



CITIZEN CAPITALISM

HOW A UNIVERSAL FUND
CAN PROVIDE INFLUENCE
AND INCOME TO ALL

LYNN STOUT, SERGIO GRAMITTO,
AND TAMARA BELINFANTI

Praise for *Citizen Capitalism*

“This book offers a transformative plan to make corporate ownership and governance more inclusive. It attempts to harness corporate power and resources in the tackling of the challenges of poverty and empowerment. At the heart of the book is the relationship between corporations and society. Through their proposal, the authors strive for a synergic relationship benefiting society. With clinical precision and an extraordinary grasp of history, the book offers a brilliant diagnosis of critical issues facing the world in the field of corporate governance. This is an important and valuable book. It reminds us that the only legitimate end of corporate governance is the well-being of society.”

—**Muna Ndulo, Professor of Law; Elizabeth and Arthur Reich Director, Leo and Arvilla Berger International Legal Studies Program; and Director, Institute for African Development, Cornell University**

“Corporations—like governments—play an essential role in the lives of every American. But most Americans have an extremely limited ability to influence corporate decision-making, and we all live with the consequences. Stout, Gramitto, and Belinfanti offer a bold and creative alternative: What if we had a tool that gave every American a say in how corporations are run—like a superpowered pension fund that made corporations accountable to more than the bottom line? This is a powerful and timely idea, and *Citizen Capitalism* makes the case extraordinarily well.”

—**Deborah N. Archer, Associate Professor of Clinical Law, New York University School of Law**

“The very bold plan to democratize corporate governance detailed by Stout, Gramitto, and Belinfanti in *Citizen Capitalism* is sure to be controversial in some circles, but it will also catalyze long-overdue discussions about the role of business in our society. Read this book.”

—**Alice Korngold, Author of *A Better World, Inc.*, and President and CEO, Korngold Consulting, LLC**

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Citizen Capitalism

Other Books by Lynn Stout

The Shareholder Value Myth

Cultivating Conscience

(Princeton University Press, 2010, 978-0691-13995-1)

Citizen Capitalism

How a Universal Fund Can Provide Influence and Income to All

Lynn Stout
Sergio Gramitto
Tamara Belinfanti



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Citizen Capitalism

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To all our children

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In Memoriam

Lynn Stout

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Preface

WE ARE NOT UNTETHERED IDEALISTS. With a combined experience of more than sixty years in corporate governance as lawyers and scholars, we understand that business corporations provide enormous value in many forms, including salaries, employee benefits, health care, useful innovations, tax revenues, and philanthropic donations. Yet at the same time, we know that corporate behavior can have negative repercussions, such as environmental pollution, unfair labor practices, and gender pay gaps, to name a few.

These results are inextricably linked to the underlying nature of today's corporate governance system, which has been dominated by a myopic focus on short-term financial results at the expense of long-term performance. This in turn results in a vicious cycle, which includes reducing expenditures on research and development; decisions that harm employees, customers, and communities; and actions that on the face of it seem reckless and socially irresponsible. In short, given the historical norm of shareholder value and the nature in which shares are often voted, the corporate sector's potential for addressing broader economic, social, and political problems has not been optimized.

A few years ago we began to specifically focus on a precise question: Is there a way to address the flaws in our corporate governance system in a manner that helps address a number of these economic, social, and environmental threats? It is this

question that gave rise to this book, and we believe the answer is “yes.”

This book offers a simple plan for harnessing the power of corporations to save ourselves and our future. It is a plan that is structured around free enterprise, it requires no government funding, it involves no forced redistribution of wealth, and it is completely voluntary and will not force anyone to do anything they object to. Unlike many other proposals, our plan does not sacrifice one value to support another. We call our project Citizen Capitalism.

At the heart of it lies the creation of a Universal Fund, which is based on a mutual fund model, but with several key exceptions, all of which are designed to broaden access and opportunity for everyday citizens to participate in capital markets. In addition, our Universal Fund model is designed to shift critical leverage points in our economic system and unlock the enormous potential of corporations to be a positive force for good.

We have written this book for anyone interested in having a role in building a better future. In it, we offer up to you and to the world a practical blueprint for the creation of the Universal Fund. We describe a very direct way to participate in making the Universal Fund a reality at the end of this book, and at CitCap.org you can receive information on events and join discussions.¹

As you read through this book and learn more about this transformative plan, and as you come to share our appreciation of its deeply positive potential impact, we invite you to take stock of your skills, your talents, your experience—and then ask yourself what you can do to participate in Citizen Capitalism.

Introduction

What If?

CHANGE BEGINS WITH IMAGINING something better. In this book, we offer a proposal for reengineering the relationship between citizens and corporations in a manner that would address a wide range of social problems, including but not limited to rising inequality; racial tensions; increasing poverty, unemployment, and income insecurity; low levels of innovation and investment; corporate mistreatment of customers, employees, and communities; climate change and environmental destruction; and dysfunctions in the political system.

In the process of helping address a striking number of economic, social, and environmental threats, our plan would promote civic engagement, reduce popular discontent, and help heal our politically divided society.

Our strategy requires no new government funding, demands no new taxes, and does not force anyone to do anything that they object to.

In these pages we describe a pragmatic plan for building a better society and a brighter future for all, through a strategy that benefits almost everyone and harms no one. Our approach is based on this insight: governments are not the only powerful institutions that can solve our collective social and economic problems. Another type of force can be brought to bear. This other force rivals nation-states in its weight, influence,

and reach. It is more responsive, more agile, and more efficient than any government could hope to be. It controls enormous resources that can be quickly put to work solving our most critical and intractable problems, including poverty, disease, and climate change. This great force is our business corporations.

Business corporations today control tens of trillions of dollars in assets, generate tens of trillions of dollars of goods and services, and affect hundreds of millions of customers, employees, and shareholders. They touch every area of our lives. They benefit all of us enormously by providing not only innovative products and services but also employment opportunities, investment returns, and tax revenues. They provide critical benefits to us and to future generations by developing the kinds of new technologies that are essential to sustained economic growth:¹ railroads and manufacturing plants in the 1800s; cars, electricity, and computers in the 1900s; self-driving cars and space vehicles today. Yet corporations can also inflict great harms: environmental damage, consumer frauds, employee deaths and injuries, political corruption.

Most of us recognize that corporations have an enormous impact on our society but think of them as beyond our influence. We tend to view corporations as an irresistible force that helps or harms, but remains outside average citizens' control. Supreme Court justice Louis Brandeis once famously described the corporation as a "Frankenstein's monster."² As experts in corporate governance, we know this does not have to be true. It is possible to tame corporations so they better serve humanity. In fact, engaging the power of business corporations may be essential to solving our most pressing economic and social problems.

Indeed, not engaging the power of corporations is a lost opportunity. In 2013, for example, Royal Dutch Shell cut back on its already-small investment in biofuel research on the grounds

the technology could not be commercially viable until 2020 or later.³ As we write, 2018 has already arrived. Take a moment to imagine where we might be today if three decades ago, when one of the world's largest fossil fuel companies became aware of the risks of climate change, the industry had chosen to focus its efforts on addressing the problem. If companies like Exxon, BP, Shell, and Chevron had put their billions of dollars of profits into investigating and developing cleaner energy alternatives, we might already have, or be on the cusp of having abundant and affordable clean energy.

Our plan provides a new way of addressing the fatal flaws in today's corporate governance system that keep corporations from reaching their full potential to serve humanity. And it would do this in a fashion that ameliorates aspects of social equality.

A Dividing Nation

By any number of measures, the gap between the most and the least well-off Americans is alarmingly large, and growing. The top 1 percent of wealth holders now control nearly 40 percent of the nation's wealth.⁴ The income reaped by top earners is growing while the wages of the middle class stagnate.⁵ Socioeconomic mobility is declining; between 1981 and 2008, the probability of an American moving significantly higher or lower in the earnings distribution during their working career declined significantly.⁶ We are even seeing growing differences in life expectancy. A study in the *Journal of the American Medical Association* found that from 2001 to 2014, the life expectancy of those in the top 5 percent of pretax income rose by nearly three years, while the life expectancy of those in the bottom 5 percent increased less than three months. The life expectancy of the richest 1 percent of American men is now fifteen years more than

that of the poorest 1 percent (ten years more for the top 1 percent of women).⁷

There is no sign the trend will stop. To the contrary, thought leaders on both the Right and Left are concerned that the rich are becoming richer in part because they can use their wealth to buy political influence that allows them to acquire even more wealth. Hedge fund managers lobby politicians for loopholes in the tax code;⁸ giant corporations squash competitors while regulators stand by. Wealth and income inequality feeds on itself, widening the gap between citizens.

Our plan would fight this trend by reducing inequality in at least two ways. First, it will generate greater equality in influence over corporations. Second, it will supplement income. Every citizen would benefit more from the corporate sector, and the corporate sector would benefit from the engagement of all citizens.

The same is true for many other critical challenges society faces, including infrastructure decay, poverty, chronic and acute disease, and the problem of caring for an aging population. Too many corporations neglect such issues to focus instead on the short-term goal of raising share price—no matter the cost to employees, consumers, taxpayers, or even the integrity of our political system.

The Solution: Citizen Capitalism

We have written this book to offer a realistic way to help our corporations do better at helping all, and to potentially heal the growing divisions in our society. We do not propose a radical restructuring of society or offer some vision of a future utopia. Rather, we offer a plan that is relatively simple and can be easily implemented in the near future. Our strategy relies on the power of private ordering—the voluntary actions of private individuals coming together of their own free will to solve collective

problems. Our plan's effects may be modest at first, but they are structured to grow over time. Its basic elements are few and straightforward.

1. We envision the private creation of a Universal Fund (Fund) that would be somewhat similar to a typical mutual fund. Each US citizen age eighteen years or older would be eligible to receive a share in the Universal Fund (citizen-share) and so become a citizen-shareholder.
2. The Universal Fund would assemble a portfolio of stocks in different corporations. These would be acquired primarily from donations from corporations and individuals, especially the ultrawealthy.
3. On a regular basis, the Universal Fund would pass on the income received from the stocks in its portfolio (primarily dividends and cash from share repurchases) directly to its citizen-shareholders in equal proportion.
4. Citizen-shareholders would not be allowed to buy, sell, or bequeath their citizen-shares. They would hold their citizen-shares for life, and after death their interest in their citizen-shares would revert to the Fund. Thus, as donations continue to be made, the Fund will continue to grow.
5. Just as citizen-shareholders cannot trade their shares, the Universal Fund cannot trade the stocks in its portfolio but must hold them indefinitely. This means neither the Fund nor its citizen-shareholders have an interest in manipulating short-term share prices.
6. The Universal Fund would give its citizen-shareholders a political right to vote the shares of each company's