Leveling the uneven playing field

The issue of ownership rights is going to become the focus of intense and widespread political attention in the years to come. Each time a company adopts a “foreign flag”, like Alcatel-Lucent, which has been absorbed into Nokia Corp, we observe increasingly vocal disapproval on the part of society, relayed by a significant fraction of the political spectrum. We know that a rise in protectionism and nationalism often occurs as periods of crisis come to an end. When a company changes its nationality, this act is perceived as a dispossessment, especially when the company concerned is a *fleuron français*, to use the common French expression. The choice of vocabulary here is no accident, since *fleurons* are the flowers, or leaves, that adorn the crowns of kings! Changes in the control of companies are understood as a relative loss of national sovereignty. Conversely, when a “French company” acquires a “foreign company”, a certain degree of national pride is perceptible.

We must brace ourselves for more and more international mergers and acquisitions in the future, for reasons that are well known – the phenomena of Europeanization and globalization are considerably increasing the size of markets; companies are forced to get bigger in order to maintain their critical mass and generate economies of scale. Because investments in R&D are constantly increasing, and because size is the only factor able to amortize the associated costs, cross-border mergers have a bright future. Such mergers often lead decision-making centres viewed as being remote to opt for restructuring and reorganization projects that are poorly received, meaning that political resistance to their implementation will only increase and grow stronger. Companies belong to their shareholders, and it is first and foremost up to them to approve a merger involving the company they own with a foreign company. Bear in mind that the terms “national company” and “foreign company” are becoming increasingly difficult to define. Many companies are hybrids and their nationality is difficult to establish: their capital is often owned by shareholders of diverse nationalities; their executive management teams are multinational; and they appear to be multi-centred and part of a network, with power hubs scattered around the world.

Rather than trying to prevent international mergers by multiplying ad hoc measures and incantatory rhetoric, it would be better to ensure symmetrical conditions between the companies mainly anchored in France and those mainly anchored abroad. If these conditions prevail, then the common ground is not uneven!
This is the meaning of the well-known English-language expression “a level playing field”! The competition is fair: so let the game go on and let the referees concerned ensure that there are no low blows, penalizing them when they do happen.

What is worrying is that, in reality, the playing field is not level and our country occupies a position closer to the lower end of this field than to the higher end. Foreign companies are often in a better position than those anchored in France. They have more shareholders’ equity because they enjoy much higher margins. They have access to capital markets that are far deeper than ours: their pension funds invest in equity and provide the long-term capital necessary for development. Powerful private equity funds also play a critical role in global merger deals. France is just not able to compete in this area. As for sovereign funds, their financial war chests are much larger than those of France’s Public Investment Bank! It is a well-established fact that, particularly with regard to levies and taxes, corporate headquarters enjoy better conditions abroad than in France. The French government cannot be unaware of this, since even companies in which it is a shareholder have opted to be domiciled in the Netherlands...

Faced with the multiplication of cross-border mergers, the right strategy is not to rail, storm and regulate, but instead to implement deeper structural reforms. We need to build up the equity of corporations anchored in France – and in particular to reduce corporate income tax rates –, to supply the financial market with long-term capital oriented towards the productive sector – pension funds and real retirement savings -, to reduce the public deficit that is sterilizing national savings, to make it attractive to locate business and its leaders in France, to lower the personal income tax rate (oh, the global damage caused by the 75% tax rate!), and to do away with the ISF wealth tax altogether, not to mention cutting government and social spending...

It’s up to us to get started on some major levelling of the playing field, instead of complaining and pointing the finger at players who are evolving on fields more conducive to productive activity. This will allow a fair game to emerge, and the best companies to win!