

Egalitarian Capitalism: A World of Individual opportunity

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There's no doubt that capitalism and the market economy are at the heart of wealth creation, fostering enterprise and creativity and encouraging the best from people: and yet the rich get richer, the poor poorer and the average age of wealth increases: until something snaps and very large numbers of people with no hope say: "up with this we will not put". Then the pendulum swings back to socialism once more.

Democratic capitalism which is not anchored by long-term measures to give genuine equality of opportunity, particularly for the young, is doomed to experience dramatic reverses and to impose a serious degree of unhappiness.

However, communism was designed for heavyweight intermediation in the first place, intended to be controlled by a 'benevolent' dictatorship which ensures that everyone is a vassal of the state, with little opportunity to be in control of their own destiny. But experience shows us that you cannot rely on 'benevolent dictators' – we have a real-life example of that in Moscow.

Excess intermediation, whether by the state or by financial institutions, has failed: the stark evidence of its failures stands out for all to see in the collapse of the Soviet Union, the 2008 financial crash and so many violent revolutions over hundreds of years. Societies swing between the two systems like a pendulum, reacting against the excesses which reflect the shortcomings of their controlling powers.

The human condition is not one which should be ruled by others: disintermediation should be one of the key yardsticks by which the effectiveness and fairness of economic systems are measured.

Disintermediation requires that the impact on the individual is taken into account, and the need for people to take individual responsibility and control recognised.

A truly effective sense of ownership is built over time, and is best accompanied by a combination of learning and earning - in the widest sense. It is the contrast between 'give a fish to feed for a week, or teach to fish to last for a lifetime'. Micro-finance has shown how effective this can be, not only for the individual but also for their local community.

Contrast this with an inheritance passed down to fortunate descendants who have played no part in its construction, or to the winner of a lottery prize who may be delighted by their good fortune but has no idea how to handle it. Effective inter-generational rebalancing relies on inter-weaving both finance and life skills.

So the key guiding principles for egalitarian capitalism are disintermediation, individual empowerment, responsibility which comes through a sense of ownership on the broadest possible - egalitarian - scale, and using the life cycle to provide inter-generational justice and re-balancing.

It is not about concentrating control into the hands of those who are politically or financially powerful, since these go directly against the principle of individual empowerment and therefore develop a subservient culture - if individuals choose to delegate decision-making to others, that of course should be up to them, but the power to delegate should not be taken away from them.

True respect for others will enable every individual to have a stake in the society in which they live, and it provides real opportunity for young people to achieve their potential. And respect for others is most effective when it is disintermediated.

This is not just a short-term endeavour: it calls for a permanent re-structuring which results in genuine ownership and responsibility. It's inter-generational, and it means tackling both wealth polarisation and the huge shortfall in financial awareness. It's about looking for a permanent structural change which will fire up each new generation with the resources and life skills needed to achieve their own potential.

Egalitarian capitalism should enable people from all walks of life to make the journey from working for money towards the point where money works for them, so that we no longer see capital and labour as protagonists across society; but where both are available to all.

There are two strands to this approach: the first, for our current adult generations, and the second, for the young and generations to come.

For adults, it means a programme of determined capital participation. Some may claim that the term 'egalitarian' does not correspond with the basic tenets of capitalism: but that only serves to explain the problem with the traditional view of it. Margaret Thatcher may have tried to label it as 'popular' in the 1980s, but unless all can share in wealth creation it will always be seen as elitist.

The ingredients for this capital participation for all certainly include:

- a new drive for personal share ownership, in order to re-connect people with business, a substantial increase in voting, and fiscal encouragement for investment clubs, recognising their ability to build confidence in risk assessment and knowledge of investment - this to include new issue participation and a close look at the operation of pre-emption rights; and
- re-balancing the scales between private equity and public markets, to include looking at the treatment of interest, stamp duty, the burden of regulation, and the bias towards business trade sales as opposed to retail flotations; and

– but these will only shift the dial slightly: it is the technological revolution which gives us a real opportunity to move swiftly into widespread capital participation, introducing a new programme so that data storage and harvesting by tech giants are recognised in share ownership for their customers.

The tech giants' concentration of wealth is staggering, and hardly a day passes without some report of the deployment of excessive wealth concentration in vanity projects such as space tourism.

To quote Yanis Varoufakis: 'Our creations - the machines installed in every factory, field, office and shop - have helped produce a great many products and have changed our lives utterly, but they have not eradicated poverty, hunger, inequality, chores or the anxiety about our future basic needs'.

There is also a fundamental economic instability in this process, because machines, unlike human labour, don't spend money. Rather, they Hoover up the money circulating in the economic system at large, and they deposit it at the disposal of their super-rich masters, instead of letting employees' weekly expenditure fuel the income for others throughout society.

Some economists have tried to address this by proposing a 'Universal Basic Income', but this is surely looking for the lowest common denominator, or 'levelling-down': a route by which the vast majority of humanity will be left on subsistence terms while Bezos, Musk, Zuckerberg and Cook fill their palaces with gold and the sky with rockets and satellites.

The answer lies in democratising the equity ownership of the tech giants - and, because their masters are unlikely to enable this voluntarily, Governments need to set the criteria by which this is to be achieved. For, if the majority of humanity - who almost all use the services of big tech - were to see their working wages gradually being replaced by regular dividends from that equity ownership, we will achieve a society in which all can benefit from the massive boost in experiential wealth which automation is bringing about.

So, we should use big tech's huge storage and harvesting of our personal data as the currency for distribution of their equity shares to their customers. We're all aware that the tech giants sit on an immense store of data about us; GDPR has done almost nothing to rein in their intrusion into our personal lives.

And this will achieve two great benefits: firstly, that there will be democratic control over the way they behave (including that check on anti-trust behaviour) and secondly, that the flow of dividends will replace the huge quantity of lost money that their automation is gradually sucking out of circulation.

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Of course, a permanent re-structuring to enable capital participation for all also means applying an inter-generational ratchet in order to ensure that each new generation is endowed with the opportunity to achieve their full potential. So, we'll turn to that next.

In a society where, as David Willetts has explained in his book 'the Pinch', the vertical link between generations is so strained, inter-generational rebalancing is particularly relevant. For example, there are proportionately far more young people born into disadvantaged black and minority ethnic families than into those of wealthy white people. If no ratchet is applied to capitalism, their only economic hope for the future is through state intervention.

The denial of hope and opportunity to young people is most acute for black and minority ethnic people. The root cause of racial injustice is economic inequality, and inter-generational rebalancing, provides the solution for resolving that inequality.

So, the way forward for inter-generational rebalancing is to combine starter capital accounts with incentivised learning: the latter, so that there is a strong sense of the young person having 'earned' the assets.

The vehicle for these starter capital accounts would be closely aligned with the Child Trust Fund. There are six million young people who have these individual accounts throughout the UK: in the context of egalitarian capitalism, they provide individual ownership for all.

A Government endowment today using the Junior ISA account, would only apply to those young people whose families and background leave them without hope of meaningful family inheritance. The 'catch up' for those under 18 who do not currently have a Child Trust Fund would entail a one-off commitment of about £5 billion: but, in the steady state, just a quarter of current inheritance levies targeted at empowering these young people would enable accounts to be established with an initial £1,000, with £1,000 more to follow at age 7.

An incentivised learning programme would be introduced alongside this starter capital account, to offer the opportunity for these young people to 'earn' a further £3,000 each and, in so doing, prepare themselves to be ready for a fulfilling and economically rewarding adult career. Operated at national level and offered to young people most in need, it would reward those who make the effort to progress through a structured programme of building their life skills with small but meaningful tranches of capital to provide a resource base for starting adult life.

Now you may ask, how might we finance this permanent ratchet designed to empower disadvantaged young people?

The answer is from the proceeds of Inheritance Tax.

Inheritance Tax is a levy on privately-owned capital which is placed into the Exchequer and then spent as current public expenditure. The process is therefore used to move private sector savings and investment - put aside for tomorrow - into the public sector running needs of the present. It currently amounts to £7bn pa.

HM Treasury's aversion to hypothecation is well known, and of course the proposed financing for inter-generational re-balancing could be drawn from the pool of current spending: but logic suggests that the proceeds of IHT levy, which is paid by less than 5% of estates (therefore by those in the wealthiest cohort) at rates set by the Government in power, should at least in some part be employed in financing inter-generational rebalancing.

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HM Treasury does have another challenge on its plate at the moment – and it only has a few days left to solve it. So here is another very different proposal for inter-generational rebalancing which would also solve the problem of the remaining £20 billion black hole.

Health spending is expected to account for £167.9 billion in 2022-23, or 41% of all central government departmental expenditure. In 2020 it was just over 7% of GDP, but it increased sharply in response to COVID-19 to over 10% of GDP in 2021.

There are approximately eight million people in the United Kingdom with active private health insurance policies, accounting for about 13% of the population; and about 53% of people say that they would like to invest in some form of health insurance scheme for their employees, or for themselves and their families. However private health insurance is primarily taken out as an employee benefit which falls away at retirement: precisely the stage when healthcare demands start to increase significantly.

Research published by Statista provides the age distribution of adults with private medical insurance throughout the United Kingdom in 2017. It shows how the percentage of cover drops from 25% in the 45-54 age group, to 16% for 55-64s, 11% for 65-74s, and then just 5% for those aged 75 and over. Precisely at the stage when the demands of healthcare costs are at their highest, the state is left carrying this burden.

Excluding the impact of birth, the average quantum of healthcare by annual cohort more than doubles from 140,000 'finished consultant episodes' for those aged up to 64 to 299,000 for those aged 65 and over; if that £168 billion cost is broken down on the same basis, the aggregate cost of looking after the 10 million people in these 30 years of old age is the same as looking after the 37 million aged up to 65.

Private medical insurance for those aged 70 or more isn't cheap: speaking from experience, for a relatively healthy couple it can be estimated at about £7,500 pa. But where retirement follows a successful working life in terms of both income and capital, there is a significant proportion of the population who could reasonably be asked to carry this burden: ONS figures show that median individual wealth rises from £138,000 across ages 16-64 to £305,000 for people aged 65 and over. It is certainly not beyond the wit of HM Treasury mandarins to work out how to determine those able to pay these premiums.

NHS frontline services would not be affected by these arrangements, because those paying premiums would still be able to call for healthcare 'free at the point of delivery'. But NHS accountants would be able to draw down payments from their private medical insurers to meet the costs of care for those for whom this cover was required. Greater use may well impact their premiums: so no doubt people would also be encouraged to stay fit and healthy in body and mind for as long as possible.

Because the impact of health care costs is so weighted in favour of the elderly, I would estimate that most of Jeremy Hunt's £20 billion shortfall should be recoverable by this mandatory private health insurance for wealthy people; but more to the point for those interested in inter-generational fairness, it will halt the injustice whereby young people are paying through their taxes for the health costs of those old folk who are well able to afford it.

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Firstly, politicians and international states people will require real academic rigour behind the proposals. That's why Cambridge University has just started a four-year research fellowship, the SHARE project, to build a convincing case.

From a commercial point of view, I've tried to move the dial in the UK over the past thirty years with The Share Centre. Our whole focus has been on building personal share ownership, improving shareowner engagement, and helping people take control of their own investments - pursuing disintermediation.

And, for inter-generational rebalancing, The Share Foundation is very active in empowering young people from disadvantaged backgrounds. We've pioneered incentivised learning and can show that it works, and we're now helping to make the Child Trust Fund a reality for those reaching 18, to prove how effective it is and to provide evidence for its re-introduction on a more progressive - and permanent - basis. If you'd like to help, please consider becoming a Child Trust Fund Ambassador.

But there is no 'manifesto'! Indeed, I would rather not style this initiative as Political with big 'P'.

It's also important that the thinking takes shape through discussion and academic research, although there are certainly individual initiatives which will emerge for potential action as we move forward: eg 'stock for data', inter-generational rebalancing & incentivised learning, - and not funding the healthcare of wealthy old people from taxation on the young!

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In summary -

People don't like the removal of their control over their own lives, whether as the result of the state or excess intermediation by financial institutions.

People don't like living in a society where the rich get richer and the poor, poorer.

These are the two basic reasons why egalitarian capitalism matters.

Margaret Thatcher may have pushed for these concepts in the 1980s, but institutional intermediation, privilege and wealth polarisation remain with us today.

It is now forty years since Sir Keith Joseph spoke of breaking the 'cycle of deprivation'.

And a few years before that Martin Luther King said 'The American dream reminds us that every person is heir to the legacy of worthiness'.

Yet little has happened.

Now is the time for change.

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