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MPIfG Discussion Paper 10/14

The Phantom of Palais Brongniart

"Economic Patriotism" and the Paris Stock Exchange

Helen Callaghan and Paul Lagneau-Ymonet

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MPIfG Discussion Paper 10/14
Max-Planck-Institut für Gesellschaftsforschung, Köln
Max Planck Institute for the Study of Societies, Cologne
December 2010

MPIfG Discussion Paper
ISSN 0944-2073 (Print)
ISSN 1864-4325 (Internet)

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Abstract

French governments are famous for promoting national champions, notably by preventing foreign takeovers, but in 2005–2006, the Villepin administration allowed the New York Stock Exchange to take control of Euronext, a French-led pan-European company that includes the Paris Bourse. By mapping the public discourse surrounding this striking case of non-intervention, we explain why opponents of the transatlantic merger failed in their appeals to "economic patriotism." Discursive strategies designed to justify discrimination against territorially defined outsiders ran into several hurdles, including weak patriotic sentiments for the company concerned; a lack of patriotic alternatives to the proposed merger; and the questionable patriotic credentials of those demanding intervention. Our findings advance research on the demand side of "economic patriotism," including its discursive dimension. Beyond that, they inform research on business–government relations, and on the political implications of corporate ownership structures.

Zusammenfassung

Französische Regierungen sind eigentlich dafür bekannt, dass sie einheimische Unternehmen vor Auslandsübernahmen schützen. Im Jahr 2005–2006 gestattete Villepins Regierung jedoch der New York Stock Exchange die Übernahme von Euronext, einer paneuropäischen Gesellschaft unter französischer Leitung, zu der auch die Pariser Börse gehört. Der öffentliche Diskurs zu diesem bedeutenden Fall von Nichtintervention gibt Aufschluss darüber, warum die Gegner der transatlantischen Fusion mit ihren Forderungen nach Wirtschaftspatriotismus scheiterten. Diskursiven Strategien zur Rechtfertigung von Diskriminierung gegen territorial definierte Außenseiter standen mehrere Hindernisse im Weg, etwa unzureichend ausgeprägte patriotische Gefühle für den Übernahmekandidaten, der Mangel patriotischer Alternativen zu einer transatlantischen Fusion und die mangelnde patriotische Glaubwürdigkeit derer, die eine staatliche Einmischung forderten. Der vorliegende Aufsatz ergänzt mit seinem diskursiven Schwerpunkt die aktuelle Forschung zu Wirtschaftspatriotismus. Außerdem trägt er zur Forschung über die Beziehungen zwischen Staat und Unternehmen und über die politischen Auswirkungen von Veränderungen in der Struktur von Unternehmenseigentum bei.

Contents

1 Introduction

The Paris stock exchange – located until the 1990s at the Palais Brongniart in the Opera district of the French capital – has over the past three decades changed in ways that seem difficult to reconcile with the *dirigiste* image of French governments. In 2006, after successive cross-border mergers, this former symbol of national economic sovereignty became a subsidiary of the New York Stock Exchange (NYSE). Four years later, Euronext Paris and other continental European entities of the now American-run group experienced significant downsizing and the relocation to London of crucial business units.[1]

The relative weakness of political efforts to prevent the Paris stock exchange from falling into foreign hands is surprising, for several reasons. The cross-border merger took place in a country with a long-standing record of transatlantic defiance and of political intervention in the market for corporate control; it coincided with heavy-handed attempts to prevent cross-border mergers in other sectors of the French economy; it concerned a sector that is arguably of high economic and political significance and with regard to which the French government has formal legal instruments of intervention at its disposal. Why did the same government that took legislative action to prevent a rumored takeover of Danone, the French food conglomerate, by the American food and beverage giant PepsiCo, allow NYSE to gain control of Euronext?

By mapping the public discourse surrounding this striking case of non-intervention, we explain why opponents of the transatlantic merger failed in their appeals to economic patriotism. Discursive strategies designed to justify political discrimination against territorially defined outsiders ran into several hurdles. Patriotic sentiments were difficult to mobilize for a company as perceivedly "Anglo-Saxon" as Euronext; the patriotic credentials of key opponents to the merger were weak, because many of them had prepared the ground by profitably selling their shares abroad; and instead of a patriotic alternative, "imperialist" advances by Deutsche Börse were seen as a likely outcome of failure to merge with NYSE.

Our findings advance research on economic patriotism by helping to explain *when* governments choose to discriminate in favor of territorially defined insiders. Clift and Woll (2010) distinguish different *kinds* of state action used to defend local economic interests, but they do not offer any insights as to what determines whether governments act at all. Answering the latter question requires looking beyond the supply of state action to the demand side of economic patriotism, including its discursive dimension. Words often mask underlying material interests, but this does not mean that social scientists should discard them and strive only to look behind the smokescreen. As Bourdieu (1991) notes, language is political action. In democracies, the supporters and proponents of state

We thank Daniel Seikel, Cornelia Woll, and participants of the workshop on "Economic Patriotism" convened by Ben Clift and Cornelia Woll for their helpful comments. Julia Franke provided valuable research assistance. The project was funded by a DAAD-Procope grant.

1 "NYSE Euronext opens 'NYSE Euronext London.' A new securities market targeting issuers seeking a London listing," press release, July 15, 2010.

action can increase the political pressure behind selfishly motivated demands by mobilizing broad support, and broad mobilization requires a successful appeal to some widely shared "public interest." Appeals to patriotic sentiments are frequently employed, presumably because such sentiments are widespread and easily tapped without need for complex technical argumentation. By revealing the limitations of this discursive strategy, our case study thus contributes to explaining *when* governments choose to pursue the kind of action classified by Clift and Woll.

Beyond that, our article informs research on business–government relations and on the politics of corporate ownership. To the literature on business–government relations, we contribute the insight that state withdrawal from the economy can lead to mismatched expectations regarding the allocation of responsibility for economic governance. To research on political consequences of changes in the structure of corporate ownership, we contribute new hypotheses regarding the relationship between "corporate insider" status and access to political privileges.

Our empirical evidence derives from newspapers, interviews, and participant observation on the Paris premises of Euronext. Eighty volumes of newspaper articles compiled by Euronext Paris between 2000 and 2007 served as our main source of press coverage. Twelve interviews held between 2006 and 2010 with prominent figures of the Paris financial centre or insider informants (see "Interviews" in "Sources" at the end of the paper) provided background information. Beyond that, one of the authors had the opportunity to witness the in-house dynamics of Euronext at first hand, through his position as an assistant to the Euronext director of international affairs in Paris from October 2001 until August 2002, and as an assistant to the Euronext director of European affairs in Brussels from August to November 2003.

The article proceeds as follows. Section 2 highlights gaps in existing research on economic patriotism and explains how our case selection contributes to filling them. Section 3 maps the preferences and discursive strategies of key French stakeholders concerning political intervention in the NYSE/Euronext merger. We conclude with suggestions for further research.

2 The surprising absence of territorially based discrimination

The term "economic patriotism," coined by French Prime Minister Dominique de Villepin in 2005,[2] has recently entered the political science vocabulary as a potential prism

2 Villepin first promoted the term at a press conference on July 27, 2005, when he endorsed a parliamentary report written by the conservative MP Bernard Carayon, *Patriotisme économique, de la guerre à la paix économique* (Paris, Le Rocher, 2005), in reaction to a possible raid by PepsiCo on Danone (available at: http://www.archives.premier-ministre.gouv.fr/villepin/acteurs/interventions_premier_ministre_9/conferences_presse_526/conference_presse_mensuelle_53667.html).

for investigating forms of government discrimination in favor of territorially defined insiders. Clift and Woll promote the term as more capable of capturing the wide range of instruments and strategies than other labels, such as "economic nationalism," "protectionism," or "neo-mercantilism." Unlike the former, "economic patriotism" can also refer to supranational or subnational economic citizenship. Unlike the latter two, it is not defined by its policy content and can thus also encompass deregulating policies, provided that they reflect economic partiality towards particular territorially defined groups.

While the heuristic provided by Clift and Woll usefully distinguishes different levels (supranational, regional, local), ideological affinities (liberal or conservative) and policy objectives (favoring insiders or resistance to outsiders) of economic patriotism, it does not offer any insights as to *when* politicians choose to privilege territorially defined groups. The case studies assembled in the special issue edited by Woll and Clift, which describe instances of economic patriotism in a variety of different contexts, do not provide sufficient leverage on this question. Answering it requires a closer look at cases in which political action was conspicuously absent.

The merger of Euronext with NYSE lends itself well because, *a priori*, there were strong reasons to expect political intervention. First, research on the geography of financial markets suggests that the location of stock markets has economic, regulatory and political implications. Economically, spatial proximity of issuers, investment banks, financial analysts, and asset managers to the stock market enhances the exchange of both formal and informal information and offers valuable network externalities. These benefits are said to explain why, contrary to predictions that information technology would spell the "end of geography" (O'Brien 1992), financial activities remain highly concentrated in a few financial centers (Tadjeddine/Capelle-Blancard 2009; Sassen 2005; Ansidei 2001). The same benefits are also cited as a reason for the persistently strong so-called "home bias" in investment decisions: investors tend to hold, trade, and obtain superior returns from securities issued by companies that are "familiar" to them (see Wójcik 2009: 1505–1506, 2007: 202).[3] From a supervisory point of view, stock market location matters because governments and regulatory authorities have only limited influence outside their own jurisdiction. Stock market regulation affects the market for corporate control, corporate governance, and the protection of investors. The transfer of regulatory power over these matters to foreign institutions therefore implies a weakening of economic governance at the national level. Politically, nations throughout the history of capitalism have used the size and might of their financial centers as resources in the contest for geopolitical leadership (Ferguson 2001; Cassis 2006; Cassis/Bussière 2005; Braudel 1979; Weber [1894]2000). Even the rapid expansion, since the launch of the Euromarkets in the 1960s, of cross-border financial transactions outside incumbent exchanges was originally promoted by the US and the British governments to secure their financial supremacy at that time (Helleiner 1994).

3 According to Coval and Moskowitz (1999) home bias is observable even within countries.

Second, the weakness of political efforts to prevent foreign control of the stock market coincided with a string of high-profile interventions against attempted foreign takeovers of other French companies (see Callaghan 2009b). Building on a long tradition of dirigisme (Shonfield 1965; Zysman 1983; Suleiman 1995; Suleiman/Courty 1997), the French government lived up to its reputation as the champion of national champions by intervening in bids for the oil company Elf by its Italian rival ENI in 1999 and for the pharmaceutical company Aventis by Switzerland's Novartis in 2003 and by forestalling suspected bids for Danone and for the Suez conglomerate in 2005–2006. In the same year, the government also drafted a new decree granting itself a right to veto or impose conditions on foreign takeovers of French firms in 11 sectors[4] which it declared strategic and ordered the state-owned Caisse des Dépots et Consignations to increase its investment in French equities.

Third, in contrast to the case of Danone, which triggered new legislation, a legal basis for intervention was already available to policy-makers. The French subsidiary of Euronext, which operates the Paris Stock Exchange, has a hybrid legal status: it is not an ordinary private company but a specialized financial institution *(institution financière spécialisée)*. As such, Euronext Paris is governed by French banking legislation and regulations, including the French Banking Act as amended and codified in the French Monetary and Financial Code. It is therefore subject to supervision by the Financial Markets Authority *(Autorité des Marchés Financiers)* and the Banking Commission *(Commission Bancaire)*. The French administration can nominate a commissioner to the board of Euronext Paris to ensure implementation of the "permanent public-interest mission" entrusted to the company by law.

Fourth, judging by their public objections to a transatlantic merger with NYSE, influential French policy-makers at the supranational, subnational and national level were not indifferent to the fate of Euronext. At the European level, Jean-Claude Trichet, president of the European Central Bank and a former French civil servant, warned that a transatlantic merger might create problems for EU monetary policy (Challenges, December 12, 2006). Pervenche Berès, French Socialist MEP and Chair of the European Parliament Committee on Economic and Monetary Affairs, demanded that the European Commission intervene to protect the public interest (Financial News, July 4, 2006). At the national level, Jacques Chirac, the French president at the time, said that he preferred a merger with Deutsche Börse "for reasons of principle" (The Independent, June 8, 2006). Jean Arthuis, president of the Finance Commission in the French Senate, and French head of the *Deutsch-Französische Freundschaftsgruppen der Parlamente*, demanded that "the [French] government, the German government and other European governments

4 Décret no. 2005-1739, December 30, 2005. After strong opposition from the European Commission, the version of the decree that was finally implemented applies only to defense-related industries and to gambling (officially because of concerns about money laundering, but possibly also to contain the EU-driven deregulation of the French gambling industry, which eventually happened in June 2010).

pull themselves together and press for the creation of a pan-European stock exchange" (Agence France-Press, June 19, 2006; this translation and all subsequent ones by the authors). The Parti Socialiste let it be known that it was "completely opposed to the merger" (AFP, December 20, 2006). Pierre Moscovici, international affairs spokesman for the Socialist Party (Parti Socialiste, PS) and Jean-Pierre Jouyet, Secretary of State for European Affairs at the time of the merger and chairman of the Financial Markets Authority since December 2008, declared *ex post* that they would have preferred a European solution.[5] At the local level, Jean-Paul Huchon, head of the Paris area regional assembly (*région Ile de France*), regarded the transatlantic merger as a "bad signal" (La Chaîne Info, June 9, 2006).

Despite these widespread reservations, and in contrast to simultaneous intervention in other cross-border mergers, French policy-makers chose not to use the full repertoire of legal and political tools to prevent NYSE from acquiring Euronext. Instead, both the French Financial Markets Authority and the French government remained neutral on the ownership question: provided that the operator of the exchange complied with the regulations, legal requirements, and governance amendments to assure formal equilibrium between European and American members of its board, the capital structure of the exchange would not matter. The French chief regulator, Michel Prada, and his peers from the UK, Belgium, the Netherlands, and Portugal cooperated with their counterparts from the US Securities and Exchange Commission to solve legal technicalities of the proposed merger between Euronext and the New York Stock Exchange. Thierry Breton, the French finance minister, successfully pushed for a formally equal governance structure, but he repeatedly insisted that, while customers and employees would be consulted, the ultimate decision on the merger lay with shareholders (Entreprise et marché, July 5, 2006).

3 Demand for and opposition to government intervention

A look at the demand for government intervention in the NYSE/Euronext merger shows French business elites highly mobilized and deeply divided on the issue – possibly because the ownership composition of the stock exchange could affect a larger part of the corporate community than that of companies in the industrial sector. While the main beneficiaries of intervention against a foreign takeover of industrial companies (management and employees of the companies concerned) usually have higher stakes than their opponents (free-market ideologues and minority shareholders), the NYSE/Euronext merger pitched Euronext management against Euronext users (that is, French issuers and financial intermediaries), all of whom had material interests at stake.

5 Question posed to Jean-Pierre Jouyet during a talk at Institut Droit Dauphine in Paris, October 21, 2009.

Top managers of Euronext wanted the merger to go through. Accordingly, they repeatedly insisted that theirs was a private company. As early as 2001, Euronext CEO Jean-François Theodore presented demutualized stock exchanges as "an industry like any other" and warned against "speak[ing] of alliances as if we are diplomats" (Business Week, June 11, 2001). The same view was promoted by influential French economists, including members of the prime minister's Council of Economic Advisors *(Conseil d'analyse économique)*. Some of the most vocal economists in the debate, including Bertrand Jacquillat (professor at Sciences Po Paris, chairman and CEO of the financial consultancy Associés en Finance) and Christian Saint-Etienne (professor at the University of Tours, lobbyist at Schell et Associés), were simultaneously members of the *Cercle des économistes*, a prominent French think tank subsidized by Euronext.[6]

By contrast, many issuers and financial intermediaries, including former owners of the Stock Exchange, opposed the transatlantic merger (Bloomberg News, October 11, 2006). Gérard de La Martinière, head of FFSA, the powerful French federation of insurance companies and spokesman for MEDEF, the French peak business federation, pleaded for "European connections that would allow us to enlarge the capital pool while remaining in our own zone of monetary activity" (Reuters, November 9, 2006). The European Association of Listed Companies, chaired by Alain Joly, CEO of the French blue chip Air Liquide, complained that "[t]he proposed governance structure that puts NYSE in control, gives no assurance in the long run as to the preservation of the interests of European issuers" (Bloomberg News, October 11, 2006). Claude Bébéar, supervisory board president of AXA and a leading figure of French capitalism, objected to demutualized stock exchanges per se and wanted them to be kept under the control of their users, at least through a shareholding pact. Michel Pébereau, supervisory board president of BNP and arguably the most powerful banker in France (Jabko/Massoc 2011), worried that a transatlantic move would dilute the influence of his bank more severely than consolidation at the continental European level would. A high-profile study of NYSE's and Deutsche Börse's takeover offers, commissioned by Paris Europlace, a public–private association charged with promoting the Paris financial center, and conducted by Henri Lachmann, CEO of Schneider Electric, concluded that "the transatlantic acquisition is not in the best interest of the European market place" (The Wall Street Journal Europe, October 6, 2006).

Apart from lobbying behind the scenes, some of the business leaders opposing the merger openly demanded state intervention. Gérard de La Martinière (FFSA and MEDEF) wanted the French government to "bang its fist on the table" (Reuters, November 9, 2006). Axel Miller, CEO of the Franco-Belgian bank Dexia, complained after the merger that "the finance ministers should have taken care of this matter … The stock exchange

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6 In January 2007, Professor Jacques Hamon from the University Paris-Dauphine, Bertrand Jacquillat, and Christian Saint-Etienne released a report on *Global Stock Exchange Consolidation*, which portrayed stock exchange consolidation as inevitable and supported the tie-up between Euronext and NYSE.

is a vital instrument for growth and employment, and for the market economy at large. The failure to preserve it reveals the current political void" (Les Echos, December 18, 2006). Their policy preferences resembled those of the Socialist Party, which called on the government to "immediately take … responsible action by opposing the merger in such a way that economic patriotism, be it French or European, does not remain a mere slogan" (AFP, December 20, 2006). Interestingly, perhaps for the reasons identified below, the Socialists refrained from repeating this line of attack in the run-up to the presidential elections.

The following section explains why opponents of the transatlantic merger failed to build up political pressure for intervention, despite a political climate that – in the run-up to the 2007 presidential elections – was highly receptive to appeals to economic patriotism.

4 The discursive limitations of "economic patriotism"

Several discursive hurdles prevented successful instrumentalization of the economic patriotism discourse by opponents of the merger. First, patriotic sentiments among the electorate were difficult to mobilize for a company as foreign and removed from people's lives as Euronext. Unlike consumer products such as yoghurt and cars, financial services do not lend themselves well to the kind of emotional attachment prone to stirring patriotic sentiments, especially since they can be construed as elements of "Anglo-American style capitalism," even when the providers are French. In addition, the number of French jobs at stake was small. In 2006, the Paris branch of Euronext – the largest within the company – employed fewer than 400 people, mostly in positions that failed to spark feelings of solidarity in the average French worker. Moreover, direct and indirect shareholdings are still relatively scarce in France, where an extended public welfare state provides retirement pensions through taxation, contributions, and intergenerational redistribution, rather than through individual capitalization and private savings (Montagne 2006).

Second, a convincing "patriotic" alternative to the transatlantic merger was not available. In other recent cases of government intervention, blockage of a cross-border merger typically resulted either in the French company remaining independent, or in a Franco-French alliance.[7] In the case of Euronext, failure to merge with NYSE was widely

7 For example, in 1999, the French government opposed a merger between Elf and Italy's dominant oil company, Ente Nazionale Idrocarburi (ENI), and discouraged Elf from looking for a foreign partner which could act as a "white knight" to stave off a hostile bid from its French rival Total. In 2003, it scared Switzerland's Novartis out of bidding for Aventis and instead arranged for Aventis to merge with the French company Sanofi-Synthélabo (see Callaghan 2009b).

expected to result in a merger with Deutsche Börse. Proponents of intervention tried to overcome this discursive hurdle by appealing to "economic patriotism" at the European level: Arthuis argued that, "one year after the failure of the referendum on the [Lisbon] treaty … this new project of allowing the pan-European stock exchange Euronext to fall under the control of the New York Stock Exchange is a woeful sign and a confession of European abandonment" (Boursorama, July 7, 2006). Ernest-Antoine Seillière, then president of the European employer federation UNICE (now called BUSINESS-EUROPE) warned that, "[i]f the Americans become masters of our financial market, then this is a severe defeat for our European project" (Valeurs actuelles, June 9, 2006). Lachmann found it "essential that we continue to build Europe, and the Europe of stock markets should take priority over the acquisition of Euronext by the NYSE" (Figaro, October 6, 2006). French MP Jacques Myard (UMP), known for his vocal support for industrial policy at the national and EU levels, saw the NYSE/Euronext merger as "further proof of the vassalization of Europe by the United States."[8]

The resonance of appeals to economic patriotism at the European level suffered not only from the weakness of a European identity in general, but from distrust of "imperialist" Germany in particular. This allowed opponents of intervention to neutralize such appeals by presenting the choice between NYSE and Deutsche Börse as a choice between the frying pan and the fire. According to Daniel Bouton, chairman and CEO of Société Générale, one of the two investment banks advising NYSE with Citigroup on the operation, Frankfurt was trying to "strip Paris of its status as the main financial center on the continent, after having already obtained the seat of the European Central Bank six years earlier" (Le Point, January 17, 2007). Theodore had made the same point more subtly, by justifying his rejection of Deutsche Börse's merger offer on the grounds that "[t]heir vision of Europe was focused on Frankfurt … whereas we are a 21st century company. We are represented in all our capital cities" (Bloomberg, July 6, 2006). In the same vein, Oliver Lefebvre, board member of Euronext and president of the Brussels Stock Exchange, insisted that "[t]he proposal by Deutsche Börse runs counter to the interests of the Eurozone … By favoring such a merger, one would destroy the only cross-border example that works at present" (L'Echo, June 27, 2006). Opponents of a Franco-German alliance drew ammunition from an off-hand comment by Kurt Viermetz, head of Deutsche Börse's supervisory board, who had boasted, in March 2006, that one could "turn off the lights in the rest of Europe" if Euronext were to move to Frankfurt (Futures Magazine, September 1, 2006). Tensions associated with previous French-German attempts to create European champions – including Sanofi-Aventis, Siemens/Alstom and earlier disappointments which turned into bitter competition between the Paris Stock Exchange and the Deutsche Börse, provided further grounds for skepticism.

8 AFP, December 19, 2006. This line of argument was the one promoted by Image 7, the influential French lobbying consultancy hired by Deutsche Börse to promote its interests in France (Raulot 2007: 152–157).

Third, and perhaps most interestingly, questionable "patriotic credentials" contributed to weakening the influence of the business leaders calling for intervention. Understanding the credibility problems afflicting financial intermediaries requires the following background knowledge about the demutualization process of the Paris Stock Exchange. Historically, most stock exchanges, including the Paris Bourse, were owned and controlled by their first users, the stockbrokers. They were governed through a mutual structure, with member-owners contributing their time to governance and self-regulation. Profits were returned to member-owners in the form of lower access fees or other benefits (Chaddad 2003: 13). In recent years, many exchanges have changed their legal form and governance structure by separating ownership rights from membership rights – a process commonly referred to as demutualization. As a first step toward demutualization, most exchanges converted membership rights into common stock holdings, thus making members the legal owners of the corporation. After that, many exchanges went on to list their own securities on the stock market, thereby extending the possibility of ownership to outside investors (Lee 2010; see Callaghan/Lagneau-Ymonet 2010). The French stock exchange, by then part of Euronext, went public in July 2001. At a time when strategic management was all about disinvestment in peripheral activities and financial consolidation in the wake of the dot-com bust, French financial intermediaries gradually sold their stakes in Euronext. They made good money[9] in return for ceding control of the exchange to international institutional investors, such as Fidelity, and activist hedge funds, including Harris Associates, Atticus, and TCI.

Calls for state intervention in the name of economic patriotism by those who had sold their own means of protecting French interests sparked widespread resentment. Philippe Marini, rapporteur of the Finance Commission in the French Senate and a close ally of Jean-François Theodore, advised the historical shareholders to "stop complaining about a situation which they themselves ha[d] brought about" (La Tribune, November 13, 2006). He observed that "[if] large French and European banks had kept their shares instead of walking away with their capital gains a little prematurely, Euronext could very well have pursued its development autonomously and continued to integrate further European exchanges into its federal structure" (Bloomberg TV: Forum, July 4, 2006). Jean Arthuis, president of the Finance Commission in the French Senate and a strong opponent of the NYSE/Euronext merger, "deplore[d] the fact that Euronext, which was formed in 2000, thought it a good idea to go public in 2001" and scolded the banks for having betraying the public interest by realizing their capital gains. In his view, this was particularly unacceptable because "[i]f anyone should have an understanding of the general interest, it is the banks. After all, when they are confronted with difficulties that pose a risk for the financial system, it is the state which comes to their rescue" (Bour-

9 French intermediaries obtained seven Euronext shares, valued at 24 euros each, for every share of the *Société des bourses françaises* (SBF), the previous operator of the Paris Stock Exchange. The deal was highly attractive because SBF shares were poorly valued, at historical cost, in the books of the financial intermediaries, and because market conditions were generally poor in the wake of the dot-com bust and September 11, 2001.

sorama, July 7, 2006). Henri Lachmann, author of the above-mentioned position paper by Paris Europlace, pointed out that "[t]he French banks sold their shares and recently had the chance to regain control by acquiring a large block of shares that had been placed on the market … Anyone who does not seize such an opportunity should not go around giving lessons on citizenship to others" (Le Figaro, November 21, 2006).

By contrast, French Euronext managers backing the merger enjoyed strong credibility because of their success in founding Euronext – which had transformed the quasi-public French, Belgian, and Dutch exchanges into a highly profitable privatized multinational capable of rivaling the London and Frankfurt stock exchanges. The federally structured Euronext convinced many that cross-border stock market alliances could help Paris in its competition against London and Frankfurt – not least because its French CEO, Jean-François Theodore, was celebrated as a clever strategist in the international business press. In June 2002, the influential magazine *Institutional Investors* even gave him the front page with an explicit tribute, "Théodore [sic] Rex". Theodore's credibility with French Treasury officials was further aided by close network connections to top-tier civil servants. After graduating from the elite *École nationale d'administration*, Theodore had worked at the French Treasury from 1974 to 1989 before becoming chairman and CEO of the *Société des bourses françaises* and, from 2000, the head of Euronext. Likewise, his Belgian counterpart Olivier Lefebvre, president of the Brussels Stock Exchange (PhD in economics from the Université Catholique de Louvain, MBA from Cornell University) had worked at the Belgian Finance Ministry until the mid-1990s, where he had contributed to the drafting and implementation of laws reforming the national financial sector.

Apart from the discursive hurdles spelled out above, opponents of the merger faced the additional difficulty that intervention conflicted with the neo-liberal paradigm which had guided financial sector policy-making in France and Europe since the 1980s. The decision not to intervene in the NYSE/Euronext merger coherently followed from earlier measures designed to enhance the international competitiveness of the French financial center. First steps toward stock market demutualization were taken as early as 1984 with reforms authorizing commercial banks to branch out into investment banking (Lordon 1997; Feiertag 2005). In March 1988, universal banks, insurance companies, and international brokerage houses were allowed to take control of the Paris Stock Exchange. The *Compagnie nationale des agents de change*, a hybrid organization controlled by a powerful guild of state-authorized officers under the direct supervision of the French Ministry of Finance, was dismantled and replaced by the corporation of French exchanges (*Société des Bourses Françaises* – SBF).[10] In June 1999, the SBF absorbed the three other French

10 To be accurate, the *Compagnie des agents de change* was replaced by three distinct entities: the *Société des bourses françaises*, the Stock Exchanges Council (*Conseil des bourses de valeurs* – CBV, now dissolved into the French Financial Markets Authority), and the French Association of Stockbrokerage Firms (*Association française des sociétés de bourse* – AFSB, now AMAFI). The Stock Exchanges Council was a peer-elected body, supervised by a government representative, which enacted and enforced the rules. The French Association of Stockbrokerage Firms repre-

market operators: the *Société du Nouveau Marché,* dedicated to smaller companies, the MATIF and the MONEP for futures and options. In September 2000, the exchanges of Paris, Amsterdam, and Brussels merged to form Euronext (Djelic/Lagneau-Ymonet 2009). When Euronext went public in 2001, French policy-makers did not insist on a hard core *(noyau dur)* of French shareholders for the Paris branch of Euronext, even though Euronext management, unlike the historical shareholders, had recommended measures to ensure ownership stability.

The French drive for financial sector competitiveness through liberalization was also in line with policies promoted by the European Commission. The latter aimed at the marginalization of direct state intervention in the ownership structure, governance, or strategy of firms; integration of the European financial sector through competition; and coordination of conflicting interests through marketization (Mügge 2006; Posner 2009; Jabko 2006). Underlying these policies was the conviction that financial market integration was more likely to result from enhanced competition between stock exchanges than from enhanced cooperation among fiercely competing stock exchanges. As Jabko (2006), Posner (2009), and Denord and Schwartz (2010) demonstrate at length, this conviction stemmed partly from the prior failure of efforts to link the main European financial markets by encouraging cooperation, and partly from a long-lasting ideological stance.

Moreover, party-strategic calculations meant that political leaders had strong incentives to prevent the NYSE/Euronext merger from turning into a central campaign issue in the upcoming presidential elections. The presidential candidate for the conservative party, Nicolas Sarkozy, sought to differentiate himself from the incumbent President, Jacques Chirac, and his archrival Prime Minister Dominique de Villepin by promising a *"rupture"* with the past. His aim was to appear as a fresh figure despite coming from the ruling party and having served as Chirac's minister for five years. To achieve this, Sarkozy deliberately distanced himself – at least during the campaign – from Gaullist diplomatic and economic policies by embracing more neo-liberal, free-market positions and by displaying admiration for the United States and the Bush administration. Meanwhile, the Socialists also lacked incentives to exploit the NYSE/Euronext merger as a campaign issue. Their party had lost the 2002 election by failing to gain the expected support from working class voters (Lefebvre/Sawicki 2005). A campaign focus on the stock exchange was not deemed a promising remedy. Moreover, in the wake of the failed 2005 referendum on the European constitution, divisions within the Socialist party over the desirability of further European integration ran deep, and the promotion of Euronext as a European champion was feared to further alienate left-wing voters.

sented the employers' interests. For the purpose of this paper, it suffices to focus on the entity that operates the Paris Stock Exchange, that is to say, the *Société des bourses françaises,* which became Euronext Paris after the creation of the pan-European group in 2000.

5 Conclusion

In sum, our article maps the public discourse surrounding the NYSE/Euronext merger to help explain why opponents of the transatlantic merger failed in their appeals to "economic patriotism." Discursive strategies designed to justify discrimination against territorially defined outsiders ran into several hurdles, including weak patriotic sentiments for the company concerned; a lack of patriotic alternatives to the proposed merger; and the questionable patriotic credentials of those demanding intervention.

Whether lower discursive hurdles would have allowed the build-up of sufficient political pressure to provoke stronger government intervention is impossible to ascertain. The French state is more than a mere arena for pluralist struggles among competing interests; rather, the decision not to prevent the NYSE/Euronext merger was consistent with a long-standing policy agenda of financial liberalization, and there is no counterfactual evidence. Whether French policy-makers opted to reduce their involvement in the stock exchange business because they genuinely believed in the regulatory efficiency of market forces once installed – a view widespread among EU technocrats, especially within the Internal Market Directorate (Posner 2009) – or because they failed to fully anticipate the consequences, is equally hard to establish. While most of them might have been fooled by the time-lag between the gradual sale of shares and the evident loss of French control over the exchange, some others (including the Finance Minister Thierry Breton, previously the CEO of Thomson and France Telecom, as well as the corporate lawyer Christine Lagarde, who was secretary of foreign trade at the time of the merger) acted out of conviction. Alain Madelin, a neo-liberal former French Finance Minister, for example, found it "rather obvious that a stock market enterprise be quoted on the stock market" (Business FM, Good Morning News, November 21, 2006).

Nevertheless, given the political context, it is plausible that the lack of broad electoral mobilization afforded policy-makers greater freedom to pursue their preferred agenda than they would otherwise have had. Even in statist France, elected politicians are never completely autonomous, and the timing of the merger – in the aftermath of the failed 2005 referendum on the EU constitution and in the run-up to the 2007 presidential elections – provided strong incentives for bowing to populist demands. The discursive hurdles identified above help explain why opponents of the merger failed to rally the public behind their calls for intervention.

Our article advances recent research on economic patriotism by identifying variables that help explain when governments choose to discriminate in favor of territorially defined insiders. To complement previous work on government action, we focus on the demand side – including the discursive dimension – of territorially based political intervention. By doing so, we also draw attention to hitherto unexplored effects of territorial ambiguities on the viability of economic patriotism. Demutualized stock exchanges have an ambiguous status as listed for-profit companies, on the one hand, and as trading platforms, on the other. As such, they can be portrayed either as national champions that are to be promoted wherever they choose to play, or as an essential part of the playing field that must be kept at home (or, by those opposing both kinds of political intervention, as ordinary private businesses that are best left alone). Where they are multinational enterprises, further ambiguities arise as to whether the national or the European level is the appropriate territorial reference for appeals to economic patriotism. Our article shows that, in the case of Euronext, such territorial ambiguities represented a discursive hurdle for the proponents of intervention.

To the literature on business–government relations, we contribute the insight that state withdrawal from the economy can lead to mismatched expectations regarding the allocation of responsibility for economic governance. Prominent members of the French business community expected to "have their cake and eat it." They used the new opportunities of demutualization to profitably sell control over the stock exchange to foreign investors without realizing that privatization also implied that the state could no longer be counted on to pick up the reins. Conversely, some politicians expressed disappointment that French shareholders of the newly demutualised stock exchange had chosen to pursue short-term material interests at the expense of the long-term public good. Both expectations are clearly incongruent with the idea of privatization, and one may doubt whether they were genuinely held. However, even if the mismatch of expectations was discursively construed on both sides in an effort to shift the blame, it shows that the allocation of responsibility for economic governance remains subject to frequent renegotiation, even after the formal withdrawal of the state. From a neo-Weberian perspective, one could analyze this situation in terms of an attempted re-patrimonialization of the state by the emancipated members of the "state nobility" (Bourdieu 1989). Business elites organized the dismantling of French state capitalism, but still count on their connections and credentials to influence the government whenever public action is required to serve their now-private interests (Dudouet/Grémont 2010; Jabko/Massoc 2011).

To research on the political implications of corporate ownership structure, we contribute new hypotheses regarding the relationship between "corporate insider" status and access to political privileges. Callaghan (2009a, 2009b) and Schnyder (2011) compare the effects of concentrated ownership on the politics of corporate governance across countries and over time. Their findings suggest that the relevance of network-based corporate governance mechanisms, which declines with ownership dispersion, affects preferences regarding legislative measures or merger proposals that threaten to disrupt network-based coordination.[11] In the case of the Paris stock exchange, increased ownership dispersion coincided with a declining willingness of policy-makers to discriminate in favor of territorial insiders. This may suggest that politicians are more inclined to discriminate in

11 Where dispersed ownership prevails, as it does in the UK, "insider" networks are less significant than are "outsider," "arms-length" mechanisms of corporate governance, which might explain weaker political resistance to foreign takeovers, minority shareholder protection, and active markets for corporate control.

favor of territorially defined insiders where the beneficiaries of discrimination are also "corporate insiders," capable of offering a quid pro quo for political favors.

Beyond that, our article opens up several avenues for future research. First, case studies of the political discourse surrounding other cross-border mergers in France and elsewhere would allow for a comparative assessment of the relationship between rhetoric, mobilization, and political action across sectors and countries. Across sectors, the takeover of the partly French-owned steel giant Arcelor by its Indian-owned rival Mittal in 2006 would make for an especially interesting comparison, because it shares not just the timing but also the multinational structure of the target company with the NYSE/Euronext merger. Across countries, comparison with the failed 2006/2007 bid by Nasdaq for the London Stock Exchange would help determine whether financial sector companies, and stock exchanges in particular, inspire stronger "patriotic sentiments" in Anglo-Saxon economies than they do in France. Comparison with Deutsche Börse, which remains locally rooted in Frankfurt after failed efforts to expand abroad, would contribute to a better understanding of the interplay between the regional, national, and European levels of public actions taken to amend the industrial outcomes of market competition.

Second, our article raises questions regarding the *causes* of stock market demutualization that are worth pursuing in light of recent research on institutional change and, more specifically, capitalist development. We show that some historical owners of the Paris stock exchange expressed discontent with the loss of control that resulted from demutualization. Why, then, did they agree to sell their shares in the first place? Careful process-tracing would help assess whether the demutualization process was driven mainly by short-sightedness, whether it resulted from power struggles within an increasingly heterogeneous group of financial intermediaries, or whether it was imposed from above. This, in turn, would throw light on the mechanisms that ensure why gradual change in contemporary capitalism, including change in stock market governance, is "not random but patterned, proceeding toward liberalization rather than in no particular or in some other direction" (Streeck 2009: 230).

Third, future research should monitor the *long-term* consequences of stock market demutualization for economic governance. Our article describes how the progressive dismantling of the club mode of governing the Paris stock exchange affected the balance of power between the proponents and opponents of stock market patriotism. In the long-run, the shift from user-orientation to shareholder-value orientation is likely to further exacerbate tensions between users, owners, managers and regulators. The experience of Deutsche Börse, whose management board was forced to resign in 2005 after an acrimonious battle with activist investors, provides a flavor of things to come.

Despite a likely increase in political tensions, especially after the recent financial crisis, the phantom of "economic patriotism" that has long haunted the French financial center – including the Palais Brongniart – seems unlikely to reappear any time soon. While the famously strong ties between political and economic elites that underpinned postwar French dirigisme persist, the significance of state intervention has profoundly changed since the 1980s. Our case study shows that, by the mid-2000s, elite networks notwithstanding, the French government's commitment to financial deregulation had become strong enough to withstand calls for discrimination in favor of territorially defined insiders. Whether the triumph of neo-liberal market mechanisms over network-based coordination is cause for concern or for celebration is a normative question relevant to much of contemporary industrial policy.

Sources

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The authors conducted one- to two-hour interviews with the following persons in their homes or offices in 2009 and 2010. The interviewees agreed that notes could be taken and that their names be mentioned, but declined to be recorded.

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Pervenche Berès, President, Committee of the European Parliament for Economic and Monetary Affairs (March 2010)
Arnaud de Bresson, General delegate, Paris Europlace (May 2010)
Bertrand Collomb, CEO, Lafarge (June 2010)
Jacques Hamon, Professor, University Paris-Dauphine (May 2010)
Pierre de Lauzun, Deputy general director, Fédération des Banques Françaises (May 2010)
Helmut Mader, Managing Director, Mader Capital Resources GmbH (November 2009)
Philippe Marini, Rapporteur, Finance Commission of the French Senate (September 2010)
Gérard Pfauwadel, President, Unigestion (February 2009)
Michel Prada, President, Autorité des Marchés Financiers (October 2009)
Edouard de Lencquesaing, Special advisor, Paris Europlace (February 2009)
Jean-François Theodore, CEO, Euronext (March and September 2010)
George Ugeux, CEO, Galileo Partners (April 2010)

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