A Citizen's Wealth Fund: Broadening Asset Ownership, Reducing Inequality and Stabilizing the System

BY MARK BLYTH AND ERIC LONERGAN

The views expressed in this article are those of the individual author/authors and do not represent the views of or an endorsement by the Federal Reserve Bank of St. Louis, the Federal Reserve Board of Governors, the Federal Reserve System or the U.S. Department of Agriculture.

The GameStop debacle from earlier this year should remind us of two things.[1] First, ownership matters. Ordinary people want broader asset ownership, even if it's chasing a bubble. Second, those same people feel that who gets to own assets is a rigged game. In both cases, they are not wrong. When share ownership is highly concentrated, when a minority of workers have pensions tied to stocks and when the majority of workers earn less than $20 an hour, that feeling of a "rigged game" rings true.

Asset ownership, far from broadening, has been concentrating for the past 30 years. Stocks, bonds, real estate (commercial and residential), commodities and even cryptocurrencies are owned and controlled by fewer and fewer players. Concentrated asset ownership in turn turbocharges income gains among those who already have the most assets.[2] Today, amplified by COVID-19, these inequalities powered a K-shaped recovery, where the asset rich saw their values rebound, while the asset poor suffered real income and quite possibly real wealth destruction.[3]

Asset ownership matters because it gives citizens a stake in their economy at a time when the country is polarized economically as well as politically. Assets are not just valuable because they produce an income stream to the holder. When widely held, they are perhaps more important as a form of insurance. Stocks can be sold, houses can be remortgaged and bonds can be cashed in. Broadening asset ownership gives citizens their own recession buffers as well as broadening the number of people anti-recession policies can effectively support.[4]

---

[1] For those who don't obsess over financial markets, GameStop was a stock heavily hyped on Reddit because it was the subject of a short squeeze by hedge funds. Thousands of micro-investors used the RobinHood share trading platform to boost the price, forcing the hedge funds to close out their positions.

[2] Thanks to Piketty's famous R > G process.

[3] See https://www.stlouisfed.org/household-financial-stability/the-real-state-of-family-wealth.

[4] It also fosters the intergenerational transmission of wealth, thereby lowering inequality over time.

Given that broadening asset ownership is one of those rare policy goals that has no obvious trade-off with another cherished goal, how best can it be advanced when private mechanisms seem to concentrate rather than broaden ownership?

We put forward a citizen's wealth fund that would broaden asset ownership, give citizens a much bigger stake in their economies and provide those same citizens a different kind of insurance against future risk.

In our recent book *Angrynomics*, we put forward our version of a citizen's wealth fund (CWF) that would broaden asset ownership, give citizens a much bigger stake in their economies and provide those same citizens a different kind of insurance against future risk. It's different from current sovereign wealth funds in that it is not funded by carbon rents (Abu Dhabi or Norway) or from a portfolio of state-owned enterprises (Singapore). Rather, we envision one funded from the upside of financial crises. Yes, we did say upside, and there is one.

The original book on how central banks should handle financial crises was written by Walter Bagehot in 1873. The basic rules were "bail (at a penalty rate), fail (anything truly insolvent), and jail (fraud)." Since 2008 we have operated with a different set of rules that has fed the perception that "the game is rigged." That is, when you are dealing with "too big to fail" institutions, you bail at zero, fail no one due to "systemic risk" and jail no one due to the system's opacity.

This different set of rules has given us a world where central banks routinely support crisis-hit asset prices and even create protected classes of securities that are guaranteed not to fall in value. As a result, the largely asset-less, taxpaying citizen ends up paying asset insurance for the already rich while receiving nothing in return. Indeed, they most likely pay for such generosity through rounds of austerity on the public budget. Little wonder, then, that trust in the system evaporates.

Our proposal breaks this pernicious cycle of policymaking and truly broadens asset ownership in American society. We want to exploit an empirical regularity—that the government's cost of capital varies inversely with that of the private sector in moments of crisis. Specifically, in any recent financial crisis, the value of private sector assets falls as liquidity dries up in a flight to

safety.[5] The supplier of safe assets is the state, which is why as equity prices fall, bond prices rise and the yield on those bonds fall. Because of this regularity, and because of the centrality of government debt to financial markets in general, since 2008 pretty much any OECD government has been able to issue debt at a negative real rate.[6]

COVID-19 has served as proof of concept where even the promise of an additional $2 trillion in US spending on top of an existing $2 trillion in COVID-19 relief has barely moved inflation. Such a funding environment is correctly seen as a way for the government to rebuild infrastructure and finance decarbonization, and it is that. But it is also the perfect environment to build a multigenerational CWF. Despite the recovery in global stock markets, a diversified portfolio of stocks is still priced to deliver around 5% in real (or inflation-adjusted) terms per year. By contrast, even after the recent selloff, 30-year Treasuries yield close to zero real.

We propose that the U.S. government create a wealth fund that is funded with bond issuance that invests in diversified portfolios of global risk assets. Importantly, the federal government's *net* debt—that is, liabilities less assets—is unchanged on day one. Over time, however, because the assets should compound at 5% real and the bonds could be structured as zero coupons, liabilities can be repaid as assets are accumulated. If, for example, the U.S. government issued bonds equivalent to 20% of GDP and its diversified portfolio returns 5% real compounded over 15 years, the fund would be able to repay all the borrowing and retain assets equal to 20% of GDP.

When you are dealing with "too big to fail" institutions, you bail at zero, fail no one due to "systemic risk" and jail no one due to the system's opacity.

To do this, Congress would authorize the Fed to open up a "fidelity for the people" fund. Modeled on the famed Boston firm that has built wealth

[5] Even the fraying of the Treasury market in March 2020, which required backstopping from the Fed to the tune of $1.45 trillion, did not disrupt long-term flows into Treasuries and the consequent lowering of yields.

[6] Sebastian Mallaby has referred to this situation as the "era of magic money," where a confluence of falling real rates and structurally low inflation has created an environment where governments are effectively being paid to issue debt.

for American families for over 80 years, the fund will be an independent institution, with a board drawn from the fund management industry that in turn is overseen by a board drawn from a multiplicity of citizen stakeholder groups. There will be no political representation by Congress on the board nor access by Congress to the funds. The funds will use this initial windfall to develop a highly diversified passively managed portfolio of assets (equities and bonds) with the target of producing a real rate of return on the fund of 5% a year.

Congress would authorize the Fed to open up a "fidelity for the people" fund.

Currently, 20% of U.S. GDP is $4 trillion. Compounded over a decade, that fund would grow to over $6.5 trillion. Just think about what could be accomplished with $2.5 trillion that is earned, not raised by taxes and belongs to everyone except Congress.

Just think about what could be accomplished with $2.5 trillion that is earned, not raised by taxes and belongs to everyone except Congress.

We would give equity shares in the fund to the 80% of Americans with the fewest assets. Inequality could be massively reduced with simple endowment payments to citizens as they turn 21 (why should only the rich get inheritances?). Like an inheritance, the founding statute could restrict drawdowns of capital to the beneficiaries to education, home equity, starting a business, health care or retirement income. Recipients could pool funds to raise start-up capital. The statute could be targeted to the bottom 80% so that we can raise the bottom without punishing the top.[7]

The system as is cannot stand another crisis. Populism is the canary in the coal mine for capitalism, which cannot exist without broad benefits and trust in the system. While a CWF would not solve all of these problems, it would at least address some of them in a fundamental and significant way and in terms of rebuilding trust. It would be giving ordinary taxpaying citizens the upside, for once.

[7] After all, they already have plenty of assets.

Mark Blyth is a political economist at Brown University. As well as being the co-author of *Angrynomics*, he is the author of *Austerity: The History of a Dangerous Idea* (2015).

Eric Lonergan is a macro fund manager, economist, author of *Money* (2009) and co-author of *Angrynomics* (2020).