

PERSPECTIVES ON SOCIAL WEALTH FUNDS

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PROLOG

- ➡ This is an attempt at synthesis
- ➡ Nothing is original
- ➡ Except what sucks

PART I: TOOLS

THREE FACETS

- Benefits-and-assets side
- Financing-and-liability side
- Political economy

This seems like a natural ordering, but perhaps it should be reversed!

COMMON PURPOSES

- Macrostability
- Social insurance
- Industrial policy
- Distributional justice
- Intergenerational justice

CONSTRAINTS

⇒ Real resources

⇒ Distribution

Can the sponsor purchase the assets the fund will hold, under the circumstances where it will want to be a buyer, with paper it itself issues, without provoking inflation?

PART II: TOUR

MIX OR MATCH!

Each of these is a "pattern", of which real proposals include multiple!

...

(Exposition is not endorsement!)

BUSINESS CYCLE MACROSTABILITY I: RESOURCE CONSTRAINED

- ↪ "Rainy Day Fund"
- ↪ Emphasis on benefits-and-assets side (prepare resources)
- ↪ Build up a pool of assets in good times to draw upon in bad
- ↪ c.f. Marcelo Medeiros, this series

BUSINESS CYCLE MACROSTABILITY II: DISTRIBUTION CONSTRAINED

- ↪ "Bailed-in" support
- ↪ Emphasis on financing-and-liabilities side
- ↪ Provide fiscal support in bad (disinflationary) times
- ↪ Accumulate claims as byproduct
- ↪ Choose your own adventure for function/purpose of the asset side!
- ↪ Should asset prices be supported (qua Farmer) or exploited?
- ↪ Contemporary example: Fed emergency SPVs
- ↪ cf eg Roger Farmer, Yakov Feygin this series with Nils Gilman)

MANAGE BALANCE-OF-PAYMENTS SURPLUS

- ↪ Uses taxes / royalties / state-as-seller to prevent inflationary expenditure
- ↪ Emphasis on financing-and-liabilities side
- ↪ Purchase a diversified portfolio of foreign assets
- ↪ Choose your own adventure for function/purpose of the asset side!
- ↪ Norway is an obvious example
- ↪ Related to the proposals by Yakov Feygin and Rahul Basu & Scott Pegg, this series

MANAGE BALANCE-OF-PAYMENTS DEFICIT

- Issue public claims to dampen private-sector liability growth (liability-side)
- Endow real investment to counter aggregate demand drag from deficit (benefits-side)
- Direct investment in a manner supportive of desired industrial policy
- Direct investment to protect capabilities and know-how threatened by imports
- Strive to retain an autarky option!
- Lossmaking investments may be worthwhile
- Related to the proposals by Yakov Feygin, this series

CAPITAL TAX MACHINE

- ↪ Emphasis on financing-and-liabilities side
- ↪ Tax capital income or wealth, invest to maximize returns
- ↪ Retain and reinvest, rather than spend or distribute, returns, partially or in full
- ↪ Growing in-fund capital replaces capital that would otherwise have been "earned" into private hands
- ↪ Equivalent to a capital income tax *whose rate continuously grows*
- ↪ Can accept fractional assets in-kind, simplifying wealth taxation
- ↪ Can exercise control rights, implementing codetermination without explicit mandates
- ↪ Can be used to implement gradual public control over monopolies

STEWARD OF PUBLIC RESOURCES

- ↪ Emphasis on asset-and-benefits side
- ↪ Manage public resources (real, financial, interconvertible) in the common interest
- ↪ Can support intergenerational equity
- ↪ Can support egalitarianism
- ↪ Rahul Basu & Scott Pegg's "shared inheritance" framing, this series, is a great example

DEDICATED ENDOWMENT FOR SPECIFIC USE

- ↪ Emphasis on assets-and-benefits side
- ↪ Infrastructure funds, the US Social Security Trust fund, etc.
- ↪ Already very common at microeconomic scales (e.g. university capital investment trusts)
- ↪ Represents a precommitment (the funds will go to dedicated use)
- ↪ Also represents a vulnerability (the dedicated use may be threatened if the revenues and returns prove insufficient)

EGALITARIAN BENEFITS SOURCE

- ↪ Accumulate assets to fund universal benefits
- ↪ Could be a straight-up universal dividend
- ↪ Represents both a precommitment and a vulnerability
- ↪ An aspect of the proposal by Rahul Basu & Scott Pegg, this series.
- ↪ See also Matt Bruenig's American Solidarity Fund, Yakov Feygin and Nils Gilman.
- ↪ Emphasis on assets-and-benefits side

Beware, though.

Benefits are great, but intended egalitarianism can be short-circuited if assets are accumulated by purchase at disadvantageous prices, which may occur as a side-effect of the funds bids or by gaming of procedural constraints on public purchases.

An egalitarian fund should be an aggressive vulture, and its purchasing power should come from capital or income taxes that would otherwise have contributed to the private bid for similar assets.

SOURCE OF ENTREPRENEURIAL OR MUNICIPAL FINANCE

- ↪ Emphasis on assets-and-benefits side
- ↪ Similar to public banking proposals
- ↪ cf eg Hockett and Omorova via Yakov Feygin (this series)
- ↪ Can direct investment consistent with industrial policy
- ↪ Can incorporate externalities of funded activities into financing decisions that private intermediaries cannot
- ↪ Can accept risk on terms private-sector funders would not
- ↪ Can tolerate losses if positive externalities are "worth it"
- ↪ Contemporary example: Fed's Municipal Liquidity Facility

PART III: TAKE

IT'S THE POLITICAL ECONOMY. STUPID

- Anything an SWF can do a state might have done without one
- The purpose of the organizational form is to both enable and commit to actions a state might not otherwise pursue
- In a neoliberal context, chartering a quasiprivate, quasicorporate funds helps to "naturalize" state action
- Permits the state to act continuously and contingently with reduced legislative or administrative formality

NATURALIZATION

- ↪ SWFs naturalize public ownership of the means of production in a neoliberal context
- ↪ Ownership naturalizes codetermination (let stakeholders exercise control via the fund)
- ↪ Ownership naturalizes regulation (direct control can substitute for indirect mandate and constraint)
- ↪ *Degree* of public ownership, within and across firms, via SWF is a policy choice
- ↪ Enables a broad policy space between libertarian and full-communist dystopias (hopefully there's a Laffer curve)
- ↪ Enables fine-grained tuning of which kinds of enterprise falls under public control
- ↪ E.g. Monopolies largely public, but entrepreneurial small firms mostly private

TAXATION

- Endowing states with entities capable of fractional ownership of never liquidated resources enables new horizons of egalitarian wealth taxation
- Igniting compound capital accumulation within the state enables the equivalent of aggressive capital taxation without incentivizing distortative avoidance or requiring contentious legislation

NOT ALL POLITICAL ECONOMY IS GOOD POLITICAL ECONOMY

- Might SWFs be captured by self-dealing private actors? (Blackrock administers the Fed's SPVs.)
- In general, can we institutionalize SWF management and control of key assets that both stays true to a public interest and is high quality in a technocratic sense?
- Might SWFs cause democratic publics to favor socially costly rent-seeking because "their shares" visibly gain from high asset prices while the costs of predation are dispersed and submerged? (Mike Konczal's critique)
- Does financing universal benefits via SWFs render them fragile to mischance or attacks of SWF finances? (Republicans favor FICA tax holidays.)
- "Perversity" critiques should be taken seriously and addressed.

EGALITARIAN EDITORIALIZING

- Core social benefits should be defined and committed to politically, independent of financing vehicles
- Supplemental benefits, which can and should in practice vary over time, can be endowed by SWFs (e.g. the Alaska Permanent Fund)
- Many of the potential virtues of SWFs derive from how they are financed and the forms of public control they enable.
- Benefits are icing on the cake.

THANK YOU!