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Citizen Capitalism: How a Universal Fund Can Provide Influence and Income to All (2019)

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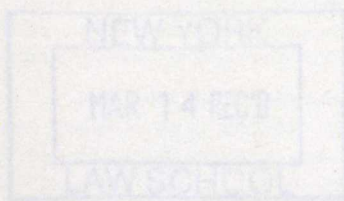
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Citizen Capitalism

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Introduction

What If?

CHANGE BEGINS WITH IMAGINING something better. In this book, we offer a proposal for reengineering the relationship between citizens and corporations in a manner that would address a wide range of social problems, including but not limited to rising inequality; racial tensions; increasing poverty, unemployment, and income insecurity; low levels of innovation and investment; corporate mistreatment of customers, employees, and communities; climate change and environmental destruction; and dysfunctions in the political system.

In the process of helping address a striking number of economic, social, and environmental threats, our plan would promote civic engagement, reduce popular discontent, and help heal our politically divided society.

Our strategy requires no new government funding, demands no new taxes, and does not force anyone to do anything that they object to.

In these pages we describe a pragmatic plan for building a better society and a brighter future for all, through a strategy that benefits almost everyone and harms no one. Our approach is based on this insight: governments are not the only powerful institutions that can solve our collective social and economic problems. Another type of force can be brought to bear. This other force rivals nation-states in its weight, influence,

and reach. It is more responsive, more agile, and more efficient than any government could hope to be. It controls enormous resources that can be quickly put to work solving our most critical and intractable problems, including poverty, disease, and climate change. This great force is our business corporations.

Business corporations today control tens of trillions of dollars in assets, generate tens of trillions of dollars of goods and services, and affect hundreds of millions of customers, employees, and shareholders. They touch every area of our lives. They benefit all of us enormously by providing not only innovative products and services but also employment opportunities, investment returns, and tax revenues. They provide critical benefits to us and to future generations by developing the kinds of new technologies that are essential to sustained economic growth:¹ railroads and manufacturing plants in the 1800s; cars, electricity, and computers in the 1900s; self-driving cars and space vehicles today. Yet corporations can also inflict great harms: environmental damage, consumer frauds, employee deaths and injuries, political corruption.

Most of us recognize that corporations have an enormous impact on our society but think of them as beyond our influence. We tend to view corporations as an irresistible force that helps or harms, but remains outside average citizens' control. Supreme Court justice Louis Brandeis once famously described the corporation as a "Frankenstein's monster."² As experts in corporate governance, we know this does not have to be true. It is possible to tame corporations so they better serve humanity. In fact, engaging the power of business corporations may be essential to solving our most pressing economic and social problems.

Indeed, not engaging the power of corporations is a lost opportunity. In 2013, for example, Royal Dutch Shell cut back on its already-small investment in biofuel research on the grounds

the technology could not be commercially viable until 2020 or later.³ As we write, 2018 has already arrived. Take a moment to imagine where we might be today if three decades ago, when one of the world's largest fossil fuel companies became aware of the risks of climate change, the industry had chosen to focus its efforts on addressing the problem. If companies like Exxon, BP, Shell, and Chevron had put their billions of dollars of profits into investigating and developing cleaner energy alternatives, we might already have, or be on the cusp of having abundant and affordable clean energy.

Our plan provides a new way of addressing the fatal flaws in today's corporate governance system that keep corporations from reaching their full potential to serve humanity. And it would do this in a fashion that ameliorates aspects of social equality.

A Dividing Nation

By any number of measures, the gap between the most and the least well-off Americans is alarmingly large, and growing. The top 1 percent of wealth holders now control nearly 40 percent of the nation's wealth.⁴ The income reaped by top earners is growing while the wages of the middle class stagnate.⁵ Socioeconomic mobility is declining; between 1981 and 2008, the probability of an American moving significantly higher or lower in the earnings distribution during their working career declined significantly.⁶ We are even seeing growing differences in life expectancy. A study in the *Journal of the American Medical Association* found that from 2001 to 2014, the life expectancy of those in the top 5 percent of pretax income rose by nearly three years, while the life expectancy of those in the bottom 5 percent increased less than three months. The life expectancy of the richest 1 percent of American men is now fifteen years more than

that of the poorest 1 percent (ten years more for the top 1 percent of women).⁷

There is no sign the trend will stop. To the contrary, thought leaders on both the Right and Left are concerned that the rich are becoming richer in part because they can use their wealth to buy political influence that allows them to acquire even more wealth. Hedge fund managers lobby politicians for loopholes in the tax code;⁸ giant corporations squash competitors while regulators stand by. Wealth and income inequality feeds on itself, widening the gap between citizens.

Our plan would fight this trend by reducing inequality in at least two ways. First, it will generate greater equality in influence over corporations. Second, it will supplement income. Every citizen would benefit more from the corporate sector, and the corporate sector would benefit from the engagement of all citizens.

The same is true for many other critical challenges society faces, including infrastructure decay, poverty, chronic and acute disease, and the problem of caring for an aging population. Too many corporations neglect such issues to focus instead on the short-term goal of raising share price—no matter the cost to employees, consumers, taxpayers, or even the integrity of our political system.

The Solution: Citizen Capitalism

We have written this book to offer a realistic way to help our corporations do better at helping all, and to potentially heal the growing divisions in our society. We do not propose a radical restructuring of society or offer some vision of a future utopia. Rather, we offer a plan that is relatively simple and can be easily implemented in the near future. Our strategy relies on the power of private ordering—the voluntary actions of private individuals coming together of their own free will to solve collective

problems. Our plan's effects may be modest at first, but they are structured to grow over time. Its basic elements are few and straightforward.

1. We envision the private creation of a Universal Fund (Fund) that would be somewhat similar to a typical mutual fund. Each US citizen age eighteen years or older would be eligible to receive a share in the Universal Fund (citizen-share) and so become a citizen-shareholder.
2. The Universal Fund would assemble a portfolio of stocks in different corporations. These would be acquired primarily from donations from corporations and individuals, especially the ultrawealthy.
3. On a regular basis, the Universal Fund would pass on the income received from the stocks in its portfolio (primarily dividends and cash from share repurchases) directly to its citizen-shareholders in equal proportion.
4. Citizen-shareholders would not be allowed to buy, sell, or bequeath their citizen-shares. They would hold their citizen-shares for life, and after death their interest in their citizen-shares would revert to the Fund. Thus, as donations continue to be made, the Fund will continue to grow.
5. Just as citizen-shareholders cannot trade their shares, the Universal Fund cannot trade the stocks in its portfolio but must hold them indefinitely. This means neither the Fund nor its citizen-shareholders have an interest in manipulating short-term share prices.
6. The Universal Fund would give its citizen-shareholders a political right to vote the shares of each company's

stock held in its portfolio. To make voting convenient and informed, the Universal Fund would allow citizen-shareholders the opportunity to use Fund-approved “proxy advisor services” that would be paid for by the Fund.

While most people have probably never heard of proxy advisory firms, they play an important role in corporate elections today. For a fee, proxy advisors issue voting guidance to institutional shareholders on how to vote the stocks in their portfolio and will even do the job of actually casting the votes.

The remaining chapters of this book explain the features of Citizen Capitalism in greater detail. They also explore the wide range of potential social and economic benefits it offers and address possible questions and challenges. First, though, we would like to highlight two key reasons why Citizen Capitalism is quite different from most other reform proposals that have been offered on both the Right and the Left—and, we believe, why it is far more likely to enjoy broad support, to be implemented, and to actually work. The first reason is that Citizen Capitalism harnesses the vast and relatively untapped power of the corporate sector to address public problems. The second is that it does this without any new taxes or government funding.

Harnessing Corporate Power to Solve Social and Economic Problems

Many people believe that corporations have one and only one purpose: to make their shareholders (maybe even just a subset of shareholders) as wealthy as possible. As we explain in later chapters, this is both an erroneous and impoverished view of what corporations can and should do.⁹ It's perfectly possible to harness the power of the *\$40 trillion* (that's trillion, with a T) in assets that business corporations control today and use that

power not only to reap sustainable profits but to solve society's biggest problems.¹⁰

Citizen Capitalism can liberate corporations from the tyranny of "shareholder value" and free them to better serve our diverse, long-term human interests. The key to understanding how this dream can become a reality lies in understanding the current patterns in how shares of business corporations are owned, traded, and voted. First, both stock ownership and the economic benefits it confers are concentrated in the hands of older, whiter, and wealthier Americans. This is cause enough for concern in an era of rising economic inequality and insecurity. But shareholder power over our largest corporations—power over the economic heart of our nation and over our collective future—has been concentrated even further and now rests in the hands of a narrow group of special interests that often does not have much stake in the fates of the companies whose shares they control, but does have great ability to use that power to enrich themselves. It is these narrow interests that relentlessly pressure corporations to "maximize shareholder value"—an abstract goal that almost always translates into the mindless, short-term pursuit of a higher stock price. The outcome has been a system that enriches a very few while often harming average shareholders and especially average citizens.

Most Americans, whether they own stocks or not, care about more than just a company's current stock price. They also care about customer service, about employment security, about preserving a strong middle class, about enjoying a secure retirement, about the integrity of our political system, about the quality of their environment, about the health of their planet, and about our children and grandchildren. Yet even though more than half of American households still invest in the stock market either directly or through pension and mutual funds, their voices—and

the voices of those who do not own shares—are rarely heard in the boardroom. Citizen Capitalism can change this by creating and empowering a new class of long-term, diverse shareholders who can change the direction of Corporate America, making corporations more citizens' servants—and less citizens' masters.

Private Ordering, Not Government or Market Forces

A second important and novel element of our plan is that, as mentioned, it relies entirely on the voluntary actions of private individuals coming together of their own free will. Academics call this “private ordering,” and it has been used throughout history to create a wide range of powerful institutions and organizations. Private ordering differs from a simple market-based exchange. It is a specific type of voluntary association that typically involves the development of rules and norms by private entities without necessarily requiring state involvement. Private ordering has been used throughout history, from the Middle Ages to our current digital age, to create powerful institutions and organizations that serve collective interests. Organizations as diverse as Princeton University, the New York Stock Exchange, and the Red Cross are all models of private ordering.

Citizen Capitalism avoids the trap of trying to address society's current challenges exclusively through either government or free markets. Through a new privately ordered organization—the Universal Fund—we can channel the tremendous power of our corporate sector and use its immense resources more wisely. And we can do this without either waiting for government funding or allowing ourselves to be held hostage to uncontrolled market forces. We need not choose between laissez-faire and central planning. Citizen Capitalism offers an entirely different alternative path toward a better future—a path that bridges the tired

and divisive debate between those labeled “liberal” and “conservative.” Through a strategy that benefits everyone and coerces no one, it promises to bring us closer together and to heal our divided nation.

An Outline of This Book

Chapters 1 and 2 sketch the state of the corporate sector today. We show how the current corporate governance system concentrates control over society’s corporate sector in the hands of a small, nonrepresentative group of interests, many of whom don’t even own the shares whose votes they control, and most of whom drive companies to focus on short-term increases in share price or accounting profits without regard to resulting harms to employees, customers, the environment, or other shareholders.

Chapter 3 outlines the framework for the Universal Fund. It also explains why the Fund, and the proxy advisors we envision, would do a much better job of authentically serving the interests of citizen-shareholders than the mutual funds or proxy services we see today.

Chapter 4 explores why we believe a Universal Fund built on private ordering is a feasible venture—the private money is there, as is a robust philanthropic culture.

Chapter 5 discusses how Citizen Capitalism can increase broader participation in corporate governance. By creating a powerful new class of long-term, diverse citizen-shareholders, and by giving them an informed collective voice, Citizen Capitalism can make corporations more sensitive to the interests of average citizens—and by doing so, perhaps make many politicians more sensitive to those interests as well. A somewhat unique benefit of our plan is that it promotes equality in influence among Americans, especially influence over corporations. By bringing more real democracy to our corporate sector,

Citizen Capitalism can shift the direction of the corporate sector in a number of desirable ways. Unlike the interest groups that control so many corporations today, the Universal Fund provides a vehicle for citizen-shareholders to focus on long-term results and support the type of corporate research and investment that ultimately produces important innovations, bigger profits, investment returns, and greater economic growth. Citizen-shareholders might also have more reason to care about the impacts corporations have on the environment, our political system, and on employees, customers, and taxpayers—that is, on citizen-shareholders themselves. By making their voices heard in the boardroom, and by challenging the flawed and erroneous mantra of “shareholder value,” Citizen Capitalism could channel the tremendous power and resources of the corporate sector to build a better and more prosperous future for everyone.

Chapters 6, 7, and 8 discuss some of the benefits of Citizen Capitalism outside of the corporate governance sphere and in relation to broader societal problems. Chapter 6 shows how Citizen Capitalism simultaneously harnesses the power of capitalism while inculcating other values such as openness and transparency; hope for and investment in the future; and responsibility, including responsibility to the generations that will follow us. Chapter 7 begins by discussing how Citizen Capitalism is not only consistent with but actively reinforces widely embraced values historically associated with American culture and the “American Dream.” These values include equal opportunity, personal liberty, and civic engagement. In today’s insecure, divided, and even angry society, many of these values seem at risk. Citizen Capitalism can help restore them to their rightful place. Chapter 8 discusses how Citizen Capitalism could help promote economic equality and equal opportunity. A Universal Fund would allow all US citizens—including young people and

less wealthy people—to reap a share of the financial benefits generated by the corporations that are the engines of the economy.

Chapter 9 examines how the Universal Fund and the broader Citizen Capitalism project compare to Universal Basic Income (UBI) proposals, citizens' dividend proposals, and redistribution proposals in general. We show how the Universal Fund achieves many of the same goals as UBI proposals, but with two distinct advantages—first, our plan does not rely on government funding, and second, our plan does not rely on government-directed redistributions of wealth.

Chapter 10 addresses the critical question: Why not Citizen Capitalism? We argue that the primary obstacles to creating a Universal Fund are, in fact, purely psychological—in particular, the beliefs that people are always narrowly selfish, that only government or free markets can solve problems, and that anything that hasn't been done in the past cannot be done in the future. If we can overcome these erroneous habits of thought, Citizen Capitalism offers a pragmatic path toward making the world a better place and the United States a stronger nation.

We conclude with the question “What Next?” because Citizen Capitalism *can* happen; it is not a matter of “if,” it is a matter of “how.”

Most of us understand the importance of democratic processes in ensuring that governments serve their citizens. We can reap similar benefits by promoting more real democracy in corporations. By making the corporate sector more democratic, Citizen Capitalism makes it better: more fair, more productive, more representative of citizens' authentic interests, and more resilient, sustainable, and profitable. We need more than a democratic political system. If we want to have a fair and open society and to solve a number of” collective problems, we need Citizen Capitalism.

This book shows how to build it. It should interest anyone who studies or thinks about how to create a sustainable future, as well as those interested in economic and social policy. And it should offer hope to anyone who cares about the economy, the political system, or our descendants. For those interested, in the conclusion we offer suggestions for how we each can make Citizen Capitalism a reality.¹¹