Funding the Future

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Will Hutton had an article in the Guardian yesterday that I did not have time to comment on (I do have a day job). In it he argued that with regards to the major public utitlies (electricity, gas, water, public transport, the Royal Mail):

What voters want is the best of both worlds. Public services run as public services, but with all the dynamism and autonomy of being in the private sector, not least being able to borrow for vital investment.

He said so in response to oft quoted stats that a significant majority in this country support renationalisation of these enterprises and yet no one (quite rightly) wants to return to British Rail sandwiches (although I would appreciate a return to British Rail engineering, which was world beating before privatisation).

Will argued that:

It seems impossible, but building on the proposals of the Big Innovation Centre's Purposeful Company Taskforce, there is a way to pull off these apparently irreconcilable objectives — and without spending any money.

I like his logic, which I will cherry pick as follows:

The government should create a new category of company — the public benefit company (PBC) — which would write into its constitution that its purpose is the delivery of public benefit to which profit-making is subordinate. For instance, a water company's purpose would be to deliver the best water as cheaply as possible and not siphon off excessive dividends through a tax haven.

The next step would be to take a foundation share in each privatised utility as a condition of its licence to operate, requiring the utility to reincorporate as a public-benefit company. The foundation share would give the government the right to appoint independent non-executive directors whose role would be see that the public interest purposes of the PBC were being discharged as promised. This would include ensuring the company remained domiciled in the UK for tax purposes and guaranteeing that consumers, social and public benefit interests came first.

He then argued:

The non-executive directors would (have to) deliver an independent report to an office of public services each year, giving an account of how the public interest was being achieved. It is important to have an independent third party: regulators, however good their intentions, too easily see the world from the view of the industry they regulate.

Critically:

Because the companies would remain owned by private shareholders, their borrowing would not be classed as public debt.

And because:

The existing shareholders in the utility would remain shareholders, and their rights to votes and dividends would remain unimpaired .... there would be no need to compensate them — no need, in short to pay [them to] buy the assets back.

And as he also notes:

But the new company's obligation would be to its users first and foremost, and would be free to borrow free from any Treasury constraint.

And:

Nor would any secretary of state get drawn into the operational running of the industries — one of the major reasons Attlee-style nationalisation failed. Inevitably decisions get politicised.

There would be penalties:

The aim would be to combine the best of both the public and private sectors. If companies do not deliver what they have promised, there should be a well-defined system of escalating penalties, starting with the right to sue companies and ending with taking all the assets into public ownership if a company persistently neglected its obligations. But the cost would be very much lower, because the share price would fall as it became clear it was operating illegally.

So, what would be achieved?

Britain would have created a new class of company. Indeed, there is the opportunity to start now. If Virgin and Stagecoach are unable to fulfil their contractual obligations on the East Coast line, the company should be reincorporated as a public benefit company. The shareholders would remain, but the newly constituted board would take every decision in the interests of the travelling public guaranteed by the independent *directors, empowered consumer challenge groups and the office of public services — so that the taxpayer can trust her or his money is spent properly. Corbyn and John McDonnell have a way of delivering what the electorate want — and still keeping the industries off the public balance sheet. The circle can be squared.*

That's the argument. Candidly I thin k it is a good one. I'd have been happy to have thought it up and to promote it.

But there have to be buts and there are buts, although they would also exist with nationalisation.

One 'but' is how does this square with the rights of employees? I can see how it does with consumers, but there are more stakeholders than government, investors and consumers. It is employees who actually deliver these services. I think more thought has to be given to them and their fair representation in such company.

And there is another 'but'. This relates to capture. How is it to be ensured that those new directors are not drawn from the same cadre of directors who currently run companies and who will as a result act in the same way as such directors always have, in the interests of a very limited range of interests and views? I see only one answer to this, and that is training. It is completely untrue that the skill to run a major company comes from a public school and legal and accounting training, or a conventional MBA. The skills in question are much more widely available, but that is not recognised, and it is also true that those with those wider skills are not provided with appropriate financial training, probably with the intention of providing a barrier to entry to the inner sanction of the board of directors.

Tackle those issues and I think this idea has some legs to it, using existing private capital for social gain, with the new rules simply being expressed as reform to existing regulation. That, as Will says, has to be a win.