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Policy Study No. 80

Every Adult a Share-Owner

The case for universal share ownership

Shirley Robin Letwin & William Letwin

CENTRE FOR POLICY STUDIES

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1

Why every adult should be a share-owner

Suppose that every adult in Britain acquired £100 worth of shares in some British company. Suppose that, apart from undertaking not to transfer those shares for five years, each adult enjoyed all the rights of a shareholder. He would receive regular dividend payments. He would be entitled to vote for directors of the company and to question or criticize the management's policies at annual general meetings. He would receive frequent mailings from the company, reporting on its performance, informing him how to interpret such reports, explaining his rights as a shareholder, and inviting him to take advantage of certain privileges. To put every adult in this position is the objective of Universal Share Ownership (USO).

How would USO affect the character of Britain?

USO would, first of all, give every adult a sense of increased independence in relation to his economic environment, a sense at present confined to a few. Unlike a bank deposit or an insurance policy, a share gives its owner a direct stake and active voice in the management of an enterprise of his choice. It gives its owner a definite relationship to a business. A firm that would otherwise be a remote abstraction – a name, a set of buildings seen from the outside if seen at all, an entity enigmatically discussed in the back pages of the newspaper, an organization directed by unknown magnates – becomes instead an operation in which the shareholder has a measurable interest, and which, as an active participant, he comes to see more clearly, closer to the inside. Just as voters in a democracy sense that they exercise some control over how they are governed because they have the power, at the very least, periodically to turn the rascals out, so shareowners acquire an enlarged sense of being in control of their lives. By being a shareowner, a person becomes a freer man.

To value freedom is to hold that every adult ought to have a sense, accurate rather than illusory, of controlling his own life. In the past, certain advocates of free government maintained that nobody could enjoy real political or economic independence unless they owned land. Today, in an industrialized society, this is no longer feasible nor necessary. The ideal of independent proprietor-farmers has yielded to the ideal of a property-owning democracy.

Not all forms of property however can serve that ideal equally well. Title to one's dwelling – which some 60% of British households now possess, thanks partly to the policies of the present Government – is in many ways desirable and commendable. But it does not give one a direct interest in, or what is more important, a right of control over, productive enterprises. In other words, owning one's home does not, like owning shares, involve one in public economic life. Further, the vast majority of British adults own investments in bank accounts, life insurance, unit trusts, and pension funds; and they thereby, though often unknowingly, possess indirect claims on shares owned by such financial intermediaries. But here again, however rewarding such investments are financially, they do not and can not give their owners a sense of enjoying a rightful and potentially active voice in determining the policies of the nation's enterprises. In short, the ideal form of a property-owning democracy in today's world is a share-owning democracy.

Some might question whether a share-owning democracy could be effected by USO, as it would put into the hands of every adult only a miniscule fraction of a company's shares, far too little to lift him even into a back seat, let alone the driver's seat. But if that argument carried any weight, it would also be a fatal objection to political democracy. In fact, although no single voter can by himself determine the outcome of a general election, the majority or even plurality of voters do; and even a relatively small minority of voters can influence the Government's policies. Similarly the majority of shareholders can show out the existing management, and a concerted minority can force it to re-examine its conduct. Groupings arise among shareholders, akin to political parties, that amplify the otherwise feeble voices of isolated individuals. Besides, shareholders dispose of some weapons sharper than those available to electors: they can claim legal redress against malpractice by directors, they can invoke the help of various regulatory agencies to launch official investigations of how their company is being managed, and they can, whenever they choose, withdraw from the company by selling their shares – which, if done by many shareholders at the same time, depresses the share price and thus threatens the existing management. For all these reasons then, USO is a practical step toward a share-owning democracy, one in which all adults enjoy real power to influence directly the business firms of which they are the employees and customers.

As the number of shareholders in Britain increases, the case for universal share-ownership becomes more urgent. As long as hardly anyone owned shares, the vast majority without them could comfortably ignore the difference between those eccentrics and themselves, supposing they even noticed it. But now, when many adults, even if still a minority of the order of one in ten, visibly do own shares, those outside their number are more likely to feel excluded and to resent it. As share-ownership grows more common, and is regarded as normal, to be without shares grows more painful – just as those who today lack refrigerators, television sets, or cars may well regard themselves as relegated to the position of outsiders. Therefore wider share-ownership, desirable as it is, constitutes a powerful argument for universal share ownership.

USO would in yet another way foster the consensus that constitutes the foundation of a property-owning democracy. USO would effectively counteract the opposition to a free society that is fostered by some few declared enemies, and by many others who inadvertently threaten it by demanding massive intervention to iron out inequality. Socialists have patently lost the intellectual argument, as is indicated by the efforts of the Labour Party and TUC to re-clothe socialism in non-collectivist garb, as for instance by giving nationalized industries the new name of 'public enterprises'. Yet old habits of thought and feeling die out slowly, especially among people whose minds are attuned to practicalities and indifferent to theory. It is still habitual for many, when they notice that some are better off than themselves, to conclude that this inequality can only be explained by oppression and injustice, and to respond to it with envy and resentful anger. Preaching against such ideas and emotions does little good. By now, a different method of persuasion is needed, a method that is enticing rather than admonitory. And that is what USO can provide.

If every adult owned shares and thereby possessed a definite stake in a capitalist enterprise, he would have that much less reason to put his trust in agitators and charlatans who picture capitalism as a regime imposed by the few on the many. If every adult owned shares, each one's resistance to such propaganda would be fortified by that of his neighbours, just as their common experience as shareholders would make them less vulnerable to envy and bitterness.

Universal share ownership would thus tend to demolish the 'we-they' myth, the notion that the country is divided into two classes permanently at war. This notion, that capitalists always flourish by making workers always suffer, does not stand up to a number of unmistakeable facts. Pay and conditions of work in Britain today are dramatically better than in the past, chiefly because of competition rather than collective bargaining or government regulation. Weekly hours have been reduced within a century or so by half, holidays have lengthened, schooling goes on longer, retirement comes earlier, and the burden of physical exertion has been radically lightened by 'capitalist' machinery. An ever larger fraction of the work-force does white-collar jobs in relatively luxurious settings. Real incomes of employees, both in and out of trade unions, have multiplied; standards of private consumption, of cars, clothing, TV and holiday travel, rise to ever higher levels. Yet in the face of all such evidence the 'we-they' syndrome persists.

It is sustained partly by the view that the interests of workers must clash with those of owners because increased wages must cause diminished profits, a view which, though tautologically correct at any instant, is false over any stretch of time. It refuses to acknowledge that profits help to fuel investment, and that increased investment (in viable enterprises but not in dying ones artificially resuscitated with public grants) leads to increased productivity, which free labour markets translate into increased wages. Workers infected by 'we-they' attitudes are able to see neither that they benefit, as their employers do also, when their company earns a reasonable rate of return on capital, nor that protracted failure to do so will inevitably force any company to shrivel or go into liquidation. They are blind to the consequences of exacting unrealistically high wages: companies facing consumer resistance or stiff international competition will lose sales, diminished profits will dry up the flow of investment and condemn the company to a deteriorating and out-dated plant, or management will replace over-priced jobs with labour-saving machinery. Far from being hypothetical, these consequences are witnessed in the statistics on business failures, industrial output, and unemployment. Despite this, as we have said, the 'we-they' syndrome survives.

It could be dislodged by making every adult a share-owner. What lends credence to the myth of class conflict is not inequality but the qualitative gap between those who recognize themselves as owners of productive capital and those who, because they own none, feel excluded from and by 'the system'. If that division were to disappear, the 'we-they' myth would in time evaporate. Ownership of shares, even of a few, would put the small shareholder on a continuum with the biggest shareholder. Though small ones might well still envy the big, it would no longer be the worst kind of envy – that of the outsider, excluded from a world which is at once alluring and unapproachable. USO would make every adult a capitalist.

A person who sees himself as a capitalist cannot be utterly indifferent to the success of the system in which he takes his place. Like anyone who owns his own house, he would be disposed to look after his property, and would be outraged by any attempt to deface or destroy it. As an employee-capitalist, he would be less inclined to regard his boss as an antagonist, less liable to shirk, cheat, or do malicious damage. In short, his ownership of shares, and the visible stake that they gave him in a capitalist enterprise, would counteract, most simply and effectively, the divisive and destructive attitudes which have over the years been encouraged by the enemies of capitalism.

What would make the shareholder's stake in capitalism visible to him, more than merely the piece of paper that certifies his ownership, are the interests and information connected with ownership. Just as the man who plays the football pools looks eagerly at the game scores, so the shareholder has an incentive to take a serious interest in the progress of his company.

Owning anything also gives one a rational interest in understanding it. Shareholders' desire for understanding is partly satisfied by the managers of any widely-owned company, who have an immediate interest of their own in explaining to shareholders how the company works. Unless they can explain their record cogently and convincingly, they will lose their capacity to raise equity capital, whereupon the company (and with it their own careers) will either decline or be taken out of their control. In other words, the managers of a company have compelling reasons to engage in a constant effort to inform shareholders about the economic situation that their company faces and that they as shareholders accordingly face. Although the effort to inform may sometimes be corrupted into an effort to misinform, that vice is generally held to a tolerable level by the exertions of dissatisfied shareholders, the investigative passion of financial journalists, and official enforcement of company law.

Understanding of one particular company is a spur towards acquiring an understanding of the general economic set-up. The more a shareholder becomes familiar with the workings of a company of which he owns a part, the more he comprehends the workings of other companies, and how the operation of each is related to that of others. Thus he comes to understand important aspects of how a market economy works. Consideration of how a particular company decides to invest a certain amount, and in certain sorts of capital equipment, promotes a generalized recognition of the function of capital in production and the role of profits in providing funds for investment or attracting external finance. In this way, the shareholder also acquires some general understanding of the relation between risk and profits, ignorance of which accounts for some of the most serious misconceptions about capitalism. To the informed shareholder it becomes clear that profit is not a 'rip-off' extorted by a capitalist conspiracy but rather the legitimate reward for putting capital at risk. Other general economic relations impinge on the attention of shareholders, such as, to mention only two, the interplay between changes in the interest rate and fluctuations in share prices, and the ways that the balance of trade can influence the rate of interest.

In short, the shareholder, because he is being regularly informed about his company, tends to acquire an understanding of how capitalist enterprises work. He is no longer an alien in a world whose language he cannot understand. Even if he works on a production line and earns wages toward the bottom of the scale, he no longer feels like an outcast nor is he readily seduced by those who maintain that the sole remedy for all discontents is to destroy 'the system' and replace it with another. USO would thus help to sustain political stability.

The shareholder's personal interest in the value of his shares, and his incentive to understand the various commercial and economic circumstances that affect it, is reinforced by his power to govern his company. That power, stemming from his right to vote for directors and to vote on specific matters of policy as vital, for instance, as takeover bids, makes him aware that he plays an active part in determining the company's conduct. Making every adult a shareholder would thus serve as a specific antidote to the passivity and lassitude that overcome dependents of a welfare state. It would encourage a more active, enterprising attitude to economic affairs.

Shareholders could normally be expected to exert their influence so as to promote the efficiency of their company; that premise underlies USO, just as an analogous premise underlies universal suffrage. But whereas politics exhibits not a few instances of self-serving factions that try to milk the public purse, this disorder (short at least of outright fraud) is less likely to occur in a widely-held company. For instance, a blatant attempt by employee-shareholders to push through a policy of excessive wages or thinly disguised feather-bedding would be resisted by the mass of shareholders who are not employees of that firm. Moreover, informed employee-shareholders could easily recognize, along the lines of the golden goose parable, that they would profit little by destroying the profitability of their company. To the extent that it may be desirable, as some believe, that employees should have some direct representation in management, the safest and most productive way to establish that is by making all workers shareholders.

Resistance of a similar sort should offset any attempt by shareholder-customers to force through a commercially unwarranted reduction in the company's prices. Even if a housewife's interest in cheaper soap powder would in the short run be greater than in her dividend, she and her like could be outvoted by the mass of shareholders who are not among the company's customers, as well as by shareholders whose private interest as customers is outweighed by their interest as receivers of dividends. So again, to the extent that it might be desirable for consumers to exercise some influence over company policy, it would be safer and more productive that such influence be exercised by customers within the body of shareholders (which presence USO would guarantee) rather than by consumers' consultative councils or consumers' pressure groups outside the company.

Overall, the shareholder's pressure on management, after USO was instituted, would be most likely to concentrate, as it does already in widely-held companies, on urging management to strive for higher earnings. And this is as it should be because – leaving aside monopolies, which can sometimes raise their profits simply by raising their prices – increased earnings come about by increased efficiency, that is by turning a given flow of inputs into a more valuable stream of outputs. Increased efficiency thereby benefits shareholders and employees and customers and the public at large.

USO would tend further to improve general economic efficiency by stimulating investment. It would have this effect for the simple reason that people's taste for any particular object of expenditure depends on its being familiar to them; the whole industry of advertising rests on this proposition. Familiarity grows with practice: as people increasingly watched television in their friends' homes, they increasingly wanted it for themselves. The same is likely to happen in the case of share ownership.

As USO went into practice, as the great mass of Britons became for the first time shareholders in their own right, and as they came to recognize the benefits of share-ownership, their taste for acquiring investments should gradually grow. As that taste increased, individuals would be disposed to spend more of their income on investments. Moreover, that expenditure would rise still further as real personal incomes rose. And it would be stimulated even further by the decline in brokers' fees that is fairly certain to follow the deregulation of Britain's financial markets, the so-called 'Big Bang' scheduled for this October.

All in all, USO could be expected to reinforce the foundations of a free society and to enhance the efficiency of the market economy.

2

How USO would work

1 Distribution of shares

The privatisation policy of the present Government provides an admirable opportunity for bringing USO into existence. USO would be initiated if the Government offered every adult the opportunity to buy shares that the Government still owns in British Telecom. Its holding is quite large enough, at its present market price, to offer about £100 worth of shares to each of the 40 million or so people in Britain over eighteen years old. In order to induce all adults to become shareholders, £100 worth of shares would be offered at a nominal price of, say, £10. As a condition of the bargain, purchasers would have to hold these shares for at least five years before selling them or giving them away. In the meanwhile, they would receive standard dividends and enjoy all the other rights of ownership.

In order to achieve universal share ownership, and the political and economic benefits flowing from it, similar distributions of shares would have to be made several times. This would be necessary partly because some of those who acquired shares during the first distribution would after the end of five years exercise their option to sell them, and not all of them would use the cash to buy other shares. Further distributions would be necessary also to make USO available on concessionary terms to the million or so people who become adults every year. In order therefore to build up momentum toward universal share ownership, subsequent distributions should take place every few years. This is not to say, however, that distributions need become perpetual or even very numerous. As the policy of USO began to achieve its intended effects, more and more people might acquire the habit of devoting part of their income to the purchase of shares. Eventually USO should become self-sustaining, needing no further stimulation by government.

2 Reinforcement of share-ownership by education

The habit of owning shares would be reinforced by a flow of information that would naturally reach participants in USO.

In the regular course of business, the management of their company would send them periodic reports about matters bearing on their immediate practical concerns as shareholders. As many of these reports would be accompanied by dividend cheques, it can be predicted with confidence that the envelopes would be opened and their contents examined. During the minimum of five years that the subscriber to USO held his shares, he would receive some ten or more mailings of this sort.

Recognizing that the great majority of the adults who acquired shares during the first USO distribution would be utter newcomers to share-ownership, the managers of the company concerned would have good reason to initiate them into general information about the implications of share ownership. For instance, they would find it worthwhile on their own account to explain to shareholders their rights to elect directors and to question and criticize the management's policies. In keeping with a recent trend toward 'social-impact reporting', the management might be expected to explain how its activities are intended to achieve objectives ancillary to its purely commercial goals. In short, people who under the auspices of USO become shareholders for the first time would receive a regular stream of information from the companies concerned.

It cannot be denied however, as the *Financial Times* recently put it, that much important information in company reports "is tucked away at the back in accountant's jargon that is difficult for outsiders to understand". Many or most recipients of shares under USO would experience some difficulty in understanding the basic format of financial accounts, quite apart from the specialized notes and appendices presented in accountant's jargon.

Accordingly, in order for USO to be as effective an educational device as possible, measures should be taken to help shareholders toward basic financial understanding. As companies may not voluntarily assume a duty in this direction, and could not sensibly be compelled by law to assume it (since managers are not after all experts in spreading abstract knowledge), this desirable function should be carried out by other bodies. One or another of the regulatory agencies being established in connection with the 'Big Bang' – say, the SIB or the Stock Market – might take responsibility for this, perhaps at the

Government's expense. Alternatively, the Department of Trade and Industry might commission qualified academics or professionals to do it. Or some private philanthropic organization might undertake the task. In any event, what must be guarded against is anything that could reasonably be dismissed as political propaganda or self-serving advertisement. The aim instead must be to explain in as purely objective a manner as possible, and with the greatest lucidity, what a company's financial reports can tell the shareholder about the present and prospective value of his investment.

In these ways, subscribing to USO would in effect constitute enrolment in a continuous course of education, which apart from reinforcing the habit of share-ownership, would yield the broader advantages, political and economic, discussed above.

3 Eligibility for USO

The general principle that USO should be offered to any person above the age of 18, like any other broad principle, will need further specification in practice. Obviously it is not intended – to choose an extreme example – that the USO scheme be available to a foreign tourist who luckily happens (or deliberately arranges) to visit Britain on a day when the subscription list is open.

As a first approximation, British citizenship might be set as the qualifying condition. But this seems too narrow, for it would exclude a large number of permanently resident aliens, people who have already lived in Britain for at least five years, who may stay here the rest of their lives, and who may be intending to acquire British citizenship. A further class that may merit inclusion are adults who while not 'ordinarily resident' in Britain are deemed to be resident here for tax purposes; although they are not members of the polity, they do contribute to the public purse. Clearly to be excluded, on the other hand, are aliens admitted for a few years, say as diplomatic personnel or university students, who have no long-term link with British politics or with the economy.

Even among the broad categories of citizens and permanent residents, it might be reasonable to exclude persons certified as insane, incurably senile, or prisoners serving long sentences for serious crimes. Not that such persons do not deserve compassion; rather that the purpose of USO is not to augment the mechanisms of the welfare state.

The suggestions above indicate only a broad outline. More specific rules, and many of them, would have to be worked out by ministers, officials and MPs – but working out such details is beyond the scope of this present study.

4 Cost of USO

USO would cost the Government suprisingly little. Supposing that in the first distribution, £100 worth of shares were sold at £10 to each of 40 million adults, the Treasury would receive £400 million. Supposing that the Treasury had instead sold those shares at their full market price, it would have received £4 billion. Reckoned in this way, the first tranche of USO would cost the Treasury £3.6 billion. But that calculation is somewhat misleading.

Suppose that the Treasury made up the foregone capital sum of £3.6 billion by borrowing it. Then the carrying charges on that loan would run at something under £360 million per year. Would that be too high a price?

In one sense the question is unanswerable, because it is impossible accurately to assess the monetary value of the political, social, and economic benefits that USO would yield. But the same must be candidly admitted about any number of other public policies that are widely endorsed after having been in place for years. It would be impossible to discover an even remotely accurate figure for the value rendered by having streets swept, or maintaining public parks, or (above all) of keeping up the defense establishment. We rightly do many things that cannot be justified by cost-benefit analysis.

On the other hand, it is in this instance possible to justify the price in broad terms. Recognizing that all adults pay taxes in some form or other (even though only some pay income tax), the annual carrying charge to the Treasury of £360 million would imply an additional average annual tax bill of £9 per adult. In exchange for this, each adult's £90 worth of shares (disregarding, that is, the £10 worth that he paid for) should yield something in the neighbourhood of £9 a year worth of dividends plus capital gains. 'Should yield' is neither optimistic nor pessimistic but neutral. Shares in any given company may, of course, yield more or less than the average of all shares, and will yield less at some times than at others. Nevertheless, in the long term, efficient capital markets will tend to equate the average rate of return on shares with the rate of interest on government loans.

In short, considering USO in its purely financial aspect and disregarding all its contributions to the quality of national life, USO promises to be an excellent bargain to the public at large. What they stand to gain as shareholders would more or less exactly equal the additional burden that they would have to assume as taxpayers.

5 The long-run future of USO

As we have said, the first USO distribution should probably offer BT shares now owned by the Government. Because a market already exists in BT shares, every adult could ascertain the current market value of the USO offer by consulting his daily newspaper. Instead of being invited to buy a pig in a poke, the prospective subscriber would be offered an asset of established value – and though that value would fluctuate during the minimum five years that he held the shares, it would (in the case of BT) more probably rise than fall precipitously. Another reason for choosing BT shares for the first USO offering is that the government's present block of them is more than large enough to be cut up into 40 million reasonably thick slices.

As we have explained, a series of successive USO offerings would be needed in order firmly to implant the habit of shareholders among practically all adults. If, as a result of USO offerings and ordinary privatization sales (such as the forthcoming disposal of British Gas), the Government had disposed of all nationalized industries, that need not impede further USO distributions. Lacking shares to sell, the government could instead sell 'investment vouchers'.

Investment vouchers, priced as before at say £10, would entitle the purchaser to buy £100 worth of shares listed on the Stock Exchange, but not shares in unit trusts, investment trusts, or in any other indirect form of investment. At each USO distribution, one and only one voucher would be offered to each adult, and the voucher would be valid only for purchase of shares. Companies whose shares were bought in this way would simply present the vouchers to the Treasury for redemption, just as though they were cheques or credit-card sales-slips. USO distributions by vouchers would cost the Treasury, and ultimately the taxpayers, no more than direct distribution of shares. Subscribers would enjoy the advantage of being able to select whichever shares seemed to them most promising, and the effort of choosing among all the shares available would have great educational effect.

Care would have to be taken of course to ensure that investment vouchers could not be traded illegitimately, or perverted into a sort of black-market currency. But this poses no more practical difficulty than is now satisfactorily dealt with by the issuers of manufacturer's coupons, luncheon vouchers, airline tickets, and other non-transferable chits. Arrangements would also have to be made so that stock certificates bought with investment vouchers could not be sold within five years of purchase, but once the proper legal arrangements had been perfected that would call for little more than a simple exercise of printer's art.

If £4 billion worth of investment vouchers were suddenly injected into the stock market, would that cause share prices to sky-rocket, blowing up a sort of South Sea bubble that would burst sooner or later with disastrous effects? Such a fear is quite unfounded. Additional demand of the order of £4 billion, though substantial, would be small relative to the total annual volume of transactions in the stock market. Moreover, it would have no unsettling effect at all if it were matched by new flotations to the extent of £4 billion, as it might well be, since in the stock market, as in other efficient markets, increased demand tends to call forth increased supply. Neither is there reason to fear that speculators could take undue advantage of the knowledge that a block of investment vouchers was about to enlarge demand for shares. Certainly they might hope to profit by buying shares before the vouchers were issued on the expectation that they could sell when share prices rose after and because of the issue. But as they could not foretell which shares, if any, would mount in value as the result of the issue of vouchers, speculators – or at any event shrewd ones operating on a large scale – might well regard any such gamble as unwise. In any event, their efforts could be neutralized by judicious users of the investment vouchers, who would be reluctant to buy those shares whose prices had been speciously bid up by speculators. All this suggests that investment vouchers should be so fashioned that their holders could use them at any time within say a year of receipt. Aside from avoiding an instantaneous surge of demand, it would also give their holders ample time to consider which shares they wished to buy.

Would the issue of investment vouchers tend to dilute the value of existing shares? Nothing of the sort. So far as investment vouchers were spent for previously issued shares, this would represent merely substitution of the buying share-owner for the selling share-owner, without an effect on either the real assets underlying any share or on the voting power attached to each share. If, on the other hand, the issue of investment vouchers did stimulate an increased supply of shares, that in itself would have no tendency to drive down the assets behind each share because each of the new shares would be paid for by cash that swelled the company's asset base. It is true that whenever a company issues new ordinary shares, the relative voting power attached to each share diminishes – but this effect can only be accepted by existing share-holders, who would rationally accept it as a concomitant of bringing additional equity capital into their company. It is in any event no more threatening than the fact that each voter's voice is somewhat diminished as a country's voting population grows.

Aside from their particular suitability for the purposes of USO, investment vouchers would help to demonstrate the general utility of vouchers as a means of deploying ear-marked grants of public funds in a manner most compatible with the individual's freedom of choice.

3

Justification of the policies required

1 The case for private ownership

Since USO would initially work by distributing shares in nationalized industries to private owners, the general case for it rests partly on the reasons for preferring private ownership to public ownership.

Public ownership of productive assets is generally defended on grounds of efficiency and expediency rather than of morality. Even if the goals are asserted to rest on moral principles, the means towards them have no independent moral standing.

Take as an illustration the argument for state schooling. It starts from propositions such as that every child ought to have at least a basic education, whether or not his parents are able and willing to pay for it, or, in a stronger version, that all children should attend the same schools, comprehensive state schools, regardless of their parents' incomes, religious affiliations, or educational preferences. Though these propositions are debatable, they are undeniably moral in character, resting as they do, partly at least and however precariously, on such moral imperatives as every individual's claim to self-fulfilment or right to equality of opportunity. But when we come to questions of implementation, whether, in particular, universal schooling necessarily entails public ownership of school buildings, moral considerations drop out, to be replaced by pragmatic calculations. It might be cheaper for the state to own school buildings; it might alternatively be cheaper for the state to lease school buildings from private owners. It might be more or less convenient in other ways for school buildings to be publicly owned; it could not however be more or less moral.

Similarly, in the case of other public services. To maintain that no person ought to do without essential medical services for want of ability to pay makes good moral sense - which is not to say that this assertion is indisputable either in principle or, more pertinently, in details such as whether provision of wigs consitutes a medical service or an essential one. But even if the assertion is accepted as valid, it implies nothing about whether the Government should own NHS hospitals (which it does), or all hospitals (which it does not), or the surgeries of NHS doctors (which it does not at all).

Finally, the case of nationalized industries points more clearly still in this direction. Some industries, for example in shipbuilding, were nationalized to avert closure following the bankruptcy of private owners, because closure would have resulted in job losses. Even if it were asserted that the Government ought to assume responsibility for providing every willing worker with some job, it would not follow that the only or best way to honour that responsibility would be by turning a privately-owned industry over to public ownership; it would, for instance, be morally equivalent to honour the responsibility by giving public subsidies to the private owners. Again, some industries, such as steel, were nationalized on the ground that this would put the Government in charge of "the commanding heights of the economy". In the background there certainly lurks the principle that a Government has a duty to control the economy, though that principle looks more like a practical recipe for economic well-being than a moral imperative. Be that as it may, the corollary that government control of the economy is facilitated by government ownership of certain industries falls entirely within the domain of practical judgement.

All these arguments support the conclusion that public ownership has no claim to be regarded as morally superior in itself to private ownership. The only rational basis for disputing this conclusion would be the belief that communism is the ideal situation of mankind, in other words the belief that common ownership, or government ownership as its surrogate, is right, whereas private property is theft. On this view, public ownership sponsors civic virtue by directing the individual's endeavours toward the public good. A somewhat less stern line of argument is advanced by those who reject the communist ideal but regard government as a great engine for achieving magnificent objectives, whether economic progress, theocratic purity, world revolution, equality, or any combination of such corporate goals. As these latter understand things, intervention by government in private affairs is a *sine qua non* for achieving their objectives, and public ownership is welcomed as one mode of government intervention.

Quite the opposite view is held by those who believe that a Government has only one legitimate purpose, to establish a framework of law that will secure the opportunity of individuals to pursue the different objectives that they map out for themselves. On that view, public ownership is out of place because a Government ought not to operate productive enterprises; its proper role is that of an umpire, not a player.

Because they have held this view of government, various classical exponents of the minimal state, though they have differed about many particulars, have always taken a strong stand in favour of private property. John Locke, for example, insisted that the prime function of government is to protect the individual's property as well as life and liberty. This is essential to the individual's autonomy, he argued, because if a person's property is confiscated by other private persons or by the state, he falls into servitude, even if he does not die of want. Blackstone held private property to be one of the absolute rights guaranteed by English law. Jefferson, following Locke and Montesquieu among others, maintained that a republic – by which he meant a representative democracy – could remain free and stable only if most of its citizens were self-reliant proprietors, independent of plutocratic citizens and, more important, capable of refusing to become clients and thus dependent creatures of their Government. Indeed all classical theories of free government have regarded private ownership of productive assets as an essential safeguard of individual independence.

Because USO would not only effectively diminish public ownership but also extend private ownership, it accords with the principles of free government.

2 Why shares in nationalized industries should be distributed to every adult

Government ownership of nationalized industries, properly understood, is a trust of which the Government (or, according to refinements of constitutional theory, the state or the Crown) are the trustees and the people at large are the beneficiaries. Whatever the ideas that motivated nationalization of various industries, nobody has dared then or since to proclaim that public ownership ought differentially to benefit any special group within the community, ought to operate in the particular interest of ministers and officials, managers or employees, consumers, taxpayers or others. To be sure the obvious principle, that nationalized industries ought to benefit the public at large, has been radically perverted in practice, so as to confer special benefits on people living in certain regions, or on consumers at the expense of taxpayers, or on employees at the expense of consumers. Indeed this has been done in so many different ways, and has so muddied the economic record and financial reports of nationalized industries, that even experts in the field cannot tell which particular persons have been subsidized, or by how much, or at whose expense. Nevertheless, it remains clear in principle that the public as a whole, and only they, are the proper beneficiaries of public ownership.

It follows that when privatization is undertaken, the Government's holdings should be distributed in such a manner as to benefit the public as a whole. This requirement can be met by the ordinary sort of privatization offering, which prices shares at or near their market value and enables any individual to bid for as many shares as he likes; for the total proceeds of the sale go to the Treasury, to the benefit of all taxpayers, who are the whole public. But the requirement would be more completely satisfied by USO because it would distribute shares to every adult, or more precisely, it would dramatically increase everyone's opportunity to buy shares by taking advantage of the discount inherent in a sale price substantially lower than market value.

However, to maintain that every citizen of a representative democracy has a rightful claim to share in the privatization of publicly-owned assets is not intended to suggest that all subsequent privatization should proceed through USO distributions. Neither should USO become the only way in which individuals can acquire shares of any sort. It is proposed as an important supplement to the familiar present methods of buying and selling shares, not as a replacement for them.

3 Why every adult should receive an equal subsidy toward buying shares

Even within USO's important though limited scope, the justification for offering every adult an equal subsidy, consisting of the difference between the nominal price asked for the shares and their market values, is that there is no rational ground for a discriminatory distribution of the subsidy. Equality is a suitable rule in this instance because, though not good in itself, it is better than any other option.

The Government acquired its shares in most nationalized industries by buying out previous private owners. Those purchases were funded from tax revenues, or by public borrowing, which must in turn be serviced from tax revenues. Millions of people provided those tax revenues – many of them now dead. It would be quite impossible to identify them: no record exists, for instance, about which individuals have paid excise taxes on liquor, tobacco, or petrol. It would be still less possible to trace the tax payments that ended up in the funds that the Government originally paid over at the moment of nationalization or which financed its vast periodic subventions to nationalized industries. Therefore, whether the Government acquired title from previous private owners, or whether the Government originally set up nationalized industries as public agencies (such as the Post Office), in either case it is impossible to tell which individual taxpayers paid how much toward such enterprises.

In this state of invincible ignorance, it makes good sense for the Government, having decided to return to the community of taxpaying individuals (which comprehends every adult) something that they as a community paid for, to distribute the bonus element in it equallv to each.

Other considerations would come into play if USO were in any degree designed as a redistributive measure. In that case, all the familiar arguments about need and merit would be relevant. But USO is not intended to and would not impinge on the existing system of redistribution. The subsidy element in it is not intended either to equalize wealth or to make it less equal, but rather to stimulate universal ownership of shares, for reasons having nothing to do with egalitarianism. That being the case, it is entirely fitting that each adult be offered an equal subsidy, bonus, bargain, or call it what you will. At the same time it may be noted that the psychological value of the equal bonus will undoubtedly vary from one individual to another. If, as might very roughly be predicted, the bonus were more highly valued by the needy, the young, and the old, that would certainly not tell against the proposal.

4 Why subscribers to USO should pay a price, though a nominal one, for their shares

The maxim that people generally appreciate most those things that they have had to struggle for does not require elaborate proof, even if like all maxims it admits of exceptions and qualifications. On this ground it might be argued that shares would mean more to people if they had to pay their full price. But to require this would defeat the objective of USO, since until now only some 10% of British adults have been willing to pay the full market price of shares. Universal share ownership can be accomplished only by offering shares far more cheaply than their real worth. Needless to say, it could be accomplished most certainly by giving away shares free of charge. But then the recipients might pay as little attention to them as they do to other unsought hand-outs. All this leads to the conclusion that the price set by USO should be less than the market value of the shares but more than *nil*.

Fine prudential judgement will be needed to estimate how the dual considerations of expensiveness (to the public exchequer) and cheapness (to USO subscribers) should be balanced. Whether the price charged by USO for £100 of shares should be £1, or £10, or more is a question that must be left to the politicians and officials who became responsible for detailed interpretation of USO. They would do well to seek guidance from market research or even from local experiments. Although we can be practically certain that they – like the managers of any stock flotation – will set a price that is marginally too high or too low, such errors of fine tuning would not jeopardize the broad success of a USO policy.

5 Why subscribers to USO should be required to hold their shares for at least five years

Donors commonly attach conditions to their gifts and the common law has, with the rarest exceptions, upheld this practice. Nobody would regard it as morally questionable that people should destine a bequest exclusively for the education of their grandchildren, or endow a church of their own sect and no other, or give money for research into the behaviour of ghosts and witches. Such qualifications on gifts are recognizably just, on the part of the donor, because they derive from his fundamental right to use property in any way that neither violates the laws nor injures others. They are recognizably just, so far as concerns the designated beneficiary, because they cannot possibly harm him; he can always avoid the constraining conditions by rejecting the gift. As a qualified gift is either worth taking or turning down, it is fruitful at best and innocuous at worst.

USO would offer a conditional gift: you may take title – free of charge – to £90 worth of shares (assuming a market value of £100 offered at a price of £10) provided that you agree not to sell them for five years. There is nothing oppressive or coercive in this offer. Many informed and practiced investors voluntarily buy financial paper to which stringent limitations attach; very many people voluntarily and indeed wisely buy pension rights that they cannot realize, transfer, or hypothecate for upward of thirty years.

Yet it might be objected that although the subsidy element (say £90) of a USO purchase is a gift and as such may properly be qualified, the same is not true of that part of the shareholding's value (say £10) that the subscriber has paid for. Is it proper to deny to the subscriber the right to recover the part of the shares' value that he has paid for by selling at will the appropriate fraction of his holding? The good reason for insisting that USO should not be conducted by outright gift has already been explained. It should be noted further that the normal rate of dividends, at 5% or more, means that the USO subscriber could expect to recover his cash outlay within two years. And finally, any adult who did feel that the five-year period of non-transferability was too onerous could of course decline the whole bargain.

Exceptions from the five-year rule would be allowed in special circumstances. Shares could obviously be transferred following the owner's death, or used to satisfy creditors' claims following the owner's bankruptcy. We can all accept that a party to a voluntary agreement ought to be relieved of obligations when performance has been made impossible by events beyond his control.

An exception from the five-year rule might also be made to allow USO subscribers, under certain circumstances, to exchange the shares they originally acquired through USO for shares in other companies. Such an exception would fit in with the spirit of USO, which is intended to foster the habit of owning shares in some company or other, not to lock USO subscribers into owning shares in any particular company. A facility for exchanging shares would be particularly appropriate if the market value of shares in nationalized industries acquired by USO subscribers began to decline disastrously, as might quite conceivably happen to shares in British Coal, British Steel or British Shipbuilders. If in the face of such decline, which foreshadowed bankruptcy of the company and consequent worthlessness of its shares, the five-year restraint against transfer continued in force, it would disillusion many USO subscribers and to say the least discourage the habit of share-owning.

Prudence suggests that some provision be made at the outset to deal with a threatening sharp decline in the fortunes of any presently nationalized company whose shares USO distributed. Leaving such an eventuality to be designated as an emergency and to be resolved by *ad hoc* action would load a burden of discretion on some administrative agency made responsible for invigilating the market value of shares distributed through USO and for conjuring up some scheme of relief. Moreover, it would subject the government to political pressures whenever the prices of such shares faltered. Far sounder, then, to build in arrangements from the outset that would enable USO subscribers to exchange such shares for others.

How could such exchanges best be effected? Barter would be totally unwieldy. Exchange in the normal fashion, by selling one lot of shares for cash and using the cash to buy another lot, would tend to undermine the five-year rule, because some shareholders, after cashing in their original shares, would spend the proceeds, and the policing required to prevent this would be costly and intrusive. The best medium of exchange between original shares and replacement shares would accordingly be investment vouchers (see pp 17 above).

Besides its main purpose of fostering the habit of share-ownership, the five-year rule would have the auxiliary function of avoiding excessive volatility that would infect share prices if novice shareholders, not yet well informed or inured to short- run fluctuations, panicked in response to rumour. If, then, USO subscribers were authorized to exchange shares for other shares within a five-year period, through the medium of investment vouchers, it might be wise to limit this privilege so that it could be exercised only, say, once a year. Those responsible for working out the detailed practicalities of USO might however judge that no such limitation would be required, inasmuch as brokerage fees would sufficiently brake the USO subscriber's impulse to exchange his shares at the slightest decline in their value.

4
Conclusion

Many official schemes now exist to encourage investment. These operate chiefly by offering tax relief to persons who invest indirectly through pension plans and assurance schemes or who invest directly in their own houses. An unintended, though not altogether unforeseeable result of such incentives has been to discourage people from making direct investments in shares, dividends on which are taxed without any relief or deferment.

An effort to reverse this tax discouragement to direct investment in shares is the PEP (Personal Equity Plan) scheme advanced in the Chancellor of the Exchequer's latest budget. Under this scheme, capital gains and reinvested dividends realized on PEP investments of up to £2,400 per year would be free of tax. Excellent as this scheme may be in promoting wider shareownership, it would unfortunately afford incentives only to those people whose earnings are above the income-tax threshold. While benefiting them, it would impose a commensurate burden on others, assuming that total government expenditure is unlikely to decline. Tax revenues lost on account of PEP would have to be replaced by increasing other taxes, with the likely effect that concessions to PEP subscribers would be paid for in part by people whose incomes fall below the income-tax threshold. The same is true of other tax concessions for the sake of stimulating investment, of which there are many varieties.

USO, by contrast, would be far more equitable, inasmuch as the subsidy offered (which is perfectly equivalent to tax relief) would be available to all adults, no matter how low their incomes might be. And it would thereby immeasurably widen the incentive to shareownership.

Far from being a Utopian proposal, USO merely extends practices that have long been established in Britain as well as in other representative democracies presiding over market economies. The measures needed to implement USO correspond to policies that have long been advocated by many in various political parties and are being actively pursued by the present Government. By broadening the ownership of shares to include every adult, USO would have much the same effect as transforming a restricted franchise into universal suffrage.

There is every reason to expect that such a transformation would enjoy widespread popular approval, lending support to the Party and the Government that instituted it. Apart from that, USO would do much to strengthen a free society by spreading understanding of how it operates, promoting loyalty to it, and encouraging the enterprise that sustains its prosperity.

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