What is Fair Exchange?

A Fair Exchange is a public investment or venture in which citizens’ interests are adequately protected and citizens get a fair long-term return.

Protecting the public interest

There is a long history of government investment in private companies through land grants, abatements, natural resource leases, loans, loan guarantees and bailouts. The quality of these deals, as business propositions for governments and citizens, range from profitable business ventures to scandalous scams. The growing size and speed of government investment in private businesses, combined with global business mobility, require fundamental restructuring of government investment to benefit communities. To balance the power and influence of corporations in negotiations, governments need:

- Policies that deter competition amongst communities for corporate location
- Investment structures and tools that provide long-term community benefits

Investing in the whole community
Professional sports teams stay home

The Green Bay Packers and the Rochester Red Wings (a minor league baseball team) are owned by their communities and provide them with significant economic and social benefits. Attempts to build on these successes include the 1997 “Give Fans a Chance” Act proposed by Congressman Blumenauer, which would have required team owners’ associations to permit community ownership in exchange for continuing their exemption from anti-trust laws. Studies show that public ownership of stadiums without ownership of the teams that play in them is analogous to the public owning a factory but not the business in it. Public ownership of teams, regardless of where they play, protects the community from the economic consequences of the team moving.

Guidelines:

- Using common business practices to get fair value and return in exchange for the community’s investment risk, even if a company leaves the community
- Establishing firm metrics and benchmarks to determine if the public is getting what it was promised
- Enforcing business partners’ promises with equity, collateral, escrow, or other compensation for broken promises

Adapts to fit your needs

Many current government programs reflect aspects of Fair Exchange. If the examples in this brochure intrigue you, please visit our website at www.capitalownership.org to see more examples of federal, state and local Fair Exchange practices.

For a more in-depth analysis of major historical examples, such as the Chrysler Loan Guarantee Act, and proposed model legislation, see the article “Fair Exchange: providing citizens with equity, managed by a community trust, in return for government subsidies or tax breaks to businesses,” published in Cornell Journal of Law & Public Policy 2 (2006).

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Municipal utilities do it themselves

Municipal Utilities (MUs), such as the one in Cedar Falls, Iowa, provide citizens some combination of water, gas, electricity, cable, Internet and telephone services. They embody local control in situations where the larger commercial world’s needs do not mesh well with those of the local community. They often invest based on a long-term vision of community interests that exceeds an investor-owned provider’s horizon. MUs focus on personal customer relationships and service, buying and selling locally on that basis as well. They often beat the investor-owned utilities by using economies of small scale. Sixty percent (60%) of the electric utility companies in the country are MUs, mostly in small communities. Their experiences provide useful examples for much larger communities that are being abandoned by global corporations, once central to their economies. (web-link)

Citizens return on natural resources royalties

The Alaska Permanent Fund (APF) was established in 1976 by the state legislature as a repository for 25% of royalties from all Alaska mineral resources including oil, gas, gold, copper, and coal; based on its Constitution, which provides that state natural resources belong to its people. Unlike the non-renewable resources that fund it, the APF was designed to be evergreen through an inflation-proofing mechanism. The APF value now exceeds $39 billion, and provides dividends to every Alaskan annually (ranging from $800 – $2,000 per person). It provides a very good example of how government can harness involvement with private business to promote the public interest. (web-link)

Loan guarantees with stock warrants

In the 1979 Chrysler Loan Guarantee Act (CLGA) and the 2001 federal airline bailout the government required corporate loan recipients to provide stock warrants in addition to repaying their loans. These were business-like deals where the government received tangible benefits for risking its funds and required a normal equity investor return. CLGA
prevented a major bankruptcy, saved thousands of jobs, created a 15% ownership stake in that public company for the union members, and ended with the U.S. government making over $300 million when it sold its stock warrants. In the 2001 airline bailout, when the government began to require 10 – 30% in stock warrants for airlines to qualify for loans and loan guarantees, Northwest Airlines concluded that it did not need the funds enough to give up equity, and withdrew its application. This is just one example of how Fair Exchange principles can protect the public interest against opportunistic behavior by firms. (web-link)

**Public seed and venture funds**

At least 42 states have seed or venture capital funds that have, collectively, committed over $5.8 billion to investment in private companies or equity funds. The New York Small Business Technology Investment Fund (SBTIF) is a successful direct investment state equity fund based on Fair Exchange principles. SBTIF makes early-stage investments in technology-based companies in New York State, which have innovative products that materially advance technology and provide the state and local communities with an economic benefit. Established in 1981 with federal and state funds totaling $15.3 million, by 2005 the Fund had grown to $40 million and became self-sustaining (evergreen) in 1995. SBTIF shows that a properly structured government investor can run a financially successful fund that encourages economic development while anchoring productive businesses locally. Many other states have similar funds, although most use a fund of funds model instead of SBTIF’s direct investment approach. (web-link)

**Social returns on public pension investments**

At least 29 states have state pension funds that invest in economically targeted investments (ETIs). ETI investments provide a social return without sacrificing financial return or uncompensated risk. Examples include housing or venture capital for job creation, or industrial or commercial loans in underserved areas, etc. Public pensions control $2.2 trillion in assets of which 2.4%, or about $55 billion, is invested in ETIs, primarily in residential housing and venture capital. New York and California state employees’ retirement funds have the most extensively developed programs. (web-link)
Turning public research into public assets

Most public economic development agencies believe their economies’ future success depends on growing or attracting innovative businesses early in their business cycle. This goal requires much more rapid commercialization of technology than in the past, and involves governments more deeply in a very speculative form of seed-capital investing. Many public universities have technology transfer departments that seek out their researchers’ patentable work, help obtain patents, find companies to license the patents, and derive licensing revenue — although not very much direct revenue over expenses. The federal Bayh-Dole Act, enacted in 1980, significantly increased technology commercialization generated from federally funded research. Before Bayh-Dole, federally funded research went immediately into the public domain, making it hard to interest investors in risking the cost of developing a technology to which they did not have exclusive rights.

Prior to 1980, fewer than 250 patents were issued annually to U.S. universities. Yet in 2004 alone, there were over 15,000 new invention disclosures to universities, which filed 9,462 new patents and executed 9,543 options through 46 university-based technology transfer for commercialization programs.

State governments are making major financial commitments to develop innovation streams from idea to marketable product, making major public investments in creating private companies. Michigan, Pennsylvania, New York and Massachusetts have created elaborate programs to prime the pump — creating technology clusters around their major universities and tech centers, as they strive to create the next Silicon Valley. To date, Michigan has committed the most money, and uses loans convertible to equity to ensure that companies it funds remain in Michigan or remit to Michigan.

Several states directly fund federally neglected fields such as embryonic stem cell research. California recently committed $6 billion for that purpose. Although it does not have a comprehensive policy for intellectual property created using state funds, California is one of the few states currently investigating creation of such a policy. Such new policies should follow Fair Exchange principles.

(web-link)
Capital Ownership Group (COG)

COG is an international network of professionals, academics and activists operating an on-line conference center, think tank and library from Kent State University, focused on finding and developing broad ownership strategies to anchor local economic development. It has over 20 working groups with participants from 6 continents and has responded to over 5.3 million information requests from people in 173 countries. It has been funded since 1999 by foundations including the Ford Foundation, the German Marshall Fund of the U.S., the Alfred P. Sloan Foundation, the European Union Fund, and others. You can view or join a COG discussion group at www.capitalownership.org.

Fair Exchange Collaborative (FEC)

Created by COG, the Fair Exchange Collaborative (FEC) is a membership organization that provides information, training, technical assistance and networking for community leaders, staff and professionals developing, implementing or researching Fair Exchange strategies. The Fair Exchange Collaborative’s mission is to provide the best available information and technical assistance on Fair Exchange policies and practices.

COG Fair Exchange Advisory Board

- Donald Allen, President, Regional Data Corporation, Canadian LSIF Econometrics
- Prof. Gar Alperovitz, Political Economy, University of Maryland Democracy Collaborative
- Jeff Bauman, President, The FICO Club
- Leonard G. Beauchamp, Associate Executive Administrator, Boilermakers National Funds
- Olga Klepikova, OEOC International Program Coordinator
- Ron Blackwell, Chief Economist, AFL-CIO
- Prof. William Bratton, Georgetown University Law Center
- Mary Pat Clarke, Baltimore City Councilwoman, former Council President
- Carla Dickstein, Senior Vice President, Research and Policy Development, Coastal Enterprises, Inc.
- Michael Ettlinger, Director, Economic Analysis and Research Network (EARN) at the Economic Policy Institute
- Prof. Scott Goldsmith, Economics, Institute of Social and Economic Research (ISER), University of Alaska, Anchorage
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- Ian Chan Hodges, Managing Partner, Responsible Markets, LLC; National Coordinator, American Ingenuity Alliance
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- Prof. Lawrence Mitchell, George Washington University Law School
- David Morris, Vice President, Institute for Local Self-Reliance
- Deborah Groban Olson, Executive Director, COG, author, Cornell Fair Exchange paper
- Larry Persily, Finance and Budget Coordinator, Municipality of Anchorage; former Deputy Commissioner, Alaska Department of Revenue
- Ronald Phillips, CEO, Coastal Enterprises, Inc.
- Ken Poole, President, Center for Regional Economic Competitiveness
- Steven Savner, Senior Fellow, Center for Community Change
- William Schweke, Vice President, Corporation for Enterprise Development
- Beverly Stein, Executive Managing Partner, The Public Strategies Group
- Prof. Kenneth P. Thomas, Political Science, University of Missouri–St. Louis
- Jack Van Wie, Van Wie Group, LLC; formerly with New York Business Technology Investment Fund
- Kenneth Winslow, President, Benefit Capital Southwest, Inc.
How to join
Join or contribute to the Fair Exchange Collaborative (FEC) online or by postal mail. Please make out a check to “Fair Exchange Collaborative/COG/KSU Foundation”. Send the check with this form to: COG c/o Olga Klepikova, OEOC/KSU, 113 McGilvrey Hall, Kent, OH 44242.

To participate in Fair Exchange Collaborative discussions signup for the Fair Exchange discussion group at www.capitalownership.org.

For more information
Contact COG Executive Director, Deborah Groban Olson
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Annual membership rates
• Government or economic development corporation member: $125
• Business member: $100.00 per $1 million of annual sales up to $2,000
• Individual member: $75
• Academic member: $50

JOIN US!
Become a member of the Fair Exchange community
Does your community need FAIR EXCHANGE?

Public return on public investments in private companies