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PUBLIC CHOICE ALTERNATIVES

CCC Hopes Foreign Governments Will Be Squared Away

A VALUATION OF CANADIAN COMMERCIAL CORPORATION

BY IAN MADSEN

FRONTIER CENTRE FOR PUBLIC POLICY

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EXECUTIVE SUMMARY

Canadian Commercial Corporation (CCC) is a relatively minor player in the Canadian export financing and insurance market. It plays a complementary role to its sister Crown corporation, Export Development Canada (EDC), although it also appears to overlap in some ways. CCC occupies more of a role of facilitator or agent for smaller companies which have contracts for exports or investment or infrastructure with foreign governments, including defense industry and military ones. Using an intrinsic value method, and discounting to the present, CCC's projected future free cash flows, the range of estimates is $28.8M to $201.7B, with a tighter range of a median (middle value) of $50.4B to a mean (simple average) of $64.9B. Making allowances of bad debt of as much as 5 percent of outstanding loans, that is, by $1.55B, does not lower the estimated value of the company appreciably. Discounting for a bad-but-not-Great Depression-level of bad debt experience of 1 percent of the total loan portfolio, the value of the corporation is wiped out and is heavily negative. In the second version, the range of estimates is $7.43B to $52.03B, with a tighter range of a median of $13.01 to a mean (simple average) of $16.74B. Making allowances of bad debt of as much as 5 percent of outstanding loans, that is, by $1.55B, does not lower the estimated value of the company appreciably. Discounting for a bad debt experience of 5 percent of total loans, the range becomes a median of $12.39B to a mean of $15.93B.

In the second version, the range of estimates is $136M to $952M, with a tighter range of a median of $238M to a mean of $306M. Making allowances of bad debt of 1 percent of outstanding loans, that is, by $56.3M, does not lower the estimated value of the company appreciably. Discounting for a bad debt experience of 5 percent of total loans, the range becomes a median of negative $43M to a mean of positive $24.9M.

Under the market-based valuation system, the current, 'as is'—but now fully taxed-value ranges from $1.89M to $98.4M, with a median (middle value) of $40.7M and a mean (average) of $47M. Only three valuation metrics were usable, and the averages were inflated by some anomalous comparison companies' metrics applied against financial numbers from CCC that are rather meagre, although its financial performance is improving substantially.

Making allowances of bad debt of as much as 1 percent of outstanding loans, that is, by $563M lowers the estimated value of the company appreciably. The maximum is a very unlikely $42M, and the tighter range goes from a mean of negative $9.4M to a median of a negative $15.7M. At 5 percent loan loss, all values become quite negative.

Again, making allowances of bad debt of as much as 1 percent of outstanding loans, that is, by $563B, does not lower the estimated value of the company appreciably. The minimum value is $49.53, the maximum is an extremely unlikely $357.46B, and the tighter range goes from a median of $93.05B to a mean of a very doubtful $134.93B.

Intensive examination of the assets of CCC, evaluation of its business practises, and scrutiny of its accounting would be necessary for a much more precise valuation range for the company and that is beyond the scope of this study.

INTRODUCTION

Canadian Commercial Corporation, Its History and Mission

Canadian Commercial Corporation (CCC), is a Crown Corporation was created by the Canadian Commercial Corporation Act by Parliament in 1946. It is entirely owned by the federal government of Canada. It loans, insures, and guarantees export financing loans to Canadian-domiciled or Canadian-controlled corporations. Distinguishing itself from its sister Crown, Export Development Canada (EDC), its mandate is to deal with foreign governments, especially when it comes to infrastructure, government procurement of Canadian goods or services, or defense industry or military contracts.[1]

CCC is active all over the world, enabling its Canadian clients and foreign governments to manage what can be complicated procurement processes and other regulations. Some far-flung lands where they have helped secure Canadian sales include Peru, Guinea, Saudi Arabia, Malaysia, Mexico and Bangladesh.[2]

It is directly involved with foreign governments in navigating procedures and avoiding corruption risks to allow for speedy and satisfactory deal-making on both sides, in places such as Ukraine, India, Brazil, Kenya, the United States, Indonesia, and Australia.[3]

There are three types of government involvement that sometimes require direct intervention and interaction with foreign officials: defense or other government procurement; infrastructure; state-owned enterprises.[4] So far, CCC's work has not created any notable scandals or controversies, perhaps because of its relatively small scale compared to EDC.

It has been losing money for many years, requiring a relatively small (single digit millions of dollars) annual parliamentary supplement to shore up its cash, but current trends indicate that could change in the near future, and for the better, happily.

1. Canadian Commercial Corporation. "Home". http://www.ccc.ca/en.
2. "How CCC has helped other Canadian exporters succeed." http://www.ccc.ca/en/canadian-exporters/exporter-success-stories.
3. "CCC covers a world of government contracting opportunities." http://www.ccc.ca/en/canadian-exporters/international-contracts-opportunities.
4. "CCC helps foreign governments buy from qualified Canadian companies through government to government contracts." http://www.ccc.ca/en/government-buyers.

INTRINSIC VALUE:

Valuation of CCC as a Business, Using Discounted Future Free Cash Flow Version I

The intrinsic value model uses a perpetuity with a constant growth rate and constant cost of capital. This is crudely appropriate for a stable company in a slow-growth, mature sector. For the intrinsic value of CCC, projecting future cash flow growth, and bringing it to a net present value, a relatively conservative approach was taken which could undervalue the company (see Tables 1 & 2). The company's free cash flow growth rate range was a restrained 2 to 4 percent, and the required rate of return or cost of capital range was from 5 to 9 percent. Projecting higher growth in the future could be reasonable, however government contracts are very unpredictable. CCC's cost of capital, given low expectations and high current valuations in the stock market, could well be lower than the range used (and thus raise its estimated value), although there is also a chance that interest rates and the rate of return investors demand on equity (share) investment could increase.

The statutory tax rate used in calculations may be lower in the future, as there is continued global pressure to lower corporate tax rates, exemplified by the recent drop in US corporation income tax rates.

There were two versions of this valuation performed, one using a projection of free cash flow, the second using three year's hence free cash flow, discounted back to the present. The reason for this second version is that the trend of increasing revenues is strong, with estimated growth rates in the 16 percent range, whereas expense growth has been kept to the 2 percent range, so its operating income, and operating and free cash flow could dramatically grow in the near future.

This discounted free cash flow method uses an estimate for the 'next year', which, because the fiscal year ended 31 March 2018 results for CCC are not yet available, is actually this current year.

The range of estimates is $28.8M to $201.7M, with a tighter range of a median (middle value) of $50.4M to a mean (simple average) of $64.9M. Making allowances of bad debt of as much as 5 percent of outstanding loans, that is, by $563M, does not wipes out this value. Discounting for a bad-but-not-Great Depression-level of bad debt experience of 5 percent of the total loan portfolio, the value of the corporation is heavily negative. Please see Table 1, next page.

Table 1

Intrinsic Value, Using Fully Taxed Free Cash Flow Method

Valuation Matrix - Presented Value of Discounted Free Cash Flow = Estimated Next Year Free Cash Flow (Required Rate of Return = Growth Rate)

Projected Free Cash Flow for 2018 ($B): $ 2.02

Matrix Values ($M) g==v; r==>	4.00%	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%
0.00%	$ 50.43	$ 40.34	$ 33.62	$ 28.82	$ 25.21	$ 22.41	$ 20.17
1.00%	$ 67.24	$ 50.43	$ 40.34	$ 33.62	$ 28.82	$ 25.21	$ 22.41
2.00%	$ 100.86	**$ 67.24**	**$ 50.43**	**$ 40.34**	**$ 33.62**	**$ 28.82**	$ 25.21
3.00%	$ 201.71	**$ 100.86**	**$ 67.24**	**$ 50.43**	**$ 40.34**	**$ 33.62**	$ 28.82
4.00%	--	**$ 201.71**	**$ 100.86**	**$ 67.24**	**$ 50.43**	**$ 40.34**	$ 33.62
5.00%	-$ 201.71	--	$ 201.71	$ 100.86	$ 67.24	$ 50.43	$ 40.34
6.00%	-$ 100.86	-$ 201.71	$ --	$ 201.71	$ 100.86	$ 67.24	$ 50.43
7.00%	-$ 67.24	-$ 100.86	-$ 201.71	$ --	$ 201.71	$ 100.86	$ 67.24

	Minimum	**Maximum**	**Median**	**Mean (Average)**
Estimated Total Value	**$ 28.82**	**$ 201.71**	**$ 50.43**	**$ 64.90**
Total Loans Outstanding	**$ 56,301.62**	**$ 56,301.62**	**$ 56,301.62**	**$ 56,301.62**
1% Loss Provision	**$ 563.02**	**$ 563.02**	**$ 563.02**	**$ 563.02**
Net Value, Less 1% of Loan Assets	**-$ 534.20**	**-$ 361.30**	**-$ 512.59**	**-$ 498.12**
2% Loss Provision	**$ 1,126.03**	**$ 1,126.03**	**$ 1,126.03**	**$ 1,126.03**
Net Value, Less 2% of Loan Assets	**-$ 1,097.22**	**-$ 924.32**	**-$ 1,075.60**	**-$ 1,061.13**
3% Loss Provision	**$ 1,689.05**	**$ 1,689.05**	**$ 1,689.05**	**$ 1,689.05**
Net Value, Less 3% of Loan Assets	**-$ 1,660.23**	**-$ 1,487.34**	**-$ 1,638.62**	**-$ 1,624.15**
4% Loss Provision	**-$ 21.37**	**-$ 14.45**	**-$ 20.50**	**-$ 19.92**
Net Value, Less 4% of Loan Assets	**$ 50.18**	**$ 216.16**	**$ 70.93**	**$ 84.82**
5% Loss Provision	**$ 2,815.26**	**$ 2,815.26**	**$ 2,815.26**	**$ 2,815.26**
Net Value, Less 5% of Loan Assets	**-$ 2,786.26**	**-$ 2,613.37**	**-$ 2,764.65**	**-$ 2,750.18**

Source: Company annual reports, consultant projections and modelling.

Note on range of growth rate, "g", above: Operating Cash Flow and Net Income have been growing erratically, but for the long-term the growth rate is likely to be roughly in line with the nominal economic growth rate, assumed here to be 2-4%.

Note on range of required or expected rate of return or discount rate or cost of capital, "t", above: This is a notional range of projected likely long-term stock market growth rate and the equity risk premium over high yield unsecured ("junk") bonds.

Valuation of CCC Version II

In the second version, the range of estimates is $136M to $952M, with a tighter range of a median of $238 to a mean of $306M. Making allowances of bad debt of 1 percent of outstanding loans, that is, by $56.3M, does not lower the estimated value of the company appreciably. Discounting for a bad debt experience of 5 percent of total loans, the range becomes a median of negative $43M to a mean of positive $24.9M. Obviously, encouraging the ongoing positive developments at CCC to be optimized in the future will enable it to withstand severe loan delinquency, and make it a much more valuable company in more normal conditions.

Table 2

Intrinsic Value, Using Fully Taxed Future (3 yrs) Free Cash Flow Discounted 3 Yrs to Present at 7%

Valuation Matrix - Presented Value of Discounted Free Cash Flow = Estimated Next Year Free Cash Flow (Required Rate of Return = Growth Rate)

Projected Fully Taxed Free Cash Flow for 2021 ($M), Discounted at 7% for 3 Yrs to the present: $ 9.52

Matrix Values ($M) g==v; r==>	4.00%	5.00%	6.00%	7.00%	8.00%	9.00%	10.00%
0.00%	$ 238.07	$ 190.46	$ 158.72	$ 136.04	$ 119.04	$ 105.81	$ 95.29
1.00%	$ 317.43	$ 238.07	$ 190.46	$ 158.72	$ 136.04	$ 119.04	$ 105.81
2.00%	$ 476.15	**$ 317.43**	**$ 238.07**	**$ 190.46**	**$ 158.72**	**$ 136.04**	$ 119.04
3.00%	$ 952.30	**$ 476.15**	**$ 317.43**	**$ 238.07**	**$ 190.46**	**$ 158.72**	$ 136.04
4.00%	--	**$ 952.30**	**$ 476.15**	**$ 317.43**	**$ 238.07**	**$ 190.46**	$ 158.72
5.00%	-$ 952.30	--	$ 952.30	$ 476.15	$ 317.43	$ 238.07	$ 190.46
6.00%	-$ 476.15	-$ 952.30	$ --	$ 952.30	$ 476.15	$ 317.43	$ 238.07
7.00%	-$ 317.43	-$ 476.15	-$ 952.30	$ --	$ 952.30	$ 476.15	$ 317.43

	Minimum	**Maximum**	**Median**	**Mean (Average)**
Estimated Total Value	**$ 136.04**	**$ 952.30**	**$ 238.07**	**$ 306.40**
Total Loans Outstanding	**$ 5,630.16**	**$ 5,630.16**	**$ 5,630.16**	**$ 5,630.16**
1% Loss Provision	**$ 56.30**	**$ 56.30**	**$ 56.30**	**$ 56.30**
Net Value, Less 1% of Loan Assets	**$ 79.74**	**$ 896.00**	**$ 181.77**	**$ 250.10**
2% Loss Provision	**$ 112.60**	**$ 112.60**	**$ 112.60**	**$ 112.60**
Net Value, Less 2% of Loan Assets	**$ 23.44**	**$ 839.70**	**$ 125.47**	**$ 193.80**
3% Loss Provision	**$ 168.90**	**$ 168.90**	**$ 168.90**	**$ 168.90**
Net Value, Less 3% of Loan Assets	**-$ 32.86**	**$ 783.40**	**$ 69.17**	**$ 137.49**
4% Loss Provision	**$ 3.19**	**$ 35.84**	**$ 7.27**	**$ 10.00**
Net Value, Less 4% of Loan Assets	**$ 132.85**	**$ 916.16**	**$ 230.80**	**$ 296.39**
5% Loss Provision	**$ 281.51**	**$ 281.51**	**$ 281.51**	**$ 281.51**
Net Value, Less 5% of Loan Assets	**-$ 145.47**	**-$ 670.78**	**-$ 43.43**	**$ 24.89**

Source: Company annual reports, consultant projections and modelling.

Note on range of growth rate, "g", above: Operating Cash Flow and Net Income have been growing erratically, but for the long-term the growth rate is likely to be roughly in line with the nominal economic growth rate, assumed here to be 2-4%.

Note on range of required or expected rate of return or discount rate or cost of capital, "t", above: This is a notional range of projected likely long-term stock market growth rate and the equity risk premium over high yield unsecured ("junk") bonds.

MARKET-BASED VALUE:

Valuation Of CCC Using Stock Market And Financial Metrics

The company, and some of its peers, either do not have positive free cash flow, or it is negative, or negligible. One metric depends on earnings before interest, taxes and depreciation and amortization, or 'EBITDA'. This is customarily not calculated for banks or bank-like financial institutions, so this metric was not usable for CCC.

As noted in the executive summary, the 'as is' current value of the company, but also fully taxed (which it, as a Crown, is not currently, but as it would be should it be sold off), ranges from $1.89M to $98.4M, with a median (middle value) of $40.7M and a mean (average) of $47M. Only three valuation metrics were usable, and the averages were inflated by some anomalous comparison companies' metrics applied against financial numbers from CCC that are rather meagre, although its financial performance is improving substantially.

Making allowances of bad debt of as much as 1 percent of outstanding loans, that is, by $563 million lowers the estimated value of the company appreciably. The maximum is a very unlikely $42M, and the tighter range goes from a mean of negative $9.4M to a median of a negative $15.7M. At 5 percent loan loss, all values become quite negative. Please see the details of the models' results in Table 3, below.

Table 3

Market Valuation, Using Publicly Listed Comparison Company Valuation Metrics

As Is, i.e., Full Debt Load, Fully Taxable. Valuation metrics applied to CCC; i.e., market value of common equity. Figures in $M.	Forward P/E (Market Value to Estimated Net Income)	Price to Sales	Price to Book
Average Six Canada-Listed Chartered Banks	$ 1.85	$ 90.89	$ 52.14
Average Seven Canada-Listeed Mortgage, Lending or Loan Guarantee Firms	$ 1.68	$ 163.62	$ 40.40
Average Twelve Canada-Listed Diversified Financial Firms	$ 2.17	$ 64.03	$ 35.15
Average of All Above	$ 1.89	$ 98.36	$ 40.70

	Mean (Average)	Median	Minimum	Maximum
Estimated Total Value	$ 46.98	$ 40.70	$ 1.89	$ 96.36
Total Loans Outstanding	$ 5,635.69	$ 5,635.69	$ 5,635.69	$ 5,635.69
1% Loss Provision	$ 56.36	$ 56.36	$ 56.36	$ 56.36
Net Value, Less 1% of Loan Assets	-$ 9.37	-$ 15.66	-$ 54.47	$ 42.01
2% Loss Provision	$ 112.71	$ 112.71	$ 112.71	$ 112.71
Net Value, Less 2% of Loan Assets	-$ 65.73	-$ 72.01	-$ 110.82	-$ 14.35
3% Loss Provision	$ 169.07	$ 169.07	$ 169.07	$ 169.07
Net Value, Less 3% of Loan Assets	-$ 112.09	-$ 128.37	-$ 167.18	-$ 70.71
4% Loss Provision	-$ 0.19	-$ 0.63	-$ 2.18	$ 1.68
Net Value, Less 4% of Loan Assets	$ 47.36	$ 41.33	$ 4.07	$ 96.68
5% Loss Provision	-$ 3.29	-$ 3.60	-$ 5.54	-$ 0.72
Net Value, Less 5% of Loan Assets	$ 50.27	$ 44.30	$ 7.43	$ 99.08

Source: Author's calculations based on a model using summary versions in annual reports from the company.

After the optimization in Version II, where the current positive trends of high revenue growth and low expense growth are extrapolated for three years, and then the financial results are discounted back to the present at a discount rate of 7 percent, the market value, and resilience to potential loan delinquency greatly improves, from a mean of $81.1M to a median of $91.5M as can be noted in Table 4, below. As with the earlier intrinsic value estimates, it pays to allow the company to continue to improve its financial performance, barring any exogenous events, such as a severe recession or insurrections or other disarray in major markets.

Table 4

Market Valuation, Using Publicly Listed Comparison Company Valuation Metrics

Version II: Using Future Projected Figures Discounted to Present; 3 yrs at 7% p.a.

Valuation metrics applied to CCC: i.e., market value of common equity (Figures $M)	Trailing P/E Value to Est. to Net Icome)	Forward P/E (Market Value to Est. Net Icome)	Price to Sales	Price to Book	Enterprise Value/EBITDA (subtracting net debt)
Average Six Canada-listed Chartered Banks	$ 110.95	$ 119.10	$ 134.85	$ 80.22	n/a
Average Seven Canada-listed Mortgage, Lending, or Loan Guarantee Firms	$ 149.03	$ 107.87	$ 242.76	$ 62.15	$ 122.29
Average Twelve Canada-listed Diversified Financial Firms	$ 111.34	$ 139.59	$ 95.00	$ 54.09	$ 100.83
Average of All the Above	$ 122.00	$ 121.43	$ 145.94	$ 62.62	$ 103.31

Market Value Using All Comparable and Seven Viable Valuation Ratios:	Mean (Average)	Median	Minimum	Maximum
Estimated Total Value	$ 111.00	$ 121.00	$ 63.00	$ 146.00
Total Loans Outstanding	$ 597.87	$ 597.87	$ 597.87	$ 597.87
1% Loss Provision	$ 5.98	$ 5.98	$ 5.98	$ 5.98
Net Value, Less 1% of Loan Assets	$ 105.08	$ 115.46	$ 56.64	$ 139.96
2% Loss Provision	$ 11.96	$ 11.96	$ 11.96	$ 11.96
Net Value, Less 2% of Loan Assets	$ 99.10	$ 109.47	$ 50.66	$ 133.98
3% Loss Provision	$ 17.94	$ 17.94	$ 17.94	$ 17.94
Net Value, Less 3% of Loan Assets	$ 93.12	$ 103.49	$ 44.68	$ 128.00
4% Loss Provision	$ 4.20	$ 4.62	$ 2.27	$ 5.60
Net Value, Less 3% of Loan Assets	$ 106.86	$ 116.81	$ 60.35	$ 140.34
5% Loss Provision	$ 4.96	$ 5.47	$ 2.53	$ 6.70
Net Value, Less 3% of Loan Assets	$ 106.10	$ 115.96	$ 60.09	$ 139.24
4% Loss Provision	$ 23.91	$ 23.91	$ 23.91	$ 23.91
Net Value, Less 4% of Loan Assets	$ 87.14	$ 97.52	$ 38.70	$ 122.02
5% Loss Provision	$ 29.89	$ 29.89	$ 29.89	$ 29.89
Net Value, Less 5% of Loan Assets	$ 81.16	$ 91.54	$ 32.72	$ 116.04

Source: Capital IQ via Yahoo!Finance; Author's calculations based on a model using summary versions in annual reports from the company.

CONCLUSION AND RECOMMENDATIONS

This study used detailed financial statements, but the trends in net income, and free cash flow may not be reliably extrapolated. A more thorough appraisal prior to a proposed floating of CCC shares on a stock market or before the company would be sold to private investors could and should determine a very different value for the company.

As far as is known, the proceeds of such a sale would go to the federal government of Canada. If some of the proceeds were retained within CCC, they could be used to rationalize and restructure and perhaps refinance or write off some loans which may not be as solid as stated in the annual reports. Nevertheless, proceeds of dozens of millions of dollars, and perhaps much more than that, could help lower, if only temporarily, the trajectory of escalating federal national debt. However, the government-to-government nature of its business would have to be disentangled and likely split between Ottawa and the corporation, which could be intricate and complex to accomplish. CCC appears to perform a valuable role, so its divestment needs to be handled with care and prudence.

APPENDIX 1:

RATIONALE FOR DIVESTITURE OR PRIVATIZATION

While it is up to the people through their elected representatives to decide if a Crown corporation or other government agency or entity should be sold or otherwise privatized and the proceeds used for the benefit of all citizens and taxpayers, there are some established reasons to embark on such a path, some or all of which are cited for divestiture of such enterprises but may not be applicable in any single case.

1. The government has no mandate to own or run a commercial enterprise. Libertarians, 'Classical Liberals' and free-market conservatives believe that the provision of citizens' safety, security and justice is the government's primary role, and its involvement in the economy should generally not extend beyond this.

2. Regulation can usually accomplish any public policy reason for direct involvement in an industry. If regulation is not easily feasible, then a direct contract or subsidy to any affected individuals, entity or entities may be more efficient or effective and less economically disruptive or costly.

3. If a government-controlled or sponsored enterprise has a monopoly position, near-monopoly, or effective monopoly in a line or lines of business or businesses, then opportunities are lost in one or more commercial or potentially commercial sectors for entrepreneurs and investors to try to create and grow businesses to enrich and sustain themselves, employees, suppliers, and others.

4. A monopoly, near-monopoly, or effective monopoly market position by a government-owned or sponsored entity could result in far higher prices for customers, the general public, or a section of the public, than would be the case in a fully competitive marketplace for the industry involved.

5. A government-owned or -sponsored enterprise may compete directly against private sector firms, which are owned by or employ citizens, or against individual citizens, all of whom the government is supposed to serve, not disadvantage.

6. The government-owned or -sponsored enterprise may compete unfairly against its private sector rivals in that it had or has access to lower-cost government-sourced and -guaranteed capital (debt). It may have a much larger debt component in its capital versus that which would be tolerated in the private sector. Thus, it may not have to meet high standards for profit and cost control, allowing it to offer lower than true free market-based competitive pricing.

7. Government-owned firms may not need to pay provincial or federal income taxes. This can allow such firms to supply goods or services more cheaply than the private sector companies they are competing with.

8. Government-owned or -sponsored enterprises may not have any kind of profit orientation or target, may be used as public policy vehicles and may be given preference in their activities or even in their transgressions, such as labour or environmental abuses.

9. Government-owned or -sponsored enterprises, by virtue of being public sector vehicles overseen by bureaucrats and politicians, may be places where favoured individuals find employment, particularly at management levels.

10. Since profit is a secondary goal of a government-owned or -sponsored enterprise, it is difficult to evaluate the effectiveness, efficiency or productivity of the enterprise or its employees. Consequently, these employees and assets may not be very productive or effective.

11. In some cases, government-owned entities are monopolies or effective monopolies, and use their market-dominating power to charge higher prices than would be the case in a fully competitive sector with several viable companies in intense rivalry to offer customers the best product or service at the best price.

12. Government-owned or -sponsored enterprises are often creations of certain time-fixed circumstances and outlive whatever use or public policy role their creators may have conceived. Often, advances in technology; the modernization of transport, telecommunication or information technology; the evolution of the economy and available products and services and the increasing standard of living make these enterprises potentially obsolete. In the private sector, firms and individuals must adapt and evolve, or decline.

13. Government-owned or -sponsored enterprises perpetuate their possibly obsolete existences by virtue of the constituencies that build up around them: employees, managers, directors and bureaucrats, customers, suppliers and associated advocates or consultants. They can lobby to keep the enterprise going, despite dysfunction or losses. They are far more motivated to do so than are the taxpayers, whose average cost is much less per person and may be indirect, hidden or difficult to calculate.

14. Because they are not profit-oriented, government-owned or -sponsored enterprises are usually less efficient, and thus they lower the overall efficiency of the entire economy. This can make a whole nation less competitive than its global rivals are, whether nations or individual companies. The effects are worse the greater the government involvement in the economy. When taken to its most extreme, as happened in 20th-century communist nations, the countries were unable to compete against capitalist companies, despite their immense direct and indirect subsidies, government support and the lack of profit requirement.

15. Funds tied up in the capital of government-owned or -sponsored enterprises could be used to reduce government debt or lower taxes on individuals or corporations, which they could then spend or invest as they freely choose, and thus they could inject money back into the economy in more-lucrative ways.

16. The greater the number and size of government owned or government sponsored enterprises in an economy, the greater the size and power of the government, which is usually the largest single entity in society, increasing the dangers of abuse of power, including injuring individual citizens, companies, or groups. Effective capacity of opposition or recourse against this power diminishes as the proportion of the economy the government occupies increases.


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