

SECTION VII

NEWER FORMS OF OWNERSHIP:
MOVING BEYOND EARNED INCOME AND BEYOND SILOS

Deriving Income from Universal Capital Accounts: Fixing Our Broken Income Distribution System

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It is generally understood that the U.S. has the physical capability of producing all the goods and services that people need or want. Yet, we struggle to distribute sufficient income to most people just to get above a subsistence-level lifestyle.

[Economic inequality in the U.S.](#) has inspired many proposals whereby income is redistributed from the owners of capital to people who remain outside the income distribution system such as various expansions of the social welfare system. Yet in 2018, 11.8% of the people, or 38.1 million, had incomes below the poverty line. The 5% highest paid received 23.1% of national income, whereas the 20% highest paid received 52%, leaving 48% for the bottom 80%.

Full employment is viewed as essential to dealing with income inequality and is dependent upon economic expansion. Without economic expansion, unacceptable levels of unemployment occur when the economy stops growing or even slows down. While economic growth through technological development is rationalized as creating jobs, in fact its purpose is either to eliminate jobs or to increase capital's input relative to labor. In the past, when jobs were eliminated, they were frequently replaced with new jobs in new industries. But now, eliminated jobs are frequently not replaced. The developments in robotics, artificial intelligence, etc. make this all the more clear.

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means of access to a fair share of national income. The system must be fixed so that (1) everyone possesses the right to participate in the production of goods and services through their ownership of capital and (2) the government has the responsibility for creating and maintaining a system whereby everyone has (i) a realistic and practical way of acquiring income-producing capital and (ii) the right to receive a distribution of its income.

The idea of broadening capital ownership so that most, if not all, people own a form of income-producing capital may seem like a daunting task. More than \$2 trillion of new capital is created annually, with most of it through debt financing and retained earnings. As a result, the ownership

of capital has become more and more concentrated. Any solution must include a way for people to acquire ownership of capital so that income from this capital is used to pay for its acquisition and thereafter as income to its owner.

The proposed solution is the universal capital (UC) plan pursuant to which a UC account is established for everyone with a social security number. The UC fund would include all UC accounts and would acquire funding from a variety of sources and invest in a new type of investment-grade blue chip stock that would distribute to the UC fund its income, in substantially the way that real estate investment trusts (REITs) distribute at least 90% of their income to their shareholders. Each UC account owner would have his/her share of the transaction reflected in their UC account. The income would be used to pay for the cost of the stock, but a portion of the income could be distributed to their owners. Over a period of years or decades, everyone would have a substantial income-producing capital estate to serve as part of a revised income distribution system that would enable them to access a fair share of national income.

The UC plan would be mandatory for everyone because equity sharing arrangements such as employee stock ownership plans (ESOPs) and stock options are subject to adoption by individual companies and do not provide

a continuing source of current income. As a result, the ownership of capital is more concentrated than ever, and virtually no one thinks of capital ownership as anything more than a benefit or some sort of speculative gain. If the revised income distribution system is to work, it must be accompanied by an educational program so that people understand that both labor and capital produce income so that everyone will come to think of capital ownership as a regular and continuing source of income. Without such an educational program, it is unlikely that the mass of people will accept the revised system for what is intended.

The UC plan's primary function would be for the UC fund to participate in substantial equity financings of publicly traded, mature corporations pursuant to strict standards established by a UC administrative board. Financing obtained by the UC fund would be used to acquire such equities for the account of UC account owners, on a non-recourse basis, with dividend income being used to repay the initial loan, after which dividend income would be paid to the UC account owners indefinitely.

Possible sources of funding include the following:

- Federal government grants
- Quantitative easing by the Federal Reserve to acquire debt of the UC fund or the subject companies
- Commercial lenders, possibly with a Federal Housing Authority-type government guarantee
- A change in the tax law to give a tax deduction for contributions to the UC fund

Concurrently with the adoption of this proposal, it will be necessary to amend the Internal Revenue Code to create a class of stock that would facilitate the pass-through of income, as with REITs. Additional changes in the tax law and corporate financing rules would be made to further incentivize the use of equity financing under the UC plan. The UC plan should be a means of enabling everyone to participate in the annual creation of \$2 trillion of new capital.

The UC plan proposal can be visualized as part of a three-prong segment

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under a revised social contract. The first is education, and the second is health care, neither of which has yet been fully implemented. The third recognizes the high concentration of capital ownership and requires the government to create and maintain an income distribution system where everyone has the right and opportunity to participate in the production of goods and services through capital ownership so that each will have a legitimate right to a meaningful income distribution.

How much better is it to have an income distribution system that relates peoples' participation in production through capital ownership to what they receive, as opposed to one that distributes income equally to everyone without any connection between their input and what they receive?

In view of the continuing decline in labor's contribution to production, the only alternative to the UC plan is a version of [universal basic income](#) (UBI), where funding for the government's cash payments could come from a redistribution of income from the top 1%. How much better is it, from an ethical and psychological point of view, to have an income distribution system that relates peoples' participation in production through capital ownership to what they receive, as opposed to one that distributes income equally to everyone without

any connection between their input and what they receive?

Currently, and as it would be under a UBI, the question of who gets what and how much is a *political* question that is decided by politicians, lobbyists and other representatives of the top 1%. However, individuals cannot be politically free unless they have economic freedom. Under UBI or any system where the government determines who gets what and how much, individuals, *by definition*, cannot be politically free. It is only where all people, individually, own the source of their income can they be politically free.

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