IPPR Commission on Economic Justice

Capital Gains

Broadening company ownership in the UK economy

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60-second summary

This report sets out three different ways in which ownership can be spread more widely: the establishment of a national Citizens' Wealth Fund, giving the public a share of corporate and other assets; the expansion of employee ownership trusts, which give employees majority ownership of companies; and the growth of co-operative and mutual firms. It recommends a series of reforms to achieve these goals.

EXECUTIVE SUMMARY

The structure of capital ownership powerfully shapes how economic rewards and power are distributed in society. Ownership of capital grants rights both to income and to control over how businesses are run.

Over the last 40 years the share of national income going to the owners of capital in the form of profits has risen, while the share going to labour, in wages and salaries, has declined. Current economic and technological trends, including automation and rising land values, are likely to exacerbate this. If capital were widely owned, the growing share of national income going to capital would not matter for inequality and living standards, since the benefits would be broadly distributed. In fact, the ownership of capital is highly unequal. The wealthiest 10 per cent of households own 45 per cent of the nation's wealth, while the least wealthy half of all households own just 9 per cent. Financial wealth is particularly unequally held: the wealthiest 10 per cent own almost 70 per cent of the UK's financial wealth. As a result, the rising share of national income going to capital has become a major driver of inequality.

One crucial method to reverse the rise in inequality and ensure the benefits of growing national wealth are widely shared is to broaden the ownership of capital, particularly that of businesses. A core objective of public policy needs to be to ensure that a significantly larger proportion of the population have a share of capital, both as useable wealth and for its income returns. A secondary objective should be to spread economic power and control in the economy, expanding the decision rights of both employees and the public in the management of companies.

This paper sets out three mechanisms to broaden the ownership of companies and spread economic rewards and power more widely. (We do not consider in this report the very specific sectoral questions arising from proposals to bring back into public ownership firms in fields such as railways, water and energy.)

The unequal ownership of capital in the economy is a powerful driver of inequality. With the share of national income going to capital having increased in recent decades, and likely to rise further, new models of company ownership are needed to reduce inequality and ensure the benefits of growing national wealth are widely shared.

The aim of ownership reform should be two-fold: to give more people a share of capital, both as useable wealth and for its income returns; and to spread economic power and control in the economy, by expanding the decision rights of employees and the public in the management of companies.

1. **The establishment of a Citizens' Wealth Fund.** Like other sovereign wealth funds around the world, this would own shares in companies, land and other assets on behalf of the public as a whole. It would thereby manage existing public assets and transform a part of national private and corporate wealth into shared public wealth. The Fund could be capitalised by a combination of capital receipts from the sale of public assets, revenues from a 'scrip tax' on corporate stocks, and the hypothecation of wealth taxes. The Fund's investment mandate would be set by Parliament but it would be managed by an independent board on behalf of the public. The Fund would act to spread wealth by paying out a universal citizen's dividend to all or particular groups of the population, and by investing in the provision of universal basic services.
2. **The expansion of employee ownership trusts.** Employee ownership trusts (EOTs) are a form of business model in which a majority of a company's ownership is vested in its workforce. Such trusts enable a considerable share of the returns to capital (company profits) to be distributed to labour, and for workers to exercise a much more significant role in the governance of the firm. The growth of EOTs can be incentivised by a number of reforms, including stronger tax incentives for the transfer of business ownership and for external investment and measures to build individual capital stakes for employees. At the same time reform of pension auto-enrolment to increase minimum pension contributions would allow employers to credit company shares to their employees' pension accounts. This would boost pension savings rates, allow companies to use the working capital, and help transform the level of employee ownership in the UK. Doubling the current rate growth of EOTs could see over 21,000 companies majority owned by their employees by 2030, with almost 3 million employee owners.
3. **The expansion of co-operative and mutuals.** There are currently around 7,000 firms owned by their workers or consumers, with around 223,000 employees and a combined turnover of £35.7 billion. Co-operatives and mutuals have democratic ownership and governance. The number of such firms would be significantly increased if the financial, legal and infrastructure barriers currently facing them were overcome. Drawing on experience in other European countries with larger co-operative sectors, reforms should include establishing a Co-operative Capital Development Fund, financed by a levy on the profits of co-operative firms; a specialist Co-operative and Mutual Development Bank to finance co-operative enterprises; and the introduction of the same capital gains and inheritance tax incentives for companies at the point of sale to co-operatives as recommended for sales to employee ownership trusts.

This report sets out three different ways in which ownership can be spread more widely: the establishment of a national Citizens' Wealth Fund, giving the public a share of corporate and other assets; the expansion of employee ownership trusts, which give employees majority ownership of companies; and the growth of co-operative and mutual firms. It recommends a series of reforms to achieve these goals.

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