Public Equity and Democracy

Imagining an Equitable Capitalist Distribution System

Imagine a world in which every country paid its economic citizens a basic universal income, and in which every adult human being was an economic citizen of one (and only one) country. And, in this world, all national governments charged producers a 'public domain royalty' in lieu of personal income tax. In such a world, producers do not pay more, they would just pay differently.

In such a world, every adult would receive their basic universal income as one core part of their overall income. Other components of their incomes would be much as they are today, *although not subject to income tax*: mixes of wages, salaries, rents, company dividends, royalties for intellectual property, transfers.

In such a world, the receipt of a basic universal income would be understood as a core democratic right, much as the right to vote is a right of democracy. The intellectual breakthrough is that everyone becomes a beneficiary of their capitalist economy. Everyone becomes a principal, an owner, a stakeholder; nobody would be a denizen, serf, or slave.

Commented [KR1]: a person who is directly involved in an arrangement, agreement, etc., rather than someone acting for that person:
Once the principals sign the necessary papers the deal will be done.
Cambridge Dictionary

It is not only governments that are subject to (democratic) equity principles. Firms – capitalist businesses – are too. Public equity, in each polity, is analogous to private equity – the rights of shareholders – in a business. Equity holders have voting rights, and (equal) rights to draw income from the business.

If we live in World A, and the world described above is World B, then clearly the transition from World A to World B constitutes a journey, a process of development that would take an unknowable number of decades. So the challenge isn't just the vision of the the destination; it's also taking the various (large, medium, and small) steps that together make up such a long journey.

The Income Pie

In Section 2 we saw the 'Income Pie' as the second picture of 'World GDP'. This is the pie chart that is divided into income entitlements, based essentially on the rules of the marketplace. Present rules – liberal mercantilist rules – work on the basis that all property is essentially private; even government owned assets are treated as if they were private property.

We note that the 'liberal mercantilist pie' is the same World GDP, as previously described. So, by liberal mercantilist pie', we mean the cutting of the pie according to liberal mercantilist rules.

The first cut of the liberal mercantilist pie establishes 'gross income', and is based fully on market prices. All people are treated as 'sellers', and a person's gross income is their sales minus their business purchases. For a wage or salary worker, there are no business purchases; so their gross income is simply what their employer pays them, before tax.

Following this first cut, a certain amount of 'redistribution' takes place. The first step of the redistributive process is income taxation. This process, which may be simple of complicated, is conducted at the national level – the level of nation states – and to a lesser extent, especially in federally constituted countries, at the sub-national 'state government' level. The second step is a process of 'transfers' – gifts from governments to people; again, this step may be simple or complicated.

The simplest redistribution takes place when governments levy income tax at a single rate, and make equal universal transfers to every resident adult; to every 'economic citizen' (to be defined below). All actual governments do both steps in ways that are much more complex, and it is not clear that much, if anything, is gained from such complexity. To a large extent, the complexity of the second redistributive step is required to undo the complexity of the first redistributive step.

We may reconsider the income pie, as an 'economic capitalist' pie instead of as a 'liberal mercantilist' pie. The first cut of the 'economic capitalist' pie creates two portions – we could call it two 'halves' so long as we don't take the concept of 'half' too literally. For present illustrative purposes, I will use a 'private' half that's about 55% of the whole, and a 'public' half that's the remaining 45%. (Some time in the future, it may be that the public half – the public share – should be bigger than the private half – the market share.)

For the second cut of the 'economic capitalist' pie, the private share should be divided according to the present free market rule. And the public half should be divided equally to all economic citizens. (Practically, the division has to take place separately in each country.) This inherently public portion of the capitalist economic pie represents 'public equity', the public's property right with respect to publicly 'owned' capital. This equal division can be understood as a democratic right, much as the 'right to vote' is a fundamental democratic right, and also much as firms' profits are distributed on an equal basis to all equity holders – owners – of those firms.

The 'knife' for the first cut would be – in deed if not in name – a public domain royalty that replaces income tax as we know it. In early twenty-first century liberal democracies, the rate levied probably should be between 30% and 40%. The public share would then be topped up by indirect taxes, especially a value-added or goods-services tax, taking it to say 45% of GDP.

The public share should be used to pay the abovementioned universal benefits, and to pay for all the collective goods and services (and subsidies) that we expect from our governments. (Collective goods and services are, by definition, 'government spending'.) To maintain the equity principle, universal benefits would be analogous to firms' dividends, and government spending would represent undistributed profits.

We note that, with this pie-cutting sequence, the market income shares – each person's market income – is not subject to income tax as we know it; income tax will have been replaced by the public royalty. While this does not mean that governments would not have the power to levy progressive or regressive income taxes in addition to the 'public domain royalty', the liberal presumption would be that governments would not do this.

Public Property Rights

Capitalism is, more than anything, about 'capital', and its capacity to create wealth; that is, to create enjoyments.

Capitals may be exclusively or publicly owned. Further, for our human purposes, all capitals are owned. Exclusive ownership is tantamount to private ownership, though it may include cases where governments are exclusive owners, such as a government owned commercial farm. Non-exclusive ownership can be said to be ownership in the 'public domain', and includes environmental, institutional and intellectual capital.

The practical concept of ownership is not absolute. All private property is potentially able to be 'publicised', for example through legal principles of 'eminent domain' and the like. And 'natural' property is only owned by humans in an economic sense; economic ownership in the public domain does not preclude other interests – including those interests of other species and special interests of 'first peoples'.

Different authors have identified different capitals. One book – by Jane Gleeson-White – identifies *Six Capitals*: financial, manufactured, intellectual, human, social, and natural. The New Zealand Treasury's 'living standards' framework includes all these, although it conflates intellectual and human capital. Cultural capital fits into 'human capital'. I think there needs to be another category of capital: 'institutional capital', which is essentially a country's legal framework, and the framework of international institutions (headed of course by the UN). I also think that 'manufactured capital' should be split into 'infrastructure' (essentially public, the 'built environment') and exclusive manufactured capital (factories, and machinery).

For our purposes, some capitals are in the public domain, and others are in exclusive domains.

Public Domain Royalty

A 'public equity' approach to the division of the income pie would replace graduated income tax with a percentage 'royalty' on all items GDP. This levy could also be called a market production tax, which is also a 'flat' income tax by another (more meaningful) name. This 'public domain royalty' represents a public return on the substantial publicly-owned capital inputs that form an essential part of the production process.

In New Zealand, given the income tax scale which has been based around a 33% rate since 1988, the obvious initial rate for the public domain royalty would thus be 33%. In the United Kingdom, the same reasoning – based on the income tax history of the country concerned – would suggest a 40% rate. Possibly, for both countries, a rate closer to 35% would probably be optimal.

At least in an accounting sense, the royalty raises more revenue than existing income taxes. The key idea is that this extra revenue is returned to the 'owners of the public domain', otherwise known as the economic citizenry, as a 'public equity dividend'. In New Zealand, using the 33% rate cited above, for a large section of the population, the public equity dividend would be exactly equal to the extra tax paid - $9,080 per year; $175 per week.

Public Equity Dividend

This is the public equivalent of dividends paid by firms to their equity holders. All economic citizens are public equity holders – by definition – and a public equity dividend (PED) becomes a right of ***democratic capitalism***, just as 'the vote' is the central right of *democratic politics*.

The most important thing about a PED is that it is not zero. But even if it is zero, we can still account for it, for example with the use of a pie table. While a pie chart can only show values above zero, a pie table can include accounting items that have zero (or even negative) values.

The PED income pool can be thought of as 'social profit', or 'net social profit'; just as the amount of firms' profits distributed to equity holders is 'net business profit'. The process here is a case of 'accounting for social profit'.

A PED is not a 'living wage', or anything like that. Rather, it's an income stream in a capitalist world in which it is normal for individual economic citizens to have multiple income streams; in particular each economic citizen should have at least one publicly-sourced income stream, and ideally at least one privately-sourced income stream. Each person should draw some income from both sides of the income pie.

Economic Citizenship

A central concept of democracy is that of 'citizenship'. Citizens are the 'principals' and 'beneficiaries' of a democracy; democracy is a system of citizen rule.

In early historical democracies – such as ancient Athens, and the America of the founding fathers – citizens were a minority of the adult population.

So democracy is an evolving institution; like any other institution, it does not start out fully formed.

If we understand economic democracy as part of the evolution of democracy, then relatively developed concepts of political citizenship will be in place. Economic democracy itself require further evolution – indeed a broadening – of the concept of citizenship.

In New Zealand, a 'passport citizen' is anyone entitled to carry an New Zealand passport, and a 'political citizen' is anyone entitled to vote in New Zealand elections. This latter category, in New Zealand at least, includes many people who are not passport citizens; these are 'permanent residents'. New Zealand also has had – at least before Covid times – a proportionately increasing group of residents for who New Zealand is their home and workplace, but who have not achieved 'permanent resident' status. These are 'tax resident' denizens. Indeed, hundreds of thousands of New Zealand political citizens are tax resident denizens of Australia.

The principle of economic citizenship is that all adults in the world should be economic citizens of one nation state, and only one nation state. A similar principle could be applied to political citizenship, whereby a person who gains voting rights in New Zealand gives up their voting rights in all other countries. This may even allow the concepts of political citizen and economic citizen to become aligned.

Adult denizens in any country should have the right to claim economic (and political?) citizenship after a time period of qualifying residence. Economic citizenship of New Zealand would then constitute a claim to a PED in New Zealand, and a giving up any claim to a PED in any other country.

Whatever the exact definition of *economic citizenship*, an *economic democracy* can be defined as a country which grants its economic citizens a *public equity dividend*.

Here, when I use the word 'person', it can generally be taken to mean 'economic citizen'.

A sensible idea would be that a person who is a qualifying tax resident, but not yet an economic citizen – then the government of the country they are working in should pay their PED, but at the lower of the two possible rates (the country of citizenship or the country of tax-residence). Thus immigrants from poor countries would continue to receive the payment they received in their country of origin, until they qualify to transfer their economic citizenship. New immigrants from richer countries would typically receive their host country PED from the outset. (Rule may differ for retired persons.)

Basic Universal-Income

A public equity dividend should be understood as a basic universal-income, which is subtly different from a universal basic-income.

This is mainly because there is a tradition of 'basic income' thought in which a *basic income* is a *subsistence income*, just enough to provide for a person as a single income stream. Thus a *basic* *income*, including a *universal basic income*, has a definition that includes an 'adequacy' provision.

A *universal income*, however, belongs much more in the 'social dividend' tradition of thought. A business dividend is set according to the capacity of the business to pay that dividend, and is not paid on the presumption that such a dividend is a recipient's only income. Having noted that, if the capacity of a business to reward its principals is very high, then a high dividend should be paid.

Unlike a business dividend, however, a universal income should be set in advance, and paid, at most, in monthly instalments. Then, the word 'basic' conveys the idea that this, while a secure income component, would – at least in good times – represent less than half of a person's total income.

Labour Supply

A *public equity dividend* is a capital income, not a labour income; a return on equity, not on activity.

Many people worry that a universal basic-income (UBI) would be treated as a substitute for labour income; a concern that is reinforced by the 'adequacy' component of the commonly-used definition of UBI. This worry creates the fear that a *universal basic-income* makes fulltime leisure a lifestyle choice. While the fear is almost certainly overstated, it is true that some advocates of *universal basic-income* do insist that such a payment should be high enough to – on its own – serve as an anti-poverty payment.

A *basic universal-income*, on the other hand, if set at a below-subsistence level, would act as a core income but not a sufficient income. Thus, it would enable labour force participation, rather than act as an employment disincentive. However, a BUI should be regarded as a disincentive to overwork, and therefore as a payment which facilitates balanced work-life choices.

Over time, in the event of increases in economic productivity, a *basic universal-income* should become sufficiently high that it could become a single-income option. But, if reached through an incremental process of increases, it is unlikely that the level of a BUI would in itself become the decisive factor in determining whether a person would be a labour force participant or not.

Productivity Dividend

Global Public Domain