A revival of State capitalism

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First, I want to thank you for your invitation to this seminar. I am very happy to have this opportunity to exchange with all of you. I want to say that on behalf of international CIRIEC I am very proud that the work programme of the CIRIEC international scientific commission on « public services/public enterprises » chaired by Massimo Florio has resulted into the publication of this Handbook on State-owned enterprises. Because of the Covid pandemic, we had not enough opportunities to communicate about this publication and to exchange around it with number of managers of State-owned enterprises who are also members of CIRIEC. This is still to be done.

CIRIEC will celebrate its 75th anniversary next year. Since its foundation by Edgard Milhaud in 1947 in Geneva, it brings together hundreds of people (managers and researchers) interested in the economics of collective interest, especially the State intervention in the economy including State-owned enterprises at national land local level. CIRIEC set up many study groups and organized many events to exchange ideas between managers and researchers, seeking for mutual enrichment. CIRIEC realizes and publishes scientific books and articles on public enterprises as such, but also in relation to other forms of organizations that contribute to the collective interest such as what we call « social economy ». A special mention to the *Annals of Public and Cooperative Economics*, our international scientific review, that under the editorship of Marco Marini, has obtained a high scientific recognition.

When we look at all the scientific work done during these 75 years, we may of course observe a few remarkable evolutions. CIRIEC was founded in the post-war period that was a kind of Golden Age for the State-owned enterprises, at least in Western European countries. As we know, there was a big move at the end of the 1970s. We entered then into the « privatization » period. In the cases where regulation was not necessary to insure a good quality service at a good price, privatization (and competition) were favoured by almost all governments. In the cases where regulation was necessary, regulation became the most important tool to pursue collective or public interest and the type of ownership became a secondary issue. CIRIEC experts have worked a lot on regulation, on definition of universal service, on the condition of provision of services of general (economic or social) interest, and so on. Quite symptomatic is the fact that CIRIEC's international scientific commission on public enterprises that brings together many experts worldwide decided in 2002 to adapt its name and to become the commission on public services and public enterprises. The main entry point was henceforth the mission of public services, whereas the specificity of public ownership became questionable in times of regulation and competition.

Then, again a big move in 2008. After 30 years of withdrawal of the State in fiscal, industrial and monetary policies, of supremacy of the private enterprise model and of market fundamentalism as Joseph Stiglitz said, heavy interventions by the States were the only response to the financial « subprime » crisis. In order to avoid reviving the Great Depression of the 1930s, all the governments implemented Keynesian policies and took over the control of private enterprises that became partially or wholly State-owned enterprises. Of course this move was considered by many as a parenthesis. Indeed, fiscal discipline was very quickly put again at the forefront of the economic policy of the States especially in the European Union; with as consequence, what was called the EURO crisis in 2011. And ten years later, again a worldwide crisis: this time a pandemic crisis. Again, very heavy interventions of the States, maybe never experienced before in times of peace. Public enterprises and public services have played and are playing a frontline role in the fight against the pandemic and for the maintenance of essential services (health and social services, transport, water and energy supply, telecommunications, waste collection, etc). This crisis reveals again the weaknesses of our economic system and the very deep inequalities that remain and are even increasing between countries and within each country. In this respect, it is to note that recent statistical reports highlight that disparities and inequalities rise more and faster within a single country, than between countries. This also reveals the role that public entities must and do play to deal with the challenges of the post-covid time: that is to develop collective action and to co-construct sustainable development policies that combine social and economic progress, environmental and health protection and preservation of resources. The in-kind services and facilities offered by public enterprises and organisations, notably in the field of health and education but also in securing access to water, energy and housing, often prove to be more effective in the long run than cash transfers, which would then be used to buy those services.

State interventions, public services and to some extent, State-owned enterprises are no longer "bad words". There are currently many State-owned enterprises in all parts of the world, but they are different from those of yesterday as very clearly shown in the Handbook. They are very often different in terms of sector of activities, formal structure, governance, goals and missions, profitability, international activities and so on. I think that we may even say that a new type of State capitalism is emerging. I think that this new type of State capitalism is exemplified by Sovereign Wealth Funds (SWFs) which are a type of State-owned enterprise that should be more closely analysed.

There are different types of Sovereign Wealth Funds as shown in the Handbook. The best known are those funds created by States that have made use of budgetary surpluses generated from exports of raw materials. With these surpluses, the Sovereign Wealth Funds have bought equities, financial and real assets often in many parts of the world. Their main goal is to generate additional revenue in the future when the exports of raw materials will stop. It is a kind of buffer, a saving for the future generations.

These funds very often follow a long-term strategy and in this sense, they are part of the co-construction process of sustainable development policies. Maybe the best example is the Norwegian SWF that "has been instructed to divest from fossil fuel-based projects and companies, and to plan investment according to a climate-friendly strategy"[1] as mentioned by Stefano Clò. Moreover, the return is "ploughed back into the economy to improve public services for the benefit of citizens"[2]. In some other cases, we must mention that such public investment is also a way to control part of the economies of foreign countries; thus, diplomatic and strategic reasons can be found in some investment decisions.

In many countries, we also find another kind of fund, in fact a kind of agency that manages and controls the shareholdings of the State in various enterprises, most of them located in its own country. The Sovereign Wealth Fund team analyses and follows these enterprises on behalf of the State. Such agencies only manage the State's participations, they do not take any strategic decision because it is the State which takes these decisions. They implement what the State has decided. In such cases, the funds

[1] Handbook, p. 99
[2] ibid

are holding companies that play a role of intermediary between the final shareholder that is the State and the enterprises in which the State holds a majority or a minority of shares. The public authorities keep an indirect but final control on their holdings and retain the power to take any strategic decision.

These agencies have enough flexibility to attract high-qualified people and to amass expertise in order to prepare and to implement the investment and strategic decisions. They have enough autonomy with respect to the public authorities to implement a long-term vision. State-owned development banks and pension funds, especially public pension funds may play about the same role.

The goals of this second type of funds are likely more oriented toward the current economic development of their areas. Of course, the maximisation of profit or of future return is still an important goal but such agencies may also promote investment and technological dynamism beyond what private enterprises would do. They may support emerging industries in which private enterprises may be reluctant to invest because of uncertainty and high start-up costs. They may fuel local “ecosystems” or “clusters” to support the development of multiple relationships between economic, social and scientific players. They may keep under State’s control enterprises in strategic activities (defence, energy). They may help private enterprises in restructuration process.

I would like to point out two aspects of this evolving State capitalism. First, the fact that the holdings of those State funds are no longer limited to a specific type, for example minority shareholdings in private enterprises (with the private partners in charge of the management of the enterprise). They tend now to include a large variety of holdings that also cover majority shareholdings in private law enterprises or even shareholdings in regulated SOEs. For example, in Belgium, the federal investment company (SFPI) will receive very soon the majority shareholdings that the Belgian State holds in the Post office and in the telecom company, which were formerly State monopolies many years ago and which are today listed private law companies.

The second aspect I would like to point out is the fact that this evolution illustrates the always stronger tendency to dissociate the role of the State as shareholder and the role of the State as regulator and garantor of services. This evolution reinforces also the visibility of the State as shareholder. It means, at least implicitly, that the nationality of the ownership rights matters and that the State wants to keep the ownership. I am sure that we may find theoretical models in which economists will explain that the nationality of the ownership rights is not an issue but we all know that in many investment and strategic decisions, institutions and location matter.

Other Belgian examples are the transfer to the federal investment company of the totality of the shares of a commercial Bank, ranked 3rd in Belgium. The Belgian State completely holds this Bank since the 2008 crisis.

In the Belgian Walloon region, the regional investment company that held only minority shareholdings in private enterprises (with the private partners in charge of the management) has recently received the majority shareholdings that the Walloon Region holds in an arms manufacturing company and in aeronautical equipment companies.

We may find many other cases in other countries: for example in France with the APE (Agence des participations d'Etat), and in Québec with the Caisse des Dépôts et Placements.

I think that we should look more closely at the role of the State as shareholder with this generalization of the Sovereign Wealth Fund model especially in a long-term perspective. Next to industrial and financial policies, this model could also be developed to seek ways to deal with the financial burden of aging societies.

At the local level, we can also find some kind of Sovereign Wealth Funds: that is holding companies managing on behalf of local public authorities their shareholdings in various enterprises. Some of these enterprises can be active in not regulated activities; others in regulated activities for example in the distribution of energy and water, transport or waste collection. Again, we can observe the difference made between ownership and regulation. The funds are a tool to manage the ownership rights. Such cases at the local level are likely less frequent than at national or regional level. The governance rules are also more complex because account must be taken of the rules decided at the national level that organize what the local public authorities are allowed to do and how they can do. This local State capitalism should be more closely analysed.

The governance rules must establish a balance between the autonomy of the agency necessary to manage the holdings and the democratic and political control that might be a more acute question at the local level with a more active dynamic participation of the civil society. Since the funds are public funds, we want more transparency and more accountability. Very often the “scandals” that appear in the management of local public enterprises are due to a bad balance between autonomy and control: too strong controls that limit too much the business opportunities and that conduct to develop ways to avoid them, versus too weak controls that allow the Board of Directors and the management to act without political approval. In my city we experienced such a scandal. The provincial and municipal authorities hold an investment company that manages holdings in electricity and gas transport networks, in electricity production, in a mobile phone company, in the regional airport, as well as in IT and in the financial sector. This company has developed partially based on the example of German *Stadtwerke*. We had to fire all the people in charge of this local investment company to re-establish a good governance system, a sound investment policy and a democratic control.

Finally, I would like to congratulate Massimo, Luc and Philippe and all the authors for this impressive Handbook. Of course, even if this Handbook gives a very complete overview of the topic, it is still possible to find additional and promising research fields to be explored. I have suggested a few ones but my most important suggestion would be to discuss the content of this Handbook with people in charge of the management of State-owned enterprises. This discussion would benefit to both researchers and managers. I think that with the support of CIRIEC, you should organize such a discussion. We would be happy to do so together, now that we can soon meet again in person and face-to-face.

Thank you very much.