of the Berlin wall, and democracy. His latest book, *Après le Déluge**, analyzes the crisis of globalization, and delves into the complex issues involved. For *Safran Magazine*, he shares his thoughts on how to sustain a strong industry in today's economy.

As a global industrial group, Safran operates within a complex and ever-changing economic, social and political environment. All of these facets must be integrated by Safran to continue its winning strategy and make the right decisions in terms of investment, expansion, commerce and industry. This approach helps guide the Group and underpins its understanding of the challenges involved. At the same time, it forces the Group to continually anticipate upcoming industrial trends. Safran tackles these issues by closely observing its environment, and by calling on the opinions of leading experts, including analysts, economists and historians.

SAFRAN magazine: Like most economists, you see the financial bubble as the main cause of the current crisis. But are there also deeper reasons for this recession?

Nicolas Baverez: The globalization crisis has three main causes: a lax monetary policy by the United States, which encouraged both households and companies to pile up debt; a cascade of financial bubbles built on assets; and a structural imbalance between the flows of goods and capital, encouraged by an anarchic foreign exchange market. The bubbles that propagated from real estate to the entire credit market, then to commodities, ultimately burst, causing gigantic deflation through debt. This in turn led to the failure of the banking system, which, because of globalization, engendered a global economic crisis via the collapse in demand and a credit freeze in the fall of 2008. The upshot was a recession such as we hadn't seen since the 1930s, rampant bankruptcies, and a wave of

layoffs (8.4 million in the United States alone). Two sectors were especially hard hit, construction and the manufacturing industry. In France, manufacturing underwent an especially harsh correction, with production down more than 15% and investments plunging by 30%. The secondary sector was also heavily impacted, recording 42% of all layoffs, although it only accounts for 11% of jobs.

The crisis has in fact spotlighted deep, enduring changes, starting with a slowdown in the growth rate of developed countries. Limited to 1.5% for this past decade, versus 3.4% worldwide and 6% for emerging countries, this rate will not exceed 1% during the 2010s. There is a divide between the United States, which opted for devaluation and inflation to preserve growth – expected to exceed 3% in 2010 – and employment, with 162,000 new jobs in February, and Europe, penalized by an aging population, over-indebtedness and lack of competitiveness. There is also an economic divide within the euro zone, between Germany, which restored its industrial competitiveness thanks to the reforms of its Agenda 2010, and the other

30%

Decrease in investment by the French manufacturing sector in 2008.

“The two keys to growth in European employment are investment in higher education and research, and support for industry.”

Nicolas Baverez

* *Après le Déluge*, Essai sur la crise de la Mondialisation, Paris, Perrin, 2009



“Industry is the key to a sustainable recovery...” For instance, Safran’s capital investments totaled €300 million in 2009. This photo shows the new helicopter engine plant in Bordes (France).

countries. Furthermore, tensions exist between banks and non-financial enterprises.

In practice, how have our economies responded to these upheavals?

N. B.: Governments had learned their lessons from previous crises in the 20th Century, and responded effectively to the deflationist shock by saving banks, by supporting business through stimulus plans, and by containing protectionist impulses. But, despite the creation of the G20, these policies remain essentially national, and will not address the challenges entailed by the end of the crisis, namely coordinating monetary and budgetary strategies to avoid a return to deflation; reindustrializing the developed world; regulating the financial sector; and reducing the structural imbalances of globalization. In other words, while the management of the crisis proved effective, and avoided a 1930s style depression, the strategy for the end of the crisis is still largely up in the air.

The most crucial point concerns the development of the economic model for globalization,

which saw the co-existence of countries taking on massive debt to consume and import (United States, United Kingdom, Spain, Ireland), with others saving to invest and export, like China, Germany, Japan and South Korea. The crisis has thus considerably widened the gap in growth rates, with Europe at 1% and the U.S. at 2%, versus 10.5% in China, 8% in India and 6% in Brazil. Furthermore, the South, led by China, has filled the vacuum left by developed countries to place its champions in leadership positions in a number of business sectors, and to take control of many strategic assets, energy sources and commodities.

New growth engines for the 21st Century must be sought in the transition of emerging countries towards mass consumption, in green industries and in the knowledge economy.

The rebalancing which is indispensable for these new engines of growth depends on normalizing emerging economies – the convertibility of China’s yuan in particular – and creating social protection that will help lower savings rates in the South and thus energize consumption. At

the same time, countries in the North must absolutely reconnect with a sense of production, investment and innovation by reindustrializing.

Will industry continue to play a decisive role, even in countries whose economy is described as “post-industrial”?

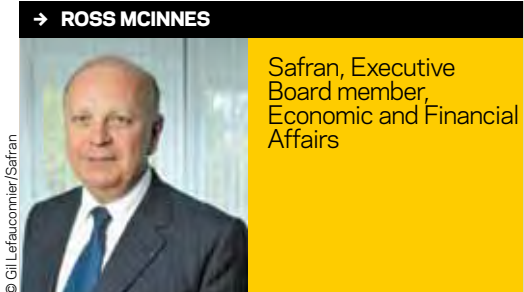
N. B.: For developed countries industry is the key to a sustainable recovery, but above all to redefining their position in a globalized world. To return to the path of long-term growth and full employment we have to innovate, and for that we have to produce, because we can only reap what we actually produce. Germany is an excellent example, because it is now the developed country in the best position to take advantage of the recovery, due to the strength of its industry.

This situation means that we need a major shift in our economic policies. Monetary policy can no longer pretend that it has a monopoly on managing economic activity; it has to be combined with budgetary, fiscal and industrial strategies. Currency exchange markets can no longer be left to themselves, unless we want to run the risk of protectionist measures. The flight against inflation cannot ignore the price of assets and speculative bubbles. Productive investment and commercial employment must be given top priority. Talents and long-term savings must be redirected to industrial enterprises, and in particular to innovative small businesses.

Under these conditions, what position should Europe take?

N. B.: Today, Europe is threatened not only by “stag-deflation” Japanese style, but is also at risk of being shunted aside by globalization. It could find itself in a secondary position, well behind not only a “G2” comprising the United States and China, but also behind India, Brazil and even Indonesia. Mexico and South Africa. Europe’s growth potential is rapidly slipping, as is its place in world trade (from 38% to 12% of exports to China and India since 1975). Public debt will equal GDP in 2012. Faced with the Greek crisis, euroland showed that it had neither the institutions nor the rules enabling it to manage an internal or external shock. Above all, Europe has instituted a set of procedures and standards (monetary, financial and legal, mostly concerning competition, accounting, social and environmental issues, etc.) that favor neither production nor innovation.

Europe is clearly at a turning point in its his-



Investing to build foundations for the future

Safran has proved resilient to current economic conditions, as shown by its results. Our roadmap is based on investing in production, as we did in 2009, with capital expenditures totaling 300 million euros to modernize our current production facilities, as well as expanding to new locations both in France and abroad. All of these investments reflect a

holistic approach. A significant share of our sales are in U.S. dollars, so we have to invest in the dollar zone to reduce the cost of products intended for export markets. However, we are also clearly maintaining our research and technology capabilities in our legacy sites. Safran’s investment policy is of course in line with

French government policy, in particular through the Strategic Investment Fund, which provides equity support for our subcontractors (e.g., the Aerofund programs). Likewise, the French bond issue to finance a stimulus plan includes support for the French aerospace industry. Because our industry features a cross-linked structure with many partnerships, the impact of this plan will be felt well beyond the scope of Safran, in particular through efforts to build foundations for the future (with research organizations such as Onera, the French national scientific research agency CNRS, and partners in academia).