

# **BINARY ECONOMIC MODES FOR THE PRIVATIZATION OF PUBLIC ASSETS**

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## **Abstract**

Binary economics offers a new paradigm for economic growth in which the supply and demand sides of the economy are linked through broad-based capital ownership. The recent worldwide pursuit of economic efficiency through the privatization of public assets offers significant opportunities for improving the standard of living in countries that emphasize broad ownership of privatized assets. The author discusses a number of practical tools for privatizing assets in a way that promotes economic growth and improved standards of living.

## **Introduction**

This article describes a practical approach to privatization, which incorporates the principles of binary economics.

In the privatization of public assets binary economics argues that (1) it matters who owns the privatized capital, (2) access to capital is limited by risk, and (3) capital in concentrations producing income that is not consumed retards economic growth. Consumer Stock Ownership Plans and General Stock Ownership Plans provide means for rapidly broadening capital ownership among the economically disenfranchised, increasing per capita income and accelerating economic growth. Lessons from the pursuit of General Stock Ownership Corporations (GSOCs) in the United States include (1) political leaders cannot look to conventional institutions to support initiatives for broadening capital ownership, (2) eligibility for participation in programs promoting broadened capital ownership can be vexing, (3) regulation of broadly held enterprises may raise conflicts between the citizens' demand for income and the state's demand for tax revenue, and (4) broadly held enterprises can be perceived as a threat to the political status quo. Notwithstanding these issues, the GSOC remains an effective means of achieving widespread capital ownership through the privatizing of public assets without confiscating the property of the wealthy and without creating a monolithic socialist state.

The binary approach should be of particular interest to socio-economists because it allows for distribution of income on market principles. Since binary principles are not widely known in the socio-economic community, the article begins with a brief review of the basics. It then points out the unique opportunity presented by the present privatization movement. Finally, the article describes the binary strategies that might be combined with privatization.

## **The Foundation of Binary Economics**

“It takes money to make money,” is an oft used phrase in the capitalist economies of the Western world. And while it is not entirely true . . . most of us actually exchange our labor for money . . . it has an intuitive logic that causes the hearer to nod in agreement. We all recognize that labor can produce only a limited amount of income and that “the real money” is made by those who invest their capital to produce income. This fact has become increasingly problematic in capitalist economies as the tools of technology produce an ever increasing portion of the wealth.

Binary economics, first expounded by Kelso and Adler in 1958, differs from classical economics in asserting that there are two factors of production, labor and capital. These factors of production command returns equal to the contribution each makes. With the application of technology capital is increasingly prevalent and productive and consequently commands an ever increasing portion of the total value produced in the economy. The contribution of labor, on the other hand, is relatively fixed. Even the most highly compensated laborers in our society, the doctors, lawyers and professional managers, are essentially hourly employees. They may earn very high hourly rates, but their income is limited by the number of hours they can, or are willing, to work.

Not so for the owner of capital. The income of the capital owner is limited only by the amount of capital that owner can productively invest. Classical economics presents the individual with a “Catch-22” which has serious implications for economic growth. If a member of the society does not have capital, he or she must develop that capital out of savings. The savings are produced from reduced consumption. Thus, reducing the demand for goods and services in the economy as a whole.

Conventional methods of financing economic development and the creation of new capital rely heavily upon the use of credit. Borrowed money is used to purchase assets which produce income to amortize the financing. Once the financing is amortized the capital continues to produce income for its owner which may be used for consumption. This credit route to the creation of capital is common in corporate acquisitions, the purchase of real estate, and the development of new enterprises within existing organizations.

Unfortunately, the access to capital through credit is limited. Because lenders abhor undue risk, lending institutions look to existing capital as a form of guarantee for the credit. Thus, the financial strength (capital base) of the borrower is the source of comfort and reduced risk to the lender. This is true even in leveraged buyouts where the lender looks for security to the equity of the company, which admittedly may have been very small in the highly leveraged buyouts in the United States in the late 1980s. In some cases, the lender may look exclusively to the experience, expertise or energy of the buyer as security for the loan, but these situations are rare. More often existing capital is put “at risk” to assure the lender against the possibility that the new capital will not pay for itself. Thus, existing capital becomes the foundation upon which new capital is built. From the

perspective of the individual, once he or she develops capital, whether from saving, inheritance, gifts or otherwise, that capital can guarantee access to additional capital.

This capital formation process forecloses the broad base of the population from participating in the income which capital can produce. They have no capital to serve as a guarantee and cannot easily reduce consumption to build capital from savings. At the same time, a few family units are already producing significantly more capital income than they can, or are willing to, consume. This excess income is reinvested in capital assets, producing ever more income that cannot be consumed and foreclosing other family units from participating in the growth of new capital to produce income for their consumption. The result is a significant concentration of capital in most economies in the hands of a very few family units (Kelso & Hetter, 1967a).

Binary economics holds out hope for those without access to capital. At the same time it offers the prospect of significant economic growth. It is unlike classical economics with its Supply Siders, who focus on capital formation, and its Keynesians, who focus on the creation of demand. Binary economics envisions the formation of capital in such a way that the income produced would be used for consumption rather than reinvestment. It is this connection between the formation of capital and the demand for goods and services that provides underperforming economies the prospect of significantly improved growth.

Binary economics invites us to reconsider the ways in which capital is formed and distributed in our economies. It suggests alternatives for capital formation in which the formerly disenfranchised may participate. Binary techniques involve providing access to credit for capital investment to those who have not, heretofore, had such access because they lacked existing capital. A range of options has been proposed by Louis Kelso, Patricia Hetter and others which would provide broad access to capital through credit guarantees (Kelso & Hetter, 1967b). It is important to note that binary economics does not demand the redistribution of existing capital. It does, however, imply that the ownership of existing capital should not provide the only route for access to new capital and proposes broader participation in the formation of capital in the economy through the use of credit.

### **Significant Implications for Privatization**

Binary economics has a number of significant implications for the privatization processes now underway all over the world. The first and most important implication is that it matters who owns the privatized capital. If capital is privatized in such a way that the privatized capital is owned by those who already own much of the existing capital, it is not likely that the income from that privatized capital will flow back into the economy in the form of increased demand. Capital in excess of that needed to produce the income its owner wishes to spend is harmful to the economy. It has been referred to as “morbid capital.” That is, capital producing income that will not be spent on consumption to satisfy the needs or wants of its owner.

Thus, in economies where increasing per capita income and economic growth are desired outcomes of government policies, the question of who will own the newly privatized capital matters. If it is owned by those who will only reinvest its proceeds, rather than use them for consumption, the privatized capital will fail to produce additional demand in the economy and will do nothing to satisfy the needs of the broader population. Consequently, growth in economic activity and personal income will be smaller than if the newly privatized capital were broadly distributed. This suggests that privatization programs built around the sale of enterprises in public offerings without financing vehicles to permit participation by the broader community may not achieve maximum economic growth.

It is important to note that binary economic principles are not inconsistent with the principles of capitalism and private ownership of property. Binary economics does not propose to redistribute existing capital, but only to broaden access to the formation of new capital. The broader capital ownership which is possible under the concepts of binary economics comes from the creation of new capital, not the redistribution of existing capital. Indeed, binary economics is built on the foundation of private property and free enterprise. It does not call for the redistribution of wealth and eventually will make the redistribution of income taking place today unnecessary.

The second significant implication of binary economics for the privatization process is that excess capital is destructive to the system. The ownership of productive capital by a small minority of the population and the non-ownership by a large portion of the population of consumer units, combined with the practical inability of the many to attain such ownership, is the weakness that assures the collapse of either political freedom or of economic stability in the market economies of the world. Highly concentrated ownership of capital is inconsistent with political democracy. The capital-less many will exercise their political power to shift ever increasing amounts of income through the tax system to their benefit or the political democracy will be corrupted to protect those with large concentrations of capital. The social welfare burdens of the Western democracies are an example of income shifting to support those whose labor income is insufficient for their needs but who have no access to income from capital.

The third significant implication of binary economics for the privatization process is that access to capital is limited by risk. New capital can be formed in a number of ways. It can be formed through the application of labor as in the case where an engineer designs and constructs a machine. It can be formed through the use of debt as in the case of an entrepreneur financing a new business venture. But it cannot be formed through the application of existing capital, as in the case of an exchange of currency for equipment. The latter is merely a transformation of the form of already existing capital.

The quickest and most efficient way to create new capital on a large scale is through the use of debt. However, the use of debt involves risk. Not every new venture, not all new capital, is sufficiently productive to amortize its own cost plus the cost of financing. Thus, lenders look to means other than the new capital itself to guarantee repayment of the financing. Often the lender looks to the other capital assets of the borrower to

guarantee the new capital. Those without other capital assets are thus foreclosed from participating in the creation of new capital. Binary economics suggests that in privatizing public assets, governments should consider offering loan guarantees to potential purchasers who have insufficient assets to guarantee those loans directly. Such a process would be a simple extension of the historical practice of offering government loan guarantees to support economic development for everything from football stadiums, to railways, to manufacturing facilities. However, binary economics suggests that these loan guarantees be made available to a much broader group than in the past.

### **The Course of Privatization**

A great deal has been written about the explosion of privatization initiatives around the world in the past two decades (Sanchez & Corona, 1994; Savas, 1987). This author is not likely to expand the base of knowledge or understanding of these initiatives. But, a short review of the process may be helpful in putting into context the opportunity that binary economics offers.

#### **• The Privatization of Public Assets Has Accelerated Dramatically**

It is clear that the privatization of public assets is expanding around the world. Privatization initiatives underway in 1992 through the developing world were estimated in the range of \$35 to \$45 billion U.S. (Waddell, 1994). Latin America has lead the way with initiatives which began as long ago as 1980 in Chile, which privatized over \$1.7 billion (U.S.) of state enterprises between 1985 and 1989. The National Privatization program in Brazil has involved the sale of more than \$9 billion (U.S.) of assets in 35 companies and the transfer of \$3.2 billion (U.S.) of debt (Landau, 1996). But recently, governments in Central and Eastern Europe and the former Soviet Union have initiated massive programs for the privatization of government assets. In these countries privatization has been seen as a method to quickly convert to a market economy and it is in this part of the world where the most diverse experiments in privatization can be seen.

Privatization is also expanding in the East with significant initiatives occurring in Malaysia, Sri Lanka, China, Bangladesh, Taiwan, and The Philippines. Malaysia first implemented privatization in 1983 with the upgrade of a public road into a tolled road and since then privatization has proven to be an important hallmark in the development policy (Malaysia Ministry of Finance, 1992). Even in Africa privatization is staking out a foothold with Morocco and Egypt taking the lead, although the political instability experienced in Sub-Saharan Africa has made the implementation of privatization programs problematic. The clear evidence is that privatization efforts are occurring at a pace never before experienced. This new pace for privatization presents both an opportunity and a threat for development and economic growth.

In the midst of all this activity there is no single means of privatization preferred by governments. Privatization vehicles employed include options ranging from outright sale of assets at auction to transfer of assets to employees. In Latin America the most common form of privatization has been the auction or public sale of assets. In the United

States privatization has taken the form of a transfer of managerial responsibility for public assets to the private sector. Programs in Russia, Central and Eastern Europe often involve the transfer or sale of part or all of an enterprise to its employees. In addition, innovative programs have developed in many of these countries involving forms of mass privatization. For example, the use of a voucher system to ensure broad public participation in the ownership of privatized assets in Russia has facilitated the creation of more than 600 investment funds offering diversified investment in privatized enterprises (St. Giles & Buxton, 1994).

#### • **The Intellectual Underpinnings of Privatization**

Privatization is often justified as increasing the efficiency of government and reducing its size. For example, the Malaysian Ministry of Finance (1992) articulates the objectives of privatization to be:

1. relieve the financial and administrative burden of the government;
2. improve efficiency and increase productivity;
3. facilitate economic growth;
4. reduce the size and presence of the public sector in the economy; and
5. help meet national development targets.

The objectives of privatization in Brazil have been described as:

1. correcting the fiscal imbalance;
2. focusing the government's activities on the social area;
3. transferring to private management many activities considered "strategic" in the country's previous developmental model;
4. stimulating the modernization and restructuring of the country's industrial sector; and
5. strengthening the capital market by broadening its base (Landau, 1996).

What appears to be missing from all the statements of philosophy regarding the privatization of public assets is the goal of broadening capital ownership. And yet, broadened capital ownership is an appropriate and necessary government goal. Restrictive capital ownership is an impediment to economic growth, the growth of personal income, and an increase in the standard of living. The broadening of access to capital and the income produced therefrom contributes directly to the achievement of these objectives. As such, the broadening of capital ownership is an objective which can readily be adopted by any government seeking more rapid growth in a market economy. Conversely, broadening of capital ownership does no violence to other state interests such as the preservation of private property, the protection of the public fisc, or the fundamental obligation to treat citizens fairly. While it would clearly not be appropriate to confiscate capital and redistribute it to others in the economy, a violation of the rights of private property, it is perfectly acceptable to broaden the access to capital through expanded access to credit.

- **Privatization and Economic Growth**

Underlying the move to privatize public assets appears to be a basic belief that government owned and managed enterprises are inherently less efficient than private enterprises. While there is a great deal of evidence to suggest that this is true, there does not appear to be a significant alternative push to increase the efficiency of government enterprises, except in those cases where the body politic has defined the enterprise as a uniquely governmental function. And this definition is becoming increasingly narrow over time.

Consequently, privatization of public assets appears to stem from a desire to bring market disciplines to bear on enterprises that were once sheltered by government ownership. This desire may stem from an increasing realization that international trade and commerce raises the living standards of those nations and peoples who participate fully in the international economy. However, a country or an enterprise cannot participate fully in the international economy without being fully competitive. The increasing efficiency that comes from market disciplines ensures that enterprises will either be competitive in the international economy, or will fail to survive, permitting the allocation of resources to other, more productive activities.

Thus, a basic thrust of privatization appears to be the promotion of economic growth. It is this objective which will be thwarted to a great extent if the privatizing governments fail to link up the privatized capital with those who will use the earnings from that capital for consumption. If that capital goes primarily to those who reinvest rather than consume the income from the capital, total activity in the economy will be less than otherwise possible and economic growth will suffer as a result.

### **Binary Economic Modes of Privatizing Public Assets**

There are a range of binary economic models which are applicable to the privatization of public assets. Some of these models are in effective use today and have a considerable track record. Others are conceptual and await the action of a creative government or agency to test their usefulness. Among the binary economic tools available for the broadening of capital ownership are the Mutual Stock Ownership Corporation, the Consumer Stock Ownership Corporation, the General Stock Ownership Corporation, the Individual Capital Ownership Plan, the Residential Capital Ownership Plan, the Commercial Capital Ownership Plan and the Public Capital Ownership Plan (Kelso & Kelso, 1982). In this paper I will make only passing reference to Employee Stock Ownership Plans as a means of privatizing public assets as others have dealt extensively with their use in this context (Binns, 1995; Kelso & Kelso, 1986). Rather, this paper will focus on two of the less well known options for privatization using binary economic principles, Consumer Stock Ownership Plans (CSOPs) and General Stock Ownership Plans (GSOPs).

- **Employee Stock Ownership Plans**

The Employee Stock Ownership Plan (ESOP) is the most well known of the binary economic tools for broadening capital ownership. Conceived by Louis O. Kelso and first implemented in the United States in 1956 with a company known as Peninsula Newspapers, Inc. of Palo Alto, California, the ESOP in the United States has grown into one of the most widely used methods for broadening capital ownership (NCEO, 1996). An interesting example of the application of employee ownership principles to the privatization of public assets is the February, 1993, privatization of the Russian Saratov Aviation Plant of Moscow (Battilega, 1993).

- **Consumer Stock Ownership Plans**

The Consumer Stock Ownership Plan (CSOP) was conceived as a means of providing broad equity participation in regulated public utilities.<sup>1</sup> These entities in the United States are particularly good candidates for the application of binary economic tools in that their regulated status (a) assures that they make a profit (thereby reducing the risk of applying borrowed capital for their acquisition) and (b) their customer base defines a clearly identifiable class of individuals with an economic relationship to the entity. Public utilities in the United States are generally private corporations with publicly held shares which provide electrical, gas, water, sewer and telecommunications services to the public. Typically, these have been monopolistic entities with returns regulated by the appropriate governmental entity. By virtue of their regulated returns, public utilities have represented a lower order of investment risk than is present in a non-regulated environment. Thus, the public utility environment presents a context in which the risk associated with new capital formation is lower than would otherwise be expected and represents an excellent opportunity for the application of binary techniques for broadening capital ownership.

The process of CSOP financing to broaden capital ownership begins with the creation by the public utility of a Consumer Stock Ownership Plan. The CSOP is managed by independent trustees authorized to borrow funds for the acquisition of shares in the public utility on behalf of the utility consumers. The ownership of the shares acquired by the trust is allocated among the CSOP consumer beneficiaries in proportion to their respective purchases from the utility. With respect to the shares acquired by the CSOP, all of the utility income in excess of depreciation associated with the CSOP shares must be distributed to the CSOP. These revenues are applied to repay the debt assumed by the CSOP for the purchase of the public utility shares. Once the acquisition indebtedness is amortized the revenue to the CSOP is distributed as rebates (income) to the shareholders. The advantage of public utility funding through a CSOP is that the regulatory authority can provide the guarantee against risk to the financing lenders by agreeing to set rates for

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<sup>1</sup> Kelso & Kelso (1986). The original CSOP, Valley Nitrogen Producers, Inc., Fresno, California, was created by Louis Kelso in 1957. While Valley Nitrogen was not a regulated public utility, it had the characteristics of a public utility in that its owners, agro-business and large farmers, were long-term consumers of its product, fertilizer, just as utility producers and consumers are linked by a continuous flow of product, electricity, gas, water, or steam.



the regulated utility at levels sufficient to assure amortization of the loan for stock acquisition.

In a model of CSOP technology as applied to the financing of new capital from 1960 to 1980 for Pacific Telephone and Telegraph, a public utility providing telecommunications services in California, Robert H. Ashford calculated that 70 percent of the company stock (\$5.6 billion (U.S.) book value) could have been acquired by its customers through a CSOP with no increase in utility rates (Ashford, 1984). Notwithstanding this opportunity, in actual fact this \$5.6 billion (U.S.) of new capital formed by PT&T went primarily to those who already owned PT&T shares even though the utility financed most of its needs for new capital through debt. This continuation of the concentration of capital ownership was supported by the public regulators who established rates for PT&T sufficient to amortize the debt for acquisition of capital improvements.

- **General Stock Ownership Plan**

The General Stock Ownership Plan (GSOP) is a binary economic method of assuring broad participation in the creation of new capital. Until 1978 the GSOP was a conceptual model only, but through the influence of U. S. Senator Mike Gravel (D. AK) U.S. Federal legislation was adopted authorizing the creation of General Stock Ownership Corporations under the Internal Revenue Code of 1954 (Gauche, 1981). This legislation authorized the charter of General Stock Ownership Corporations by state governmental entities and required the participation in ownership of all the residents of the chartering state. Under the Federal statute a GSOC could be formed either by act of a State legislature or by statewide referendum. Each resident of the state would be issued a share of stock free of charge. The corporation would borrow money to invest in profit-making ventures with the loan secured by the assets and, if necessary, by a State guarantee. Through this method the citizens of the State would become owners of capital. The earnings from the GSOC investments would be used to retire the loan and the balance distributed to the shareholders (Gravel, 1978a). The Federal legislation provided these new forms of corporations with favorable Federal income tax treatment.

Senator Gravel pursued the concept with the Alaska State government in 1979 and authorizing legislation was introduced in both the Alaska State Senate and House, but did not receive the necessary support to become law. A subsequent initiative petition for the creation of an Alaska General Stock Ownership Corporation failed to win approval of the voters in 1980. The concept of the Alaska General Stock Ownership Corporation (AGSOC) was described in brochures for the initiative campaign:

AGSOC would be chartered by the state legislature. Incorporators would be appointed by state officials who would name the board of directors. Every Alaska resident as of a date set by the legislature – man, woman and child – would receive one share of AGSOC stock. There would be no charge. During the first five years, the stock could not be sold unless the owner left Alaska to live elsewhere. In that case, the owner would have to sell his or her share back to the AGSOC itself (at book value). These shares would then be available for sale (at book value) to new residents, including those born after AGSOC was formed. After five years, AGSOC shares could be traded, but still only Alaska residents could own AGSOC stock. Each resident would be limited to owning ten shares. Once AGSOC was formed, it would operate independently of the

state. AGSOC would borrow money from banks, insurance companies and other large institutional investors. These lenders would loan their money on the strength of investments proposed by AGSOC and eventually on the financial strength of AGSOC itself. If an AGSOC investment should fail, the lenders would not be able to recover any money from the shareholders. They could only look to the AGSOC itself for AGSOC debts. AGSOC would use the borrowed money to make sound, productive investments in Alaska. Investments in energy projects, agriculture, fishing, communications, transportation, tourism, timber – all would be possible, but investment security would be a prime goal. AGSOC investments would earn money, and those earnings would be used to pay back lenders according to a predetermined schedule. The AGSOC would be exempted from paying corporate income tax on its earnings. AGSOC earnings beyond the amount needed to pay back lenders are profit. This profit would be divided among the Alaska stock owners on a per-share basis and paid out to each stockholder by dividend checks. By law, the AGSOC would have to pay out virtually all its profits (90% minimum) to its stockholders instead of retaining earnings. When AGSOC's debt is paid off, the entire return from an investment would go to shareholders as dividends.

*The Washington Post* at the time said, “[O]rdinary people, even poor people, could accumulate wealth in the same way that well-to-do people make their assets grow, if the government will intervene. A person who has sufficient assets or earnings to guarantee his or her credit can borrow money to make investments, pledging to pay back the loan with the new income expected from the investments. If the venture is a success, the person winds up with new capital that paid for itself, but nobody calls this process a ‘giveaway.’ It’s called ‘risk-taking’ in the free enterprise system . . . . [G]overnment, which in effect aggregates the assets of all citizens, can [by underwriting some of the risk] provide a mechanism for extending a share of credit to everyone – a chance to buy something based on its anticipated future earnings.” (Greider, 1978).

While the Alaska experience did not result in an operational GSOC, it did point up a number of issues relevant to their use in other contexts. GSOCs and other forms of broad capital ownership invariably raise political issues. Classical economics provides no foundation for broad capital ownership. There is a significant educational effort required to enlighten the political infrastructure regarding the benefits of broadened capital ownership and build the foundation for a philosophical approach to support governmental action. Binary economics is not the common view of the economic world held by most political operatives or their staff. In pursuing the creation of General Stock Ownership Corporations the proponent should be prepared for a lengthy and persistent educational process.

In addition to the processes required to educate legislators and staff regarding the economic foundations of General Stock Ownership Corporations, the proponents can expect significant regulatory issues. In the United States, issues of securities regulation, shareholder rights, and state regulation of GSOC operations all come to the fore in the debate over the creation of a General Stock Ownership Corporation. Enabling legislation may require the amendment of existing statutes and regulations governing taxation, securities regulation, shareholders’ rights and corporate organizational structures.

The class of individuals eligible to become participants in a General Stock Ownership Plan or Corporation can be vexing. In the Alaska situation it was intended that all the citizens of the political jurisdiction become shareholders in the corporation. Two

questions immediately arose: (1) How to provide ownership participation to those citizens of the state who were born or achieved citizenship after creation of the GSOC and (2) what to do about those shareholders who cease to be citizens by virtue of relocating outside the state? The original AGSOC proposals would have permitted departing shareholders either to retain their shares or to sell those shares to other eligible shareholders. While a public market for GSOC stock was designed to partially address this issue, it was not clear that sufficient stock would change hands (even if non-resident shareholders were required to divest their shares) to meet the need of new citizens. Of special concern to opponents of AGSOC was the possibility of a sharp dichotomy developing between the AGSOC shareholders and subsequent residents who did not have a participation in the GSOC.

In addition to establishment of the class of individuals eligible to participate in the General Stock Ownership Corporation, the specter of broad based ownership of an entity investing in resources or industry presented concerns in the political arena. For example, representatives of the administration in Alaska expressed concerns about the possibility that the income of AGSOC shareholders might be impacted negatively by state taxation and regulation. As one commentator said, "Obviously, a lot of tradeoffs are involved, but the political and economic issue reduces itself to the following: Would it be better to expedite resource development and lower State taxes in such a case in order to allow AGSOC's shareholders to benefit directly (albeit by only a marginal increase in their dividend) and at the same time deprive the State treasury of potentially enormous revenues which could be devoted to various social welfare programs? These programs would ultimately return greater proportionate benefits to those in the lower income brackets in the State and possibly lesser benefits (than AGSOC) to those in the upper income brackets." (Donohue, 1979).

Interestingly, this concern did not deter the government of the Canadian Province of British Columbia when it chose to create the British Columbia Resource Investment Corporation (BCRIC). The provincial government had, over the years prior to 1979, acquired a number of commercial enterprises such as lumber mills, paper plants, chemical companies, and natural gas transmission systems to prevent their sale to foreign interests (BCRIC, 1979). In seeking to divest itself of these assets the government created BCRIC. The company exchanged 15 million shares of stock to the government for \$151.5 million (Canadian) of profitable assets from the government owned companies. The government then distributed 12 million of the shares to the citizens of British Columbia, five free shares each. In addition, every resident was eligible to purchase up to 5,000 additional shares for \$6.00 (Canadian) each. When the distribution was complete, BCRIC, with more than 2.1 million shareholders, was one of the most widely held corporations in the world (*Toronto Star*, 1979).

Perhaps the most interesting issue addressed by the author in support of GSOC enabling legislation before the Alaska State Legislature was the debate over the political role of a privately held corporation owned by all the citizens of the state. Concern was voiced that the GSOC could become a "Fourth Branch of Government." The specter of a broadly held company, the dividends from which represented a significant share of each citizen's

income, was seen by some as a threat to the government's ability to regulate. Indeed, there was even concern that the board of the Alaska General Stock Ownership Corporation, having been elected from the same constituency that elected the governor and legislature, might represent an elective threat to the entrenched Alaska political hierarchy.<sup>2</sup> These efforts to "depoliticise" General Stock Ownership Corporations ultimately involve limitations on the political and legal rights of shareholders and should be resisted as an attempt to preserve the existing political hierarchy.

## Summary

The intellectual foundation for the use of binary economic modes of privatizing public assets lies in the concepts that (1) it matters who owns the privatized capital, (2) access to capital is limited by risk, and (3) capital in concentrations that produce income which is not consumed retards economic growth. The issue was well summarized by U.S. Senator Mike Gravel in a 1978 letter to his constituents in which he said, "The fact is that the crisis of today's capitalist economies is very directly tied to their failure to bring about economic equity. The key to both economic health and economic equity lies in spreading the ownership of the productive instruments of our society: our corporations. We can begin to treat the root of both problems if we can spread among all citizens the ownership of the companies which produce the nation's wealth. The General Stock Ownership Corporation is conceived as a means of achieving this widespread ownership without confiscating the property of the wealthy and without creating a monolithic socialist state." (Gravel, 1978b). What was true then of the GSOC remains true today of all the binary economic tools for broadening capital ownership and their application to the privatization of public assets sweeping the globe.

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<sup>2</sup> See Donohue, 1979. "No matter how the AGSOC is ultimately designed, it would be foolhardy to believe that this entity would not quickly become highly politicized and ultimately, if it is successful, become an extremely powerful political force in the State . . . . A successful AGSOC, representing as it would the residents of the State of Alaska, would in essence become a fourth branch of government. It will be a fourth forum in which State environmental, social, economic and tax questions will be vigorously debated. The Governor's control over this corporation is limited to appointing the first board of directors. After that the corporation will, as presently designed, operate completely independent of any state agency, albeit it will be subject to all applicable state regulatory provisions. Given the composition of the corporation, it would become quickly susceptible to the pressures of any cohesive organized group of residents within the State, such as large labor unions, native corporations, etc. . . . Although one could argue that AGSOC violates the fundamental political theory of the State Constitution which established only three branches of government, this objection is more of a philosophical one than a legal one, and it is not anticipated that any such challenge could be successfully formulated and presented to the State courts. Finally, under this general category of concerns relating to its impact on the present institutional balance of power as contemplated by the State Constitution, it should be noted that management of the corporation, members of the board of directors of the corporation, could, and very well might, utilize their position as a forum for criticism of the Administration's economic policies and ultimately as a launching pad for State elective office."

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