

RESEARCH

# A Springboard for New Citizens: Universal Basic Capital and a Citizen's Day

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In recent years there have been several proposals from academics, think tanks, and politicians for a universal grant of basic capital (UBC) to be awarded to every citizen. There has been one UBC programme that was actually implemented: the British Child Trust Fund, started in 2003 by a Labour Government and abolished by a Coalition Government in 2011. This paper discusses the case for a UBC, focusing attention on its potential for helping young people to attain long-term positive outcomes in several dimensions of life, from employment to health. By looking at the experience of the Child Trust Fund, the paper also highlights lessons for how a UBC should be implemented in practice. It proposes a Citizen's Day: a coming-of-age occasion, marked by a ceremony at which a substantial UBC is awarded, along with the right to vote.

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The idea behind a universal grant of basic capital (UBC) is simple. The state makes a one-off grant of a sum of money or other financial asset to every citizen. The grant is made at birth, at the age of majority, or at some later point in their young adult lives. The UBC may be the same for all, or a minimum amount plus a top-up for citizens who are on low incomes, have low wealth holdings or who are otherwise disadvantaged. It is financed either from general tax revenues or by a form of wealth tax, such as a tax on inheritances or on wealth-holdings.

UBC is a relatively old idea. It originated with Thomas Paine, who proposed that everyone reaching the age of 21 should receive £15 out of a national fund financed from a tax on inheritances [1]. However, I think I can claim to be the first to introduce it into modern policy discourse, when, in several publications over the course of the 1990s, I proposed that a grant of £10,000 should be awarded to every citizen on his or her attaining the age of majority, funded by inheritance taxation [2, 3, 4].

Another version of UBC was put forward in 2000 by Gavin Kelly, of the Institute of Public Policy Research (IPPR), a progressive policy think tank. Imaginatively titled a 'baby bond,' this was a grant awarded to every citizen at birth that would be invested in a savings account or in some other savings vehicle, the accumulated funds from which could be used by the recipient on attaining the age of 18 [5]. This version of the UBC idea formed the basis of the Child Trust Fund, a policy introduced in the United Kingdom in 2003 but abolished in 2011. The IPPR has recently returned to the basic UBC idea with their Commission on Economic Justice proposing a 'universal dividend': a grant of £10,000 to 25 year-olds financed by the income generated from a sovereign wealth fund [6]. And, in his last book, the distinguished economist Tony Atkinson proposed a capital endowment of £5000–£10,000 for every young adult, financed by a lifetime capital receipts tax [7].

The idea was not confined to the UK. In the United States in 1999, Bruce Ackerman and Anne Alstott proposed a 'stakeholder grant' of \$80,000 for everyone at the age of 21 with a high school diploma and no criminal record, financed by a wealth tax [8]. Hillary Clinton flirted with the idea of a UBC in the 2007 presidential primaries, and in 2019, Cory Booker, US senator and candidate in the Democratic primaries for the 2020 presidential election, advocated a baby bond-type scheme developed by Darrick Hamilton and William Darity to correct racial inequalities in wealth [9, 10]. In the mid-2000s I proposed a similar scheme for the European Union, a 'Bambini Bond' [11]; and in his most recent book on capital, Thomas Piketty has argued for a grant of €120,000 to be made to every French citizen at the age of 25, financed by a wealth tax [12].

## UBC and UBI

A currently fashionable idea is that of a universal basic income (UBI): a basic income given by the state to every citizen, every year [13]. UBI and UBC are best viewed as different forms of the same type of policy, rather than mutually exclusive alternatives, given that one can be readily converted into the other. The UBC could be invested for a positive return or used to buy an annuity, thus generating a 'basic' annual income; while the universal basic income could be used to fund the annual repayments of a mortgage-type loan of capital.

So, if policy-makers do want to go down a route of providing a universal grant of some form, the choice is essentially between that of giving citizens a small amount of money periodically, as with UBI, or giving it to them as a larger amount at the beginning of their adult lives, as with UBC. Here I argue that it would be better to give people capital at the start of their adult lives that has the potential of propelling them to the heights, rather than an annual income to support them if they fell on hard times: a springboard instead of a safety net.

## Why a UBC?

In all societies, every citizen on attaining the age of majority will do so with endowments of capital, but of different kinds and amounts, and taking both positive and negative forms. All will have human capital – physical and intellectual abilities and skills- acquired partly through their genes and partly through their upbringing and education. Some will also have access to financial and property wealth, either directly through gifts or inheritance, or indirectly via the bank of Mum and Dad. Although all these forms of capital are unequally distributed, policymakers' efforts to enhance equality differ vastly by the type of capital under consideration. With human capital, most societies, through social and educational policies, try to ensure that all have the opportunity to acquire the skills and knowledge needed to enhance their stock. Such levels of government intervention rarely extend to financial and property capital, however, with most societies doing little to affect its distribution, other than enacting the occasional tax on inheritances (usually limited in scope and often avoided or evaded).

The absence of any meaningful policies in pursuit of greater equality in financial or property capital is particularly striking given the massive degree of inequality in the distribution of such capital in most developed societies. A few inherit vast sums before or at the age of majority, but most people begin their adult lives with little or none at all. Indeed, some even start their adult lives with 'negative' amounts of such wealth – large debts, ironically often acquired through trying to enhance their stock of human capital through higher education.

The basic facts about wealth inequality are startling. For statistical purposes in the UK, wealth is defined in terms of net property wealth (value of property, net of mortgage debt), net financial wealth (financial investments, including savings accounts, net of non-mortgage debt), private pension wealth, and physical wealth (household contents, vehicles and other possessions and valuables). The latest figures for Great Britain show that, in 2016, the top 10% owned close to half of total wealth (45%) while the bottom 30% of the population owned just 2%. The bottom 10% have virtually zero wealth, with, on average, negative financial and property wealth only just offset by modest physical wealth and even more modest pension wealth [14].

There are a number of factors affecting these inequalities, including age, household structure, education, income and – of particular relevance for our purposes – the receipt of inheritance and gifts, especially by the young. The Office of National Statistics provides data on the distribution of inheritance, gifts, and loans in Great Britain by income, wealth and age group in the period 2014–2016 [15]. Unsurprisingly, the already wealthy are significantly more likely to receive an inheritance. The wealthiest quintile (the top 20%) of those aged 16–34 – with wealth defined before inheritance – were three times more likely to receive an inheritance than their counterparts in the bottom quintile. Further, the mean value of the amount the lucky recipients received in the wealthiest quintile (£92,100) was nearly eleven times larger than that received by recipients in the lowest quintile (£8,500). So, not only were there many more people receiving inheritances at all among the already wealthy, the inheritances in question were generally also substantially larger than those received by the least wealthy. There are similar patterns for gifts and loans.

In the United States, the statistics are even more alarming. The latest figures show that in 2019 the top 1% owned over a third of all wealth (36.9%), and the top 10% over three quarters (78.5%); while the bottom 50% had 1.7% [16]. Of particular interest in light of the Black Lives Matter movement is the extent of racial inequality. As Hamilton and Darity point out in their article advocating a UBC, the median household net wealth of white families is fifteen times that of black families, and more than ten times that of Hispanic families. Even for households in the bottom income quartile, the inequality between races is striking, with black households having just 2% of the wealth of white families [9, p.210]. Again, inheritance and gifts are important; as Hamilton and Darity note, 'careful economic studies... demonstrate that inheritances, bequests and intrafamily transfers account for more of the racial wealth gap than any other demographic and socio-economic indicators, including education, income and household structure' [9, p.212].

Given this, in terms of social justice alone, there seems to be a strong case for a move towards a more equal distribution of the ownership of wealth, particularly among the young. But why not simply do this by the traditional route of taxation – inheritance taxes, a lifetime capital receipts tax (to capture gifts as well as inheritances), as advocated by Atkinson [7], or a straightforward tax on wealth? Certainly, some type of wealth taxation should form part of any strategy for redistribution, and indeed most UBC advocates have suggested financing the UBC through that route. The introduction of a more effective tax regime could alone do much to remedy the inequality of inherited wealth, by lowering

the amounts given in the top quintiles. However, simply to rely upon taxation would mean missing a key benefit of the UBC – one that may constitute as important an argument for the policy as the rectification of social injustice.

This benefit arises from the impact that a UBC can have on the life-time of the individuals themselves, and not only the recipients of their eventual wealth. Evidence from longitudinal studies in Britain show that young adults' ownership of financial assets has a significant impact on their subsequent lives and livelihoods. The simple fact of possessing assets at 23 has been shown to improve young people's prospects, in terms of employment, earnings and health, at the ages of 33 and 42. Nor is this likely to be mere correlation, with the relationships remaining even when controlling for confounding factors, such as income, class, and personality type [17, 18].

In passing, it is worth noting that recent LSE research in partnership with BRAC (an NGO based in Bangladesh) on the ultra-poor in the developing world has also found dramatic 'asset effects.' An asset transfer of around US\$550 to ultra-poor individuals with no assets appears to enable them to lift themselves out of poverty and to stay out of poverty by their own agency [19]. There appears to be a universal message here, one that should be of interest to policy-makers concerned with inequality and poverty in developing as well as in developed countries.

There are several routes through which these asset effects could make its impact. The ownership of financial assets may increase individuals' independence and their capacity for agency, which is likely to be beneficial both psychologically and materially. It may help them to start a business, to pay for college, to put a down payment on a house, or even to start a pension, all of which are likely to have favourable long-term effects. In short, it should act as a springboard for young people, enabling them to make the most of their adult lives. The existence of an asset effect is a powerful supporting argument for a UBC.

### ***The politics of UBC: The child trust fund***

So there are good arguments in favour of a UBC scheme of some kind. But is such a scheme administratively and politically feasible – especially in a post-pandemic world? Is it possible, not only to introduce such a scheme but, more importantly, to sustain it – particularly at a time when competing demands on public spending are likely to be even more intense than usual?

The experience of the UK's Child Trust Fund (CTF) provides some useful lessons. The CTF was introduced in 2003 by Tony Blair's Labour Government. It gave every child born since September 2002 a voucher worth at least £250 with which to open a CTF account in their own name. Low income families and families with a child with a disability received £500. At the age of seven, the government gave a second voucher again worth £250 or £500. Investments could be in the form of shares, bonds or cash savings accounts. Parents, grandparents, or family friends could save into the account up to £100 a month, and the account was exempt from income or capital gains tax. Finally, no-one could withdraw money from the account until the child reached 18 and then it could only be accessed by the (now young adult) account-holder.

In 2010, a Coalition Government was formed with David Cameron as Prime Minister. Committed to a programme of austerity in an attempt to reduce the economic damage done by the financial crisis of 2008, one of the new government's first acts was to abolish the CTF. From August 2010, payments at birth were reduced and payments at seven stopped, with all payments ending in January 2011.

So, what does this – rather sad – tale tell us about the administrative and political feasibility of UBC schemes? In terms of administration and operation, the CTF was a success story. All children born in the UK between September 2002 and December 2010 now have a savings account. The parents of three quarters of eligible children opened a CTF account, while central and local governments opened the rest. Parents, other family members, and friends did contribute to the accounts as the policy intended: on average they added £289 every year to each account between 2003 and 2010. By 2010 the amount held in the accounts exceeded £3 billion [20]. Unsurprisingly, the CTF was popular with parents, especially the poorer families, most of whom, perhaps more surprisingly, welcomed that fact that it was locked away until the child reached 18 [21].

Of course, we will not be able properly to assess the CTF's overall impact until the existing accounts have matured (the first ones mature this year: 2020). Even then we will not be able to assess its longer-term effects on wealth inequality and on individual life-courses until much later in the beneficiaries' life-times. However, what we can say is that it was implemented successfully and, in its own short lifetime at least, achieved some of the outcomes that its proponents hoped.

Given that it had been implemented successfully, that it was working in the way it was intended, and that it seemed relatively popular, why was the CTF abolished in 2011?

One of the explanations lies in the adversarial and erratic nature of politics. The CTF was a policy that owed its existence solely to the Labour Government, who launched it with some fanfare. The launch took place at No. 10, fronted by the Prime Minister, Tony Blair, the Chancellor of the Exchequer, Gordon Brown, and the Secretaries of State for Education and Work and Pensions, David Blunkett and Alistair Darling, respectively. In contrast, neither the Conservatives nor the Liberal Democrats – the partners in the coalition Government that replaced Labour in power in 2010 – were committed to the policy, or even to the underlying concept [21, 22]. Indeed, the Liberal Democrats, the junior coalition partner, had even included the abolition of CTF in their manifesto. Given this, and the austerity-driven agenda of the new Chancellor, George Osborne, it was not surprising that CTF was one of the first policies to be cut in pursuit of lower public spending.

What is perhaps more surprising is that so few rose to the CTF's defence. At the launch, with the exception of some right-wing columnists complaining about yet another government hand-out, the policy was well received in the media. Yet there was little public or press outcry at its demise, not even from the middle class: the traditional defenders of universalist programmes.

The most fundamental reason for the lack of protest was that few people perceived themselves to be losers from the policy's removal [21, 22]. Of course, there were losers: specifically, anyone born after Jan 1<sup>st</sup> 2011, who would no longer have a CTF account to access when they were 18. Obviously they were not around at the time of the policy change to protest; but even their parents, who were around, would not lose any money directly. The parents would indeed miss any personal satisfaction they might have derived from knowing that their children had ownership of a savings account; but such indirect loss was unlikely to form the basis for substantial opposition to the policy's termination, while children directly affected by it were too young to meaningfully protest.

Such apathy was also likely due to the relatively limited size of the individual amounts in play. The initial endowment of £250 at birth invested in a savings account would not create a very large sum at 18, even allowing for the magic of compound interest: at 2% interest yearly, for instance, it would amount to £358. Even with the extra £250 added by the government at the age of 7 and with £24 per month put in by parents, grandparents, and family friends (the average deposited between 2002 and 2010), the total at age 18 based on 2% interest p.a. would be around £1480. This is a non-trivial sum, especially for those on low incomes, but it is small relative to the £10,000 that I and others have proposed for the UK, or the \$80,000 proposed for the US by Ackerman and Alstott; it is also small relative to middle class incomes. Even if parents had not made such precise calculations, it is likely that many perceived the sums involved as being insubstantial and hence their (or their children's) loss perhaps not worth resisting.

For proponents of UBC seeking to learn from the CTF experience, the principal lesson should be that any UBC policy needs to be organized in such a way that, if it were abolished, there would be significant losers – especially among the middle classes. Alongside this, the fact of the loss should be large, obvious and immediate: not a vague sense of a small loss some eighteen years in the future. All of this suggests that a sizeable grant at the age of maturity would be a better scheme for the long-term, rather than a small grant at birth, as with the baby bond or CTF.

A further argument for a large grant at maturity might be called the Doolittle effect. In Bernard Shaw's play *Pygmalion*, the dustman Alfred Doolittle turns down a gift of £10 on the grounds that such a large sum 'makes a man prudent-like' and he would not be able to spend it on 'one good spree.' The problem with relatively small sums such as those generated by the CTF is that they are more likely to be spent on a good spree than invested in such a way as to create long-lasting returns. A UBC of £10,000 or more, on the other hand, is an amount that, for those on low incomes or with low wealth-holdings, could be life-changing and therefore much less likely to be misused. Dangers of misuse would remain, of course, including exploitation by others (for instance, pressure to pay off family debts). However, these could be mitigated by education in financial literacy and in citizens' rights – perhaps as part of the run up to the Citizen's Day, a proposal with which we conclude.

### **Conclusion: UBC and a citizen's day**

The experience of the Child Trust Fund supports the case for a UBC scheme that awards a substantial grant at the age of maturity rather than a tiny one at birth. Alongside this, the importance and significance of the grant could be enhanced by awarding it through a public ceremony, rendering it more politically salient and less susceptible to being removed or reduced. If the grant was to be awarded at 18, coinciding with the age at which people can vote, and the age they become eligible for jury service, it could be presented as part of a 'Citizen's Day,' when a young person becomes a fully-fledged adult citizen and is endowed with both the rights and responsibilities that come from being a member of the community.

Given the increased demands on public expenditure in the immediate future, it will not be easy for any government to introduce a UBC (or indeed a UBI). But the problems that the policy is intended to address – especially those of inequality in wealth and the absence of an 'asset effect' on long-term outcomes for the less well-off – will remain; and indeed may be exacerbated by the pandemic. If the UBC is packaged well, such as with a Citizen's Day, it could become both a symbol of coming-of-age and a powerful instrument for the young to revitalize the economy and to rejuvenate the wider society.

### **Competing Interests**

The author has no competing interests to declare.

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