Who owns state assets?

Angela Cummine argues the case for citizen control over public wealth

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'We want the state to control key sectors of the Greek economy so that we can reap the benefits.'
Alexis Tsipras, Prime Minister of Greece, 2015.[1]

Greek national assets are up for sale. Everything from vital infrastructure like Athens Water Supply, the country's main ports at Piraeus and Thessaloniki and 14 regional airports, to symbolic assets like the 2004 Olympic complex and Hellenic Post. As part of Greece's third bailout struck in July 2015, privatisation proceeds from state assets must go into an independent fund to help repay Greece's international creditors.

For many Greeks, this arrangement feels like selling off the family silver, only to hand back the sale proceeds to those demanding its sale. It was reportedly the sticking point that nearly scuttled the €86 billion three-year debt relief programme and forced a Grexit. Even when privatisation was first suggested as a fund-raising strategy to pay off debt in 2010, several German politicians controversially suggested Greece sell off its uninhabited islands and historic monuments to pay down arrears. Greeks responded by boycotting German imports.

Despite the protests, the original Hellenic Republic Asset Development Fund (HRADF) was established in 2011 to oversee a privatisation programme. Known as Taiped, this initial fund was expected to generate €50 billion in sale proceeds within five years. But by early 2015, only €3.2 billion sat in the fund. Most key infrastructure assets were unsold. When the Syriza party took office on an anti-austerity mandate at the start of 2015, they sacked Taiped's leaders and halted the sale of numerous assets. A near-completed purchase of ADMIE, Greece's electricity network operator, was cancelled.

ADMIE is now for sale again and the privatisation programme rolls on. But Greek Prime Minister Alexis Tsipras secured two concessions on the management and use of privatisation assets in the third bail out deal: the privatisation fund must be run from Athens, not Luxembourg as the creditors had wished; and part of its capital must be invested in Greece. The final deal allocated half of the new fund's anticipated €50 billion to recapitalising local banks and a quarter to local investment in Greece, leaving the remaining €12.5 billion to pay off creditors. In short, Greeks wanted more *control* over and *benefit* from the fund holding the proceeds of their national assets.

1. http://www.ekathimerini.com/167520/article/ekathimerini/business/tsipras-changes-govt-tune-over-privatisation-projects, accessed 9 March 2016

It is no surprise that the two conditions insisted upon by Prime Minister Tsipras to render the privatisation fund acceptable to Greek citizens were greater control and benefit, for these are the two core components of property rights. Pleas for more local control and benefit are ultimately pleas of ownership. But how can control and benefit rights over property be given effect when it comes to shared public assets like those in the Greek privatisation fund? And who should ultimately exercise those rights: citizens or their governments?

Who owns the state?

The resolution of such issues ultimately depends on the answer to a more fundamental question: who owns the state? This is the title of the research project which I am undertaking during my British Academy Postdoctoral Fellowship in the Department of Politics and International Relations at the University of Oxford. By determining the proper ownership status of the state, normatively-speaking, guidance can be developed on how to manage public assets in the best interests of communities.

This broader question about the ownership of the state and its assets has become more pressing in the 21st century. While the intensity of the 'nationalisation versus privatisation' debates of the 1980s has waned, the desirability of public ownership remains a salient topic in polities across the globe today. Indeed, the past decade has seen a resurgence of the 'owner state', both reactive and proactive. On the reactive side, the financial crisis required extensive government intervention across OECD economies, resulting in an unplanned build up of public assets and record public liabilities. Emergency sovereign debt issues and national bailouts signalled a new era of public indebtedness. On the proactive side, many governments capitalised on windfalls from the super commodity cycle and trade surpluses, storing impressive levels of wealth in new Sovereign Wealth Funds (SWFs). Other governments, like those of Scotland, Greece and the UK, began selling off public assets including land and government buildings to generate fresh national capital and reduce primary deficits. These new assets and liabilities pose tough choices for governments. What should guide the distribution of their benefits and burdens, especially in light of the classical political theory demand that citizens must be situated equally vis-à-vis the state? How should the benefits of newly amassed public wealth in SWFs or from state asset sales, and the burdens of record national debt, be distributed?

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My British Academy-supported research seeks to assist governments in making those choices, by determining the rightful owner of contemporary state property: citizen or government. By considering whether the state can own something in its own right or if it is only ever the steward of the people's property, we can identify the proper rights and responsibilities of governments and citizens in relation to the use and management of public assets.

The project addresses the overarching question of 'who owns the state' by tackling four sub-questions, each with a distinct objective. The first objective is descriptive: to identify what today's 21st-century 'owner state' owns, and how this differs to the sorts of property states amassed

In Athens, riot police officers protect the Parliament from demonstrators, 12 December 2008. PHOTO: KOSTAS KOUTSAFTIKIS/SHUTTERSTOCK.COM

over previous centuries. The next stage of the research is clarificatory in aim. It examines what existing theory on the state and public property in political philosophy says about the status of government assets and liabilities. In existing property theory, the ideas of 'state', 'government' and 'public' ownership are often used interchangeably, yet each concept contains a subtly different notion of ownership. To date, we still do not have a good grip on the difference between the ideas of common, collective, state and public ownership. This is problematic given these property systems are increasingly looked to as alternatives to the private property model in the current economic and political climate. Well-worn philosophical metaphors based on shared rights to common parks and natural resources are not easily transferable to the case of contemporary public economic assets such as sovereign wealth and other intangibles. Yet, these are the very forms of state property which hold significant implications for citizen equality vis-à-vis each other and the state. The third phase of the project is theoretical in focus. Assuming property theory must be refined to accommodate the new challenges posed by the contemporary 'owner state', it asks what would a modern framework of public ownership look like? The final objective of the project is prescriptive. It considers what this new understanding of public ownership implies for the distribution of benefits and burdens of the modern state's public property.

The overarching goal of the research is practical. By situating today's rebirth of the 'owner state' historically and devising an updated ownership framework for contemporary public property, the project seeks to guide governments and citizens in leveraging the full potential of state economic assets.

The blessings and burdens of sovereign wealth

One crucial aspect of the 'owner state' phenomenon is the build up of substantial national capital in SWFs. Sovereign funds are state-owned investment vehicles that hold and invest public wealth in financial markets for a return. They are typically seeded with windfalls from commodity receipts, privatisation proceeds or foreign exchange assets to act as savings or stabilisation vehicles in domestic economies. Although more than two-thirds of the world's almost 80 sovereign funds have come into existence since the year 2000, and collectively hold over US$6.5 trillion in assets, domestic-level analyses of the funds are sparse. Yet these powerful and increasingly prolific entities transform the citizen–state relationship by amassing national capital in government hands, often outside traditional agencies of the state, for financial investment on behalf of the nation. Consequently, their organisational design, investment behaviour and distributional policies have significant implications for those local citizens and communities in whose name they are created and act.

Just as in Greece, disputes over how to control and benefit from sovereign wealth plague numerous communities. Conflict has occurred in Alaska, Mongolia and Chile over the fairest use of sovereign wealth; in Norway, Australia, and New Zealand over whether the returns of SWFs should be generated ethically on behalf of the nation; and in Korea, China and Nigeria, which all experienced internal bureaucratic conflict over which public agencies should manage their vast pools of sovereign wealth.

Consider the case of Chile. In mid-2006, the streets of Santiago were flooded with protestors. Effigies of the new finance minister, Andrés Velasco, were set ablaze as citizens demanded a bigger share of Chile's historic copper boom. The metal's soaring price had quadrupled in just four years, generating unprecedented budget surpluses for the world's largest copper producer. But much of the windfall was going into two newly established sovereign funds, tasked with saving the country's boom proceeds for a rainy day.

The move to quarantine a chunk of Chile's burgeoning wealth in sovereign funds was not popular. The country's developing status and persistent income inequality meant many ordinary Chileans favoured expenditure of the copper revenues on welfare-enhancing projects. A May 2006 poll revealed that two-thirds of Chileans wanted the government to spend, not save, the copper windfall. In 2008, demonstrators chanted 'The copper money is for the poor people', as President Michelle Bachelet's approval ratings dipped to a historic low.

Just one year later, the protests ceased and Velasco's vindication came. In mid-2009, the price of copper tanked, falling 50 per cent within a few months. Chile's growth hit negative figures. Unemployment soared to 10 per cent. Thanks to boom-time discipline, the government was able to stimulate recovery by drawing down the Economic and Social Stabilization Fund and Pension Reserve Fund revenues to fund urgent social spending. At 2.8 per cent of GDP, close to $4 billion, Chile's stimulus package was two to three times higher than other Latin American governments, and even outstripped America's 2 per cent stimulus effort. When they left office in 2010, Bachelet and Velasco boasted the highest approval ratings of any president and cabinet minister since Chile's return to democracy.

But not all conflicts over sovereign wealth have such happy endings. Australia's Future Fund and New Zealand's Superannuation Fund both divested substantial chunks of their equity portfolios from tobacco and mining-related investments respectively after public disquiet over the ethical implications of these investments. While these divestments may have resulted in more responsibly invested portfolios today, when it comes to the augmen-

tation of vast sums of public wealth, reactive investment strategies are not in the interests of either a sovereign fund or the sponsor-community. Such experiences underscore the need to ensure citizens' values are properly reflected in the initial mission and mandate of a fund, as well as its investment behaviour.

This is equally true of the institutional design and general management of sovereign funds. In Asia, the central banks of China and Korea put up substantial resistance to the establishment of new sovereign funds tasked with helping preserve and augment more public wealth. The monetary authorities feared the loss of control over a portion of foreign reserve holdings which they considered 'their' money. Such bureaucratic competition frustrated and in some respects negatively affected the design and early operation of both countries' new and independent sovereign funds.

Citizens' wealth

At the heart of all these wrangles is the thorny issue of who ultimately owns, and therefore deserves to control and benefit from this wealth: citizen or state? In my forthcoming book C*itizens' Wealth: Why (and How) Sovereign Funds Should be Managed By the People For the People,* I argue that citizens are the ultimate owners of all government property. In making this case, I rely on a fiduciary understanding of the state, inherited from the political thought of 17th-century philosopher John Locke. Under Locke's classic theory of the state, government is an agent for its principal, the people. This principal–agent conception of the citizen–state relationship implies a set of fiduciary principles that require the people to maintain control over their government agent. One such principle is that all property obtained by the agent while acting on the principal's behalf ultimately belongs to the principal and must be managed exclusively and solely for their benefit. On this view then, citizens are the rightful owners of sovereign wealth.

Citizens must perceive tangible benefit from their sovereign wealth.

Realising this theoretical ideal of citizen ownership over sovereign wealth in practice has far-reaching practical implications for the design and operation of sovereign funds. In my book *Citizens' Wealth*, I identify three areas of SWFs that require reform to achieve citizen ownership. These are the management, investment and distribution of sovereign wealth. Possible reforms to SWF management and investment include: improving citizens' ability to directly influence and constrain SWF boards and management; greater transparency and direct accountability to citizens in fund operations; and ethical constraints on SWF investment to ensure the collective values of citizen owners are protected and promoted through sovereign wealth investment. The SWFs of Norway and New Zealand are exemplary in this regard, but most other sovereign funds require more democratisation.

Citizens must also perceive and enjoy tangible benefit from their sovereign wealth, achievable through fairer distribution of SWF income. This can be done through collective or individual distribution of SWF returns to citizens. Individual distribution of a sovereign fund's earnings to citizens occurs in Alaska, where each year a proportion of the annual return of the Permanent Fund is distributed directly to residents as a cash dividend on an equal per capita basis. The dividend amount varies year-to-year, based on a complex formula for calculating the average five-year return. In recent years, this has produced a dividend of between $1000 and $1500 per person.

Alternatively, sovereign funds can collectively distribute their earnings to their host community. There are different models for such distribution. The Norwegian approach requires a fixed portion of the fund's value – capped at 4 per cent of total fund capital (deemed to be an appropriate long-term real return on the fund's portfolio) – is to be transferred into the budget annually. At a size of US$850 billion, a 4 per cent transfer amounts to around $33.5 billion redistributed fiscal revenue available for public spending. Alternatively, the Singaporean government is constitutionally permitted to channel up to 50 per cent of the real and paper returns of its two investment funds, the GIC Private Limited and Temasek, to the budget annually through the 'Net Investment Returns Contribution' (NIRC). In Singapore's 2015 financial year, the NIRC amounted to S$8.9 billion, constituting an impressive 13 per cent of the budget and providing more resources for government spending to benefit Singaporeans.

If such measures to promote citizen benefit and control over sovereign wealth are embraced, this would ensure that government managers of existing and future SWFs are truly agents of their principal, the people. The UK has recently seen some suggestions along these lines. In 2014, then London Mayor Boris Johnson advocated the creation of a 'Citizen's Wealth Fund' by combining the UK's 39,000 public pension funds into one large government investment fund holding more than $100 billion that could invest in domestic private equity and infrastructure projects. But the capital in this fund will only truly be citizens' wealth if ordinary Britons follow in the footsteps of the Greeks and demand a degree of democratic control over and local benefit from *their* wealth fund.

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Angela Cummine's book, *Citizens' Wealth: Why (and How) Sovereign Funds Should be Managed By the People For the People*, is published by Yale University Press in August 2016.