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CHAPTER 2

Changing Role of the State in France: from Crisis to Crisis

MIKLÓS SOMAI

Introduction

In times of great socio-economic crises, considerations about the role of the state in the economy and the optimal size of the public sector always come to the forefront of public debates. So it happened following the outbreak of the 2008 global financial crisis. Although the neoliberal paradigm did not collapse and privatization continued (both worldwide and in France)[1] after Lehman Brothers filed for bankruptcy, the strengthening of state intervention in the economy, which took place parallel to privatization, has also been noticeable since then: first, through measures reinforcing the state's shareholder position; and second, through the expansion of state-owned enterprises, often across national borders.

This paper presents the role played by the state in the French economy thanks to its ownership in and control over the corporate world. Following some relatively short sections devoted to France's tradition(s) of centralization and the different waves of nationalization and privatization—the background of which is the crucial turning point in 1983, it gives an overview of the period since the global financial crisis with special focus on two main topics: public wealth management and the banking sector's crisis resistance.

[1] During the five years following Lehman's filing for bankruptcy protection (on September 15, 2008), public property worth of almost $40 billion has been privatized in France (*Privatization Barometer* 2016 online).

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Centralization Traditions

Due to the reigns of Louis IX "the Saint" and Louis XI "the Prudent" among other things, France was known to be a fairly centralized state as early as the fifteenth century. The centralization of the country's economic resources intensified during the Great Century[2] with the rise of absolutism and Colbertism,[3] as well as the implementation of fiscal austerity under both Richelieu and Mazarin.

Since the early seventeenth century, French governments have traditionally been closely linked to the big players of the economy; a practice introduced by Sully, the Minister of Finances under Henri IV. Power and business developed hand in hand, as the state had a continuous interest in maintaining a high level of intervention in economic affairs. Unlike in Germany or the United Kingdom where the nature of state influence on economy has changed with the political climate, the French people have a strong tradition of favoring big government and have great pride in their public sector.[4]

Taken more generally and somewhat simplifying our analysis of France's unique perspective on the role of government, there are two main differences compared to other developed countries' approach to state intervention. The first one is structural, based on the long-standing and steady tradition of centralization, which has led to the formation of permanent and powerful public administrations ("Grand Corps de l'État"), whose members have remained in their posts throughout changes of government. The second one is rooted in history and relates to the revolution of 1789, that is, a permanent search for the best public action for the sake of the French people's happiness, liberty, and fair treatment (Kolm 2010, 90–91).

[2] The period lasting from 1589 to 1715 (i.e., from Henri IV to Louis XIV), was when France both politically and culturally exerted the greatest influence on the development of Europe and the world.

[3] The royal manufactures developed by Colbert in France can be considered the first state-owned enterprises (Chevallier 1979, 16).

[4] It is typical that although people during the French revolution were desperate and upset about unbearably high taxes (especially those on peasants), it was not the state but the aristocracy and the clergy they blamed for the economic problems of the country (Meisel 2014, 81–82).

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Waves of Nationalizations

Temporary increases in the intensity of the state's direct economic intervention during the twentieth century can be interpreted as responses to the socio-economic shocks of the century. Nationalization typically took place at the end of crisis periods when the political and economic climate made them not only possible but often necessary.

Already during the period after World War I, mixed public-private companies were established to implement large scale hydro-energy projects and create "commercial and industrial public establishments" for running autonomous ports like those of Le Havre, Strasbourg, and Bordeaux (Chevallier 1979, 17–19). But the first big wave of nationalizations was linked to the establishment of the Popular Front (1936–1938), a left-wing party alliance. The policy mainly focused on learning the lessons of the Great Depression (1929–1933) and was intended to ameliorate its consequences (e.g., capital shortages). Several mixed companies such as Air France and SNCF were created by swapping debt (actually state subsidies) for equity, but the establishment of the first supervisory/regulatory authorities (e.g., the national Grain Board)[5] and the democratization of the Bank of France also took place during this period.[6]

In the aftermath of the great destruction caused by World War II, the political push behind nationalization dated back to the Resistance's 1943 program.[7] Also, it is necessary to remember that the Communist Party was the most important political force of France in the period during and right after the Liberation (Brucy 2001, 67). German businesses and business shares and those of French people who collaborated with them—for instance, the automobile company Renault and the Havas news agency—

[5] By way of price regulation and monopolizing warehousing and export/import activities, the Board tried to protect small farmers from the abuse of trusts'/big mills' dominant position (Bajomi 1938).

[6] The reform of the central bank changed the composition of the General Assembly. Unlike earlier, when it had been the privilege of the 200 largest shareholders to be present, all shareholders with French citizenship became entitled to participate in it, and each had one vote, irrespective of the number of shares he or she held (Banque de France 2016 online, 207).

[7] "The means of production incorporated in sources of energy, treasures of earth, banks and insurance companies must return to the Nation." In the text of the program, because of fears of dividing the movement, expressions of nationalization/socialization of the means of production had to be avoided (Andrieu 2014).

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were nationalized. The economic reasons behind nationalization could be explained by the enormous need for the reconstruction of infrastructure (like railroads, roads, energy, and pipelines) in the environment of general capital shortage. The political and economic motives behind the nationalization of most of the financial and insurance sector—that is, big saving banks, real estate, and agricultural lending—mutually reinforced each other as state ownership enabled savings to go towards the massive investment projects undertaken by the state companies operating infrastructure networks.

The duality of political and economic motives can also be found beyond the twentieth century's third major wave of nationalizations initiated by Mitterrand. By taking over 100 percent of all firms to be nationalized, the Socialists sought to deprive the country's industrial and financial elite (i.e., the heirs of Bank of France's main shareholders) of their economic power base, and curb the expansion of foreign capital in France. At the same time, at least in the case of industrial firms, nationalizations only concerned groups that were in need of urgent state aid (Cohen 1993, 794).

While post-World War II nationalizations had not yet involved commercial banks, the Nationalization Act of February 11, 1982 transferred the entirety of thirty-nine registered banks and two important financial groups to the state, in addition to 100 percent of the shares of the above-mentioned major industrial groups.[8] The state also acquired a blocking minority stake in the giants of the steel industry and in French and foreign-owned companies in certain high-tech sectors (e.g., IT, telecommunications, pharmaceuticals, aviation, aerospace, the nuclear and military industry) (Vessilier 1983, 467). Along with the already mentioned political and ideological motivations, the latter move may also have been justified on the grounds of national security.[9]

As a result of this third wave of nationalizations, the number of public companies rose to 3000, representing 23 percent of France's GDP in 1982

[8] A financial group is a group of companies in the center of which there is a bank that combines traditional commercial banking and investment banking, holds a highly diversified portfolio in various sectors, and therefore is able to exert pressure on a large part of the real economy (Harbula 1999, 246–48). In the case of three other banks, indirect state ownership was converted into direct (Loi 82-155 du 11 février 1982 de nationalisation, Article 12).

[9] Protecting strategic sectors is far from a French specialty. In the United States, the *1988 "Exon-Florio" amendment* to "Defense Production Act" gave the president a broad mandate to limit foreign investments in strategic sectors. Since neither France nor the EU has such legal instrument, state ownership continues to play an important role in protecting industries deemed strategic for national security (Cour des comptes 2013, 28).

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(*Vie Publique* 2018). A total of 670,000 jobs had been transferred from the private to the public sphere, and the total number of employees working in the public sector thus rose to a historic high of 2.3 million, representing more than 10 percent of the total workforce in the period between 1982 and 1985.[10]

When assessing the waves of nationalization, on the positive side, one can mention that public companies contributed to the country's post-war modernization (e.g., the development of gas supply, high-speed rail networks, and nuclear power industry), and the effective organization of public services by the managers of nationalized companies, who shared an educational background in France's top universities. Even if the 1981–82 nationalizations ultimately proved to be short-lived, they, nevertheless, facilitated the timely restructuration of French industry.

On the negative side, anxieties about the expansion of the public sector stem from the double risks associated with first, the government's intervention in day-to-day business operations ("manual control"), and second, the regulatory agency's eventual domination by the state-owned company that needs to be regulated ("regulatory capture").[11]

Crisis and Turning Point

After World War II, the state's regular and substantial intervention typically concentrated on a few large, so-called crisis industries. Shipbuilding benefited from regular subsidies starting in 1951, as did coal mining

[10] The percentage share of the public sector rose from 6.1 to 18.6 in terms of industrial jobs, from 8.0 to 22.5 in value added, from 9.2 to 23.8 in investments, and from 12.2 to 32.1 in exports (Bizaguet 1983, 455). The credit sector in the strict sense of the word—that is, excluding broker and financial advisory activities—nearly became completely controlled by the government: 90 percent of the liquid assets, 84.7 percent of loans to the economy, and 89.9 percent of those employed in the sector (458).

[11] Such capture has, in the literature, been typically linked to two major state-owned companies in France. One of them is EDF, which, by virtue of its accumulated knowledge concerning the sector, alone determines and executes the current French energy policy and defines the structure of energy production with the predominance of nuclear power (Kissler and Pautrat 2007, 33). The other company is SNCF, which, by pushing the concept of TGV (high-speed trains) to the extreme and thus contributing to the dereliction of regional railways, "captured" not only the regulator but also the infrastructure manager and the regional decision makers (Doumayrou 2007, 222).

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throughout the 1960s and the steel industry from 1966 onwards, although these subsidies were, by then, mostly based on industrial policy considerations and emerged in the context of (or as quasi-catalysts for) territorial development policy. The period between 1974 and 1984, which was burdened with oil and financial crises, did, however, bring strong constraints on structural change for French industry.[12]

While the crisis expanded to other segments of industry (textiles, printing, leather and footwear, machine tool manufacturing), the left-wing government that came to power in 1981 tried, if only for a couple of years, to return to previous voluntarist industrial policy. The old toolkit for rescuing companies had been significantly enhanced to incorporate sometimes even violent elements such as forced co-operation between banks and local authorities; the compulsory reorganization of management (that is, stuffing boards and filling leadership positions with political appointees); the imposition of special taxes on companies' public customers, etc. The former "catalyst function" of government support was replaced by the "protecting state function": economic rescue operations became increasingly costly for the national budget (Cohen 2007, 10–12).

In France, the neoliberal turn had to be postponed until 1983. In addition to three consecutive minor devaluations of the Franc and the introduction of a price and wage freeze in the public sector as of June 1982, drastic austerity measures were announced in March 1983.[13]

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[12] In order to understand how harmful the crisis was, it is enough to remember that nearly one-third of French industrial jobs had been lost between 1978 and 1985 (Cohen 2007, 20).

[13] Apart from significant cuts in public expenditures, there were new taxes imposed, the wealthy were obliged to purchase state bonds, and restrictions were placed on foreign currency outflow (Souriac 1996, 141–42). *Note*: The three mini-devaluations may, at first glance, seem meaningless. It should, however, be remembered that within the framework of the European Monetary System (EMS), which has been in place since 1979, only minor exchange rate adjustments were permitted if agreed upon with partners beforehand. The real choice was between leaving the EMS, thus permitting the Franc to depreciate, which would have slowed down imports and protected French industry and jobs, or remaining in the EMS and avoiding—by means of austerity (a policy so credible in the eyes of the mainstream elite)—the need for further devaluations, giving a chance to structural change and industrial modernization. And indeed, the policy of a "strong Franc" and low inflation has followed since 1983, and eventually led to low interest rates, structural consolidation, and sustained growth. The three "mini-devaluations" could ultimately be judged as the strong commitment of France to European integration (Asselain 2002).

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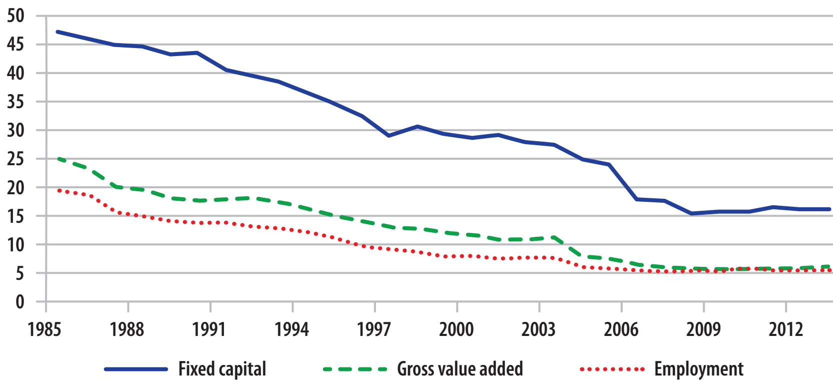
There were also radical changes made to economic rescue policy: the procedures for bankrupt companies were reorganized (reshaped) on a market basis (as opposed to a power politics basis) and their cases were assigned to commercial courts. The number of expensive state interventions decreased substantially, providing space for consultative, professional advisers and analysts. In cases where interventions still did take place, it was the territorial administrative level that had increasingly been charged with footing the bill. Moreover, if a troubled company needed life breathed into it, central authorities were becoming less and less reluctant to solve the problem by turning to foreign investors.

Reprivatization

The quarter century following the left's neoliberal shift in 1983 and lasting up to the 2008 crisis saw a continuous decrease in the economic role of the state. Regardless of their political affiliation, and on the basis of the growing inclination to implement neoliberal economic policies, all French governments have felt it their duty to continue reprivatization. As a result, the weight of SOEs[14] in the French economy has decreased substantially. Since 1985, their share shrank to one-third in fixed capital, one-fourth in employment, and one-fifth in GVA (Figure 1).

Figure 1

The changing importance of the public sector in the French economy (1985–2013)



Source: INSEE, 2016a. Note: The significant downturn in the public sector fixed capital share after 2005 was due to the privatization of motorway companies in 2006.

[14] State owned enterprises are defined as companies in which the public has majority ownership (*Vie Publique* 2018).

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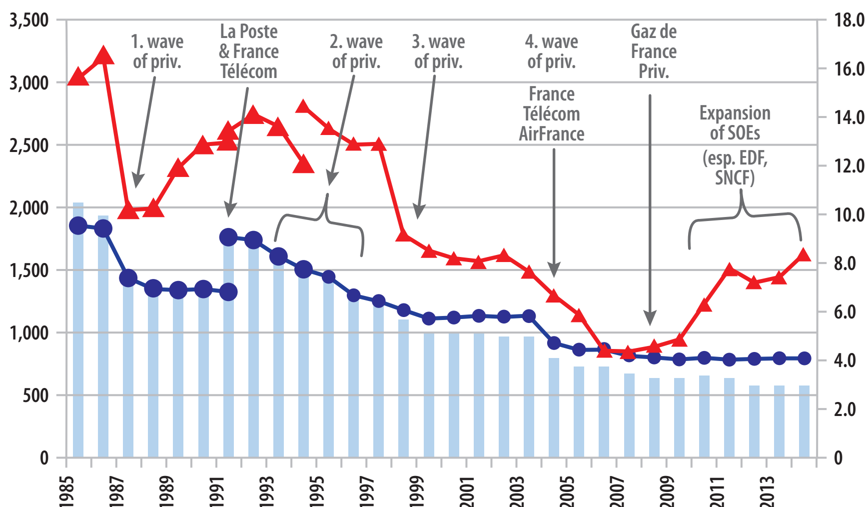
The fact that the public sector has been diminishing in importance can also be observed in the decline of the number of SOEs and employment in the state sector (Figure 2). Between 1986, the last year before the formal privatization process began, and 2007, the last year before the global financial crisis had been felt fully, the number of SOEs fell by three-fourths, and the number of people employed by them fell by more than half. In the same period, the share of SOEs' employees in the total employment figures fell from 10 to 3.5 percent.

Figure 2
Number of SOEs (triangles, lhs), number of people employed in SOEs (spots, x1000, lhs), and their share of total employment (bars, percent, rhs)



Source: Author's own compilation based on *INSEE* 2016b.
Note: Discontinuities in series for the bars and spots were due to the 1991 split of *PTT*, a former government department, into two public law corporations: La Poste and France Télécom, which caused an increase of 400,000, or 2 percent of SOEs' employees. The discontinuity for the graph's triangles in 1994 was due to a change in methodology.

As a result of the privatization process, French corporate structure (especially concerning the largest firms) has significantly changed and has been fortified. The incumbent government had actually been free to decide on the shareholder structure in companies slated for privatization. As a defensive move against potential hostile takeovers, so-called "stable nuclei" were formed with the participation of around ten to twelve larger share-

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holders— i.e., institutional investors who were often slated for privatization as well—who individually acquired between 0.5 and 5.0 percent of the corporation's capital.

Although the Minister of Finance tried different combinations of large investors when preparing "stable nuclei" in order to prevent accusations of corruption, top managers and members of boards in the privatized firms were almost exclusively people from right-wing politicians' and their friends' and relatives' circles, members of the French establishment who graduated from ENA[15] or Polytechnique, the most prestigious and elitist high schools, or those who came straight out of the Grand Corps of the State.[16]

Because the big French companies purchased each other's shares, even if in relatively broad circles, a complex network of cross ownership was established, which, by its mere existence, ruled out any possibility of hostile takeovers. This practice (common educational background plus cross-ownership) enabled a high level of coordination and protection of both business and political interests (Harbula 2007, 5). As a result, instead of creating a new economic system based, as originally planned, on masses of small shareholders and the primacy of market forces,[17] the reprivatization process bolstered the system of "establishment solidarity," a French tradition of "capitalism without capital" and a financial market without sanctions; in short, a sort of "capitalisme à la française" (Bauer 1988, 59–60).

The process of privatization lasted so long not only because of the large number of companies to be privatized, but also because all along, the deregulation/privatization of certain sectors (e.g., telecommunication) was defined by two different approaches to public services that had been competing with each other: the American approach based on Anglo-Saxon legal traditions (focusing on the "product"), and the Latin-European tradition based on Roman law.[18] Additionally, for the French, public services have traditionally been part of their history, culture, and rule of law; something connected to the elimination of feudalism; a sort of republican value. In French public services, the principle of equality prevails, and a system of

[15] École nationale d'administration (National School of Administration).

[16] Already mentioned under the subheading Centralizations Traditions.

[17] "Market forces were involved neither as an actor in the privatisations, nor as a regulator of the privatized groups" (Bauer 1988, 60).

[18] With some simplification, the obvious differences in approaches are attributed to the assumption that while English common law was the product of judges, Roman private law was the work of jurists (Watson 1990, 249).

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differentiated tariffs allows transfers among social strata and geographical regions, which enhance social, economic and territorial cohesion.

In contrast, through deregulation, this enhanced (French) interpretation of public services has inevitably been restricted to an Anglo-Saxon concept of "universal service," which has eventually come to mean nothing more than an obligation to provide everybody a certain minimum set of services (at decent prices). Collective utility and related positive externalities were all ignored by this new concept of public services. By pushing back the role of the state, there was a limit placed on income redistribution through tariffs and equalization payments, which had long been a traditional element of French territorial cohesion.

Breaking up monopolies, taking apart segments of the market, separating network infrastructure from services, all of this weakened the positions of both the state and historical service providers, while at the same time, under the pretext of competition, it provided global market actors with open access to national infrastructure, which had previously been built and operated with taxpayers' money. The result was that instead of a monopoly, an oligopolic system emerged (Musso 2008, 15–18).

While on the eve of the global financial crisis, the scope of centrally managed financial institutions only included the CDC,[19] the BPI,[20] and the Banque Postale, some other sectors of the economy still remained under significant state control. In the case of operators of natural monopolies and some major public service providers (the post and railways)—fearing social conflicts and/or due to low profitability—as well as some businesses of strategic importance (e.g., Areva, the worldwide player in nuclear energy), Paris has continued to abstain from privatization (Fournier 2014).

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[19] The *Caisse des dépôts et consignations* [Deposits and Consignments Fund] is a special French public financial institution under parliamentary control that is responsible for collecting tax-free retail deposits (so-called *Livret A*) and financing social housing, local government investments, and especially those slow-return economic development projects (in the field of infrastructure, urbanization, and environment) that are of little interest to the private sector. Its role has recently been questioned because of the archaic monopoly it enjoys concerning mandatory deposits of some regulated professions (like notaries, trustees, liquidators, bailiffs), real estate deposits, and minor mannequins' and actors' salaries, which, because of economic inertia, present stable sources for its medium- and long-term investments and the opportunity to engage in risky financial market transactions (*Generationlibre* 2016 online).

[20] The *Banque publique d'investissement* [Public Investment Bank] is a public investment bank aimed at supporting national and regional development policies and the participation of small and medium-sized enterprises in them.

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Crisis = Change?

In France, the 2008 global financial crisis cannot be considered a landmark for the role of the state in the economy. There was neither a break nor a change in the prevailing paradigm. There have, of course, been pros and cons to increasing or decreasing the scope of public intervention, but there was no major change in the overall trend. The privatization process already slowed down well before the crisis, and in the life of the biggest SOEs, 2004, the year the Government Shareholdings Agency (APE[21]) was established, was more important than 2008.

There is, however, a relationship between the crisis on one hand, and public thinking about the role of the state—or rather the changing role of the state—in the economy on the other. As a matter of fact, the crisis, which caused millions of people to lose their jobs and homes, has given further impetus to the trend of implementing increasingly stringent (i.e., private-sector-style) management practices in public companies.

French Banks and the Financial Crisis

The 2008 global financial crisis hit the banking system in France much less severely than in other European countries with similarly sized economies, because, due to various reasons such as regulatory and structural features to be explored later in this chapter, it was relatively less exposed to shocks from abroad. The French have indeed spent comparatively little on bailing out their financial institutions—5.6 percent of GDP (i.e., €119 billion) between 2008 and 2014, which was a very low level in the EU, especially among the old member states. Out of the EU's six largest economies, France ranks last (Figure 3). Of this amount, 21.1 percent went to recapitalize banks, and 1 percent went to finance impaired asset measures. The remaining 77.9 percent consisted of *de facto* state guarantees given to cover part of the liabilities, originally amounting to EUR 319.8 billion, of which only €92.7 billion was used.[22]

[21] *Agence des participations de l'Etat.*

[22] A significant part of the support was given to the two banks that suffered the most from the U.S. subprime mortgage crisis: Natixis, a bank formed through the cooperation of *Banque Populaire* and *Caisse d'Épargne* set up in 2006, and the French-Belgian *Dexia*. Both of them got into trouble because of their subsidiaries (FSA

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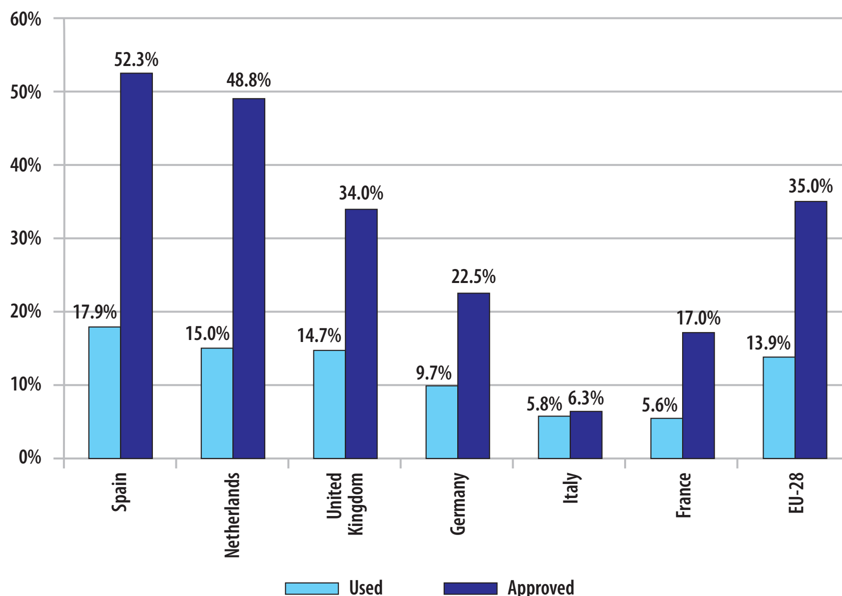
Figure 3
State aid to financial institutions between 2008–14 in the EU's six largest economies (percent of GDP)



Source: author's own compilation based on data from *EC, DG Competition* (2016 online).

Eventually, French taxpayers were fairly content with the relatively low costs incurred by them when facing the consequences of the global financial crisis on their banking system. Also, public subsidies, most of which were concentrated in the early years of the crisis, did not need to be significantly increased later.[23]

and CIFG respectively) were two of the biggest American "monoline" insurance companies. The latter institutions were originally narrowly focused on providing financial guarantees to municipal bond investors—that is why they were called "monolines": to distinguish them from "multi-line" insurance companies, which also offer life or property and casualty insurance. After 1985, however, in a search of higher profit, the "monolines" began to diversify themselves by taking on lucrative RMBS (residential mortgage-backed securities) and other structured products, which, because they were heavily leveraged through the U.S. housing boom (2002–2006), put their whole business model at risk (Lautier and Simon 2008).

[23] At the same time, it should not be forgotten that French banks were heavily exposed—both at home and, via their subsidiaries, abroad (especially in South Europe)—to the secondary effects of the global financial crisis, i.e., the slowdown in economic growth and the sovereign debt crisis (Howarth 2013, 381).

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When examining the background of the above events, it is important to be clear about the significant changes in the French financial system triggered by the neoliberal turn and the subsequent privatization process starting in the mid-1980s. The dominance of state (public) ownership ended quickly, when the largest commercial banks were listed on the stock exchange. All French banks, which were covered by the same (unified) legal framework starting in 1984, were allowed to become universal banks: this made it possible for them to diversify in ways that moved them away from their former core activities towards more profitable ones. The stock market was flourishing, and the MATIF[24] began trading futures in 1986. The removal of credit market restrictions spurred competition in the internal market. Links between French banks and non-financial firms, which had never been as tight as in Germany, became even looser, especially for CAC40's blue chips, which relied increasingly on the financial market. The French economy had "moved from a financial network to a financial market form of capitalism" (Hardie–Howarth 2009, 1020). But this change was not unreasonably fast. The "built-in brakes" of the old model worked, and they eventually helped shelter the French financial system from suffering as much as its British or German counterparts from the global financial crisis.

What were the 'built-in brakes' mentioned above? First, it was the very structure of the financial system. As a result of the privatization process in France, a highly concentrated financial system emerged around a small number of giant banks: these banks were interconnected in a complex cross-ownership network together with large corporations in other sectors of the economy. And although in the decade preceding the crisis—parallel to the growing internationalization of French economy and stock exchange—the extensive network of cross-ownership had begun to unravel, the economic model based on financial networks continued to exist in many respects. On the one hand, financial institutions, like most of the giant corporations, continued to have large shareholders with (in most cases) blocking minority control (Harbula 2007, 448). On the other hand, there was still the overrepresentation of people from the Ministry of Finance or bank supervision authority and other senior officials of major state bodies —that is, the so-called elite network—on the companies' boards, all of whom had pursued relatively standard careers and all knew each other from school (Schmidt 2003, 542).

[24] Marché à terme international de France [International futures market of France] (now Euronext Paris S.A.).

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Managers' common "cultural" background (in public administration) prevented financial companies from engaging in overly risky transactions, or at least gaining too much importance from them in their business turnover. In this respect, it is typical that when financial liberalization broadened the scope of activities, French banks began to establish strongholds in retail banking services, especially in Southern Europe, since these same countries had long been France's financial hunting grounds.[25] In contrast to the British and German examples where the internationalization of financial activities was almost exclusively in corporate lending and investment banking, the French banking sector gained international prominence by investing in retail banking, which was deemed to be a relatively low-risk business line. Undoubtedly, the strong retail component (both domestic and international) of the French banks helped lessen the overall impact of the global financial crisis (Hardie and Howarth 2009, 1023).

A similar cautiousness with regard to the use of derivatives in trading activities can also be observed. French banks mostly specialized in equity, interest, and exchange rate derivatives, from which record earnings mitigated the impulse to extend into more risky credit derivatives.

On the whole, for their size, and thus their ability to resist market turmoil, French banks:

a.) invested little in assets that later became toxic (notably products based on American subprime mortgages);
b.) were less involved in setting up off-balance sheet vehicles (OBSV, like SPVs/SPEs),[26] securitizing property-based financial products (especially billions of dollars' worth of risky U.S. subprime mortgages), i.e. wrapping them and selling them to investors in tranches;
c.) were, in general, less engaged in the securitization of lending; and
d.) were less reliant on short-term interbank lending (Howarth 2013, 376–77).

The above listed features of the French financial system may partly be explained in terms of banking strategy. But this uniformity of all or most of the largest French banks could also be described as systemic, and as such, ultimately linked to some permanent elements of French economic policy.

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[25] As a result of their rapid expansion in Italy, both *BNP Paribas* and the *Crédit Agricole* counted the country as their second "domestic" market by 2006–7 (CECEI 2007, 127).

[26] Special Purpose Vehicles or Special Purpose Entities.

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It is no wonder that the state action to boost investments and replace traditional funding sources for NFCs (such as retail deposit and commercial papers) through encouraging banks to engage in securitization was unsuccessful, if on the other hand, laws and regulations like those limiting the type of assets to be securitized or the maintenance of red tape surrounding the creation of OBSVs endured. Furthermore, in order to create and strengthen big banks as market leaders (so-called national champions), a number of laws and regulations remained in place for decades—such as the limitation on the distribution of certain types of accounts (like *Livret A*) with fiscal advantages for their holders to a small number of financial institutions; the preservation of the privileged role of the CDC; and the strengthening of the regulation thwarting hostile takeovers of large national companies.[27] The maintenance of those laws and regulations provided French banks with effective protection as well as a kind of guiding framework.

Although the French financial system has become extremely open, the "internationalization" of the market did not lead to a significant expansion of foreign banks in France. In fact, the opposite happened. In response to increased competitive pressure, there was strong concentration in the financial sector, with the ever-larger French banks expanding to foreign markets. This expansion could not even be stopped by the global financial crisis. The contemporary problem is that certain banks have grown too big, and four out of the five largest financial institutions in France have already appeared in the list of the FSB[28]. This list identifies the thirty Global Systematically Important Banks (G-SIB) which, by their problems, size, complexity, and interconnections, pose systemic risk to the global financial system (FSB 2015, 2016).

The state has played a prominent role in the development, internationalization, and increasing market orientation of the French banking

[27] As of 1989, the former regulation about the requirement to notify the relevant (financial market) authority in case any person's or entity's shareholding reached a certain threshold (5 percent, 10 percent, 15 percent, 20 percent, 25 percent, 30 percent, one-third, 50 percent, two-thirds, 90 percent or 95 percent) in a listed company, was supplemented by a new provision which has since proven to be most effective in the protection of big banks. According to the provision, beyond the threshold of 33.3 percent, there was an obligation to make a public bid of up to at least 66.6 percent, making it prohibitively expensive to venture into any hostile takeovers against large French corporations (Borgomano et al. 2016 online).

[28] The Financial Stability Board is a Swiss-based international body that monitors and makes recommendations about the global financial system.

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system, and has done a great deal to keep the sector afloat in the worst period of the global financial crisis, even without directly intervening in the market. As of the beginning of the 2000s, the preference for indirect tools of economic policy over direct ones has gained ground in other strategic sectors too. Successive governments made increasing use of market methods.

Government Asset Management

Although the (re)privatization process that started at the mid-1980s has, in several waves, substantially narrowed the government's latitude to influence the economy, this did not mean that debates about how the remnants of the public sector should most effectively operate were over. The analyses forming the basis for these debates developed principles and recommendations, and also exposed the unsustainability of the situation. Let us start with the latter.

As markets became increasingly open to international competition; European competition policy became less and less permissive with regard to the finances of public-sector companies; the amount of profits available in the financial sector clearly rose to well above those in the real economy; and radical changes occurred in shareholders' role and management methods of private companies —the state was unable to reconstruct itself at such a fast pace, and companies of the public sector remained partially regulated by rules and laws dating back to the 1950s (!) (Minefi 2003, 7).

As for the principles and recommendations contained in the analyses, it is worth mentioning the need for:

- a clear separation of the state's shareholder function from its other functions;
- operational and contracting transparency;
- the outsourcing of public services via a transparent and accountable concession contract administration process;
- a clear distinction between public services and services of public interest;
- the separation of public sector activities from market sector activities;
- opening up the latter for private investment by transforming utilities into joint-stock companies;
- and finally, setting up a state wealth agency.

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All analyses agreed that the government must seek to establish policies and institutions by which it would able to pursue a responsible asset management policy, thus promoting the development of the companies in its portfolio (Minefi 2001, 2003; Barbier de la Serre et al. 2003).

Finally established by decree in 2004, the Government Shareholding Agency's mission, main objectives, and guidelines concerning its operational functioning are as follows:

- the APE acts as a prudent and well advised long-term equity investor in companies deemed to be of strategic importance for the country;[29]
- revenues generated by the APE should be reinvested in wealth management or used to pay down public debt[30] (APE 2016 online/a,b);
- for the APE, four main objectives are identified as necessities:
  - to maintain a sufficient level of control in strategic companies—such as 100 percent in electricity grid management, 70 percent in gas and electricity service providers, and 50 percent in the Paris airports operator ADP (Aéroports de Paris) (Sénat 2016);
  - to preserve strong public services operators able to meet France's basic needs;
  - to help consolidate and develop businesses in sectors driving economic growth both in France and Europe;[31]
  - to proceed with *ad hoc* bailouts of companies whose failure could lead to systemic risk (*APE*, 2016 online/c).

[29] Companies of strategic importance are, e.g., those that enjoy a natural or market monopoly, or operate in the field of security, defense or the nuclear industry, whose investments are to be financed by the state through capital increases (i.e., not by indebting them) in accordance with Article 107 of the Treaty on the Functioning of the EU relating to state aid (Boillon 2014, 41).

[30] In 2015, €800 million of the proceeds of disposals was used in this way (APE 2016).

[31] In order to achieve this goal, it is not necessary for the state to be a majority owner. Depending on the shareholder structure, 5 to 30 percent of public ownership may generally be sufficient (APE 2016 online/c). Note, however, that although the success of companies and their value creation is dependent on the economic sector they are in rather than their shareholder structure, research shows that companies with controlling shareholders generally outperform their counterparts with fragmented ownership. Nevertheless, corporate performance improves with increases in controlling shareholders' shares until the latter reaches an optimum level (at about 25 to 30 percent), and then it gets progressively weaker (Harbula 2007, 449).

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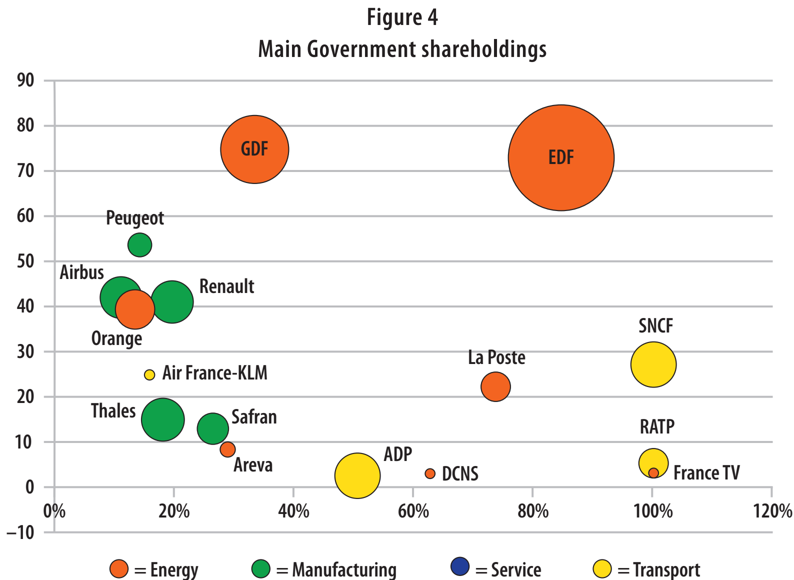
The APE 2014–15 annual report revealed that this small agency, which has a staff of slightly more than fifty, manages a portfolio worth €90 billion (including €60 billion in listed companies alone). The eighty-one businesses belonging to its portfolio generated an annual revenue of €147 billion and employed almost 1.7 million people in 2015. In that year, APE paid dividends worth €3.9 billion into the general budget. APE's portfolio, which contains both direct and indirect shareholdings, is extremely diverse both in terms of the sectors covered—though with the prominence of aerospace/defense, energy, transport, automobile manufacturing, services (particularly telecom, postal, and banking), and audio-visual—and the size of the government's stake in the individual companies (for the main elements of the portfolio, see Figure 4).

Figure 4
Main Government shareholdings



Source: author's own computation based on *APE* 2015. Listed companies (circles) and non-listed companies (shadowed circles: SNCF, La Poste, RATP, DCNS, and France TV). The size of each circle is proportional to the Government's equity stake (calculated on the basis of stock market value in the case of listed companies). In this figure, there are companies with more than 10,000 employees. X-axis: share of state ownership. Y-axis: annual turnover (€ billion)

As for the above-mentioned recommendations preceding the establishment of the APE, most of them—for instance, the separation of shareholding from other state functions; the contractualization of public services and their transformation into concessions; the separation of commercial activities (from those under public service obligations); and the opening

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of SOEs' capital to private investors—were taken into account and put into practice by the government. The one related to the transformation of state-owned entities was so widely supported that by mid-2014, the vast majority (68 percent) of the firms in the government's portfolio (of which several symbolic ones like ADP, EDF or GDF since 2004–5) have operated as public limited companies[32] (Boillon 2014, 46). The advantage of being a PLC resided in the fact that it was much easier for enterprises to raise funds, and they could more effectively mitigate risks and losses associated with business cycle volatility and market fluctuations than if they remained in their former legal form.

At the same time, recommendations concerning transparency of operation and contracting have not been fully implemented yet, or more precisely, there has been some controversy surrounding government intentions and actions. On the one hand, legal changes (a law from January 2014 and a decree from August 2014) have taken effect, which simplify life for public companies, making it similar to that of private companies by relaxing the rules on the composition of both management and supervisory boards.[33] On the other hand, apart from the remnants of French protectionism present in some out-of-date laws and regulations, a new wave of economic patriotism has recently arisen and been institutionalized in a law from March 2014, the so-called *Law Aimed at Recapturing the Real Economy*. This law initially made it more difficult to shut down factories and initiate mass layoffs in companies employing over 1,000 people in France by slowing down and rendering the process more expensive. Second, through the generalization of double voting rights in listed companies[34] for those

[32] The portfolio also encompasses other legal forms: government-funded industrial and commercial institutions (e.g., RATP, SNCF network), government-funded administrative institutions (e.g., National Highway Authority), government-funded institutions (mainly sea ports), and semi-public companies (e.g., Semmaris, the operator of Paris-Rungis, the world's largest wholesale food (fresh produce) market) (APE 2016).

[33] In the wake of the changes—as board members, instead of being appointed from a limited group of senior civil servants, could be drawn from a larger pool of experts, a method more suited to companies' interests—the number of political nominees reduced substantially. While in 2013, the state still participated in the nomination of 936 administrators, of which 366 represented the state directly, in 2015 these numbers fell to 765 and 272 respectively (APE 2016 online/c; APE 2013, 7; APE 2016, 17).

[34] More than half of the CAC 40 companies have as yet introduced double voting rights. The French government now has double voting rights in Renault,

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holding their shares for at least two years, it strengthened the state's controlling role.[35]

Certainly, there were one or two cases when the law helped to preserve jobs.[36] But the law was more about the Socialist Party's (governing France between 2012 and 2017) desire to expand its electoral base by appealing to voters receptive to the idea of economic patriotism. Experience shows, however, that the pursuit of consensus or the implementation of methods borrowed from the private sector, like APE's asset management, can be more effective than pushing through laws in the interests of domestic players.

An example of the consensus-seeking approach was when Peugeot SA (or PSA), Europe's second largest carmaker, Dongfeng Motors, its Chinese partner, and the French government agreed to collectively invest €3 billion in capital increases—providing €1.4, 0.8, and 0.8 billion respectively, much-needed cash to keep PSA afloat—in return for each receiving a 14 percent stake in the company.[37] The agreement made it possible to simultaneously avoid factory shutdowns, keep three quarters of research and development activity in France, and help the company expand internationally.

The efficiency of APE's asset management can be confirmed through the post-2009 expansion of both EDF and SNCF (as shown in Figure 2), which was made possible by the introduction of modern corporate governance methods borrowed from the private sector. Because of its extensive subsidiary network, the acquisition of Dalkia alone by EDF in 2014 increased the number of SOEs by almost 200.[38]

Air France, Safran, Thales, PSA Peugeot Citroën, Orange, Aéroports de Paris, CNP, Areva, EDF and ENGIE (APE 2016, 22).

[35] The legislators' proclaimed intention with the law was to protect companies against speculative attacks, but in practice, it made possible for the state—in order to reduce general debt or finance other investments—to sell its shares without having to reduce its influence in those companies (Errard 2015).

[36] See e.g. the capital increase in Renault, by which the influence of the state has grown so that it will certainly be able to prevent plans for endangering jobs in France. (*Le Monde* 2015) At the same time, the deal was rated differently by the stock market: Renault shares dropped by a third in the short term, and have been since then fluctuating approximately 10–15 percent below their former value (*Euronext* 2016 online http://www.boursedeparis.fr/products/equities/FR0000131906-XPAR).

[37] Before the savings deal, the Peugeot family had 25.4 percent of the capital and 38.1 percent of the voting rights (*HuffPost* 2014).

[38] If the number of employees seems not to keep up with the increase in the number of state-owned companies (in Figure 2), this is due to the continuous "rationalization" of staff at the major public sector employers (e.g. railways, post and energy) (INSEE 2016b).

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Final Remarks

Regarding the economic role of the state through state-owned enterprises, today's France does not provide much of a contrast to its main partners anymore.[39] If it still seems to be different, this comes partly from the common educational and cultural background of the French elite (see French banks' effective crisis resistance) and partly from the efforts of the Socialist government (in power from 2012 to 2017) to maintain at least the semblance of its commitment to economic patriotism in order to enlarge its electoral basis. But against the reality of globalized competitive markets, all of those efforts are worthless. If the prospects for return on capital are higher outside of France, investments will take place abroad.

What is positive (or promising) is that two-thirds of SOEs in France already operate as plc, in conditions increasingly similar to those of private companies. Several SOEs have even changed their names to separate themselves from the old-fashioned, paternalistic culture their former names connoted.[40] However, in companies that have not yet been transformed, there is still the risk of "manual control," that is, the intervention of the "owner state" in day-to-day business operations.[41]

Although the global financial crisis did not cause a paradigm shift regarding the role of the state in the economy, the ideological foundations of the previous (re-privatization) policy have been shaken. In certain functions, state (public) ownership proved to be viable and crisis resistant, thereby justifying its existence. The privatization process did not come to a halt—currently the sale of the airports is on the agenda—but the time of the state's continuous withdrawal from the economy is over. Some of the ongoing processes—e.g., challenges related to climate change, to be

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[39] According to data from the French statistical office (INSEE), at the end of 2014, 1,632 French companies were under state control, with a total of workforce of 795,000 people. 85 percent of employees worked in the field of transport, transportation, or warehousing (60.7 percent), power generation and supply (16.7 percent) or science (7.6 percent) (INSEE 2016b). In 2012, the book value of equity of SOEs relative to GDP was lower in France than in the Netherlands, Sweden, Finland, Italy, the Baltics, Czechia, Poland, or Ireland (EC 2015, 25).

[40] That's how Gaz de France became *Engie*, and France Télécom became *Orange*.

[41] Boillon raises several examples including when the already heavily indebted SNFC was forced into the purchase of 40 TGV trains from Alstom to preserve jobs in the latter's factories (Boillon 2014, 67–68).

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addressed as a major priority for the coming decades—already suggest that demand for public intervention in certain sectors of the economy may be rising (Fournier 2015).

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