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The curious case of BCRIC: How not to privatize

BY DAVID J. MITCHELL, SPECIAL TO THE VANCOUVER SUN
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We shouldn't let 2009 end without noting that it marks the 30th anniversary of an important, if failed, Canadian innovation. The B.C. Resources Investment Corporation (or "Brick" -- as it was known to all British Columbians)was the world's first large-scale privatization of government assets. The Social Credit administration of Bill Bennett decided to transfer to the private sector a motley collection of Crown corporations and other assets that had been brought under provincial ownership by a previous NDP government. However, they did so in a manner that has since become an important reference point for other jurisdictions, a lesson in how not to privatize.

It was, to say the least, imaginative. Every man, woman and child in British Columbia was given five free shares in the newly privatized company. This was intended to ensure both a sense of ownership and pride in the enterprise, as well as providing a public lesson in how capital markets functioned. And what a lesson it proved to be.

In addition to the five free shares, which were initially valued at $6 apiece, British Columbians were encouraged to purchase additional shares, up to a maximum of 5,000 per person. The premier personally touted the stock, saying: "I want to see this province owned by individuals." And residents of the province responded with enthusiasm. It was an extraordinary political moment--an exercise in "people's capitalism."

Bennett was re-elected shortly after the creation of BCRIC. It was a closely-fought election campaign, with the bold experiment in privatization likely making the difference. Following the election, the promised share distribution to two million British Columbians proceeded, as well as the wildly successful public offering. A staggering half a billion dollars of additional shares were purchased, making it the largest equity offering at the time in Canadian history. Swept up in the mania, many British Columbians invested their life's savings; some even mortgaged their homes to get a piece of the action.

In retrospect, it's easy to see that BCRIC became a victim of its own success. Unrealistic from the start, the public's expectations were further inflated by the temper of the times and a sense that the government was somehow still involved in or backing this new enterprise (it wasn't). In addition, the original management team was wholly unprepared for the success of the initial share offering and, under significant public pressure, made some disastrous investment decisions. Soon after, this was compounded by the recession of the early-1980s, which featured a dramatic downturn in international commodity markets. BCRIC, which underwent a name change to Westar, struggled under a mountain of debt and was doomed. As the share value plummeted to penny-stock status, wiping out the hopes and savings of too many British Columbians, the company sold off its component parts and ultimately disappeared into memory.

Years later, Bill Bennett believed the saving grace was that taxpayers weren't on the hook for the financial losses incurred by the company during the recession. And even though this experiment in people's capitalism was a very sad saga, it did pave the way for a revaluation of the role of the state in British Columbia--and much farther afield. In fact, subsequent successful privatizations took many lessons away from the BCRIC experience. At the federal level of government in Canada, think of Petro-Canada and Canadian National; in other provinces, consider the Potash Corporation of Saskatchewan or Alberta Government Telephones; internationally: British Rail and Air France. And, more recently, back in British Columbia, BC Rail (ironically purchased by the formerly privatized CN).

The ongoing reconsideration of the role of government has now moved well beyond the ideological to a much more pragmatic basis. From privatization of Crown assets, we've seen the rise of public-private-partnerships (P3s) and in some countries partnerships with the social sector. Increasingly, governments are experimenting with new ways of delivering services to citizens. And in the years ahead, as they struggle to balance their budgets, our cash-strapped governments will undoubtedly be seeking new sources of innovation, creative ways to do more with less.

The curious case of BCRIC vividly demonstrates the risk--and the possibility of failure--associated with innovation. But is it possible that such risk is both vital and necessary if we are to find new solutions to the challenges of governance in an increasingly complex world?

BCRIC failed, but the lessons learned were invaluable. Thirty years later, they're still providing instructive context.

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