

## Public Money and Private Enterprise

By Thomas R. Cuba

December 9<sup>th</sup>, 2016

A few days ago the media, social and otherwise, was all abuzz about how Mr. Trump held a meeting with a Japanese billionaire and the outcome was a joint announcement that SoftBank would be investing 50 Billion Dollars into the US Economy.

At first I was concerned that a Japanese Bank would be investing in the US Economy so heavily. What I didn't know was what type of bank SoftBank was: public or private? What I learned was surprising, to say the least.

SoftBank isn't a bank at all. It is a pure holding company. It doesn't provide services or products at all. It owns a lot of other companies — and that's all. What kind of companies? The list is pretty long. According to its own website, SoftBank owns controlling stock in 739 subsidiaries. Some names you might recognize are Sprint (83.4%) and Yahoo of Japan.

Ref: <http://www.softbank.jp/en/corp/irinfo/about/outline/>

Ref: <http://www.softbank.jp/annual-reports/2013/en/segmentinformation/majorconsolidatedsubsidiariesandaffiliates.html>

Part of my initial concern was with regard to what sort of people have \$50 Billion lying around to invest? With 739 subsidiaries, I suppose that's possible, but I wanted to dig deeper. As it turns out, some of those subsidiaries are capital funding companies and some are other holding companies. So, is there a bank in there or not? Frankly, I never found out, but the number of capital funding companies raised my eyebrow.

I did wonder how much of the \$50 Billion was already slated to be invested in already existing subsidiaries, such as Sprint, already doing business in America, but that was beyond my skill set, so I will remain in wonder. Perhaps a reader knows how to do that sort of research.

Now let's change topics for a moment.

In the December 6<sup>th</sup> edition of the Wall Street Journal there is an article on the bottom half of the front page with the headline "In Asia, the State Becomes a Major Company Stakeholder." The article states that in Japan, around "30% of all the companies in Japan's three main equity indexes count the country's central bank as one of their top ten shareholders." There is a graph indicating that the Bank of England, US Federal Reserve, and the European Central Bank are involved in the same sorts of investments but to a nominally lesser extent.

And then I was worried again.

From what I gather, these engagements are not loans, but are share-based ownership. The government in Japan owns at least 10% of 30% of the traded stock. It reminded me of how General Motors became “Government Motors” a while back. At that time, the mantra was that certain companies were “Too Big to Fail.” Now I wonder if they weren’t too big, but were instead too heavily invested with tax dollars.

When the government owns manufacturing and services on a great scale, we often refer to that as a communist economy or a fascist economy. That may not be correct, but the reference is made. The fact is undeniable, however, that a government owned corporation will have an easier time getting government permits, loans, tax breaks, and even government contracts than a privately held corporation. That fact makes the government invested corporation better able to compete, and that fact makes for more private failures and bigger government invested corporations. The government eventually may replace private investors as the owners of the economy. In such a scenario, would the President become the de facto CEO? Would an Executive Order become a means of establishing corporate policy?

And, so I remain concerned, and became more so when I considered international ramifications.

Simply put, if the Federal Reserve Bank is heavily invested in foreign commerce or foreign government bonds, what affect might that have on foreign policy? Would we be willing to challenge a nation on their civil rights positions if it meant a loss of billions or trillions of dollars to the Fed?

Meandering back to the origins of this article, I must point out that SoftBank is not a bank, but seems to contain the source of lots of money, some of which may be government money. The conclusion, regardless of SoftBank, remains the same. Specifically, the mixture of public money and private enterprise should be a concern to us all. I have no answers. Perhaps readers of this article can provide some or initiate movements to end the practice both within the United States and, at least for the Fed, beyond our borders.