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The Problem of the Public Enterprise and its Future Interests

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Holding this Conference dedicated to the future of the public enterprise (Paris-Bercy, 25 February 2015) might have struck the informed observer as anachronistic some years ago. The public enterprise appeared to be in decline, and many thought it doomed to disappear rapidly at world scale. In fact, since the 1980s, mass privatisations were pursued all over the world and the form of organisation of the public enterprise seemed to have fallen into a lasting, irreversible discredit. The process of liberal globalisation and the British and American conservative revolutions did much to propel the privatisations. The famous "Washington Consensus" had become the cardinal doctrine relayed by international organisations. It elevated privatisation to the status of a panacea that had to be promoted worldwide and, in particular, in the countries of the South as part of structural adjustment policies. The European Union was not to be outdone in this world process of privatisation: 45% of assets privatised throughout the world between 1988 and 2008 were privatised in Europe, in the countries which in the East had freed themselves from a burdensome bureaucracy, but also in the Western European countries rallying around orthodox arguments.

However, the crisis in 2008 gave the lie to these advocates of orthodoxy, more particularly the theoreticians of property rights, who saw in the intrinsic superiority of the private organisation and in a market largely rid of public intervention an ... End of History. History thus experienced one of the reversals to which it had the secret. However, a massive, concentrated intervention by the public authorities the world over had in fact, in 2008, rescued a world economy seized by a systemic crisis. This public action halted a process of general mistrust on the markets and domino-effect bankruptcies of enterprises that had whipped up frenzied speculation on the financial markets delivered up to self-regulation. Among other things nationalisations then took place in certain countries, even in the more liberal and less inclined to public intervention, and had a shock absorber role, an indispensable remedy to soften the serious economic and social consequences of the crisis. Massimo Florio will describe the characteristics of the renewal of action by public enterprises in the contribution that follows.

However, although the public enterprise today finds its name cleared, its role must be questioned again. How, in the economy of tomorrow, might it continue to exercise its general-interest missions while, in recent years, it has often been perceived as a makeshift to avoid social catastrophe. How also is the public enterprise to attain best-possible efficiency in the service of that general interest? Such is after all the object of this Conference, to seek to think the renewal, in other words, to recast public action by building it on to the public enterprise. Retrospective analysis is useful in this

exercise for measuring the strengths but also the weaknesses of public enterprises in order to identify their promise and their limits for remodelling public action.

1) Trusting to the hybrid character of public enterprises and avoiding certain setbacks of the past

Experience reveals both the serious reverses and the brilliant successes of public enterprises. According to the national institutional context and historic contingencies, the results of public enterprises may in fact prove to be the best as well as the worst. These contrasts are largely explained by the hybrid character of these organisations. This hybridity has to do with the fact that, on the one hand, the public enterprises must carry out the general-interest missions assigned them and, on the other hand, meet commercial requirements, drawing their inspiration - in order to do so - from the principles of private management. As shown in the work by the Scientific Commission of CIRIEC-France, on which Luc Bernier will speak, a good internalisation of the general-interest missions is essential if recourse to the public enterprise is to be a success. However, the autonomy of management of public enterprises sometimes allows them to free themselves from their missions. This may result in a phenomenon known as regulator capture: the enterprises profit from asymmetries of information and from their own capacity of expertise to sidestep general-interest missions that the authorities intend to assign to them. In that respect the past behaviour of public banks illustrates such reverses. The capture phenomenon, however, is not peculiar to the public enterprise. It is all the more real for the private enterprises that their primary objective is to respond to the expectations of their shareholders, eager for a quick return on investment. Benefiting from favourable long-term contractual clauses and sweetening the public missions often allows interest-chasers in the private sector to bag their advantage. The recent example of the privatisation of French motorways is one of the most telling in the matter.

The public enterprises for their part turn out to be more inclined to carrying out large-scale general-interest missions, to seek active involvement in economic policy through the hierarchical link that ties them to the public authorities. The work by CIRIEC's International Scientific Commission "Public Services / Public Enterprises", on which Luc Bernier will also speak, shows on the basis of 15 case studies this current capacity of public enterprises to effectively take on general-interest missions and show satisfactory financial results.

It is equally true that earlier experiences also show that excessive instrumentalisation of public enterprises to economic policy ends may have highly destabilising effects on enterprise strategies by giving rise to deficit, indebtedness, need for recovery after effort with the consequence of a lifecycle of the enterprise in regulation. To think about the future of public enterprises is therefore to try to avoid a recurrence of such setbacks by protecting the organisations from public missions that are inopportune because too destabilising. It is certainly also to foster, through adequate incentives, a culture of organisation turned towards the general interest so as to align enterprise strategies and societal needs.

2) Involving the public enterprises effectively in public policies responding to societal needs

Facing the environmental, economic and societal crises with which we are so familiar today, it is essential to make the best possible use of the opportunities offered by the public enterprises to remedy the situation. The hybridity and availability often displayed by public enterprises in carrying out general-interest missions are strengths and should be turned to best account. They could facilitate implementation of active public policies meeting the needs of society. Seen thus, the public enterprises could develop greater impetus towards development.

This could be done through a full-scale mobilisation in favour of innovation, the size of which is capital for the competitiveness of the economy of tomorrow. Mobilising more precisely the public enterprises in favour of radical innovation, which is source of profound changes in society since it

creates new activities, would that not prove to be particularly relevant to the service of the general interest? In the past, such radical innovations came about through massive investments made by public organisations. This was especially the case for the conquest of space and the development of the high speed train, not to mention the leading role of the public sector in the emergence of the internet and its investments in fundamental research. Might we not then, in the future, rely on the lesser fear of risk of public enterprises and on their curbed appetite for a quick return on investment to propel the development of radical innovations? The first round table dedicated to the theme *specificities and capacities for innovation peculiar to the public enterprises* will allow debate on the subject.

Besides innovation, the sectoral positioning of public enterprises should likewise be questioned. Ought not the public enterprises play a leading role in the sectors of the future for which massive investments appear necessary in order to build up a sustainable economy and society? Might not the investments of the future be made with a high degree of effectiveness by public enterprises? The sectors producing public assets, connected amongst other things with the environment and, more precisely, transport and energy, might they not in this respect seem quite particularly concerned? We might also ponder the rules and procedures according to which the public enterprises could take up position towards these sectors of the future. How might this deployment prove to be most effective: external growth, spinning-off, partnerships with the private operators, ...? According to the particular configurations, what would be the best articulation of the action of public enterprises with these private players? The second round table, discussing the *sectors of the future of public enterprises*, will shed light on these questions.

Ultimately the future of the public enterprise is indissociably linked to its capacity to meet the needs of a democratic society.

3) Base the action of public enterprises on a drive shared with the interested parties

For some years now, new governances have been put in place by numerous public enterprises so that their general-interest missions might be pursued in dialogue with the interested parties. This participative action aims appropriately to guarantee a greater proximity to the citizen-consumer. For the public enterprise or, more broadly, the enterprise providing a public service does not, contrarily to the presuppositions of the theory of incentives, merely have to meet the expectations of their principal or client, which is the supervisory authority. It must also align its strategy with the aspirations of the citizens and of the civil society. An in-depth discussion has yet to be developed on the new forms of governance that the public enterprises could roll out in the future, linked with the consumers and citizens, but also in partnership with the players in the social and solidarist economy. We should also consider how to adapt the institutional mechanisms such that the public enterprises respond effectively to general-interest missions becoming multi-level, that is to say, defined by public authorities situated at different levels of competence (for instance geographical). Ought we not first pause and consider this new perspective of the deployment of a plural governance? Might we not set up bodies for strategic guidance, charged with the task of adequation between company strategies, multi-level public missions and citizens' aspirations? The third round table, dedicated to the *forms of governance of public enterprises of the future*, will debate these questions.

To conclude, the resurgence of the public enterprise raises many questions about the role it might assume in the service of the general interest, alongside the various interested parties in the civil society. Its future will depend on its capacity to effectively internalise the public missions, to meet the expectations of the civil society, but it will also depend on the dominant economic paradigm (fundamentally liberal as it still remains today, or to the contrary more interventionist) that will be adopted by the public authorities.

The contributions that follow during this Conference might bring some useful elements to recast the public enterprise in the society of tomorrow.