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The French government to redesign state capitalism

Government partial control of privatized firms in France was intended to be temporary, a way-station on the road to liberal capitalism. Yet, the government-shareholder position is more likely a long-term strategy. The so-called “French National Champions” are too precious to let go of.

The state-owner is dead, long live the state-shareholder

The long era of state activism in France has left a powerful legacy. Despite the largest privatization and deregulation wave in the history, the French government has continued to maintain large equity positions in a great number of major public firms.

In 2012, according to the last survey of INSEE, the French state was the largest shareholder, through direct or indirect control, in almost 1500 corporations. Moreover, it had minority stakes in more than 500 corporations.

More interestingly, the number of French state-controlled firms has increased by 76% since 2007. After more than 20 years of continuous decline, state shareholdings has begun climbing again, but under new forms of ownership, especially in limited liability companies, both private and public.

Only the mode of intervention has changed. The French government operates today as a controlling shareholder rather than a state-owner. To exert its control, it uses capitalist tools such as the shareholder or block-shareholder position, pyramidal ownership structure, and special voting shares agreements, such as the French double voting rights.

These special rights give the government-shareholder control in excess of its ownership rights. They provide a legal instrument to block takeovers of national champions and give the right of decisive vote; for example, to create new national champions.

Enel, the Italian electricity utility has experienced the powerful hand of the French government when it launched a bid for Suez in 2006. By pushing through the merger of GDF and Suez, not only the French government-shareholder push Enel to drop the bid, but it also created a new French national champion: GDF-Suez.

State capitalism practices have been seen in the past in France, but never before has it operated on such a scale and with such sophisticated instruments. The French state is today the biggest and most powerful shareholder within the Paris stock market. The total market capitalization of its portfolio reached its highest level in 2007 with more than €200 billion, before dramatically declining to €60 billion today (Source: APE).

The French state is also becoming a more sophisticated owner. It has mastered the art of controlling companies through minority shareholdings or those of its affiliates. The GDF-Suez merger is once again a very interesting case. While the merger was hailed as a privatization of GDF, it now appears to be more like a partial nationalization of Suez.

The visible hand of the French state

The creation of the Government Shareholder Agency (APE) in 2004, and more recently, the Banque Publique d’Investissement (BPI), are part of the new French state capitalism. The APE had been created by law and was designed to “address the shareholder role in accordance with the government guidelines” (Source: APE).

These two public institutions complement the Caisse des Dépôts et Consignations (CDC), or the so-called « the armed wing of the Treasury », which is one of the oldest public groups that acts today like a discrete sovereign fund.

The French government uses these public agencies as vehicles to exert its control and to expand its shareholdings, reaching like a tentacle into every boardroom of state-controlled firms and even sometimes large private firms.

Arnaud Montebourg, the industry minister and the new driving force of the state-shareholder, demanded a seat on the board of the car maker PSA Peugeot Citroën, in return for the state guarantee loans of some €7 billion to the troubled Peugeot unit. The minister has also managed to block a bid by Yahoo to buy 75% of DailyMotion, a French online video-sharing site, from France Telecom, a state-controlled firm.

Too precious to let go of

Successive French governments have shown no signs of relinquishing the commanding heights. They typically transfer ownership rights without abandoning proportional control. They have tailored privatization for political needs through selective pruning and partial share selling.

Firms under state control are typically large firms with a broad clientele, they often provide services of public utilities, manage strategic infrastructure, and provide regular revenues. They remain highly exposed to the risk of expropriation of quasi-rents.

They can be used by the government as tools in domestic policy in order to raise fiscal revenues, to preserve national security, and to absorb unemployment. In December 2012, total employment in state-controlled firms was more than 1.7 Million (Source: APE). Among many other examples, in 2010, Sarkozy persuaded Renault executives to keep some of its Clio 4 car plants in France, despite a plan to relocate most of them to Turkey.

They also can be used to disgorge cash through partial privatization or dividends. Since 1986, partial privatization has provided €97.9 billion (Source: APE). These proceeds are intended, according to the law, to pay down the national debt.

Since 2004, the French government as a shareholder has received €58.2 billion in cash dividends from controlled companies (source: Loi de finance 2004-2013). For the period of 2004-2012, dividends have been paid on a regular basis with €6.5 billion on average per year. According to the APE, the expected dividend payout ratio of state-controlled companies within the APE was on average 77.6% in 2012.

In the wake of economic crisis and uncontrolled public deficits, dividends are an extraordinary source of non-tax revenue and politically costless for the government. The latter did not hesitate to abuse of its shareholder position, in 2011, to impose a 60% of dividend payout (€189 million) to the FSI, in spite of strong criticism of the Sénat. In 2012, as the first largest shareholder of France Telecom, it refused the drop of dividend requested by the unions during the General Assembly.

The Eurozone crisis and exploding public deficits have indeed amplified the influence of the state-shareholder, regardless of the political orientation of the government.

The strategy of the French government is then more to redefine state capitalism than to reduce its perimeter. By melding the powers of the state with the attributes of capitalism, the French government is learning how to use the market to promote political goals.