Introduction

Inequality of income, wealth, and opportunity is one of the most critical problems facing the United States today. According to the U.S. Census Bureau, approximately 38.1 million Americans lived below the poverty line in 2018. Studies show that the annual income of top earners continues to grow while the wages of the working class remain flat. The top one percent now take in nearly 24% of all income, compared to 20% in 2013 (and nearly twice as high as in the 1990s).

Wealth inequality is more extreme. The top 1 percent owns 37% of total household wealth and the top .01 percent holds 22%, a figure that has more than tripled from 7% in the late 1970s. Socioeconomic mobility is also declining, while the difference in life expectancy based on one’s level of income and wealth is growing.

Meanwhile, modern political discourse about the best way forward often falls along partisan lines. The left generally wants government to step in, regulate business and redistribute wealth to create a more just society, while the right generally favors minimal government involvement and allocation of resources through market exchange.

Proposed solutions run the gamut from lowering taxes on businesses in the hope that this will stimulate growth, reduce unemployment and soften the wealth gap, to providing a guaranteed universal basic income funded by new taxes or a trade-off with existing government benefits. On one hand, favorable tax breaks to businesses and those at the top of the income/wealth ladder provide an indirect means of addressing inequality. On the other hand, solutions such as universal basic income or universal health care, while more direct, are nevertheless unpalatable as they rely on new government taxes or government-initiated redistributions.

Relatedly, rising inequality correlates to diminished support for capitalism. To this point, a 2018 Gallup poll found that only 45% of Americans aged eighteen to twenty-nine viewed capitalism favorably. Taken as a whole, a majority of Americans (56%) continue to have a favorable view of capitalism, but this 56% positive rating is the lowest recorded since 2010.

Citizen Capitalism unites these two concerns of rising inequality and declining support for capitalism and offers a new way forward for organizing the economy. It offers a nonpartisan approach that relies on voluntary action rather than central planning and it is designed to alleviate inequality and expand access, opportunity, and civic engagement in capitalism.
Capitalism calls for establishing a national fund that would be similar to a mega mutual fund (the “Universal Fund”) and which would be open to all Americans ages eighteen and older, free of cost. The Universal Fund would be funded by donations from corporations and wealthy individuals. Every participating citizen would receive a single share, supplemental income from returns generated by the fund, and shareholder voting rights.

Unlike other proposals aimed at addressing inequality, Citizen Capitalism does not involve some form of taxation such as a wealth tax, progressive income tax, imposition of a value-added tax, and/or reengineering or sacrificing existing government benefits. Citizen Capitalism is a plan designed around free enterprise, it requires no government funding, it involves no forced redistribution of wealth, and it is voluntary for both funders and participants. Importantly, it is a plan that offers a unifying, transracial, collective framework, which honors America’s liberal traditions and capitalism.

The advantages of Citizen Capitalism are as follows: It democratizes share ownership, it gives all Americans eighteen or older a right to receive a stream of income, it provides a vehicle for civic engagement in corporate governance, and it reengages with the power of enterprise to create a shared vision of the future. It also avoids the trap of trying to address inequality exclusively through either government or free markets.

While the Universal Fund does not look to the government for funding, government action could help to incentivize funding on the part of private individuals and corporations, thus making the creation of the fund more likely. In this vein, the most direct policy proposal would be to create tax incentives to encourage donations to the fund.

**How Does the Universal Fund Work?**

The Universal Fund is a close analog to a mutual fund or a sovereign wealth fund. Like a mutual fund it is designed to be a “pooled investment vehicle” that would bring together cash and other valuable assets from many investors who collectively invest, and like a standard mutual fund, the Universal Fund would hold an investment portfolio. The assets in its portfolio would consist mostly of stocks of public and private companies, but the Universal Fund could also hold small amounts of bonds, cash, or other assets. Returns from the Fund may be modest at first, but it is designed to grow over time into perpetuity and shareholder dividends would grow as the fund grows.

Unlike a mutual fund, however, participation in the Universal Fund would be available to Citizen-Shareholders at no cost. Similarly, like a sovereign wealth fund that invests on behalf of citizens, the Universal Fund would manage its investment portfolio on behalf of Citizen-Shareholders. However, unlike sovereign wealth funds that rely on government action to bring them into being and that are typically funded by proceeds generated from public resources, the Universal Fund relies on voluntary actions of corporations and private individuals coming together of their own free will.
The Universal Fund has six basic elements:

1. **Open to All**

   As in the case of a typical mutual fund, the Universal Fund would have shareholders. However, unlike a mutual fund where investors pay to purchase shares, the right to participate in the Universal Fund would be a privilege available to every US citizen eighteen or older who registers to become a Citizen-Shareholder. Just as the right to vote should be a privilege available to any citizen who complies with the voter registration process. It would, however, be possible to apply other criteria for becoming a Citizen-Shareholder such as making Citizen-Shares available to US citizens at any age, rather than 18; or expanding eligibility to include US legal residents; or making eligibility subject to “means testing” where only those who fall below a certain wealth or income threshold would be eligible to become Citizen-Shareholders. The ultimate choice of eligibility criteria would rest with the Fund’s creator(s). However, given that a central tenet of Citizen Capitalism is the belief in equal opportunity, a means test would cut against the goal of equal participation in the Fund by all citizens.

   The choice to become a Citizen-Shareholder would be voluntary. Only those who choose to complete the required application process would be eligible to receive Citizen-Shareholder status. As such, in creating the Fund, care would have to be taken to ensure that the application process is relatively straightforward, efficient, and does not present undue barriers to entry. Similar to other systems, like credit card applications or opening a broker account, safeguards would have to be built in to minimize the risk of fraud, data breaches, and other malfeasance.

2. **Funded by Donations**

   Just as becoming a Citizen-Shareholder would be a voluntary endeavor so too would be the case in funding. The Universal Fund would acquire stock, cash, and other assets from donations by companies and individuals. Several factors signal that it would be possible to raise enough assets through private donations to create a Universal Fund with significant impact. In terms of donations from corporations, direct corporate philanthropy, employee matching gifts, and donations of repurchased stock, are all potential funding streams for the Universal Fund.

   On average, corporate philanthropic dollars hover around $20 billion a year, share repurchases reached the $1 trillion mark in 2018, and employee-matching gifts are estimated to be $2-3 billion annually, although $4-7 billion remain unclaimed. Additionally, corporations may have good reasons to be interested in donating to the Universal Fund. These include attracting talent, employee engagement, securing customer loyalty, and enhancing their brand. Similarly, with increased public awareness and questioning of the practice of share buybacks, donations of some portion of repurchased shares to the Universal Fund could help to soften the perception that corporations who engage in share buybacks are simply enriching their executives and shareholders at the expense of other constituents. For corporations who value the presence of long-term shareholders, donations of repurchased
shares to the Universal Fund could prove attractive in securing a patient, long-term shareholder. As discussed below, policies that further incentivize corporate donations to the Fund would help to spur its creation.

In terms of individual donations, the Center on Wealth and Philanthropy at Boston College predicts that by 2061, more than $58 trillion will be transferred from American estates, with nearly half of that amount ($27 trillion) going to charity.\textsuperscript{vi} In 2016, Americans donated nearly $400 billion to charity with ninety percent of “high net-worth” households giving to charity.\textsuperscript{vii} Similarly, The Giving Pledge, which describes itself as “a commitment by the world’s wealthiest individuals and families to dedicate the majority of their wealth to giving back,” now has 204 signatories, many of whom are Americans and beneficiaries of capitalism.\textsuperscript{viii} Donations to the Universal Fund could prove particularly attractive to funders who are concerned about social and economic inequality, those who are concerned about providing for future generations and “paying it forward”, and those who are concerned with preserving a free market economy as the primary means of distribution. As in the case of potential corporate donations and as discussed below, policy initiatives that provide incentives for individual donations to the Fund could play a crucial role in jumpstarting its creation.

3. Pass-Through of Portfolio Income to Citizen-Shareholders

Like the investment portfolio of a typical mutual fund or sovereign wealth fund, the Universal Fund portfolio would generate income. This income would come mostly from the dividends declared by the companies whose shares are held by the Universal Fund, along with cash from corporate share repurchases, and interest payments from any bonds or other debt instruments. The Universal Fund would “pass through” any amount earned, net of fees and expenses, on a proportionate basis to its Citizen-Shareholders. How much each Citizen-Shareholder would earn will depend primarily on how many people opt to become Citizen-Shareholders, the size of the Fund, and the returns generated by investments over a given period. The US Census Bureau estimates that there are about 227 million US citizens age eighteen or older.\textsuperscript{ix} Relatedly, as a historical matter the dividend yield on stocks has typically fallen between two and five percent. If we assumed, that 225 million of all eligible citizens eighteen or older become Citizen-Shareholders, and we assumed an average dividend yield of 2.25%, then a $1 trillion Fund would generate $100 annually for every Citizen-Shareholder, a $10 trillion Fund would generate $1,000, a $30 trillion Fund would generate $3,000, and so forth. However, it is unlikely that the Fund would initially attract close to a 99% participation (225/227 million eligible citizens). If we instead assumed 100 million people initially signed up, holding everything else constant, a $1 trillion Fund would generate approximately $225 annually for every Citizen-Shareholder, a $10 trillion Fund would generate $2,250 annually, and a $30 trillion Fund would generate $6,750 for each Citizen-Shareholder.

The Fund could start with a conservative target (both in terms of minimum funding and in terms of number of participants). By way of comparison, after starting small, the Alaska Permanent Fund now pays dividends of roughly $1000-$2000 annually to each of its
residents. The Fund is designed to grow over time into perpetuity. The absolute maximum the Fund could reach is boundless, particularly, if as conceptualized, the Fund was structured to allow donations of not only cash and stock, but also bonds and other assets. Current US Market capitalization stands at approximately $30 trillion, the US fixed income market is valued at more than $40 trillion, the real estate investment trust market hit the $1 trillion mark in 2016, and sales in the US art market totaled approximately $22 billion in 2017. Each of these segments of capital represents a potential stream of funding to the Fund. For participating Citizen-Shareholders, an extra $100, $225, $1,000, $2,250 could be put towards general savings, a college fund, medical bills, credit card debt payments, rent, back to school supplies, etc. Like the potential size of the Fund, the potential use of returns by participating Citizen-Shareholders is boundless.

4. **Fund Designed to Grow into Perpetuity**

Citizen-Share ownership would be a privilege of US citizens that cannot be bought or sold. It would be an inalienable right. Each citizen who elected to become a Citizen-Shareholder would be allowed to hold one and only one Citizen-Share. Citizen-Shares would be held for life and could not be sold, bequeathed, gifted, or traded away. Citizen-Shareholders could not, for example, use their Citizen-Shares as collateral to borrow money or enter derivative contracts that require them to make payments based on future streams of income received from the Fund. Similarly, gifts or inheritances of Citizen-Shares would not be allowed. However, Citizen-Shareholders could use returns received from the Fund in whatever way they choose fit – to pay off debt or they could give their earned dividends away to family or friends. It is their choice and prerogative.

Upon the death of a Citizen-Shareholder, the Citizen-Share would revert to the Fund. The effect of this would be to marginally increase the value of all other Citizen-Shareholders’ interests in the Fund portfolio, just as the issue of new Citizen-Shares to new Citizen-Shareholders would marginally dilute all other Citizen-Shareholders’ interests. At the same time, corporations and individuals would continue to make donations over time. The net effect would be that although the Fund may initially be relatively small, it is structured to grow over time. My co-author, Lynn Stout, described the Fund portfolio as a “lobster trap” – once assets go in, they are captured and do not come out. This design feature helps the Fund preserve its assets while issuing Citizen-Shares to new Citizen-Shareholders. The Fund is designed to grow in size until it ultimately provides each Citizen-Shareholder with a meaningful return, and consequently a significant personal investment in the Fund, which in turn translates into a personal investment in the corporate sector and our capitalist economy.
5. Fund Administrators Have Limited Discretion

The Universal Fund would be run by professionals who would be tasked with executing only limited, predetermined functions, which would mirror and support the overarching goals of the Fund to provide a steady stream of returns to Citizen-Shareholders and to promote greater democracy in the corporate sector. The Fund would be deliberately structured to minimize the risk of Fund administrators using the Fund to pursue personal agendas or agendas antithetical to the principles of the Fund. This starts with the selection and retaining criteria for Fund administrators, which should be formulated to keep them independent, ethical and dedicated to representing the collective interests of Citizen-Shareholders. There are various ways in which this could be designed. For example, administrators could be periodically elected by Citizen-Shareholders and/or selected to represent certain demographics. They might also be subject to meeting minimal qualifications, term limits or age requirements. These need not be conventional age requirements. There might be advantages, for example, in requiring a certain percentage of administrators to be between the ages of eighteen and thirty, and another percentage over sixty. Administrators could also be removed for unethical or inappropriate behavior.

Similarly, care would need to be taken in designing their compensation structure. Fund administrators would receive a fixed fee for performing limited, predetermined tasks. Their compensation would be unrelated to either the assets in, or the income generated by the Fund portfolio. Fund administrators would not have any financial incentive to try to inflate either the portfolio’s size or its returns.

Fund administrators would not be given discretion to buy and sell assets in the Fund portfolio in an effort to reap trading profits by “beating the market”. As previously described, assets would enter the portfolio only through donations and exit only through transactions controlled by third parties (example, a share repurchase). Predetermined thresholds could be set that trigger a conversion according to a predetermined formula, so that if the Fund were holding cash or non-stock assets that exceeded the predetermined threshold, Fund administrators would be directed to convert these assets to stock according to the prescribed formula. This could be a neutral trading rule like “purchase a proportionate amount of all the stocks in the S&P 500”.

Finally, the Fund should be structured to be as transparent as possible. Fund financial statements; administrators’ identity, background, experience, and potential conflicts of interest; and Fund principles and decision-making processes should all be disclosed and available to the public.

6. Right to Vote

Most individuals understand the power of exercising their right to vote in political elections. When it comes to voting in corporate elections, however, the picture is less clear. While approximately 56% of the U.S. voting age population casted a ballot in the 2016 presidential election, it is estimated that only approximately 27% of individual Americans who own shares directly actually voted in corporate elections in 2017. Yet share voting is
important as it carries the power to elect directors and in some cases influence corporate decision-making on a range of issues like executive compensation, environmental pollution, diversity, and political spending, to name a few. Thus, while the Universal Fund would not sell or trade any shares of stock held in the fund portfolio, the Fund should be designed to allow Citizen-Shareholders to influence how shares held in the Fund portfolio are voted.

This could be achieved in at least one of two ways. First, a process could be designed, that would allow Citizen-Shareholders to weigh in on the Fund’s voting guidelines similar to a “notice and comment” period employed by administrative agencies. The Fund would then apply these voting guidelines to determine how to vote shares held in its portfolio. The use of voting guidelines and recommendations is a model employed today by proxy advisory firms and the users of their service. A similar model could be employed by the Universal Fund, but with some key distinctions that would be required to mirror the mission of the Fund as a transparent, nonpartisan, conflict-free vehicle for collective, broad-based, long term investments that provides a path for more democratic participation in corporate earnings and elections.

A second, albeit more complex approach would be to design a process that allowed Citizen-Shareholders to decide how they wished to cast their proportional vote on each share held in the fund portfolio. Such fractional votes could then be tabulated and aggregated so that only votes that equal whole shares would be counted. While the second approach is more complex, it has the advantage of providing direct voice to each individual Citizen-Shareholder. As envisioned, concerns that Citizen-Shareholders may be overwhelmed by, or simply disinterested in spending the time and effort required to make an informed voting decision, could potentially be addressed by making proxy advisory services available to Citizen-Shareholders at no cost to them. Instead, such proxy services would be paid for by the Fund.

These six elements provide a template for the creation of the Universal Fund. These six elements ensure that the Fund functions as an open, voluntary, transparent enterprise, which grows over time, and which expands access and opportunity for a broader swath of Americans to engage in corporate governance, and directly share in the returns from capital.

Citizen Capitalism and Inequality

The Universal Fund is designed to address inequality by making corporate governance more democratic in terms of who gets to become a shareholder; who has a voice in corporate elections and in turn what values get expressed at the corporate ballot box; and who is able to directly share in corporate returns. The Universal Fund offers a tangible path towards equality in several ways, five of which are summarized below:

i. Income inequality - the Fund provides all US citizens eighteen or older with an opportunity to earn a proportional share of income. For the ultra-wealthy Citizen-Shareholder, a $1000 return might be meaningless, but for many Americans it could
significantly help with everyday expenses, such as prescription drug coverage, student loan payments, rent, groceries, and perhaps a family vacation.

ii. *Wealth inequality* - for those Citizen-Shareholders who opt not to use their Fund returns for immediate consumption, earnings from the fund could be put towards wealth creating activities, such as reinvesting in another investment vehicle, saving towards a deposit on a house, or for starting a business.

iii. *Racial and socio-economic differences in stock ownership* - Citizen Capitalism and the Universal Fund directly promote equal opportunity in capital market participation, helping to counter socio-economic and racial gaps in stock ownership.

iv. *Automation and Returns on Capital* - A fourth and related point is that the Universal Fund provides a path for more citizens to share in returns from productive capital, which could prove particularly significant with the rise of automation and the loss of traditional jobs. One would expect that increasingly productive capital will include robots, algorithms, computers, and other valuable machines that produce the goods and services once produced by people. Because wealth is highly concentrated, the ownership of productive capital is highly concentrated and as a result, the income from productive capital is also concentrated as well. This points to a future where wealth becomes even more concentrated, while those who sell and rely solely on their labor to make a living become poorer.

v. *Community of Equals* - the Universal Fund offers an interesting social experiment in how to construct a community of equal voice and shared values. All eligible citizens can participate. No distinction is made in terms of income, wealth, gender, geographic location, or any other characteristics. Funded by corporate and individual donations, it has the potential to bridge class divisions, as well as reinforce a sense of community, common interest, and civic engagement.

Addressing inequality requires structural interventions and thoughtful policies. Typically, proposed interventions take the form of a wealth tax, government-imposed redistributions, or universal basic income programs that sacrifice other programs or rely on new taxes for their funding. The Universal Fund avoids these traps. It relies on voluntary funding and participation, requires no new taxes or forced redistribution, is designed to avoid sacrificing one program in favor of another, and importantly, it does so while embracing capitalism and deeply engrained American liberal values.

**How Citizen Capitalism Supports Capitalism and American Liberal Tradition**

Citizen Capitalism is rooted in a capitalist ethos, but it is designed to counter many of the problems associated with capitalism, such as short-termism in financial markets and a profit-at-all-cost ethos.

Capitalism is sometimes associated with greed, rapaciousness, extractive behavior, and the exploitation of the many by a few. This has become increasingly so in the aftermath of the 2008 financial crisis. Movements like Occupy Wall Street and the support for political candidates who
do not hesitate to label themselves “socialist” are indicia that a growing number of Americans feel that capitalism has not delivered on its promise.

Yet, the ideal of capitalism rests on a community-oriented foundation, where private property is the primary means of production and resources are distributed primarily through marketplace exchanges. The Universal Fund is designed with this in mind and with the belief that by creating the right incentives and motives, capitalism can indeed serve the public interest.

Moreover, the open and voluntary nature of the Fund (both for potential funders and Citizen-Shareholders), as well as its emphasis on civic engagement, are in keeping with deeply embedded American ideals such as egalitarianism; individual liberty; the value of healthy democratic participation; openness and transparency; hope for and investment in the future; and civic engagement.

**Policy Recommendation**

While the Universal Fund does not look to the government for funding, government action could help to *incentivize* funding on the part of private individuals and corporations.

The most direct way would be through legislation that made donations to the Fund tax deductible for individuals and corporations.

If, for example, legislation were passed to make donations to the Fund tax-deductible, an individual donating stock that is worth far more than was paid for it, could now get money in the form of tax savings, in return for a donation of stock that would trigger a capital gains tax bill, if the donor were to sell it instead. Such legislation could be drafted to mirror existing charitable giving tax laws. Similarly, all donations to the Fund whether in the form of cash, stock, other assets, or in kind should also be eligible for special tax benefits.

Creation of tax incentives for donating to the Universal Fund is similar in spirit to the special tax treatment currently available for investments/donations to other vehicles, such as donor advised funds or Opportunity Funds. Similar to opportunity zones that provide tax incentives for investors to re-invest unrealized capital gains into “dedicated” Opportunity Funds, which in turn invest in established Opportunity Zones, a framework that provides special tax incentives for donations of unrealized capital gains to the Universal Fund would help to spur creation of the Fund. However, unlike the Opportunity Zones initiative where investments are limited by geography, all investments in the Universal Fund would automatically be eligible for special tax treatment.xii

**Other Considerations**

Specific design questions and details of the Universal Fund remain to be determined. These include, questions related to the criteria for selecting Fund administrators, or the minimal amount needed to start, or the application process for becoming a Citizen-Shareholder. Such
determinations would all require further analysis by the Fund creator(s), however, none should present an insurmountable barrier to making the Universal Fund a reality.

Relatedly, because the Universal Fund is designed around voluntary participation on the part of both funders and Citizen-Shareholders, it presents a more palatable option for those concerned about forced distributions of wealth through new taxes or otherwise.

Similarly, the Fund is designed to avoid sacrificing one goal in service of another. Thus, creation of the Fund does not rely on foregoing existing public benefit.

New ideas such as the Universal Fund should expect to be met with resistance. Not necessarily because of some fundamental flaw, but because the idea has not been seen at work before and thus presents elements of uncertainty. The six-point framework outlined above is designed to eliminate much of this uncertainty. It is intentionally designed to anticipate and avoid capture or perversion of the Fund’s intended goals, as well as to ensure the Fund’s continued sustainability and future existence. This framework alone, however, will not be enough.

What is needed is the collective will to create change. Through sound policies that incentivize donation to the Fund, government could serve as a catalyst for change.

**Conclusion**

Without some structural intervention, inequality is only likely to widen. The Universal Fund offers a private structural intervention without the need for government funding. The Universal Fund is undisputedly a big idea, but it is also eminently practical. It deploys the existing tools of capitalism to level the playing field and give all citizens a voice in corporate governance. Returns from the Fund would help address wealth and income inequality, and the Fund would provide a vehicle to aggregate the collective voice of a broader swath of America, which in turn would hopefully make corporations more responsive to the concerns of everyday citizens.

Citizen Capitalism seeks to create a fairer distribution of resources. It does this by leveraging key tenets of the American liberal tradition, such as freedom, equal opportunity, and the power of enterprise. Citizen Capitalism embraces the idea of a coalition of business, individuals, and government in partnership for the common good. Through the Universal Fund it provides a path forward for building a more inclusive and democratic capitalism.

To reiterate, unlike other proposals that seek to address inequality, the Universal Fund does not rely on government funding, new taxes, or forced redistribution. Participation in the Fund is voluntary.

Sound supporting policies would help advance the creation of the Universal Fund. Government could serve as an accelerator, a catalyst, an endorser, a partner, without also being funder.

The successful creation of the Universal Fund here in the United States could provide a model to other democratic nation states.
Sources


