

# Asset Manager Capitalism: Where Next?



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# 1 Policy Summary

*The existing investment system fails on several key counts, contributing to wealth inequality while locking the vast majority out of a meaningful stake or say in how the economy is organised; favouring incumbent firms with greater access to and lower cost of capital; and enormously concentrating governance rights among a handful of vast asset management firms. The result is a corporate economy that much more closely resembles an oligarchy than a “shareholder democracy”, with demonstrably negative effects for climate justice, economic inequality, and democratic power. Overcoming this requires an immediate-term democratisation of corporate governance.*

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## 1.1 Democratising the status quo

Much of the power asset managers wield comes through their monopolisation of shareholder votes gained through their management of “other people’s money”. It is time to take back control. To ensure financial intermediaries follow instructions – and better act in the interest of the ultimate investor – the following steps should be taken:

1. Ensure asset managers and other financial intermediaries vote under instruction: asset managers should not vote unless under instruction, unless they are given express permission to do so by a body representing the ultimate investor; they should be instructed by member nominated pension trusts and other financial vehicles, which should be reformed so that at least 50 per cent of the trust are directly elected by the members.
2. Establish new fiduciary duties for pension trustees (alongside expanded interpretation of existing duties) to incorporate concerns for beneficiaries’ best interests with respect to climatic and ecological stability, financial stability, and fair corporate behaviour.

*While these proposals would represent an advance on the status quo, they are inherently incomplete as measures for building a democratic and sustainable economy. Reclaiming voting power from asset managers for the ultimate asset-owner without transforming ownership risks entrenching and legitimating a highly unequal structure of corporate governance, rather than driving a genuinely democratic economy. Namely, within these proposals, corporate voting and control rights remain based on share ownership, not participation within the activity of the corporation itself, namely through employment. Given steep inequalities in pension participation and financial wealth, this means the wealthiest will be guaranteed a disproportionate say in corporate governance and a share in the rewards. Our ambitions must therefore go further, towards a deeper restructuring of ownership that includes the expansion of new vehicles for public wealth.*

## 1.2 Transforming ownership of corporate wealth to give everyone a stake and a say

Ensuring we all have a genuine stake and a say in the economy will require proactive policy to tackle existing inequalities of financial and pension wealth through new institutions that redistribute and democratise ownership. To that end, we propose the following:

1. Establish a Public Asset Manager to ensure greater public ownership of the assets of the British economy, including corporate wealth, to ensure they are used to provide economic and social benefits for everyone.
2. New firm-level worker funds to give those who create wealth within the company guaranteed collective income and control rights within their company, redistributing them from external investors towards the workforce.
3. Establish a Green Golden Share in companies deemed to be systemically vital to decarbonisation to be exercised by the Chancellor on behalf of the public and future generations. It should have a number of rights attached, including the ability to propose resolutions, vote at meetings, and critically, the special share should be deemed to be a majority of votes on any issue connected to the elimination of emissions in the company's production within a 1.5 °C pathway.

*Extending new forms of broadly shared ownership can ensure more people benefit from corporate wealth created by labour, society, and nature. But in the context of prevailing distributions of ownership, even a large-scale Public Asset Manager, working in tandem with stronger forms of worker ownership and control, will remain a minority owner of corporate wealth. The corporation will therefore remain beholden to financial logics and market discipline, acting as a vehicle for unequal wealth extraction by prioritising external shareholders rather than the inclusive creation of social and environmental value. Therefore, the ultimate goal must be to free the corporation from the disciplining force of financial markets, whose monopolisation of control rights is increasingly unjustifiable, and instead remake the company as an institution of the commons: democratic in governance, purposeful in action, generative in outcomes.*

## 1.3 Commoning the company and contesting financial market discipline

The corporation is a complex political and social institution whose current governance by a nexus of financial markets and executive management has turned it into an engine of extraction and democratic void. But we can reimagine how we coordinate decision-making processes within the company and beyond the firm, and rethink how production and consumption are organised and financed, so that they are based on democratic stewardship, principles of sustainability, and purposeful enterprise. This will require changes in company membership and governance to be rooted in participation not ownership, as well as shifts in how production is financed.

# 2 Defining Asset Manager Capitalism

Over the past 18 months, Common Wealth has undertaken a series of interventions focused on articulating the framework of “Asset Manager Capitalism”, examining the factors contributing to its rise, its particular arrangement in the UK, and the implications of this new ownership regime for corporate governance and the allocation of investment, with a particular focus on economic and climate justice. Throughout this programme of work, we have adopted the framework of “Asset Manager Capitalism” (AMC), as first described by Benjamin Braun.<sup>1</sup> AMC describes a new regime of ownership defined by four key factors.

1. **Concentration:** Ownership in corporations is concentrated among a handful of top shareholders, rather than highly dispersed as in preceding decades, principally the decades immediately following the Second World War. For instance, just three firms (BlackRock, Vanguard, State Street) control 20 per cent of the average S&P500 company.
2. **Universal Exposure:** The top managers (and many mid-range managers) have “universal” exposure, meaning their investments are distributed across all regions, industries, and asset classes, spanning corporate shares and bonds, commodities, real estate, and so forth.
3. **(Relatively) Strong Positions:** BlackRock and Vanguard typically control between 5-10 per cent of shares in the major corporations of the US and UK. While markedly lower than the 50 per cent plus that a strategic owner (i.e., a family or state) might control, they stand out from the remainder of shareholders, as well as from conditions in previous decades in which the top shareholders, namely pension funds, held closer to one per cent.
4. **Fee-Based Business Model:** Unlike pension funds, the primary shareholders of prior decades, who operate on a not-for-profit basis, asset managers’ business model is predicated on charging fees as a percentage of the size of the asset pool they manage. Shareholding income rights (the value of the shares themselves, dividends) remain vested with the ultimately beneficiaries.

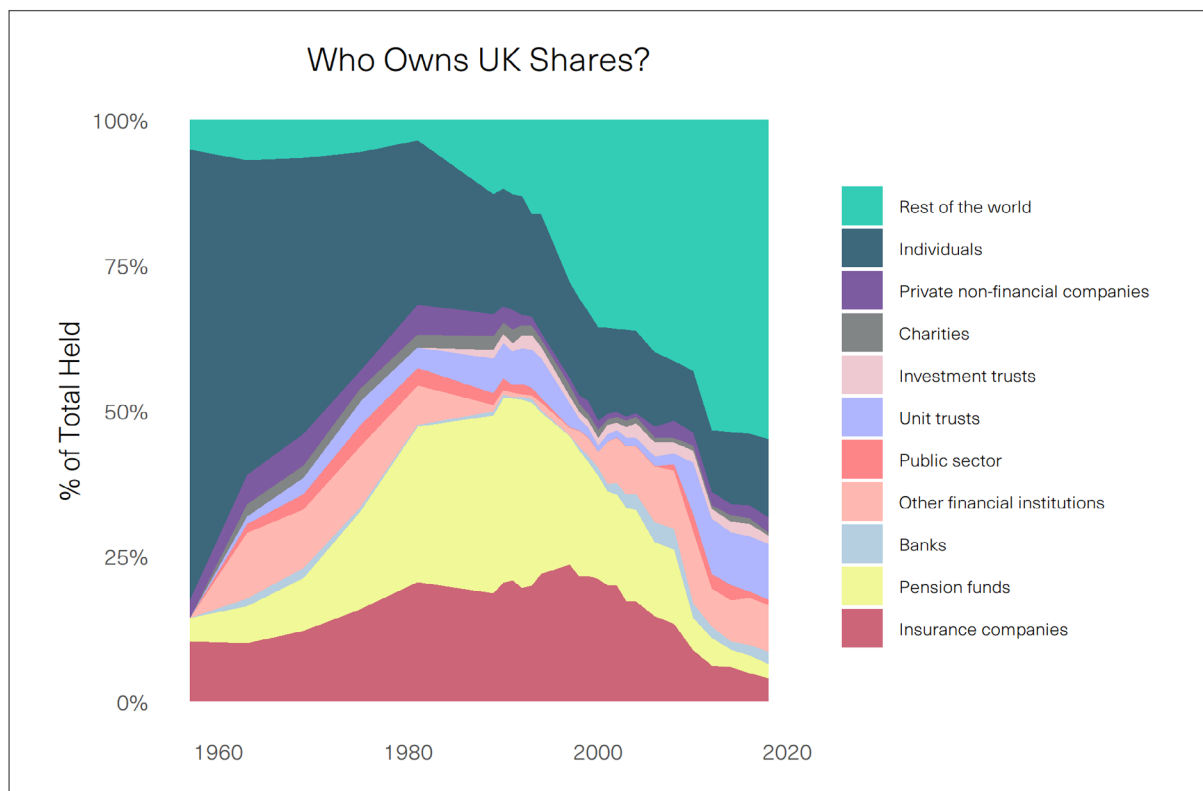
The combined outcome of these four factors is a system of ownership in which a small number of increasingly enormous firms, overwhelmingly headquartered on Wall Street, dominate ownership not only of stocks and bonds, but increasingly within other asset classes such as real estate. For the top asset managers, this combination of traits produces an overriding motivation not to maximise individual portfolio companies’ profits or monitor their actions, but instead to ensure the aggregate growth of their universally distributed assets under management. In other words, BlackRock cares whether Exxon changes the size of its

dividend payment or creates a credible decarbonisation commitment insofar as it could affect the firm's ability to corner market share and grow their aggregate asset pool, rather than a particular concern for payouts, the firm's contribution to the climate crisis, or "woke" activism, as BlackRock CEO Larry Fink has described it.<sup>2</sup> Thus, their interest in any given firm's behaviour is, at best, indirect.

This creates a historically unprecedented incentive structure within corporate governance, wherein the corporation and corporate management are accountable to a cohort of top shareholders who are structurally disincentivised to closely monitor the performance and actions of any particular company in their portfolio, while other shareholders and stakeholders have had their voice minimised or altogether excluded. Beyond the corporate form itself, the imprints of AMC can be seen in numerous policymaking decisions over the past several years whose function is to ensure the stable growth of asset prices, for instance through central bank monetary easing in response to the pandemic, and the creation of new opportunities for private investment, such as the European Green Deal, in which the primary strategy is to crowd in, backstop, and create new investments for the private sector in decarbonisation.

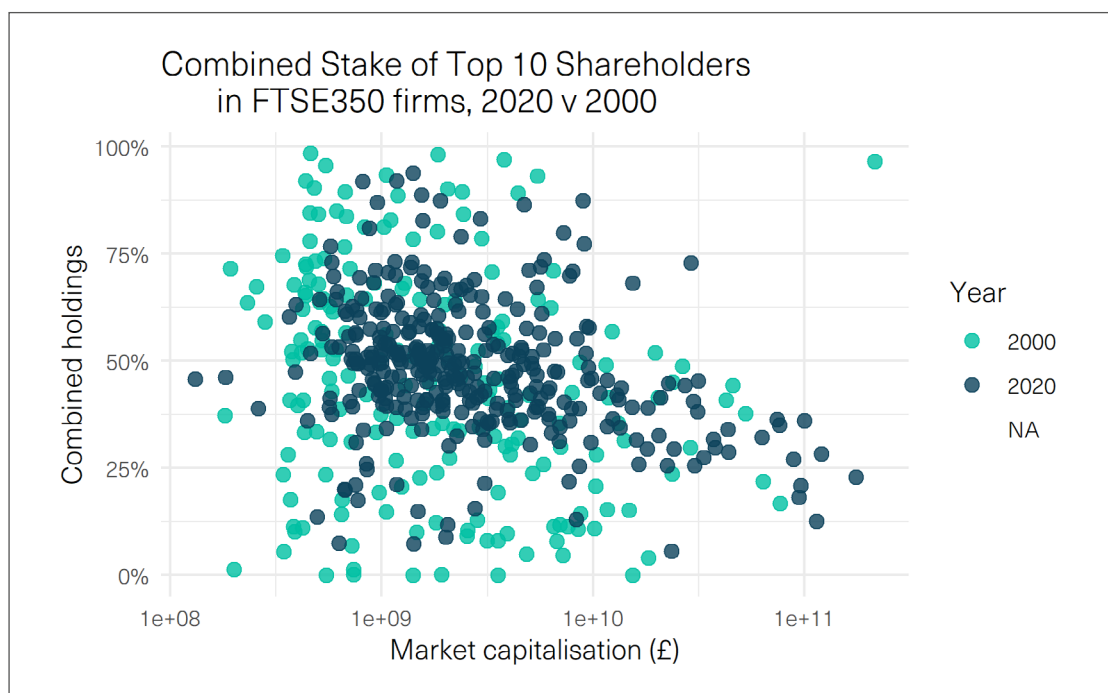
Our programme of work sought to outline not only the state of AMC in the UK but also to establish its origins in the rise of passive investing and, crucially, to interrogate the implications of this new ownership regime for the nature of efforts to combat the climate crisis. The key findings from our analysis can be summarised as follows:

1. The types of entities holding shares in UK corporations have changed – drastically – over the past several decades. Today, a majority of shareholders in UK corporations are overseas investors, whether foreign individuals or, primarily, US asset management firms. Moreover, the type of entity that holds shares in UK corporations has shifted away from traditional financial institutions such as banks, insurance companies, and pension funds, and toward the asset management industry, who have in many cases become the stewards of the former institutions' investments. Pension funds' direct holdings have collapsed, from a peak of roughly 25 per cent of all shares in 1990, to less than 5 per cent at the end of 2020 (Figure 1). Meanwhile, since 2000, asset managers' share of the FTSE350 has double from 20 per cent to over 40 per cent. Compared to the rest of the world, the UK also stands out in terms of ownership in two key ways: firstly, the relative absence of controlling "strategic" owners (e.g., majority family or state-owned corporations), and secondly a distinct combination of extremely high foreign and institutional investor ownership.



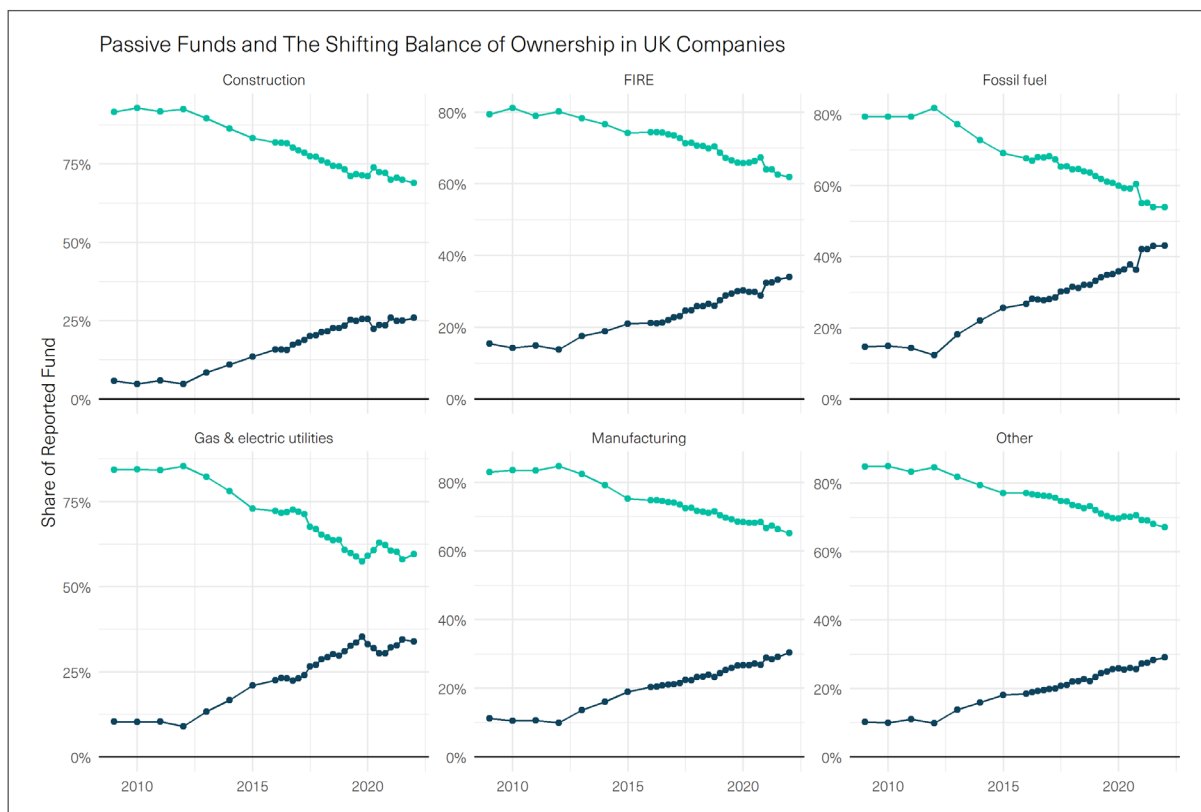
- The distribution of ownership in UK corporations has become markedly more concentrated toward the very top of the shareholder crop, with a handful of largely US-based asset management titans taking the top spot in nearly all UK corporations. Over the past 20 years, there has been an upward drift in the combined holdings of the ten largest investors in a given FTSE350 company (Figure 2), as well as a reduction in spread as strategic investors have become less prominent. Today, BlackRock and Vanguard alone control 10 per cent of the total market capitalisation of the FTSE350. In the United States, the figure is even more stark, with these two firms – in combination with State Street, constituting the so-called “Big Three” – controlling over 20 per cent of the average S&P500 company. Per our research, BlackRock and Vanguard are a Top 10 shareholder in 94 and 98 of the FTSE100 firms, respectively, and BlackRock is the number one shareholder in 41 of these (overwhelmingly with a stake of 5 per cent or greater).





3. Much of the relentless rise of the top asset management firms has been driven by their outsized position in the world of “passive investing”, wherein an investment fund constructs its portfolio based on an externally provided index of securities, rather than leaving this up to the discretion of individual fund managers. Together, the Big Three asset managers represent 80 per cent of all assets invested in a passive strategy. In the US, more than half of all assets are now passively invested and the UK is not far behind. For an explanation of how passive investing functions, see our previous report, “The Passive Revolution”.<sup>3</sup> Our research shows an impressive rise in passive ownership of UK listed companies over the past 20 years but with critical differences between sectors. Notably, while the gap between passive and active ownership is closing across the board, for no sector is this more pronounced than the fossil fuel industry, where passive funds now account for over 40 per cent of all fund ownership (Figure 3). Importantly, while the provision of passive funds is a highly concentrated market that has driven the outsized growth of the Big Three firms (alongside a small number of peers), the index providing industry is even more concentrated, representing a massive shift in power over capital allocation to just three companies: MSCI, S&P, and FTSE Russell. In our universe of funds (any mutual fund or ETF with exposure to the FTSE All Share), £1.1 trillion in assets tracked an S&P index; by this measure, if S&P were an asset manager, it would be among the largest in our cohort (and indeed, the world).





4. Ownership of financial assets, most saliently corporate equities, is hugely unequal in the UK. Both direct and indirect ownership of corporate equities remains sharply unequal. For UK households, the richest one per cent own 39 per cent of total direct share-based wealth, more than the poorest 90 per cent combined. Indirect ownership – through pension funds for example – is more broad-based and the largest component of total wealth, but still sharply unequal. The richest 20 per cent of UK households by income own 49 per cent of pension wealth in the UK. The top one per cent held average (median) household pension assets of around £2 million. By contrast, the 3rd wealth decile has private pension wealth of only £15,800, the 2nd wealth decile, £2,500, and the 1st wealth decile, zero pension wealth according to the ONS Wealth and Assets Survey published in January 2022. These inequalities reflect the wider centrality of asset ownership in shaping class location and life chances in contemporary Britain: those who dominate ownership have far greater economic security and power than those with comparatively less. Further, both direct and indirect shareholding of UK-listed securities by UK pension funds has fallen markedly. Joint analysis by Common Wealth, the TUC, and the High Pay Centre found that the proportion of UK shares directly held by UK pension funds fell from almost one in three in 1990 to less than one in 25 by 2018 – a decline of over 90 per cent. Most UK shares are now held by overseas investors. The proportion of UK shares owned by overseas investors rose from 12 per cent in 1990 to 55 per cent in 2018. In addition to direct share ownership, some pension funds will own shares indirectly through pooled funds controlled by insurance companies and asset managers, yet total UK pension funds own directly or indirectly under 6 per cent of UK shares. Meanwhile, the Thinking Ahead Institute Global Pensions Assets study found 26 per cent of UK pension fund assets were allocated to equities, of which only 31 per cent of equity allocation was to domestic equities, meaning the FTSE accounts for only 8 per cent of total UK pension fund assets.

Together, these analyses point to several important and converging trends that have reshaped the economy over the past several decades, ultimately culminating in an image of an economic model whose orientation toward asset ownership, stark inequalities in asset ownership, and increasing concentration of power within the asset management industry – specifically a handful of huge and largely US-based firms – is both undermining economic democracy and creating new obstacles to democratic action on the climate crisis.

## 3 The State of Play: Failing on all Counts

The existing investment system thus generates a cascade of problems and fails to deliver on several critical outcomes related to social, environmental and economic wellbeing.

### 3.1 Undynamic investment and weak stewardship

The dominance of the stock market in the investment system means that most investment activity is directed toward large, established, incumbent firms with securities trading on secondary exchanges, with a view toward portfolio growth and speculation rather than on financing needed new investments such as clean energy development or, conversely, withdrawing finance from firms whose business models are increasingly obsolete or harmful, such as coal mining firms. Moreover, the dominance of financial exchanges as a source of investment through IPOs or new share and bond issuances excludes newer and smaller firms who cannot meet certain criteria of scale, and thereby keeps their cost of capital elevated. This trend has been exacerbated by the rise of passive investing. For instance, our prior research suggested that passive funds have continued to invest in or hold on to fossil fuel equities, even as active funds have begun a modest retreat. Elsewhere, Robin Wigglesworth has documented the amplification effect of indices via their method for allocating funds, such that more money goes to larger firms in a feed-forward cycle. In concrete terms, while a decade ago 10 cents of every new dollar put into an S&P 500 fund would have gone into the five biggest companies, today it is over 20 cents – the highest on record.<sup>4</sup>

The growing dominance of index investing also creates an additional barrier for newer more upstart firms, e.g., renewables companies, whose securities do not meet thresholds for inclusion in many mainstream indices due to constraints such as size. Indeed, for the sole renewable energy firm in the FTSE All Share index (covering 98 per cent of UK

public company market capitalisation) tracked by our research, ownership was strongly skewed towards the active fund segment and away from the rapidly growing passive segment. Thus, while the proliferation of funds tracking major indices like the S&P500 has delivered the benefit of steadier returns for beneficiaries alongside substantially reduced management fees, it is also contributing to an investment system that appears increasingly “undynamic”, in contrast to the ideal preached by the efficient markets hypothesis.

Finally, as we have documented elsewhere, the proliferation of passive investing and the ownership structures of asset manager capitalism more broadly are also undermining stewardship through a structural lack of incentive as well as the elimination of the threat of divestment.<sup>5</sup> Advocates of “universal ownership theory” argue that a universal portfolio exposure should structurally encourage investors to become effective stewards on issues such as the climate crisis, which presents a systemic risk to a universally exposed portfolio. However, when combined with the other core attributes that define asset manager capitalism, and when considered with the “separation of ownership from ownership” stemming from the chain of financial intermediation, there are reasons to doubt the validity of this argument, which are also borne out by empirical evidence on the major investors’ voting and engagement records cited elsewhere in this report.

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## 3.2 Inequality in an asset-oriented economy

Our economic model is increasingly oriented toward asset ownership, such that one’s relationship to assets has an increasingly more central role on one’s financial position than income through sources such as waged labour. At the same time, the corporation’s purpose has been firmly reoriented toward paying out returns to shareholders, with the labour share of income declining steadily. For example, between 2011 and 2018, the 100 largest UK-domiciled non-financial companies paid out over £400 billion in dividends – the equivalent of 68 per cent of their net profits over the period – and an additional £61 billion in buybacks, while in 2019 dividend payments from FTSE100 listed companies, a slightly different cohort including financial companies and non-domiciled corporations, hit a record £110.5 billion. By contrast, by 2024, real wages are set to be just £2 a week above 2008 levels.

The divergence between returns to asset-owners and wage-earners is stark. After accounting for CPI inflation and growth in the working-age population, from 2000 to 2019 there has been a 25 per cent cumulative growth in total labour compensation for UK households, versus 142 per cent growth in dividend payments by UK-based private non-financial corporations (and only 18 per cent for wages and salaries) – a multiple of nearly six-fold. As an illustrative exercise, if we leave unchanged the sum of these figures, but hold split between worker pay and dividends constant at its 2000 level, then total labour compensation would have been 8 per cent higher on the eve of the pandemic than it was. This amounts to £2,100 per working age adult.

Moreover, most people remain locked out of the increasingly central tool for expanding individual wealth: investment in financial markets. In the UK, the proportion of UK shares directly held by UK pension funds fell from almost 1/3 in 1990 to less than 1/25

by 2018 – a decline of more than 90 per cent. Even taking into account those shares that are held by pensions indirectly through financial intermediaries, our analysis with the High Pay Centre determined that the UK pension funds' fraction of share ownership rises to just under 6 per cent. Within the pensions system itself, assets are – owing to the nature of pension accruals – highly unequal, with the richest 20 per cent of households by income controlling almost half of all pension wealth. Indeed, whether an individual has a pension at all remains highly correlated with income, even as auto-enrolment has increased pension participation: in the private sector, less than half of low-paid full-time employees belong to a pension scheme. Direct share ownership is, unsurprisingly, much more unequal, with the richest 1 per cent of households controlling nearly 40 per cent of individual share wealth. This creates an inequality ratchet: as returns to shareholders increase, the unequal distribution of financial and pension wealth means stark inequalities in income from assets are compounded.

In the United States, figures are even more extreme. In 2021, the Federal Reserve found that the wealthiest 10 per cent of Americans owned 89 per cent of stocks and mutual funds, and 54 per cent of pension entitlements; the poorest 50 per cent held only 3.1 per cent. Unsurprisingly, these stark inequalities reflect and compound the racial wealth gap; the political economist Lenore Palladino found that 92.1 per cent of US corporate equity and mutual fund value is owned by white households; Black households own 1.5 per cent while Hispanic households own 1.9 per cent.<sup>6</sup>

These figures pertain to the most accessible forms of financial investment. Other forms are significantly more difficult to access due to substantially higher fees or regulatory requirements, such as direct investment through private equity or hedge funds. The result of this differential access to forms of investing is rising wealth inequality, contributing to economic injustice while contributing to the acceleration of ecological crisis through unsustainable disparities in emissions and resource use.<sup>7</sup>

## 3.3

## An undemocratic economy

With respect to which parties have a say in how corporations are governed and investment allocated, an increasingly stark level of wealth inequality both within and between countries has been and continues to be exacerbated, by the extreme concentration within the asset management industry. Under the conditions examined throughout this report, decision-making power in the economy is skewed toward a small cohort of asset management firms whose influence, mediated via their ownership of assets, only continues to increase. As legal scholar Leo Strine argues, the rise of institutional investors as primary holders of governance rights in the corporation represents a “separation of ownership from ownership” that has misaligned incentives and motivations within the corporation's stakeholders.<sup>8</sup>

The result is a deep alienation of most stakeholders, and society more broadly, from the decisions that impact their lives, whether directing investment capacity and production toward collectively determined priorities, or the ability to orient major corporations toward more ecologically and socially sustainable practices. At the same time, the enormous

and ongoing growth in passive investing strategies has propelled the system toward one more closely resembling oligarchy, in which a few individuals in a small number of giant asset management firms have become entitled to often decisive voting power across the entire public corporate sector. Often, these votes simply align with management recommendations or are further outsourced to one of a handful of proxy advisory firms such as ISS. Accompanying this concentration of control over corporate governance rights is a shift in and concentration of control over capital allocation; indeed, a small number of index providers now provide allocation instruction on trillions worth of fund investments.

Together, these fundamental issues define a major infrastructure within the global economy that is resolutely failing to deliver for people and for the planet. Even on the terms of free-market advocates, it is a system stuttering from crisis to crisis and in need of chronic life support in the form of public bailout and backstop, most saliently in the form of central bank monetary easing. In contrast to the imaginary of a shareholding democracy advocated by early neoliberal politicians, ownership today has become re-concentrated, leaving most without a meaningful stake or a say in how corporations – the engine of the global economy – are governed. Moreover, this concentration falls within the hands of firms who are structurally disinterested, under the conditions of asset manager capitalism, to attend to the actions and successes of individual portfolio companies. The results are evident in the numerous externalities currently supported by the investment system and corporate economy, from environmental destruction to a consistently declining labour share of profits. Finally, in lieu of dynamic and “efficient markets” that penalise poor actors and direct capital toward dynamic upstarts, allocation of investment is increasingly defined by backward-looking indices and corporations oriented toward funnelling cash out toward shareholders. The system is long overdue a transformation that orients our capacities toward a more equitable and sustainable economic model that better serves fundamental needs.

# 4 After AMC: Proposals for a Democratic and Sustainable Economy

## 4.1

### Stage one: democratising the investment system

The prevailing system of investing and ownership, mediated via financial intermediaries, has generated a profound separation of ownership and governance rights from those who ultimately actually own financial securities: the ultimate beneficiaries, from pension holders and university endowments to individual savers. Taking the pension system as an archetypal example, there are several points at which beneficiaries are structurally separated from the governance rights that derive from owning a share. First, deferred wages accrue as personal entitlements within a large fund shared with countless other workers. The fund itself is governed by a team of trustees who, while formally accountable to the interests of participants in the pension via fiduciary duties, are not immediately or even directly (in terms of lines of communication) accountable to these participants. In the majority of cases, the trustees will hand over the task of allocating the pension assets to investments to a financial intermediary (namely, an asset manager) with a mandate to invest according to certain criteria such as a preferred degree of risk and a defined horizon for evaluating returns. In doing so, the trustees also relieve themselves of the governance and participation rights these investments often afford, leaving these instead in the hands of the asset manager. In many cases, the asset manager themselves will outsource these obligations to a proxy advisory firm. Thus, the chain of ownership and control creates a substantial break between the beneficiary, in whose interests these investments are formally made and managed, and the actual entities or persons undertaking the tasks of portfolio allocation and, critically, stewardship.

The “separation of ownership from ownership” that defines the system of financial intermediation has contributed to an increasingly oligarchic arrangement, wherein governance rights over the corporation are concentrated within the hands of a few structurally disinterested firms. With respect to the highly popular investor stewardship agenda, asset manager capitalism thus presents substantial barriers insofar as the decisive vote-making capacity tends to reside with one of BlackRock or Vanguard. Democratising this unequal arrangement could be pursued at various points along the investment chain. We propose the following measures:

## A. Democratisise pension participation

According to the House of Commons library, UK occupational pension schemes hold approximately £2 trillion in assets, making them “the largest single group of institutional investors in the UK, with significant influence over the flow of investment in the economy.”<sup>9</sup> In line with this view, reforms to the requirements and mechanisms surrounding pension investment allocation and engagement could generate a sea-change in investing. Presently, for most participants in pension schemes, the ability to convey one’s values and investment preferences is limited, at best, to selecting a slightly different fund option. For instance, the UK government-backed Nest pension scheme offers a climate-focused option to participants. However, insight into the contents of these alternatives is limited to the funds’ top holdings, limiting scrutiny. Moreover, only at the end of 2021 did Nest disclose its divestment from ExxonMobil, a firm whose combined investment in new oil and gas and consistent lobbying against climate policy raises serious questions regarding their inclusion in a climate-focused fund product.<sup>10</sup> More fundamentally, options for pension fund participants tend to apply an exposure-based approach to investing, allowing pension participants to reduce their exposure to climate risks but not to demand their assets are used to drive material change on the climate crisis, for instance through stewardship or direct investment in companies focused on the energy transition who may not be available on major exchanges. With the pensions sector increasingly moving away from listed equities and toward bonds and “alternatives” such as private equity, the capacity to democratically convey these preferences becomes increasingly relevant.<sup>11</sup>

Asset managers control a growing share of governance rights within the corporate economy through voting and engagement; crucially, however, these rights derive from their control of other people’s money. In light of this, there should be a new requirement for financial intermediaries not to vote without explicit instructions from pension representatives. As set out in Common Wealth’s Green Recovery Act, authored by company law scholar Ewan McGaughey, there are a set of immediate changes that can be enacted to ensure asset managers vote on instruction in accordance with the interests of the ultimate asset-holder. These are as follows:

1. Every financial intermediary has a duty to follow the voting policy and specific instructions of trustees or clients on how voting rights on securities shall be voted.
2. No financial intermediary that manages funds on behalf of any client may vote on securities except in accordance with the policy of or instructions from that client.
3. Where a financial intermediary pools savings from different clients into single funds, it shall ensure that votes are cast where necessary on a split basis in relation to each client’s portion of funds.
4. Every financial intermediary has a duty to facilitate electronic voting in the simplest manner possible, free of charge to its clients, and to publicly report its voting records.
5. The Secretary of State shall exercise its power under the Pensions Act 2004 section 243 to require that a minimum of one half of pension trustees or directors of trust corporations are member nominated trustees.



6. The requirement for member nominated trustees shall apply to all saving funds, whether constituted as a trust, a corporation, a contract, or any other legal form. The Secretary of State may write regulations specifying included or exempt funds.

## B. A new mandate for pension trustees

Democratising pension participation is a necessary step to take back power from the asset manager industry and return it to the ultimate saver. However, taken alone it is not enough; measures are required to ensure trustees operate from a baseline that ensures they operate to advance climate and economic justice. To democratise pension participation – and thereby reclaim power from the asset management industry – the aforementioned proposals should be matched by new mandates for trustees to ensure the financial system has a baseline duty towards proactive and precautionary action on the climate crisis. These duties should include:

1. A more expansive interpretation of fiduciary duties: concern for beneficiaries' best interests must include climate and social concerns to reflect a much more expansive and, by extension, representative view. Indeed, in light of the uniquely long-term investment horizons of pensions, only by contributing to a stable financial system, economy, and climate can trustees be said to be stewarding assets in clients' best interests, particularly for those beneficiaries who have most recently entered the scheme and whose investment will not be realised for decades. This proposal is in line with 2014 recommendations by the Law Commission, which state: "We think it is right that trustees should state their policy on how they evaluate risks to a company's long-term sustainability (including risks relating to governance or to the firm's environment or social impact)."<sup>12</sup> It is similarly compliant with 2021 amendments to the Pensions Act 1995, which enables regulation to require pension investment policies to consider climate risks and impacts.<sup>13</sup>
2. As proposed in Common Wealth's "Green Recovery Act", financial institutions – in this case pension funds – should have a duty to divest assets related to fossil fuel production. For financial institutions more broadly, the following changes to the Financial Services and Markets Act could realise this requirement:
  - i. In section 1B(3) of the Financial Services and Markets Act 2000 before paragraph (a) insert "the objective to eliminate all investment or funding in fossil fuels;"
  - ii. In section 2B(3) of the Financial Services and Markets Act 2000 before paragraph (a) insert "ensuring that all investment or funding in fossil fuels is eliminated."

For pension assets in particular, a significant change in the market could be precipitated through the adoption of a ban on fossil fuel investments in the Nest pension scheme, the government-backed auto-enrolment scheme for PAYE workers which oversees some £18 billion in assets for nearly 10 million scheme participants.<sup>14</sup>

## C. Democratising retail investing

The question of democratising retail investing, principally through participation in exchange-traded funds (ETFs), has come to the fore following BlackRock's announcement of its intent to offer the choice to vote independently for institutional clients invested in index strategies, which would cover some 40 per cent of the firm's equity holdings invested through an index fund.<sup>15</sup> The firm also indicated its interest in expanding this to non-institutional clients invested through ETFs, marking a significant expansion of participation that would enable direct voting from individual retail clients directly to the companies in which they hold shares.

While this does in many ways mark a considerable advance in participation, and could begin to break up the bloc of power currently exercised by BlackRock, the move has been met with scepticism, with critics suggesting it could be used as a cover for BlackRock, alongside peers who may follow suit, to deflect from substantial criticisms about their size and influence while retaining the majority of their voting power.<sup>16</sup> More fundamentally, even if direct voting was opened to all retail investors, it would be difficult to describe it as a genuine process of "democratisation", owing to the pronounced inequalities in retail investing assets, with a far narrower fraction of the population holding financial assets through this route than through the pensions system.

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## 4.2 A stake and a say for all: democratising the corporation and investment

The proposals above for democratisation of the pension system, while worthwhile in the immediate term, are nonetheless limited in two critical ways. First, as noted above, with respect to universalising participation, the steep inequalities in the distribution of pension assets would ultimately produce a very limited democracy that continues to prioritise wealthier participants while excluding large swathes of the population. Second, with respect to democratising the corporation itself, even a fully democratised pensions system might have limited impact in tipping the scales of voting control at corporations due to significant changes in the allocation of pension funds. Across OECD economies, pensions are broadly exhibiting a decline in exposure to public companies' shares, and a growing exposure to corporate bonds and, increasingly, "alternative" forms of investment. In the UK, this trend is extremely advanced, with UK private pensions' portfolio allocation to public equities falling from a high of 70 per cent in 2003 to a low of just 18 per cent by the end of 2020.<sup>17</sup>

To address these limitations, we propose setting up a "Public Asset Manager" (PAM), which would sit alongside existing asset managers, occupying the same position in the chain financial intermediation, but: (i) which would be capitalised by state mandated measures; and (ii) whose ownership stakes would be held not on behalf of and in proportion to the parties that park their capital there, but rather on behalf of all adult citizens equally.

Its functions would therefore comprise many of those of existing asset managers – capital allocation, wealth management, exercise of shareholder power in corporate governance – but its exercise of those functions would be more democratic, and less encumbered by a myopic fixation on financial returns. Citizens' basic stakes in the PAM would not be tradeable,

since the ability to quickly cash out would render the programme reducible to a lump-sum capital transfer, and render the asset management function superfluous.

The existence of a PAM would do more than offer a welcome public option to private citizen-consumers looking where to park their capital.<sup>18</sup> It would force a radical redistribution of the benefits from, and governance of, the for-profit sector at large. Above all, it would institutionalise recognition of the role played by the state and the public in co-creating the value that private wealth is then able to capture. This principle refers to the state's specific role in actively fostering innovation<sup>19</sup> as well as in safeguarding the legal ability of private firms to secure revenue streams from their assets.<sup>20</sup> More generally it reflects the privileges conferred by incorporation, such as limited liability and lower tax rates than for individuals.<sup>21</sup> At a more general level still, it reminds us that firm revenues and investment return prospects are dependent on a publicly determined aggregate demand outlook.

Note that this model refers to public ownership of shares in profit-making firms operating under market conditions, as distinct from the decommodified public provision of non-profit-making services such as care or education, which targets a different problem. It would also be distinct from an inclusive ownership fund (IOF) in that it offers each citizen a stake in (potentially) all firms, rather than offering each worker a stake in their respective firm only.

### **Governance**

The PAM, as a public corporation akin to the BBC, would have its mandate defined by Parliament, including any investment requirements or restrictions, while operating at an arm's length from the UK Government of the day. Its mandate should be focused on maximising social and environmental benefits rather than maximising financial returns; the terms of this should be defined by Parliament. The Board should have representatives from civil society, trade unions, and elected Ministers.

## **Benefits**

There are two first-order benefits of a PAM. The first is simply to reduce inequality in wealth and capital income, the second is to reform the direction of corporate governance. But the downstream effects are profound too.

### **Reducing wealth and income inequality**

If the unacceptably high capital share of national income is determined by structural forces too entrenched to dismantle within an acceptable time horizon, then the least we can do is make sure that the proceeds of capital income are more evenly distributed. A simple back-of-the-envelope calculation suggests that if a PAM were to commandeer a five per cent stake the size of total private pension and net financial wealth in the UK and redistribute it equally, it would amount to only a three per cent reduction in the financial and pension wealth of the wealthiest fifth of the population, versus a 14 per cent increase for the poorest half.

### **Cooling down the asset economy**

The effects of such a redistribution would not merely reduce inequality in our economy, but also mitigate the distortions resulting from the asset economy: currently households increasingly rely on access to ever-appreciating private wealth as a substitute for social security,

competing fiercely for the ownership of scarce assets. This in turn both increases its appeal relative to labour income and raises the costs of gaining access.<sup>22</sup> A PAM could break this vicious and unproductive cycle by providing a bedrock of social income and lowering the stakes of inclusion.

Home ownership has historically been the classic route into private wealth accumulation, especially since it is currently the most equally distributed form of wealth. But there is an inevitable limit to how equally it can be distributed via market means, given the threshold effects imposed by its indivisibility and illiquidity. A share in a PAM helps overcome these limits.

### **A public voice in corporate governance**

Advocates of a “universal ownership” approach argue that, in theory at least, a regime of permanent universal owners might engender a long-term attitude towards stewardship whose sheer breadth would align the interests of their portfolio more closely with those of society.<sup>23</sup> But despite the proclamations of the likes of Larry Fink and Bill McNabb, the Big Three’s conception of their “clients’ long-term financial interests” is still enormously myopic,<sup>24</sup> and their voting record bears this out.<sup>25</sup>

A PAM should lead the way in cultivating an approach to corporate governance that is responsible to more than the bottom line. As such, part of its appeal would be not merely to widen the pool of beneficiaries to whose interests firms are answerable, but to fundamentally transform their character. Not only will interest groups be granted voice that had hitherto been locked out, but citizen-shareholders will likely exercise their power differently knowing (a) that their portfolio through the PAM is highly diversified, and (b) knowing that the rest of the population is similarly affected.

Consider executive compensation. Current exorbitant pay levels would be much more difficult to greenlight if the proxy voting body incorporated the views of the public. For example, the median pay ratio of a FTSE350 CEO to their median employee was 53:1 in 2020, a ratio that 82 per cent of the country considers excessive, and which only 3 per cent think is acceptable.<sup>26</sup> Not only would this be desirable in its own terms. It would also loosen the more destructive binds of “market discipline” by eroding the link between executive pay and the share price that has historically been instrumental in wedding the interests of management with those of capital.<sup>27</sup>

A PAM should pioneer market best practice when it comes to informing clients of salient non-financial information, soliciting their preferences, and acting on behalf of those preferences that are at odds with simply maximising financial returns. The objective here is that doing so would pressure private market options to do similarly. This would embody the principle of “functional regulation”, namely that a public option with “substantial market presence [would] set the terms on which much of the market functions.”<sup>28</sup> This effect could be expedited by granting the PAM an auxiliary function whereby private wealth holders could also choose to move their wealth from other funds into the PAM. Unlike the citizen’s basic stake managed under the core function, these discretionary holdings would indeed be tradeable.

At a more speculative level, we can imagine positive spill-over effects in adjacent realms. Insofar as a PAM might also engage in index-tracking, it may then militate for greater transparency and legitimacy in index construction. In contrast to the state’s current role in de-risking investments for private investors and asset managers, a PAM could actively seek out

socially desirable investment opportunities, rather than waiting for it to fall into its lap. This could be done in partnership with other strategic public bodies, such as a National Investment Bank. Elsewhere we might even expect positive ramifications for the public sphere more generally: for example, if proxy voting power were on behalf of the entire citizenry, rather than a narrow wealthy sliver, this would potentially motivate greater media coverage of the effects of corporate behaviour.

A PAM, in short, is an institution that takes seriously Thatcher's notion of a "shareholding democracy" as an ideal to be realised, rather than just rhetoric.

## Capitalising a PAM

There are many different ways of capitalising a PAM. This gladly affords us wide room for manoeuvre – difficulties and trade-offs associated with any one particular method should therefore not get in the way of delivering this institution. A combination of approaches would be more robust and less distortionary. Ideally the method of capitalisation ought to reflect the principle that much of what is captured as private wealth is value co-created by the public, who is only now hereby recouping that investment. It would also, desirably, be a counterpart to the removal of existing policies that not only subsidise private wealth but in doing so pump up the asset economy in distortionary and unsustainable ways (e.g., Help to Buy, corporate tax cuts).

Historic examples of sovereign wealth funds have often been endowed through large, persistent trade surpluses, revenues from natural resource windfalls and/or artificially high savings rates. Examples such as Australia, Alaska, Abu Dhabi, Norway, Singapore and China use some combination of these.<sup>29</sup> None of these options is particularly available to the UK in the near term, with our low saving rate and persistent trade deficit. And while the UK has enjoyed windfalls in the past, such as in the cases of North Sea Oil, and the 3G spectrum auction, the question remains as to whether the government should be surrendering control of the resources underpinning these windfalls in the first place.

### Deficit-financing

The simplest mechanism for capitalisation would be a public sector debt-financed acquisition of assets which would strengthen the public balance sheet and act as a counter-cyclical tool for policymakers. As economists have repeatedly emphasised,<sup>30</sup> the failure to take advantage a period of sustained ultra-low interest rates is a substantial missed opportunity. If we view such borrowing from the perspective of both sides of the public balance sheet, rather than focusing one-sidedly on liabilities, then we can understand this as trading short-term debt at low interest cost for long-term equity gains.<sup>31</sup> We should be wary of the risks to a strategy built on this logic, in light of the return of inflation that is now jeopardising the era of ultra-low interest rates. Another concern might be the potentially distortionary price effects of a deficit-financed infusion of government capital into equity markets, further inflating them to the benefit of rich asset holders.

### Tax-financing

A more fiscally neutral, and thereby less distortionary, approach might be to finance out of wealth-related or corporate taxes. A "scrip tax" would be a corporate profit tax paid in the form of equity instead of cash. This issuance would not affect a firm's working capital

but would dilute existing shareholder value.<sup>32</sup> Disruption to financial balance sheets could be minimised by introducing the scrip tax at a low rate, accumulating over time. There is a question of what the balance of corporate tax should be between cash and scrip, whether firms should be afforded discretion in that matter, possibly in the form of overall tax incentives.<sup>33</sup> If the latter, that would have implications for the PAM's portfolio composition, which would then need to be resolved through its trading operations. Alternatively, the tax may simply take the form of cash, which is then used to purchase stocks. The distortionary impact of this on equity prices can be mitigated to the extent that the tax itself is well targeted at revenue streams that would otherwise be funnelled back to shareholders. In any case, an increase in the rate of corporate tax may be desirable in light of the failure of successive cuts to induce greater investment over the last decade. Alternatively, increased taxes on private wealth – such as inheritance or capital gains – would be similarly appropriate insofar as they represent a transfer from the asset-rich to the public.

### **Exchanges for government support**

The most natural option is to take advantage of specific moments where the state is already called upon to provide support to various firms both fledgling and distressed. The former category includes cases of direct and indirect government support for SMEs<sup>34</sup> – which by one estimate exceeds the UK police budget – or state investment in R&D that generates intellectual property rights for private firms to exploit. The latter category includes essential businesses whose survival during crisis episodes demands emergency state intervention. This was famously the case of banks such as RBS and Lloyds Banking Group and Bradford & Bingley during the financial crash and was suggested at the outset of the Covid-19 pandemic of the otherwise healthy UK airline industry.<sup>35</sup> In both categories – seed financing and bail-ins – the government is performing an investment function, making it entirely natural to mandate these firms to return an equity stake or corresponding cash payment to the state.

### **Sharing the surplus**

How the PAM used its returns would be a subject for democratic debate. However, we envisage that as part of its mandate, the fund would be required to reinvest a proportion of its returns to sustainably scale the PAM. Beyond this, income could be used in a variety of ways, including providing a universal capital dividend (albeit likely to be relatively small in the early stages of the PAM); a demogrant – a larger grant targeted at a specific cohort, for example a £10,000 grant to each person on their 18th birthday to endow everyone with an independent form of wealth, and therefore strengthen personal autonomy while reducing inequality; or used to support ongoing liabilities, such as public pensions.

## **Giving workers a stake**

Alongside the expansion of genuinely inclusive public stakes in corporate wealth, we believe it is critical to expand collective worker ownership and control within the company. This is crucial to reshape coordination of decision-making processes within the firm by shrinking the scope of financial markets to discipline the company and ensure labour better shares in the wealth it creates. To that end, the following measures can redistribute income and control rights away from external shareholders and executive management toward the workforce as a collective.



1. All workers – including in “fissured” but connected workplaces – should become company members by right of employment. This would enable them to vote on key issues as individuals. However, it is vital to also aggregate collective power to shape firm behaviour.
2. Therefore, a Worker Fund should be established that controls at least 20 per cent of the votes in company general meetings to ensure workers are the single largest voting bloc and be able to work with pension trusts and others to ensure companies pursue pro-climate, anti-inequality strategies. The Fund’s trustees would be elected by the workforce as a whole.
3. The Fund should have a growing set of income rights attached to it, either through the issuance of a non-tradeable share class to the Fund, or through new income rights defined in company law. Current investor principles of remuneration already allow for companies to issue new shares to employees – through executive remuneration and all-employee share schemes – up to 10 per cent of the issued ordinary share capital in any rolling ten-year period. However, given inequalities in power within the company, new shares issued to employees disproportionately benefits senior executive management. If the Fund were to have a claim on 10 per cent of distributed profits, this would simply redraw existing principles of share dilution in a progressive direction, building a collective stake for the workforce over a finite period of time.
4. Half of all Company Boards should be elected directly by the workforce to ensure representation at the executive level.

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The proposal may appear radical, but it simply aims to ensure decision-making and the wealth generated by the company is shared more equally between all stakeholders within the firm: external shareholders, management, and workers. The truly radical position is the status quo, whereby workers are not guaranteed a fair stake and say in the companies they contribute so vitally to.

## **A Green Golden Share in sectors systemically vital to decarbonisation**

The public should have stronger oversight and veto-powers over companies that are strategically vital to bringing about rapid and fair emissions reductions. This would be equivalent to the CIFI designation of “systemically important” financial actors but based on the carbon intensity and total current and projected emissions of a sector or company. To that end, we recommend the creation via the Companies Act of a new “Green Golden Share” for sectors that are strategically vital for decarbonisation.

The share would be exercised by the Chancellor on behalf of the public and future generations. It should have a number of rights attached, including the ability to propose resolutions, vote at meetings, and critically, the special share should be deemed to be a majority of votes on any issue connected to the elimination of emissions in the company’s production within a 1.5°C pathway.



The share would ensure that while companies in these sectors retained substantial autonomy over business planning and investment decisions, this would be bounded by climate guardrails that would help bring corporations in line with a safe planetary future.

## 5 Conclusion: Reflections on an Unjustifiable System

### 5.1

### Freeing the corporation from financial market discipline

As our work and that of Benjamin Braun has traced, the shareholder regime that defines contemporary ownership in the UK and US corporate economies is historically unprecedented. It is also radically different from the conditions that defined ownership in the era when doctrines such as Margaret Thatcher's "shareholding democracy" and "maximising shareholder value" were first advanced. To be in any way democratic, the notion of a shareholding democracy would require radically more equal distributions of share and other asset wealth than currently exist in the UK. Meanwhile, the idea that corporations operate best when oriented toward maximising value for shareholders has been predicated on the unjustifiable assumptions that shareholders are 1) the residual risk-bearers for society and enterprise, and 2) they are weak, dispersed and vulnerable to expropriation by corporate "insiders", such as management or labour. Under the conditions of AMC, neither of these justifications can be defended.

Stemming from this insight is an essential question: on what basis are the extraordinary rights and privileges afforded to shareholders under the existing system justified? Why do participants in financial markets, largely via trading on secondary exchanges, retain a monopoly on governance rights in the corporation, to the overwhelming exclusion of other stakeholders, most saliently labour? In review of the role shareholders actually play within the average publicly traded company, it becomes difficult to justify this combination of rights and privileges.

Firstly, shareholders bear little risk for the corporation. The advent of limited liability protections means that a shareholder's maximum loss can be only the value of the shares they hold, and therefore when a corporation folds, they have lost only the value of their initial

share purchase. Any outstanding obligations on the part of the corporation are borne by the “corporate body” itself or, in rare cases, management, whether debt obligations, fines for misconduct, or unpaid wages. Further, it is typically the public who picks up the tab through bankruptcy support, wage support or benefit payments for workers who have lost their jobs, or direct bailouts to keep a firm afloat.

Secondly, shareholders do little to contribute investment to a corporation. The vast majority of share activity involves trading on secondary exchanges between investors, with little cash from share purchases actually flowing into the corporation. Indeed, this is limited to the IPO or new share issuances of existing stock, both of which tend to amount to a substantially smaller total than cumulative dividends and stock repurchases. The result is that, post-IPO, shareholders tend to be a net drain, with more cash flowing out to shareholders than in. As Josh Mason argues, even the IPO is less about supporting the enterprise itself, and more about ownership – or, to summarise: “The stock market isn’t there for the enterprise, but those with ownership claims on it.”<sup>36</sup>

It might be argued that supporting the share price on secondary markets is nonetheless an indefinite corollary of the initial equity financing, precisely because the ability to liquidate one’s stock position at a satisfactory price is a precondition for early investors to provide seed capital in the start-up phase.<sup>37</sup> The implications of suppressing stock prices by tackling excessive shareholder payouts might therefore – it is feared – ripple back to undermine the initial conditions under which investors agree to finance risky investment projects. But if this precondition amounts to ever growing payouts at the expense of both continued investment on the one hand and consumers’ wages on the other, as has become the case,<sup>38</sup> then that is a reason to consider whether investment can be secured through other less extractive means.

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## 5.2 The company as a commons

Freed from its current subordination, how could we reimagine the corporation as a space of democracy and generative enterprise? What institutional form would better represent its reality – that it is a collective endeavour of production, with value created through the coordination of labour, capital, society and nature, that cannot in important senses be “owned”. How could we challenge the expropriation of collectively created wealth that existing property relations set in motion?

The answer: transform ownership and control to reimagine the company as an institution of the commons. Treating the company as a commons – a shared and social resource whose success relies on the active participation of multiple constituencies in its governance and operation – far better reflects the nature of the firm relative to shareholder-oriented approaches and would generate better outcomes for the firm’s multiple stakeholders.<sup>39</sup>

The idea of the commons better describes the legal structure of the business enterprise than does the shareholder primacy model: the firm’s various stakeholders have overlapping property claims in relation to its assets, including rights of access, withdrawal, management, exclusion and alienation. Furthermore, as in a commons, the right of alienation is not the most salient right in a corporation. Applying to the corporation the property rights and institutional

design associated with the commons would help sustain the corporate enterprise and deliver benefits for all of its stakeholders and for society as a whole.

What this could mean in practice – what new forms of inclusive stewardship and democratic coordination would be needed within and beyond the company – is a task for the future. But in freeing the corporation from the extractive logics of financial markets and commoning the company, we could reclaim enterprise as an institution of collective entrepreneurship whose goal is serving social, environmental, and economics needs instead of the accumulation of wealth for investors.

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