

How to read the Alstom case

By [Jean-Luc Gaffard](#)

The situation of Alstom has hit the headlines since the company executives announced their intention to sell the energy branch to General Electric and to carry out a restructuring that strongly resembles a unit sale. The government reacted strongly to what it saw as a *fait accompli*, seeking another buyer, namely Siemens, with a view to creating one or more European companies in a sector considered strategic, along the lines of Airbus – before it came round to the General Electric solution, which in the meantime had improved in terms of both the amount paid for the buy-out and the arrangements for the future industrial organization. These events, important as they are, should not obscure the more general fact of ongoing deindustrialization, which is taking the form, among others, of the break-up of certain large companies, and which is resulting from inconsistencies in the governance of what French capitalism has become today.

Deindustrialization is generally attributed either to competition from countries with low wages, and thus to excessive labour costs, or to insufficient innovative investment, and thus to a lack of non-price competitiveness. The solutions sought in terms of public policy oscillate between reducing wage costs and supporting R&D, usually with little regard to the conditions of corporate governance. The emphasis is on the functioning of both the labour markets, with the aim of making them more flexible, and the financial markets, which are considered or hoped to be efficient, without really taking into account the true nature of the company. But a firm is part of a complex network of relationships between various stakeholders, including managers, employees, bankers, customers and suppliers. These relationships are not reducible to market relations encumbered with imperfections that generate poor incentives and that need

to be corrected so as to ensure greater flexibility. They are part of more or less long-term contractual commitments between the various stakeholders in a company, which are exceptions to the state of pure competition, even though they are essential to the realization of the long-term investments that bring innovation and growth. The duration of these commitments is in fact the foundation for the average performance of the companies, the structuring of the industry and ultimately the industrialization of the economy.

Alstom's troubles, following on the heels of the difficulties encountered by other firms like Pechiney and Rhône Poulenc that are no longer on the scene, reflect this organizational reality. With sales barely equal to one quarter of the figure for Siemens and one-fifth for General Electric, the size of the company and its various activities has been judged by its leaders to be largely insufficient to meet the demands of competition. With the agreement of the European Commission, the State already had to intervene back in 2004 to recapitalize the company so as to avoid bankruptcy. It then faced the obligation to hive off certain activities and cut jobs drastically. Today, the only way ahead is to carry out a new restructuring, with the hope of saving skills and jobs by integrating them into a larger, more efficient entity while absorbing the accumulated debts. This cannot take the appearance of a final break-up that benefits one or another of the competitors who managed to develop the right strategies, far from the recommendations of those who fawned over what was once called the new economy. In this case, the beneficiary will be General Electric. This ultimate solution is taking place due to Alstom's inability to benefit in the recent or earlier period from the longer-term financial commitments that would have allowed it to implement an effective growth strategy.

This disappointment, on the heels of numerous others, reveals the inconsistency that has befallen French capitalism between

the organization of its industry and of its financial system, which was criticized back in 2012 in a book by Jean-Louis Beffa (*La France doit choisir*, Paris: Le Seuil). The new financial model, inspired by the Anglo-Saxon model, no longer seems to respond to the needs of mature enterprises engaged in activities with investment needs that are substantial and long term and which are subject both to performance cycles related to fluctuations in demand and to the constraints of the innovation process. The ensuing lack of commitment was bound to lead to break-ups, but it would be wrong to equate this to an increased modularity of industrial production resulting from the introduction of new information and communication technologies and which would be valued by the financial markets, as the head of Alstom seemed to think in the late 1990s when advocating a company without factories.

Under these conditions, a recovery in production cannot take place through the invariably one-off specific interventions of the public authorities aimed more or less explicitly at creating national or European champions that are, after all, not very credible. What is needed are structural reforms to deal, not with the rules on market functioning, but with modes of governance, and in particular a revision of the way the financial system is organized.

These observations are developed in greater depth in ["Restructurations et désindustrialisation : une histoire française", Note de l'OFCE, no. 43 of 30 June 2014.](#)