

Fair Exchange

**Broad ownership proposals to bring
corporate “citizens” back under civil
society control**

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Effect of globalization on civil society

- Global economy decreases the power of governments and labor compared to global corporations – civil society frays.
- International competition forces corporations to move production to countries with low social costs, causing a race to the bottom.
- Lower paid workers and high tech machines produce ever increasing quantities of goods - But who will be able to buy them as global wages decrease?
- Globalization decreases market share for small, locally owned businesses.



8 Major Strategies to Gain Civil Control over Global Business

- Sovereignty protection for governments vs. companies
- **Broad ownership of productive assets including Fair Exchange**
- IFI policies & practices that help poor countries develop internally instead of squashing hope
- Trade reform including adequate enforceable labor and environmental standards
- International laws protecting labor, human & civil rights
- Strong business accountability standards
- Sustainable, green development methods
- Pension investment for corporate accountability, labor & social wage standards



Origins of Fair Exchange

- *One World Ready or Not* published -1997
- COG founded at WOI & NCEO conferences
- Homestead work group generates idea -2000
- *Ownership for All* – compiles COG WG papers
- *Business Ethics* publishes some COG proposals & coins “Fair Exchange”
- Congresswoman asks for FE model & background
- COG Int’l Strategy Meeting –chooses to pursue Fair Exchange project – 2002
- State senator asks for state version of model FE
- Sloan funds F E policy paper & mandates conference –2004
- FE Policy conference - 2005



Fair Exchange - Aims

- To deter government units from competing with each other for corporate location by means that undermine their local economies.
- To build a diverse stock portfolio for every citizen over a generation.
- To create a source of non-wage income and a vote in corporate decision from a diverse citizenry.
- To create means for the new corporate citizenry to intelligently and collectively exercise their concerns by electing some members of Board of Directors of funds that hold their stock.



FE Policy paper focus

- Review historical & economic precedents of government investment in private business
- What was the intent?
- Did the program meet its objectives?
- Was it a good investment for the government?



What lessons does it provide for FE?

Fair Exchange Research

Lessons from Precedents



Homestead Act

- Intent – settle West w/ European immigrants to develop newly acquired land
- Not intended primarily to expand ownership
 - 3 of 5 homesteaders failed w/in 5 years
 - No tools or resources
- Large impact regardless
 - Still generates \$46.3 billion annually
 - 25 –32% of U.S. adults are homesteader descendents
- Impact remains of ownership not shared equitably w/ minorities
- Unusual circumstance provides no specific applications



Fair Exchanges



TVA was a very Fair Exchange

- Massive public/private enterprise starts 1933
- Continuously produces jobs, cheap energy, economic development for 72 years
- Gov't investment \$1 B
- Return to Fed. Gov't. exceeds \$3 B & pays local gov'ts. \$338 M annually PILOTs
- Self-supporting since 1950's
- Lessons:
 - Government appointed board has broad authority to run business based with clear social/economic goals of government & mandate to become self-supporting
 - Substantial government oversight to protect gov't. investment



Airline Bailout Equity Requirements

Produce Correct Outcome

2001 Airline Bailout existing federal law example:

- Congress authorized \$15 billion in government aid
- Airline industry market capitalization is \$ 22 billion so bailout investment is significant
- Stabilization Board required 1/3 of America West stock
- NWA & others backed away from handout
- Correct outcome
- Why not expand this requirement to all such federal loans & guarantees?



Start w/Gulf Coast Redevelopment

- \$200 billion for Gulf Coast – calls for an investment policy
- Airlines are not the last global companies with their hand out.
- Making the airline quid pro quo general policy for government investment in private companies - large step toward “Fair Exchange” proposal
- But needs meaningful methods of citizen stakeholdership developed
- Federal FE model law based on Airline Bailout, LSIF, Alaska, Alberta, NY State Funds



Alaska Permanent Fund Lessons for FE

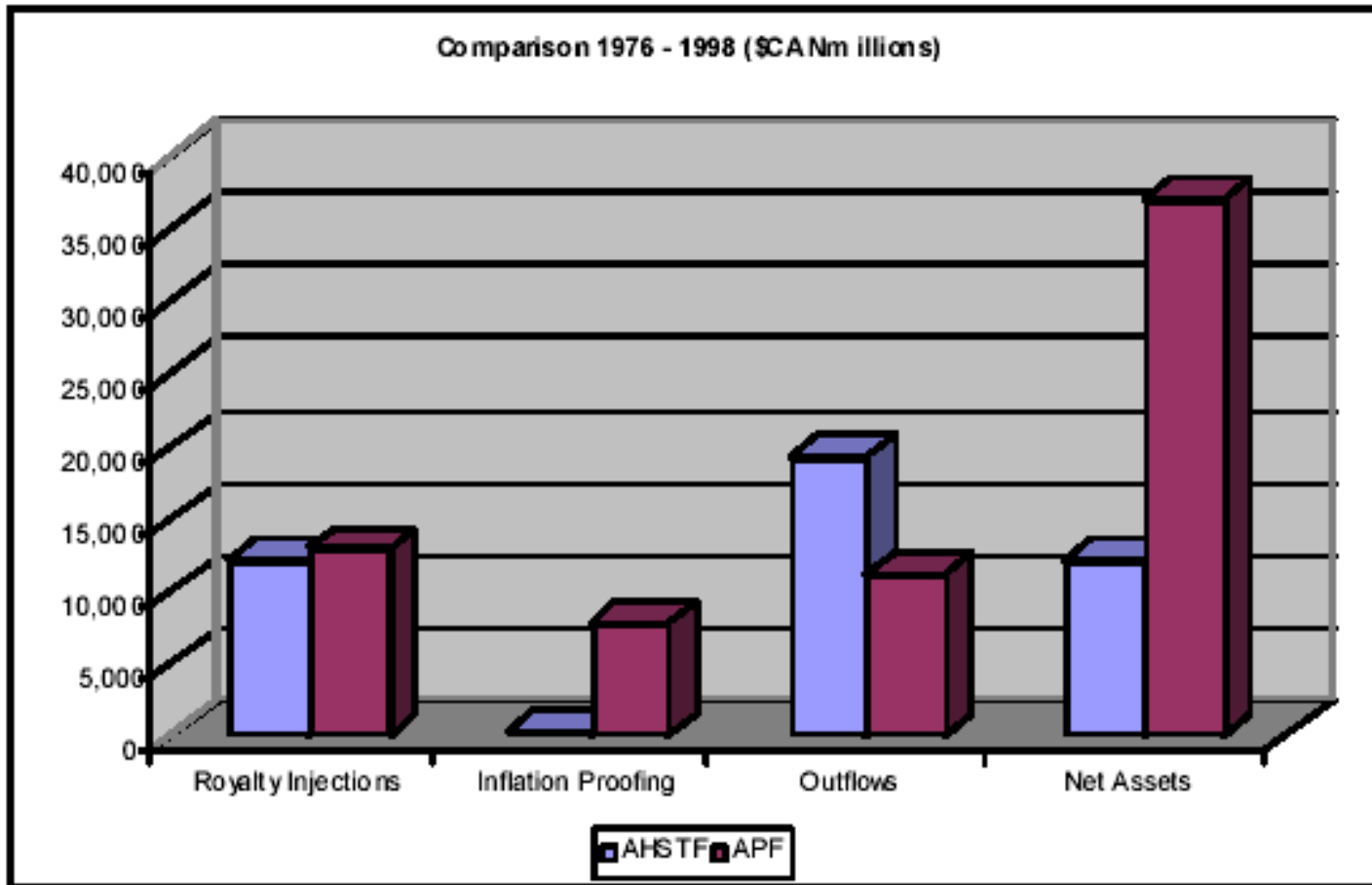
- State natural resources belong to the people
- Pays annual dividend to every Alaskan from gas & oil royalties
- Invested as endowment & inflation proofed
- Invested by Trustees appointed by governor who report legislature
- Good stewardship model
- \$25 billion but Not social investment
- Focused on individual, not community benefit



Alberta Heritage Fund

- Similar to APF – oil royalties & fund size
- Used to pay off debt, invest in infrastructure
- Now \$12 billion
- Focus changed w/ each new gov't.
- 2005 paying a 1-time dividend \$400





Source of Figure 4. Allan Warrack & Russel Keddie, "Natural Resource Trust Funds: A Comparison of Alberta and Alaska Resource Funds" *Western Centre for Economic Research Information Bulletin* No.72, September 2002, School of Business University of Alberta, www.bus.ualberta.ca/CIBS-WCER (3/25/05)



Labor sponsored investment funds

- Brought much needed venture capital to Canada
- Significantly increased jobs & economic development
- Focused investment on companies committed to remain local, treat workers fairly, be good environmental stewards
- Labor as non-gov't. citizen-surrogate



Unfair Exchanges



Conrail

- Government had to invest to keep national rail system operating when 7 RR went bankrupt
- Public/private entity managing Conrail was highly representative – US govt officials, RR management, RR unions, St. governors, City leaders, shippers, financial institutions
- **Workers received stock for their wage/ benefit concessions**
- Major flaw – Congress insisted that Conrail be sold to the private sector as soon as it became profitable – Therefore
- **U.S. lost \$8.3 B on deal where it could have broken even had it kept stock for 10 years**



Scandalously unfair – S&L Bailout

- Cost taxpayers \$200 – 500 billion
- No repayment in sight
- Caused by deregulation
- 1989 White House dismantled D of Justice bank fraud strike forces
- Benefited well-connected S&L investors (especially in Texas & California)
- Opposite of New Deal on oversight/ integrity



Fair vs. Unfair

- Intended to protect gov't. resources & citizens' interests
 - Structure balancing diverse interests
 - Fiduciary standards like private investors
 - Transparent
- Ideological deadlines to privatize
 - Focus on deregulation
 - Lack of oversight
 - Lack of transparency
 - Lack of respect for government

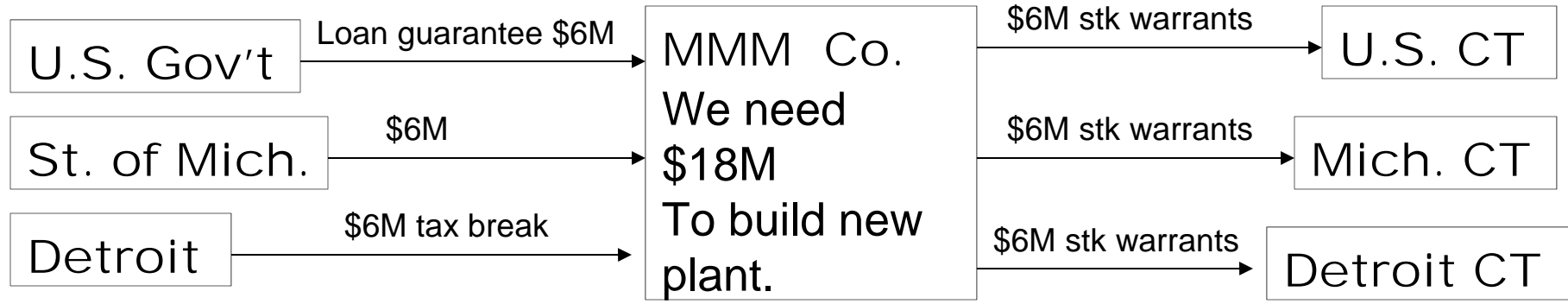


Model Legislation

- Based on requests from congressional and state elected officials:
 - 1) Proposal for federal subsidies
 - 2) Federal proposal to require states & localities to get Fair Exchange when they give subsidies to businesses
 - 3) Non-Mandatory proposal for local government subsidies
- Models are **starting points**, not intended as complete legislation



Community Benefit Agreement (CBA) w/Stock Warrant Collateral Example



CBA Terms

MMM promises
X jobs + y training
= \$18 M over 6 yrs

Gov'ts get CBA w/
\$18 M in stock warrants
Mature in 6 yrs to extent
That X+Y < \$18M

After 3 yrs MMM
has invested \$3M
& decides to move
work offshore

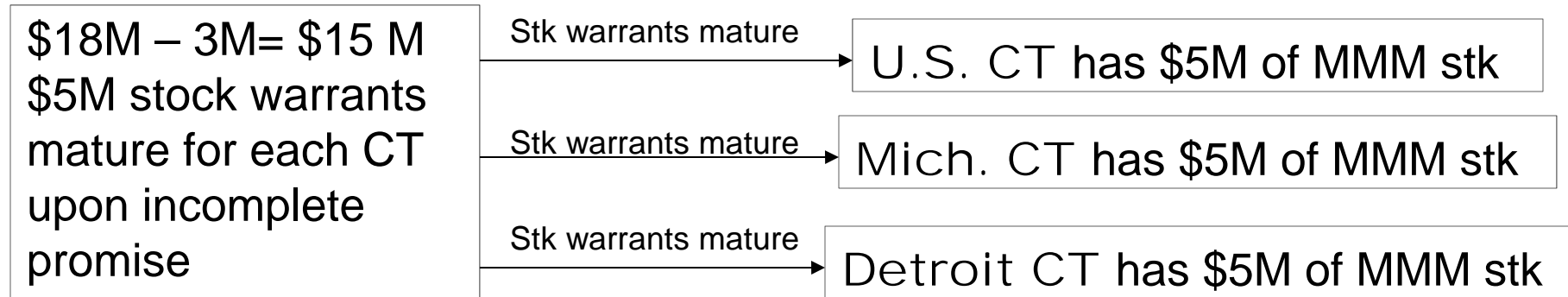


Figure 8 – Fair Exchange Taxpayer Investment Protection Act of 2005

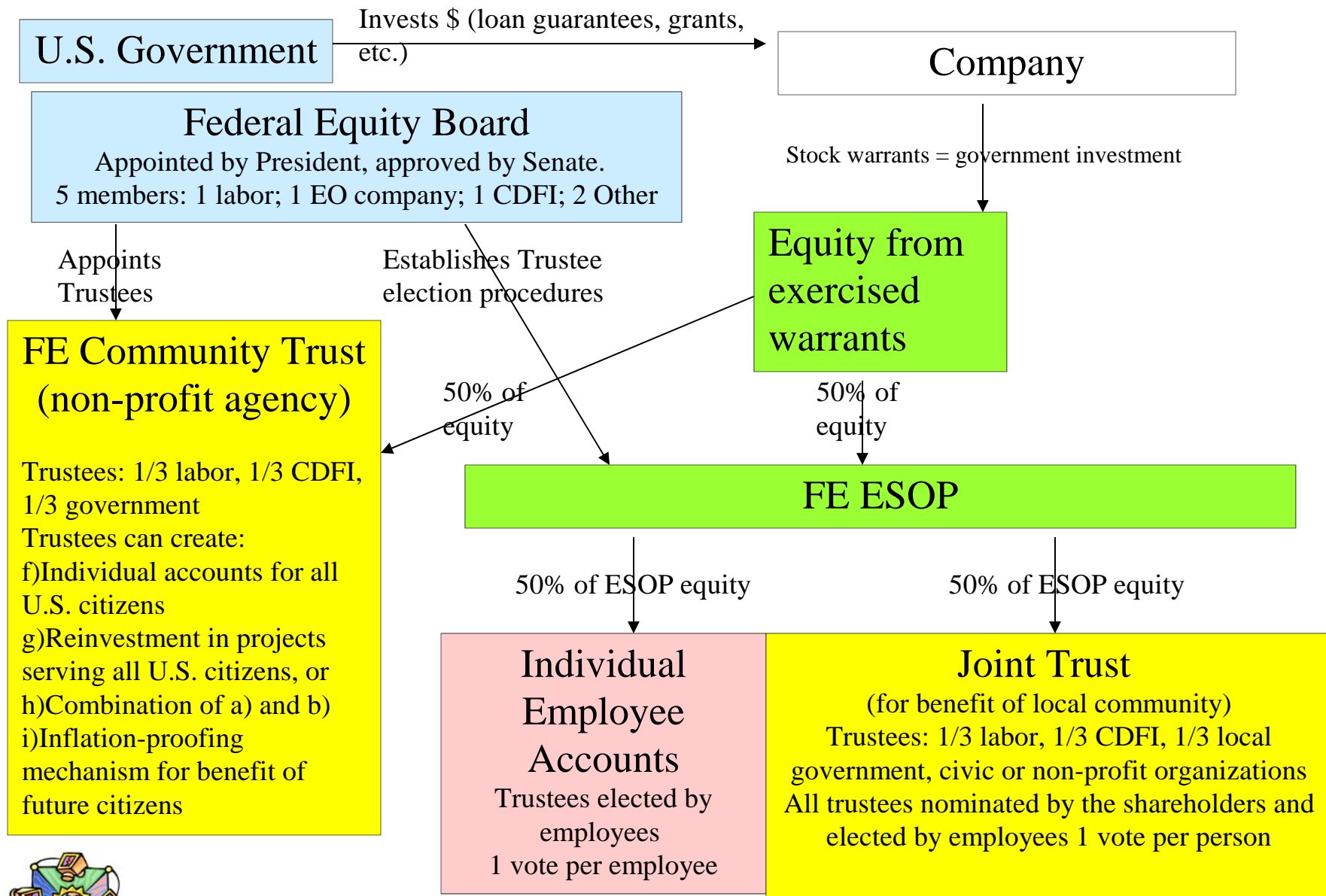


Figure 9 – State (Trust Office) Fair Exchange Model

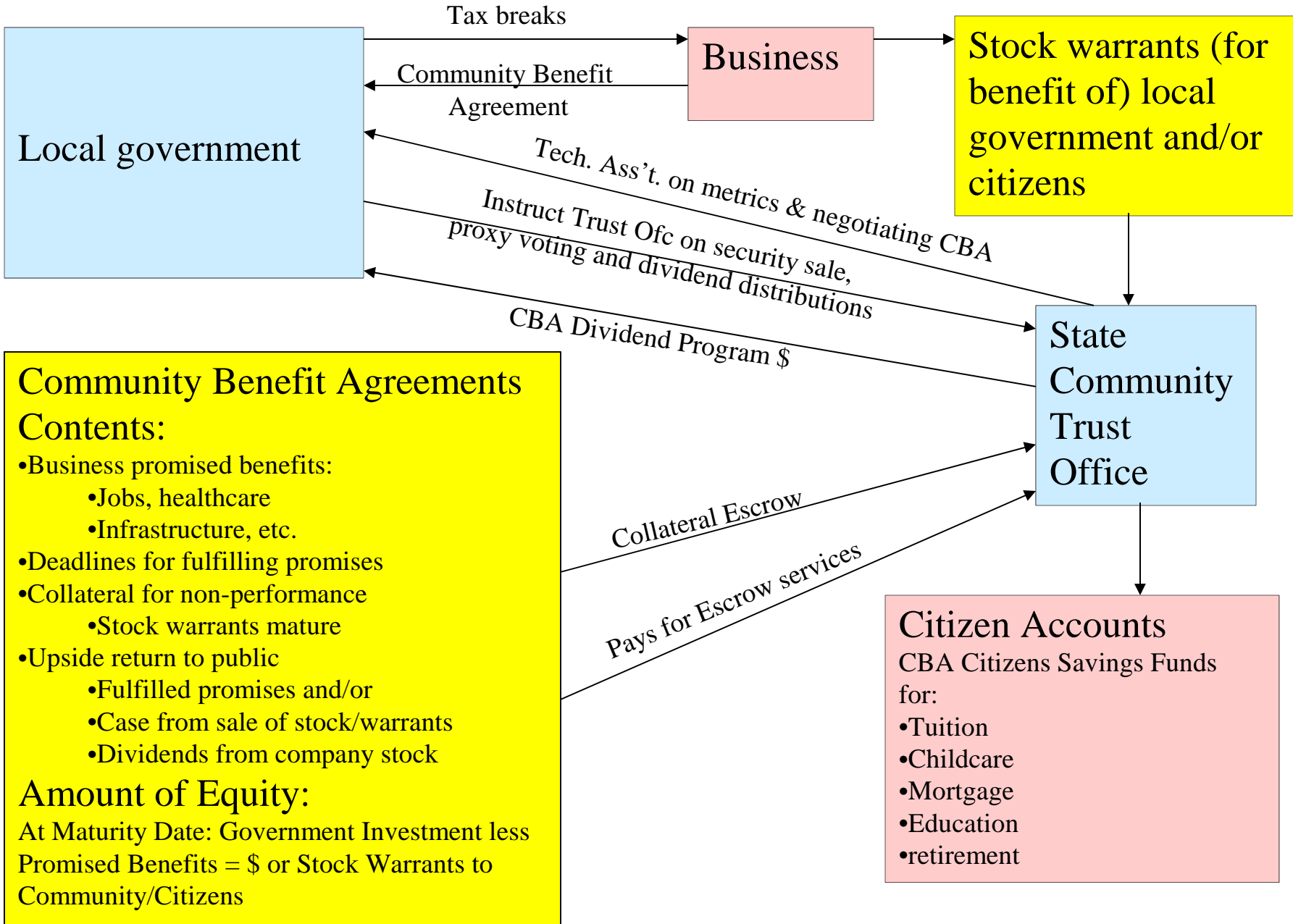


Figure 10a – **Community Trust Network and Mutual**

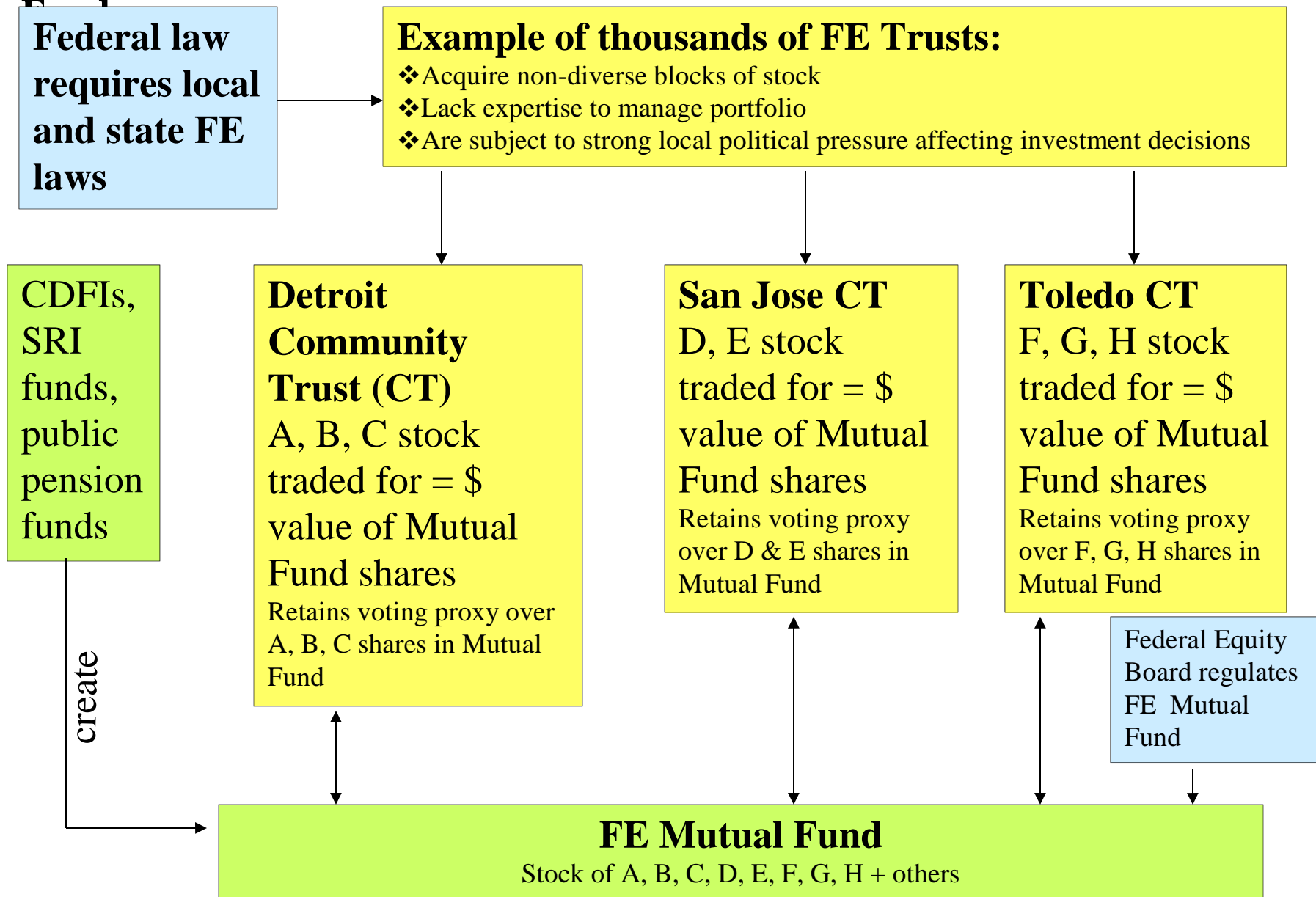


Figure 10b – **Detroit Community Trust (Example)**

