DISCUSSION OF DOES NATIONALIZATION WORK? EVIDENCE FROM RUSSIAN STATE TAKEOVERS BY CARSTEN SPRENGER

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Oxford, SBS/Balliol

2nd November 2013

Brief summary and evaluation

- Very well executed paper, especially with respect to
  - Care in forming sample
  - Exposition of empirical methods
  - Understanding of the institutional environment
- My discussion will focus on the interpretation of the results.

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$\widetilde{\Delta\pi}^i$	Change in performance if nationalised, $i = 1$, or not, $i = 0$
$\tilde{z}$	Dummy for nationalisation: $\tilde{z} = 1$ if nationalised,or not, $i = 0$
$\tilde{x}$	Vector of covariates
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- *Basic Assumptions:*
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  - $\mathbb{P}[\tilde{z}|\tilde{x}] \in (0,1)$, a.s.
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- *Result:*

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- Example: nationalisation programme reduces profitability by 50% for both nationalised and non-nationalised firms, then the propensity matching model would yield no effect
- We *could* conclude that *being nationalised* has no affect on relative performance
- different question than the effect of nationalisation programme on performance.
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Effects of a nationalisation programme in general

- Effects on nationalised firms
  - *Ownership change:* Change in the incentives and preferences of controllers caused by the state becoming the owner
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ORG. STRUCTURE CHANGES: CORPORATISATION VS. PRIVATISATION

- State bureaucratic organisational form:
  - Mgrs are officials directly appointed by government
  - No responsibility for gains or losses, evaluation based on meeting plan targets
  - Fixed managerial compensation
- Corporate form:
  - Firm administered by board
  - Firm responsible for profits and losses
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- Sample firms were corporate organisations before and after nationalisation
- If the corporatisation rather than privatisation is the major driver of efficiency improvement, results in this paper are not surprising.

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Change in competitive structure: Nationalisation and deep pockets

- Effect of nationalisation on corporate objectives
- Different governments pursue nationalisation for different reasons
  - Job creation and maintenance
  - Increasing social equality
- Some of these objectives conflict directly with efficiency
- *Russian Case:* Control of "strategic" sectors?
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Effect of nationalisation

- Nationalised firms have a greater likelihood of being bailed out by state
- This lowers their cost of capital and increases their debt capacity, evidence for this effect in paper
- Relaxes financing constraints (deep-pockets)
- Deep pockets makes a firm a more attractive supplier (Titman, JF 1994)
- Deep pocket firms might be stronger competitors—perhaps reducing performance of matched rival firms (Bolton and Scharfstein, AER, 1990)
- Thus, even if nationalisation lowers operating efficiency, the deep-pockets effect could cancel out or swamp the efficiency effect, leading to better or equal performance by nationalised firms.

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