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Editor's note

Contracting issues at the intersection of the public and private sectors: New data and new insights☆

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ABSTRACT

The intermittent patterns of nationalizations and privatizations suggest that the debate regarding the role of the government in the economy is far from resolved. This study summarizes some of the major trends in privatization and nationalization during the past 20 years. We then describe how the papers in this special issue test new hypotheses and provide additional insights regarding determinants of these changes in shareholder structure. The papers in this special issue specifically consider factors (such as changes in the institutional environment or changes brought on by the financial crisis) which may have contributed to the recent re-balancing of public and private ownership. By focusing on contracting issues at the intersection of the public and private sectors, the papers in this special issue deepen our understanding of the important and ever-evolving relation between business and government.

From the nationalizations following the Second World War to the privatizations of the 1980s and 1990s to the rise of state capitalism concurrent with the recent financial crisis, economic systems around the world have witnessed sometimes dramatic shifts in the balance between public and private ownership. Economic events at the intersection of the public and private sectors may play an important role in tilting the scales more in favor of one ownership system or the other. Recognizing the significance of these changes in ownership structure, the papers in this special issue increase our understanding of contracting issues at the intersection between the public and private sectors and provide new insights regarding the inter-relation of business and government.

The intersection of the public and private sectors can be thought of as following a spectrum from nationalization (i.e., state takes control of private firm) to state ownership (i.e., state owns and controls firm) to privatization (i.e., state sells firm to private owners). At each point across the spectrum, recent events (such as the financial crisis of 2008–2009) have raised interesting and important questions to be explored by empirical and theoretical research. In particular, the papers in this special issue test new hypotheses and enhance our comprehension of corporate finance decisions which span the state and private sectors.

1. Privatization and nationalization activity: 1996–2015

To better visualize potential shifts in the balance between public and private ownership, we first consider the levels of privatization and nationalization activity during the past 20 years. Fig. 1 presents the number of privatization transactions and the number of nationalization transactions from 1996 to 2015. Following Borisova et al. (2015) and Guedhami (2012), we identify the number of privatizations

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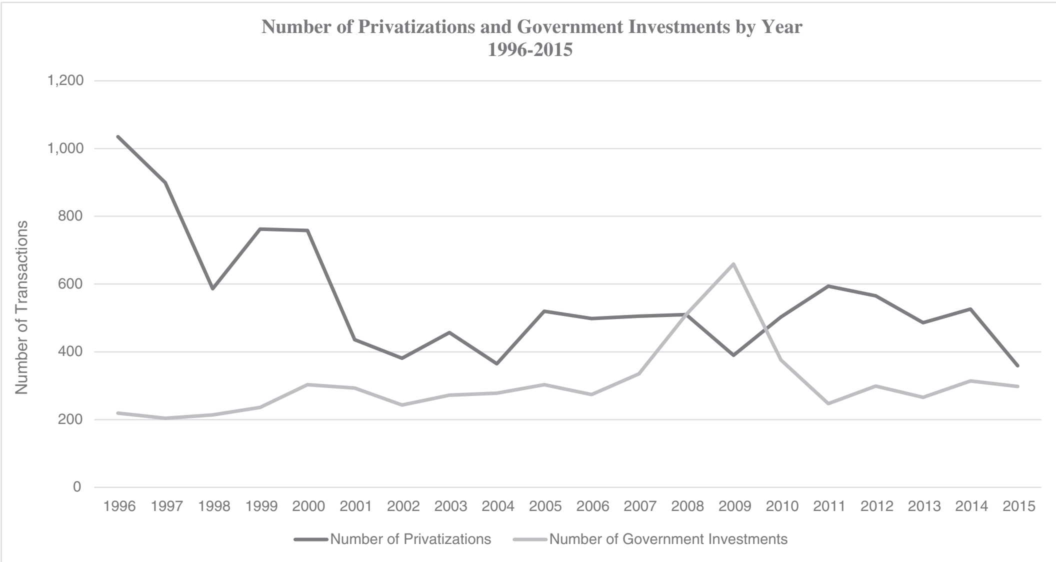

Fig. 1. This figure summarizes the number of privatizing transactions (privatizations) and the number of nationalizing transactions (government investments) during 1996–2015. The privatizations include asset sales and share-issue privatizations. The government investments include investments by state and national governments, by state-owned enterprises, and by sovereign wealth funds (SWFs). All data are from the SDC Platinum Mergers and Acquisitions database.

and nationalizations from the SDC Platinum Mergers and Acquisitions database.[1] We focus on transactions in which SDC identifies the ultimate parent as "government". This would include transactions involving governments, government agencies (including sovereign wealth funds), and state-owned enterprises (SOEs).

Consistent with the conclusions of Megginson and Netter (2001) regarding the financial and operating performance improvements following privatization, Fig. 1 indicates that privatizations distinctly outpaced nationalizations in the late 1990s. However, in the 21st Century, the scales reflecting the balance between state and private ownership shifted and the gap between government investment and privatization narrowed. For the years post-2000, Fig. 1 clearly identifies a convergence (especially during the time of the financial crisis). Focusing on the effect of the crisis, Borisova et al. (2015), Megginson (2013), Borisova et al. (2012), Guedhami (2012), and Nanto (2009) also report a substantial increase in nationalizations during those tumultuous years. Fig. 1 shows that the crisis-induced rise in state capitalism (Borisova et al. (2015)) reached a crescendo in 2009 when the number of government investments eclipsed the number of privatizations. Coincident with the subsidence of the crisis in 2010, the number of privatizations began to again exceed the number of nationalizations (although the divergence was smaller than in the 1990s and was markedly smaller in 2015).

To more deeply investigate these shifts in the balance between public and private ownership, Fig. 2 focuses on the industry-level composition of privatization and nationalization transactions during 1996–2015. We again report the quantity of transactions. We array the data into 12 industry sectors. In 11 of the 12 industry groupings, the number of privatizations clearly exceed the number of nationalizations (government investments). Perhaps not surprisingly (due to the impact of the recent crisis), finance/real estate was the one industry category in which the level of government investment was almost equivalent to that of privatizations. As noted by Guedhami (2012), the financial crisis precipitated a large increase in government ownership of financial institutions. Certainly the data in Fig. 2 reflect a greater level of government interest in the ownership of financial firms (which may have resulted from the bailout and rescue efforts within the banking sector). Furthermore, greater state ownership of banks may have been triggered if the financial crisis increased the political value that the control of bank lending provides to politicians. As we will describe more thoroughly in this paper, these political benefits include the use of state-owned banks to channel funding to favored constituents or political supporters. Since lending in general was constrained by the financial crisis, the financial crisis may have amplified this benefit of state ownership of banks.[2]

Fig. 2 also indicates that, unlike in banking, other strategically important industries (such as petroleum and utilities) experienced substantially more privatizations than nationalizations during 1996–2015.[3] Therefore, by demonstrating that the relative mix between privatizations and nationalizations is very different in the banking sector than in other industries, Fig. 2 provides

[1] Due to missing values for the dollar amount of many transactions in the SDC data, we report the quantity of transactions. Also, the values that we present may differ from other studies because we apply fewer screens (e.g., Borisova et al. (2015) only considered government investments in publicly-traded firms).

[2] Allen et al. (in this issue) examine the lending behavior of banks (both private and state-owned) during crisis periods.

[3] The study by Boubakri et al. (in this issue) provides insights as to how the privatization process may differ when a firm is designated as strategically important.