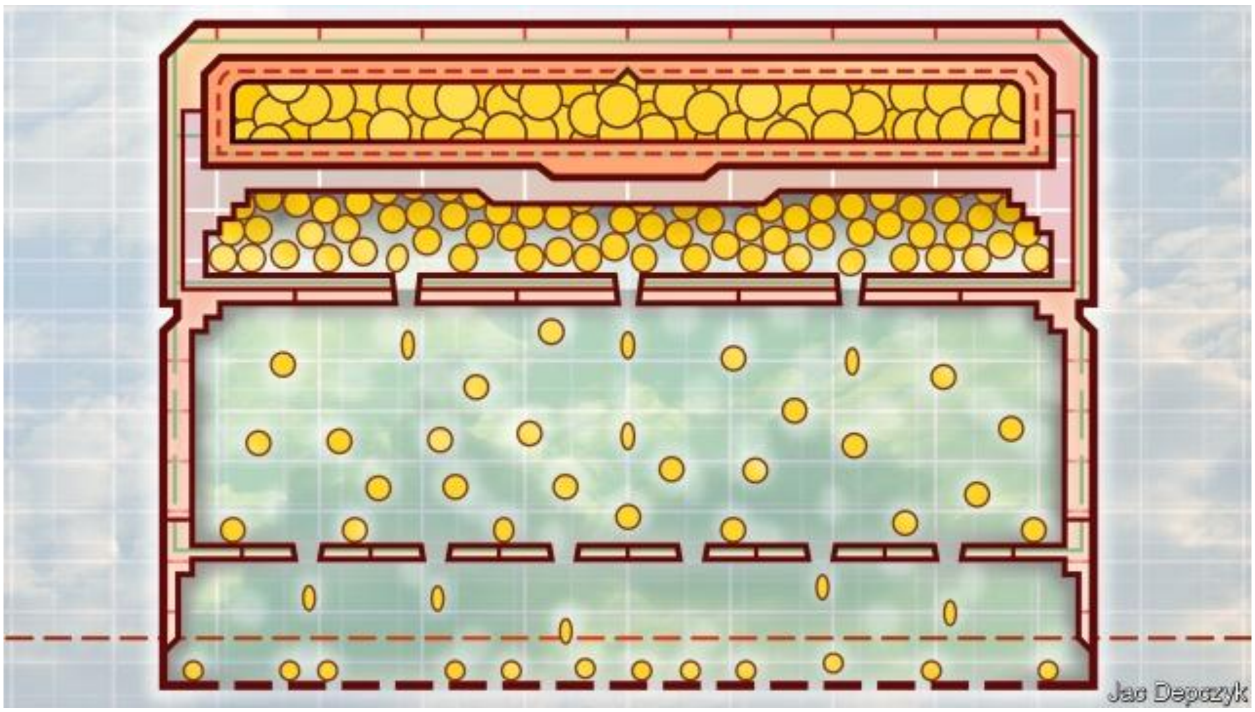
The Economist

A RadicalI Idea for Reducing Inequality Deserves More Attention

A social wealth fund could narrow the gap between the rich and the poor



RECENT decades have not been particularly good ones for those who toil on, rather than own, the means of production. Labour markets have made a slow and incomplete recovery from the trauma of the Great Recession. The crisis only briefly dislodged corporate profits as a share of GDP from historically high levels. Across much of the world, the share of national income flowing to labour has fallen over the past 40 years.

Taxing the rich in order to fund spending on the poor is a straightforward solution to inequality. But the well-heeled are adept at squeezing through tax loopholes, and at marshalling the political clout needed to chip away at high tax rates. Those frustrated by enduring levels of inequality are contemplating ever bolder ways to redress the lopsided balance between owners and workers.

In an ideal world, untrammelled markets would ensure that every firm and every worker earned precisely what they deserved. But as economists since Adam Smith have recognised, markets are inevitably distorted by the unequal distribution of power. As Smith wrote: “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public.”

The socialists of the 19th century reckoned that the best way to check the power of capital was collective ownership. Experiments with state management of the economy in the 20th century made the shortcomings of such systems horribly clear. In practice they tend to be violently coercive, and their inability to take advantage of the distributed knowledge of markets often produces a grinding stagnation. (China may have so far avoided this outcome, but it has also signally failed to produce an equitable distribution of wealth.)

The market for ideas is, however, stocked with gentler, more practical leftism. Perhaps, for instance, the state could own a share of the economy’s assets on behalf of the population. In a recent paper Matt Bruenig, a left-leaning writer, argues for the creation of an American “social wealth fund”. The fund, he says, should accumulate stakes in equity, bond and property markets, and then disburse a share of its investment income each year as a “universal basic dividend”. Even in the most egalitarian decades of the past century, the richest 10% of the population owned the majority of the wealth. Money passes down the generations through gifts and bequests, but also through the extra educational and entrepreneurial opportunities it affords. A social dividend would counteract this entrenchment of advantage.

The proposal has a certain appeal. If funded through taxes on existing wealth—like property and bequests—such an entity could be a simple way to reduce the unfair opportunities afforded to the rich at birth. And there are workable examples already in operation. Alaska’s fund, financed with royalties from its oil industry, is worth 113% of its GDP. It is invested in a diversified portfolio that has yielded annual returns of nearly 10% over its lifetime. The fund’s dividend payments appear to reduce wealth inequality and poverty, without discouraging recipients from finding work. Norway’s government, through oil-funded sovereign wealth funds created to protect its generous social safety-net against future declines in oil revenues, controls nearly 60% of the country’s wealth. Yet the country has not turned into a grey socialist dystopia.

Complications could arise if such a fund operated at a scale proportionate to America's economy and capital markets, however. The disciplining effect of the market might well be muted if the state accumulated stakes in most firms. Recent work by Martin Schmalz and others suggests that large-scale stock ownership by passive asset managers (like BlackRock and Vanguard), who often control sizeable stakes in many firms within an industry, is associated with less competitive behaviour by firm managers. Active ownership by the state might address that problem. But it could introduce others, such as greater scope for corruption.

More significantly, a social wealth fund raises difficult questions about the structure of the economy. It would create a conflict between workers' interests as wage earners and their interests as recipients of dividends: more revenue flowing towards pay-cheques would mean less for profits. Left-leaning critics worry that a social wealth fund might undermine efforts to strengthen labour unions. A fund might, ironically, soften public attitudes towards capitalism's more ruthless aspects. Working people could feel differently about lay-offs, offshoring and automation if their dividends stood to swell as a result. More worryingly, the public could become more accommodating of corporate behaviour designed to increase market power. Abuses by monopolistic tech firms might prove harder to rein in when they contribute to soaring profits—and to dividends for all.

Own goals

Other ideas for empowering workers attract similar criticisms. Stronger unions would have every incentive to bargain down capital's share of companies' profits, but very little incentive to support competition-boosting reforms that might undermine the stability of those profits. Offering labour representatives seats on company boards, a policy supported by Elizabeth Warren, a senator from Massachusetts, seems likely to improve workers' fortunes. But it might also make them complicit in preserving revenues at all costs, the better to plump up worker wages.

None of the more radical proposals to tackle inequality are riskless, in other words. But a social wealth fund that turns workers into owners of, rather than antagonists to, capital might appeal to workers without alienating powerful business interests. And if such a fund were to cultivate a sense of economic solidarity, it might well encourage other steps towards a more equitable society. Don't dismiss the idea.

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