Written evidence submitted by
Common Wealth (PEG0316)

The following submission comprises of extracts from various policy papers published by Common Wealth related to COVID-19, namely from 'Commoning the Company', 'Emergency Landing: How Public Stakes Can Secure a Sustainable Future for Aviation', 'Signal and Switch: Toward a More Resilient Rail System for the UK', and 'Charting a Just and Sustainable Recovery for Scotland: A Plan for Scotland's Programme for Government.' To read our work in full, please go to our research library: https://www.common-wealth.co.uk/research.

The COVID-19 Public Health Crisis: Anything but a Great Leveller

While the virus may not discriminate, our economy does. This has been reflected in impact of Covid-19 falling unevenly along gender, race, and class lines, with working class and Black, Asian and Minority Ethnic people, for example, hit especially hard by the crisis.

Prior to the public health emergency and the economic fallout that followed, the UK had undergone a decade of austerity, which caused a decade of lost wages for workers, stagnating living standards, low rates of investment, soaring levels of hunger, and rising child poverty. Ensuring that the distributional impacts of this crisis alleviate the gross inequities in wealth and power in our society must be a priority.

The climate crisis changes everything and - despite the immediate threat to life of Covid-19 - remains the single biggest danger facing our future. Five years on from the Paris Agreement, the world is perilously off-track to meet the 'well below' 2-degree limit set by the accord. Inherently linked to the inequality crisis, the causes and distributional impacts of the climate crisis are unevenly felt.

The Bank of England has warned that the economic fallout from Covid-19 will plunge the UK economy into its deepest recession in three centuries. Unless action is taken to protect them, those with the least power and wealth will continue to be disproportionately hit by this crisis.

We stand at a massive moment - either rebuild an economy that was marked by inequality or create a new one that is sustainable and democratic. To ensure this watershed moment builds back better, Common Wealth has set out the following policy measures:

1. A Green and Just Recovery

To drive a sustainable recovery, the UK Government should deliver the largest possible green stimulus package, taking advantage of historically low borrowing costs to invest in securing a just transition to a net zero economy and kickstarting the green jobs and industries of the future

As a first step to secure a sustainable future, the UK needs to create well paid, secure, green employment opportunities through a Job Guarantee providing well paid employment opportunities in the *public* sector to anyone who needs it to create good quality jobs that are paid at least the real Living Wage rate. These jobs could focus on priorities such as decarbonising the housing stock, building a new generation of social housing, rapidly expanding renewable energy generation, supporting afforestation and restoring peatlands, prioritising local job creation, and expanding a national housing retrofitting programme.

Moreover, while we should borrow to invest during the crisis, longer-term there should be a rebalancing of our tax system to boost sustainability, tackle inequality, and raise revenue. One example of this would be the introduction of a Frequent Flyer Levy.

2. Expanding Community Wealth Building

The concentrated ownership of wealth and power designed into our economy strips workers and communities of the wealth they create in common. We therefore recommend a Community Wealth Building Act to support an economic strategy that transfers financial and physical assets to local communities and redirects wealth, control and benefits to local economies. This Act should be built on the key pillars set out by CLES to secure a democratic economy: expanding pluralistic models of business ownership, making financial power work for local places, fair employment and just labour markets, progressive procurement of goods and services, and socially just use of land and property.

3. Securing Democratic Public Ownership

Over the last four decades, privatisation has been a prominent component of the UK's unequal and extractive economic model. Moving beyond this will require a strategy to integrate democratic public ownership at the heart of a comprehensive, planned transition to a new economy with wellbeing at its core, particularly in areas such as transport and care. As the Financial Times says: "Radical reforms — reversing the prevailing policy direction of the last four decades — will need to be put on the table. Governments will have to accept a more active role in the economy. They must see public services as investments rather than liabilities and look for ways to make labour markets less insecure. Redistribution will again be on the agenda."

To take one example, as part of its recovery programme, the UK should establish a new public infrastructure company with a mission to deliver a nationwide full-fibre network by 2030. The benefits of a full-fibre are immense economically, socially, and environmentally; the challenge is in how to deliver a full-fibre future fairly and affordably.

The UK Government's own analysis suggests a monopoly provider would deliver a nationwide full-fibre network faster and at significantly lower cost than via "enhanced competition" among an oligopoly of private companies, the current preferred policy approach, with nation-wide full-fibre deployment achievable within 15 years at an undiscounted deployment Capex of £20.3bn as against £32.3bn at a slower pace via "enhanced competition".

Given a monopoly is faster, fairer and more affordable route to connecting the nation, to that end, a new public infrastructure company should be created tasked with rolling out a 100% full-fibre network by 2030, based on taking Openreach (and the parts of BT Group relevant to rolling out the core network) into public ownership, instead of allowing it to be taken over by private equity, as is currently rumoured.

A mission to connect the nation should be central to a post-covid recovery that is prosperous and just, with a 'retrofitting revolution' building a 21st century digital infrastructure. A portion of funding for investment could come from charging private ISP providers for access to the network, just as Openreach currently does. Rather than paying dividends, the company should reinvest profits back into rolling out the network. BT Group has paid out over £53bn in dividends since privatisation, and over the past decade has seen its fixed investment and R&D spending fall as shareholder payouts have risen. This logic should be reversed; indeed, the annual savings from eliminating dividends could alone cover over 16% of the Capex required to deliver full-fibre over 10 years. The cost of public borrowing for investment is notably lower than for private companies and is at near-record lows; to finance the remaining Capex requirements, the public infrastructure company should take advantage, borrowing to invest.

Just as Gladstone nationalised the telegraph industry and Asquith took the telephone sector into public ownership to ensure universal coverage and access, so too can democratic public ownership can build a foundational 21st century digital infrastructure more affordably, equitably, and speedily than the alternatives.

4. In-Depth Focus: The Case for Commoning the Company

A devastating public health crisis, Covid-19 has also triggered a profound crisis of the company: from vast multinational corporations to the small firms that are the lifeblood of local economies. The unprecedented economic fallout from the virus has exposed the inefficiencies and injustices embedded in the company's operation – limitations that stretch back decades. Our response to this crisis cannot ignore these limitations when we emerge from the period of economic hibernation. Instead, it must reimagine the company so that it is democratic, resilient, and sustainable by design – and rebuild a new economy centred on meeting the needs of society and the environment.

Since the 1970s, the company has transformed from an institution focused on production – even if still one laced through with hierarchy and injustices – into an engine of increasing wealth extraction and growing financialisation, funnelling cash to shareholders and executive management in the form of dividends, share buybacks and share-based pay awards.

This has been driven by key shifts in the legal, managerial, and ownership structures of the corporation, with an increasing share of corporate earnings redirected to investors and management over workers or re-investment. Shareholding has concentrated and corporate debt has soared, with UK listed company debt reaching record levels by 2018; mergers and acquisitions have created dominant oligopolies in key sectors; managerial power has grown;

and labour has been subject to a relentless squeeze on wages, autonomy, and security in order to boost short-term profit.

Corporate earnings have in turn been redirected to shareholders in the form of rising dividends and share buybacks, rather than re-invested in the productive capacity of the firm or in rising real wages, with corporate cash shifting from productive to financialised use. In the 8 years between 2011 and 2018, the 100 largest UK-domiciled non-financial companies paid out over £400bn in dividends – the equivalent of 68% of their net profits over the period – and an additional £61bn in buybacks.

In 2019 alone, dividend payments from FTSE100 listed companies, a slightly different cohort including financial companies and non-domiciled corporations, hit a record £110.5 billion – a rise of 10.7% over 2018 and more than double the £54 billion paid out in 2009. And executive remuneration has become entirely disproportionate to performance. As of latest filings, just over 700 executives at 86 of the 100 largest non-financial UK companies held a collective £6 billion in equity at their respective corporations, representing nearly £8.5 million per director.[1]

Workers, companies themselves, and the public have lost out. Corporate behaviour has left our economy ill-prepared for crisis – less resilient as a whole and with income, wealth, and power intensely concentrated, leaving many acutely vulnerable. What's more, absent intervention, the crisis will likely result in a further consolidation in ownership, with distressed firms purchased on the cheap by large corporations and private equity, accelerating the concentration of wealth and power.

This is not inevitable. The corporation is an entity with a separate legal personhood endowed by the law with extraordinary privileges to organise production. It is not a fixed, 'natural' institution, but rather constituted by politics and law.

Economic coordination rights in the corporation are currently assigned exclusively to capital via property; labour is excluded from the government of the company. Yet these rights and powers are publicly granted, legally defined, and re-codable; the corporation is not a space of private contract and property whose actions should be shielded from democratic intervention, but rather one undergirded and made possible by public power.

The crisis, like so many before it, has underscored this co-dependency and the inseparability of the economic from the political. If the corporation is the original and vital public-private partnership, long captured by elite shareholder interests and managerial power, we can still transform it from an institution of extraction to a generative entity: purposeful and democratically governed, where all its stakeholders have stake and a say in the wealth we create in common.

[1] Source: BoardEx database. Includes directors with known equity stakes at the 100 largest non-financial companies domiciled in the UK. Note that 14 out of 100 companies analysed did not have data available. The mostrecent available data varies by company, with filing dates ranging from 09/2018 to 12/2019.

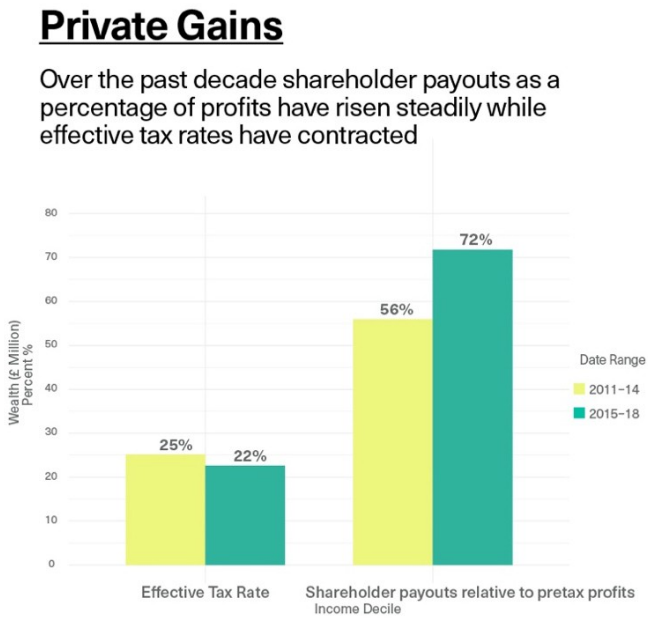


Figure 2. *Source: Orbis & Zephyr databasesNotes: Aggregate data for the 100 largest non-financial companies domiciled in the UK*

To ensure the company – the critical institution in our economy – emerges from the crisis more productive, resilient, and equitable, we recommend rewriting the rules. To that end, the following changes should be applied to all large companies and publicly traded companies through amendment of the Companies Act 2006 and associated legislation:

- **To reshape company purpose and end shareholder primacy,** Section 172 of the Companies Act 2006 should be amended to make the promotion of the long-term success of a company for the benefit of its key stakeholders, including employees, the primary duty of its directors, not the maximisation of member, i.e. shareholder, interest. A redrafting of directors' duties should ensure that the interests of shareholders, while important, do not take priority over the interests of employees or responsibilities to other stakeholders, including the environment, customers, and supply chains. In doing so, it should shift corporate governance from its focus on shareholder value maximisation to a stakeholder model of purposeful enterprise.
- **To democratise corporate governance**, 45% of a company board should be elected by the workforce and 45% elected by the shareholder body, ensuring that those that invest their labour have equal representation with capital investors in determining the composition of the board and setting the strategic direction of their company. Unless we do so, the oligarchic nature of company governance – with representation on the board and voice in company meetings proportionate to wealth in the form of shareholding, not participation through labour on a one person one vote basis – will remain. The remaining 10% of the board should be directors elected by wider stakeholders of the company. This could, for example, be elected from key elements of a company's supply chain or customers, or appointed to represent environmental interests.
- **To rebalance power at work,** sectoral collective bargaining should be rolled out, workers should enjoy rights from day one on the job, and elected work councils with

binding rights should be established. While this would mark a change from recent labour relations in the UK, the response to the crisis has shown rapid institutional transformation is possible. Moreover, evidence suggests an upgrade in collective and individual labour rights would improve wages and conditions for ordinary workers, and would better equip employees and companies to respond to a changing world of work, instead of relying on inflexible statutory minimums as the basis of negotiation, that favour capital over labour.

- **To extend the economic franchise to workers,** the outsized voting rights that monopoly shareholders currently enjoy at company meetings – such as at annual general meetings and other shareholder resolutions – should be ended. Instead, all workers should have the right to be registered as a member of their company. Workers as a group should be entitled to a minimum of twenty five per cent of the total voting rights in their company, exercised democratically as a bloc; the rest should be allocated to institutional investors and individual shareholders as a proportion of their shareholding. This would give the workforce an important, guaranteed stake in the government of the company alongside other stakeholders and enable workers collectively to exercise important corporate governance rights. This democratisation should apply regardless of the kind or size of company or firm to ensure that all workers have a powerful collective voice in company governance. Guaranteeing membership and significant control rights for workers is vital, not just because the extension of democratic principles into the economic realm is the 21st century frontier of democracy. It is also important for the long-term health of the company. Shareholders – and the doctrine of shareholder value maximisation – are currently failing, in aggregate, to steward the corporation toward long-term success and hold management to account, a supposed key function of theirs, not least because they vote overwhelmingly with management. The expansion of democracy within the firm is particularly important in the context of potential consolidation of the corporate sector following the crisis, which would see power in the economy further concentrated among a shrinking number of increasingly powerful firms and institutional investors.
- **To give workers a share in the profits they help create,** mandatory profit sharing for workers in companies above 50 employees should be introduced, as in France. This would guarantee collective income rights for the workforce as a whole to company earnings, broadening who has a claim on the surplus. As in the French model, the total share should be determined based on a legal formula taking account of financial variables, including taxable profits, net equity, wages and added value, though how the share is distributed – whether flat or progressively – should be determined by an all-staff vote.
- **To democratise capital markets,** there should be codetermination in capital and pension funds. This should involve a prohibition on financial intermediaries voting on the money of the ultimate beneficiary without instruction, either directly or indirectly, from the saver. Though many trustees would likely end up de facto delegating to asset managers their votes, this would at least change the default position to being that the beneficiary should have control. Pension trusts should be democratised, with at least half of the board being elected by the beneficiaries on a one-person, one-vote basis.

- **To ensure companies are pursuing ambitious net-zero targets,** a new duty should be introduced requiring company directors to align company strategic and investment plans with a 1.5 degree pathway to embed sustainability.
- **To ensure compliance, a new 'green golden share' class should be considered in key carbon-intensive sectors**; this would be deemed to be a majority of votes on any issue connected only to the elimination of fossil fuels in the company's production and investment plans, providing a clear veto over policies that are not compliant with ambitious net-zero strategies.

A complex architecture of ownership and governance currently ensures the corporation is organised to maximise shareholder wealth by extracting as much money as possible from the company when times are good, while minimising the amount of shareholder money at risk when things go wrong. Addressing this will require reshaping how economic and political rights are allocated within the firm, challenging the control exercised by shareholders, particularly institutional investors and major shareholders, and executive management.

5. Bailouts for the Public Good

With a historic, deeply painful recession underway, many companies are facing a serious and potentially fatal decline in revenue. As a result, without public support, many are likely to collapse. Absent intervention, the consequences would be extreme: a dramatic increase in unemployment, a sharp contraction in the UK's capital base, and the destruction of many otherwise viable businesses, with dangerous knock-on effects for the wider financial system as businesses default on financial obligations. As such, it is important that a simple, effective system of support is rapidly extended.

This should be done with clear conditions: any public support package should focus on bailing out the corporation rather than its shareholders, retaining its workforce and productive capacity for post-crisis. At the same time, bailouts should seek to permanently transform corporate governance to reorient the corporation toward the public good. In other words, there should be no 'no-strings attached' bailouts in the weeks and months ahead and rescue packages must ensure private sector creditors and shareholders bear their share of the losses.

In particular, we recommend the following requirements should be met by companies seeking access to public funds:

Guarantee job security in the crisis: As a condition of receiving public support, bailed out companies should guarantee no lay-offs for staff during the crisis, using the newly announced Coronavirus Job Retention Scheme where necessary, and those routinely if irregularly employed should be retained and brought into formal employment. Maintaining, as far as is possible, current employment levels and job security, albeit furloughed if necessary, should be a critical goal of intervention.

Cash for equity to provide strategic leverage and grow public wealth post-crisis: Public cash should be in exchange for equity within the bailed out company. Equity for investment is common sense and what most other investors would demand in similar circumstances. In general, equity taken should be held as a strategic, permanent public stake to create a powerful form of leverage and grow public wealth in the long-term. The rights associated with the public's equity stake should not be dischargeable via bankruptcy to minimise the risk of companies taking public money and then declaring bankruptcy. Government cash should be exchanged for new equity issued by the bailed out corporation. The total value of the shares issued should be equal to the cash injection as a proportion of the bailed out company's market capitalisation average over the last 12 months. If, for example, the bailout was worth 5% of the market capitalisation, averaged over the last 12 months prior to the cash injection, the state share of equity after new share issuance should be 5% of the total post-bailout.

Cash for newly issued equity would moderately dilute the wealth of existing shareholders but provide the corporation with liquidity to survive the crisis. While this would reduce shareholder wealth, this is reasonable and fair: without intervention, shareholders' losses would be much greater, potentially absolute, while the argument that shareholders should receive an investment return over other stakeholders within the firm is based on the claim that they carry the residual risk.

Any equity issued should be held in a newly created social wealth fund, as detailed in recommendation five. The fund should exercise shareholder voting rights associated with the public equity stake as a mechanism to ensure good company behaviour: high-productivity, high-wage business models that are democratic, purposeful and operate sustainably, with strong and fair supply chains, that serve social and environmental needs. And, importantly, once the initial economic shock wanes, the public should receive a windfall from their investment in the form of rising equity prices and dividends.

Ending unbalanced value extraction from the company: Corporations should not be able to issue dividends or pursue share buybacks while the Coronavirus Job Retention Scheme is open, and until the end of 2020 if the scheme is closed before then. This should apply to all public companies at a minimum, not just bailed out entities. Once this period is over, the distribution of dividends to the entire shareholder body – with the public stake receiving a share proportionate to its share of equity – should be allowed to resume.

Alongside this, we support the call of the High Pay Centre for the following conditions to apply to any bailed out company:

- Fair pay at the top: including a maximum pay ratios between the highest paid and median employees of bailed-out companies of 10:1 to begin.
- Fair pay at the bottom: including a commitment to set a timeframe to paying the real living wage, an independently accredited hourly wage level (currently set at £9.30 across the UK and £10.75 in London).
- Ensuring tax justice: including requiring bailed out companies to commit to Fair Tax Mark accreditation and pursue responsible tax practices more broadly.

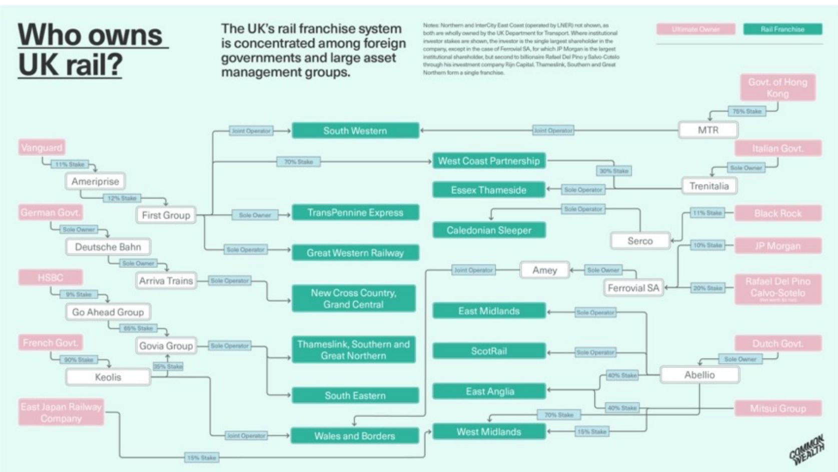
Case study: Railways

A core focus of the response to the economic fallout has been efforts to prevent the collapse of affected businesses, many of which have experienced a stark contraction in demand. Among the sectors hit particularly hard by the crisis is transportation, with rail franchises in England being nationalised – at least provisionally - following the suspension of franchise agreements to transfer “all revenue and cost risk” to the government.

While the scale of the crisis has triggered several significant public policy interventions, including these measures for the rail sector, the UK government stepping in to save private rail companies is far from new, with the East Coast rail service being nationalised in 2018 amid financial turmoil, followed by Northern Rail in January of this year, and then South Western Railway, which faced the possibility of nationalisation this January after losing £137million in the financial year to March 2019. This reactive model of socialising losses while privatising profits has long defined the railway industry throughout the UK.

Nationalising the Losses, Privatising the Profits: Who Benefits?
Preventing the collapse of the rail industry as ridership effectively halts amidst the ongoing public health crisis is essential – for commuters, railway workers and their supply chains, and for any viable decarbonising strategy for the UK - but it also raises important questions concerning the mechanisms by which the rail companies are bailed out, whose interests are served - and how the sector should be organised post-crisis.

The suspension of the UK rail franchise system exposes the illogical and unspoken arrangement according to which the rail system operates, whereby private companies are substantially subsidised to profit during normal times – paying out hundreds of millions of pounds per year to shareholders, including more than £1.2 billion in dividends to shareholders in the last five years, despite deteriorating service quality even as TUC research shows fares for commuters have risen by 46 percent in the decade since 2009, twice as fast as wages – while their losses are guaranteed in times of crisis. And while actions to safeguard jobs and ensure the continuation of safe and reliable rail services for key workers during the crisis are welcome, the decision to absorb these companies’ losses during this crisis with no strings attached is in large part a bailout for other governments, shareholders, and billionaire private investors.



As the diagram above shows, the primary beneficiary of the temporary nationalisation of UK rail companies' losses is a complex network of other governments and private shareholders. Despite the UK having largely privatised rail franchises, foreign government ownership is ubiquitous among the UK's rail system, with these governments being the sole or majority owner of several UK rail franchises, often through long chains of operating companies.

Building a resilient rail system

Money provided from the taxpayer must not be used for a no-strings-attached bail out of shareholders and private investors; rather, any public support for railways must be associated with strong conditions that support long-lasting social, economic and environmental benefits for the public.

First, there must be guaranteed protection for railway workers. While the UK Government's job retention scheme is a much-needed step in the right direction, it is important that this policy package recognises the precarious nature of the labour market, and is extended to non-PAYE railway workers.

Second, rail travel should be free for key workers for the duration of the crisis - at a minimum, for as long as the Retention Scheme is in operation. If the government advice is that people must stay at home and only key workers should travel in order to safeguard our collective health and safety; it is only fair that those workers are provided with free travel. Workers not deemed essential should be strongly discouraged from travelling by rail. However, this will require the government to provide a basic level of economic security for all non-essential workers to enable them to securely enter economic hibernation, with further action needed for all in areas such as income support, a minimum income guarantee scheme, access to childcare and outgoings such as rent. We echo the demands of railway workers that: "No one should be putting themselves, and others, in danger because of the financial risks of not taking journeys."

Third, beyond the immediate crisis, it is imperative that the cyclical nature of the public purse bailing out private rail companies is undone and instead replaced with long-term public ownership of the railways. As We Own It argue, bringing rail services into public ownership can help to alleviate many of the problems associated with the broken system of privatisation: by removing shareholder payouts, earnings can be reinvested to improve services and reduce rail fares instead of being distributed to major investors; by replacing the for-profit structure of the rail services, a new de-financialised structure of incentives can emerge to meet social, economic and environmental needs.

Case study: Aviation

The economic response to Covid-19 must involve both unprecedented measures to support incomes and provide economic security for all in the short-term, as well as long-term steps to restructure the economy so that it emerges from the crisis geared toward justice and sustainability.

The broad approach of significant state intervention amid the crisis is to be welcomed. The economic shock induced by the public health emergency and ensuing policy response is plunging the economic viability of many companies and sectors into doubt. With the pandemic radically reducing demand for flying, the aviation sector – both airline and airport companies - is particularly at risk of collapse, with many aviation companies having already requested state support.

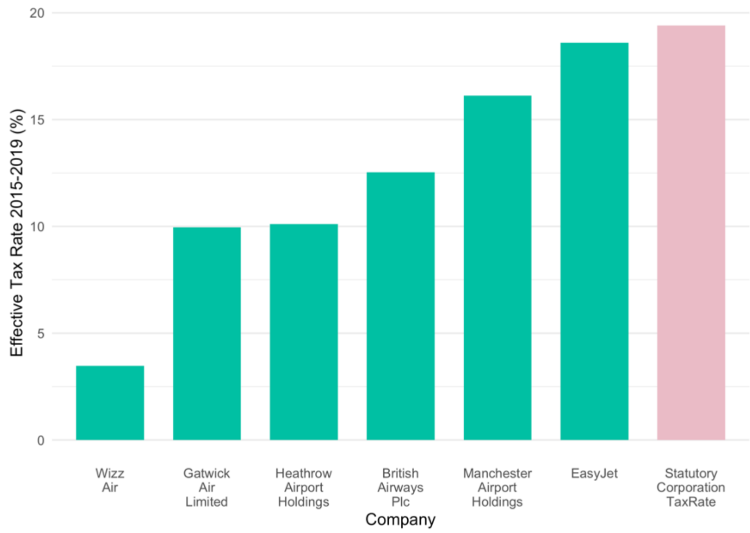
Public support, though, should not be unconditional. A state bailout must not be a blank cheque, allowing the sector to return to business as normal as and when the crisis passes. On current trends, aviation is likely to be the largest emitting sector in the UK by 2050; emissions are forecast to grow both in real terms and as a proportion of total UK emissions. Meeting the UK government's net-zero 2050 target, let alone a more ambitious target necessary to combat climate crisis, will be difficult, if not impossible, absent deep shifts in the behaviour of the aviation sector. The Covid-19 emergency and the climate emergency together pose a monumental threat to a healthy, sustainable future for all and action now should wherever possible seek to address both together.

Nor is it just the sector's environmental record and future trajectory that must improve. Our analysis demonstrates that airline companies and airports have prioritised the interests of external shareholders over the long-term success of the company or the interests of their workforce, the environment, and wider society. This includes favouring the distribution of retained earnings via dividends or share buybacks over increased investment in green technologies or higher wages; soaring executive pay; and a poor track record overall on alignment with the aims of the Paris Agreement.

Airlines not alone in this trend; over a five year period, the holding companies owning Heathrow, Gatwick and Manchester airports have paid out a staggering £4.4bn in dividends, of which £3.3bn was paid by Heathrow Airport Holdings alone. In fact, dividend payments by these companies were regularly in excess of 100% of the companies' net income over this period.

In addition to these substantial dividend payments, several companies in the UK aviation industry are paying low effective tax rates. Most notably, Wizz Air maintained an effective tax rate averaging just 3.5% between 2015-2019.

The chart below shows the average effective tax rates paid by the six UK-domiciled aviation industry companies included in this analysis over the period 2015-2019. Though not an exact comparison, as a point of reference the average statutory corporation tax rate over the same period (19.4%) is also shown.



Source: Common Wealth analysis of Orbis database
Notes: Average effective tax rate is defined here as taxes paid/pretax income, expressed as a percentage, over the period 2015-2019. Note that due to data availability, data for Heathrow Airport Holdings and British Airways Plc reflects the years 2014-2018. As a point of comparison, we have included the average statutory UK Corporation Tax Rate over the same period, as designated by HMRC[5]. British Airways Plc is the UK headquartered subsidiary of International Airways Group, and Wizz Air here refers to Wizz Air Holdings Plc, the UK subsidiary of Wizz Air group.

Any public support must be conditional on ensuring these behaviours change permanently. It is vital a bailout takes the form of cash for equity that is used to effect deep structural change in the behaviour of airlines and airports receiving a substantial public cash injection. This should mark a departure from the strategy pursued by the UK government in the wake of the financial crisis, where banks were bailed out but major public stakes were not used to drive transformation in the operation or performance of publicly-owned banks. To that end, we recommend five broad conditions for public support:

Ensure furloughing, no lay-offs: As a condition of receiving public support, bailed out companies should guarantee no lay-offs for staff, using the newly announced Coronavirus Job Retention Scheme where necessary.

Embed collective bargaining and worker representation in governance: A public stake must be combined with democratising governance and the workplace. All bailouts should require as a condition the embedding of collective bargaining around pay and conditions as well as ensuring that a minimum of one-third of the company board should be elected from the workforce.

Fair pay: As part of the condition of bailouts, we support calls for the imposition of maximum pay ratios between the highest-paid and median employees of bailed-out companies at an initial ratio of 10:1, and the introduction of the real Living Wage, an independently accredited hourly wage level including to contracted staff.

Securing tax justice: Our analysis shows that the effective taxation rate of many companies in the sector is strikingly low. This must change. To that end, as the High Pay Centre has argued, bailed out companies should be required to commit to Fair Tax Mark accreditation and pursue responsible tax practices more broadly.

Prioritise decarbonisation not dividend payouts: Public ownership should be accompanied by the exercise of public control as reflects the public's stake. In particular, as a major shareholder, the UK Government should require the companies it has a stake in to prioritise investment in decarbonising technologies, improving the quality of service, and increasing wages and conditions for employees, rather than the current focus on distributing retained earnings to shareholders in the form of dividends or share buybacks. Of course, unlike in other sectors, which can and are shifting to renewable sources of power, there are currently few scalable options for 'decarbonising' aviation. Yet a coordinated industrial strategy matched to greater investment of retained earnings in green technologies and fuel sources combined with a coordinated planning of aviation so it accords with limiting warming to within 1.5 degrees would mark a vital step forward from the status quo.

Retain the public stake for the long-term so we all have a share: The bailouts should be structured as cash for equity. This stake should not be sold off post-crisis but instead held as a form of enduring public wealth. If the companies rise in value, the public will benefit from their investment today with a windfall in future, as well as exercising shareholder rights. The critical question is who controls the company and who has a claim on its surplus.

Today, the answer is a combination of elite shareholders, institutional investors and executive management; but it does not have to be that way. Through a new combination of ownership, governance and control, we can transform the company from an engine of wealth extraction into a purposeful, sustainable, inclusive form of enterprise. This might seem radical, yet we already intervene in the organisation of the company: with its privileges and property rights socially defined, the company is fundamentally a public institution. It is common sense to organise it to serve the public good, anchored in a new public stake.

This is an unprecedented moment that requires unprecedented action. These five steps should be a condition of any public support in the form of cash for equity – and should serve as a model for any wider public response to the unfolding crisis, anchored in extending democratic ownership, reducing inequality, and securing social and environmental justice.

6. Create a network of holding companies to secure a pluralistic post-crisis business landscape

To support smaller companies, a state holding company, or network of regional or national holding companies, akin to the Reconstruction Finance Corporation during the Great Depression, should be created. The need is urgent: according to the British Chamber of Commerce, 57% of firms having three months' cash in reserve or less and nearly 20 percent of all UK firms have less than a month. Due to a Covid-19 induced cash flow crisis they are now acutely vulnerable to collapse or hostile acquisition. Absent intervention, the result is likely to be a more concentrated business landscape with wealth and power narrowing.

As both The Democracy Collaborative *and* the IMF have floated in recent days, we propose the creation of a state holding company that would purchase otherwise viable businesses now facing acute distress that request support, safely mothballing them during economic hibernation, before re-floating them when the economy re-emerges. This will help protect them from being purchased by private equity and avoid the obliteration of an SME class. There is also the opportunity to re-float these businesses under worker ownership, or other diverse ownership structures, transforming and pluralising the business landscape.

Other measures should also be considered to provide temporary support, including the financing of existing credit facilities for up to six months – subject to review and potential extension – at a zero interest rate, while new credit facilities up to an equivalent of 3 months' revenue priced at zero interest rates might also be necessary in the period ahead.

7. Create a social wealth fund to grow public wealth and transform corporate behaviour

Given shares prices continue to decline in the short-term and public borrowing costs are reaching record lows, a social wealth fund should be established to purchase a broad range of assets via a public sector debt-financed acquisition to be held on behalf of the population as a whole. This would help challenge inequalities of resource and control in the economy, transform private wealth into equally shared public wealth, and ensure that returns to capital are more equally shared across society. A social wealth fund would also be an important institution to improve corporate governance and ensure companies better – and more quickly – meet ambitious environmental and social goals.

To that end, the UK government should issue new Treasury bonds and use the cash raised to purchase a broad range of assets to endow the Fund. Potentially complementing this, though secondary, newly created money through the Bank of England's quantitative easing programme could be used to purchase corporate equity. Other sources of future capitalisation could include hypothecating wealth taxes, scrip taxes, or consolidating and transferring public assets into the fund.

As Mark Blyth and Eric Lonegran have argued, 'the purely economic and financial case for this hinges on the simple observation that in a world of low inflation the government's cost of capital is countercyclical and the private sector's is pro-cyclical.' This is playing out to dramatic effect today: yields on government bonds have fallen to extremely low levels, even as equity prices have collapsed and private sector credit spreads have widened. The creation of a social wealth fund can therefore play an important role in macroeconomic management – as well as provide an institution for the extension of public wealth. By buying equity and other assets at substantially reduced prices, while borrowing costs are low, a newly created social wealth would help stabilise financial markets while also ensuring that if and when there is a sustained recovery in share prices after the recession has passed, the public should secure an economic windfall from their investment.

The fund should seek to achieve return on capital at least equivalent to the capitalising government's medium term cost of capital across its investment portfolio, but should not be profit maximising because it should pursue social and environmental goals as its priority. It should be a collectively owned investment vehicle held in trust for all, its mandate defined by the UK government but with operational independence.

A growing social wealth fund would be a vital institution post-crisis to achieve a number of goals:

- To grow net public wealth, increasing the resources available to the population as a whole – and ensuring we all have a collective economic stake, democratising a growing share of wealth
- To provide an investment vehicle capable of addressing key social goals, from investment in decarbonising infrastructures to providing affordable housing
- To act as a force for convergence, socialising a growing share of corporate and institutional wealth and therefore reducing sharp inequalities in wealth
- To increase intergenerational fairness by transferring some resources from current to future generations
- To shift the allocation of resources toward long-term investment over current consumption.

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