A lack of enterprise

France needs more start-ups and Mittelstand firms

One out, all out

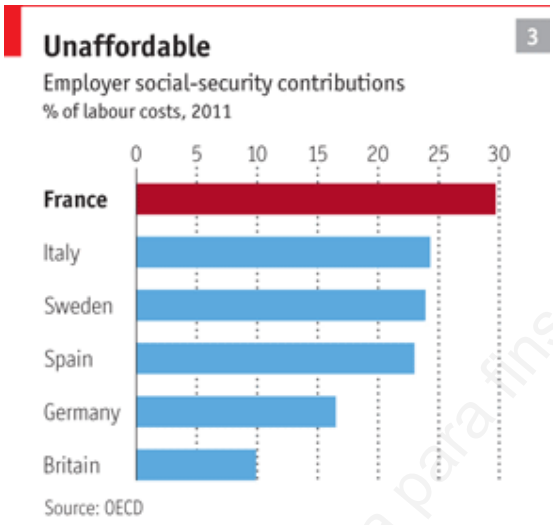
Aulnay-sous-bois sounds like an idyllic rural spot, but in reality it consists mostly of ugly industrial estates clustered to the north of Paris, hard by Charles de Gaulle airport. It has been in the news of late because it is the site of a car factory that the owner, PSA Peugeot Citroën, plans to shut down. Earlier this year Mr Hollande described this plan as "unacceptable" and promised that it would not be allowed to go through. In the past Arnaud Montebourg, whom he appointed as minister for productive recovery within the finance ministry, has talked of banning what he calls "stockmarket-driven" redundancies, and even of expropriating companies that close factories.

Yet Peugeot has now confirmed that big losses and continuing overcapacity in the car industry are forcing it to close Aulnay-sous-Bois after all. It has offered the workers new jobs at another of its factories, in Poissy, to the west of Paris, the nearest of Peugeot's five remaining ones. But most of the disgruntled men leaving work after the morning shift do not want to move. Philippe Julien, the local CGT representative, says his union would much prefer to divide the existing workload among all six factories. He and his colleagues feel let down by the Hollande government, for which most of them voted. In a play on the French for liar, they talk of Mr Menteurbourg. They are hoping for support from other workers, in the form of street protests and perhaps strikes.

Peugeot is not alone: Renault is also suffering from excess capacity. As if to demonstrate France's competitiveness problem, this comes at a time when Volkswagen and other German carmakers are expanding. Even Britain, widely derided in France as a country that has almost completely deindustrialised, now has more car factories than France. Other French companies that are laying off workers, despite Mr Montebourg's strictures, include ArcelorMittal, which is closing two of its blast furnaces at Florange in northern Lorraine, Air France, Bouygues Telecom, Doux, Hersant Media, Sanofi and SFR.

France still has plenty of successful, world-class multinationals in a wide variety of industries. They include such well-known names as Michelin (tyres), Pernod Ricard (drinks), LVMH (luxury goods), Carrefour (supermarkets), AXA (insurance) and L'Oréal (cosmetics), as well as two of the biggest banks in Europe, BNP Paribas and Société Générale. But lists such as these also reveal some problematic characteristics of corporate France.

One is that most French companies have been around for a long time. A second is that their profit margins have become much thinner. Gross operating profits for non-financial firms have fallen by six points over the past decade. In 2011 margins for companies outside the CAC-40 were at the lowest level for 25 years, whereas in Germany margins have been rising. A third is that many of the best French firms make most of their money abroad. That may explain why in the three years to 2010 the members of the CAC-40 increased their global employment by 5% but reduced employment in France by 4%.



Even so, many companies still succeed against the odds. Consider Valeo, one of the world's biggest car-parts companies. Jacques Aschenbroich, its chief executive, notes that his is a global industry, although competition is at its most intense at regional level. For Valeo that means Germany, which has gained an edge over France in the past ten years. Unsurprisingly Mr Aschenbroich says one of the biggest problems for companies in France are vertiginous social charges (see chart 3). The labour market is still too rigid, and he complains about the 35-hour week brought in by the Jospin government, not because he is against shorter hours in principle but because it replaced a 39-hour week without pay cuts to match. Yet he welcomes the R&D tax credit brought in by Mr Sarkozy and is optimistic about the chances for Mr Hollande's labour-market reforms.

Another company boss, Clara Gaymard, who runs the operations of America's General Electric in France, is also hopeful about labour-market reform. She describes Michel Sapin, the labour minister, as a good listener who approaches the issue without preconceptions. The need is pressing: as she points out, the present rules create legal obstacles that make it all but impossible to restructure a company. But GE has not given up in France, where it makes medical devices, turbines and aero engines.

Corporate France is strikingly short of two things. One is new companies, especially in high-tech and internet businesses. There are some, such as Free, a subsidiary of Iliad, a company that has established a grip on broadband services in France, much to the annoyance of the telecoms incumbents; or vente-privée, an internet retailer run by Jacques-Antoine Granjon. Yet Mr Granjon is gloomy about the future. He says the French system stifles entrepreneurs. He blames governments of right and left alike for disapproving of profits and wealth, for making clear their dislike of the rich, for favouring consumption over investment, for imposing excessive taxes on businesses and individuals and for pushing public spending too high. He is also scathing about France's educational system. His own three children are being taught abroad, as is common among French bosses.

If that is what French entrepreneurs think, it is little wonder that their country has proved bad at growing and cultivating new high-tech businesses. But, to be fair, the rest of Europe is little

better when compared with America, apart from Scandinavia and a few other northern parts of the continent.

It is the second gap in corporate France that is both more striking and more worrying: the absence of mid-sized companies like Germany's Mittelstand firms, which form the backbone of the German economy. According to one estimate, France has just over 4,000 medium-sized enterprises, proportionately only half as many as Germany and Britain. And the average French company, with just 14 employees, is a lot smaller than the average German one, which has 41. (This point, along with others in this section, is made by Sophie Pedder, The Economist's Paris correspondent, in her recent book, "Le Deni Français".)

Keeping small businesses down

One reason is that expansion of a business is vigorously discouraged by rules and taxes. Researchers at the London School of Economics found that France has a strikingly large number of companies with 49 employees. That is because many of the regulations governing companies kick in when a firm gets to 50. According to a 2008 official commission on growth chaired by Jacques Attali, once an adviser to Mitterrand, no fewer than 34 laws and regulations start to apply once an enterprise reaches that number.

Successive governments have tried to simplify the system, but generally without much success. The creation by Mr Sarkozy's government of pôles d'emploi, modelled on British jobcentres that had impressed his then finance minister, Christine Lagarde, has made it easier to combine drawing benefits with looking for work. Ms Lagarde, who is now managing director of the IMF, was also behind the creation of a system of "auto-entrepreneurs" under which individuals can register a business with a minimum of fuss and formality.

Mr Montebourg thinks these helpful gestures by previous governments are insufficient. Well to the left of his party and with a book attacking globalisation to his name, he challenges the assumption that further deindustrialisation is inevitable. Although he failed to stop Peugeot closing Aulnay-sous-Bois, he insists that "there is no industry that we have to give up." He claims to appeal to patriotism, not nationalism or protectionism, and harks back to models such as Franklin Roosevelt's National Industrial Recovery Act of 1933 and the Tennessee Valley Authority. He calls bankers "parasites" and hopes to use the government's new public investment bank to help save French manufacturing.

Manufacturing in France has fallen to only 11%of GDP, about the same as in Britain and far less than in Germany or Italy

Yet this seems a lost cause. Manufacturing in France has fallen to only 11% of GDP, about the same as in Britain and far less than in Germany or Italy. As governments of every stripe in many different countries have found, politicians who set out to pick winners often end up subsidising losers instead. The future ought to lie with services and smaller companies, to which the government pays rather less attention.

It would also be a good idea to encourage finance, even though the government has such a low opinion of banks. On the whole the French banks are in reasonable shape. None of the big ones has had to be bailed out by the state, although Société Générale has occasionally looked wobbly. Dexia, a Franco-Belgian bank, collapsed in 2011, and this year the Hollande government had to rescue a small mortgage lender, Crédit Immobilier de France (CIF).

Even so, the euro crisis and the downturn have not left the banks unscathed. French banks were among the most exposed to Mediterranean sovereign debt when the crisis broke. They have quietly reduced their exposure, but they are still potentially vulnerable on this score. And any fall in property prices could easily take down other mortgage lenders besides CIF.

Fonte: The Economist, London, v. 405, n. 8811, p. 7-8, 17 a 23 Nov. 2012.