The Politics of State-Owned Enterprises The case of the rail sector (2nd version 6 January 2019)

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1. Introduction

This chapter examines the politics of state-owned enterprises (SOEs) through an analysis of the rail sector in several countries. It starts from the premise that state-owned enterprises are created as a result of politics but the political conditions and settings may change over time, which result in different types of public ownership and state support. Studies which explore the politics of SOEs often take several political perspectives, some critical of the performance of SOEs, others supportive of their wider socio-economic functions. This is an indication of the highly politicised nature of SOEs and hints at the complexity of analysing and understanding the politics of SOEs which are essentially created as a result of political decisions. Much of the literature on the changing role of the state has been developed in Europe and North America but many of the same processes can be seen across the world. These influence the political processes within which SOEs have to operate.

In order to explore some of the specific politics of SOEs, the rail sector has been chosen as a way of understanding some of the processes that result in the evolution of SOEs and what contributes to a 'politics of SOEs'. The rail sector provides a public service which contributes to economic and social development through the transporting of people and goods. It requires investment in infrastructure which the state has traditionally provided. The rail sector has an increasingly international dimension and this illustrates how SOEs are becoming part of a global sector (OECD, 2016).

Four case studies of France, Germany, Great Britain and China have been developed as a way of exploring how the rail sector has been strongly influenced by SOEs and why national and local level politics influence the process of state-owned enterprise management. Many of these processes are constantly evolving but not necessarily in a systematic way. The four countries have been chosen for several reasons. All have rail sectors which have been influenced by national public policies towards public ownership. France and Germany retain SOEs in the rail sector and it is ironic that these SOEs have also benefitted from privatisation in other countries, by successfully winning contracts to run privatised rail services. This has made them global companies. In the UK there is a mixed arrangement of SOEs in the rail sector with Great Britain having a privatised system with government control and Northern Ireland a state-enterprise rail system, an example of how regional issues affect rail policy. Three of the case study countries are in Europe and show some of the differential impacts of European Union legislation. China has a much stronger tradition of SOEs but has had to modify some if its SOE policies in the last few decades. However, the use of SOEs in rail and infrastructure are part of an international policy which aims to secure Chinese influence globally.

Starting with an overview of recent literature into SOEs, this chapter aims to answer three research questions:

1. Why have state-owned enterprises (SOEs) played an important role in the rail sector in several countries?
2. How have national and regional politics influenced the development of state-owned enterprises (SOEs) in the rail sector?
3. How do public policies which have informed the rail sector reflected debates in contemporary politics, e.g. privatisation or public ownership?

2. Overview of the development of state-owned enterprises

There is a diverse literature on changes that have taken place in the position of SOEs over the last century. The origins of SOEs lay in an increased role of the state in the economy. Other public policies, such as regional and social development, innovation and security issues, have also supported the development of SOEs. The failure of the private sector to provide a reliable service is one of the main reasons why the state takes over a previously private-run service and creates a state-owned enterprise. The last three decades have seen some fundamental changes in the way in which the state operates and the role that it plays in the economy and these have affected the way in which SOEs are treated politically. This chapter will start with an overview of some of the factors that have shaped SOEs.

In the United Kingdom (UK), local or central government took over utilities companies in the late nineteenth and early twentieth century at a time when industrial development required a secure supply of energy and water for factories and for local populations. In both the UK and France, industries were nationalised after the Second World War as part of a wider policy of nationalisation triggered by the creation of the Welfare State and a recognition that the state had to play a more active role in economic growth. The failure of the private sector in several sectors, the Depression and the Second World War, which led to a recognition of the importance of national planning, were all factors that led to a growth in state-owned enterprises. Much French nationalisation after 1945 was a response to national security issues highlighted by the Second World War.

Public enterprises have been identified with strategies for social and political unification and promoting economic development (Millward 2011). After 1960, newly formed Canadian provinces established public enterprises as a means of stimulating regional economic development (Bernier 2011). Support for industries such as iron and steel, coal which provided employment in regional economies was a strong influence on government policies towards SOEs in several countries, for example, France and the United Kingdom.

Countries in Latin America established public enterprises as part of an import-substitution model of economic development during the twentieth century (Hirschman 1968). With time, the maintenance of these industries became a political issue which led to lobbying of government by both labour and capital. Government policies towards SOEs must also be considered in this context. The impact of the World Bank and International Monetary Fund policies of public sector reform led to the privatisation of many SOEs in Latin America although Brazil, Peru, Chile and Colombia still maintain major state-owned enterprises (Chavez and Torres, 2014). More recently the rise of left-wing governments has resulted in a reframing of the role of state-owned enterprises in sectors such as renewable energy which are part of a wider change in participatory politics (Chavez, 2018, Conaghan, 2015).

State-owned enterprises played an important role in the economic and social development of China after 1949. They provided services, employment and a range of social benefits such as health care, education, retirement protection (Fan and Hope, 2013). SOEs have been described as a "collective of political entities for mass mobilisation, the production arm of state bureaucracy and social welfare providers for local communities" (Fan and Hope, 2013:7). They were managed by factory managers who were also party members and state bureaucrats and so accountable to several constituencies, including the Communist Party and government departments. Promotion depended on meeting political objectives and so they had to be able to operate in a political context.

In a similar way to many other countries, external factors created pressures for privatisation. The World Bank exerted an indirect influence on governance reforms of SOEs mediated by the Chinese government. The Chinese Communist Party has been an important stakeholder in this process (Modell and Yang, 2017). Government reforms attempted to increase the financial viability of SOEs without any supporting institutional changes and so changes did not take place. As part of China's entry into the WTO it was required to introduce competition between SOEs and foreign companies. Reforms were introduced to improve efficiency and effectiveness of SOEs but privatisation was not promoted as a specific strategy (Shi, 2007).

2.1 Public-private boundaries

Another issue that emerges from a review of public enterprises is that it is becoming more difficult to define clear boundaries between the public and private sector. The process of corporatisation of public enterprises has created companies operating with business principles within the public sector (Bognetti and Obermann, 2012). One major difference may be whether a company is profit-seeking but there are also not-for profit corporations, which re-invest profits into their activities.

A 2017 OECD analysis identified four main types of SOEs:

- Majority owned listed entities – majority owned by government;
- Minority owned listed entities – minority owned by government;
- Majority owned non-listed entities – Government majority owned and non-listed;
- Statutory corporations and quasi-corporations – legal entity separate from owners (OECD, 2017).

There are extensive variations between countries but the different types of SOE arrangements can be seen as a reflection of how different interest groups have both influenced and been affected by attempts at privatisation or corporatisation. Government minority stakes can be a way of government withdrawing, although not completely, from an SOE but the continuation of majority government holdings in both listed and non-listed companies, reflects continued government control. The establishment of government or quasi-government arms-length corporations as corporatized SOEs are another form of government control. All these different forms reflect a more business-focused environment for SOEs but not necessarily less government influence. The many ways in which the private sector is involved in the public sector creates another level of complexity. This may be through contracting of services, such as facilities management, or through public-private partnerships.

Bruton *et al* (2015) argue that the concept of a hybrid organisation is becoming a more appropriate way to analysing the varying degrees of involvement of the state in SOEs. For example, municipalities were traditionally responsible for waste management collection. Changes in the nature of the waste management industry, with the creation of vertically integrated structures of collection, treatment and disposal and the trading of waste management services had led to changes in the way in which companies operate. A recent study found that some of the most successful waste management companies, which are able to challenge multi-national companies have their origins in municipal enterprises. The companies may now have been partially privatised and integrated with energy and other utilities (Antonioli and Massarutto 2012).

2.2 Regulatory structures

Public enterprises can be classified in terms of the products and services, which they produce or deliver but another form of classification can be the influence of internal or quasi-markets on public enterprises. Internal or quasi-markets are created by setting up a commissioning function, responsible for strategic management, which commissions services from providers, which can be public and private enterprises. An immediate issue facing quasi-markets or internal markets is how to create an effective regulatory function, which may be part of the public sector but is also responsible for regulating public enterprises. Another issue is how a regulator contributes to meeting the changing needs of public services. Farazmand (2012) discusses the development of the regulatory state as a reaction to the failure of privatisation and the excesses of the corporate sector.

A brief review of the literature on public services such as water, public transport and waste management in Europe shows that the nature of the public service has some influence on how public enterprises function and the regulatory structures that have been put in place In Europe. For example, in local public transport, no clear new model of regulation and provision has emerged in Europe. Local public transport services are considered so complex that full outsourcing is often not possible. Some countries have kept the different transport functions within the public sector. Several countries have evolved a form of external regulation but maintained either municipal or regional transport companies, which have been corporatized (Zatti 2012).

The continued existence and evolution of public enterprises has important implications for the future of policies for privatisation and public sector reform. If public enterprises are operating successfully then is privatisation necessary? Bernier (2011) argued that governments should attempt to reform the governance of public enterprises rather than privatise them. This also contributes to a reworking of the nature of the state, in that moving from the Welfare State to a more market-orientated state, requires the state to take a different approach to the processes of managing and regulating public enterprises.

3. Changing role of state in the economy

The overall change to the state since the 1980s has been conceptualised as a move from a tax based, interventionist state to a contractual, regulatory, debt state to a Consolidation state. The indebtedness of states has increased since the 1980s, with some stabilisation after the 1990s, but continuing after 2008 and this has had an increasing influence on the form of the state. The transformation of the state is a continual process and as it has evolved through these stages, the relationships between the state and SOEs changed, not necessarily leading to a reduced state role but rather to a more complex set of relationships. The politics of SOEs can be seen as a reflection of how this complexity is played out at national and local levels.

Changes in the form of the state introduced a new way of operating for the state, which changed from being a tax/ interventionist state to an enabling state (Osborne and Gaebler, 1992; King, 1997). This process led to the conceptualisation of the State as a "hollowed out" or managerial state (Rhodes, 1994). More specifically, it was seen to be "hollowed out" from above, by the EU and its liberalisation agenda and from within through a process of marketization and corporatisation (Sketcher, 2000). These changes also led to public policies being created for and with a stronger private sector influence (Rhodes, 1994; Rhodes, 1997).

In order to function as a quasi-market, public sector institutions were subject to a process known as corporatisation and had to operate within business objectives, aiming to make a profit, working to targets and new quality standards. This affected SOEs and has led to the process of corporatisation in which SOEs operate as businesses operating with market forces. The state had to take on new roles. In order to secure the quality of public services which were not being delivered by the state, quality standards, new regulatory agencies and regular inspections were introduced (Neave, 1998; Hood *et al*, 1999; Moran, 2003; King, 2007). What had started as a "hollowing out" of the state, with the state no longer the sole provider of public services, evolved into the state taking on a "regulatory" and "evaluative" role, almost replacing its role as service provider. This also led to governments changing their relationships with SOEs.

The concept of the regulatory state has its origins in the United States with the development of rule-making, bureaucratic processes of the administrative state and is associated with the expansion of outsourcing and privatisation (Levi-Faur, 2011). Majone (2010) considered the main function of the regulatory state to be to correct market failures. The regulatory functions of government are separated from policy making as the regulatory agencies are outside government. Accountability is taken away from government and assigned to less democratic institutions. Levi-Faur (2011) defined the regulatory state as a state that applies and extends rule-making, monitoring and enforcement via bureaucratic organs of the state (Hood *et al*, 1999; Levi-Faur, 2011). The creation of an audit culture and different ways of measuring performance were introduced throughout the public sector (Neave, 1998; Moran, 2004) and affected SOEs. Ultimately, as the State developed relationships with a range of providers, not just SOEs, a complex new bureaucracy was created (Skelcher, 2000). The nature of the state in this period of growing relational complexity has been called the 'congested' or entrepreneurial state. This can be seen in the relationship between government and SOEs which were characterised by greater insertion in the market yet subject to regulatory structures.

Perotti and Bertolotti (2005) examined the changing role of the state in the economy specifically in relation to the management of SOEs, raising the question about the self-interest of government. A politician's perspective if most often short term and may also be subject to corruption with SOEs being managed in return for political favours. Perotti and Bertolotti (2005) are critical of the role of regulatory governance and how it has influenced the privatisation of SOEs. They suggest that there will not be enough public scrutiny "to ensure public attention to public welfare" (Perotti and Bertolotti, 2005:7). They argue that state control of SOEs is more difficult in countries with weaker institutional arrangements, often assumed to be many low/ medium income countries. They recommend a more democratic, elected approach, with more public involvement in the regulatory process.

These phases of change of the role of the state affected SOEs in several ways and in varying degrees in different countries. Although founded by the state as part of a more interventionist role in the economy, SOEs found themselves operating under a more critical regime after the 1980s when privatisation was introduced. Some SOEs were privatised but there has not been a simple process of transfer from SOE to private enterprise. The nature of the state is continuing to change. The extent to which this process has resulted in the continued survival of SOEs has been affected by several factors, for example, the way in which the industry/ sector has been considered as a strategic priority for governments. Often, even if SOEs were not privatised, they were exposed to competition by being included in internal markets. The process of corporatisation where the state remains a shareholder has been a more dominant process than full privatisation of SOEs (Finger and Laperrouza, 2011), although a recent OECD survey (2017) shows that even this remains a finely grained process from country to country.

The concept of the Consolidation State (Streeck 2016, Clifton *et al*, 2018)) has been developed to explain some of the changes in the role of the state that have taken place since the global financial crisis in 2008. Many governments nationalised banks to save the banking sector and this left them with an increased level of indebtedness. Since the 1980s, countries had been competing with each other to attract corporations and high income earners by offering low tax rates. This led to a reduction in tax revenues and increased indebtedness (Streeck, 2016:116). The increase in borrowing was also related to globalisation and facilitated the process of financialisation which enabled capital to be borrowed through a wider range of products. Governments were not immediately pressured to reduce their indebtedness and financial services became some of the fastest growing sectors in many countries.

The global financial crisis of 2008 weakened the position of indebted governments. Financial markets wanted to be reassured that governments had their long term debt under control. Austerity policies were introduced by many governments as a way of reducing public expenditure, with the aim of reducing the role and size of the state in the economy. This new phase in the form of the state created a more hostile environment for SOEs although the extent to which SOEs are providing strategic services continues to influence the politics of SOEs.

Initial attempts to either privatise or subject SOEs to greater competition was motivated by a political belief that private sector was more efficient than the public sector and that public services would be more effectively delivered by the private sector. There is growing evidence to show that this is not true (Bel *et al*, 2011). Another theme to emerge from this research was the relatively uneven impact of these economic reforms (Clifton *et al* 2011; Florio and Fecher, 2011; Bognetti and Obermann, 2012, Bernier, 2011). Rentsch and Finger (2015) examined the relationships between the state and SOEs in three countries (France, Germany and Switzerland) and found that SOEs wanted a combination of a close relationship and a more distant one with government in order to secure their goals of retaining subsidies but retaining competition opportunities. Governments wanted a close relation to guarantee service delivery but a more distanced relationship to be an effective regulator. There are several factors that seem to influence the way in which governments respond to SOEs in recent decades. Strategic sectors, key infrastructure services, employment and security issues all contribute to some of the decisions which have been made by government in relation to SOEs (Millward, 2011). However, after over thirty years of privatisation and public sector reform, state-owned or public enterprises are still an important force in many economies. In Brazil, China and

Russia, the emerging economies, state-owned enterprises are playing a significant role in the economy (Economist 2011**).** In Europe, there are a wide range of public enterprises that have survived during a period of privatisation and liberalisation.

Some of these arguments will be explored by examining the role of SOEs in the rail sector in France, Germany and China where the rail sector remains state-owned and the United Kingdom (UK), where government influence continues to play an important role despite extensive privatisation. The case studies are structured as follows:

1. Context of state-owned enterprises
2. The development of a rail state-owned enterprises
3. The politics of rail state-owned enterprises

4. France

4.1 Context of state-owned enterprises

In France, central and regional government continue to play a key role in the management of SOEs. The establishment and continued control of SOEs has been influenced by several factors, including security, strategic sectors, industrialisation and social policies. France has over 2.5 million workers employed in four types of SOEs (OECD, 2017) (Table 1). There are four types of SOE in France, with minority-owned listed companies and state/quasi state corporations employing about 80% of the SOE workforce. 37.5% of workers are employed in the transport sector indicating the importance of state-owned enterprises in this sector**.**

Table 1: Number of employees and number of enterprises in SOEs in France
Workers (enterprises)

	Majority owned listed	Minority owned listed	Majority owned non listed	Statutory corporations/ quasi corporations	Total employment
Total employees	165,477 (3)	954,245 (11)	308,109	1,109,915 (20)	2,537,746 (100%)
Manufacturing	--	403,498 (5)	20,034 (9)	484 (1)	424,016 (16.7%)
Finance	-	8,215 (2)	142 (6)	-	8,357 (0.003%)
Telecoms	-	163,545 (1)	-	-	163,545 (6.4%)
Electricity and gas	154,730 (1)	278,243 (2)	-	-	432,973 (17%)
Transport	9,035 (1)	100,744 (1)	377 (11)	**842,813 (14)**	**952,959 (37.5%)**
Other activities	1,712 (real estate)	-	285,279 + 207 (real estate) (8)	266,618 (3)	553,816 (21.8%)

Source: OECD, 2017

French government policies towards strategic SOEs have been influenced by both short and long term issues (Cohen, 2010). More recent changes and consolidation in the government management of SOEs has been influenced by a government decision in March 2010, which stated that the objectives of SOEs were to be directed “toward making an active contribution to the government’s industrial and social policies” (OECD, 2011). To oversee this policy, a Commissioner for SOE, reporting to the Ministry of Economics and Finance, was appointed in August 2010 to oversee this policy (OECD 2011). The head of the state ownership agency, *Agence des Participations de l’Etat* (APE), continues to report to the Treasury. SOE boards are made up of one third employee representatives, one third state representatives and one third independent directors (OECD, 2011). The number of representatives has been reduced from 33 to 18 since 2005. SOEs have been encouraged to set up audit, strategy and remuneration committees (OECD, 2011).

4.2 SNCF – the development of a state-owned enterprise

The example of the French rail company, SNCF, shows how the French government has managed a key strategic industry over several decades, balancing economic and social factors. SNCF is 100% owned by the French government and runs almost all of the French rail system, including the High Speed Train (HGV) but it is also a global company, operating in Europe, Asia and the Americas. 76% of its revenues still come from activities in France.

The *Société Nationale des Chemins de fer Français* (SNCF) was formed in 1938, with the nationalisation of France's five main railway companies, as a public-private company. The government took 51% of the ownership and the company was to be managed as 'an industrial business with a public service mission' (SNCF, 2017). After the Second World War, rail transport was considered essential for economic growth. In 1983, SNCF became a fully state- owned enterprise, with the French government having 100% ownership, part of the nationalisation programme of the Mitterand government.

Following an EU Directive (91/440) in 1997 to separate out the running of railways from management of infrastructure, which aimed to introduce competition into the rail system, the track and signals were run by a separate company, *Réseau Ferré de France* (RFF). This is an example of the influence of EU liberalisation policies on SOEs. SNCF managed trains and circulation on behalf of *Réseau Ferré de France* (RFF), which was also a SOE. In January 2015, as a result of the merger between RFF, SNCF Infra and the Division of Railway Traffic Management (DCF), SNCF *Réseau* became the operator of the French railway system (SNCF *Réseau*, 2017)

Table 2: SNCF Financial profile

	2017	2016	2015
Revenue	€33.5 billion	€32.3 billion	€29.2 billion
EBITDA (Earnings before Interest, Tax and Amortization)	€4.5 billion	€4.1 billion	€4.4 billion
Investment grants relating to intangible assets and PPandE investments?	€8.8 billion	€5.3? 8.6 billion	
Net debt repayment value	€46 billion	€42 billion	€39 billion

Source: SNCF Group Annual Report 2016, 2018

Although SNCF revenues and earnings before interest, tax and amortisation have risen since 2015, the indebtedness of SNCF *Réseau* has continued to growth.

Until 2018, the French government has defined the overall goals and major upgrade projects as well as contributing to the financing of development and network renovation projects. French regional governments have a growing role in public transport and increasingly define financing policy. They provide a part of the financing for the network within the scope of the State-Region Project Contracts (SNCF, 2017). Government investment continues to play an important role in the development of SNCF because the rail system is recognised as contributing to economic and social development. The success of SNCF has enabled it to expand internationally, with partnerships and joint ventures. Urban, commuter and regional passenger transport provides 35% of the revenues.

In 2017, the Macron government, as part of its reform programme, commissioned a report to investigate how the French railway system could be reformed so that continuing problems of indebtedness and poor service could be addressed. The Spinetta report identified the main problems of the rail system as poor performance, increasing costs and an unbalanced financing of the rail system resulting in growth debt. The main cause of these problems was an inconsistent and inadequate system of public governance which had resulted in poor investment and regeneration of the rail network (Spinetta, 2018).

The main recommendations were:

- SNCF Réseau should not invest at a loss and should operate better cost control;
- Organising authorities should cover the full cost of infrastructure services;
- SNCF *Mobilities* should be transformed into a public company with public capital;
- Regional transport should be opened up to competition;
- A new social contract with the trade unions should inform the reform of existing employment relations (Spinetta Report, 2018)

These recommendations were approved by the French Senate in 2018, which included the French state taking over the accumulated debt of SNCF Réseau. They show that the relationship between government and SNCF will change in future.

4.3 Politics of rail SOEs

France has a highly centralised planning system which supported a post-war process of nationalisation. The progress of SNCF from a public-private partnership to SOE reflects how the rail sector has been seen as contributing to regional and economic growth. By 1983, SNCF was nationalised and the government became the sole owner. However, the structure of SNCF has undergone changes which have been a response to an EU Directive as well as economic reforms. By 2018 there are recommendations for a further break-up of SNCF.

Since 2015, the government reduced its investment grants to SNCF which was as a sign that future government support could not be depended on. The Macron government introduced a wider programme of economic reforms. One of the reasons for the Spinetta recommendations was the growing indebtedness of SNCF Réseau. Although the French government has agreed to take over this debt, the requirement for SNCF Réseau to take control over investments and other authorities to fully cover the cost of infrastructure is an indication that the French state will not be willing to take on the debt in future.

The international expansion of SNCF, as an SOE subject to corporatisation, has been dependent on the rail privatisation policies in many countries. Increasingly the company will be subject to competition within France on local and regional routes.

These changes can be seen as part of a response to changes in the role of the State from supporter and financier of SNCF to a more cautious and business- focused approach to investment and cost control. The success of SNCF internationally will continue but the tension between the public interest in France and international expansion may affect its future.

5. Germany

5.1 Context of state-owned enterprises

Germany has a different history of SOE creation to France, with stronger municipal ownership. In the 1920s several key industries were nationalised but this was followed by the privatisation of many key sectors in the 1930s, for example, steel, mining, banking, local public utilities, shipyards and railways (Bel, 2011). Bel (2011) suggests that the Nazi party wanted to improve relationships with industrial owners through this privatisation policy. It also provided resources for increased public expenditure and armaments expansion. In the 1950s and 1960s there was some privatisation by the Adenauer government (Megginson, 2005).

Since 1990s as the role of the state changed from provider to guarantor of services, there have been changes in the legal basis for financial decisions on privatisation. The Federal Government is only allowed to hold SOE interests if there is an important strategic interest and these are reviewed regularly. The criteria for participation is set out in article 65 of Federal Code and these include an important federal interest, a purpose which cannot be reached in other ways and whether federal government has a degree of influence on the management. Underlying these criteria is a form of public mission.

Table 3: Germany SOEs showing number of employees and enterprises
Key: Employees (enterprises)

	Majority owned listed	Minority owned listed	Majority owned non listed	Statutory corporations/ quasi corporations	Total employment (% labour force)
Total employees	None	713,890 (3)	349,197 (71)	6 (1)	1, 063,093 (100%)
Manufacturing	-		2,268 (2)		2,268 (0.002%)
Finance	-	55,917 (1)	7,442 (12)	6 (1)	63,365 (6%)
Telecoms	-	229,686 (1)	-	-	229,686 (21.6%)
Electricity and gas	-	-	3,013 (6)	-	3,013 (0.3%)
Transport	-	428,287 (1)	289,615 (11)	-	**717,902 (67.5%)**
Other activities	-	-	37,858 (40)	-	37,858 (3.6%)

Source: OECD SOEs database (2017)

There has been a process of privatisation or, most often, partial privatisation which has left the German state with some interests but not necessarily controlling interests. Germany has about a million workers employed in three types of SOE, employed by government minority listed companies, majority non-listed and statutory corporations with a municipal management of SOEs. 67.5% of SOE workers are employed in the transport sector, an indication of how strategically significant transport is within the SOE sector. In 2015, the federal government still had a 100% ownership of *Deutsche Bahn* (100%).

The changes to the Federal Budget Code (2009) imply that, in addition to the annual report on federal government holdings, “not only members of the federal holding administration but also SOE managers (members of the managerial board) may be invited to appear before a specific parliamentary committee” (OECD, 2011). Federal government ownership is concentrated in the areas of science, infrastructure, administration/increasing efficiency, economic development, defence, development policy, culture, and property.

5.2 Deutsche Bahn (DB) - development of a state-owned enterprise
In 1994, the German Government decided to improve investment in the train and rail system in Germany and so reformed the rail system (Schaefer and Warm, 2015). *Deutsche Bahn* AG was formed as a result of the merger of *Deutsche Bundesbahn* with *Deutsche Reichsbahn*. *Deutsche Bahn* (DB) AG is a private joint stock company with the Federal Government of Germany as the majority shareholder (DB, 2016).

The relationship between the Federal government and *Deutsche Bahn* (DB) has changed over time. Although the initial motivation by government was to improve the rail system there has been a gradual tapering of financial support. In the federal legislation, Article 87e((4) Basic Law highlights that in the process of providing/ facilitating the rail system it should “(*Gemeinwohl)* the common welfare” should be considered and regulated by federal law. The German rail system was separated into rail, track and stations in order to introduce competition into the system (OECD, 2011). About 20% of the German rail services are now run by competitor companies. An example of how DB is not protected from competition issues can be seen in the 2013 legislation on long distance coach services which opened up the market for long distance travel in Germany. DB lost its monopoly but responded by offering cheaper tickets on long distance coach routes, which are not necessarily profitable.

By 1999, DB AG had launched business units for long-distance, regional transport, freight transport, track and passenger stations. It agreed a collective bargaining agreement with trade unions. The Federal Government and DB AG invested €45 billion between 1994 and 1999 but government investment dropped by 17% between 1994 and 2012. Income generated by the company has been reinvested. Only by 2003 had the company reported an operating profit.

The global expansion of DB AG has been managed through the introduction of innovation as well as the acquisition of companies outside Germany (Deutsche Bahn, 2013/6). From 2002, DB AG started to acquire companies outside Germany as well as expanding into other forms of transport. By 2012, DB AG had become a global company, operating in 130 countries, with operations in rail, bus, ship and air freight sectors. Rail services remain its core business, although logistics and freight rail are increasing the share of revenue. As well as expanding internationally, the company is involved in developing new ways of linking different modes of transport together, which is addressing environmental concerns as well as a way of dealing with greater competition.

Table 5: *Deutsche Bahn* financial profile (€ billion)

	2017	2016	2015
Revenues	€42.7	€40.5	€40.4
EBITDA (Earnings before interest, taxes and amortization)	€4.9	€4.7	€4.7
Investment grants received	€6.7	€6.1	€5.4
Net financial debt	€18.6	€17.6	€17.4

Source: *Deutsche Bahn* Annual Report, 2016, 2017

Deutsche Bahn revenues remained stable between 2015 and 2017. There was a slight increase in the investment grant, received by *Deutsche Bahn*, from the Federal Government in the same period. Smaller investment grants also come from local governments and the European Union (DB, 2016). The net financial debt is increasingly slowly. There is some growing discontent about the stand of services delivered by DB. In a similar way to France, the quality of services has been deteriorating and the investment in infrastructure required is growing (Connolly, 2018).

5.3 Politics of rail SOEs

Political and security issues influenced the German rail strategy for electrification, high speed rail and rolling stock because of the need to merge two different rail systems. German unification influenced the decision to make *Deutsche Bahn* a commercial company funded with state subsidies.

Deutsche Bahn is an example of a rail SOE which has received government investment for 20 years, since it was founded, and is now a global company. However, it did not make an operating profit until 2002 although since 2009 DB has paid a dividend to the German government. Income generated by the company has since been reinvested.

The reduction of the investment grant and the requirement for DB to pay a dividend to the German federal government is beginning to have an impact on infrastructure investment. A recent report found that German rail infrastructure needs more investment but it is not clear whose responsibility it should be. As a successful global SOE could DB contribute the investment needed or should the Federal and regional governments?

The global expansion of DB AG has been managed through the introduction of innovation to German railways as well as the acquisition of companies outside Germany. The position of Germany in Europe, as well as Germany within the European Union, has meant that the EU proposals for integrated rail services in mainland Europe have provided opportunities for Deutsche Bahn to improve rail links within Germany and with neighbouring countries.

SOEs play an important part in economic, social and strategic development in Germany. A mix of economic and social/ public missions interact with legislation. The Basic Law plays an important role in influencing the politics of SOEs. Yet, there is still discussion of privatisation or different forms of privatisation even if little action is taken. One argument is whether a company such as DB can both provide a public mission and be a profitable global company (Schaefer and Warm, 2015). DB is an example of financial and political issues coexisting but the future issues of the international role of SOEs is still unresolved.

6. United Kingdom (UK)

6.1 Context of state-owned enterprises

Political decisions had a fundamental influence on both the creation of SOEs in the period after the Second World War and the privatisation of many SOEs after 1979 by the Thatcher government. Government, at local and national level, created its own utilities companies in the late nineteenth and early twentieth century as it took over failing private utilities companies. As in France, after the Second World War, many UK industries were nationalised in strategic sectors such as coal, iron and steel and rail as part of a programme of nationalisation led by the Labour government (1945-51). Florio (2004) argues that many of these industries had already been subject to some degree of state control during World War Two, so the decisions can be seen as political but also part of a national planning framework.

After the election of the Conservative government in 1979, the government implemented policies of public sector reform and highlighted the inappropriateness and inefficiency of state-owned enterprises. The adoption of privatisation and liberalisation policies for public utilities and other sectors were presented as solutions to these problems. There was an assumption that the private sector was more efficient than the public sector. This resulted in a widespread privatisation programme and a dramatic reduction in the size of state-owned enterprise ownership by government, affecting water, energy, telecoms and many industrial enterprises. Between 1979 and 1992 one million employees were transferred from the public to the private sector (Florio, 2004).

Political attitudes to nationalisation were challenged in 2008 when the UK government had to nationalise two banks but this resulting in the government becoming the largest shareholder for both banks. However, this did not result in the government taking a more active role in the management of these state-owned banks. The policy of the Conservative-led coalition government between 2010 and 2015 was to reduce the government shareholding of both banks. During the June 2017 election campaign, the Labour Party successfully challenged the prevailing neo-liberal agenda by presenting a manifesto of nationalisation, fiscal policies and an increased role of the state in the economy. The failure of several private companies which were supposed to be delivering public services has also increased public interest in the renationalisation of rail, water and energy.

Table 7: UK SOEs showing number of employees and enterprises
Key: Employees (enterprises)

	Majority owned listed	Minority owned listed	Majority owned non	Statutory corporations/	Total employment

			listed	quasi corporations	
Total employees	137,000 (1)	97,091 (1)	16,804 (11)	178,597 (5)	429,492 (100%)
Manufacturing	-	-	941 (1)	-	941 (0.2%)
Finance	137,000 (1)	97,091 (1)	100 (1)	-	234,191 (54.5%)
Telecoms	-	-	-	-	-
Electricity and gas and other utilities	-	-	0 (1)	176,000(1)	176,000 (41%)
Transport	-	-	-	-	-
Other activities	-	-	15,763 (8)	2,597 (4)	18,360 (4%)

Source: OECD database Size/sectoral distribution of SOEs in partnership countries

Table 7 shows the largest state-owned enterprises are two banks within the financial services sector providing 54% of total SOE employment. There are several regional state-owned enterprises which play a key role in local economies, for example, water. The UK is an example of a country where political attitudes towards privatisation and re-nationalisation are changing. This is the result of the visible failure of privatisation in several strategic sectors, one of which is the rail industry.

6.2 British Rail – from state-owned enterprise to privatisation

British Railways was formed in 1948 with the nationalisation of four railway companies which provided services across the UK. From 1965 it was known as British Rail and privatised between 1994 and 1997 following the passing of the Railways Act (1993). The company was privatised in two parts: lines and infrastructure (track, signals, bridge and tunnels). Lines were offered as franchises to different companies. A group of companies called Railtrack took over the track, signalling, tunnels, bridges, level crossings after privatisation. The two major issues which continue to determine government involvement in the rail sector are infrastructure maintenance and investment and failure of the private sector to both run an acceptable standard of services and generate profits.

The government response to two major crises after 1994 shows how government control of the industry is still the default position even after privatisation. The first crisis was a series of track maintenance failures, the responsibility of Railtrack, which resulted in train crashes and several deaths. After the Hatfield crash in 2000, Railtrack, a private company, was declared bankrupt and the government created Network Rail, a non-profit company to maintain the rail infrastructure.

The underlying problem with rail track maintenance is that it requires government subsidy to cover the extensive costs of maintaining a rail network. It is not a conventional product which responds to market supply and demand (Williams *et al*, 2013). This is reflected in the financial position of Network Rail which receives an annual subsidy from government of £4 billion but has a growing annual deficit (Ames, 2017). The effective subsidy helps to hide the extent that rail privatisation still depends on government expenditure and investment (Williams *et al*, 2013).

Table 8: Network Rail financial results 2015-2017

	2017	2016	2015
Revenues	£6, 580 million	£6,259 million	£6,098 million
Pre-tax profit	£48 million	£483 million	£411 million
Net financial debt	£51.2 billion	£46.3 billion	£41.6 billion

Source: Network Rail Annual Reports, 2016-2017

The majority of Network Rail's revenue is formed from a government grant (62 per cent), track access charges from train operators (34 per cent), and property and station retail income (4 per cent). Network Rail was redefined as a public sector organisation in September 2014 by the Office of National Statistics, due to new guidance in the European System of National Accounts 2010 (ESA10), therefore its debt is now classified as public sector debt (Network Rail, 2014: 5-6). This will mean that debt will be funded through the public sector rather than Network Rail issuing bonds. This is a cheaper way of borrowing money than issuing bonds although at a time when it is government policy to reduce public spending Network Rail's growing debt is also a government problem. As Table 8 shows, Network Rail has a growing debt which in 2017 was £51.2 billion.

There are different interpretations of Network Rail's financial position and its relation to the privatised rail companies which run train services. Bowman (2015) argues that the increasing government subsidy to Network Rail has enabled the rail industry to present privatisation as a success. Network Rail is a major employer, not just in terms of direct employment. It is estimated that about 100,000 workers are indirectly contracted for Network Rail work as well as the 38,000 directly employed workers.

A second crisis occurred in 2009 when National Express, the company contracted to run rail services on the East Coast mainline, admitted it could not run the line on the terms it had agreed in 2007, which involving paying £1.4 billion to the UK Treasury by 2015. National Express had taken over the service because GNER, the previous holder of the franchise had had its contract taken away because the parent company of GNER had financial problems (The Guardian, 2013).

In response, the Labour government set up Directly Operated Railways, a not-for-dividend subsidiary of the Department for Transport, in 2009, to manage the service. Although this company was set up in order to take over the failing East Coast mainline services, there are several inactive subsidiary companies in case other rail franchises should fail, an indication of the uncertain future of the privatised industry. Between 2009 and 2015, the DOR reported annual improvements in punctuality and service delivery.

The company had to operate with the assumption that its services would be tendered to the private sector again and this took place in 2015. The Labour government has been replaced by a Conservative led coalition government in 2010 which has an explicit goal of reducing the size of the public sector. In 2013, the government announced that it planned to return the East Coast mainline franchise to the private sector. In 2013, DOR was asked to develop a five year business plan which would cover the period until a private provider took over and immediately after. At the same time the DOR announced that it had returned £640 million to the tax payer. The company has had high levels of customer satisfaction and had achieved the highest operational performance since 1999. [1]

Just before the 2015 general election, the East Coast line was re-privatised and given as a joint venture to Stagecoach and Virgin Rail, companies which run other rail franchises. By November 2017, less than two years into their contract, they announced that they would be unable to pay the agreed amount to the government by 2023 because of a reduction in expected passengers. The Department of Transport announced that it had agreed that to work in partnership with the companies to run the line but the companies will not be paying anything to government. This arrangement will mean that government takes all the risk and companies running the franchise will be risk-free which raises the question of what is the purpose of the rail franchises (Wolmar, 2017). This has caused a political storm with growing demands for renationalisation of the rail industry.

In contrast, the rail industry in Northern Ireland has remained publicly owned even after the privatisation of the rail sector in England, Wales and Scotland in 1993. It plays an important role in maintaining regional economic growth and contributes to social and economic cohesion. The Northern Ireland Transport Holding Company (NITHCo) was created by the Transport Act (Northern Ireland) 1967. Translink is a brand name used to describe the group and the parts of the group, the main parts of which are Metro, Ulsterbus and Northern Ireland Railways. NITHCo board is responsible to the Department for delivery of public transport services within government policy frameworks.

However, NITHCo was the subject of an Inquiry into its commercial interests in 2013. As a public corporation it generated half its revenues from its commercialised activities. It had an annual turnover of £190 million with £100 million from commercial property investments. MPs of the Northern Ireland Assembly questioned the Chairman and Chief Executive about the potential conflicts of a company receiving government subsidies, especially for rail, and the success of their commercial activities (Committee for Regional Development, 2013). This shows some of the political conflicts that emerge when corporate institutions are both providing a public service and operating commercially,

6.3 Politics of rail SOEs

As seen in this analysis of the two main problems facing the rail sector, infrastructure development and the failure of the private sector to deliver services and generate profits, the main political responses are continued indirect forms of government support and short-term nationalisation. The politics of rail SOEs are not stable, swinging from privatisation to re-nationalisation and back to privatisation.

The position of the government in relation to the growing debts of Network Rail is becoming increasingly unsustainable. With the reclassification of the debt as a public sector debt, this shows that there are contradictions in wider government policy which aims to reduce public sector borrowing.

One interpretation of the growing indebtedness of Network Rail is that this hides the reality of the franchising system, which is failing to generate profits without government support. There have been several examples of where private companies have failed to deliver public rail services which they were contracted to provide but even repeated examples of private sector failure in the East Coast line only led to short-term privatisation. The case of the rail industry shows some of the tensions between the public interest and a continued political commitment to privatisation. This has made public opinion and opposition parties more sympathetic to re-nationalisation.

The limited rail SOEs in the UK have not expanded internationally. However, some of the companies running franchises in Great Britain are French and German rail SOEs, which operate as corporatized SOEs. NITHCo in Northern is the only example of an SOE involved in commercial activities as well as delivering a public service and even it showed that there are conflicts between pursuing commercial activities and profits and providing a public service.

7. China

7.1 Context of state-owned enterprises

SOEs have played an important role in Chinese economic and social development. In the 1990s there were attempts at reform which were the result of both internal and external influences. Reflecting the pattern in other countries, the attempts at SOE reforms were accompanied by the creation of a regulatory body, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), which was the top tier of the SOE structure. It drew up a performance monitoring and incentive system based on league tables which brought together financial performance and political and social objectives (Shi, 2007: 11). It also continued with its management functions and State control as owner and regulator. The second tier consisted of SOE holding companies and the third tier was listed SOEs. The aim was to strengthen domestic, institutional capacity and to change SOEs into shareholder focused firms. The World Bank was critical of this approach (Shi, 2007).

These reforms have been subject to extensive debates. Perhaps one significant view was that the reforms are really about changing the role of the state to become an owner of capital and shareholder rather than a manager of SOEs. In this way, the pressures on the Chinese state to change its role from manager/ provider to investor/ shareholder are similar to other countries, for example, Germany.

The SOE sector has reduced its contribution to GDP, falling from 50% in 1998 to 25% in 2011. The number of SOEs owned by central government has also fallen from 196 in 2003 to 115 in 2013 (Fan and Hope, 2013). However, the larger SOEs have been transformed into more successful businesses and the Chinese state has encouraged SOEs to expand internationally. A recent speech by Xi Jingping reported that he wanted to turn China into a “country of innovators” focusing on aerospace, cyberspace and transport as well as promising market access to foreign companies (Phillips, 2017).

7.2 Chinese Railway Corporation(CR) – development of a state-owned enterprise

In 2013, the Ministry of Railways, which had previously run the railways in China, was re-structured. China Railway (CR) or the China Railway Corporation was formed in 2013. It is the national railway operator in the People's Republic of China and is regulated by the Ministry of Transport and the National Railway Administration. In a similar way to the reforms in France and Germany, China Railway (CR) was created after the separation of the administrative and commercial divisions of the rail system. CR runs passenger and freight transport through several smaller companies.

Table 6: China Railways

	2015
Revenue	CN¥ 916.258 billion
Operating Income	CN¥ 53.456 billion
Net income	CN¥ 32.355 billion
Number of employees	2 million

Source: China Railways, 2016

However further forms of state corporatisation were introduced in 2015. The State-owned China CNR Corporation Limited (CNR) and China South Locomotive and Rolling Stock Corporation Limited (CSR) announced in a joint statement on December 30, 2014 that they were to merge to form a single company—China Railway Stock Corp (CRRC) (Dodillet 2015). As a sign of its new global reach, all existing national and international contracts were to be transferred to CRRC and the new company will control over 90% of the Chinese rail sector. These two companies had been owned by the Chinese government since they were restructured in 2000 and have also pursued competitive strategies in the domestic Chinese rail industry (Dodillet, 2015). Following the merger in 2015, the Chinese government has continued as owner, with strategic plans to continue international expansion.

A recent development in the Chinese rail system is the expansion of a high-speed rail industry (Sun, 2015). This shows the approach of the Chinese government towards both the rail industry and the cultivation of technological innovation. As a response to the growing discrepancy between actual rail capacity and growing demand, the Chinese government over a period of twenty years, invested in new trains by using Chinese new technologies with some parts being imported. Since 2008, the strategy focused on the design and production of internationally competitive high speed trains, with the acquisition of some foreign companies and research institutes. The key role that the Chinese government has played in this phase of rail development can be seen as a form of ‘entrepreneurial state’ (Mazzucato, 2013, Sun, 2015).

7.3 Politics of rail SOEs

Railways are seen as a strategic sector within China and as part of China’s global expansion. The 2015 merger of two train companies showed that a process of consolidation has taken place in the rail sector. Expanding rail production (trains and rail track) is part of a strategy to increase the most high technology skilled economic activities in contrast to much of China’s industrial and manufacturing activities which are relatively low in the value chain (Barron, 2015). CRRC will also receive investment from regional backers such as the Silk Road Fund and the Asian Infrastructure Investment Bank (China Railways, 2017).

The example of Chinese Railways (CR) illustrates some similar dynamics to France and Germany, with pressure from the government to expand internationally as well as pressures to combine different functions within the rail industry.

China has a much larger SOE sector which has played a key role in the development of China. However, it has also been subject to some of the same pressures to reform and privatise SOEs. Over the last thirty years, economic reforms have been introduced and they have affected SOEs and created a more consolidated sector. There are indications that pressures to expand globally have influenced the continued expansion of rail SOEs and they are now playing an important role in China's strategic global expansion.

8. Conclusion

The rail sector is an example of a public service which had extensive influence on economic, social and territorial development. An examination of the politics of rail SOEs in four countries shows that they are linked to the changing role of the state in the economy but they also interface with wider public policy issues, such as employment, regional development and social inclusion. The influence of national and regional politics has had an impact on the development of SOEs in the rail sector. One way of interpreting the politics of rail SOEs is to relate key issues to the changing role of the state in the economy.

In France, Germany and China, the importance of rail as a strategic sector which requires government investment and support is recognised politically. In the UK, although the rail sector has an impact economically and socially, governments have been less willing to recognise this through SOEs although the failure of the private sector to deliver public services in parts of the UK have pushed governments to consider re-nationalisation. Public attitudes towards rail re-nationalisation show that public policies for SOEs have become part of debates in contemporary politics.

However, some of the characteristics of the changing role of the state such as reduced investment in the public sector and a focus on reducing government debt are also playing a role in government – rail relations. The issue of infrastructure investment featured in all four countries. In the cases of France and Germany, current arrangements for government investment are being questioned at the same time the national rail systems require further investment. In the UK, the way in which a not-for-profit company, Network Rail, is increasing its debt is a sign of the need for investment but privatised rail companies are not able to contribute because of their own running costs. Nor are the companies required to do this, thus protecting their limited profits. In China, infrastructure investment is part of a global expansion strategy of which the rail sector is playing a part.

Public policies to promote competition also play a significant role in shaping the politics of SOEs in the rail sector. In Germany, *Deutsche Bahn* has been subject to some competition. In France, competition has been introduced on long distance routes but the recent Spinetta Report recommended the introduction of competition to local and regional railways, which had previously been exempt. This has now been approved by the central government. In the UK, the drive for continued competition has resulted in failures of the private sector to deliver mainline service contracts yet this has still not led to long-term re-nationalisation.

Territorial security and economic development have both shaped government policies towards SOEs. The creation of the German rail SOE was strongly influenced by the unification of Germany after 1990. The continued existence of state-run railways in Northern Ireland show how even in a strongly pro-privatisation context such as the UK, the influence of regional security and cohesion could overcome privatisation policies.

All four countries examined in this chapter acknowledge the public mission that SOEs are expected to adhere to but they have also been subject to corporatisation and marketization pressures. This emerges most clearly when rail SOEs have become successful operators in international markets. Both France and Germany have grown through international expansion and have a strong corporate identity in the rail sector globally. SOEs which have entered global markets are experiencing some tensions between their public purpose and global expansion. This is one of the biggest issues to affect the politics of rail SOEs in future.

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