Abstract

While privatization of state-owned enterprises has been one of the most important aspects of the economic transition from a centrally planned to a market system, no transition economy has privatized all its firms simultaneously. This raises the question of whether governments privatize firms strategically. In this paper we examine the determinants of the sequencing of privatization. To obtain testable predictions about the factors that may affect sequencing, we investigate the following competing government objectives: (i) Maximizing efficiency through resource allocation; (ii) maximizing public goodwill from the free transfers of shares to the public; (iii) minimizing political costs; (iv) maximizing efficiency through information gains; and (v) maximizing privatization revenues. Next, we use firm-level data from the Czech Republic to test the competing predictions about the sequencing of privatization. Consistent with the hypotheses of a government priority on revenues and public goodwill, we find strong evidence that more profitable firms were privatized first. The sequencing of privatization is also consistent with maximizing efficiency through information gains. Our results indicate that many empirical studies of the effects of privatization on firm performance suffer from a selection bias.

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