

# Is nationalization a trap or a tool of industrial policy?

By [Jean-Luc Gaffard](#)

The closure of the Florange blast furnaces in the Moselle region by ArcelorMittal and the French government's hunt for a buyer led it to temporarily consider nationalizing the site, that is, not only the production of crude steel, but also the cold forming line. The threat of nationalization was clearly wielded with a view to forcing the hand of the Mittal group so that it would sell the operations to another firm. If a nationalisation like this had been carried out, it would have been a penalty-nationalization, *i.e.* a sanction of behaviour by the Mittal group deemed contrary to the public interest. Apart from this unusual feature, it would have also raised issues about competition.

The project around the Mittal site is reminiscent in some ways of the nationalization of Renault in 1945. It would be hard to argue, however, that any reproaches would be along the same lines. There would clearly be no question of the nationalized site being made a showcase for a social policy designed to spur the country's growth. The goal was less ambitious. It involved neither more nor less than a transfer of ownership from one private group to another. This would, of course, have been a first in the use of the weapon of nationalization. Any comparison with the French government's support for Alstom in 2004 doesn't hold: in this latter case, the point was to save a company that might go bankrupt as a result of risky acquisitions, and not simply to replace it with another company. Moreover, the problem was confined to the company in question, with no global or even sectoral implications. Comparisons with the support of the Obama administration for the automotive industry in 2009 are also out of place, as that involved saving a company that was being forced into

bankruptcy in an industry generally considered strategic.

The reality in the case of Florange was and remains that no potential buyer thought they would be able to keep the blast furnaces operating in an environment marked by falling demand for steel, in particular in the wake of the crisis in the automobile industry. That is why, whatever happened, the buyer would demand to keep the rolling mill too. This requirement would be in its best interest: the blast furnaces could not be taken over except on the condition that they could supply the activity immediately downstream on the same site. If this condition had been met, it would undoubtedly have posed a problem for the Mittal group, as it currently provides the steel for the mill in Florange from its Dunkirk site, so the new situation would have caused it difficulties, including in terms of jobs. In other words, a temporary nationalization with a view to a transfer of ownership would interfere with competition between private entities. It is far from clear that this was in line with the general interest.

The occasionally argued thesis that Mittal's strategy was the act of managers who were merely obeying the shareholders and who were advocates of an economy without factories or machines does not really hold water in light of the nature of the firm's activity and the degree of integration of the different production sites. One could, however, make the hypothesis that Mittal's strategy involving the closure of the blast furnaces in Florange amounted to a plan to ration supply that was designed to prevent a collapse of steel prices and boost already low margins. This hypothesis might be credible if the demand for steel depended primarily on its price, whereas it is obvious that the decline observed is the result of the global crisis and particularly the slump in sales in the automotive and construction industries. In other words, a fall in steel prices today would not lead to higher demand and ensure the continued operation of all the blast furnaces. It is much more plausible to assume that, in the current

macroeconomic environment, the transfer of ownership that was considered would simply have resulted in changing market shares rather than increasing the market's size.

In fact, there could only be real doubt about both the legitimacy and the capacity of the public authorities to arrange the most appropriate configuration for the market, or even the breakdown of the jobs to be saved or destroyed. Furthermore, if a decision to nationalize had indeed been taken in a situation like this, any determination of fair compensation would have proven difficult and prone to litigation.

In short, the nationalization under consideration could hardly have been an effective tool of industrial policy. It is not for the public authorities to arbitrate between private interests to determine who owns what, including when certain sites are to be closed. This type of arbitration is the responsibility of the competition authorities. Industrial policy, in turn, should interfere as little as possible with the division of market shares between the various competitors. At most it could ensure the survival of companies whose activity is considered strategic and who are going through a difficult period due to the global situation or to industrial choices that have proved erroneous or simply more expensive than expected.

In this situation, it is not surprising that the government did not follow up with the nationalization project and instead supported the compromise of simply requiring that Mittal undertakes to make investments to modernize the site and to maintain the blast furnaces in running order with a view to equipping them with highly efficient technology in terms of carbon dioxide emissions, leading to a gain in competitiveness, as part of the European Ultra-Low Carbon Dioxide Steelmaking project ([Ulcoss](#)).

The nationalization under consideration was indeed a trap in

every sense of the word. The political and media battle about the fate of the Florange site revealed, in fact, an error in the government's analysis. The difficulties being experienced by the French steel industry result from a lack of demand, which is in turn the result of a policy choice of generalized austerity. Trying to resolve this macroeconomic problem with a microeconomic solution was, at a minimum, risky and shows the inconsistency of the short-term and medium-term decisions being taken on economic policy.

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## **The crisis in the automobile industry: strategic shortcomings shouldn't conceal the impact of fiscal austerity**

By [Jean-Luc Gaffard](#)

The crisis in the automobile industry, illustrated by the closure of the PSA site in Aulnay, reveals not only structural difficulties but also strategic errors made by the manufacturers with respect to their industrial organization and range positioning. The industry's need to restructure cannot, however, obscure the very real macroeconomic dimensions of the crisis in the short term.

New car registrations in France fell 15.5% in July on an annual basis, after adjusting for working days. In the first seven months of the year, the decline in the automotive market stood at 13.5% in unadjusted data and 14.1% in adjusted data. PSA was down 9.9% in July in terms of unadjusted data. The Renault group has seen its share of registrations fall by 11.2%, with a drop of 26.6% for the Renault brand but a near doubling of registrations for the low-cost Dacia brand. Also in July, the decline in new car sales in Spain accelerated, with a drop of 17.2%. In Italy, new car registrations plummeted 21.4%. Finally, while German production increased by 5% due to exports, new car registrations there fell by 5%.

These catastrophic figures are first and foremost the result of the collapse of aggregate demand in the countries of the European Union as a result of falling revenues combined with greater inequality in distribution. The middle class is maintaining or increasing its savings rate and either deferring purchases in time or buying lower-cost products, particularly cars, while at the same time the increase in inequality has led to growth in the market for luxury vehicles, particularly in Europe and China.

It is not surprising, in this context, that PSA, which has a mid-range positioning, recorded a fall in sales and that Renault limited the damage only thanks to sales of its low-cost brand. Nor is it surprising to see strong growth for the Asian brands, Korean in particular, which are also positioned on the low-cost segment. Finally, it is not surprising that German manufacturers racked up exceptional results, as they are strongly positioned on the top of the range: BMW, Audi and Porsche recorded sales increases in the first half-year of 8%, 22.5% and 12.3%, respectively.

This state of affairs cannot of course absolve manufacturers of their strategic responsibilities, but it should lead the government to prioritize the underlying causes and, even more, to take the measure of what is needed in the short term, even

while it continues to provide long-term support for the industry.

Nobody can doubt the relevance and effectiveness of the strategy adopted by Germany's firms, which is based on the international fragmentation of their production process, the conservation and development in the home country of their technological capacity and a better analysis of market expectations in the emerging economies, first of all China. This strategy proved to be especially successful as competitive devaluations became impossible with the advent of the single currency, an impossibility that has wound up exposing the errors in the positioning of their French competitors, including PSA, in light of the reality of global markets. The intensified rivalry between firms due to the steady weakening in European domestic demand, which has recently accelerated, could only lead to widening gaps in performance in terms of sales volumes, market share and ultimately profit margins.

There is certainly no question but that the future of the French automobile industry requires a substantial effort at organizational and technological innovation together with the internationalization of production and the strengthening of local production relationships, as well as a search for market niches to make competition less price-sensitive. Public measures aimed at strengthening the production network through a site policy and support for outsourcing respond to this strategic challenge. The emphasis on the development of electric and hybrid vehicles is, however, questionable. The electric vehicle market could well remain marginal, and this will not change as a result of heavily subsidized prices to boost sales among specific urban groups. As for the market for hybrid vehicles, this is still limited in volume, and foreign (Japanese) competition already has a solid footing. Shouldn't we worry about the fate of mid-range vehicles: while their market is clearly suffering from the crisis in Europe, might

it not thrive in Europe as it emerges from the crisis and even develop in the emerging economies as a genuine middle class emerges there? In other words, a productive recovery in the automotive sector, while it must involve improvements in quality, is still a matter of demand – and demand needs to be considered at a global level, with as a consequence the corresponding strategic choices concerning the location and segmentation of production activities.

In any event, a recovery in production in one direction or another will take time, and time is likely to be lacking if in the short term there is no pick-up in demand. In other words, the immediate problem is as much if not more macroeconomic rather than microeconomic. The surest way to bury the French automotive industry, thus losing an important accumulation of human capital, is to pursue a fiscal austerity policy that merely depresses demand without addressing the issue of sovereign debt.