Citizens' wealth fund to tackle inequality

By Stewart Lansley
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Recently, Liberal-Democrat leader Vince Cable joined the long list of politicians who have warned of the dangers of excessive inequality. But strong as the speech was on the problem, it was much weaker on solutions.

If we are serious about creating a less unequal society, we need a much more focussed strategy on wealth. The national wealth pool in the UK (personal and public)—some £14 trillion—is close to seven times the annual output of the economy, a ratio that has risen sharply in recent decades.

Wealth—and how it's distributed—matters. High levels of personal wealth can boost wellbeing while publicly owned wealth provides the state with a stream of income and helps to offset national liabilities. Yet, the UK's growing wealth mountain is not being harnessed for the public good. Younger generations have less wealth at each point in life than earlier generations; the state has sold off most of its family silver while private wealth holdings, often unearned, are lowly taxed and their use weakly regulated.

Wealth is heavily concentrated

The 20th century trend to greater wealth equality is now in reverse. Wealth is much more unequally distributed than incomes. Capital ownership is even more concentrated—so much for a share owning democracy.

Because of such concentration, the considerable returns from wealth (in dividends, rent and interest) accrue disproportionally to the already rich. The more wealth booms at the top, the more it undermines the life chances of those left out of the party. Moreover, because of rolling privatisation, wealth is increasingly privately owned. Today, the public holds only a little over a tenth of total wealth, well down on the post-war decades.

Tackling these issues requires some big policy shifts. First, the level of taxation on wealth needs to rise. Wealth is hugely undertaxed compared with income: the combined revenue from existing capital taxes accounts for less than one per cent of total economic output. To spread capital ownership, we need to expand the role of alternative business models—from partnerships to co-operatives—which distribute economic gains more equally.

Citizens' wealth funds—a fundamental force for convergence

The most innovative approach would be the creation of citizens' wealth funds, collectively owned funds, established by the state but independently managed and used for the wider benefit of society. They would ensure that all citizens would own part of the economy, thus raising their stake in economic success: at least part of the gains from economic activity would be shared, including across generations.

In contrast to Thomas Piketty's "fundamental force for divergence" (the term he uses for the built-in inequality escalator that defines today's economic model) citizens' wealth funds offer a new *counter force for convergence*. Operating like a giant community owned unit trust, they offer a new tool for social democracy: an alternative to the statism of old-style nationalisation and to privatisation and uncontrolled markets.

There is nothing utopian about this idea. Longstanding and successful examples include the giant oil-financed Norwegian sovereign wealth fund, which today hit a record $1 trillion, and Alaska's oil-based "Permanent Fund" which has paid a pioneering and highly popular annual citizens' dividend since 1982. In 2006, Australia established a Futures Fund financed in part by the sale of a telecoms giant, to help pay the pensions of public sector employees and finance disability care costs and medical research. Singapore's Temasek—founded in 1974 as a holding company of public enterprises—has delivered significant returns to support the public finances.

The way forward for the UK

There are several tested blueprints for the 2017 Conservative manifesto promise to create "Future Britain Funds." A British Fund could be financed from the revenue from natural resource exploitation; from occasional one-off taxes (paid in shares) on windfall profits; from corporate fines; from new direct charges on financial transactions—such as merger and acquisition activity—and from pension funds.

Another possibility would be to link such funds to higher wealth taxation. Paying revenue from revised capital taxation directly into funds which have a high degree of public support might make reform of wealth taxation more politically palatable.

One of the most pro-equality approaches would be to establish a fund through the dilution of existing capital ownership, through a new additional, modest annual levy on share ownership. This would gradually socialise part of the privately owned stock of capital to be used for explicit public benefit. By taking established stakes in companies, such a fund could help align the interests of society and business. A variation on this model was applied in Sweden in the 1980s.

Citizens' wealth funds are fundamentally long term. Once established, the returns could be used to boost spending on infrastructure, regeneration and key social spending. A portion of the returns could eventually finance an annual citizens' dividend, as in Alaska. The overseas evidence is that such funds can gain public buy-in and re-assert the importance of social wealth. If funded by consolidating existing commercial public assets, as in Singapore, they 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.

Over time, such funds would provide society with a new instrument for managing the power of wealth, would rebalance the ratio of public to private capital, and would reduce the concentration of wealth. By turning anti-inequality rhetoric into a strategy for change, they should be central to any plan to modernise Britain's inequality-driving and growth sapping economic model.

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