CO-OPERATIVES UK

Submission to the Inclusive Growth Commission

The Ownership Agenda

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About Co-operatives UK

Co-operatives UK is the network for Britain's thousands of co-operatives. We work to promote, develop and unite member owned businesses across the economy. From high street retailers to community owned pubs, fan owned football clubs to farmer controlled businesses, co-operatives are everywhere and together they are worth £34.1 billion to the British economy.

This submission updates previous data and draws extensively on our report for ResPublica, Unfinished Business: the ownership agenda, thirty years on, by Ed Mayo and Carina Millstone and a 2015 Co-operatives UK presentation Who Owns It.[i]

Summary

This submission, which reviews data on different forms of ownership between 1985 and 2016, concludes that participation in the form of personal ownership has increased but business ownership has declined. The Household Ownership Index has risen from a base of 100 to 121, while the Economic Ownership Index has declined by a third, down from 100 to 65.

The key findings are:

- After an initial increase in the late 1980s, individual share ownership has halved; and only 12% of the total value of UK traded shares is now owned by individuals.
- What has displaced it is foreign ownership. At the end of the 1980s, around 13% of the total market value of UK shares was foreign owned. Now it is over half, 54%.
- Share ownership has not reached the level of car ownership of 1985, let alone of today - 76% of households own a car or van, whereas only 19% of adults own shares.
- Despite an increase in private home ownership in the 1990s, home ownership has since decreased and has returned to around the same level it was in 1985.
- The big change in housing tenure is that we private landlords have replaced public landlords, with a threefold increase since 1985 in the proportion of households renting privately.
- More positively, the numbers of people who are self-employed has risen dramatically in recent years to an all-time high.
- More entrepreneurs live on the edge though, with many working fewer hours and receiving less income than employees- in a context of high, and rising costs of house rental on the private market.
- Family ownership remains prevalent, with around two thirds of small business owners describing their business as family owned.
- With 17.5 million members, there are more co-operative business owners in the UK than there are individual shareholders.

One of the striking characteristics of ownership is that every political party talks about it from time to time, but no party makes it a consistent theme in government. As Prime Minister, Margaret Thatcher set an aspirational vision thirty years ago in her speech to the Conservative Party Conference for wider ownership across the UK, to get to a society in which three quarters of people owned their own home and it was as common to own shares as cars.[ii] A generation later, as the data here underlines, this vision of wider economic ownership has failed to emerge. Other countries show what is possible. Japan, for example, despite economic challenges, has doubled the level of shareholder participation over thirty years (to 31%) through patient action.

Widening ownership can bring significant gains not just of productivity but also of well-being, spreading an emotional sense of prosperity, and remains unfinished business. The submission recommends that the Inclusive Growth Commission recognises the contribution of new owners, such as those in self employment and co-operative enterprise, and explores policy to recognise their needs and remove barriers to their success.

A. Understanding Ownership

As soon as one looks at data on ownership in more depth, it becomes evident that here is a dimension of economic life that is rarely interrogated. House prices and share prices rise and fall, prominent in the news, and with them rise and fall the hopes and fears of many. But when it comes to who owns what, and whether more people or less people do, commentators tend to fall back on assumptions rather than evidence. Even the work on economic inequality, for example, is far richer on incomes than on assets – who owns what is harder to get to, particularly over time.

What is ownership? The prevalent framework today is termed the 'bundle theory' of ownership. Bundle theory asserts that there are a range of features of property – covering aspects of exclusion, use, power, immunity or remedy – that add up to the core characteristics of ownership. This is as close perhaps as modern philosophy comes to pick'n'mix. When you combine these features in different ways, what results is a complex spectrum of ownership.[iii] On one end of the spectrum are then pure public goods, such as national defence and global climate, and on the other pure private goods, such as lipstick or wine gums. And across the spectrum is a range of ownership models, using the bundle of features in different ways.[iv]

The most extensive literature that draws on this approach focuses on ownership rights in relation to business. This suggests that you are an owner when you have the right, at the end of the day, to benefit from and to control something of value, in the sense of deciding what happens to it. The 'unique rights' of ownership in the academic literature rest on the related concepts of residual claims and residual rights of control:

- Residual claims are defined as the rights to net income generated by firm (left over after debts are paid) and these residual claimants are also risk bearers.
- Residual rights of control are defined as the rights to make decisions over assets not already explicitly accounted for in terms of contracts and/or legal terms.

For Henry Hansmann, Professor of Law at Yale, notions of ownership are grounded in legal rights and a theory of the firm that defines it as a 'nexus of contracts' - emphasising that relationships can be understood to be contractual in nature between owners, employers and managers. Ownership, he argues, is the major incentive for business development, as it creates, sustains and improves assets, which benefit their owners.

Ownership, though, comes in different forms. Investor-owned firms, family-owned firms, member-owned firms all represent different 'assignments' of ownership, with different levels of performance or distribution of benefits depending on the design and context in which they operate. There is also an emotional aspect to ownership that comes with participation and the evidence around productivity gains for up-close ownership, such as that of owner-managed firms and employee-owned co-operatives, tends to point to this as a key dynamic.[v]

So, while there is an established theoretical framework for ownership, much of it developed over the last thirty years, and core to the fast-growing field of institutional economics, different accounts of ownership – often contrasting the long-term responsibility to buy-in versus the short-term ability to cash out – still generate considerable debate. To unpick ownership is to open up a deeper conversation around individual rights and responsibilities around property resources.

B. Measuring Ownership

Academic advances and rich debate on the nature of ownership does not, however, translate into ready data. For the purpose of this exercise, we started by conducting a literature review to see if anyone else had asked or answered the same question we were looking at – how patterns of ownership have changed over the last generation. No one had. We then looked at sources of data, particularly those that might relate to the categories of ownership that Lady Thatcher had referred to. What emerged was limited.

What we found was government and industry data on the stock of business – including company numbers and their legal status – as well as data on household ownership, including home tenure and ownership of consumer durables. However, beyond this, the data on ownership is patchy, incomplete and inconsistent. Moreover, there are shortcomings in the robustness of the data, including the "official" data, due to changes in methodologies over time, making accurate historical comparisons problematic. Survey sources and survey questions have changed over time. So, perhaps not surprisingly given the length of time we were looking at, there were few sources offering any meaningful breakdown in terms of business ownership – and there seemed limited benefit in compiling data from different sources across different time periods, with different methodologies. We wanted to stick to what we could prove.

An example is the absence of consistent data over time on ownership for the majority of companies, which are unlisted, private companies.[vi]

What we found is set out in Appendix 1.

C. Ownership Index 1985 - 2016

Drawing on the best quality data we have, using trend analysis to cover gaps in data for a small number of years, we can construct two composite ownership indices, representing different elements of the pattern of ownership change over the last generation.

The first is an Economic Ownership Index for the period 1985-2016 (Figure 1), which is constructed using the following data:

- Proportion of UK shares owned by individuals
- Proportion of UK shares owned by (British) pension funds
- Proportion of overall working population who are self-employed.

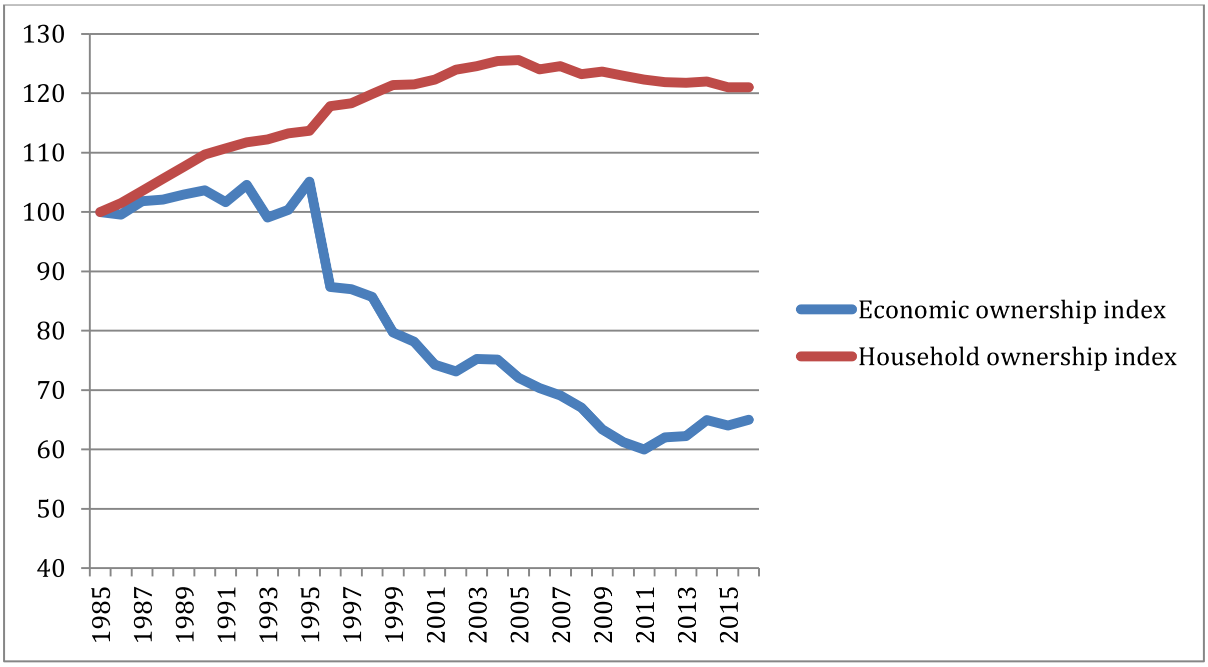
Starting at 100 in 1985, the Economic Ownership Index now stands at 65 – around the two thirds point.

The second is a Household Ownership Index for the period 1985-2015 (Figure 2), which is constructed using the following data:

- Proportion of households who live in a home that they own
- Proportion of households who own a car or a van
- Proportion of households who have central heating

Starting at 100 in 1985, the Household Ownership Index now stands at 121.

The two composite indices, compared are set out in Figure 1. They show that while personal ownership at the household level has increased significantly, economic ownership after some initial gains in the early years, has declined significantly.



D. Ten Ownership Trends

1. The individual shareholder is in relative decline

Individual, direct ownership of shares on the London Stock Exchange is at an all-time low, and is half the level of a generation ago.[vii] Equally, indirect ownership through pensions and investment vehicles has also declined, even more rapidly – measuring both in relative rather than absolute terms, i.e. calculated as the share of market value of UK quoted shares owned by different categories of investors. Whether as a result either of market inefficiencies or regulatory misdeeds, it is also not easy or always cost-effective to be a shareholder for a prospective individual.[viii]

2. The majority of listed shares are now foreign-owned

What has displaced domestic individual share ownership is foreign ownership. At the end of the 1980s, around 13% of the market value UK shares was foreign owned. Now it is over half, 54%.[ix]

3. We prefer cars to shares

The extent to which privatisation of public companies has given rise to a “shareholder democracy” can be questioned. We are also a country mile away from having as many people with shares as cars, one of the aspirations Lady Thatcher set out. 76% of households own a car or van, whereas on one survey, at most 19% of adults own shares directly, or 46% indirectly.[x]

Share ownership in 2016 is more marginal than in 1985 and has not reached the level of car ownership of 1985, let alone of today.

4. Home ownership has not increased

Over the last 30 years, the proportion of households renting privately has increased threefold. The proportion of households who own their home increased significantly until the early 2000s, peaked, and has subsequently declined, so that home ownership rates today, at this point in the cycle, are not significantly higher than they were 30 years ago.

5. We have just replaced public landlords with private landlords

The Right to Buy programme will undoubtedly have increased home ownership in the short term, but the long term housing landscape is more a story of replacing public landlords with private landlords, rather than with home owners.

6. The individual entrepreneur is on the rise

The numbers of people who are self-employed has risen dramatically in recent years to an all-time high and now account, on some estimates, for up to half of all new jobs.

7. More entrepreneurs live on the edge

At the same time, with changes in housing tenure and self-employment combined, there is a rise in what might be termed precarious living. Over the last decade, average earnings from self-employment have dropped by around two thirds - a median weekly income of £207.[xi] Housing rental costs, in contrast, are typically high and fixed. Where freelance income, high or low, is variable, then if you get it wrong, it is not just your business that suffers but your home and family. And with further difficulties for securing mortgages, entrepreneurs are increasingly condemned to remain part of Generation Rent.

8. The family member owner is on the rise

The ownership of business by family members is extensive and, although the data over time is not easily comparable, family ownership appears to be on the rise, at least in recent years. The proportion of small and medium enterprises that are family-owned has remained high since the first Small Business Survey was held, in 2001, with between 62% and, on the last count, 72% of employers describing their business as family-owned.

9. The co-operative member owner is on the rise

In the mutual sector, there has been significant change in terms of new co-ops emerging in recent years. More and more people have become member owners of co-ops, whether customers owning the large retailers they use, fans owning their football club or local people owning shops, pubs and green energy. The number of members of UK co-operatives has more than doubled over thirty years (from 8.1 million members in 1985 to now 17.5 million). That means that just under a third of the adult population are owners of Britain's co-operatives – and that there are more co-op member owners than there are individual direct shareholders in the UK.

10. The private investor is on the rise

There is an upward trend since 1985 in the number of companies backed by private equity and the amounts financed, even if neither has fully recovered from the 2008 financial crisis. The overall trend suggests fewer firms are financed, but greater amounts invested.

E. The Ownership Agenda

Marjorie Kelly, the author of a recent book on business ownership, argues that ownership is the *"gravitational field that holds our economy in its orbit."* If so, then perhaps ownership is unfinished business and has the potential to alter the trajectory of the economy as a whole, above all to be a great policy lever for advancing productivity and building the resilience of the British economy.

Jesse Norman MP, now Minister at the Department for Business, Energy and Industrial Strategy, puts it simply. "*There is still a huge vacuum of ownership. Firms have investors who regard investments as betting slips, not owners who regard them as property.*" What the UK needs, Jesse Norman argues, are owners and not just investors: "*making more companies work slightly harder through better ownership would have a gigantic effect on Britain's competitiveness and prosperity as a nation.*"

Andrew Haldane, Chief Economist at the Bank of England, in a 2015 speech adds that *"this shareholder collective action problem is not new. It lay at the heart of …concern about 'ownerless corporations' in the 1930s. But there are good reasons for believing this problem may have become more acute since then, as the shareholder base has become more fragmented and diffuse and shareholder coordination more difficult."*

The story on home ownership could be characterised in a similar way. The housing and mortgage market has changed significantly over thirty years, but the debate perhaps has not. Home ownership is a popular aspiration and brings proven benefits, but the gap between aspiration and reality comes at an acute price. Julia Unwin, Chief Executive of the Joseph Rowntree Foundation (JRF), says that *"our research for JRF has shown that for over 20 years home-owners have made up more than half of people living in (before housing costs) poverty. And now first-time buyer house prices in the UK are running at five times average earnings. Unless supply is greatly increased, this problem is likely to get much, much worse for succeeding generations of poorer buyers. Private renters are also more likely to live in poor-quality housing, with one in three being described as 'non-decent' and one in ten being damp. Pandering to the majoritarian instincts around ownership… perpetuates the notion that renting is second best – a point of transition, rather than the secure foundation on which to build a life."*

It didn't have to be this way. The weakness of the 1985 ownership agenda set out by Lady Thatcher was not necessarily in its conception but perhaps in its delivery. Governments, politicians lost sight of it. They certainly didn't measure it, but they also did little to address the obstacles and opportunities that arose over time. One example would be employee share ownership. From the 1990s, tax concessions, in essence costly state subsidies, were eaten up by senior executive employees and their stock options, fuelling pay at the top and concentrating ownership and control in the hands of the few, rather than spread more co-operatively across staff more widely.[xii] There has been talk of ownership from time to time, but when acted on, it has been done through ad hoc interventions. We have the rhetoric of priority, but little substantive action behind it, far from the ambition and vision of three decades ago.

In terms of shares traded on the public market, we appear to have moved backwards. However, there are positive signs, with a rise in direct forms of business ownership, rather than through the stock market – the rise of self-employment, of private equity, the dynamic of co-operatives and mutuals as an engine for dispersed business ownership are all key building blocks of an ownership agenda.

This means recognising the value of diversity of business ownership, just as we recognise the value of diversity in service and recruitment. As Professor John Kay told us in the course of this work, *"in the last few decades, the diversity of forms of business organisation has diminished and we need to reverse that trend."*[xiii] The 2012 Ownership Commission, chaired by Will Hutton, endorsed that call, arguing that *"a plurality of ownership forms should be viewed as an economic good in its own right, increasing both choice and the variety of corporate forms available for varying business models and their investors while spreading risk more effectively."*

The Emerging Findings from the Inclusive Growth Commission included a brief reference to asset ownership as a factor in inclusive growth, but cited ways to measure inclusive growth that exclude a plurality of ownership forms and gave no consideration to policies to support wider ownership in its emerging recommendations. This is a missed opportunity.

F. Recommendations

One of the striking characteristics of ownership is that every political party talks about it from time to time, but no party makes it a consistent theme in government.[xiv] But a clear policy focus on ownership makes a clear difference over time. The country with the widest shareholder ownership across its population is Japan. Despite its economic challenges, Japan has a strong record in terms of inclusive ownership. The proportion of the population owning shares, now at 31%, has doubled since 1980.

For the UK, the ownership agenda in policy terms is not about single measures but about four interlocking system changes, across government and its partner agencies:

1. recognise and celebrate the contribution of new owners, such as those in self employment and co-operative enterprise, and design policy to recognise their needs and remove barriers to their success
2. map and track economic ownership in the UK going forward, alongside the other business data collected by statistical agencies
3. recognise the diversity of ownership models and remove regulatory and fiscal barriers to their growth over time
4. build into all new proposed regulation a business ownership test, to safeguard against the introduction of new barriers or distortions.

Those who have ownership have the freedom that comes with the control that ownership affords them. In a democracy, there can be few greater causes than this – economic democracy in the form of a wider spread of ownership and freedom.

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Appendix 1

Organisation	**Source**
BEIS	Business Population Estimates, "Additional Tables"
BEIS	Business Population and Demography
BEIS	Small Business Survey
BEIS	Small Business Survey (and its predecessors)
ONS	UK Business: Activity, Size, Location
ONS	Share Ownership Survey
ONS	Self-employed Workers in the UK
ONS	UK Business: Activity, Size, Location
ONS	General Lifestyle Survey and its predecessors; Labour Force Survey
ONS	Living Costs and Food Survey and predecessors (Family Expenditure and National Food Survey)
British Venture Capital and Private Equity Association	Investment Activity Report
Building Societies Association	Building Society Yearbook 2015/2016; Building Society Operational Information table
Co-operatives UK	The Co-operative Economy 2010 – 2016; 1979 – 1998: Retail Societies 10 Year Record Table
London Stock Exchange	LSE Historic Data

Notes

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[i] These are available on http://www.respublica.org.uk/wp-content/uploads/2015/10/Unfinished-Business-1.pdf and http://www.slideshare.net/EdMayo1/who-owns-it

Particular thanks are due to Carina Millstone, my co-author on the report, and to Caroline Julian and Phillip Blond at ResPublica for their encouragement of this work.

[ii] *"Let us together set our sights on a Britain: — where three out of four families own their home; — where owning shares is as common as having a car; — where families have a degree of independence their forefathers could only dream about."* Lady Thatcher, speech to the Conservative Party Conference, Blackpool, Friday October 11th 1985. The theme echoed what she had said earlier in the year to the Conservative Party in Scotland, that: *"We believe that it should be as common for people to own shares as it is for them to own houses or cars."*

[iii] For example, the idea of exclusion tests whether something is available only to a limited group or is open for use more widely. The idea of use tests whether something is consumed privately and so can be depleted, making this what economists call a 'rival good': one person's use of it reduces the amount available for others to consume.

[iv] An example is the 'common pool resource', which is what made the name of Elinor Ostrom, co-operative theorist and co-winner of the 2009 Nobel Prize for Economics. This is a public good that is non-excludable but rivalrous.

Ostrom proved that you can't simply reduce ownership to public or private, let alone public bad and private good, or vice-versa. The idea of the 'tragedy of the commons' held that common ownership degrades over time because it is in everyone's personal interest to over-use what they don't own. Ostrom showed that this was not an inevitable outcome. Her work, demonstrating the relevance and diversity of social ownership, is illustrated by her field research in a Swiss village. Here farmers tended private plots for crops but shared a village meadow to graze their cows. What Ostrom discovered was that there was no tragedy on this commons. There were no problems with overgrazing, because of an agreement among villagers that one can graze more cows on the meadow than they can care for over the winter—a rule that dated back to 1517.

Of course, what can and should be owned is also culturally determined and has changed over time. One used to be able to own - and therefore sell - public offices, and of course, slavemasters use to own and trade humans. Some of the things we assume today should be owned and traded, whether mines, oil fields or companies, might be viewed differently in future.

[v] In a study of the evidence on employee ownership for the Social Market Foundation, Nigel Keohane concludes that the largest gains from employee ownership came from the co-operative participation of all employees in ownership schemes rather than from schemes been limited to managers. Similarly, Professor Virginie Perotin draws on a range of international econometric studies to conclude that businesses create more sustainable employment where they are structured as worker co-operatives, in which the key feature is active employee control of and involvement in the life of the firm rather than philanthropic ownership in the name of employees. A recent study of family owned firms, by Henssen et al, argues likewise for an approach to ownership that includes its psychological dimension – the feeling of ownership – as crucial for understanding family business in addition to formal, legal ownership structures.

[vi] The good news on this however is that the data may be more robust going forward - from 2014, the Small Business Survey has a new question: *how many owners does your enterprise have?* This question will provide information on the number of owners for nearly all UK businesses in terms of numbers. Alongside this, there are both regulatory and civil society moves toward a greater transparency of company ownership, which will help over time. This

includes through Companies' House's new participation in the Public Data Group, resulting in all of Companies' House's records being made available online, for free, in addition to the efforts of groups such as Open Corporates, providing data on global corporations. However, this data is more useful to seek information about individual companies; painting an accurate picture of ownership overall would require significant research effort.

[vii] Direct shareholding is shares that are held in the name of the individual. Indirect shareholding is where individuals are beneficiaries of pension and institutional funds that invest in equities.

[viii] The 2012 Kay Review of equity markets comments that *"the decline in the role of the individual shareholder has been paralleled by an explosion of intermediation. Between the company and the saver are now interposed registrars, nominees, custodians, asset managers, managers who allocate funds to specialist asset managers, trustees, investment consultants, agents who 'wrap' products, retail platforms, distributors and independent financial advisers. Each of these agents must employ its own compliance staff to monitor consistency with regulation, must use the services of its own auditors and lawyers and earn sufficient to remunerate the employees and reward its own investors…But a principal driver of the growth of intermediation has been the decline of trust and confidence in the investment chain."*

[ix] Note that the way that this data is compiled means that this does include, however, shares held indirectly by UK individuals where they are clients of asset managers whose parents are headquartered abroad.

[x] Whereas we have good data on the proportion of stocks held by individuals compared to other categories of owners, the quality of data on the number of individual shareholders in the UK that this translates to is particularly weak. This figure itself, of 9,060,260 adults owning equity and funds, around nineteen per cent of adults, so the broadest definition of shares, is dated, from 2005, but is an estimate from a source that is well-positioned to offer one - the UK Shareholder Association.

[xi] Freelancers also experience a lack of social protection compared to those in traditional employment and specifically in relation to a lack of sick pay, paid maternity leave, holiday pay and redundancy.

[xii] This is something that, positively, has begun to change since the influential 2012 Nuttall Review.

[xiii] Professor John Michie of Oxford University has done valuable work on this theme of ownership diversity, following the Ownership Commission initiated by Peter Hunt of Mutuo. See, for example, http://www.financialmutuals.org/files/files/Corporate_Diversity_Report.pdf

[xiv] It is not just or even primarily the Conservative Party by any means… but all the parties including: the Liberal Democrats, since Jo Grimond; the Labour Party, including Labour and Co-op MPs such as Stella Creasy; SNP, who are getting on with it in practice through Scottish Enterprise; The Greens, who stress community ownership, localism and sustainability.