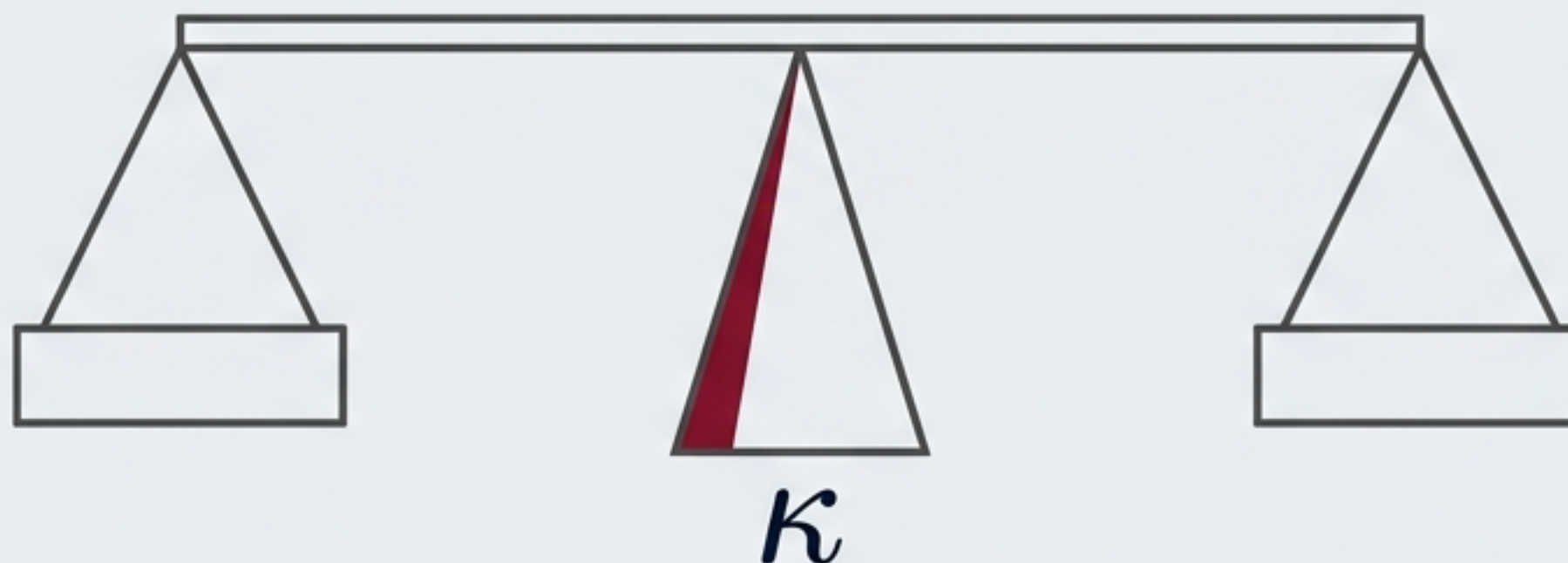


Equity as Tribute: The Market for Passive State Equity

Endogenizing price and exposure in regulatory bargaining



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August 2025: The Intel Transaction

- \$8.87B in disbursements for a ~9% passive common stake.
- Contractually passive: confers no control or board rights.

The Paradox of Voluntary Consent

Why would shareholders voluntarily hand a claim on their profits to the very government whose policies determine those profits?

More importantly: What does their agreement tell us about whether they gained?

Standard intuition assumes voluntary consent implies a welfare gain for the firm.
We will demonstrate why this intuition fails when price and policy exposure are endogenized.

**t=0: Manufacture
Exposure**

Government selects
policy exposure
 $\phi \in [\phi_0, \phi_{max}]$

**t=1: Bargaining &
Pricing**

Government and owners
negotiate stake $\alpha \leq \bar{\alpha}$
and net price p

**t=2: Policy
Choice**

Government chooses
regulatory stringency
 $s \geq 0$

The Treasury-Owner Wedge

Government weights private profit at $\beta \leq 1$

Government weights treasury receipts at $1 + \mu \geq 1$

The Wedge: $\kappa \equiv 1 + \mu - \beta \geq 0$



Skin in the game works.

Firm profit $\pi(s; \phi) = \Pi - \phi s$ strictly declines in policy stringency (s).

Ownership (α) raises the government's effective weight on profit from β to $w(\alpha) = \beta + \kappa \alpha$.

Policy Equation:

$$s^*(\alpha; \phi) = e - w(\alpha)\phi$$

Stringency strictly decreases with ownership.

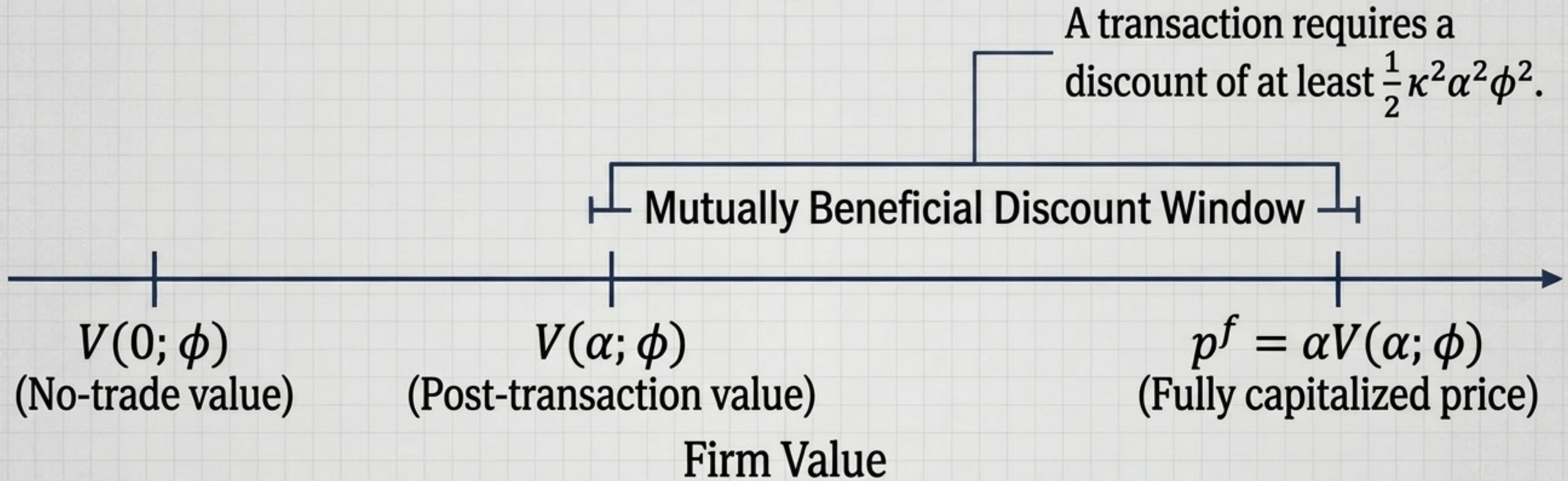
More exposed firms gain more.

$$\partial V / \partial \alpha = \kappa \phi^2 > 0$$

The induced gain in firm value is directly tied to the **wedge** and the **square of exposure**.

Takeaway: A passive stake reallocates profit to the treasury, where the government values it differently, softening policy.

The Anticipated Policy Discount



The Paradox: Sellers anticipate the softened policy and capitalize it into the stock price. But at p^f , the government pays for the entire policy improvement while accepting a policy it likes less. It requires part of the policy-induced appreciation.

The Participation Price and the Legal Floor (Prop 1)

Step 1: Under a take-it-or-leave-it offer, the government demands the maximum permitted stake ($\bar{\alpha}$) and pays the owners' participation price p_L .

$$p^*(\phi) = \max\{p_L(\phi), 0\}$$

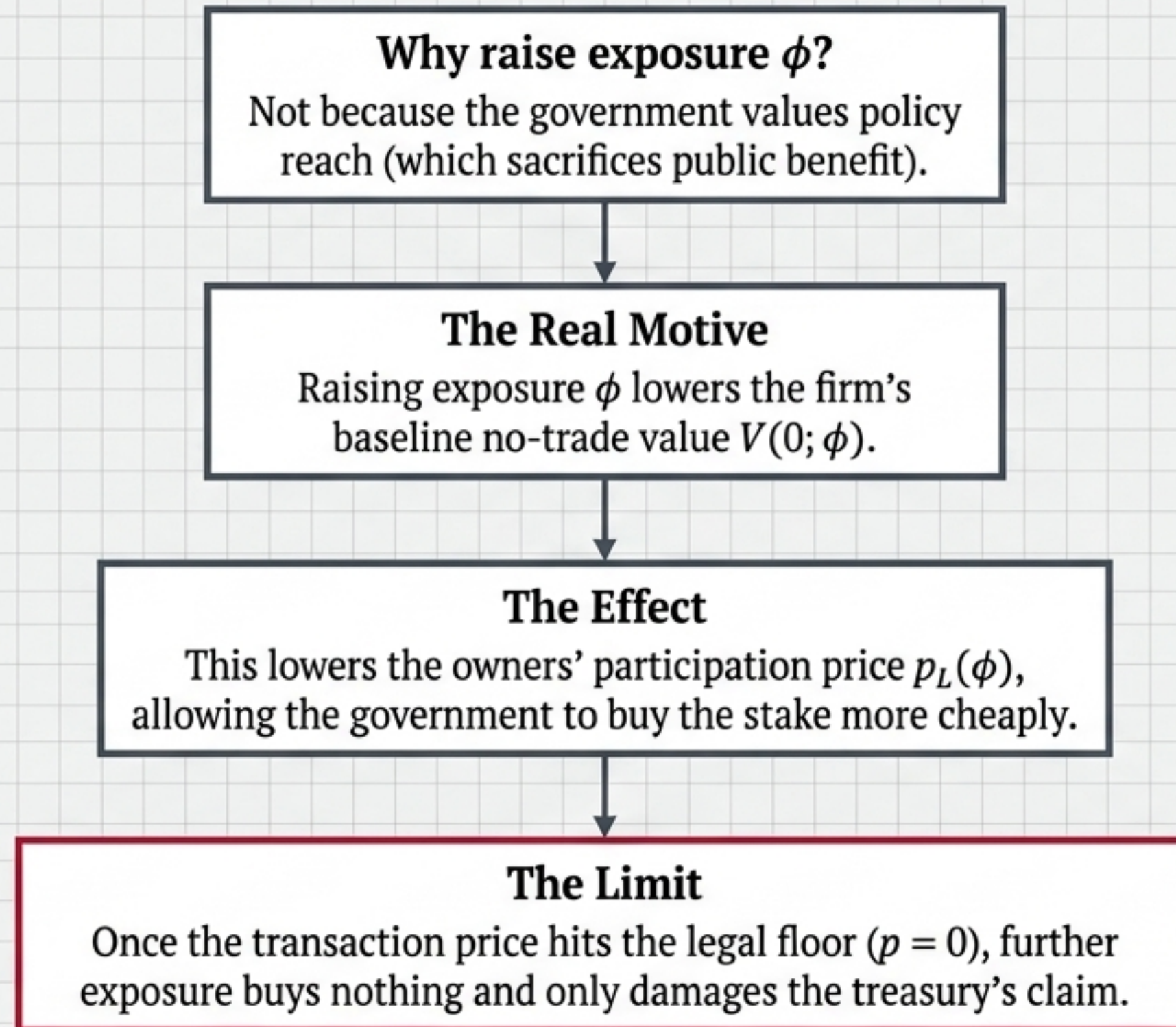
Leaves owners exactly at their no-trade value.

The legal price floor.

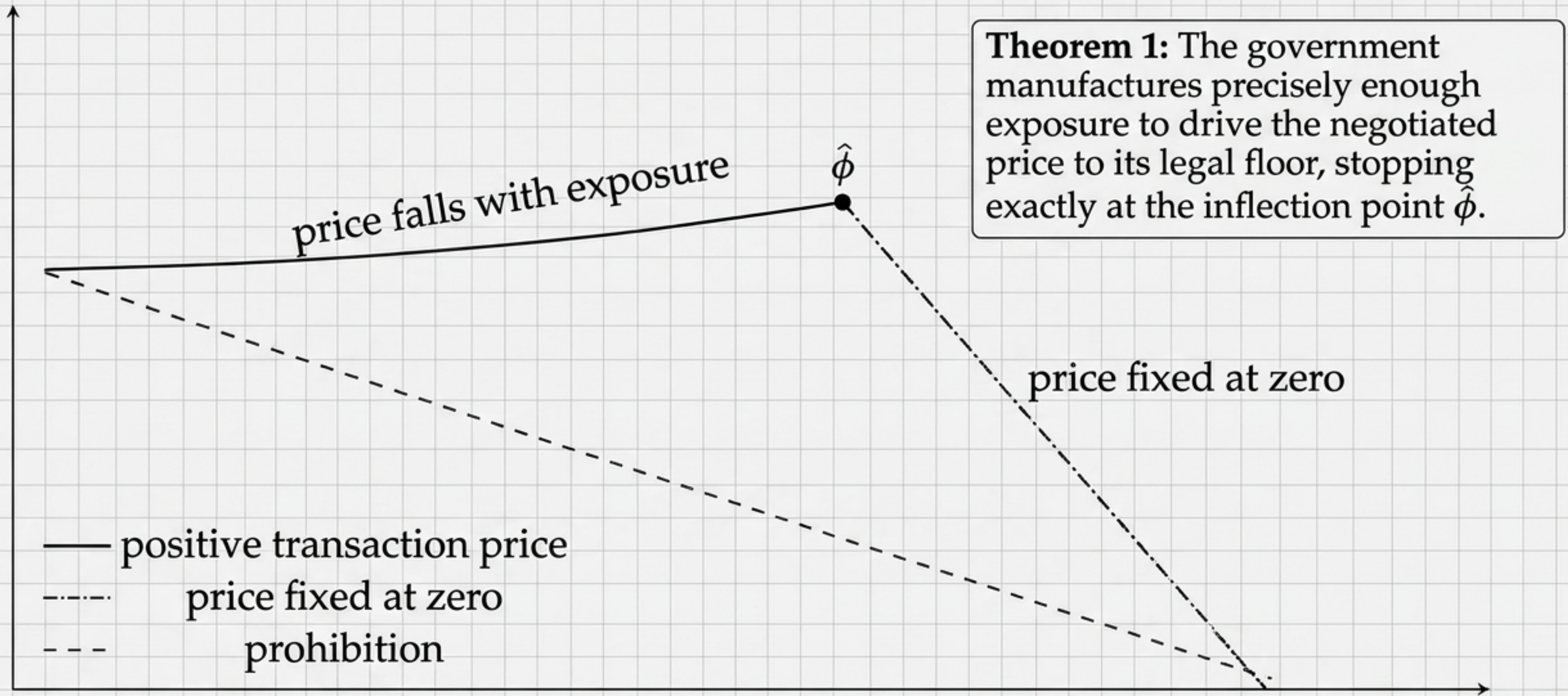
Step 2: If $(1 - \bar{\alpha})Y(\phi) \geq 1$, the legal floor binds at zero.

Key Takeaway: A voluntary transfer leaves the owners no better off than refusal. They are held to their outside option.

Manufactured Exposure as a Price Instrument



Manufacturing Exposure to Extract Tribute



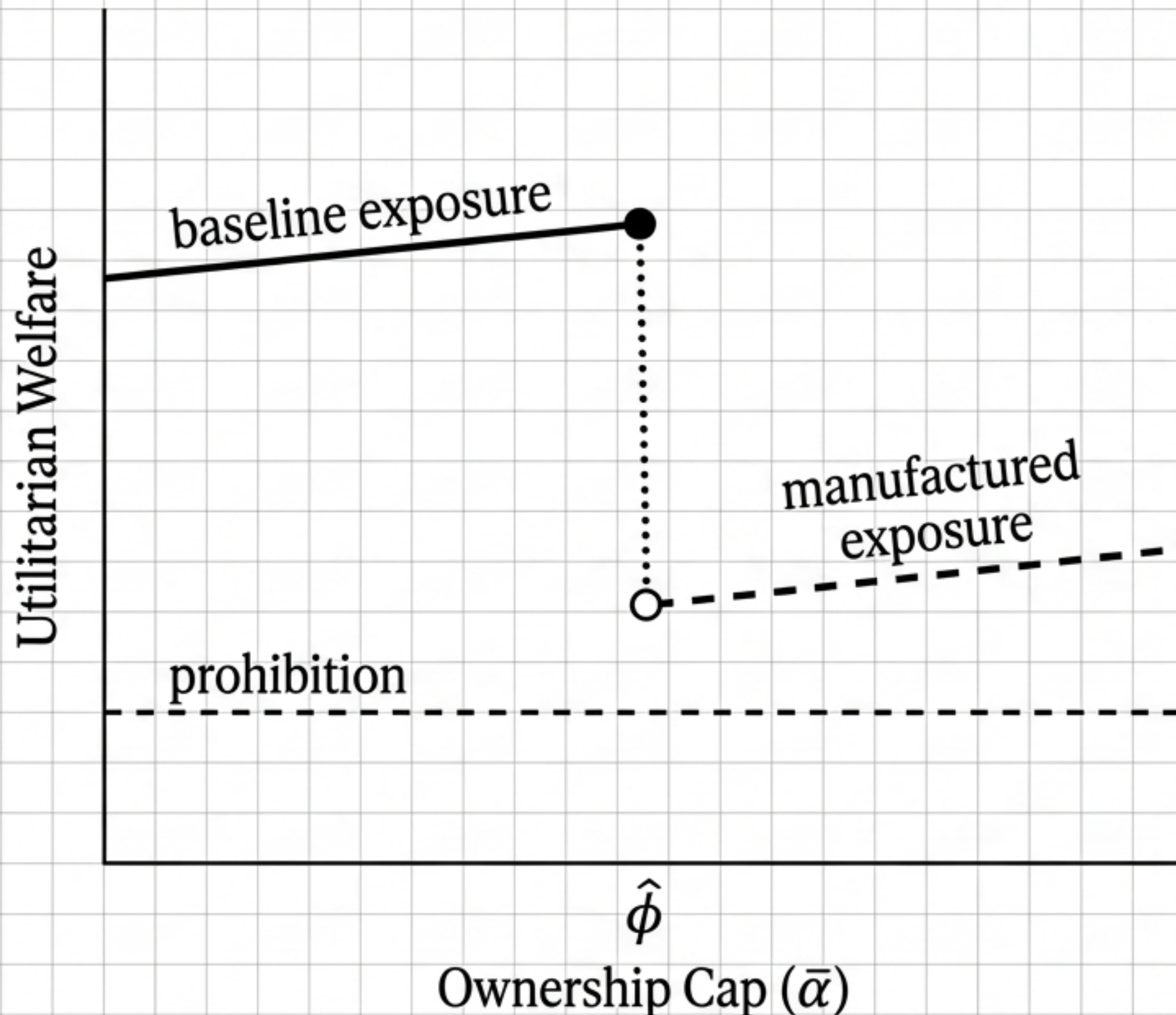
The Mathematical Identity (Corollary 1):

$$(1 - \bar{\alpha})V(\bar{\alpha}; \phi) - V(0; \phi) = -p_L(\phi)$$

At the manufactured exposure limit ($\hat{\phi}$), $p_L = 0$. Therefore, the payoff of accepting a free transfer of $\bar{\alpha}$ is mathematically identical to the payoff of refusing it (an uncompensated taking). The firm's consent protects them only against their post-manufacture outside option. The transaction is voluntary, but equity has become tribute.

“Observing that a firm agreed to state ownership identifies nothing about whether its owners gained relative to a world without state equity.”

The Welfare Dilemma: Ownership as Correction (Prop 2)



The Utilitarian Distortion:

Because $\beta < 1$, the government underweights shareholders and sets policy too stringently. State ownership initially corrects this by pushing the effective profit weight toward 1.

The Designer's Problem

The ownership cap ($\bar{\alpha}$) is forced to do two conflicting jobs:

1. Correct the **policy distortion**.
2. Limit the **incentive to manufacture exposure**.

Priced Permission: Separating the Instruments (Theorem 2)

Instrument 1: The Quantity Cap

Variable: $\bar{\alpha}$

Freely assigned to correct the policy distortion, maximizing welfare at

$$\alpha^\dagger = (1 - \beta)/\kappa.$$

Instrument 2: The Price Floor

Solves the unobservable exposure threat without requiring any knowledge of the government's political weights (κ).

The Novel Rule: A per-unit price floor equal to the firm's baseline no-stake value $V(0; \phi_0)$.

Because the floor is anchored to a pre-manufacture baseline, additional exposure cannot reduce what the government pays. The threat is entirely neutralized.

Evaluating Regulatory Regimes

	Prohibition (No state equity)	Unregulated Permission (Passive stakes allowed, cap only)	Priced Permission (Cap + Baseline Price Floor)
Policy Distortion	High (stringency too high)	Low/Corrected	Low/Corrected
Manufactured Exposure Risk	None	High (Tribute dynamic)	Eliminated
Information Required by Designer	None	Impossible (requires unobservable κ)	Requires only market baseline $V(0; \phi_0)$

Conclusion: Priced permission attains the highest welfare available when policy remains discretionary.

Empirical Signatures of the Cash-Flow Channel

1. Caps as Attractors

Stakes will gather exactly at the applicable legal or contractual cap ($\bar{\alpha}$), as the government's bargaining power selects the maximum permitted stake.

2. Declining Consideration

Net consideration will inversely correlate with policy exposure across transactions, reaching zero for the most highly exposed firms.

3. Pre-Deal Exposure Clustering

Exposure-raising actions (e.g., tariff designations, export-licence regimes) will cluster in the window before equity agreements and relax after.

4. Form of Transaction

Because anticipated tenders face a free-rider problem, dispersed stakes must arrive by negotiated primary issuance, not open-market accumulation.

Valuing the Intel Transaction: Announcement vs. Net Consideration

The Data:

Pre-market value $V(0) = \$100\text{B}$ | Announcement return $r = 6\%$ | Stake $\alpha \approx 9\%$

The Model's Identity:

$$\frac{\kappa\phi^2}{V(0)} = \frac{r + \alpha - p/V(0)}{1 - \alpha}$$

The 6% return means nothing until the consideration (p) is priced.

Scenario A: Zero equity value of consideration

$$p = 0$$

Implies $(1 - \alpha)Y > 1$. The zero-price tribute regime.

Scenario B: Dollar-for-dollar equity value

$$p \approx \$8.07\text{B}$$

Implies $(1 - \alpha)Y < 1$. The positive participation price regime.

Final Takeaway:

The identifying object in passive state equity is not the announcement return—it is the net consideration relative to baseline exposure. Consent is insufficient; price is the true signal.