

M E M O R A N D U M

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FROM: Derek Shearer, Geoffrey Cowan, Aileen Adams

SUBJECT: COMPETITIVE PUBLIC ENTERPRISE

As one major campaign theme, we propose that you advocate a system of state-wide public corporations to operate in selected fields. Possibilities for the public enterprise approach include:

- (1) The California Transportation Corporation
- (2) The California Energy Corporation
- (3) The California Farmers Market Corporation
- (4) The California Insurance Company
- (5) The California Development Corporation
- (6) The California Bank
- (7) The California Drug Company

The corporations (and others) might generally be grouped under the philosophical-ideological concept of Competitive Public Enterprise, not to take over or replace private enterprise, but to complement and compete with it.

Experience shows that public enterprise can be used creatively in the public interest to foster competition and entrepreneurship. Government-owned corporations are operating successfully in Canada, Mexico, France, Great Britain, Italy, West Germany, and other democratic countries. There are numerous examples of such public enterprises and data which demonstrate they are run efficiently.

As an economic entity, California is bigger than two thirds of the members of the United Nations. Public enterprises operated by the state government make economic sense.

We believe that the Competitive Public Enterprise concept represents the most important new method by which government can influence the economy. Government regulation, initiated during the progressive era and generalized during the New Deal, has largely failed to deal with the problems of America's modern economy. Regulatory agencies too often are controlled by the industries they are intended to regulate; they have only limited vision and tend to retard innovation, reward inefficiency, and protect monopolization. On a federal level the ICC offers perhaps the best illustration of this phenomenon, with the result that people as ideologically disparate as Barry Goldwater, Fred Harris, and Ralph Nader have, in one form or another, advocated its dismemberment.

The unregulated private enterprise system often is far worse. Through trade associations and "unconscious parallelism," companies in many crucial fields operate as monopolies, with no incentive to innovate or to serve public needs. The automobile and railroad industries offer classic examples. Until faced with competition from abroad, three (or four) firms monopolized the American automobile market. None of them had the incentive to produce cars which were (1) small, (2) safe, (3) low-polluting, or (4) obtained good mileage. The American automobile industry found that large cars provided a much higher return on profits, and consumer-satisfaction advantages of safety, mileage, and low-pollution didn't justify the loss in profits. Innovations in the fields of safety and pollution were not seriously attempted until required by the government, and even then the law left the engineering initiative to private industry which refused to consider capital intensive innovations such as the

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stratified charger engine, preferring to settle instead for marginal low-cost solutions such as the catalytic converter.

Similarly, American railroads deliberately permitted their passenger service to deteriorate when it became clear that the real profits were in freight. No legislation or government coercion could compel the railroads to restore first-rate passenger service (any more than, to use a classic law school example, a court of equity can force an opera singer to give a great performance). Nor is passenger service profitable enough to attract the kind of new investors who could run a first-rate railroad; such investors can get a better return on capital elsewhere.

As a means of closing the increasingly significant gap between effective regulation and effective competition, we propose the creation of competitive public enterprise. It is our belief that there are fields in which a public corporation could provide services which private enterprises do not and, in some instances, improve private enterprise by compelling it to compete.

One example of a competitive public enterprise is provided by the Public Broadcasting System. Stations such as KQED in San Francisco and KCET in Los Angeles provide programming which is not in the perceived commercial interest of the other broadcasters. Private broadcasters could have developed and produce Sesame Street, but they did not believe that the potential financial returns from quality children's programming justified the requisite large investment.

Another example of competitive public enterprise is TVA -- which required a capital investment which only the government and a few huge corporations could afford. In this connection, Senator Adlai

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Stevenson has recently proposed the creation of a national oil and gas corporation to compete with, rather than replace, private industry. He argues that the initiative in the energy field (e.g., how many refineries to build) should not be left to private industry alone. What's more, private enterprise has shown little initiative in developing alternative sources of energy, such as solar and geothermal.

Competitive public enterprises would be especially appropriate in areas where (1) the government confers great benefits to industry, or (2) local governments already are operating public enterprises. The energy industry offers an example of an area where the government has an enormous amount of largesse to dispense. If drilling is to be allowed offshore or on state lands, who should be given the leases? One can make a strong argument that the profits for drilling on public land should not go to private shareholders. Perhaps government leases should be given to a public corporation -- to insure that all profits from public lands are returned to the public.

The extent of public enterprise in California today deserves careful scrutiny. Buses, subways, airports, highways, utilities are all, in some communities, government owned and operated. But are they operated efficiently, coherently, competitively? Should they be run by state-wide corporations (a California Transportation Corporation, for example, or a California Energy Corporation)? What would be the advantages of scale? How much money, if any, could be saved if one purchasing agency bought all buses for municipalities throughout the state -- and would such an agency have enough leverage to insist on buses which were more safe and less polluting?

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Similarly, could money be saved on the loss of fuel if purchasing were done statewide?

The corporate form of state public enterprise is flexible and might vary from industry to industry. In each case, however, the enterprise should be structured so as to (1) minimize chances of political coercion and graft, and (2) maximize local input. There might be an independently chartered state corporation with local franchises. The local franchises might be run by boards, some of whose members were chosen at the state level, some at the local level, some by local employees, and some by local consumers.

Obviously there are political risks in proposing this theme. Some people might mistake it for socialism -- with the attendant disadvantages of big brother government and inefficiency. But it is not socialism. It is a new method of achieving effective competition and consumer satisfaction. We believe that it is a concept which people can grasp if it is effectively presented, using now familiar examples of public enterprise such as Sesame Street and TVA.

Specific examples of what we're talking about follow in an appendix to this memorandum.

ENERGY

A California Energy Corporation could be established to explore form market, and distribute various forms of energy--oil, gas, solar, and geothermal.

The current energy "crisis" has been brought on by the private energy companies. Acting counter to the public interest, these firms, by their single minded pursuit of profit fostered an artificial shortage in an attempt to drive independent gas stations out of business and to override environmental legislation.

A public corporation could act in the long-term interests of the people of California. It would endeavor to insure the State's energy needs by careful long-run planning for new refineries and for the development of alternative sources of energy.

Arguments offered by industry spokesmen are that such a corporation would be inefficient and that it would be subject to "political" considerations. In recent Congressional testimony, Lee C. White, former Chairman of the Federal Power Commission in the Johnson Administration, cited TVA and the Bonneville Power Administration as "providing an example of efficient operations in the energy field by government." The objection that a public corporation would be too political rings hollow when one considers the political power of the oil companies which they have used to corrupt the political process in the United States by "purchasing" Senators and Congressmen.

A study prepared for the Joint Economic Committee of Congress recommends that the government enter directly into the production and distribution of energy. Professor W. N.

Peach, author of the study, pointed out that the government now pays for most research and development, is one of the largest consumers of energy, and also owns much of the energy-producing lands, and that a government corporation would protect the public interest.

As part of a package position on the energy "crisis," we might also want to propose the establishment of a State Energy Commission. One form of state energy commission--the Warren-Alquist Bill--was passed by the legislature.

A tougher version might be advocated which would abolish the Public Utilities Commission and replace it with a State Energy Commission which would have the power to regulate the entire energy industry in the State. In effect, this would simply be applying the public utility concept to oil companies.

A strong case can be made that the public has basic energy "rights," and that public action must be taken to assure these rights. A public energy corporation and a State Energy Commission together could effectively solve the energy crisis for Californians. The energy corporation and the State Commission would certainly be eligible for any federal money made available for energy research.

#### INSURANCE

A California Insurance Company could offer low cost, no fault auto insurance to California drivers. In addition, such a company could compete in the sale of other types of insurance and play an innovative role by offering, for example, policies tailored for housewives.

The Canadian provinces of Manitoba, British Columbia, and Saskatchewan all have provincial auto insurance companies. Saskatchewan was a pioneer in establishing no-fault. A report in the Wall Street Journal a few years ago indicates that in Saskatchewan 93 percent of premium income is paid in benefits, compared with 75 percent in the U.S. The government auto insurance plan in Canada is very popular, have proved to be run efficiently, and provided consumers with better coverage at lower cost.

In British Columbia, the provincial government has established a general insurance company as well as an auto insurance company. The company plans to offer insurance plans which are simple and clearly written, so that consumers can understand their insurance options. This is something recommended by H. Denenberg, the consumer-oriented insurance commissioner in Pennsylvania.

A public insurance company, through innovative practices aimed at simplifying insurance for consumers, could stimulate competition within a rather stodgy industry. By offering new types of insurance--such as housewives' insurance--the public corporation might cause private companies to innovate.

#### BANKING

A state bank could specialize in offering loans to minority groups and women--both of whom are currently discriminated against by established financial institutions. An aggressive state bank could offer new consumer services and set higher standards for banking behavior than currently prevails in the industry.

For example, studies by Nader research groups have demonstrated

that the majority of banks regularly violate the Truth in Lending Act by failing to cite to consumers the rate of interest on loans in terms of the Annual Percentage Rate as required by law. The law is intended to make possible competitive comparison shopping for loans. A public state bank which advertised its fair consumer practices could pressure other banks--through the competitive process--to shape up.

In addition, a good case can be made that a percentage of taxpayers' money--tax revenues--should be placed in a public bank, so that the public reaps benefits from the use of the funds.

#### FOOD

Two major complaints of consumers today are that food prices are too high and that supermarkets are too artificial and dehumanizing. A California Farmers Market Corporation could be established with the power to acquire land for "peoples' farmers markets." These markets would be a combination of traditional farmers markets, swap meets, and urban food co-ops. Control of the local market would be vested in a board made up of both sellers and consumers. Use of the land for selling might be limited to cooperatives and single family, owner occupied stalls. Consumers could become members by paying a small fee as is done in co-ops.

In addition to acquiring land and providing it at low rent to the farmers market, the corporation could make outright grants to co-ops which operated on a nonprofit basis and were thereby able to offer food at lower rates to consumers.

## TRANSPORTATION

A State Transportation Corporation offers a number of possibilities.

It could acquire the Southern Pacific's coastal passenger route, which is currently run in 19th Century style. Slowing of highway speeds and airport congestion could provide an increased consumer demand for efficient, pleasant train service in the State.

In addition, the state transportation company could serve as a statewide purchasing agency for the public transportation systems of the various municipalities. Bulk purchasing of buses and other transportation vehicles should provide savings to the public.

It is also possible that such a state corporation, funded through a gasoline tax for example, could better provide for the overall long-run transportation of the State by engaging in long-range planning on alternative transportation systems.

A state transportation authority would not be meant to override municipal agencies, but to work with them. Already existing transit districts are regional in nature--BART, Southern California RTD--so it makes sense to have a statewide coordinating agency or corporation.

## DEVELOPMENT

Urban and rural development is often characterized by what economists call "uneven development." Ghetto areas of cities develop and worsen; in some rural areas cities become ghost towns, while in others farm land is gobbled up for helter-skelter real estate development.

A California Development Corporation with the ability to make loans and acquire equity in firms could have a beneficial effect on the development of the State. Development corporations have been widely used in many countries to "smooth out" development. They have also been used in some American states, but usually for the purpose of benefiting private enterprise or luring branches of national corporations to an area.

The purpose of the California Development Corporation would be to stimulate job creation and more even development by providing capital and technical assistance to California-owned businesses, particularly to inner city minority-owned ones, to local cooperatives especially in rural areas, and to businesses which are owned by their employees.

The development corporation could also be useful in reducing California's dependence on military industry by identifying new areas of industry and providing loans to entrepreneurs willing to enter those fields.

#### DRUGS

Drug companies in the United States make notoriously super profits. Some form of state drug corporation or state drug purchasing agency might be able to provide various prescription and non-prescription drugs at a much lower price to consumers. This area needs more research, and there are alternative approaches. For example, in British Columbia all drugs are provided free to persons over 65.

A state drug company might simply purchase large quantities of generic drugs and market them as a wholesaler under state brand names to drug stores and markets around the State. The company

could also engage in the production of basic drugs and market them at low cost to consumers.

### STRUCTURE

Three basic structural features which these public corporations might include: (1) Exemption from civil service--as is the case with TVA--so that the firm could be run in a businesslike manner, using the best talent available; (2) Representation on the board of directors by consumer and other citizen groups and unions. For example, the board of the State Energy Corporation might legally have to include an ecologist, a representative of an energy union, a member of a statewide ecology group, and two public-at-large members. The board of directors might be partially appointed by the governor and legislature and partially elected (as is done on the boards of many universities); (3) Provisions might also be included in the laws establishing the corporations so that employees of the state corporation would have a voice in working conditions. There are a number of examples which show that more democratically-run corporations are more efficient and less prone to suffer from strikes. It might also be included that efforts will be made to hire older talented managers and workers who are often shunted aside by private enterprise.

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