Citizen's wealth funds, a citizen's dividend and basic income

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A citizen's wealth fund built up via progressive taxation on wealth and the one-off issue of a long-term government bond has huge progressive potential. Owned by citizens, the fund would socialise a growing proportion of wealth, build a pro-equality force into the structure of the economy and provide an annual citizen's dividend as a step towards a weekly Basic Income.

Wealth, and how it's distributed, matters. In the UK privately-held wealth stands at more than six times the size of the economy, up from three times in the 1960s.[1] Yet little of the surge in wealth levels of recent decades has been harnessed for the public good.

Most of this growing wealth mountain has been captured by the already wealthy, reversing the earlier long-term trend to greater wealth equality, and intensifying the concentration of ownership. Wealth is much more unequally distributed than incomes. Wealth also begets wealth. With the considerable returns from ownership (in the form of profits, rents and dividends) accruing disproportionately to the already rich, the UK's model of capitalism operates, as Thomas Piketty has put it, as a 'fundamental force for divergence'.[2]

Moreover, wealth has become increasingly privately owned in recent decades, in part the product of rolling privatisation of industry, natural resources, land and housing. In the UK, public wealth holdings – from profitable state-owned enterprises like the Land Registry and Ordnance Survey to the remaining land and property portfolios owned by local authorities and public institutions like the NHS – account for a little over a tenth of total wealth; a post-war low. As a result, net *public* wealth (assets *minus* debt) has fallen steadily from half of national income to become a negative figure today, leaving the UK as one of only a handful of rich countries with a public balance sheet deficit.[3] But while private wealth has grown significantly in the past three decades, and even though much of this growth is unearned, these holdings are disproportionately lightly taxed.

Britain's towering wealth mountain offers a huge potential resource for building a better and more equal society. But tackling the scale of wealth concentration, managing national assets more effectively and spreading capital ownership more widely requires some big policy shifts. One way of building a more even spread of wealth would be promote alternative (but under-represented) business models – from partnerships to co-operatives – which distribute economic gains more equally, as proposed by the Labour Party in *Alternative Models of Ownership* (2017).

This article examines an alternative but complementary approach: the introduction of a *citizen's wealth fund*. There are three broad approaches to the creation of collectively-owned wealth funds.

While scores of countries have pooled wealth through *sovereign wealth funds*, nearly all created from the proceeds of oil, few of these act as a progressive force. Most operate as little more than unaccountable and non-transparent investment arms of the state, with, in nearly all cases, the returns accruing to treasuries, not directly to citizens.

A second approach could be called *social wealth funds*: collectively-owned funds, created and managed by the state but with clear social goals, such as extending the provision of free social care. Examples include the Norwegian Fund – the largest of all such funds and now worth over $1 trillion – and the Australian Future Fund, used mostly to help meet civil service pension liabilities. The UK has an example of this approach: the Shetland Charitable Trust. The Shetland Trust was funded in the 1970s by a charge on oil companies through annual disturbance payments in return for operational access to the North Sea. It is now worth almost £200 million (a sizeable sum for a population of 22,000), and the returns have been used to fund social projects, from new leisure centres to support for the elderly.

A third approach is *citizen's wealth funds*. These are distinguished by being managed independently of the state and being owned directly by citizens. This model has a very distinct purpose: it is not a means for governments to manage budgets and spending commitments. Rather, by spreading the ownership of part of the economy to all citizens, a citizen's wealth fund represents a direct and permanent attack on inequality. The only existing example that comes close to such a model, and one of the most transparent and pro-equality of existing sovereign funds, is the Alaskan oil-based Permanent Fund. This has been paying a citizen's dividend – averaging $1,150 a year – since 1982. It is high-profile and popular and has helped Alaska become one of the most economically equal of all US states.

This approach offers a more radical shift than in the case of the first two models. It would democratise a growing proportion of wealth, giving citizens a direct and equal stake in the economy. And it would provide a new source of collective empowerment, quite separate from the state – rather than providing the Treasury with a new source of funding, with the ensuing risk of the fund being used simply as a source of substitute revenue.

A citizen's wealth fund for the UK

A UK citizen's wealth fund would be a collectively-owned pool of wealth, with the returns shared across the population. All citizens would own an equal part of the wealth held by the fund, which would have the effect of giving them a direct stake in economic success, and putting meat on the bones of the much-debated but elusive goal of 'inclusive growth'.[4] The fund would help reduce the extreme concentration of the ownership of wealth and capital and ensure that a growing part of the gains from economic activity are captured and shared equally throughout society.

Such a fund would raise the level of publicly owned capital, and the potential income streams that it offers, bringing a strong counter to the bloated power of private capital. By locking in part of the gains from economic success for all, a citizen's wealth fund would create a 'fundamental force for convergence', helping to break the built-in inequality bias of the current system. The fund would be permanent, part of the national public wealth, and its benefits would be held in trust to be shared with future as well as current generations. This would help counter the recent growth in inter-generational inequities – which sees today's younger generations holding less wealth at each point in life than earlier generations.[5]

By introducing a higher degree of collective saving, such a fund would ensure a better balance between current consumption and building for the future. It would take time to build, and it would be some years before its returns could be used for social purposes. Central to the concept is the need to take time to build a more socially robust future society, countering our prevalent 'jam today politics'.

Such a fund also offers the potential to progressively reform the current model of corporate capitalism. Provided it is managed with transparency and at arm's length from the state, it offers a new tool for social democracy and a new potential for democratic involvement. It represents a twenty-first century alternative to the top-down statism of old-style nationalisation and the recent fashion for rampant privatisation and uncontrolled markets. While nationalisation involves the public ownership of a complete industry, this approach gives society a stake in a much larger portion of the economy.

A model citizen's wealth fund for the UK would need to be managed independently of government by a Board of Guardians, including representatives of government, business, trade unions and the public. It would operate like a giant community-owned unit trust, managed by a subcommittee appointed by the Board, which would include professional fund managers, and monitored by an independent Ethical Advisory Board, as in the Norwegian model. There would need to be a mechanism to ensure public involvement in design, goals, funding and disbursement. To ensure permanency, annual pay-outs should not exceed the annual return. With part of the returns reinvested and a cap on the percentage used for spending, a wealth fund could grow – from investment returns and ongoing revenue injections – to represent a very sizeable ratio of the wider economy.

The power of such an approach depends on how a fund is financed, its size, and how the gains from the fund are distributed. Most of the large overseas sovereign wealth funds have been funded from oil, though some have been funded from the transfer of large publicly owned enterprises, such as Singapore's Temasek, founded in 1974. Others – such as the Australian Futures Fund – have been funded (in part) from the revenue from privatisation. The UK has largely missed the opportunity to create a fund using these sources. Instead of investing the North Sea oil bonanza to build a long-term community fund, the UK chose a one-off, short-term boost to personal consumption, in which some of the gains served to boost an already overheated housing market.

Although society is now paying a significant price for this missed opportunity, there are domestic examples of public wealth funds. Together with the Shetland Fund, the most important example is The Crown Estate. This manages the monarch's assets (property, land, mineral rights, and half the UK's shoreline) independently of government, on a mix of commercial and social principles. Worth around £13 billion, it passed a surplus of £304 million in 2016 to the

Treasury.[6] It is independent of government, and has achieved a creditable rate of return. It has important lessons for how a fund based on largely physical assets could be managed in the UK.

Building a UK citizen's wealth fund

There are many ways of financing such a fund, but perhaps the most progressive route would be to draw on new levies on accumulated institutional, corporate and private wealth.

One of the most pro-equality approaches would be to transfer the proceeds from the dilution of existing corporate ownership. For example, the UK's top 350 companies could make a modest annual share issue – of say 0.5 per cent of their existing portfolio – with the shares allocated directly into the fund. Such an approach would yield a payment of some £12 billion worth of shares a year. The share dilution involved is predictable and small compared with some of the daily share price movements in today's volatile financial environment. This approach would have an especially strong impact on reducing inequality, since part of the pool of institutional wealth would be gradually socialised, with part of the gains that now accrue to private owners shared across society. After a decade, the citizen's fund would own 5 per cent of the stock of corporate capital, though a limit – of say 10 per cent – could be imposed on the transfer.

Socialising part of the ownership of companies in this way could be seen as an extension of company-based employee ownership and profit-sharing schemes already operated by some companies, though with two key distinctions. A wealth fund financed in this way would introduce the principle of profit sharing across *all* medium and large firms rather than just within particular firms. Secondly, the benefits would be distributed collectively rather than to individual employees.

A variation on this approach – the 'wage earner fund', or 'Meidner plan' – was implemented in Sweden in the early 1980s. Unpopular with business, it was closed by the incoming Conservatives in 1991, by which time the fund had grown to be worth some 7 per cent 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. These are important lessons here for applying such an approach in the UK.

John McDonnell has recently proposed an 'inclusive ownership fund' aimed at giving workers a small ownership stake in the companies they work for.

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Funded by a proposed annual one per cent share transfer (up to a maximum of 10 per cent), the plan would entitle workers to a dividend payment up to a maximum of some £500 a year. While, under the scheme, the businesses participating would gradually become part-owned by employees, the proposal would have limited impact on the goals of spreading capital ownership, and its gains, *across society*.

The plan only applies to companies with more than 250 employees, many of which already operate some form of employee shareholding. It would thus benefit only 11 per cent of employees. Large sections of the workforce – including the least paid and secure, the self-employed, those in small firms and working in the twilight economy and in the public sector – would miss out. With the cap set at £500 per worker (most large firms pay much more than this per worker), only a small proportion of the dividends accruing to the firm-based fund would go to the firm's workers; the lion's share would go to the Treasury. A big part of the plan is thus a disguised tax, designed to boost tax revenues, rather than a way of transforming the economy through a more comprehensive spread of worker ownership and the returns that it yields.

Nevertheless, the idea of a UK wealth fund is now beginning to take root, though several proposals are essentially variants of a state owned and managed sovereign wealth fund. These include the 'Future Britain Fund' proposal in the 2017 Conservative Party Manifesto, an idea yet to be implemented; a long-term fund advocated by the Conservative MP and former Cabinet Office minister John Penrose to help pay for unfunded public pension liabilities; and models proposed by the fund managers M&G and the National Institute of Economic and Social Research.[7]

The Institute for Public Policy Research has proposed a fund aimed at paying all 25-year-old UK-born citizens a one-off capital dividend of £10,000 from 2030-31.[8] The Royal Society of Arts has called for a Universal Basic Opportunity Fund aimed at providing every citizen under the age of 55 with a £5,000 opportunity dividend for up to two years, taken at a time of their choosing over the course of a decade. The RSA see this as a pathway towards a fuller universal basic income.[9]

A City University study has examined a number of possible alternative models. The most ambitious idea discussed in the study would be to link such a fund to the payment of an annual citizen's dividend and ultimately a regular basic income. This latter proposal would require an initial endowment of £100 billion (£50 billion of borrowing and £50 billion from the transfer of some existing public assets) and an injection of up to £50 billion a year from new taxes and levies, mostly on existing institutional and private wealth holdings. Although this is an ambitious target, it illustrates the transformative potential of the idea.[10]

Kick-starting the fund by issuing £50 billion worth of long-term government bonds, at terms of fifty years, would act as a form of leverage to speed the creation of a large, permanent, socially-owned asset that would continue to grow over time, playing an increasingly important social role. At today's low interest rates, the returns on investing the financial asset should well exceed the cost of borrowing.[11] Such a method – the issuing of long-term fixed government loans – was used to finance the building of the New Towns from the late 1940s. A second part of the initial endowment could be made through the transfer of £50 billion worth of existing publicly owned assets such as The Crown Estate and several highly commercial state-owned companies such as the Land Registry.

The £50 billion a year in revenue could come mostly from increasing the tax take on private and corporate wealth, including a small 0.5 per cent annual corporate share issue. The UK tax system is disproportionately dependent on taxing income. Higher taxes on wealth would be an effective way of recouping and redistributing some of the gains from unearned wealth accumulation. Other possible sources include a new charge – paid in shares – on merger and acquisition activity; corporate payments for the use of personal data; and hypothecating for the Fund occasional levies on large companies – from corporate fines to one-off taxes (paid in shares) on windfall profits. Examples of the latter include Gordon Brown's £5 billion 1997 windfall tax on the 'excess profits' of the privatised utilities, and the bank levy introduced in 2011.

Figure 1 shows the size of such a fund achieved after 10, 20 and 50 years with these payments, assuming that the fund delivers an annual real rate of return of 4 per cent and revenue continues to be paid into the fund. The evidence from overseas sovereign wealth funds is that real growth rates of 4 per cent pa or higher are achievable. The figure also assumes that the fund starts to pay out at a rate of 4 per cent pa from year 10. This means that from that point, the fund only grows as a result of new annual contributions.

On this basis, the fund would grow to be worth £712 billion in year 10. After a decade of accumulation, a UK fund could therefore match the size of the current Norwegian fund which began in 1996. It would then continue to grow reaching £1.2 trillion in year 20 and some £2.67 trillion after fifty years.

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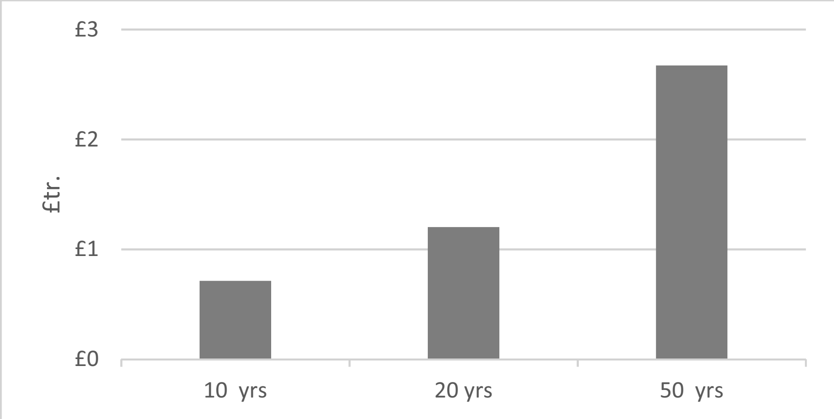
Figure 1: Size of fund after 10, 20 and 50 years
(assumes 4 per cent pa return and 4 per cent pay-out from year 10)



To finance the fund, the aggregate annual tax take would rise by the order of £50 billion, less than 2.5 per cent of GDP, nearly all from additional taxation on wealth. The fund would grow to represent over 60 per cent of the economy after twenty years, and to a third larger than the economy after fifty years. A modest investment sustained for a generation would build much greater economic and social resilience for the future. This is one illustration of how a fund might be built. Less ambitious options – with smaller tax injections – would result in a smaller fund, and lower levels of pay-out.

If the UK had been more prescient, it could today be sitting on a fund worth close to half the size of the economy, without the need for additional taxation. Today, similar short-term arguments can (and will) be used against creating such a fund. That would be a second mistake.

On these assumptions, a fund created in 2020 could start paying out some £28 billion a year in 2030, with aggregate pay-outs doubling in size roughly every fifteen years. Of course the annual returns from such a fund could be used in different ways, including, for example, to fund an expansion of social investment, or to finance new universal services such as free child care. However, an important characteristic of a *citizen-owned* fund is that it should not be seen as a new state instrument to be used to support wider government spending, or as an extension in the state's social responsibilities. Instead, it should be ring-fenced from the state budget, with the returns going directly to all citizens on an equal basis in the form of the payment of an annual, unconditional citizen's dividend, following the Alaskan model. This would give all citizens an explicit stake – a 'people's stake' – in the economy.

Table 1 shows the size of annual dividends possible (assuming a 4 per cent annual return and 4 per cent annual pay-out). A fund of £700 billion (achieved after a decade) would pay all citizens an annual social dividend of £430, rising to £765 per person after twenty years. Such flat-rate cash benefits, funded heavily by wealth taxes, would be highly progressive. At a time when advanced economies need new forms of social protection to deal with today's higher rates of low pay, in-work poverty and destitution, they would help make household finances more robust, lowering the risks associated with economic fragility.

Table 1: An annual unconditional social dividend by size of fund

Size of fund	£100bn	£500bn	£700bn	£1.2 tr	£2tr
How long to build?	0 years	7 years	10 years	20 years	37 years
Total annual pay-out	£4bn	£20bn	£28bn	£51bn	£80bn
Annual social dividend for all	£60	£304	£430	£765	£1200

Steps to a basic income

The gradual rise in the dividend over time could then be recast as steps towards a fuller basic income (BI). A BI would pay a tax-free, unconditional and non-contributory weekly income to every citizen as of right. Aimed at guaranteeing a no-strings-attached minimum, secure income for all, this model of BI would sit alongside the existing social security system (replacing some of it and parts of the tax system over time), with nearly all existing benefits kept at least initially.

The idea of a BI remains controversial. Supporters see it as a springboard for progressive change, a big idea that could contribute to the building of a fairer and more secure society. Critics claim it is unaffordable. Yet even the idea's sternest opponents acknowledge some of BI's merits: that it would provide, for the first time, a guaranteed, if modest, income floor, would promote freedom and choice, bring financial support for the mass of unpaid work disproportionately undertaken by women, and remove some of the negative elements of the current intrusive and punitive system of social security.

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Until quite recently dismissed as eccentric, the idea of BI is now enjoying a remarkable global momentum – with trials launched in several countries – because of growing social and economic risks, the rise of institutionalised inequality and the increasing inadequacy of existing social security systems.

The debate about BI has in many ways moved on from questions of desirability to those of feasibility. The City University illustrative scheme shows that, after allowing for other savings associated with the introduction of a BI (including the withdrawal of current personal tax allowances), a fund of around £1.5 trillion, taking some twenty-five years to build, would be sufficient to pay a modest starting level BI of £40 per week per child and to those over 65, £50 a week for young adults, and £60 a week for those aged 26-64.

It would therefore be possible to introduce a BI, with modest payments, and in steps, during the lifetime of a single generation, via the creation of a long-term citizen's wealth fund. The levels of payment could be raised gradually in line with the steady growth in the size of the fund. A 'partial BI' paid at 'starter rates' would be highly progressive. One study found that such a scheme would increase average income amongst the poorest, cut child poverty significantly and bring a modest reduction in inequality. It would strengthen the universal element of the benefit system, leading to a fall of up to a fifth in the number of families claiming means-tested benefits.[12]

This approach would for the first time provide a guaranteed income floor, ensuring all citizens would receive a basic, if modest, income. This also draws on the principle advanced by writers as diverse as Thomas Paine in the eighteenth century and the Nobel Laureate James Meade in the twentieth century, that a greater share of national wealth – natural and created – should be held in common, with the gains from the exploitation of that wealth shared equally in the form of a regular cash payment. Paying a BI from a special vehicle, independently of the state, also gives it a public legitimacy that might not emerge if it was seen as part of the state's welfare system.

An idea whose time has come

The creation of a citizen's wealth fund would provide a powerful new economic and social instrument, revolutionising the way the fruits of economic activity are shared.

Of the various schemes being proposed, the most ambitious would enable the creation of a fund sufficient to pay all citizens an annual dividend from year 10, and after a further fifteen years a weekly basic income. Building such a fund would require a one-off increase in borrowing along with the transfer – through additional taxation – of a portion of personal and corporate wealth.

In recent months, calls for higher taxation on personal and corporate wealth have come from a variety of unlikely sources, including the National Institute of Economic and Social Research, the IMF and the former Conservative Cabinet Minister David Willetts.[13]

A citizen's wealth fund is about building a more secure social future. Over time, as the size of the fund grows to command a larger share of the economy, pay-outs could become more generous. It is today's younger generations and their children who would benefit the most.

Such a plan for the redistribution of privately-owned wealth – corporate and private – in favour of ordinary citizens would require a high degree of public awareness and buy-in. But while taxes on wealth have proved unpopular, their hypothecation into a fund owned on an equal basis by all citizens and used for explicit social benefit might win public support. While the great majority of wealth would continue to be privately owned, a collectively-owned fund would build in a pro-equality bias that could transform the way we run the economy and society, offering a new strategic route map to a better society.

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Further reading

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Notes

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11. The Public Sector Net Debt (PSND) measure would be affected by borrowing to endow the fund. But a more useful official measure, the Whole of Government Accounts, which aggregates *all* asset classes and balances them against *all* liabilities, would not be affected, since an equal sized entry is placed on both sides of the balance sheet. Over the long term such an investment would actually *improve* the state of public finances as the additional liability would be more than matched by the size of the new asset.
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