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Aerospace & defence

Airbus and the damage done by economic patriotism

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France's president Jacques Chirac and Angela Merkel, the German chancellor, made clear that the restructuring of Airbus must maintain "absolute equilibrium" in employment and technology. The pain of 10,000 planned job cuts has been shared this week between France, Germany, the UK and Spain.

Indeed, traditionally the workforce at the aircraft manufacturer is geographically distributed in proportion to national ownership stakes. It is hard to make sense of this from the point of view of productive efficiency. It is an instance of economic nationalism, whereby governments distort private transactions among economic actors by discriminating against foreigners in the name of the national interest.

Economic motives include the preservation of employment or the attraction of economic activity to a certain area. Strategic motives include national security or attempts to capture rents abroad in monopolistic markets. In many circumstances the patriotic approach proves ineffective because it conflicts with economic efficiency, but its endurance derives from protection of the interests of local lobbies. Politicians benefit from the revolving door between political office and the boardroom or by catering to a clientele with a view towards re-election.

It seems no coincidence, for example, that Gazprom, Eon and former German chancellor Gerhard Schröder - who chairs their project to build a Baltic Sea gas pipeline - agree on their criticism of the European Commission's proposals to make energy markets more open and competitive. Public ownership - even partial, as in Airbus - and tightly nationally controlled regulators remain a powerful instrument to further economic patriotism.

The damage caused by economic nationalism includes inefficiency and poor corporate governance. When EADS, parent company of Airbus, was created, it was headed by two chief executives, German and French. In spite of the fact that tensions flourished, the twin-headed structure was maintained even after the crisis caused by problems in the development of the A380 began. As a result, Airbus's reputation has been dented and it has fallen behind Boeing. In other cases, cost-cutting measures are delayed as state aid comes to the rescue of the champion, or competition is distorted because government-supported companies have privileged access to infrastructure and procurement contracts. The market for corporate control suffers as takeover threats from potentially more efficient foreign companies are removed. Finally, national efforts end up being self-defeating as other countries react in kind, neutralising the initial attempt to gain an advantage.

It is questionable that the forces of economic nationalism can prevail in the long term because of pressure from Brussels, the discipline imposed by international capital markets and because of the self-defeating aspect of the practice. Economic nationalism could damage Airbus by preventing it from bringing in new partners and outsourcing work outside Europe. On the other hand, cross-border mergers are on the rise in spite of all the obstacles. ABN Amro from the Netherlands finally succeeded in its bid for the Italian Antonveneta; Italy's Unicredito overcame the problems posed by the Polish government in its takeover of the German HVB; and Mittal Steel succeeded in taking over Arcelor. In the short run, however, economic patriotism has claimed some victories in Italy, France and even Germany.

What is to be done from the perspective of the welfare of European citizens? A recent report by the European economic advisory group at the CESifo research network suggests that the answer must lie in setting a European framework in which the pernicious aspects of economic nationalism cannot materialise. An important element must be a common regulatory doctrine with strong co-ordination of national regulators under uniform guidelines. This would make a difference, for example, in the fragmented European energy markets.

Regulatory harmonisation and co-ordination may not be enough, however. The time has come to reconsider the role of state-owned companies. They are a weapon for entrenchment and market protection. They prevent efficient restructuring and introduce a conflict of interest between the government as owner and as regulator. Competition rules are not enough to keep the distortions in check. The European Union would be wise to stop pretending that the form of ownership is neutral.

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