Thinkpiece #81

Tackling the power of capital: The role of social wealth funds

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About Compass

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Tackling the power of capital: the role of social wealth funds

This paper examines the possibility of introducing one or more social wealth funds in the UK. Such funds would aim to capture some of the financial gains from the private ownership of capital and use the proceeds for wider community benefit, such as investment in social infrastructure, while also contributing to the long term reduction in inequality. In recent decades a number of countries have introduced such funds, mostly, but not exclusively, taking the form of state-owned sovereign wealth funds resourced through the exploitation of natural resources, notably oil, and used for a diversity of economic purposes. In contrast, the UK has failed to take the opportunity to create such funds, for example, by investing some of the proceeds of North Sea Oil, or by reinvesting the revenue from the sales of public assets.

So would it be possible to build one or more such collectively owned funds in the UK, and if so, how should they be financed? As well as funding social investment and anti-inequality programmes, could such a scheme also help finance a regular Citizen's Dividend payment or even a Citizen's Income scheme?

The growing grip of corporate power

One of the striking characteristics of the British economic model is its heavily skewed pattern of capital ownership. The economy is heavily reliant on a single model of enterprise – the privately owned and run company, with a very low level of public and co-operative ownership. In addition the ownership of these private assets is very heavily concentrated. In contrast, most other rich countries are less dependent on private capital and ownership is more widely spread.

How to tackle this imbalance, and the excessive economic muscle accumulated by big corporations and a small corporate and financial elite that it creates, is now one of the most pressing issues of progressive political economy. The product of the political application of market fundamentalism, big business in the UK has steadily gained a growing grip on economic and social policy and the democratic process. This has been driven by rolling privatisation - a process that has gone further in the UK than elsewhere; a steady reduction in the degree of state regulation of business, notably in controls over the functioning of the labour market and parts of finance; a gradual reduction in the level of taxation paid by the corporate sector and a weakening of some of the traditional social roles played by corporations, especially in the provision of pensions, apprenticeships and in training.

This process of power concentration has had a number of negative economic and social effects. First, it has contributed to the erosion of labour's bargaining power. As the role played by collective bargaining has shrunk, the share of national output going to wages has declined and the share going to profits has risen.

Secondly, the thinness of the base of social ownership has been a significant contributing factor in the rising concentration of income and wealth in the UK since the late 1980s, and, in turn, the increasing fragility of the British labour market. While the wealth gap fell sharply for most of the twentieth century and continued to do so until the mid-to-late 1980s, it then started to rise again. Modern capitalism has a natural, in-built tendency to generate ever growing levels of inequality, 'a fundamental force for divergence`, as Thomas Piketty has put it. [1] Today the richest fifth own some 62 per cent of all wealth while the poorest half own less than ten per cent. [2] The share of wealth (including housing and private pensions) taken by the top tenth is more than 850 times the share taken by the bottom tenth. The distribution of financial wealth (liquid savings and shares) is even more unequal, with the poorest tenth actually left with negative wealth because of accumulated debts.[3]

In part because of weak regulation, big business has also been beset by scandal after scandal, from the rigging of foreign exchange markets by investment banks and the mass miss-selling of savings products to the growth of aggressive tax avoidance and the exploitation of suppliers by supermarkets. According to the Federation of Small Businesses, as many as one-in-five have been the subject of bullying by large corporate customers for supply-chain payment demands.[4]

Fourthly, a large proportion of economic activity is now associated less with the creation of new products, companies and jobs than the upward extraction of existing wealth. A growing proportion of trading activities, big business deals and accountancy practices has become a zero-sum game in which value is transferred from weaker groups – large parts of the workforce and consumers – to a small, powerful business and financial elite able to use their growing economic muscle to seize a larger share of the national and global cake for themselves, a process labelled 'rent-seeking' by economists. Finally, big money has been able to exercise a tightening grip on the political process, contributing to what the annual Audit of British democracy has described as a 'long-term decline' in the state of representative democracy.[5]

A significant consequence of the growing imbalance in the distribution of the national cake has been the build-up of large corporate and private holdings of cash. In the UK, corporate cash piles stood at a record £166 billion in 2013, up a third on 2008. American corporations had cash reserves of $1.45 trillion in 2013, the equivalent of over a tenth of the output of the American economy, and up a remarkable fifty percent from 2010. [6] The growth of these surpluses is explained by a combination of the erosion of wage levels, cuts in the size of company workforces, the more extensive use of tax avoidance schemes and falling levels of private investment. These great pools of money have acted as a powerful destabilising force in recent times. They fuelled speculative activity in the boom that preceded the 2008 Crash and then stood largely idle during the post-2008 slump – 'dead money` as Mark Carney called them - thus intensifying the gyration of the recent business cycle.

Central to this debate is the largely neglected issue in political economy of the implications of the private ownership of such large swathes of the economy, from land to the provision of utilities, and of how to handle growing rewards from that ownership. At least part of these rewards are unearned, the product of one or more of luck, manipulation, wider economic and political decisions and publicly financed support, including tax-funded education and health systems and transport and legal infrastructure. Examples of such unearned, windfall gains include soaring commercial rents and land values in property hotspots and the boost to share values from the mass printing of money (quantitative easing) and artificially low interest rates. Yet an implicit assumption of much economic policy is that the fruits of that ownership should be exclusive to the owners, rather than shared with wider society.

In recent history, the reward from capital has been seen as belonging exclusively to owners to do with as they wish. In support of this sovereignty, capital has, in recent years, been increasingly lightly taxed and regulated, while one of the traditional justifications for encouraging such freedom – that it is necessary to finance investment has become increasingly weak. Indeed, the evidence for the UK is that the rise in the profit share since the 1980s has been associated with a decline in private investment.[7]

There are four main ways of tackling today's over-dominance of capital.

- First, through measures aimed at boosting labour's share of the economy by raising wages over time, through a mix of statutory increases in the minimum wage, a boost to investment in education and training, and extending the role of collective bargaining. The decline of the latter has been a significant driver of falling wage shares.[8]

- Secondly, the returns to capital could be more heavily taxed, through, for example, a more potent tax on capital gains and on inheritance, including through the introduction of a lifetime's capital receipts tax. [9] While taxing capital was highly effective in the post-war years in helping to reduce wealth inequality, tax rates on wealth, inheritance, corporate profits and on personal assets have been falling in the UK and across the globe, resulting in the relative under-taxation of capital and wealth compared with income. This is the route proposed by Thomas Piketty in his book Capital who advocates a comprehensive international agreement to establish a progressive tax on individual wealth. Nevertheless he also argues that the idea is somewhat 'utopian`. [10]

- Thirdly, other non-private forms of business activity, from the extension of public ownership to co-operatives, could be encouraged. These are all areas where Britain has relatively low rates of activity. For example, the co-operative sector accounts for only 2 percent of GDP versus 10 percent in Italy, 19 percent in Finland, 8 percent in Germany and around 12 percent in Switzerland. [11] In Singapore, despite its reputation as a free market haven, a fifth of business activity is in public ownership, as is 85 percent of housing. High levels of such activity would automatically limit the extent of the private ownership of capital.

- A fourth route, and the one explored in this article, is for the creation of collectively owned social wealth funds. Such funds should be seen as complementary to these other approaches, not as a substitute, and have a crucial role to play in modern economies, independently of the effectiveness of these wider strategies. Such funds, for example, could sit side-by-side with the extension of alternative, mutual and co-operative forms of business ownership, and with measures that reverse wage compression.

Social wealth funds (SWF)

The primary aim of such collectively-owned funds would be to spread the ownership of capital, and its benefits, more widely, with such funds accumulating a share of private capital growth over time. This would help secure a more even economic balance between labour and capital, thereby directly reducing the inequality in wealth distribution.

Socially owned funds would contribute to a number of other aims of an alternative, progressive, economic and social strategy. Their returns would be shared across the population, they would help to reverse the long-term trend towards the privatisation of formerly commonly held resources and come with the potential to expand democratic accountability. Such funds would also improve the overall balance sheet of the public finances. They would add over time to the value of public assets, a side of the economy too often ignored in debates about the state of public finances, and thus help to underpin the national debt. [12]

SWFs would be socially owned and could be used to finance a range of public projects that benefit society as a whole. These might include investment in economic and social infrastructure and urban regeneration and strengthening mechanisms that encourage upward social mobility, through for example tackling youth and long term unemployment by the use of guaranteed public employment programmes. By cutting back the growth of private wealth and extending wider opportunities, such funds would also tackle inequality from both ends.

The funds could be managed in partnership with, or largely independently of the state, for example, by a mix of representatives from local government, charitable organisations, trade unions and the regions, as well as representatives of government and business. In this sense they would play a very different role from traditional models of public ownership. The National Lottery Fund, for example, is used to finance a range of 'good causes` and is run by a non-departmental public body, governed by a nine-strong board.

There is already an established history for such funds, or variants of them. They were first used in the United States in the mid-19th century to fund specific local public services.[13] The National Insurance Fund, established in 1911 as a collectivised system of insurance, using weekly contributions from employees and employers to pay for a range of benefits, is a type of social wealth fund. The fund is 'ring fenced' such that the money raised can only be used for these specified area, and not to fund other forms of public spending. [14] Other examples include the public pension funds run by other public organisations such as the local government pension scheme. The national lottery is another example, though this is funded via the purchase of tickets by individuals.

As shown below, there are a number of more recent examples for such collectively owned funds across a diverse number of countries. Despite this, the concept of such a fund is, compared with other countries, undeveloped in the UK. Indeed, when variations on the idea have been suggested, they have mostly been greeted with hostility. There have, for example, historically been a number of attempts to socialise some of the mostly unearned financial gains from the development of land, but such attempts have always proved short-lived. Another example relates to the way Gordon Brown's suggested implementation of a 10% levy on inherited wealth to fund social care for the elderly was dubbed 'Labour's new death tax`. 'RIP off.' 'Now the government wants £20,000 when you die'.

Despite such historic opposition, there is a growing interest in the principle of social funds. In 2014, the London mayor, Boris Johnson, pushed the door slightly ajar by advocating a 'citizens' wealth fund' to be created by pooling some of the UK's 39,000 public pension funds into a single investment fund large enough to pay for a boost to infrastructure investment. [15] In 2015, two UK public pension funds – the Greater Manchester Pension Fund (GMPF) and London Pensions Fund Authority (LPFA) – announced they are to form a joint infrastructure investment venture worth £500 million. [16]

The UK has already established such a fund, albeit a temporary one – UK Financial Investments. This was set up in November 2008 to manage HM Treasury's shareholdings in a number of banks, a refinancing deal necessary to prevent widespread banking failure. While the fund is currently worth over £30 billion, the government's plan is to sell the shares and eventually close the fund. [17]

The impact and scope of such funds depends on how they are financed and used. Such public social funds, for example, could be fully spent each year, as with the national insurance fund, or, alternatively, partially invested and allowed to grow over time, with only a proportion of the fund's value used each year. There are four main potential sources of finance for a British SWF, or a multiple of funds:

- through the use of existing, or new, taxation
- through the sale of public assets
- from the use of part of the income from the exploitation of natural resources, including oil, gas and land
- and finally, from private levies including a direct charge on company profits or on share ownership.

Option 1: The use of revenue from some existing, or new taxes

These, following the example of the National Insurance Fund, could be hypothecated for specific purposes. [18] One example could be a Public Investment Fund – possibly managed as part of a State Investment Bank – and sourced from existing taxes on wealth such as inheritance tax and capital gains tax, with the revenue paid into a central pool as a way of sharing part of the private gain enjoyed by individuals. Such gains are often largely 'unearned`, stemming more from the product of wider social and economic policy than individual endeavour. Another example would be a Social Housing Fund, paid for by the revenue from stamp duty, and used to pay for the increased provision of social housing.

Both examples would have the advantage of public clarity – their source and purpose would be transparent. Improved and visible public infrastructure, from transport facilities to new schools and hospitals, would be paid for by a proportion of the gains from accumulated private wealth. In this way, the impact of changes in tax rates would also be explicit while existing taxes on wealth gains would be easier to justify. The public might be more willing to accept the merits of such taxes if they were paying for new hospitals and schools and improved open spaces and social amenities.

Option 2: The proceeds from the sale of public assets

Since the beginning of the 1980s, around £400 billion worth of former nationalised industries and utilities, from British Gas to the Royal Mail have been sold. These sales could have been used to create one or more social funds, and if established at the beginning of the process, would have grown to a substantial level today. Although a proportion of the shares of these organisations were bought by the general public as a way of encouraging what Margaret Thatcher called a 'property owning` democracy, such share purchases were very short-lived. Indeed, share ownership has become increasingly concentrated since the 1980s.

Today a large number of these companies have been bought up by private equity groups, and are thus no longer even public companies, and many are now foreign-owned. Ten of the twenty-three privatised local and regional water companies, for example, are now foreign owned with a further eight bought by private equity groups. [19] Since Thames Water was taken over by a private consortium of investors in 2007, mostly from overseas, the consortium has engineered the company's finances to ensure that dividends to investors have exceeded net profits paid for by borrowing, a practice now common across the industry. By offsetting interest charges on the loan, the effect is that the company will pay no corporation tax for the next five to six years. As one study concluded: 'A mound of leveraged debt has been used to benefit investors at the expense of households and their rising water bills.' [20]

It is a similar story across other privatised sectors from the railways to care homes. The fixation with private ownership is also now increasingly out of step with other countries which have been unwinding their own privatisation programmes, including taking water services back into a form of public ownership, in response to the way the utilities have been exploited for private gain. [21]

Another example relates to the 'Right to Buy` introduced in the early 1980s, a policy which has led to the shrinking of the stock of social housing, contributing to today's growing problems of homelessness, overcrowding and deteriorating housing opportunities. From the start, local authorities were prevented from using the proceeds to build replacement houses, but these could have been pooled to finance a central housing fund to be used to finance replacement social building. Today, such proceeds could be paid directly into a Social Housing Fund, giving it two potential sources of funding.

Imagine the shape of the British economy today if a number of such funds had been created along these lines, funded by sales of public assets, of public industries, land and buildings. Such collectivised funds would have transformed the shape of ownership while enabling a much higher level of public investment in areas from social infrastructure to housing and balancing the rise in the size of the national debt. We have of course, already lost these opportunities. Much of this social and industrial heritage – the family silver - has now been sold, and in ways which have benefited the few, intensifying the overall concentration of wealth and further raising the role of private capital in the economy. But it is not too late to use the future proceeds from such sales in socially useful ways through the creation of special funds.

The creation of funds would provide a distinctive source of funding for a number of crucial forms of social investment, from housing to economic infrastructure, much of which has been depleted in recent decades. By linking the source of finance and the type of investment their role would immediately be recognised by the public as the means by which certain types of social investment are financed. Indeed, there is wider evidence that such hypothecation – such as through the national insurance fund - gains public support in a way which homogenous taxation does not.

Other sources

There is also a case for examining the creation of funds using new sources of revenue. There are two main potential sources: from the exploitation of natural resources, and from an annual levy on the private ownership of the national stock of capital. There is nothing exceptional about either approach. Recent decades have seen several examples of the use of social wealth funds across a number of countries which operate in one of these ways. [22] Such examples include the sovereign wealth funds operating in over 50 countries and the decade long wage-earner fund that began in Sweden in 1993, although these schemes have varied greatly in their structure and aims.

The Swedish wage earner fund

Perhaps the most significant example of a fund that has been financed by tapping privately owned assets more directly is the set of wage-earner funds established in Sweden in 1983. The concept was devised in the 1970s by Rudolf Meidner, a key architect of the Swedish welfare state and head of economics at the Swedish trade union federation.

In Meidner's original proposal, these funds had a number of goals. They were seen as part of a strategy to extend the social ownership of capital. Despite a highly developed welfare state, the Swedish economy at the time was still a solidly capitalist economy, with 94 percent of industry privately owned. Industry itself was also highly concentrated, with fifteen to twenty corporations, many family-owned, dominating the economy, while the distribution of capital ownership was highly unequal and had hardly changed since the 1930s. In this sense the plan could be seen as a 'middle way` political strategy, 'to graft an element of socialism onto this capitalist productive mechanism—not the socialist propensity for planning, but its concern for social equality and well-being.' [23] Meidner also saw it as a 'step on the road towards more democratic ownership of industry and economic democracy… as an alternative to both private capitalists and state nationalised property relations`. [24]

The scheme was also seen as an important additional tool in meeting Sweden's long commitment to high levels of employment, as a way of ensuring that 'the owners of large corporations might be obliged to contribute more to the wider society without which their own profits would be impossible'. [25] For Meidner, they were also a way of overcoming the problem of excess profits which was then a side-effect of Sweden's longstanding egalitarian or 'solidaristic' wages policy - under this well-paid employees deliberately moderated their wage demands in favour of the lower paid. This had led by the early 1980s to some of the lowest wage differentials in Europe. [26] However such collectively agreed wage restraint also led to higher profits but without the offsetting gain of higher investment.

Under the original 1970s plan, all companies with more than fifty (over 100 in some formulations) employees would have been required to issue new shares every year, equivalent to 20 per cent of their profits, to be handed over to a network of regional funds.

If implemented in this form the scheme would have been revolutionary. The funds would have accumulated, gradually equalising the pattern of capital ownership and the distribution of wealth, while spreading the level of industrial democracy and leading to the gradual socialisation of part of the Swedish economy. Under the scheme the funds would have gradually increased their shareholding in individual companies, enabling the boards of the fund to exercise a growing say in company decisions. Meidner estimated that it would have taken 35 years to acquire 49 percent of the equity of a corporation with a profit rate of 10 percent. [27]

Inevitably, the plan provoked hostile opposition from employers with the biggest demonstrations ever seen in Sweden at that time. Company managements were especially concerned about the ability of funds to influence company policy, and the increased role played by unions in the management of the economy. The proposal and the reaction contributed to the defeat of the ruling social democrats (SAP) in 1976 after 40 years in power.

After six years of debate, revision and considerable controversy, the SAP won the 1982 election with a commitment to a much watered down version, a plan which was implemented 'experimentally` in 1983 and initially only for seven years. Such was the scale of business opposition, the SAP leadership in effect accepted that renewal was unlikely. [28] Instead of being required to issue new shares, the scheme charged an annual levy on wealthy shareholders which was paid into five regional 'wage-earner investment funds`. Using a more restrictive definition of profits, only a few thousand companies were affected. The local funds were controlled and invested by local boards consisting of a range of representatives, from local trade unions to local authorities.

The levy differed from traditional corporate taxation which as a tax on profits, subtracts from cash flow, and potentially investment. Under the levy, the tax fell on corporate owners. In this way the value of such holdings was diluted, not the resources of corporations as a productive concern, thus, in theory, protecting capital formation.

The funds provided an income stream from capital for underwriting public spending on agreed social purposes, from pensions to socially beneficial research, thus easing pressure on taxation, but they also reinvested the income they yielded from dividends from the shareholdings so that they would grow over time.

The funds lasted just short of a decade. In 1992 the scheme was wound up by the incoming Conservatives, and the proceeds used to finance a string of scientific research institutes. In one sense the great ambitions of the 1970s that had given birth to this experiment in socialisation ended in defeat. By then, the funds had grown to account for around 7 per cent of total industrial wealth. There was also much less emphasis on industrial democracy with members of the funds appointed by the government. The ending of the scheme – which never gained widespread popular support - was certainly one of the signs of the political limits to the Swedish experiment in social democracy, though it came at a time when the Right was beginning to seize the intellectual ascendancy with their belief in the encouragement of free markets. [29]

Sovereign Wealth Funds

While the Swedish experiment was short-lived, another example - the Sovereign Wealth Fund - has become widely used in recent decades, with around 50 countries operating schemes. [30] These include China (with four funds with a combined value of $1.3 trillion), the United Arab Emirates (with seven funds totalling more than $800 billion), Saudi Arabia (with $675.9 billion), Kuwait (Kuwait Investment Authority with $386.0 billion), and Singapore, Russia, Qatar and Australia. Although there is no US federal fund, the states of Alabama, New Mexico, Texas and Wyoming each has at least one similar fund, while France established a Structural Investment Fund in 2008 aimed at investment for the public interest.

These schemes are state-owned financial vehicles for managing large-scale public funds. Most have been created since the millennium, have enjoyed significant growth and are now very large, with their total value estimated at some US$6 trillion. While some of these have been funded by ongoing budget surpluses, many derive from the proceeds of government management of natural resources, in nearly all cases, from vast oil wealth, through a mix of profits and dividends from natural resources that are publicly owned and from taxation of private companies developing the assets. The subsequent growth of the funds has been made possible by the investment of these sums over many years.

There are huge variations in the origins and goals of such funds, with some helping to offset shortfalls in national budgets. They have all been established by the state, but most are run in a very closed and non-transparent way, sometimes without obvious public benefit, and mostly with minimal or no public involvement, as little more than the investment arms of the state. Because of this they fall well short of a model social wealth or community fund. [31] A number of funds have invested heavily in the UK, especially in large luxury property developments - Qatar, for example, owns the £3 billion Chelsea Barracks site – helping to distort the residential housing market away from balanced development.

The main exceptions, and probably the best known of these funds are the New Zealand and Norwegian Sovereign Wealth Funds. While these funds have not always been free of controversy, they enjoy high levels of transparency with, for example, the Norwegian Fund's investments now monitored by an expert ethics council. [32] Established in the 1980s, the origins of the latter lie in the public pension fund, and it is managed by the Norwegian central bank on the behalf of the Norwegian people. The fund's income stems from several sources: directly from its ownership of several oil fields, indirect taxes on oil and gas, and dividends from a 67 percent stake in Statoil, the country's largest energy company. Because of its openness, it enjoys a good deal of public support and legitimacy. 'The fund, one of the most transparent, least secretive investment vehicles in the world, operates under stringent disclosure requirements, and has become a shareholder activist, aggressively pushing the businesses it invests in to follow healthy corporate governance practices.` [33]

Norway's approach is in stark contrast with the UK which has also had the benefit of significant oil and gas reserves, but which chose to spend the proceeds in current consumption instead of for the future by investing some of the tax revenues raised. Britain and Norway, by an accident of geography, both had access to a large pot of black gold. Britain spent the money. Norway saved a large chunk of it. While Norway is sitting on a big pile of money, Britain became a net importer of oil in 2003 and has faced a worsening balance of payments deficit and decline in tax revenues as a result, without a wealth fund to soften the blow.

Norway has two such funds. Together, these are estimated to hold a remarkable 1 percent of global equities and are the largest stock owners in Europe. When the first fund was started, politicians envisaged it lasting for maybe 30 years. Now it is set to last for another century or more. This longevity is in part down to the way Norway has adopted a rule only to spend the annual gains from the fund, continuing to reinvest the rest, thus ensuring that future generations benefit from the oil legacy.

James Meade and Labour's 'National Workers' Fund'

Significantly, one of the most ambitious proposals for a domestic social fund came in 1965 from the distinguished British economist James Meade, later to become a Nobel Laureate. In that year, he published a short book, Efficiency, Equality and the Ownership of Property. Meade had worked with Keynes and was an adviser to Labour governments and the SDP/Liberal Alliance. He had long been concerned with the level of inequality and the need to 'increase the amount of property that was in social ownership`. [34]

In this book, he was addressing a specific issue, the impact of accelerated automation on the workforce, believing it would increase the return to capital and lower the wage share, thus intensifying the extent of inequality. In this he was remarkably prescient. In most, if not all rich economies, the share of national output accruing to labour in wages has been falling and for profits rising since the 1980s, though automation is only one of a number of explanations for this trend. [35]

He set out a number of potential solutions, notably through strategies aimed at securing a more equal distribution of private ownership. First, through higher taxation on wealth and inheritance aimed at breaking down large concentrations of wealth, the solution preferred by Thomas Piketty. [36] Secondly, and more radically, he suggested measures aimed at increasing the level of social ownership of capital through the state building a growing stake in national wealth. Importantly, he linked this scheme to provide the finance to 'pay out an equal social dividend to each citizen`. [37] Both sets of measures were to supplement not replace existing mechanisms of the welfare state.

What Meade had in mind was a more evenly-based 'property-owning democracy', though a very different vision from Margaret Thatcher's later image of wider share ownership and mass private home ownership financed by a mix of debt and the sale of public assets. Along with others, including leading figures in the Liberal Party, Meade favoured measures that would lead to a much wider distribution of the ownership of private property, on the grounds that the benefits from capital ownership ought to be widely shared. Meade argued that this should be achieved by the state establishing a growing stake in capital, either by investing budget surpluses in equities or by requiring firms to issue new shares annually to a public fund, with the returns used to pay for a citizen's dividend. [38]

Although Meade's idea never got further than the drawing board, variants of it continued to surface. In 1971, a similar proposal was made by the Danish LO at its 1971 Congress, and then set out by the Danish Government in a Green Paper in 1971. The proposal – similar to the wage earner funds adopted a decade later in Sweden - was for all employers to pay into a central workers' fund an amount related to the size of their wages bill, in annual increments of a half per cent, until a maximum of 5 percent was reached. Under the plan each worker would receive an annual certificate setting out their entitlement in the fund, though these certificates could not be sold for at least seven years. To prevent them being sold back for private ownership, they could not be sold in the open market, but only back to the fund itself. In the event such a scheme was never implemented.

Also in the early 1970s, the idea of such a Fund was examined in detail by a working group of the British Labour Party and published in an Opposition Green Paper – Capital and Equality – in 1973. The study group behind the Green paper included the MPs Barbara Castle and Frank Judd along with the leading economists, Sir Nicholas Kaldor and Lord Diamond, the latter later appointed to chair Labour's Royal Commission on the Distribution of Income and Wealth in 1975.

The working party took as its starting point: 'in what ways could a Labour Government ensure that workers and the community share fully in the growth of company wealth, while at the same time, doing nothing to hamper the investment efforts of companies.' [39] Among the range of measures proposed was a 'capital sharing scheme` through a national Workers Capital Fund, in which all workers, private and public, would acquire over time equal wealth entitlements in the Fund to be financed by the compulsory issue of new shares (or on occasions, cash) – of the order of one percent of the total equity in the company, by all companies over a given size. Also inherent to the scheme was the goal of 'extending opportunities for economic democracy, by giving Fund members – through their ownership of shares - direct powers over key financial decisions such as mergers, capital movements or investment in overseas subsidiaries`. [40] Again, the scheme was remarkably similar in broad outline to the Danish proposal and the 1980s Swedish scheme.

Meade's own ideas continued to be debated long after his original proposal. In the mid-1980s, he was a member of the SDP's Economic Policy Committee, and argued for a citizen's income to be paid for by capital dilution, through the issue of new shares by firms, at a fraction of their existing share holdings, into a public fund. An SDP Working Party estimated that, at a modest dilution rate of 1.5 per cent, with firms issuing 1.5 new shares annually for every 100 existing shares) such a proposal would mean the state building up a 50 per cent share of the affected companies in about 50 years. [41] Then in 1986, a resolution supporting the idea was put to the Party's annual conference, but was amended by critics. [42] In 1989, Paddy Ashdown, leader of the new Liberal Democratic party, argued in a book, Citizen's Britain, for a 'Citizen's Share Ownership Trust`, a development of Meade's ideas, aimed at giving everyone a direct stake in the economy. [43]

How feasible is a social wealth fund?

A Social Housing and a Public Investment Fund

So could such ideas, still very much on the sidelines of political debate, be applied in some form in Britain today? Such schemes would certainly go a long way to tackling some of the most pressing faultlines in the British economic and social model, helping to correct, in particular, for the problem of the over-dominance of private capital. As the leading World Bank economist, Branco Milanovic, has argued: 'If one of the drivers of inequality are capital incomes (and "allied" incomes like those of top management), this is because they are heavily concentrated. "Deconcentration" of capital incomes, that is much wider ownership, particularly of equities, is then a solution. But it is seldom mentioned.' [44]

Of course, some variants are much more radical than others. There are no overriding political reasons why the UK should not follow the lead of other countries in establishing one or more specific funds; with clearly delineated goals and financed by redirecting the proceeds of some existing taxes and the revenue from the sale of public assets. Notably, it would be an important and progressive step to establish a Social Housing Fund (financed, for example, by stamp duty and the revenue from 'Right to Buy` sales), and a Public Investment Fund, financed by the proceeds from the sale of public assets, used to finance public investment and urban regeneration projects.

These two funds would extend the desirable principle of hypothecation and would help to tackle three serious economic and social problems; Britain's broken housing market and the lack of social housing, its low and deteriorating level of investment in public infrastructure, and the regional imbalance in the quality of such infrastructure. With the growing public unease about the declining access to decent housing and the political failure to tackle it, a straightforward Social Housing Fund would be likely to prove a political winner. There is also a simplicity and coherence about the idea of using public asset sales to generate new infrastructure investment.

A social wealth fund financed by the dilution of capital ownership

The establishment of a fund through the dilution of existing capital ownership would be a much more radical step, but there is a very strong social and economic case for going down this road. A social wealth fund paid for either by the issue of new company shares that diluted existing share ownership, or by an annual charge on existing shareholding, would be a direct response to capitalism's innate tendency to ever widening inequality. It would, in effect, be a hypothecated tax on that part of wealth held in the form of shares. Such a levy would finance a collectively-owned unit trust. It could be managed by a broadly based independent board thereby ensuring a high degree of transparency and clear political independence as in the case of the Norwegian Social Wealth Fund.

Such a scheme would in some ways represent the mass extension of company-based employee ownership and profit-sharing schemes already operated by some companies, though with two key distinctions. A social wealth fund would introduce the principle of profit sharing across all medium and large firms rather than just within particular firms, while the benefits would be distributed collectively rather than to individuals. The fund could also be topped up by government contributions from other sources. In the case of the shareholder's contribution, the state would merely be acting as an intermediary, and would have no claim over the use of the fund.

Not only would this approach create a more even spread of ownership, thus tackling a key source of inequality, it would help deal with a number of problems with the current share ownership model and the chase for shareholder value. Personal share ownership in the UK is not just very narrowly owned, it has become even more so, falling from 54 per cent in 1963 to 10 per cent in 2010. Share ownership is also increasingly footloose and short-term. Close to a half of shares of listed companies are now owned by foreign investors, up from 30 per cent in the 1990s, while most are held much more transiently than in the past, increasingly by global asset management companies and investment banks. [45] Less than half of households hold private pension schemes, concentrated amongst the better off. [46] Popular capitalism is a myth. It is also largely a myth that the shareholder value model is necessary to encourage productive investment. [47] Indeed, the model actively discourages investment.

Shareholders are a significantly privileged group. They enjoy the immense advantage of limited liability, which limits their exposure to losses and other negative consequences of a company's actions. When things go wrong, it is taxpayers who pick up the bill, as they did in the aftermath of the 2008 crisis. Although corporation tax is meant to be a partial charge in payment for this privilege, the size of this tax liability has been greatly eroded, in part by soaring levels of avoidance and in part because of the global bidding down of corporate tax rates. [48]

In addition, a large part of the gains from share ownership are unearned, a form of 'rentier' income. Just as Britain's over-mighty financial sector is poor at creating rather than extracting wealth, the shareholder value model increasingly rewards capital owners through a variety of methods that are unrelated to the strengthening of the productive base. First, gains in share values over recent times have increasingly been the result of corporate and financial manipulation rather than measurable improvements in corporate performance that bring wider economic benefits. [49] Shareholders, along with a small business and financial elite, have been the beneficiaries of the sustained diversion to profits from employees through the long corporate squeeze on wages and downsizing across British companies driven by decades of cost-cutting and the chase for short-term 'shareholder value`. Too much activity is geared to the enrichment of directors and shareholders. Despite this, large shareholders – essentially absentee owners – have an influence over companies, while employees mostly have none.

Secondly, the very concentration of ownership itself acts to inflate share (and other asset) values by creating excess demand, in part through the steady rise in corporate and private cash surpluses that have followed from the diversion from wages to profits and the growth in privately held wealth. These have not only acted to destabilise the global economy, and were a key contributing factor in the 2008 crash [50], they serve to boost existing asset values, yielding windfall profits to owners and creating a reinforcing asset price spiral.
Thirdly, one of the important side-effects of the Bank of England's quantitative easing programme, through the purchase of financial assets, has been to further boost the wealth of those who own assets, especially shares. As the Bank of England has shown, the policy is 'heavily skewed with the top 5% holding 40% of these assets`. [51]

One of the benefits of a wealth fund financed by a levy on capital ownership would be to at least partially correct for these windfall gains, ensuring that at least a portion of them are captured for wider social use. Such an approach would also challenge the idea implicit to the dominant business model that the gains from the ownership of capital should be exclusive to owners. If some of the social wealth fund was used for public investment, it would also help counter another weakness of the current model, its tendency to under invest in productive activity. Far from working against wealth creation, the social wealth fund model would actively promote it.

There remains the question of how such a fund should be used. It could be used simply to finance valuable social investment schemes, and schemes that benefit poor and disadvantaged communities. It could, for example, be used to fund scholarship and bursaries for disadvantaged young people or fund a jobs guarantee programme for the long term unemployed, thus reducing the level of unemployment.

Another possibility would be for part of the fund to be used to fund a citizen's dividend along the lines originally proposed by James Meade. Since it would be funded by a charge on share ownership, this has a clear logic. Even more ambitiously, it might be used to help fund a citizen's income scheme.

Although both schemes would be a step up in radicalism, the idea of payments to citizens as of right is hardly new. Child benefit is paid to all children (apart from those of higher rate taxpayers). In 2003, the government introduced a child trust fund of £250 to all children born after 1 September 2002 to be accessed at the age of eighteen, though the scheme was abolished by the incoming coalition government.

Since 1982, Alaska has operated a fund - the Permanent Fund Dividend (PFD) - which has paid a single annual sum – a dividend - to all citizens. This is a kind of permanent sovereign wealth fund, one established by referendum in 1976, into which the government invests part of the state's oil revenue each year. It was six years later that it was agreed that part of the returns from the fund should be used to pay a yearly dividend. Today the fund is worth around $51 billion. The size of the dividend fluctuates and has varied between a high of $3269 (in 2008) to a low of $878 in 2012. The scheme – which has been described as 'an important and innovative example of community-owned wealth' that is converted into 'democratically distributed income'- is known as 'the third rail of Alaska politics` and is highly popular. There is evidence that it has helped keep a lid on the level of poverty and contributed to Alaska being one of the most equal of all 50 US states. [52]

A citizen's income scheme

The concept of a more ambitious citizen's income scheme (CIS) has a long pedigree. It has been promoted over time by thinkers as diverse as Tom Paine, Bertrand Russell and Milton Friedman. Such a scheme has, unusually, enjoyed support from both left and right, though for very different reasons, the former seeing it as a means to equal citizenship, and the latter – among them Friedman - as a way of minimising other state activity.

A CIS scheme would pay a tax-free guaranteed and unconditional basic weekly income to every individual as of right, administered in a similar way to child benefit. Such a scheme would involve a profound revolution in the way we organise the social security system and would deliver a range of advantages. It would constitute a significant extension of the universal model of welfare, creating a safety net from which no-one would be excluded, thus relieving the problems of low take-up, the poverty trap and stigma associated with the growth of means-testing. It would provide basic security, give people more time and more bargaining power in the labour market and establish a sense of economic and civic citizenship. It would encourage people to start businesses, while allowing much greater freedom of choice over work and wider child-care and community responsibilities. Under such a scheme, additional earned income would not be reduced by the withdrawal of a range of means-tested benefits. Means-testing, with the possible exception of covering housing costs, would become much more marginal, as originally intended by Beveridge.

It would be cheap to administer and automate. Trials in parts of the United States and in other countries have shown that such systems help relieve problems associated with means-testing, from incentives to take-up, while allowing greater freedom of choice over work/life issues, while the forthcoming flat-rate pension scheme has some similarities. [53]

Many practical issues remain with both the idea of a social wealth fund funded by capital dilution and a citizen's dividend or income scheme. What dilution or rate of levy on shareholders should be set? What impact would it have on pension and insurance funds? What limit, if any, should be imposed on the size of the fund? How should the fund be managed? How large a dividend or weekly income could it fund? Would it need to be topped up from other sources, such as the proceeds from some capital taxes, sales of public assets or a Tobin-style global financial transaction tax?

Could such a fund with its growing stake in corporate ownership be used for the extension of workforce democracy by giving fund members a say in individual company decisions, by for example, promoting debate on issues from employee rights to appropriate levels of executive compensation? Of course, although there would be a potential extension of democracy, many social groups would be left out – the unemployed, the unwaged, students, pensioners and those working in co-operatives and social enterprises, a recognised weakness of the Swedish scheme.

A key question is how much revenue could be raised by share issues or a levy? The total value of the shares held in the UK's top 100 companies amounts to £1.87 trillion pounds (as at mid-January 2015). The value for all companies is higher at £2.26 trillion. A 0.5 per cent and one percent annual levy just on the share ownership held in the top 100 companies would thus raise some £9 billion and £18 billion annually.

Equally, there are many remaining issues with a social dividend and especially with a CIS. Could a CIS scheme be phased in over time, starting with an annual dividend or low weekly payment? As the fund would take some years to establish, how long a transition period would be needed? How would the transition process be managed to avoid the administrative problems of such a major change, such as those encountered through the Universal Credit? How much would such a scheme cost, and what offsetting savings would accrue? As such a scheme would be designed to replace a range of current benefits, is it possible to ensure that such a scheme could be introduced without unacceptable losses on households in receipt of such benefits? How many means tested benefits, such as housing benefit, would need to be retained?

The big issue with a generous CIS is that the gross cost would be high – between 10 and 13 per cent of GDP, roughly equivalent to the total social security budget - as it involves a payment going to every citizen. The higher the payment, the higher the cost. But there would be substantial offsetting savings, as the payments could replace a range of existing means-tested and contributory benefits (as well as existing personal tax allowances) and there would be large savings in administration compared with the existing system.

One simulation of such a scheme by Malcolm Torry of the Citizen's Income Trust set the payments at £142.70 to individuals over 65, £71 to those over 25 and £56.25 to all other individuals and would abolish all means-tested benefits other than housing and council tax benefit, as well as the state pension, child benefit, incapacity benefit and contributory unemployment benefit. This scheme still had a funding gap of some £20 billion, but, because of the potential generosity of the existing system, left around a third of households, many on the lowest incomes, worse off. A feasible scheme would require finding a solution to this problem. [54]

Whether such a scheme is practical politics depends on the details. Both elements – the levy-based fund and the dividend/CIS - would challenge traditional approaches to economic and social policy and would generate considerable controversy. Even if the levy were bitterly opposed by the business lobby and other groups, the evidence from Alaska suggests that the public are more likely to support a social wealth fund if they are direct beneficiaries Despite some support from the SDP in the 1980s, no political party has recently debated, let alone accepted the idea of a social wealth fund.

The only political party to back the idea of a CIS is the Green Party which at the beginning of 2015 was advocating a scheme with a weekly payment of £72 a week. [55] Some sense of the potential controversy surrounding such an idea came during the general election campaign. Because of the potential 'loser' problem, the Green's proposal became the subject of scrutiny and controversy, forcing the Party to drop the idea from its manifesto, while remaining committed to the idea as a long-term aspiration.

Despite the undoubted practical issues with both schemes, the ideas underpinning them have been creeping back, if slowly, onto the political agenda. The Scottish government has talked of the idea of creating a Sovereign Wealth Fund for Scotland based on oil and gas revenues. [56] A group of Labour MPs has suggested using the Crown estate to set up a UK social wealth fund. [57] Some Liberal Democrats have called for a universal basic income to become party policy. [58] Recently, a related scheme – for the income from the public ownership of capital to be used to pay for an equally divided social dividend - has been proposed by the economist, Giacomo Corneo, based at the Free University of Berlin. Under Corneo's scheme, a public capital fund – with the state buying equities - would be financed by issuing government bonds. For most countries, the cost of the purchases would be less than the rate of return on the equities. Cornea estimates that it would take 15 years for the fund to be free of debt at which point it would constitute a collectively-owned fund. [59]

There is a strong case for the implementation of some kind of social wealth fund which would pay a citizen's dividend and operate alongside other funds such as a Public Investment and Social Housing Fund. While such a twin-based scheme would be hotly debated, it would help to redress the excessive concentration of wealth and dilute the over dominance of capital in the economy.

A citizen's dividend (or income scheme, if a solution could be found to the 'loser` problem) would also have another crucial economic advantage. One of the significant negative effects of the imbalance between wages and profits has been the long term erosion of economic demand. This was a significant contributing factor to the 2008 crisis and the slowness of the recovery and is now raising the risk of future instability. By helping to correct for this imbalance, a regular citizen's payment financed, in effect, by lowering the return to capital, would help overcome this demand deficiency.

Inequality is now at the centre of the global political debate with more and more world leaders declaring war on the growing income and wealth gap. Similar ideas have been discussed and promoted over many years across many countries. The principal of taxing capital to pay to finance redistributive policies is long established. A fund-financed CIS would help address, directly, the growing crisis of work insecurity and low wages and the mounting problems with a heavily means-tested and unpopular social security system. Indeed, because of this, the idea of such a scheme has been gaining wider support in recent times. The interest reflects decades of social and economic upheaval, from the rise of the precariat, an emerging class who are unlikely to ever find secure employment, to the decline of civic rights resulting from, among other things, state-imposed restrictions on social security entitlements. The emergence of Britain as one of the world's leading low-paid developed economies means that increasingly, work does not pay enough, even with benefit top-ups, to be able to afford a basic contemporary living standard. [60]

While the main experiment in an accumulating community-based social fund – the Swedish wage-earner fund – was brief, its closure came at a time when the post-war era of social democracy was already being challenged and the right had started to seize the political initiative with its successful call for handing more power to markets and allowing business a bigger share of the cake.

Yet the experiment in market fundamentalism is now increasingly discredited. It has failed to deliver on its promises of faster growth and higher productivity, while enriching small corporate and financial elite and creating the conditions for greater instability. One of the effects of the pro-market experiment has been a sense of fatalism and inertia, that little can be done that strays too far outside the orthodox centre ground or what Tariq Ali has called 'the extreme centre`. [61] Yet, with the crumbling of the intellectual case for market dominance, it is unlikely that the present economic model, with its bias to ever-rising inequality and upward personal enrichment, will prove politically or economically sustainable. By tackling the excessive dominance of private capital, the creation of social wealth funds would tackle directly one of the root causes of inequality, while playing an important part in the development of a more progressive model of political economy.

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