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Why France's Addiction to Economic Nationalism?

The persistence of 'national champions' rhetoric in France is somewhat odd. Large French groups are internationalising at the same pace as the norm for Europe. And other European governments – apart from the UK – strain as much as France to keep head offices on their soil, as shown last year by headline-grabbing examples such as the aborted purchase of Italy's Autostrade by Abertis (contrary to what this column predicted), or the mayhem in the Polish banking or the Spanish electricity sectors.

France stands out, though, by the strident and populist support of most leaders for 'economic patriotism'. Prime Minister Dominique de Villepin has laid claim to this nationalist rhetoric. But Nicolas Sarkozy, when he was minister of Finance in 2004, used almost identical arguments to justify intervening in the Alstom case and refusing to let Switzerland's Novartis buy Aventis. Same tone on the left.

Why are the French so touchy about who owns companies? One reason might be the oft-forgotten national peculiarity that, until not so long ago, most large French companies were state-owned. This may be why public opinion still considers that they have an essential public dimension. If one adds up all the groups privatised since 1986, and those which developed as a result of the purchase of a formerly state-owned company, the total is no less than two thirds of the top twenty French listed companies, and more than three quarters of their cumulated market value. When a big company falls under foreign control, the collective consciousness sees it as a loss of part of the nation's assets. Even though, in reality, the interests of these groups – of their shareholders, customers, employees and managers – have long ago ceased to be aligned with the interests of France.

Another, subtler, explanation is proposed by two economists, Augustin Landier and David Thesmar, in a fascinating new book (*). For them, France is suffering the jitters of "capitalism without capitalists", a situation which in fact goes back only as far as the middle of the twentieth century. At the end of the 1990s French households held the equivalent of only 70% of their annual income in shares. The Americans held 220%. This goes some way to explaining our economic timidity.

As Landier and Thesmar write, "our compatriots, who earn paltry yields from their bonds, resent seeing US pensioners pocket the premium from shares." With no part in the equity upside, the French demand too much safety, and not enough growth. "Faced with a foreign bid, it's very tempting to give the state a free mandate to fight it off. After all, it means depriving mostly foreign shareholders (by preventing them from selling their shares to the highest bidder) in the name of national pride and containment of risk (and thus of ambition)."

France’s economic patriotism could thus be closely linked with the low domestic investment in shares. In contrast, France in 1913, when the Paris Bourse’s capitalisation was 78% of GDP (against 44% in Germany, and only 39% in the US), was much less tortured about economic opening. Now, why the aversion to investing in shares? Landier and Thesmar provide evidence that it is neither the result of a general fear of risk-taking, nor a wealth effect. Their hypothesis is that it is attributable to a rational concern to manage risk, linked with the structure of the pension system.

The main asset of many French households is their pension entitlements, perceived as very insecure over the long term. To make up for this, the rest of their savings has to be invested at low risk, thus excluding investment in shares. This conjures up an intriguing prospect for reform: clarification of pension rights, without giving up the principle of pay-as-you-go pensions, but specifying and making more credible the long-term public commitments vis-à-vis each future pensioner. This might indirectly cure the French of their perilous dalliance with economic nationalism.

(*) ‘The Big, Bad Market: Explaining a French Trauma’, Flammarion, 178 pages