



Annals of Economic Nationalism: Part I

Nicolas Véron explains how the longstanding French embrace of “national champions” has been revived over opposition to a bid by General Electric to take over Alstom.

Transcript of interview recorded May 1, 2014. © Peterson Institute for International Economics.

Steve Weisman: Two interesting developments occurred this week at the beginning of May and the end of April, highlighting the issue of economic nationalism. In France, GE was interested in taking over a major French company, Alstom, and this provoked a counter-reaction among some, if not all French officials. Nicolas Véron, visiting fellow at the Peterson institute and also from Bruegel, is here with me, Steve Weisman, to talk about the situation in France and put it in context. Nicolas, first, what provoked the uproar over Alstom?

Nicolas Véron: GE made a bid for Alstom. Alstom has a big shareholder, almost 30 percent, which is a big group and family, and Alstom basically negotiated with GE without initially telling the French government. This gave rise to angry reactions at the French government. That's a bit of a local story of the Paris microcosm. And the CEO of Alstom and the main shareholder of the BWI group and the French officials, but that's a sort of small story.

The bigger story of course is France's well known attachment to national champions and the fact they are seen as vital force of French economy in ways that distinguishes France from many other countries. Not that economic nationalism is unique to France, but France carries it to a certain extreme point at least in the global perception. So finally, the question is not that much about outcome because I think at this point, many people suspect that GE will win this prize. But it's more about a sort of knee jerk reaction of the French government, the gesticulation of some officials if you want to call it that way, and what it tells about the ways the economy competitiveness question is seen in lots of countries including France.

Steve Weisman: This is only the latest episode.

Nicolas Véron: There have been many episodes. One well known one is Arcelor, the leading steel maker in Europe, which was taken over by Arcelor—by Mittal Steel becoming ArcelorMittal in 2006. And this was actually a very similar example in terms of the government's reaction because the French government said, “No way. This cannot happen.” Try to favor a competing offer ironically from Russian company at that time, Severstal, and this went nowhere. And you have exactly the same sequence here. Arnaud Montebourg is the French economy minister, very sort of economic nationalist rhetoric saying, “Well, I don't want an American company to take this jewel of France, Alstom. I prefer it to be European, so let's have Siemens make an offer.” Who knows how this will develop? It seems likely that Alstom will stay with the GE bid even if there is a Siemens counter offer, which remains very much to be seen at this point. There are many interesting and ironic aspects of this story, one of them being simply that we're in the middle of the negotiation of TTIP, Transatlantic Trade and Investment Partnership, and having such a blunt signal at this point that the French prefers a German bidder to an American bidder of course raises a number of questions.

Steve Weisman: Is a matter of amour-propre or jobs? Is it a genuine fear that if a foreigner comes in and takes over a French company, that that investor or owner will be less likely to preserve jobs?

Nicolas Véron: Another irony of the story is that GE is actually more likely to preserve jobs than Siemens because the synergies are of a different nature. There's more overlap roughly speaking between Alstom and Siemens, and therefore, a combination between Alstom and Siemens is probably more likely at least in the short term to lead to job losses as in combination with GE. And also the commercial synergies are more compelling in the case of GE. There is less of a competition policy problem in terms of merger control. So, it's very ironic. All this is not entirely rational.

Steve Weisman: Some would say it's hypocritical.

Nicolas Véron: I think it's more complicated than that. I think there is this very deeply ingrained belief in the entire French establishment that France needs the national champions and the Siemens option is probably an act of desperation. But the more fundamental point is, if GE buys Alstom at the end of this activity in France, which is probably not true. I mean if you look at for example the UK car industry, all national champions have disappeared actually the UK as a site of production of cars is thriving better than France at this point.

So, the fact that you need the headquarters in your country, you need the company to be anchored in your country in terms of its global identity, this is very debatable. It's a difficult analytical question. We have excellent research at the Peterson Institute by Brad Jensen, by Ted Moran and others, which suggest that things are more complicated than that. But in France, there is this view that you need national champions to be headquartered in France to be French companies, whatever that means, and this is good for the French economy.

This is completely unsubstantiated from an empirical standpoint, but it's a very, very powerful belief in the entire French establishment. We had a senior French policy maker recently at the Peterson Institute making the remark that—and it was not meant to praise Spain—that France without its 40 biggest companies would be Spain. And I personally believe this is misguided, but this is the way the French government thinks.

Steve Weisman: If there is a Transatlantic Trade and Investment Partnership agreement, a TTIP, will this sort of thing be outlawed?

Nicolas Véron: You might argue that France is part of the European Union and this sort of thinking is incompatible with the commitment of France as part of the single market and subject to competition policy. And actually many of the previous cases where you have had this sort of reaction had been with EU bidders starting with Alstom itself. A decade ago, Alstom was part nationalized by the French government at the time that President Nicolas Sarkozy was Minister of Finance and took a lot of pride in this deal. And this was to thwart an attempt of takeover of at least some activities of Alstom by Siemens.

And there are ironies of course in this whole sequence, and if you think of ArcelorMittal, while Mittal was technically a European company, even so this is an Indian descent family. So, it's not clear that TTIP really makes a difference because the French brand of economic nationalism on the face of it doesn't seem compatible with European treaties to start with. But clearly there is an element of anti-Americanism also in the GE-Alstom story as well.

Steve Weisman: There was another story in the news about Pfizer, the big drug company, acquiring another company in Britain so it could move its headquarters there. It didn't steer a fear over nationalism as a philosophy but rather over the company's evident desire to avoid US taxes. On the other hand, the two are intertwined, are they not?

Nicolas Véron: I think it depends also. Look at the UK debate or the US debate about Pfizer and AstraZeneca. In the US, it's all about taxes. In the UK, it's about the national jewel disappearing. Now, again, multiple ironies to start with the CEO of AstraZeneca is a Frenchman. Its chairman is a Swede. And the CEO of Pfizer is a Scotsman. So, indeed multinational companies no longer have a straightforward unambiguous nationality or country of citizenship anyway even if this merger does not happen.

Now, in terms of taxes, I think there's a very specific US debate given to a very specific US tax system on corporations. And this is a lot of research from Gary Hufbauer especially as a Peterson Institute documented this. So, other countries have a more, I would say, rational debate about this because they don't have this global corporate tax system as the US has, which is obviously a legacy after time when all the meaningful multinationals that existed in the world were American and headquartered in the US. But we're no longer in that world.

Steve Weisman: I can't resist adding a question out of left field, as we say in the United States. As I was reading the paper this morning about this botched execution in Oklahoma, it occurred to me that this is a really interesting example of globalization of the drug industry, because all these drug companies are now refusing to sell the kind of drugs to the United States that can be used for these executions.

Nicolas Véron: Clearly, you're taking me off track here. Let me put this. I mean there are different belief systems in the US from Europe. This is well known as the debate about abortion, gun ownership and the death penalty are some typical examples. Yes, I mean when the US has a Foreign Corrupt Practices Act for example say as well this is straightforward, right? Corruption is bad and in a way, it's a way of imposing its values to the rest of the world. The way I agree very much with from a policy perspective, but in terms of belief system, you can also see it as same position of a value system. Even so, I strongly believe this value system is correlated with economic wellbeing.

So, with the death penalties correlation with economic wellbeing is perhaps less obvious. It is clear that European thinks the death penalty is bad. It is a sign of backwardness and it is not something that governments should do. And this belief is not shared or certainly not universally shared in the US. So, here we are.

Steve Weisman: Here we are. Thanks, Nicolas.

