

Crisis and Change: new opportunities?

Address by Olivier Klein
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Economic crises are often the subject of analyses framed within more or less short-term contexts. Here I want to set out a long-term vision of the crises, not without first bringing to mind this thought from Antonio Gramsci: "a crisis is what comes between the old and the new".

Taking a more "regulationist" approach, you could say that each severe crisis of capitalism is a time of fundamental change affecting a collection of elements which constitute and organise society and the economy. These are moments of major transition where it can be observed in hindsight that they have given rise to new systems of regulation and new models for organisations, society and the economy. They generally bring into play new industries driving the economy, new ways of organising work, new kinds of consumption, often new ways of combining private and public, as well as new centres of the global economy. In my understanding, we are currently in that phase of major change and deep crisis which, as this renewal gradually emerges, could be accompanied by a long phase of growth and significant gains in productivity, as has occurred each time in history.

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I am listing four main transitions today.

- **The first transition:** globalisation and the emergence of new countries, broken down into two phases. The first phase, especially at the end of the nineties and throughout the years after 2000, sees emerging countries concentrate their efforts on the determinants of their success, their export industries, taking particular advantage of their labour costs. These industries benefit from the demand by already developed countries, causing global overproduction, as there is no parallel destruction of production capacity to the same extent in the developed countries. Accordingly this global overproduction and low-cost competition produces a slowdown, even a stagnation, of purchasing power for people in the developed countries. This phenomenon leads to an increase in debt, allowing the over-production crisis not to be felt so severely. The increasing indebtedness of actors from the developed countries in fact allows a development in demand at a global level during this period, masking the consequences which should have arisen from the stagnation of purchasing power associated with a large excess of global production capacity. This increase in debt involving all economic actors, primarily those in the private sector, degenerates into crises of over-indebtedness. These in turn lead to severe economic

and financial crises, which in turn relentlessly worsen the public debt situation. This stronger and stronger growth in the developed world's debt corresponds to an increase in balance of payments imbalances, with current deficits in the North and matching surpluses in the South.

The second phase of globalisation is where emerging countries become increasingly mature. A middle class gradually appears, then its purchasing power grows and little by little, systems of social protection and retirement benefits appear. It is probable that an internal growth will develop, gradually rebalancing previous imbalances, in an unplanned fashion.

- **The second transition** follows the first and results from it: the debt reduction phase. Historically, debt reduction phases, within contexts of quite serious debt crises, begin abruptly but are completed over long periods of between five and ten years. These are resolved with levers of different types, operating alternatively or in conjunction, such as credit depreciation and zero or very slow growth with a slow reduction in the rate of indebtedness achieved by growth in savings and the reduction or limiting of consumption, investment and public spending. They are accompanied by risks of deflation. We are currently in this phase for the euro zone taken as a whole. Another outcome of debt crises can be an increase in inflation when circumstances permit, as inflation does not occur as a matter of course.
- **The third transition** is that of demographic change. It is very well known, but an ageing population remains a key phenomenon in many emerging and developed countries, with the exception of Africa. It raises fundamental questions about the cost of social systems, social security and pensions, which have further repercussions on the debt question. Up to now in France we have partially dealt with these questions by increases in debt within these systems.
- **The fourth transition** rests on the transition in energy, the major issue of this century. The scheduled end of energy from fossil fuels, with these resources gradually being exhausted, ought to have the end result of increasing raw material prices, leading to a worldwide deceleration in growth. This redoubled struggle for energy sources has caused a change in the balance of power between countries which possess natural resources and those which do not, leading in the end, technical progress permitting, to the slow, uneven, uncertain appearance of substitute forms of energy which could lessen the constraints on growth to a greater or lesser extent.

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Having talked about these major transitions, we need to turn to what the drivers of renewal could be, without claiming to be exhaustive or even any claims as to their success; the drivers that would allow us to emerge gradually from this crisis, allowing new systems of regulation to appear which would permit a return to a long phase of growth.

Each great phase of capitalism in fact has seen the appearance of new driver industries bringing fundamental changes to the economic environment, ways of producing and consuming, the merchandise itself, ways of working and spending leisure time... This was notably how we moved from the steam engine that made railways possible, to the internal combustion engine that made cars possible, and then to the electric motor which made household electrical appliances possible.

I shall deal essentially here with three potential drivers of the future:

- Digital, which is already substantially developed, it is true, but whose impact in my opinion is still in its early stages. Whether we are dealing with changes in modes of consumption or work, changes in business models: producer-distributor, distributor-consumer or producer-consumer; with the appearance of new productivity gains as a key factor, it seems to me that we are still very far from finished with development of this kind. The digital revolution gives increased power to consumers. Consumers in fact have the capacity to become significantly more demanding because they are better informed about the quality of goods and services as well as their price, thanks to data gathered on the internet. So it is much easier for them to collect information and compare quality and price. On the other hand, this revolution allows them to achieve a very significant increase in comfort by considerably improving the practical benefits they can expect as a result. These days we no longer queue for cinema or train tickets because of the internet; similarly our consumer transactions involve less and less movement because we can purchase directly on the net and arrange delivery. "Business models" have been substantially changed as a result. If distributors can build the loyalty of their customers and operate pro-actively with them by intelligent use of the data they hold, they can gain power over producers by positioning themselves so as to propose solutions better adapted than previously to each "consumer-individual", building the solution together with the customer who has become a "consumer-actor". In this new relationship, distributors take power over producers as never before, making them compete to find the best combination of goods and services most appropriate to each customer.

Conversely, if the distributor does not develop sufficient legitimacy, the producer can appeal directly to the consumer and squeeze out the distributor.

Radical changes like this in relationships between producers, distributors and consumers will no doubt allow every cycle to be reworked. In this way there will be a drastic selection process between the three groups of players, allowing the most efficient to emerge and enabling the greatest gains in productivity.

- Developments in biotechnology particularly can stem from the desire to combat the ageing of the population where it turns out to be possible to satisfy that demand. These biotechnologies are being perfected on a daily basis and will in the future enable repair of the body and a more effective fight to prevent

disease. Finally, biotechnology machines will be developed in the near future which will allow different parts of the body to be replaced, broadening the whole scope of merchandise yet further at the same time.

- Energy, a key sector bringing together renewable energy, energy storage technology (a really fundamental problem) and energy saving, will undoubtedly be an essential key to future growth by the very fact of the development of these industries but also by the fact that they will ease the constraints caused by the gradual exhaustion of energy from fossil fuel sources.

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In parallel and consistent with these new industrial drivers we are seeing the emergence of different modes of consumption. These are the result of digitalisation, of a variety of new technologies, with network effects attached, of stagnating purchasing power and a change in mindset, including people's awareness of the increasing scarcity of natural resources. Changes are occurring in essential spending, where the emphasis is changing from the ownership of the object toward its use. Buying a telephone these days, for example, is no longer a simple matter of purchasing a device; in reality we are acquiring a means of access to a catalogue of applications and phone and internet services. Now, as everyone knows, we have access to cloud computing and, as a result, ownership of computers with very high memory capacities will drop. We are buying less books, CDs and films and renting more of them. In the same way, self-service hire of a car for one single journey in town will develop more and more. And we will still speak of heating and air conditioning, but certainly in the future we will pay for a service that regulates the temperature of each room in our home, when we choose, rather than pay for buying the energy that makes this possible. There is no doubt that practices like this will only grow with time. In turn, these new modes of consumption will lead to radical changes in company "business models" and in the organisation of the economy as well as new opportunities for growth.

Alongside new modes of consumption, new modes of working and possibly new norms for salary payment are also appearing. This is only in its infancy, but we can already see the development of teleworking or working via a network, thanks to new technology. Work outside the office and without fixed hours is beginning to become more widespread, leading to discussion of changes in methods of payment.

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As in any time of profound crisis and change, we face changes which are uncertain, painful and challenging. At those times we see geographical areas or strata of population becoming winners or losers. We must hope that a country like ours knows how to make the choice, because it really is a choice, to pursue structural policies which will facilitate a constructive way out of the crisis. We need to promote the flexibility to transform ourselves, playing to our strengths and our know-how, cutting down the factors that inhibit the necessary adaptation, and reduce the areas of inefficiency. We have the means to do this, as long as we provide the right framework of legislation, regulation and incentives to encourage implementation.