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The Dilemmas of Corporate Dual Citizenship

Two weeks ago, Volkswagen announced its decision to relocate all the production of its Golf model from Forest (south of Brussels) to Germany, thus raising uncertainties over the future of 4,000 Belgian jobs. The Belgian press denounced a "new Vilvoorde" (referring to the other car plant in the outskirts of Brussels, whose closure was announced by Renault in 1997). Prime Minister Guy Verhofstadt condemned a decision he considered void of economic logic and taken on what he referred to as "national considerations". He portrayed the Forest plant as a victim of economic patriotism, German-style: according to this view, Volkswagen, which means the "people's car" in German and is 18% owned by the Land (state) of Lower Saxony, had made a political trade-off by shedding jobs in Belgium rather than Wolfsburg or Zwickau, which would have angered German politicians.

Apart from the inevitably complex debate on unit labour costs in Germany and Belgium, there is one element that seems to back Mr Verhofstadt's argument. The evolution of the Volkswagen Group's total number of employees over the last fifteen years (see graph) shows that Germany's share remains just above 50%, without ever crossing that psychological threshold. It looks exactly as if total employment was managed so as to always remain German in majority, whatever the circumstances. Thus, the Volkswagen case illustrates the intrinsic dilemmas in the relationship between major companies and the national communities in which they initially grew.

Once they have established a position in their domestic market, companies seek growth by developing their customer base abroad; this internationalisation of revenue is often followed by a corresponding internationalisation of jobs. Most of the largest companies do not comply with the mercantilist cliché of massive exports from the all-powerful home base. In fact, for the average large European listed company, the share of global consolidated revenue made in the home base is almost identical to the share of employees working on the same territory (see Bruegel Policy Brief 2006/04, Farewell National Champions, on www.bruegel.org). Two thirds of the companies in the leading French stock index (CAC 40) already have less than half of their staff in France. From this viewpoint, Volkswagen is an exception rather than the rule. Meanwhile, as they become international, companies gradually discover the tensions created by their "dual citizenship". Because they are simultaneously a citizen of their homeland and a citizen of the world, they may be confronted by tricky conflicts of loyalty, just like individuals with dual citizenship.

Thus, Continental, a tyre manufacturer, made a choice last spring opposite to Volkswagen's and closed a plant near Hanover. Continental's CEO Manfred Wennemer was criticised in Germany for his lack of patriotism, and replied "my duty is to my 80,000 workers worldwide". Allianz, the insurance giant, made a further step by adopting the European Company statute in October. Its supervisory board remains governed by the German system of co-determination, but with workers' representatives elected by all European employees instead of just German ones, as before. In another case, Suez had to announce its intent to merge with Gaz de France from the French Prime Minister's office, but it simultaneously needs to engage in complex diplomacy to persuade its Belgian stakeholders that its identity remains international rather than just French.

When such a company distances itself from its home country, it risks being accused of betrayal; when, on the contrary, it plays the nationalist card, it risks fostering a reprisal spiral in all other countries, where most of its growth potential lies. To escape this fatal choice, is a third way possible: a European corporate identity which would be neither dissolution into a nondescript global model, nor retreating inside a narrow national base? Politicians are divided. In France, Nicolas Sarkozy, a leading presidential contender, recently said that "a European corporate model is needed, a European way of doing things", while the National Assembly Speaker, Jean-Louis Debré, replied in March to a journalist's suggestion of "European economic patriotism": "We'll talk about it whenever Europe shares the same values and has the same social regime everywhere. We're far from there."

Meanwhile, most companies remain undecided, and unwilling to take any part in debates over the European Union's future. But this cautious neutrality could prove unsustainable, as conflicts between their multiple citizenships are likely to become more acute in the years to come.