A NEW CAPITALISM BY ANTONIA SWINSON

If as Conrad Russell believed, true Liberalism is the politics of ordinary people controlling the powerful, then finding ways to rein in the forces of global capitalism holds a certain allure.

Too often feelings of financial inadequacy, even among professional people, blind us to a simple truth: that though capitalism succeeds because it has proved superior to socialism, nevertheless like all living organisms, its rules are not fixed as economists would have us believe, but must adapt and evolve to survive. So at a time when conventional capitalism is reaching dinosaur levels of excess and self absorption, the good news is, that out there in the undergrowth, lurks a new species of capitalism which could transform the City. An animal which instead of eating people for breakfast, instead thrives on the rich diet of mutual self help and cooperative advantage, which originally nourished 19thC Liberalism. Welcome to a fine new beastie - Open Capitalism.

To convey just how evolutionary dynamic Open Capitalism is, let's ask a silly question. How do you raise money?

Two ways: Debt and equity. As anyone who ever worried about paying the mortgage knows, lenders are all-powerful, with claims upon the value of your asset if you cannot pay the interest. Islam dislikes debt contracts and associated paying of interest, because such transactions carry no shared risk, all advantage lies with the bank, which effectively 'loans' money into existence. Then there is issuing equity or shares. The Industrial Revolution was powered by joint stock corporations, yet the Limited Liability Company effectively allows shareholders permanent ownership without obligation in the assets and the revenues of the business, with claims before staff, suppliers, customers and host communities.

The inequitable sharing of risk and reward and concentration of power with both these methods of raising capital explain why, bottom line, socially responsible investment is impossible, however much government regulation is flung at market excess. For though global capitalism creates wealth and prosperity, the worst effects of such power without obligation on ordinary people, are as intolerable as an arrogant absentee landowner living off the sweat of his peasants, while having his pick of the local virgins.

However, just as there is growing debate in liberal circles about breaking landowners' monopoly of power through land value taxation, so Open Capitalism would create similar equality in the raising of capital, by aligning the interests of all stakeholders in an enterprise. Open Capital Partnerships (OCPs) do this by issuing proportional shares, both to Capital Users who 'rent' capital, and the Capital Providers who share the risk and take a percentage of gross revenue. Gross revenue, not just profits. Crucially, equal importance is given to different partners in an enterprise, whatever money's worth they have to offer. OCPs therefore capture the community energy of a LETS scheme and the integrity and stewardship of a credit union, yet are also robust enough to attract the private sector.

Ironically, they were an accident, due to the creation of the new Limited Liability Partnership or LLP. Back in the early '90s, professional partnerships such Arthur Andersen, were concerned about their unlimited liability. City money helped draw up a new Act in the Jersey Parliament creating the LLP while City pressure then ensured the UK's Limited Liability Partnership Act became law in April 2001. For the first time anywhere in the world, it was possible to form a corporate body - i.e. an entity with a legal existence - independent of its individual members, with collective limited liability, with the mutually beneficial, co-operative characteristics of Partnerships. There are now 7000 LLPs across the UK mainly professional partnerships.

Step forward lateral thinking Chris Cook, a former Director of London's International Petroleum Exchange, who, in true Isaac Newton style, suddenly realised the full significance of what Whitehall had done in its efforts to protect its suppliers. He saw that the LLP could achieve nothing less than the quantum leap in economics, for it provided for the first time in economic history, a legal wrapper for a co-operative, community-based medium of exchange. He called it Open Capital, which like JK Galbraith's description of banks' ability to create money, is " a concept...so simple it repels the mind."

For just as the Internet cuts out middlemen, such as high street travel agents, so Open Capital does the same, only in this case, middlemen are banks and financiers used to making easy money from we gullible peasants and economic virgins. No wonder the concept will appear repellent to some.

If Open Capital takes off, power would shift to ordinary people; banks would stop being 'usurers' and instead would adapt to a management role, acting as credit assessors for OCP partners. There would be less need for stockbrokers, for who would want the dodgy value of shares to power pensions with all that 'churning' of existing shares for fat commissions? Funny money Mergers & Acquisitions would quickly become dinosaur economics, for the real unlocking of value would be going on in communities, businesses and factories rather than artificially manufactured in glass stumps in the Square Mile. And hopefully, any IFA flogging with-profits snake oil would go bust.

Extraordinarily too, according to Chris Cook - who was invited to No. 10 in November to explain the concept - there would be no need for Gordon Brown's so called Golden Rule on the Public Sector Borrowing Requirement i.e. borrowing only to invest over an economic cycle, while meeting revenue requirements through general taxation. "With Open Capital Partnerships, Government wouldn't need to borrow to invest at all, so most Treasury activity would become superfluous." (Imagine how much the PM would enjoy saving the Chancellor's salary).

Open Capitalism unlocks the two sorts of money needed by business and communities: credit and investment. Firstly, the provision of credit: in Scotland the Liberal Democrats are considering manifesto proposals for Guarantee Society LLPs to provide mutually guaranteed micro credit to allow small businesses to bid for public sector contracts , but perhaps for many people, not least in community regeneration, it is the capacity of Open Capital to provide alternative asset backed finance to the hated Enron mathematics of PFI, which could prove the next political Big Idea, usefully restoring confidence in a savings culture as pension funds discover this new source of investment return.

So let us suppose Kent County Council wants to refurbish ten schools in 5 boroughs and needs £20m. It transfers the school land to the Kent Land Partnership (KLP) and transfers the school buildings to Kent Schools Partnership (KSP), both draw members from the five borough authorities. KLP becomes a “Financier” Member of the new Kent Education LLP while KSP becomes the “Occupier” Member and agrees to pay a peppercorn rental for an indefinite term to KLP for the use of the land.

KSP then issues 10 million “shares” each valued at £2.00 initially. Local residents are then invited to invest in these “shares” with priority being given to parents and with any Government “baby bond” money being allocated to purchase “shares” on behalf of pupils. Institutions such as the Teachers’ and Kent CC Employees’ Superannuation Schemes are invited to invest, underwrite the share issue and provide liquidity. Kent C.C. then agrees to pay KSP a rental for use of the school buildings of £600k pa initially, linked to inflation and thereby providing a rate of return of 3% inflation linked. Kent CC would aim to repay the Capital over the expected life of the school (say 25 years).Far fetched? Hardly, when just a few decades ago shares were considered (rightly as it turns out) far too risky for pension funds.

Says Cook ,“Unlike what generally happens in practice with PFI, with an Open Capital Partnership, the private sector genuinely shares the risk, , with developing and operating Partners rewarded an agreed proportionate stream of revenues from the use of the productive asset. Most importantly equal value is given to community partners and service users.”

At present Open Capitalism is a young animal merely lurking at -the outer edges of economists’ nightmares. But given its attractive consensual nature and the popular disenchantment in conventional market economics, it is surely only a matter of time before its footprints are widely seen across the wide open spaces of Global Capitalism, however dinosaur vested interests may roar. Possibilities for ethical revolution are breathtaking.

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OPTIONAL BREAKOUT

PRIVATE SECTOR OCP

In late 2002 Hilton Group wanted to raise money for 10 new hotels. Instead of taking a bank loan or issuing shares, Hilton sold this portfolio for some £350m to an LLP - in which they (the "Occupier") retain 40% of the "Equity" (i.e. a proportional share) with the balance of 60% being owned by a second LLP linking the 3 "Financier" Members. Hilton undertook to pay for 27 years 28.8% of their gross revenues from these hotels plus a further £3m pa, subject to a 5% floor or £17.5m pa

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