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Citizens' wealth funds

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Policy Issue

Since 2008, the question of inequality has moved up the political agenda. This rising concern has yet to translate into policy action. The UK continues to sit towards the top of the global inequality league, while leading forecasters predict a deepening economic divide until 2020.

Can citizen's wealth funds offer a positive way of tackling two key fault-lines of the British economic model – ever-rising inequality and decades of under-investment?

Analysis

Rising inequality has been driven by many factors. At its heart lie two key trends. First is the steady rise in the share of national income accruing to capital at the expense of labour. Second is the intense concentration of the ownership of capital and other forms of wealth. Because of this concentration, the returns from wealth (in dividends, rent and interest) accrue disproportionately to the already rich.

The impact of the post-1980s rising capital share on inequality has depended on the political and economic system. In the UK and the US with their marked dominance of private capital and an antipathy to collective ownership and a high capital concentration, a rising capital share has translated into higher inequality. In those countries where capital is more equally distributed, a changing capital share has had a weaker, if still upward, impact on inequality.

Changing this primary source of inequality requires, among other policies, the de-concentration of capital ownership through measures that bring a more even spread of wealth and its gains. One route to this goal would be to expand the role of alternative ownership forms, from partnerships to co-operatives, which distribute economic gains more equally. Another would be via the greater taxation of wealth.

One of the most effective instruments for tackling inequality would be the creation of one or more citizen's wealth funds. These are collectively held financial funds, communally owned, and used for the wider benefit of society. The creation of these funds would raise the share of national wealth that is collectively owned, currently about one tenth compared to a quarter in the post-war era.

By increasing the share of national wealth that is held in common, these funds have an equality bias, 'a fundamental force for convergence'. They offer governments a potentially powerful new economic and social instrument, and a progressive way of managing part of the national wealth. They could play a key role in the construction of a shared capitalism which ensures that at least part of the gains from economic activity are pooled and shared among all citizens and, crucially, across generations.

As well as distributing the gains from growth to all citizens, the funds inject a long term perspective into economic management and, crucially, bring greater equity between generations. Such funds offer a 21st century alternative to nationalisation and privatisation. They should be a central element of any

plan for radical reform of Britain's inequality-driving and growth-sapping economic model, and for achieving inclusive growth.

Variants of such funds are widely used elsewhere, with the most successful enjoying high levels of public support. There are thus clear blueprints for a UK model. The state government of Alaska has used the proceeds of oil for a Permanent Fund paying a highly popular annual citizen's dividend since the early 1980s. The Norwegian sovereign wealth fund, also funded by oil, acts as an active investor. The Australian Futures Fund, with an impressive return since launch in 2006, was funded from the sale of the country's publicly owned telecoms giant, and helps fund disability care costs and medical research.

Key principles of a model UK fund are that

- it embraces the principle of common ownership of a portion of the national wealth
- its funding, management and goals should be fully transparent;
- it is managed independently of government (with a Board of Trustees such as in the Bank of England, the National Lottery Fund, UKFI, or the Crown Estates) using a mix of commercial, social and ethical criteria, and with some democratic input;
- that in order to allow it to grow over time and be permanent, thus meeting the goal of inter-generational equity, only a proportion of its value should be used each year, usually below the expected rate of return.
- in the medium-long run, the returns from such funds would generate new revenue streams thus expanding the options for government. They could be used to boost spending on vital infrastructure and regeneration programmes and support key areas of social spending. A portion of the returns could be paid in the form of annual equal citizen's dividend, as in Alaska, thus ensuring 'a people's stake'.

The UK government had two opportunities to take this path. A North Sea oil-based fund created in the 1980s would be worth over £500bn today, turning the public sector net worth (total public assets minus the gross public debt) from negative to positive. Instead of the rolling programme of privatisation, the UK could have followed the lead of countries, for example, Singapore, to pool public assets into a single, ring-fenced fund.

With the Conservative Party Manifesto promising to create a number of "Future Britain Funds" , the potential of such funds is now being acknowledged. But the idea could be turned into a much more substantial initiative.

Policy framework

There are two alternative approaches to establishing such a fund.

1. A financial fund

Although the UK has spent most of its oil revenue, a financial fund could be established using other sources of income. Because funds would take time to build, one possibility would be to take advantage of today's historically low interest rates to kick-start the fund by issuing long term government bonds – with up to 40 or 50 year terms. The returns on such a fund should exceed the cost of borrowing. There would be no immediate change in the public sector balance sheet as the additional liability would be matched by the new asset. A similar method – the issuing of long term fixed government loans - was used to finance the building of the New Towns from the late 1940s.

Additional and ongoing funding could come from:

- the dividends from natural resources such as minerals, urban land and the electromagnetic spectrum,
- occasional one-off taxes on windfall profits such as those levied in the past on banks and energy companies.
- more radical options might include a direct charge on those financial and commercial transactions, such as merger and acquisition activity, which contain a high element of rentier activity.
- investment by pension funds.
- from the proceeds of higher wealth taxation. Paying revenue from a revised system of capital taxation directly into funds which have a high degree of public visibility and support might make reform of wealth taxation more politically palatable.
- One of the most radical approaches would be to create a fund through the dilution of existing capital ownership, paid for by an additional, modest annual levy on share ownership, and paid in shares. Such a pro-equality measure was first advocated in the 1960s by the Nobel Laureate, James Meade. In this way, part of the privately owned stock of capital would be gradually transferred into a national fund to be used for explicit public benefit.

a variation on this model was implemented in Sweden in the early 1980s. It was closed by the incoming Conservatives in 1991 by which time it had grown to be worth some 7% of the economy. Unlike the Alaskan and Norwegian approaches, it failed to win the level of public buy-in necessary for sustainability, in part because the fund was heavily controlled by the trade unions and the public had no direct stake. Nevertheless, the Swedish experience offers valuable lessons for how such an approach might be explored in the UK.

2. An assets based fund

A second approach would be to create a *National Fund* to manage public assets such as land and property and some remaining state owned enterprises. The Fund could consist of part of the UK's remaining commercial public asset base, worth some £1.5 trillion in total, and including a large part of the existing land and property portfolio. This approach would preserve the remaining family silver, but with the additional goal of raising efficiency and boosting the rate of return on such assets by the application of a mix of social and commercial principles.

There are several UK and overseas examples. In the UK, they include the Crown Estate, which manages the Monarch's assets independently of government, and which passes annual surpluses - £304 million in 2016 - to the Treasury; and the more recent Orkney and Shetland charitable trusts funded by local oil companies. A number of countries have established national wealth funds – holding companies of public assets – with the largest and most successful being Singapore's Temasek. The evidence is that this approach to managing the family silver, independently of the state, can secure high returns to be used for the social good.

Citizen's wealth funds offer a direct way of tackling two key fault-lines of the British economic model – ever-rising inequality and decades of under-investment. Drawing on the overseas experience, it's time UK political leaders embraced these well-tested instruments.

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For further details see S Lansley, A Sharing Economy, Policy press, 2016.