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Friday, October 10, 2003

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Caveat issued for Ohio ballot issue

Report: State would be risk investor

By James McNair
The Cincinnati Enquirer

Backed by Republicans and Democrats, business executives and unions, Ohio Gov. Bob Taft is stumping statewide for the Nov. 4 ballot issue authorizing the sale of \$500 million in bonds for high-tech industrial development.

"I urge all Ohioans to vote yes on Issue 1," Taft exclaims in his \$3 million promotion campaign. "Issue 1 is not a tax increase," his handouts say.

Buried by all the fanfare, though, is a provision in Issue 1 that could basically allow the state to invest in the businesses it seeks to help. Pointed out Thursday by the Cleveland think tank Policy Matters Ohio, the provision would amend the Ohio constitution to allow the state to not only invest in companies, but also share their profits - assuming there are any. Issue 1 would lift a ban that has been in place since 1851, the group said.

"The approval of State Issue 1 will open a new era in Ohio's economic development policy," Policy Matters Ohio's 23-page report says. "Both state and local governments will be empowered to devote more resources to research and product-commercialization efforts and to engage in partnerships with the private sector that are far closer than those that exist today."

The group neither endorses nor opposes Issue 1, but its report opened the measure to debate along philosophical lines.

"My flash reaction is: That's an extremely dangerous area to get into," said John Gilligan, a Clifton resident who served as Ohio governor from 1970 to 1974. "If we're trying to encourage entrepreneurship, the last thing we want to do is get the government out there with bags of gold and saying, 'We're going to finance you.'"

The Ohio Farm Bureau Federation said Thursday that it

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opposes Issue 1 in its entirety. It said the state should improve business conditions for companies that are already here before incurring \$500 million in debt to attract new companies. It also thinks the measure takes the state too far into the preserve of industry.

"Should the government be involved in what are typically private-sector decisions? Is the government capable of picking winners and losers?" federation lobbyist Scott Williams asked. "We don't think so. It's not something they're capable of doing. They move too slowly in a fast-paced, high-tech economy."

Issue 1 represents the final piece of Taft's 2-year-old Third Frontier initiative. Launched toward the end of his first term, the program calls for backing promising technology-based ventures and research and development projects involving universities, companies and state-run technology centers. If voters approve, the state would be able to sell up to \$100 million in general-obligation bonds in the first year and up to \$50 million in each of the next nine years.

The Ohio Office of Budget and Management estimates that the state could pay \$190 million in interest over 20 years if \$50 million in bonds are sold during each of the 10 years at 6.5 percent interest.

The bond issue sailed through both the Ohio House and Senate and has been endorsed by a host of business organizations, unions and chief executives. Thursday, the Ohio Public Expenditures Council, a Columbus-based research organization, said Ohio stands to gain as many as 96,000 new jobs if Third Frontier is fully carried out. Of those, 30,000 jobs would be spawned by bond issue investments.

"We designed our final model to be very conservative," the group's president, Rick Yocum, said. "Earlier versions showed the job creation number to be substantially higher."

Issue 1 would allow the state to commit money to research, product innovation, development, commercialization, intellectual property, time-sharing arrangements and into "financing rights and matters such as profit-sharing, royalties, licensing, joint ventures, stock ownership and other financial gain or sharing resulting from development purposes."

Public policy groups in Washington, D.C., find that provision noxious.

"Government normally oversees and regulates industry," said Joan Claybrook, president of Public Citizen. "Here, they're integrated into one."

"Government should not be in the business of picking stocks," said Bill Allison, spokesman for the Center for Public Integrity. "With venture capitalists, generally the idea is you invest a whole lot of money among a whole bunch of

companies with the hope of investing in the next Microsoft or Yahoo! I don't know that the state has the background to make those kinds of decisions."

State officials contacted Thursday said they did not know if any other states take equity stakes in companies.

Brian Hicks, Taft's campaign manager for Issue 1, downplayed the state's foray into venture capital. He said any such investment would be "extremely rare." Moreover, he said if the bond issue passes, the Ohio Legislature will have to pass further laws setting parameters on state investments.

"Quite frankly, that (stock investments) is an incredibly minor point in the overall Issue 1 activity," Hicks said. "It's one more tool in the economic toolbox to generate jobs."

Gilligan said he would just as soon see the government keep its distance from business.

"You begin to blur the lines between what is the appropriate role of government in our society with what private enterprise is all about," the former governor said. "There are instances where government seeks bonding authority for public projects that are entirely appropriate, but when you mingle public money with private profit, you open the door to all kind of chicanery. We seem to be slipping and sliding more into this area."

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