DEMOCRATIC
OWNERSHIP
FUNDS.
Creating Shared Wealth and Power

Peter Gowan and Mathew Lawrence
Recent decades have seen a rapid and little discussed transformation in corporate ownership structure, with vital consequences for company behaviour and inequality. The percentage of UK listed shares owned by UK individuals has fallen to 12.3%, with ownership concentrated among the wealthiest. UK pension institutions own just 3% of total equity. By contrast, over half is now owned by overseas investors. Though many of us are indirect shareholders through savings, distant financial institutions monopolize control rights, often exercising them directly against the interests of ordinary savers and workers. In the US, ownership is less internationalized, but inequality in shareholding is also extreme—94% of business equity is owned by the top 10%, and a startling 63% is owned by just the top 1%.²

In the UK, real term median wages have still not recovered to their pre-financial crisis peak, productivity has only risen by 2% since 2007³ and business investment remains stagnant.⁴ In the US, real average wages have the same purchasing power as they did 40 years ago. As workers’ pay has stagnated in both the US and the UK, dividends to wealthy external shareholders have soared to record levels.⁵ Ownership shapes the distribution of control and income within a company—and therefore the society-wide concentration of ownership among a wealthy few has resulted in a concentration of wealth and power.

A combination of concentrated wealth, the primacy of shareholder interest in shaping company behaviour, and the institutional weakness of labour has helped turn many companies into engines of wealth extraction for external owners, institutional investors, and senior management, often at the expense of the workers and communities who generate value. Any attempt to transform our economy will therefore require reshaping company ownership so that it is democratic, inclusive, and purposeful by design.

That is why the growing interest in “ownership funds”⁶ on both sides of the Atlantic is an exciting development, part of a wider debate on how to transform our unequal and dysfunctional economies. In the UK, the Labour Party adopted a policy of ‘inclusive ownership funds’ at its autumn conference; and presidential candidate Sen. Bernie Sanders recently announced that he would require large companies to issue shares into

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worker-controlled funds, a similar concept. This briefing note has been prepared by the Democracy Collaborative and Common Wealth to introduce readers to the various (and often complementary) models for creating ownership funds at different scales and with different characteristics. We will publish our own independent contribution to the debate—with both UK and US papers, the latter with researchers from The Roosevelt Institute—later this summer.

What are the common characteristics of democratic ownership fund proposals?

Democratic ownership funds are proposals to democratize corporate ownership and governance by reshaping company ownership, rewiring income and control rights within the firm in the process. They do this by requiring large companies to gradually dilute existing shareholders through issuing new shares (or share-equivalent property rights) and turning them over, free of charge, to a fund which uses them on behalf of its owners, who would have a democratic say in how shares are voted, the distribution of any profits the fund receives through its ownership stake, and the general governance of the fund. Existing private shareholders would not have any shares taken away, but the value of their holding would be diluted, albeit at a slower rate than the average growth of share prices so a diversified investor will still continue to make substantial sums of money. They can additionally be capitalized by other sources including through bond issuance, land and capital taxes, resource rents, and restitution payments (as with Native American wealth funds).

Ownership funds broaden democratic power in the economy, in addition to sharing profits. The collective owners must therefore be capable of exercising democratic control over their assets in a clear and meaningful fashion. The ownership fund should be collectively held, its trustees chosen in a democratic way, and it should vote in company decision-making as democratically mandated. Equity held by the fund would thus be controlled on a day-to-day basis by accountable representatives, not the distant and often extractive financial institutions who currently intermediate company ownership.
What are some of the different models?

Firm-level ‘inclusive ownership funds’

One of the most widely discussed democratic ownership fund models involves each firm being required to issue a small percentage of its equity each year into an asset-locked trust managed by elected worker representatives. The workers would receive a share of dividends and voting power equal to their ownership stake. Growing over time, the funds would transfer a growing share of income and control rights away from external shareholders and toward the workforce as a collective, helping democratize wealth and decision-making within the company.

The asset lock would minimize individual risk, incentivize long-termism, and prevent the fund selling its shares for cash, growing collective wealth over the long-term. This would ensure funds are not burdened with an obligation to consider the size of individual cashouts related to share prices in their decision-making. Funds would ideally be established within corporate groups, defined by an economic test which prevents companies hiring workers through a subsidiary while paying dividends out of a parent company with few workers. The definition of workers to be covered should be expansive, to disincentivize further fissuring of the workplace.

THOUGH OWNERSHIP FUNDS OPERATING AT DIFFERENT SCALES HAVE DIFFERING IMPLICATIONS IN TERMS OF THE DISTRIBUTION OF CONTROL AND INCOME RIGHTS, THE PROPOSALS USUALLY SHARE BROAD GOALS TO:

1. Challenge inequalities in both resources and decision-making power by broadening ownership and ensuring everyone shares in the wealth we create in common;

2. Build more inclusive, democratic and productive companies by ensuring everyone has a stake, a say, and a new channel for collective voice;

3. Steward companies towards sustained success through creating ownership partners that are committed to long-term success of their company—and who are capable of prioritising other measurements of success—such as reduced working time—over maximising profits; and

4. Deepen and extend democratic control over the economy, in place of the monopolisation of company decision-making by private power.
The core benefit of the “share levy” is that it would not reduce firms’ working capital and thus would be minimally disruptive to their operations, while still transferring a considerable and growing amount of wealth out of the hands of wealthy private shareholders and often extractive financial intermediaries and into the control of workers. Generally, the firms which would have to pay this share levy are limited by one or more size-based thresholds—requiring companies to have a minimum workforce, minimum turnover, or minimum asset sheet total, or some combination thereof.

This policy, a version of which the Labour Party currently advocates in the United Kingdom under the name inclusive ownership funds (a term originating in Lawrence, Pendleton and Mahmoud, 2018; see also Gowan 2019 and Palladino 2019), has also been discussed as a potential method of encouraging broad-based worker ownership by Sen. Bernie Sanders. It has shown substantial support in polling on both sides of the Atlantic, and if implemented could make around half of the private sector workforce into worker-owners, offering the chance to rewire ownership in society and dramatically expand the size of the democratic economy.

Society-wide wealth funds

At a national level, a social wealth fund owned directly by residents of a country as a whole can ensure everyone has a stake in the economy. By owning a diverse range of assets on behalf of all, social wealth funds transform private, corporate wealth into public

**DEMOCRATIZING OWNERSHIP HAS SUBSTANTIAL MAJORITY SUPPORT:**

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<tr>
<th></th>
<th>Strongly support</th>
<th>Somewhat support</th>
<th>Neutral</th>
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<th>Strongly oppose</th>
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<td>1. Labour have proposed making companies with over 250 employees put 10% of their shares into a workers fund, which would pay dividends out to the company’s employees. Do you think this is a good or bad idea?</td>
<td>54%</td>
<td>17%</td>
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<td>9%</td>
<td>6%</td>
<td>2%</td>
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Would you support or oppose a policy requiring companies with over 250 employees to put 2 percent of their shares into a workers fund each year, up to a maximum of 50 percent, which would pay dividends out to the company’s employees? (US respondents, Democracy Collaborative/YouGov March 2019)
wealth. This would provide a countervailing force against inequality, acting as public-ly-controlled investment vehicles to fund key public good and offering a channel for the public to exercise indirect control over corporate economic decision making.

The fund could be capitalized by a variety of methods, including endowment through an initial bond issuance, taxation, or through asset transference into the fund. A number of proposals have also suggested using the share-levy model to ensure a social wealth fund takes an ownership share in all major firms in a country.

Income from the fund could be used to pay a “universal basic dividend” as an income supplement, though this would require the fund to scale significantly over time to be meaningful, a one-off grant targeted at specific demographics, for example when people turn 21, or could fund other measures to increase democratic ownership in the economy and reduce poverty and inequality.

The mandate of the fund should be decided democratically but the fund should operate independently of government, albeit designed in a way so that it does not replicate the behaviours of private fund managers. It would be important to clearly design methods for democratic and multi-stakeholder governance of a fund that would play such a key role in the governance of a national economy; in order to avoid the possibility of top-down management removed from meaningful democratic debate and control by workers, consumers, and other societal stakeholders.

Community and sector ownership funds

Wealth funds owned and controlled by people in a place or community are also possible. Native governments such as the Cherokee and city governments such as Hamburg have created their own wealth funds; urban land trusts could help address the housing crisis; and “reparative wealth funds” could be a technically viable mechanism that could provide ongoing financial assistance to the descendants of slaves or other historical atrocities. Share-levy funds organized along the lines of economic sectors have also previously been proposed by Meidner and others.
Balancing different aims and goals

Benefits and trade-offs will occur depending on the policy design and the scale at which ownership funds operate. For instance, a society-level fund which pays everyone one equal share of the nation’s distributed capital income would attain a perfectly egalitarian distribution of capital income, while ownership by firm-level funds could only reduce capital income inequalities (not eliminate them entirely). Firm-level funds that share profits can unlock benefits in terms of mass support for—and incentives to participate in—democratic governance within companies on a granular scale, while society-level fund managers are likely to be limited in their capacity and desire to oversee corporate governance at the firm level in such a detailed way.

We therefore support the creation of both firm-level inclusive ownership funds and a society-wide social wealth fund, in order to secure their complementary benefits. Distributional equity in capital income from inclusive ownership funds should be pursued in one of two ways—either directly, by capping or taxing large IOF dividends and placing the amount taxed or above that cap into a society-wide fund, or indirectly, by taxing all dividend income (IOF or otherwise) as ordinary personal income and taxing it at steeply progressive rates, so that wealthy people pay a very high proportion of their dividends in taxes. A combination of firm and social wealth fund would radically reshape flows of income and stocks of wealth in the economy.

Building the democratic economy

In the face of multiple, intersecting social, economic, and environmental crises, tinkering isn’t enough. We need a deep institutional turn in how we organize our economy to transform the distribution of wealth, power and control in society.15 Ownership funds—on firm, community, sectoral, and national scales—should be a core component of that agenda to build the democratic economy.

We are excited to hear questions and comments from all interested parties as we continue our research. Peter Gowan is based in Washington D.C. and can be contacted at: pgowan@democracycollaborative.org. Mathew Lawrence is based in London and can be contacted at: mathew@common-wealth.co.uk.
Endnotes


6 A set of ideas which has also been described as “collective capital formation” or “funds socialism” by other writers.


