Resolution Foundation

Intergenerational Commission

REPORT

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THE NEW WEALTH OF OUR NATION

The case for a citizen's inheritance

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Executive Summary

Over the past two years the work of the Intergenerational Commission, hosted by the Resolution Foundation, has set out in detail the state of and prospects for different cohorts' living standards in Britain. In the labour market, in housing and in the welfare state, the Commission has demonstrated that, too often, young adults' situations are no better than those of their predecessors when they were at the same age, in a break with the generation-on-generation improvements that were the norm during the second half of the 20th century.

This situation is of course partly driven by the 2007-08 financial crisis and its aftermath, the impact of which was felt most acutely by the cohorts starting out their adult lives at this time. But the Intergenerational Commission's work has shown that generational differences in living standards run far deeper, starting before the financial crisis and being set to endure even as its immediate impacts fade.

Beyond the weak earnings and incomes performance of young adults today, the Intergenerational Commission has identified two major trends which barely featured in political debate for much of the 20th century. The first is that risk is being transferred from firms and government to families and individuals, in their jobs, their pensions and the houses they live in. The second is that assets are growing in importance as a determinant of people's living standards, and asset ownership is becoming concentrated within older generations – on average only those born before 1960 have benefited from Britain's wealth boom to the extent that they have been able to improve on the asset accumulation of their predecessors. Both trends risk weakening the social contract between the generations that the state has a duty to uphold, as well as undermining the notion that individuals have a fair opportunity to acquire wealth by their own efforts during their working lives.

This paper, the 22nd report for the Intergenerational Commission, makes the case for a citizen's inheritance as a means to address these interlinked challenges of growing risk and stalling wealth accumulation.

A policy shift is needed to mitigate risks and promote asset accumulation for all

Changes in the distribution of risk and the accumulation of wealth are linked. Individuals and families use assets to manage risk, something that has also underpinned policy makers' wish to help people acquire a stock of assets. Assets are important in this regard because they help people smooth consumption over their lifetime, they insure against risks in the future, and they can provide a basis for positive risk-taking, for example to advance people's careers. Asset-based policies such as Right-to-Buy, pension tax incentives and matched saving schemes have sought to provide these things, and they continue to have an important role to play. But for many members of today's younger cohorts, existing policy will not be enough.

There is some good news in the pipeline if we look at the prospects for younger cohorts' accumulation of assets over the next two decades. Britain's wealth has increased sharply as a multiple of national income – from 2.5 times in the 1970s to almost 7 times today – and it will not disappear when its current holders pass away. It will instead cascade down to younger generations. The real value of estates passed on at death has more than doubled in the past twenty years, and is set to double again in the next twenty.

These inheritances are also set to be somewhat more widely shared among younger generations than the inheritances of old, due to higher home ownership rates among today's older population than in the past.

Yet while this trend is good news for some millennials' lifetime living standards, it is neither the silver bullet to eliminate the increased levels of risk young adults are bearing, nor the way to entirely change the fact that many of them are unable to easily accumulate assets on their own behalf. That is partly because, despite being more widely shared than before, inheritances will remain unequal, with most going to those young adults who already have assets. Crucially, inheritances will still increase absolute wealth gaps within younger generations, with already-wealthy millennials set to inherit more than four times as much as those with no property wealth. Almost half of 20- to 35-year-old non-home owners do not have parents with any property wealth. These trends are amplified at the household level, given the propensity for people to couple up with others expecting similar-scale inheritances to their own.

The timing of inheritances is as important as who gets them, to their effectiveness in managing risk among younger adults. With the most common age of inheritance among today's 20-35 year olds set to be 61, even people who will receive inheritances are likely to receive them too late to mitigate the risks they face at the most critical stages in early adulthood.

The greater risks that young adults experience today underscore the importance of the assets they have in reserve during the crucial phases of early adulthood, when people build careers, start saving for later life, and think about starting families. While inheritances will help some of today's young adults later in life, they cannot overcome the weak asset accumulation trajectories that many of them face in the here and now. This mismatch between the greater risks young adults bear and the assets they have to manage them should be a key focus of public policy.

We have of course been here before. Since the late 19th century it has traditionally been the state that has stepped up to address challenges of intergenerational fairness, asset accumulation and risk sharing. The State Pension was introduced a century ago when more people started to live beyond working age, more homes were built to house the children of the baby boom in the mid-20th century, and a rapid expansion of the education system was put in place in the late-20th century to keep younger cohorts' skills at the highest international standards. Each policy aimed in part to ensure Britain continued to honour the intergenerational contract as each cohort passed through. Today however, far from facing up to the new issues younger generations face, the state risks moving in the other direction, with welfare cuts falling on families of working age, and particularly those in the child-rearing years. Public policy needs to shift again, to address the new challenges of managing risk and accumulating assets that young adults face.

The UK should introduce a citizen's inheritance to show that Britain has something to offer all young people, whatever their background

This paper makes the case for the UK to adopt a citizen's inheritance – a universal sum of money made available to every young person when they reach the age of 25 to address some of the key risks they face – as a central component of a policy programme to renew the intergenerational contract that underpins society. The policy would mean Britain can offer a basic stock of assets to all of its citizens, no matter who their parents are, and it would help ensure a fairer distribution of wealth both between age cohorts and among the working-age population of the future. A citizen's inheritance, with use restrictions, could also help to mitigate some of the excessive risks affecting young people as they enter adult life, and enable them to invest more in their education, in pension savings, or in deposits for house purchases or rental. These material gains would have knock-on effects in improving people's psychological sense of security, their ability to participate fully as citizens, and their orientation towards the future.

This paper models and costs a citizen's inheritance policy for a transition period that begins in 2020 and lasts ten years.

- In the steady-state from 2030, the scheme would pay £10,000 to every 25 year old British national or person born (and resident) in the UK.
- Grants would sit in government-approved interest-bearing savings accounts, and could be spent at a time of their recipients' choosing on any combination of four permitted uses: education and training (including paying off tuition fee debt), deposits for house rental or purchase, pension saving, or the start-up costs of new businesses being supported through recognised entrepreneurship schemes.
- During the transition period, to reflect the experience of cohorts who entered the labour market around the time of the 2007-08 financial crisis, the policy would pay smaller amounts to cohorts aged over 25. The transition would start in 2020 by paying £1,000 each to 34- and 35-year-olds, and then an increasing sum would be paid to successively younger cohorts until the scheme reached a steady state in 2030.
- The citizen's inheritance would be funded primarily by ending the current inheritance tax system and replacing it with a new lifetime receipts tax, as has been set out in detail in a previous policy paper for the Intergenerational Commission. Other funding would come from ending existing matched savings schemes that primarily benefit wealthier young adults, such as Help to Buy ISAs and Lifetime ISAs. Our view is that there is symbiosis between our proposed policy and its main funding source: reforms to inheritance tax would be likely to garner more support if they were tied to plans for investing the proceeds in the country's young people.
- Citizen's inheritances would count as part of their recipients' £125,000 lifetime receipts tax allowances. This would help ensure the policy is progressive, while bringing forward the timing of inheritances for those due to receive money later in life.

A citizen's inheritance would give young adults greater agency and security, and demonstrate that the intergenerational contract can evolve for the 21st century

A citizen's inheritance would be an effective means to provide a base of assets to many young adults who don't currently have them. If £10,000 was paid to all 25-29 year olds today this would:

- At least double the net wealth of almost two-thirds (62 per cent) of young adults.
- Cover 40 per cent of the average first time buyer's home deposit, and more than half the average first-time buyer deposit in half of the regions and nations of the UK.
- Pay for multiple home rental deposits and support people with the challenge of putting down a new deposit before the old one has been returned. In March 2018, a typical deposit (of six weeks' rent) outside London was £1,051, while in London it was £2,172.
- Pay for Master's degree tuition in many universities (the loan available for Master's degree fees is £10,609 for the 2018-19 academic year).
- Pay off almost a third of student tuition fee debt for graduate cohorts who started university in 2012 or since.
- If saved into a private defined contribution pension at age 25, add an estimated £45,000 to a pension pot by the age of 68.

Assets provide people security in and of themselves, and help them potentially to accumulate further assets in the future. They also provide a base to take positive risks, for example to get careers moving by retraining or moving for work. A citizen's inheritance would be a bold change in public policy that should not be done lightly, and it would need to be accompanied by careful cross-partisan consensus-building. But the policy is achievable and affordable, and it is key to overcoming some of the challenges our country faces in the future in a way that that unifies both across ages and within younger generations. For these reasons, a citizen's inheritance for all young British adults – provided at the age where it is most needed – would be a lasting demonstration that the state's role in delivering the intergenerational contract can evolve for the 21st century.

Section 1

Introduction

The ownership of assets, as well as a decent income, is a strong foundation for people's economic and psychological security. In practical terms, assets provide both a store of purchasing power that can smooth people's consumption over the lifetime, and an insurance fund against unforeseen economic shocks. Over the past hundred years both Labour and Conservative governments have recognised these facts, and introduced policies like Right-to-Buy, ISAs and the Child Trust Fund which have helped many more people to build an asset base of their own. These policies achieved their aims in large part, but the prospects for the accumulation of wealth by today's younger generations are more uncertain than they have been in living memory.

Younger cohorts are more personally exposed today to short-term costs and long-term risks, in the labour market, in housing, in social security and in pensions, with the effect that their typical living standards are no longer better than those of the generation before – a stark break from the pattern of the 20th century. On the back of Britain's recent wealth boom, there are signs that the assets people inherit will have more influence on their lifetime prospects than any action most can take to better themselves through work and investment.

The existing welfare state, for all its successes, is so far underprepared to cope with this uncertain future. Risks continue to be transferred to individuals. Wealth continues to be taxed at low levels despite having more than doubled over the last twenty years. Poverty continues to be tackled mainly by income replacement rather than asset provision.

This paper makes the case for a concerted change in how society shapes younger cohorts' futures. It proposes a viable version of the old idea of a universal inheritance – a uniform sum of money paid to every young person when they reach the age of 25 – as a means to confer the benefits of asset ownership on young adults no matter what their background is. A citizen's inheritance would not be a sufficient solution to intergenerational inequities in the UK, but it would be a good step towards renewing the intergenerational contract and tackling several interlinked difficulties facing younger cohorts today and in future.

This paper sets out the motivation for and details of a citizen's inheritance policy. It is organised over four further sections, as follows:

- **Section 2** outlines the overall motivation for the Commission's interest in a citizen's inheritance, as well as the specific challenges in education, housing, wealth and the labour market that the policy seeks to address.
- **Section 3** goes through the specifics of the Commission's proposed policy: who gets it, how much, and what they can spend it on.

- **Section 4** briefly evaluates how well the policy might work against its key objectives.
- **Section 5** concludes.
- The **Appendix** gives an overview of the previous history of citizen's inheritance and similar asset-based policy proposals.

Section 2

Policy rationale: The intergenerational distribution of assets and risk

Research for the Intergenerational Commission has demonstrated that younger generations are facing greater risks, and more individualised ones, at key stages in their adult lives. At the same time they are falling behind their predecessors in the rate at which they acquire assets, the ownership of which is one of the key ways that families have traditionally coped with the risks they face.

In response to these twin trends, this paper considers approaches that might both mitigate existing problems and prevent future ones from occurring. This section outlines the rationale for our proposed solution of a citizen's inheritance paid as a lump-sum grant. It considers recent trends in housing, pension savings, labour markets and education that a citizen's inheritance can provide part of the response to, as well as discussing the changing distribution of wealth and inheritances that provides the backdrop to our suggested approach. Finally, it reviews previous policy approaches that have been taken to support broader asset accumulation.

Increased risk is bearing down on young adults in particular

A recurrent finding in research for the Intergenerational Commission has been that today's younger cohorts face greater, more individualised risks throughout their adult lives. This trend can be seen across a range of areas of young people's lives in the UK, and has also been noted in the USA among other countries.[1] Alongside very real pressures on their day-to-day living standards, these risks are reshaping what it feels like to grow up and progress through adulthood in Britain. Below we review the evidence for living standards challenges and greater risk-bearing in relation to housing, pensions, education and jobs.

Problem 1: Housing is less secure and fewer young adults are owner-occupiers

The most prominent focus of generational concern about housing is probably the significant fall in young adults' ownership levels among millennials (the generation born 1981-2000). Levels of home ownership were pushed up by rising affluence and the deregulation of the mortgage market in the 1980s, as well as the widespread discounted sale of council houses after the Housing Act 1980. The proportion of owner-occupiers (out of all households), which stood at just 37 per cent in 1961, peaked four decades later at 78 per cent in 2004. But in the last 14 years home ownership has declined quickly, driven by falls among younger households. Falls in owner-occupation started earliest

1 J Hacker, *The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream*, Oxford University Press, 2008

among households with a head aged 25-34, with the high point of 51 per cent being reached as early as 1989. Today those millennials who have reached age 30 are half as likely to own their home at that age as baby boomers (born 1946-65) were.[2]

The headline trend driving home ownership declines for young adults has been a huge increase in the price of homes, significantly outstripping the growth of incomes. For young adults buying their first home this has created a major barrier to entry into ownership: the upfront cost of a deposit. In the 1980s it would have taken a typical family headed by a 27-30 year old around three years to save for an average-sized deposit. Today that figure stands at 19 years.[3]

Home ownership remains an aspiration for young adults in Britain, in large part because it provides people with important assurances: the security that they can stay in their home, and a hedge against future fluctuations in housing costs. In addition, owning a home is one of the key ways for people to build up assets in Britain. The result of the ups and downs in Britain's home ownership levels – coupled with the house price boom of the 1990s and early 2000s which benefited those in possession of houses at the time – has been that property assets have become increasingly concentrated in older generations. Cohorts born since 1960 have substantially less net property wealth than their predecessors did at each age.[4]

These trends, combined with the decline in social housing as a proportion of the total housing stock, mean that members of younger generations increasingly find themselves living in the private rented sector long-term. Britain's private rented sector provides less security of tenure than it used to, and a relatively low level compared to other countries.[5] Private renters also have to be able to cover rental deposits on top of ongoing housing costs. 74 per cent of private renters had to pay a deposit (also called a damage deposit or bond) in 2014-15.[6] The typical rental deposit demanded by private landlords in the UK is six weeks' rent, which according to the latest statistics on typical monthly rent from the HomeLet Rental Index (for March 2018) would on average be £1,051 for the UK outside London, and £2,172 in London.[7] Given that real household disposable income per capita is £1,286 per month (in Q4 2017), the need to pay deposits is a major challenge to both housing affordability and to people's ability to move house.

Alongside trends in tenure, property wealth accumulation and deposit requirements, research for the Intergenerational Commission has pointed to the further generational challenge posed by ongoing housing costs that is particularly profound for young people. Millennials today are spending an average of a quarter of their income on housing.[8] Together these costs and insecurity trends risk discouraging geographical and job mobility, while inhibiting family formation and other essential stages of adulthood. Lower

2 A Corlett & L Judge, *Home affront: housing across the generations*, Resolution Foundation, September 2017

3 A Corlett & L Judge, *Home affront: housing across the generations*, Resolution Foundation, September 2017

4 C D'Arcy & L Gardiner, *The generation of wealth: asset accumulation across and within cohorts*, Resolution Foundation, June 2017

5 A Corlett & L Judge, *Home affront: housing across the generations*, Resolution Foundation, September 2017

6 Source: Ministry of Housing, Communities and Local Government, *English Housing Survey*

7 Source: *HomeLet Rental Index*, March 2018

8 A Corlett & L Judge, *Home affront: housing across the generations*, Resolution Foundation, September 2017

geographical mobility worsens the effectiveness with which the labour market matches jobseekers with vacancies, with implications for individual pay and national productivity and unemployment, as Milton Friedman influentially observed fifty years ago.[9]

The housing challenges facing younger generations have no simple catch-all solution. The Intergenerational Commission's policy proposals in this area have addressed a wide range of issues from security of rental tenure to boosting younger cohorts' relative purchasing power within the housing market, and increasing the level of house building.[10] In addition to these approaches, this paper considers how young adults can be supported in building up the deposits required for rental or home purchase, to provide them an avenue towards less insecure housing options and support essential steps like moving for job opportunities.

Problem 2: Many people are saving inadequately for pensions

Despite recent public policy success in increasing the number of people saving for private pensions, public opinion is currently pessimistic about the adequacy of the future retirement incomes of today's working-age cohorts. This pessimism in part reflects the fact that very few people in future cohorts of retirees will reach the pension incomes of the very highest income people retiring today, and the extent to which current pension policy means people will face more individualised retirement income risks in future.[11]

Both of these challenges follow from the fact that provision of the most generous type of pension scheme – defined benefit (DB) pensions – has been falling since the 1970s, with only 29 per cent of employees contributing to a DB pension in 2016 versus 47 per cent in 1997.

In the place of such schemes, automatic enrolment into modest workplace pension schemes has meant that millennials are more likely to be saving for retirement in their 30s than older generations were at the same age. Savings rates are currently low in many cases and, while combined minimum contributions from employees and employers are set to rise to 8 per cent of salaries by April 2019, they will not be enough to guarantee adequate retirement incomes for many savers. The Pensions Commission's modelling fifteen years ago suggested that contributions closer to 12 per cent of earnings would be necessary to guarantee an adequate retirement income.

The shift towards younger generations being enrolled in defined contribution (DC) rather than DB schemes does not just entail less generous pensions, but also a more uncertain retirement income level. Individual retirees in future are more likely to be exposed to risks around investment returns, longevity and inflation that DB scheme members are generally protected from. Policy proposals in the Intergenerational Commission's final report seek to reduce the risk that individuals will have to bear in future, but in the face of this riskier environment measures that have the potential to boost to younger cohorts' pension savings are also crucial to increasing the chance of more of today's young adults having an adequate income in retirement.

9 M Friedman, *The Role of Monetary Policy*, Presidential Address to the American Economic Association, 1968

10 L Judge & D Tomlinson, *Home improvements: action to address the housing challenges faced by young people*, Resolution Foundation, April 2018

11 D Finch & L Gardiner, *As good as it gets? The adequacy of retirement income for current and future generations of pensioners*, Resolution Foundation, November 2017

Problem 3: Pay improvements, labour mobility and human capital accumulation have stalled

Educational attainment among successive cohorts grew quickly in the UK during the second half of the 20th century, thanks in large part to an increase in public spending on education in this period from 2.9 per cent of GDP in 1955-56 to 5.9 per cent of GDP in 1975-76.[12] Since then, the pace of change has slowed. In part, it is natural to expect that further marginal improvements in education outcomes will get harder to achieve over time, but there is clearly scope for the UK to raise its game. The country remains below the OECD average on measures of literacy and numeracy, with the gap most evident among people at the lower end of the skills distribution.

In recent years the political conversation around post-16 education has been dominated by the university tuition fee loan system, a topic that is clearly important in an era when almost half of young people attend university. Both the government and opposition have proposed changes to the system in the past year.

Moving away from the system for funding university education, the more urgent challenges around post-16 education lie elsewhere. A policy paper on skills training and education for the Intergenerational Commission pointed to two main problems in the UK's post-16 education system:

- The technical (non-A level or university) education route remains too complex, compared to the clear path through university education, its quality is variable, and funding is often inadequate, with per-student spending levels having fallen by almost £900 per year since 2011-12.
- There are too few options for in-work development by lower-qualified young adults who have already left the education system.[13]

The Intergenerational Commission has put forward a number of policy recommendations to address the first of these challenges, including a major boost to funding for the technical education route. With regard to the second challenge, the Commission has put forward specific policy proposals but it is worth noting that in-work development is not just a problem for lower-qualified young adults, as the evidence indicates post-university training is increasingly important for graduates too. Gaining a Master's degree is a barrier to entry for an increasing number of career paths and, while the government began offering Master's tuition fee loans in 2016, living costs and other expenses make access to postgraduate education difficult for too many people and less affluent young adults in particular. The cost of postgraduate education was described six years ago as a 'social mobility time bomb' by the Independent Reviewer on Social Mobility and Child Poverty.[14]

These and other challenges in the education system lead to problems with the lifelong acquisition of new skills by Britain's workforce that are compounded by recent developments in the UK labour market. Younger cohorts today face greater risks than previous cohorts did, with their jobs often more precarious and their working hours and incomes more volatile. Research for the Intergenerational Commission identified four themes of particular concern.[15]

12 Source: Institute for Fiscal Studies; HM Treasury, *Public Expenditure Statistical Tables.*

13 K Henehan & A Vignoles, *Technical fault: options for promoting human capital growth*, Resolution Foundation, April 2018

14 Independent Reviewer on Social Mobility and Child Poverty, *University Challenge: How Higher Education Can Advance Social Mobility*, 2012

15 K Henehan & A Vignoles, *Technical fault: options for promoting human capital growth*, Resolution Foundation, April 2018

- Unemployment among lower-skilled millennials has increased compared to similarly-qualified adults in previous cohorts, despite unemployment being at its lowest level since the 1970s. Unemployment among 25-30 year olds with no more than GCSE-level qualifications stood at 6 per cent among the mid-1960s cohort (older members of generation X, born 1966-80), but reached 8.7 per cent among the cohort born in the mid-1980s.

- A growing share of lower-qualified people, men in particular, are in insecure and part-time employment.[16] This is partly the consequence of a more equal gender distribution of insecure and part-time employment, but for both men and women such employment restricts the opportunities for in-work training, partly as employers are less willing to invest in it.

- Millennials are more likely to work in lower-skilled occupations and industries that offer fewer opportunities for in-work progression and training. The share of 25-35 year old mid-qualified people working in high- or mid-skilled occupations outside caring has dropped from 82 per cent among the cohort born in the mid-1960s to 65 per cent among those born 1981-85 and 59 per cent among those born 1986-90.

- Fewer young people are participating in in-work training, and the training that does take place is of shorter duration. The proportion of 28 year olds who report 'recently' having participated in in-work training has fallen from 32 per cent among those born in the 1970s to 29 per cent in the 1981-85 cohort and 27 per cent in the 1986-90 cohort. For the same cohorts, the proportion participating in training that lasted more than a week has fallen from 72 per cent to 70 then 64 per cent. Both trends are observable in all occupations, skill levels and levels of job security.

As well as the long-term goal of bolstering the technical education route for successive young cohorts, public policy clearly also needs to prioritise ways of helping young adults in the labour market to boost their skills and capabilities, and find routes to higher-skilled and better paid jobs.

Skills improvement and training opportunities are not the only areas in which the labour market could be improved for young adults. They move between jobs less, partly as a result of them having more precarious employment. Millennials in their 20s have been 20-25 per cent less likely to voluntarily move from one job to another than generation X were at the same age.[17] Alongside the impact of the pay squeeze that followed the financial crisis, this outcome – which pre-dated the crisis and has endured even as the employment rate has hit record highs – is part of the cause of stalling cohort-on-cohort pay improvements for younger workers. This is because moving jobs is the surest route to a big pay increase, particularly when young: those born in the late 1980s had an average real pay increase of 13.8 per cent when they moved jobs in their mid-20s, compared to an increase of just 3.9 per cent for those staying with their employer for two years or more.[18]

As mentioned above, the risks bearing down on young adults in other areas such as their housing situations, and the specific challenge of bridging between rental deposits when moving house, are likely to provide part of the explanation for this lack of job mobility.

16 See also S Clarke & G Bangham, *Counting the hours: Two decades of changes in earnings and hours worked*, Resolution Foundation, January 2018

17 S Clarke, *Get a move on? The decline in regional job-to-job moves and its impact on productivity and pay*, Resolution Foundation, August 2017

18 L Gardiner & P Gregg, *Study, Work, Progress, Repeat? How and why pay and progression outcomes have differed across cohorts*, Resolution Foundation, February 2017

While self-employment has grown for younger adults, this growth has been concentrated among non-graduates and shows signs of being composed of low-paid and less secure opportunities. Genuine entrepreneurship could be a route to higher earnings for many young adults, and to productivity improvements for the economy at large, but it can be a difficult route to take. This is an area where organisations like the Prince's Trust (founded in 1976 by HRH the Prince of Wales), Business in the Community and the New Entrepreneurs Foundation have worked for many years. But barriers still remain, particularly for young adults from disadvantaged backgrounds who might consider starting a business. Recent opinion polling for Innovate UK and the Prince's Trust found that while 54 per cent of young adults (aged 18-30) would like to run their own business or be their own boss, the main barrier is a lack of money (for 79 per cent).[19] Furthermore, 63 per cent of young adults surveyed thought that having easier access to finance might help them to start a business. In many existing schemes, people who sign up for business advice and mentoring get substantial help in kind as well as the opportunity to apply for funding.[20] Easier access to finance could be a big help to a new generation of entrepreneurial young people taking their first steps towards running a business.

The challenges for young adults in the labour market and in skills must largely be addressed through policies that tackle them directly. The Intergenerational Commission has published policy proposals to do so through active labour market policy, enhanced security for people in atypical employment, improved collective bargaining for younger workers, and improved routes through and funding for technical education.[21] But in the case of lifelong learning and the means to take up new jobs or entrepreneurial opportunities, it is important to consider how young people can be better supported to navigate these paths themselves – and the role of assets in making that happen.

Young adults are not sharing in Britain's wealth boom

Alongside these trends in the housing market, the labour market, and in pension saving – and indeed largely as a result of them – one of the clearest areas of divergence between generations is in the amount of wealth people own.

Policy makers in the UK have never before been as well informed about the distribution of wealth as they are today. Reviewing a book on universal inheritances fifteen years ago, for example, the economics commentator Samuel Brittan commented that although a 'substantial proportion' of the population is asset-poor even after controlling for life cycle effects, 'a good case [for wealth redistribution] can only be made better if supported by more sophisticated and less tendentious estimates [of its current distribution].'[22] Today, thanks to the Office for National Statistics *Wealth and Assets Survey* and

19 Innovate UK, Prince's Trust & YouGov, *Ideas mean business: Views on innovation among young, disadvantaged adults*, December 2017

20 See Prince's Trust, *Support for starting a business*

21 S Clarke & C D'Arcy, *The kids aren't alright: a new approach to tackle the challenges faced by young people in the UK labour market*, Resolution Foundation, February 2018

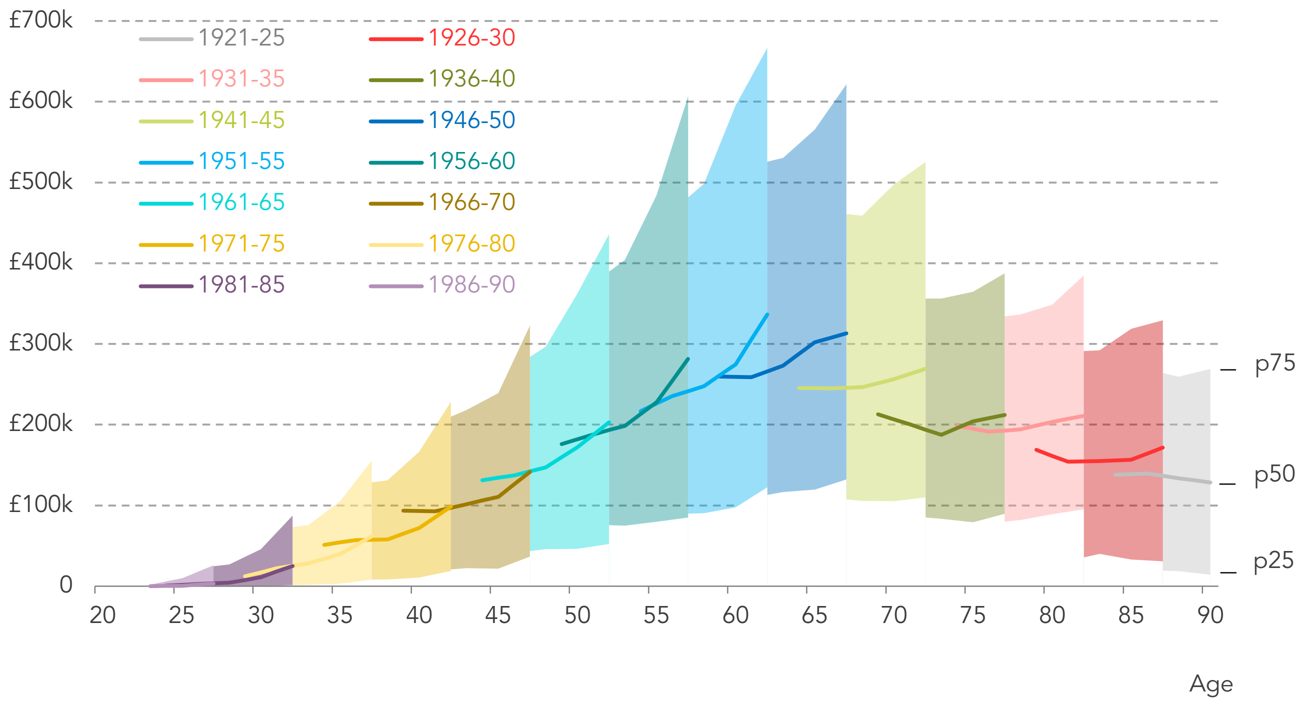
22 S Brittan, 'The logic of the Baby Bond', *Prospect*, 2003

other sources, we have that required information. For example, we know definitively that household wealth is much more unequally distributed than household income, with a Gini coefficient of 0.62, compared to 0.35 for income.[23]

The overall level of wealth in the UK has increased from between two and three times national income in the 1970s to almost seven times today, largely due to house price rises and higher pension valuations. At the same time wealth has become a little more evenly distributed, with wealth inequality declining until recently. This is due mainly to the significant increase in the number of home owners spreading wealth particularly to the middle of the distribution. However, the decline in home ownership for younger families in particular, as well as the demise of generous defined benefit pensions, means that Britain's growing stock of wealth is becoming increasingly concentrated in older age groups, with only those born before 1960 improving on the wealth of preceding cohorts at the same age despite the surge in overall household wealth. This is shown in Figure 1, which also demonstrates that absolute wealth gaps within cohorts have increased recently.

Figure 1: **Wealth has grown cohort-on-cohort at the top of the distribution, but not at the bottom**

Percentiles of real family total net wealth per adult (CPIH-adjusted to 2017 prices), by cohort: GB, 2006-2016



Notes: Excludes physical wealth. 'p25' refers to incomes at the 25th percentile within each cohort; 'p50' refers to incomes at the 50th percentile (the median) within each cohort; 'p75' refers to incomes at the 75th percentile within each cohort.

Source: RF analysis of ONS, *Wealth and Assets Survey*

23 Source: ONS, *Wealth in Great Britain*; DWP, *Households Below Average Income*. The Gini coefficient is defined over the interval [0,1] and summarises the degree to which a distribution departs from perfect equality, with larger values indicating a more unequal distribution. Wealth inequality is partly a lifecycle phenomenon – young people will inevitably have less wealth since they haven't had the time to accumulate it – but even if we compare wealth and income inequality within age cohorts, they are still distributed differently. Note also that the Gini coefficient is more sensitive to movements around the middle of the distribution it describes, as pointed out in A B Atkinson, 'On the Measurement of Inequality', *Journal of Economic Theory*, 1970

Assets are central to long-term living standards, and help people to bear risks

It is important – if fairly obvious – to highlight the role that assets play in underpinning living standards. Having an asset brings positive welfare outcomes for its holder.[24] Assets give people control over resources and the ability to smooth out variations in their financial circumstances.[25] The distribution of asset ownership underlies the distribution of many other opportunities, and so broader asset ownership can help provide people with 'real freedom' to do as they please.[26] Assets also provide psychological security, on top of their objective economic effects. The benefits that assets confer can be broadly divided into three categories:

1. Income: Asset-holding provides a flow of value either from invested financial assets, the benefits of in-kind assets, or from capital gains.

2. Insurance: A stock of assets provides a buffer against unforeseen shocks, a protection which traditional welfare states do not typically provide as effectively as long-term income supplementation. Holding assets improves people's ability to smooth their spending over time, as the life-cycle hypothesis in economic theory suggests they should, so that short-term changes in wealth and income (either past or expected) do not translate into sharp changes in quality of life. In a wide-ranging report on economic insecurity in the UK, the Royal Society of Arts recently emphasised the role of assets and community networks, as well as income, in 'buffering' against economic insecurity.[27]

3. The 'asset effect': Asset ownership changes the way that people think and behave (i.e. a subjective rather than objective benefit). The effects include increased confidence, a sense of security, a sense of holding a stake in society, and improved expectations of future asset holdings.[28]

Researchers have sought evidence for this 'asset effect' from observations of a wide range of outcomes, across the labour market, health, civic participation and parenting. Will Paxton and John Bynner explored evidence from British cohort studies, finding that holding assets and investments at age 23 was associated with positive outcomes for this cohort at age 33 in a number of areas including better educational attainment, less time spent unemployed, and better health, while controlling for characteristics like social class at birth and educational attainment at 16.[29] But once a wider range of characteristics was controlled for, the 'asset effect' from holding an investment was no longer observable. However, Abigail McKnight has more recently reanalysed the same dataset with more advanced econometric techniques to suggest that asset-holding in early adulthood does have a positive effect on later outcomes in labour markets and health.[30]

24 W Paxton & J Bynner, *The Asset-Effect*, Institute for Public Policy Research, 2001

25 V Loke & M Sherraden, 'Building Assets from birth: a global comparison of child development account policies', *International Journal of Social Welfare*, 2009

26 P Van Parijs, *Real Freedom for All: What (if anything) can justify capitalism?*, Oxford University Press, 1995

27 A Shafique, *Addressing Economic Insecurity*, Royal Society of Arts, 2018

28 B A Searle & S Köppe, *Assets, savings and wealth, and poverty: A review of evidence. Final report to the Joseph Rowntree Foundation*, 2014

29 W Paxton & J Bynner, *The Asset-Effect*, Institute for Public Policy Research, 2001

30 A McKnight, *Estimates of the asset-effect: the search for a causal effect of assets on adult health and employment outcomes*, London School of Economics and Political Science, June 2011

There is also a link between a focus on asset-holding and concerns about poverty, with poverty itself defined, at times, in terms of the contribution that liquidating a household's assets (if this was possible) would make to current income.[31] Michael Sherraden's well-known 1991 work *Assets and the Poor*, which reignited transatlantic interest in assets policy in the 1990s, presented the enhancement of people's ability to save and accumulate assets as at least as good as income redistribution for combatting poverty and redressing wealth inequality.[32] Wealth-holding also gives greater autonomy to policy recipients.[33]

Alongside these effects, generational differences in assets deserve particular attention in the context of the increased risks that younger adults are bearing, described above. This is because assets help people to weather risks and can promote positive risk-taking.

An individual's capacity to take risks – in decisions where the variance in decision outcomes is large such as starting a business or moving town to find a new job – will be greater if they have a base of assets with which to smooth any short-term fluctuations in their income. The 'capability approach' in social science has long highlighted the fact that it is not merely a shortage of income that can restrict opportunities, as low wealth likewise restricts the set of potential choices and activities available to an individual at a particular point in time.[34]

Empirical evidence from other countries supports the notion that wealthier people have a greater propensity to take risks and to be entrepreneurial. A study of Italian household survey data found that absolute tolerance for risk increased as a household's wealth endowment increased, with the effects strongest at lower wealth levels.[35] Households were also less likely to be risk tolerant if they had higher levels of background risk or were borrowing constrained.

Research linking individuals' backgrounds to their propensity to become enterprising inventors (defined as people with registered patents to their name) tends to find that people from more wealthy families have a higher probability of being patent-holders, over and above the benefits of education.[36] A recent study of US tax records by Alex Bell, Raj Chetty, John Van Reenen and others found that the children of parents in the top 1 per cent of the income distribution are ten times more likely to become patent-holders than the children of parents in the bottom fifty per cent.[37] Only a small proportion of these gaps is explained by differences in innate ability. Other dimensions of inequality are important too: white people in the USA are three times more likely to become patent-holders than black people. A study of Swedish adoption records found a similar association, that having entrepreneurial parents increases a child's probability of being an entrepreneur by 60 per cent, of which twice as much is accounted for by post-birth than pre-birth factors.[38]

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31 For example, see: E Sierminska, *Wealth in the Crisis: Research note No. 9/2012*, European Commission, 2012

32 M Sherraden, *Assets and the Poor: A new American welfare policy*, Routledge, 1991

33 S Spilerman, 'Wealth and Stratification Processes.' *Annual Review of Sociology*, 2000

34 M Nussbaum, *Creating Capabilities: The Human Development Approach*, Belknap Press, 2011; A Sen, *Development as Freedom*, Oxford University Press, 1999

35 L Guiso & M Paiella, 'Risk Aversion, Wealth, and Background Risk', *Journal of the European Economic Association*, 2008

36 M A Celik, *Does the Cream Always Rise to the Top? The misallocation of talent in innovation*, Working Paper, 2017

37 A Bell, R Chetty, X Jaravel, N Petkova & J Van Reenen, *Who Becomes an Inventor in America? The Importance of Exposure to Innovation*, NBER Working Paper, November 2017

38 M Lindquist, J Sol & M Van Praag, 'Why do entrepreneurial parents have entrepreneurial children?', *Journal of Labor Economics*, 2015

Providing everyone with a modest base of assets would help many to realise their individual potential by taking risks in education, business and the labour market.

The coming inheritance boom will support asset accumulation for some

There is some good news in the pipeline if we look at the prospects for younger cohorts' accumulation of assets over the next two decades. Britain's wealth will not disappear when its current holders pass away. It will instead cascade down to younger generations. The high home ownership rates in the baby boomer generation (compared with their predecessors), together with rising house prices, mean that a greater share of young people today are likely to receive inheritances than their predecessors did in the past, and these inheritances will in total be larger than in living memory.[39] They are set to double in size over the next two decades, peaking around 2035. This follows a doubling in the real value of inherited estates over the last twenty years.[40] These inheritances are also set to be somewhat more widely shared among younger generations than the inheritances of old.

But this looming era of large inheritances is not a straightforward answer to all of the challenges above, for four reasons.

First, future intergenerational wealth transfers within families will increase absolute wealth gaps within younger generations, that are already growing more quickly than income. If we divide people aged 20-35 in 2015-16 into five groups by gross property wealth, the current gap between the richest fifth and poorest fifth is £140,000. But if in addition we include a per-sibling share of total parental property wealth, the wealth gap almost doubles in absolute terms to £260,000.[41] Already today, a typical household with an income of just over £27,000 would need to save everything for 40 years to get into the top 10 per cent of the wealth distribution (net assets of £1.2m). That is obviously not possible, but even a family just inside the top income decile, with an annual income of around £60,000, would need to spend nothing at all for almost 20 years to get to the top 10 per cent of the wealth distribution. The implication is that for a growing proportion of the population it will no longer be possible to earn their way to be truly wealthy or even simply into home ownership. Instead it is who our parents are and what we inherit that will be key to who in future is, and is not, wealthy in Britain.

Second, too many younger people will miss out on inheritances altogether. Parents' wealth is correlated with that of their children – so the children of wealthy people and home owners are themselves more likely than the average to be wealthy and to own homes. Long-run evidence from the UK suggests that such a correlation has existed for centuries.[42] 83 per cent of home-owning 20-35 year olds have at least one home-owning parent, compared to only 54 per cent of the group who don't already own. So nearly half of today's 20-35 year olds who don't own a home (31 per cent of the whole age group) are unlikely to benefit from the future transfer of parental property wealth at all.

39 L Gardiner, *The million dollar be-question: inheritances, gifts, and their implications for generational living standards*, Resolution Foundation, December 2017

40 C D'Arcy & L Gardiner, *The generation of wealth: asset accumulation across and within cohorts*, Resolution Foundation, June 2017

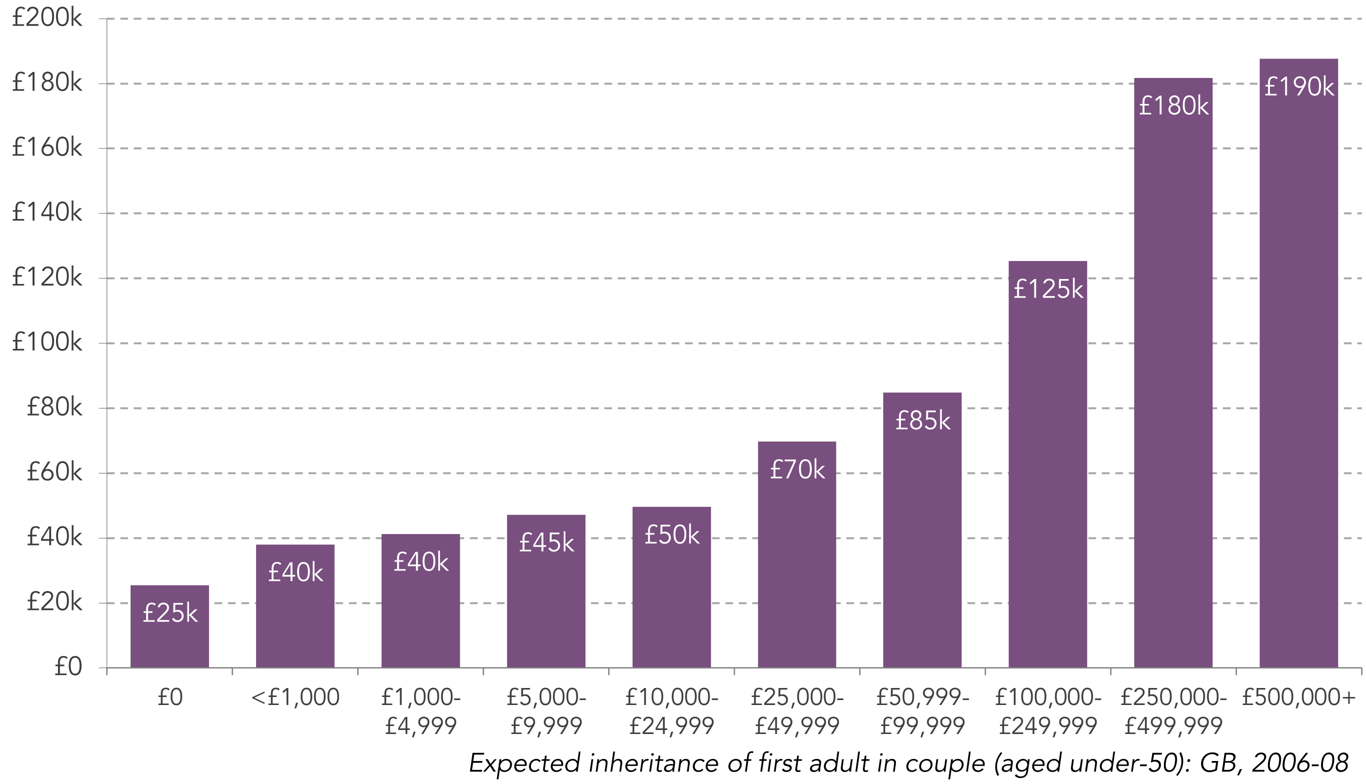
41 L Gardiner, *The million dollar be-question: inheritances, gifts, and their implications for generational living standards*, Resolution Foundation, December 2017

42 G Clark & N Cummins, *Intergenerational Wealth Mobility in England, 1858–2012: Surnames and Social Mobility*, June 2014

Third, these patterns at the individual level are exacerbated at the family level by the fact that wealthy inheritors tend to couple up – so-called 'assortative mating'. People with rich parents are likely to choose partners who also have rich parents. Previous analysis for the Intergenerational Commission found a correlation between the mean expected inheritance of the first and second adults in couples aged under 50.[43] Among couples where the first adult expects to inherit nothing, their partner expects on average to inherit £25,000. But where the first adult expects to inherit more than £500,000, their partner's mean expected inheritance is £190,000. Figure 2 shows the extent to which someone's partner's expected inheritance is correlated with their own expected inheritance.

Figure 2: **People's family wealth and expected inheritance tends to be correlated with their partner's**

Mean expected inheritance of second adult in couple (aged under 50): GB, 2006-08



Source: RF analysis of ONS, *Wealth and Assets Survey*

Fourth and finally, even for millennials on course to inherit wealth, their inheritances are likely to come too late in their lives to be helpful at risky times such as entry into the job market and the early years of child-rearing. Previous analysis for the Intergenerational Commission, summarised in Figure 3, forecasts that the most common age at which millennials will inherit wealth from their parents is 61.[44] Acting in the opposite

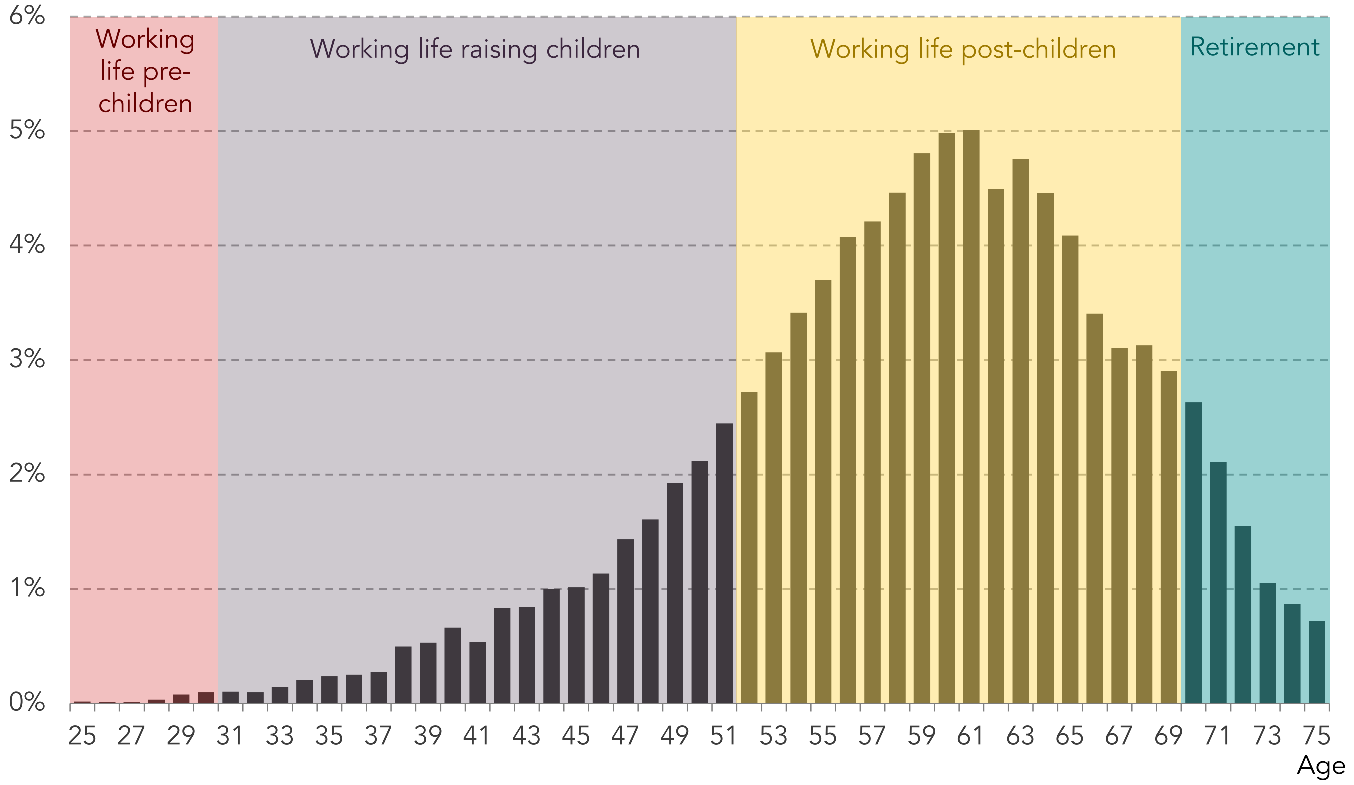
43 L Gardiner, *The million dollar be-question: inheritances, gifts, and their implications for generational living standards*, Resolution Foundation, December 2017

44 L Gardiner, *The million dollar be-question: inheritances, gifts, and their implications for generational living standards*, Resolution Foundation, December 2017

direction on inequality is the fact that children with lower incomes are more likely to receive gifts from parents while their parents are still alive.[45] But, except among the very wealthy, the fact that a large part of parental wealth is tied up in main residences means that the transfer of the bulk of these assets is likely to come far later than is optimal to help today's younger cohorts manage the greater risks they face.

Figure 3: **Even for young people who will inherit, their inheritances will come too late to help with the riskiest life stages**

Proportion of adults aged 20-35 by age at which their parents have died or are expected to be deceased: UK, 2015-16



Source: RF analysis of ISER, *British Household Panel Survey/Understanding Society*

Public policy can respond to these challenges and has done so before

Would an asset-based policy to boost wealth accumulation in younger cohorts and mitigate individual risks be a step into the unknown? In most respects it would not: asset-based policies have a long history in the UK, and many forms of a universal inheritance have been proposed and experimented with in the past.

45 E Karagiannaki, *The Magnitude and Correlates of Inter-vivos Transfers in the UK*, London School of Economics and Political Science, 2011

At its simplest, asset-based redistribution, or asset-based welfare, is defined as redistribution of assets rather than income. The assets in question may be rights to a flow of future income (i.e. savings), or property rights to resources that produce a flow of future value (such as shares in a community fund that invests in energy generation). They may be liquid (like cash or savings) or illiquid assets (like houses). Related policies may manifest themselves in Conservative (e.g. 'property-owning democracy'), socialist (e.g. the guild socialism of GDH Cole), Catholic (e.g. the distributism inspired by Pope Leo XIII) and other forms, and may be collectivist or individualistic. The basic moral intuition behind all such policies is similar: a community is stronger when all of its members have an opportunity to acquire a share of its stock of wealth. Public policy has long seen vigorous debate about how assets are best accumulated, and how far their use ought to be restricted or regulated.[46] An alternative approach to distributing social wealth, which has had a high profile in recent years, is basic or citizen's income, which is discussed further in Box 1.

The UK government has always played a role in encouraging asset accumulation, in defining the legal framework for assets, and in directly redistributing capital stocks. The issue is that unless very well designed, these policies have too often tended to be benefit the already affluent, or to narrowly help a particular cohort where an asset transfer or redistribution is not ongoing.[47]

Over the last three decades governments have made various attempts to more evenly distribute assets and the incentives to accumulate them. The 1979-97 Conservative government used its iconic Right-to-Buy policy to distribute housing ownership more evenly, raising the proportion of owner-occupier households from 47 per cent to 73 per cent during its time in office to the benefit of the baby boomer generation. In the early years of Tony Blair's leadership of the Labour party 'stakeholding' – the idea that citizens need assets in order to fully participate in society – was painted as a central theme. As the economist Rajiv Prabhakar put it in 2003, 'stakeholding seemed central to Blair's attempts to recast Labour as 'New Labour''.[48] In policy terms, New Labour's asset-based rhetoric did not last as an organising theme of the government's programme, although it did inspire a range of medium-scale savings-based policies: Individual Savings Accounts (ISAs, which drew on previous Conservative tax-incentivised saving products, and which have a forecast cost of £2.9bn in 2017-18), the Child Trust Fund (which ran from 2005-11, and is examined further in the appendix), and the Savings Gateway (a matched savings scheme for low income families).

The post-2010 Coalition and Conservative governments have also instituted a number of asset-based policies including Help to Buy ISAs, Lifetime ISAs and Help to Save, the first two of which have provided tax incentives to help people across the income spectrum to save for the long term, and the last of which has provided a matched saving schemes for people on lower incomes.

46 R Prabhakar, 'The assets agenda and social policy', *Social Policy & Administration*, 2009

47 G Kelly & R Lissauer, *Ownership for All*, Institute for Public Policy Research, 2000

48 R Prabhakar, *Stakeholding and New Labour*, Palgrave Macmillan, 2003

i Box 1: Universal inheritances and universal basic income

In recent years Universal Basic Income (UBI) – a policy closely related in motivation and effects to universal capital grants – has emerged once more into the limelight. UBI resembles the citizen's inheritance in being paid to everyone individually and without means-test or work conditions, although it tends to be paid in small monthly instalments rather than as a larger one-off grant.[1] In recent years politicians and policy analysts have taken a renewed interest in its potential to mitigate insecurity and avoid the problems of means-tested social security, prompting a slew of think-tank reports and activist events.[2] This wave of interest in UBI has spilled over into new proposals for lump-sum cash transfers, which enjoyed widespread popularity in policy debate two decades ago but which have recurred in recent UK think-tank proposals such as the Royal Society of Arts' (RSA) proposal for a universal (but initially lottery-assigned) entitlement to £5,000 per citizen over two years, and the Institute for Public Policy Research's proposal for a sovereign wealth fund that pays its dividend to 25 year old citizens in £10,000 grants.[3] The RSA's proposal was explicitly pitched as a 'pathway to UBI'. In the meantime no UBI or universal inheritance policies have been implemented nationally in the UK or in Western Europe. The most relevant ongoing policy to have been introduced at scale, starting in 1976, is the Alaska Permanent Fund (APF), which combines a sovereign wealth fund with features of a universal asset-based policy and a UBI.[4] The APF is funded from oil revenue taxes and pays all 740,000 Alaskan residents an equal lump-sum dividend every year, whose amount depends on the fund's investment returns, and which has reached up to $2,072 per person (in 2015, at 2015 prices).

1. For the international consensus definition of UBI, see: Basic Income Earth Network, *About Basic Income*
2. For example, see: A Painter & C Thoung, *Creative Citizen, Creative State: The principled and pragmatic case for a universal basic income*, Royal Society of Arts, 2015; H Reed & S Lansley, *Universal Basic Income: An idea whose time has come?*, Compass, 2016; L Martinelli, *Assessing the Case for a Universal Basic Income in the UK*, University of Bath, 2017
3. A Painter, J Thorold & J Cooke, *Pathways to Universal Basic Income: The case for a universal basic opportunity fund*, Royal Society for the Arts, 2018; C Roberts & M Lawrence, *Our Common Wealth: A citizens' wealth fund for the UK*, Institute for Public Policy Research, 2018
4. See: Alaska Permanent Fund Corporation

Rising inheritances will help mitigate risks and build young adults' wealth for many, but they aren't a silver bullet

The new era of inheritance outlined above means that, in the coming decades, the best advice to people aspiring to wealth and homeownership will be (as the old saying goes) to 'choose your parents wisely'. And even then, many of those lucky enough to have family wealth will find it arrives too late to provide an asset base at the time when major risks are faced.

For society as a whole it is also a big shift, as we move towards being a country where few other factors will have as great an influence on people's life chances than the wealth and assets they inherit. It will no longer be possible for the majority of people to earn their way to being truly wealthy. It also seems likely that unearned wealth will become a greater issue in public debate than it has been since the early 20th century, the last period when inheritances had such a substantial impact on life chances. Ethical issues aside, even on the narrow grounds of economic efficiency it is not desirable that unearned wealth should be more important for life chances than earned wealth, as a weakening of the link between merit and wealth greatly reduces the incentive for people to aspire to earn their way to riches. As Thomas Piketty memorably pointed out in his *Capital in the Twenty-First Century*, in the era of Jane Austen and Honoré de Balzac it mattered more who one married than what work one did – and that fact produced a stagnant and unfair society for most of the population.

From both the individual and collective perspective, then, we would do well to change the path our country is on when it comes to asset accumulation for today's young adults.

Section 3

A citizen's inheritance for intergenerational fairness

This section sets out the details of the citizen's inheritance policy, giving particular attention to its timing, amount, eligibility criteria and use conditions. It also discusses the costs of a citizen's inheritance phased in between 2020 and 2030, and explains that the policy can be paid for by abolishing inheritance tax and replacing it with a new lifetime receipts tax.

The case for action

The policy response to the new era of higher risks borne by the young and a bigger role for inheritances is one that has received too little attention, but which is crucial to creating the new generational contract that is the central objective of the Intergenerational Commission.

We see a role for direct transfers of wealth, to provide an asset base to those who are not on course to inherit anything and to 'bring forward' inheritances for those who will get them too late to help during the riskiest stages of life. This would be on top of existing income-based policies. Appropriately-designed direct asset grants can also promote a wider 'savings habit' which may raise individuals' propensity to save in the future (if, of course, their incomes are sufficient to permit them to save). The analysis set out in the previous section suggests that an appropriate policy response would better support wealth accumulation within younger generations, in particular as a means of bearing risk, and that this would have the welcome effect of reducing the role of intergenerational wealth transfers in pushing up absolute wealth gaps within younger cohorts.

A citizen's inheritance offers a promising means to tackle several of these objectives at once, by both supporting wealth accumulation and diminishing the influence of inherited wealth over people's life chances. A citizen's inheritance should have several key characteristics if it is to achieve its aims of reducing risk and promoting asset accumulation, including:

- It should be significant enough to **make a material difference to the risks young adults bear**, within the constraints of avoiding adding to fiscal pressures.
- The grant should arrive **early enough in life** so as to make a meaningful difference to key periods of risk bearing by young adults.
- Recipients need to view the money as **genuine wealth**, so as to achieve the psychological benefits of the 'asset effect'.
- The citizen's inheritance needs to be **easy to access**.

- The citizen's inheritance should **motivate prudent use**, for example by restrictions on permitted spending, to maintain public support.

- The citizen's inheritance should **retain many of the advantages experienced by people who inherit wealth** from their families, such as some degree of choice about how and when it is used.

In Box 2 we set out the details of our preferred policy approach – a citizen's inheritance that, in steady state, will constitute a £10,000 use-restricted grant to all young adults at age 25 – and in the sections below we delve into the specifics of the policy in more detail.

Box 2: Outline of the citizen's inheritance

» From 2030 a citizen's inheritance of £10,000 should be paid at age 25 to every British national or person born in Britain – an unconditional but restricted-use cash grant paid on an individual basis, without means-test.

» Citizen's inheritances would initially be paid into a tax-advantaged savings account. They could be spent on any combination of four approved uses:

1. Education and training,
2. Pension savings,
3. Deposits for home purchase or rental, and
4. Entrepreneurship.

» To reflect the experience of cohorts entering the labour market during and since the financial crisis, and to phase in the policy without creating significant cliff edges between recipients and non-recipients, the citizen's inheritance should be introduced over a transition period starting in 2020. In its first year the policy would pay £1,000 to 34 and 35 year olds, and then each subsequent year larger amounts should be paid to successively younger groups, before the policy reached a steady state in 2030 when it should be paid to all 25 year olds.

» Grants would be funded primarily from the replacement of inheritance tax with a new lifetime receipts tax, as well as by scrapping matched saving schemes such as Lifetime ISAs and Help to Buy ISAs, which would be closed to new entrants.

» Citizen's inheritances would be offset against their recipients' new £125,000 lifetime receipts tax allowances, ensuring the scheme is progressive while still bringing forward the timing of inheritances for people on course to get them later in life.[1]

1 A Corlett, *Passing on: options for reforming inheritance taxation*, Resolution Foundation, May 2018

The citizen's inheritance should be paid at age 25, and at older ages while it is phased in

We propose that all UK citizens and people born in the UK, who have spent the majority of their life in the country, should be entitled to a cash grant accessible by recipients on their 25th birthday from 2030. To reduce the unfair cliff-edges in eligibility that would result if such a scheme were introduced overnight, we propose that during a ten-year transition period smaller payments would also be made to older birth cohorts.

The policy aims to benefit current young cohorts, starting with most of the millennials, since their living standards progress has either stagnated or gone into reverse, when compared to older cohorts on a range of measures. We have considered the relative merits of paying inheritances at birth, at ages 18, 21 and 25, or of giving recipients the choice as to when to draw their grants. The original proposal for the Child Trust Fund considered giving grants at birth and at age 18, although in both options the grant could not be accessed until adulthood.[49] The proposal's authors sided with payment at 18 on the basis that it "fosters personal responsibility by encouraging individuals to invest in themselves and to plan for their own futures" – though the government eventually introduced the policy as a grant at birth. The main policy difference between making payments at birth or in adulthood is whether the aim is to influence the savings behaviour of parents or of the beneficiaries themselves. We have opted to pay the citizen's inheritance at age 25, on the grounds that older recipients are likely to make more prudent use of their grants, and that by 25 almost all will have finished their education and will be facing the challenges of their first years in the labour market when risks are in many ways highest.

Our model for the citizen's inheritance has the scheme starting in the 2020 calendar year. It is open to all cohorts born since 1985, since they entered the labour market around the time of the 2007-08 financial crisis and recession. Cohorts born before 2003 would get less than the full payment from the policy in its steady state.

Our suggested criterion for grant eligibility is an individual having British citizenship, right of abode, permanent residency or indefinite leave to remain. The policy costings set out later in this section assume that individuals would qualify for grants if they are either UK citizens or they were born here. Resolution Foundation analysis of the *Labour Force Survey* suggests that over the last five years this restriction would have meant that on average 86.3 per cent of 25 year olds would have received grants. There would be alternative ways to administer the nationality test for eligibility for the citizen's inheritance: it could for example be made conditional on an individual having been registered for Child Benefit or other payments within the social security system.[50]

Policy makers introducing a citizen's inheritance would need to consider whether people who received citizenship or British nationality shortly before turning 25 should be eligible for the full amount, and relatedly whether people who acquire citizenship or nationality soon after turning 25 should also qualify for a grant. We suggest that the eligibility criteria for student loans – which include either nationality or settled status requirements and a minimum residence period of three years – would be a promising approach to explore.

£10,000 would be enough to make a difference, and to be considered an asset rather than income

We propose that the citizen's inheritance would be distributed as a cash payment of £10,000 to every individual who meets the eligibility criteria. By default, the payment would be made into a tax-advantaged ISA-style savings account in the recipient's name.

In previous work considering the amount that should be paid in universal cash grant policies, some have suggested that paying too small an amount would lead the money

49 G Kelly & R Lissauer, *Ownership for All*, Institute for Public Policy Research, 2000

50 This condition has been advocated by past proponents of universal grants like A B Atkinson

to be misused. They argued that recipients would treat a small sum of money as income rather than as an asset, whereas a larger sum would cause recipients to take more seriously their responsibility to spend the money wisely.[51] Similarly, research looking at young adults' attitudes to asset-based policies found that setting the amount too low would be a disincentive to prudent use. In focus groups, young people were asked how they would react to being offered grants of £1,000, £10,000 and £50,000. The consensus was that grants of £1,000 would be spent straight away, that £50,000 was too much for people to manage well, and that £10,000 was felt to strike an appropriate balance between motivating prudent use and not being unmanageably large.[52]

To maintain the real value of the citizen's inheritance through time it would be necessary to uprate the size of payments in accordance with inflation. We propose that the payments should be subject to an annual uprating, most likely with the CPI index, once the scheme has reached its steady state. However, policy makers might wish to consider that the first few cohorts receiving the full £10,000 grant from 2030 onwards are also those that benefited from the Child Trust Fund (those born 2002-10), potentially warranting a somewhat lower amount or period of slower grant uprating during the 2030s.

The citizen's inheritance should be universal and without means-test or work requirement

We propose that the citizen's inheritance would be paid as a uniform amount to everyone, without means-test or behavioural conditions (such as a work requirement).

Making the policy a universal programme allows its administration to be simpler and cheaper. The degree to which it is progressive thus depends on how the scheme is funded, and what other schemes it complements or replaces. Gavin Kelly and Rachel Lissauer noted that a universal grant policy would 'have the potential to become one of those rare creatures in British public life: a policy which is both highly progressive and intrinsically populist'.[53] Universal policies can be more politically durable on account of their broader pool of beneficiaries, despite the recent counter-example of child benefit being removed from higher earners.[54]

At a more fundamental level, stakeholder grants are often presented not just as a simple redistribution of intergenerational inheritances, but also as a means to grant young people a share of the overall social inheritance (an argument closer to that made by Thomas Paine, Henry George and James Meade). From this perspective it is easier to divide shares of a common inheritance between the entire community rather than a part of it.

51 Julian Le Grand, *Motivation, Agency and Public Policy*, Oxford: Oxford University Press, 2006

52 A Gamble & R Prabhakar, 'Attitudes of young people towards capital grants', in W Paxton & S White (eds.), *The Citizen's Stake: Exploring the future of universal asset policies*, Policy Press, 2006

53 G Kelly & R Lissauer, *Ownership for All*, Institute for Public Policy Research, 2000

54 W Korpi & J Palme, 'The Paradox of Redistribution and Strategies of Equality: Welfare State Institutions, Inequality, and Poverty in the Western Countries', *American Sociological Review*, 1998

Its use should be limited to housing, education and training, pensions and entrepreneurship

We propose that citizen's inheritances should be restricted to being spent on any combination of four areas: deposits for home purchase or rental, education and training, pension savings, and the costs of business start-ups. Recipients would have a free choice as to how to assign their spending to any combination of these uses.

Use conditions would be enacted by the providers of citizen's inheritance savings accounts. We recommend that government should work with providers to design a simple interface for submitting and approving applications from account holders to spend their grants. In practical terms, the use restrictions would consist of:

- **Home rental or purchase**. Citizen's inheritances could be spent on deposits for renting homes or for mortgages. Rental deposit money returned by landlords would need to be returned to the original citizen's inheritance savings account, where it would once more be subject to use restrictions.
- **Education and training**. Citizen's inheritances could be spent on education or skills training either in universities, further education colleges or other nationally recognised providers. The grants could be spent either on up-front tuition fees or on paying down debt from previous tuition fee loans. It would be necessary to stipulate a minimum length of time a provider had to have been open before it could receive money from citizen's inheritance accounts, to reduce the risk of fraudulent providers opening in order to profit from citizen's inheritance money.
- **Pension savings**. Grants could be put towards opening or topping up individual pension saving schemes. People without an existing pension would be pointed by default towards the NEST scheme, the government-backed pension provider offering low-cost occupational pensions.
- **Business start-ups**. Grants could be spent on the costs of business start-ups or similar entrepreneurship schemes, provided they were administered through recognised start-up incubators and business mentoring schemes such as the Prince's Trust and Business in the Community.

Spending restrictions would help to ensure that funds are treated by their recipients as assets to invest rather than incomes to spend, but they are intended to remain flexible enough to promote meaningful choice on the part of individuals. Restrictions would be relatively easy to enforce given the existing involvement of registered providers in relation to their uses.

Many people will object to there being spending restrictions attached to the citizen's inheritance, for example because rich recipients would be more able to capitalise their grants by simply reducing their spending in other areas, or because use restrictions may reduce take-up. However, for others such conditions would be the bare minimum for the policy to be politically acceptable. People who give or leave money to their descendants will often set up trusts or other use restrictions in a similar way, to help recipients use it prudently. Use restrictions are proposed here as we believe they will make the policy more effective, both in achieving the main policy objective of a greater intergenerational sharing of assets and in reducing the significant risks young adults bear.

There is a long precedent for policy proposals for individual endowments restricted only to spending on post-compulsory education. Recently for example Alison Wolf proposed a scheme for a lifetime tertiary education endowment,[55] a proposal which was picked up by the Prime Minister's former joint chief of staff Nick Timothy.[56] The closest precedent in past government policy is the Individual Learning Account scheme, first proposed in 1994 by the Institute for Public Policy Research's Commission on Social Justice which suggested an amount equivalent to the cost of three years' full-time higher education. Individual Learning Accounts featured in the Labour manifesto in 1997, and were briefly implemented between autumn 2000 and autumn 2001 before the scheme was closed after widespread fraud. The Liberal Democrats recently announced a consultation on a similar policy to fund lifelong learning.[57]

Practical considerations

The mechanism for rolling out a citizen's inheritance would be a matter for government to decide. Our preferred approach is as follows:

- When participants turn 25 they would be issued with a voucher by HMRC, with face value equal to the citizen's inheritance payment for that year.
- This voucher could be cashed in to open a citizen's inheritance savings account with an approved provider; these accounts would be restricted, with their providers acting like a trustee to approve what funds could be spent on. While many existing banks and building societies may wish to operate such accounts, existing government-backed savings infrastructure such as NEST could also be a good basis for a default account provision option.
- In order to ensure that citizen's inheritance recipients had a good awareness of the uses to which their funds could be put, government should invest in online resources to present all the potential uses in one place.
- The legislation introducing the scheme should make provision for regular reviews of the use restrictions by the government, and also for detailed data collection on what grants are used for.
- Citizen's inheritance accounts would receive interest. This would be necessary to ensure that recipients did not all have a strong incentive to spend their grants immediately rather than waiting for the most prudent moment to spend them.

Policy costings

The cost of a citizen's inheritance policy is fundamentally driven by demand. Its baseline net cost would vary year-to-year according to the number of people reaching eligible age, the size of their inheritances, and the rate at which they choose to claim them. This section outlines a costing for the policy through its transition phase, assuming that take-up is 100 per cent of the eligible population, and gives an indication of its steady-state cost once the transition phase is completed. The additional costs during the transition phase depend on the number of cohorts aged over 25 who would benefit, and the extent to which their grants are reduced according to a taper rate.

55 A Wolf, *'Remaking Tertiary Education: can we create a system that is fair and fit for purpose?'*, Institute of Education, November 2016

56 N Timothy, 'Higher education has become unsustainable and young people know it. Radical change is the only solution', *Daily Telegraph*, August 2017

57 G O'Meara, 'Vince Cable announces major commission on lifelong learning', FE News, 15 March 2018

Table 1 details an illustrative schedule for how a citizen's inheritance policy could be rolled out, and how much it would cost in each year of the transition period. In this model the policy is gradually introduced between 2020 and 2029, with smaller payments being made to younger cohorts.

Table 1: Cost of the citizen's inheritance policy (transition and steady-state)

Year	Number of recipients	Universal inheritance amount	Minimum age of recipients	Birth cohort of recipients	Cost
2020	1,453,531	£1,000	34-35	1985-86	£1.5bn
2021	1,446,744	£2,000	33-34	1987-88	£2.9bn
2022	1,450,070	£3,000	32-33	1989-90	£4.4bn
2023	1,477,714	£4,000	31-32	1991-92	£5.9bn
2024	1,430,073	£5,000	30-31	1993-94	£7.2bn
2025	1,391,200	£6,000	29-30	1995-96	£8.3bn
2026	1,385,848	£7,000	28-29	1997-98	£9.7bn
2027	1,351,129	£8,000	27-28	1999-00	£10.8bn
2028	1,307,816	£9,000	26-27	2001-02	£11.8bn
2029	1,353,193	£10,000	25-26	2003-04	£13.5bn
2030	704,540	£10,000	25	2005	£7.0bn
2031	732,381	£10,000	25	2006	£7.3bn
2032	748,743	£10,000	25	2007	£7.5bn

Note: population numbers from ONS 2016-based principal population projection. Eligible population calculated from a 5-year average (for 2013-2017) of UK nationals and people born in the UK as a share of the total population by single-year-of-age, from the Labour Force Survey. Cohorts born from 1985 to 2002 are paid a reduced grant, starting at £1,000 for the 1985 cohort and increasing in £1,000 increments for each later year-group.

Funding sources

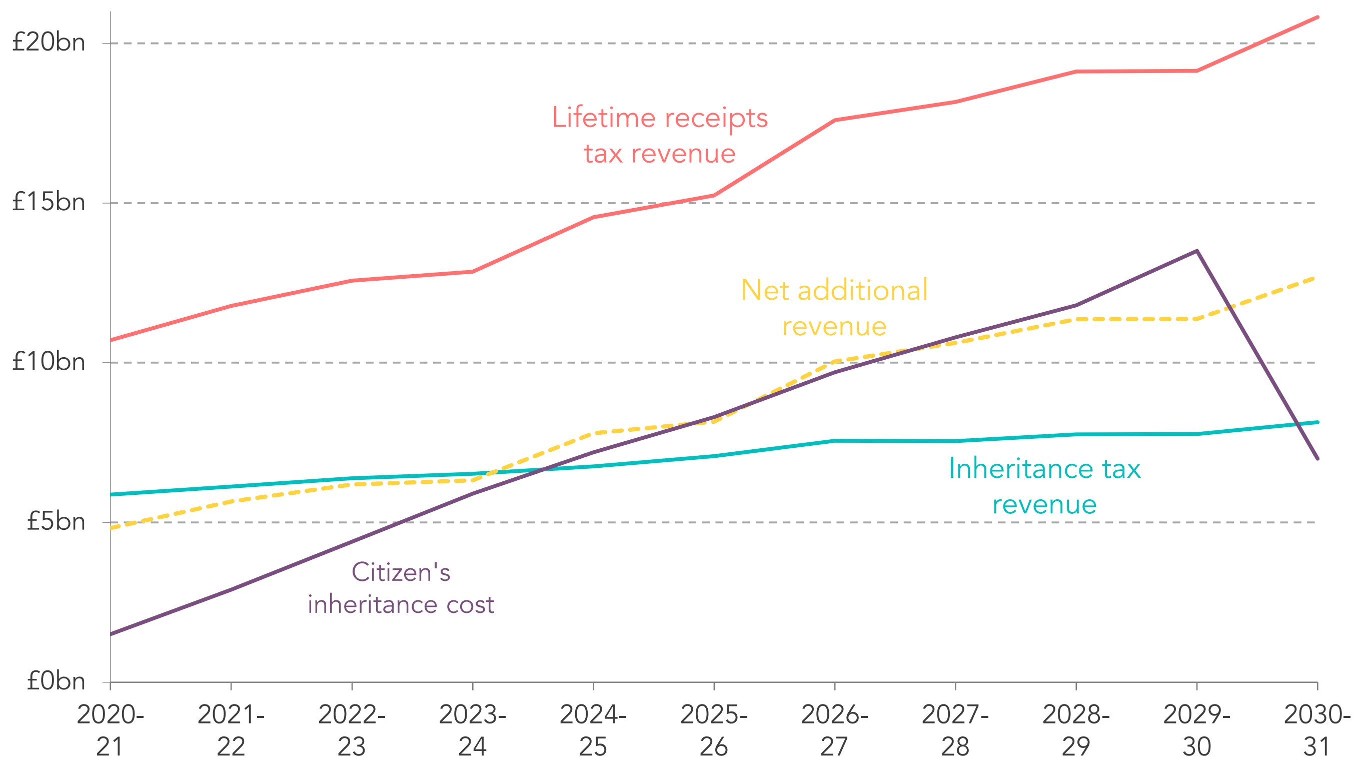
The citizen's inheritance should be funded primarily by abolishing inheritance tax and replacing it with a new lifetime receipts tax, as proposed by the Intergenerational Commission. This new tax would shift its liability from givers to receivers, and give individuals a £125,000 lifetime tax-free allowance (covering inheritances and lifetime gifts) above which any inheritances or gifts would be taxed at a rate of 20 per cent up to £500,000 and at a rate of 30 per cent for receipts above that.[58] We recommend that people who claim their citizen's inheritance should have its amount deducted from their lifetime receipts tax allowance. Figure 4 shows the projected revenues from a lifetime receipts tax, and shows that they easily cover the cost of the citizen's inheritance policy. The current inheritance tax system is forecast to raise £5.9 billion in 2020-21, while a new lifetime receipts tax of the form described above would raise £10.7 billion in that year, rising to £20.8 billion by 2030-31 when the citizen's inheritance would reach its steady state and be paid only to 25 year olds.[59]

58 A Corlett, *Passing on: options for reforming inheritance taxation*, Resolution Foundation, May 2018

59 Office for Budget Responsibility, *Economic and Fiscal Outlook March 2018*

Figure 4: **A lifetime receipts tax would raise additional revenues sufficient to fund the roll-out and steady state cost of our proposed citizen's inheritance**

Projected revenue from a lifetime receipts tax, and projected cost of a citizen's inheritance during its first ten years



Source: A Corlett, *Passing on: options for reforming inheritance taxation*, Resolution Foundation, May 2018

In the long term, smaller contributions towards the cost of the scheme could also come from terminating existing matched savings schemes, such as Lifetime ISAs and Help-to-Buy ISAs, and rolling their budgets into the citizen's inheritance. The projected cost of Lifetime ISAs and Help to Buy ISAs, to government, is £845m and £864m respectively in 2020-21.[60] In the case of Help to Buy ISAs where savings are matched upon house purchase, some costs would likely be incurred beyond scheme termination to honour prior commitments. Table 2 gives an idea of the scale of the potential funding for a citizen's inheritance from terminating these schemes, based on their full costs.

Table 2: Recent match-funded ISA schemes are projected to cost almost £900 million per year by 2021-22

	2017-18	2018-19	2019-20	2020-21	2021-22
Help to Buy ISA	-£415	-£640	-£835	-£864	-£897
Lifetime ISA	-£180	-£340	-£590	-£845	-£877

60 See HM Treasury, *Budget 2015 Policy Costings* and *Budget 2016 Policy Costings*

Source: OBR, Budget 2017 Policy Measures Database

Although the steady-state cost of a citizen's inheritance might seem high, particularly in the context of the long-term fiscal pressures imposed by an ageing society, the policy would be achievable and highly worthwhile. A payment of £7-8 billion per year in the steady state would equal only about 1 per cent of government spending, and close to 0.3 per cent of overall GDP. This section has shown that this cost could be more than matched by abolishing inheritance tax and replacing it with a lifetime receipts tax, so funding the policy is achievable. And, as Section 4 shows, a £10,000 grant to all young people would be an effective way to renew the intergenerational contract along several dimensions.

Section 4

Would a citizen's inheritance work well?

A citizen's inheritance would be an effective way to achieve several important policy objectives at once. It could help renew the intergenerational contract, while addressing specific challenges for young people today around housing, pensions, education and training and the labour market. This section explains in more detail how a citizen's inheritance would achieve its policy aims.

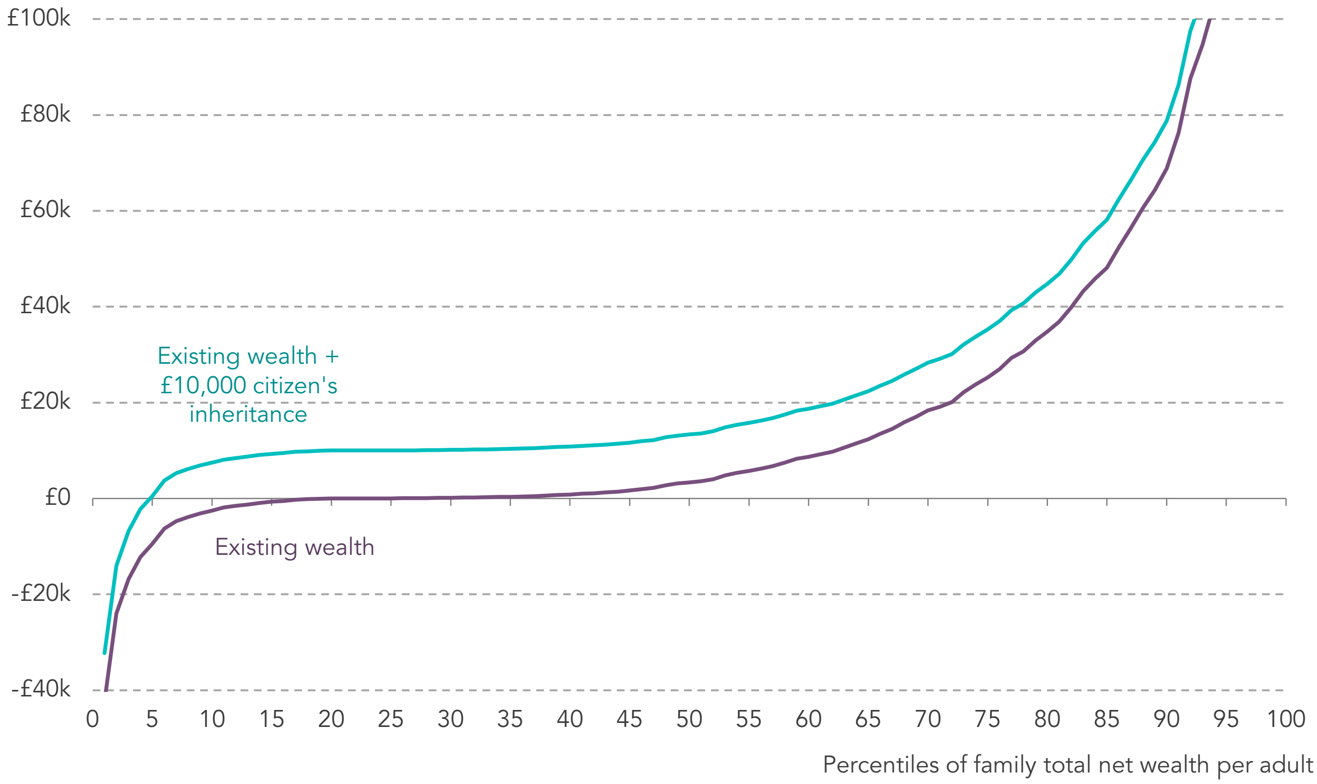
Wealth

A citizen's inheritance would have a substantial impact on the asset-holdings of young people in Britain. Giving an endowment of £10,000 in 2014-16 would have at least doubled the net wealth of 69 per cent of 25 year olds, or of 62 per cent of 25-29 year olds (as shown in Figure 5).[61] The latest statistics show that the bottom fifth of 25-29 year olds have negative net wealth, while if they were given a citizen's inheritance all but the bottom 4 per cent would end up with net positive wealth. Giving all 25-29 year olds the grant would considerably reduce wealth inequality too, lowering the Gini coefficient on net wealth from 0.87 to 0.66. The grant would reduce the p90 to median wealth ratio for this age cohort from 17.3 to 6.4.

61 These statistics are calculated from the latest (2014-16) wave of the ONS *Wealth and Assets Survey*, the most comprehensive data source on wealth holdings in the UK.

Figure 5: **Paying a citizen's inheritance would more than double the wealth of two-thirds of 25-29 year olds**

Percentile distribution of individual wealth among 25-29 year olds, GB, 2014-16



Source: RF analysis of ONS, *Wealth and Assets Survey*

Housing deposits

For house-buyers

The overwhelming majority of first-time buyers will need a mortgage – in 2016-17 93 per cent of them did.[62] Beside the long-term challenge of making monthly mortgage payments, a major barrier for would-be first time buyers is the cost of a home deposit.

A £10,000 citizen's inheritance could cover two-fifths of the average home deposit for a first-time buyer in the UK, or just over a tenth of the typical deposit paid in Greater London. Council of Mortgage Lenders data shows that the median first-time buyer's deposit in 2017 was £25,528 in the UK as a whole (16 per cent of the purchase price) and £96,083 in Greater London.[63] A £10,000 grant would cover over 50 per cent of the average first-time buyer deposit in the North East, Yorkshire and Humber, North West, Wales, Scotland and Northern Ireland.

A potential concern with allowing citizen's inheritances to be used for house purchases is that they might cause price inflation within parts of the property market. Since the grants would be offset against their recipients' lifetime receipts tax allowances, however,

62 Ministry of Housing, Communities and Local Government, *English Housing Survey 2016 to 2017*, January 2018

63 RF calculation from Council of Mortgage Lenders data.

a substantial part of them would simply shift demand for housing rather than increasing it in aggregate, as 9.5 per cent of first-time buyers use inheritances to fund their deposits and 34.9 per cent use gifts from family or friends –each of which would also be liable for the lifetime receipts tax.[64] Unlike Help to Buy equity loans which focus on the new build market, the citizen's inheritance policy is also not targeted at one isolated sector of the market – thus avoiding such significant effects on house prices.

For renters

A citizen's inheritance of £10,000 would easily cover multiple rental deposits, for young adults moving between private rented accommodation. As discussed in Section 2, a six-week payment of the average rent for the UK outside London would be £1,051, while in London it would be £2,172.[65] So a £10,000 endowment would cover this several times over. It would also help to reduce a major blockage to regional and job-to-job mobility, as well as a distortion in the private rented housing sector which acts as a disincentive for landlords to invest in property upkeep (as they know that it is difficult and expensive for tenants to move to somewhere better).

Other major problems would remain with private rented housing, however, even if a citizen's inheritance was successfully introduced. Only 2 per cent of tenants receive interest on their deposits, although the government has made some efforts in recent years to increase the number offered this.[66] Since April 2007 it has been mandatory for deposits on assured shorthold tenancies with an annual rent up to £100,000 to be placed into a government approved tenancy deposit scheme. According to the most recent Department for Housing, Communities and Local Government data, the total value of tenancy deposits protected by deposit protection schemes stood at £4.02 billion in March 2017.[67] Recent research by Generation Rent has calculated that tenants therefore miss out on more than £80 million per year in interest on the money they hand over in deposits.[68] One possible solution to these issues would be for interest-bearing citizen's inheritance accounts to be treated as rental deposits, so that landlords could have a claim on them in the event of problems but the money and its interest would remain the property of the account-holder.

Pensions

Using citizen's inheritance grants to boost pension savings would slightly reduce millennials' pensions disadvantage relative to older cohorts, whereby they are exposed to much greater individual market risk (particularly due to the shift from DB to DC pensions). If citizen's inheritance recipients saved their £10,000 grants into defined contribution pension schemes at age 25, these savings would be worth around £45,000 by the time they reached the retirement age of 68.[69]

A good vehicle for managing grants that are added to pension savings would be the NEST pension scheme, the multi-employer pension scheme founded to support the pension

64 Figures from Ministry of Housing, Communities and Local Government, *English Housing Survey 2016 to 2017*, January 2018

65 Source: *HomeLet Rental Index*, March 2018

66 D Wilson Craw & M Seiferling, 'Rethinking Tenancy Deposits', Generation Rent, March 2018

67 Tenancy Deposit Scheme, *Statistical Digest 2016 – 2017*

68 D Wilson Craw & M Seiferling, 'Rethinking Tenancy Deposits', Generation Rent, March 2018

69 This assumes an average real annual return of 3.6 per cent, in line with other Intergenerational Commission pension modelling.

auto-enrolment programme. NEST provides workplace pension saving services to 5 million people, managing a total of £1.7 billion in assets (as of 31 March 2017).[70] The scheme is not-for-profit, and charges (relatively) small administration fees. It was a necessary part of the success of auto-enrolment policy.

Training, the labour market and entrepreneurship

Recipients of the citizen's inheritance would be able to use it in a number of ways that would benefit their experience in the labour market. If the grant was spent on housing or on pensions, as discussed above, there would be knock-on benefits for people's experience of the labour market, as spending the money to de-risk housing and pensions would allow people greater flexibility to move to new jobs, or give them greater long-term security over the level of pension income in retirement.

The citizen's inheritance would also be a helpful source of funding for aspiring entrepreneurs joining schemes such as those run by the Prince's Trust and Business in the Community.

More directly, the citizen's inheritance could improve incentives for young adults to enrol in high quality vocational and skills training. It would be enough to pay for the vocational qualification needed to enter a new career, for example the £1,000-2,000 typical cost of attaining a Category C HGV driver's licence.

There are downside risks to allowing young adults to spend citizen's inheritances on skills training, however, judging from past policy experience. As a more heterogeneous sector than the other permitted uses for the citizen's inheritance, education creates more potential opportunities for stakeholder grants to be spent on fraudulent activities, either by recipients themselves or by fraudulent training providers. A salutary example is the Individual Learning Account scheme (ILA), introduced by Tony Blair's government in autumn 2000. The ILA scheme, which gained 2.5 million users within a year of its introduction, was plagued by large-scale fraudulent claims, since neither the Department for Education and Employment nor the scheme operator Capita designed systems to detect fraud or validate the quality of courses that learning providers offered. In an investigation after the scheme was hurriedly closed by the Secretary of State Estelle Morris in November 2001 the Public Accounts Committee concluded that at least £97 million of the £290 million of public money spent on the scheme had been fraudulently claimed.[71]

A later investigation by the National Audit Office (NAO) warned of the danger of proceeding with such large demand-led projects without adequate risk assessment and contingency planning: 'Departments wishing to implement innovative demand-led projects, for which there is very little or no relevant experience, should prepare detailed business process models and sensitivity analyses for a wide range of scenarios. They should also develop contingency plans in case the project does not proceed as expected.'[72] The NAO also identified that people with higher existing levels of education were more likely to enrol in the ILA system. The policy lesson drawn more recently from this scheme by Alison Wolf is that new funding systems for vocational training should not be used to simultaneously launch new categories of education provider. It is more sensible to restrict spending to existing, recognised qualifications that can easily be assessed as worthwhile for individuals and the general public.[73]

70 NEST Corporation, *Annual Report and Accounts 2016-17*

71 House of Commons Public Accounts Committee, *Individual Learning Accounts*, HC 2002-03, 544, p. 5.

72 National Audit Office, *Individual Learning Accounts*, 2002, p. 11

73 A Wolf, 'Remaking Tertiary Education: can we create a system that is fair and fit for purpose?' Institute of Education, November 2016

Student loans

The most politically salient issue around education and training is currently tuition fees. Compared directly to proposals to abolish tuition fee debts, a citizen's inheritance would be more progressive among the cohorts of young adults benefitting. The funds could also be used by graduates to pay down their tuition fee loans if they wished too – although this would not be the most economically rational option for people whose earnings are likely to fall below the £25,000 repayment threshold for many of the 30 years following their graduation, as on current policy and forecasts they will never have to repay their loans in any case. Non-graduates would benefit too, as all recipients of the citizen's inheritance would be able to use it to pay for further education and training, irrespective of what education they had received in the past.

The proposed stakeholder grant scheme would run alongside the existing income-contingent tuition fee loan system, which was last changed substantially in 2012. To consider how the stakeholder grants would interact with previous versions of the tuition fees system, we examine the situation for recipients born in 1984, 1990 and 2004:

- 1984 cohort: £1,000 tuition fees, no tuition fee loans, means-tested maintenance loans available. This cohort would not qualify for stakeholder grants in the baseline scheme being modelled.
- 1990 cohort: £3,000 tuition fees, income contingent tuition fee loans, means-tested maintenance grants available. During the transition phase modelled in the previous section this cohort would receive a £3,000 grant in 2022.
- 2004 cohort: £9,000 tuition fees, income contingent tuition fee loans, means-tested maintenance grants available. In the model for rolling out a citizen's inheritance given in Section 4, this age cohort would be the first to receive the full £10,000 amount at the age of 25. Based on the most recent data from the Student Loans Company we expect that this would reduce the typical graduate's debt by just under one-third.

Section 5

Conclusion

Research for the Intergenerational Commission has demonstrated that in the labour market, in education and in housing, younger cohorts' situations are too often no better than those of their predecessors when they were the same age, in a break with the generation-on-generation progress which became an established trend in the latter 20th century.

This paper has identified two specific areas of concern for young adults – greater, individualised risks and a slowdown in the accumulation of wealth – that it is imperative for public policy to address.

A citizen's inheritance, introduced in 2020 and paid to all 25 year olds in its steady-state from 2030, would be a bold and effective means to address these concerns for younger generations. It would directly help young adults today and in the future with their education, housing, jobs and pensions, and it would demonstrate that the intergenerational contract can be renewed for the 21st century.

Appendix

Policy history: Previous proposals and policy debate

The idea of paying citizens a cash grant either at birth or at the age of majority has a long history. Until the last two decades, these sorts of policy proposals tended to be motivated mainly by a desire to redistribute inheritances so as to guard against wealth inequality compounding across generations and ensure that everyone started their adult lives with a minimum base of assets.

A universal inheritance was first proposed in its modern form by the author and revolutionary Thomas Paine in his final work, the essay *Agrarian Justice* (1797), which called for a £15 endowment for every woman and man who reached the age of 21, and a universal pension to all over the age of 50. At the time this was a considerable sum of money: an agricultural labourer typically earned £23 per year. All British people were eligible, and their use of the money was not to be restricted. Paine cast his proposal in civic republican terms, saying that a basic stock of wealth was necessary for people to fully participate as citizens, and as a preventative intervention against working-age poverty: "[society makes] provision for persons becoming poor and wretched only at the time they become so. Would it not, even as a matter of economy, be far better to adopt means to prevent their becoming poor? This can best be done by making every person when arrived at the age of twenty-one years an inheritor of something to begin with."

Paine's universal inheritance was to be funded by taxing inheritances, and he calculated its amount by assuming that the sum of the nation's social wealth circulates every 30 years, proposing that the flow of inheritances in one year should be taxed at 10 per cent (and at a higher rate for bequests to non-relatives). He estimated that this scheme would raise £5.7 million. Most of the funds raised would be spent on pensions of £10 each to people aged over 50 (which he estimated was the average adult life expectancy at the time).

The philosophical and political energy for asset-based policy has remained since Paine. In the mid-19th century the Chartists proposed a similar principle with their call for all families to be granted 'three acres and a cow', as their minimum fair share of the country's total social inheritance. In the US in the late 19th-century, Henry George's book *Progress and Poverty* sold millions of copies and ignited international interest in the treatment of unearned income, in land taxes and in other ways to distribute the social dividend. In the 20th century a wide range of universal inheritance proposals were made across Europe and the USA, with some of the most notable in the history of economic thought being those made by the guild socialists around GDH Cole, and by market socialists in the 1960s such as James Meade.

James Meade's arguments for an asset-focused approach to social policy explicitly contrasted the policy with a more conventional tax-and-spend welfare state.[74] Looking at capital's rising share of profits relative to labour, Meade argued that conventional tax and social security-based redistribution would be insufficient to prevent widening inequality while still maintaining economic incentives. The solution, then, was a

74 J Meade, *Efficiency, Equality and the Ownership of Property*, 1964

'property-owning democracy' which aimed to democratise ownership of wealth and hence share out claims over returns to capital – a phrase used in the past by conservative thinkers such as Noel Skelton, and which would feature prominently in the political philosophy set out a few years later in John Rawls' influential *Theory of Justice*. In Meade's view, a universal inheritance would be allied to an inheritance tax, to reduce the concentration of wealth and distribute assets to people not on track to inherit them.

The most recent wave of interest in asset-based policy took off in the USA in the early 1990s, with authors including Michael Sherraden, Bruce Ackerman and Anne Alstott publishing studies of poverty and inheritance that sought to shift policymakers' attention from income towards assets. The design of recent universal cash grant policies has converged on certain common features: they mostly propose giving relatively unrestricted cash grants to citizens when they reach the age of majority, and generally propose funding these schemes with reformed taxes on inheritance, property and wealth. The remainder of this appendix outlines the details of four of the most pertinent such schemes:

Bruce Ackerman and Anne Alstott, in *The Stakeholder Society* (1999)

Ackermann and Alstott's influential book proposed the payment of a 'stakeholder grant' of $80,000 to all US citizens at age 21, to be withdrawn in $20,000 yearly instalments.[75] Withdrawal could start at 18 if the fund was used for higher education. Potential recipients had to have graduated high school (otherwise they could access the interest but not capital sum of the grant) and not have a serious criminal conviction (though eligibility could be regained if they showed evidence of rehabilitation). The stakeholder grant had no restrictions as to how it could be used. The scheme was to be funded via a 2 per cent wealth tax and, in the longer term, an inheritance tax of the same size as the grants, so that once the first wave of grant recipients died the scheme would become self-funding.

Julian Le Grand and David Nissan (2000)

In a pamphlet published by the Fabian Society in 2000, the economists Julian Le Grand and David Nissan proposed the payment of a universal inheritance of £10,000 to all British citizens at age 18.[76] The use of the grants was to be restricted to four areas: higher education, training, purchasing a house or starting a business. They proposed that 18-year-olds would receive their grants in a special account held at local banks or public savings institutions, and that spending would be overseen by boards of trustees populated by bank officials, local businesspeople, community leaders and others, and perhaps in partnership with charities like Business in the Community. This scheme was to be funded by broadening the inheritance tax base to cover 15 per cent of estates.

75 B Ackerman & A Alstott, *The Stakeholder Society*, Yale University Press, 1999

76 J Le Grand & D Nissan, *A Capital Idea: Start-up grants for young people*, Fabian Society, 2000

Stuart White, time-limited citizen's income and a basic capital grant (2003)

The political theorist Stuart White has made several related proposals for a time-limited citizen's income, which would function in a similar way to a citizen's inheritance except that citizens could draw from their entitlement at any point in their working lives.[77] In a paper in 2001, White proposed that each citizen should be entitled to draw on a capital account of £20,000 per person, up to a maximum of £5,000 in any one year. Withdrawals would not have to take place in consecutive years. The scheme would be open to any person of working age, without means test or work requirement. Likewise the use of the grant was to be unrestricted, so as to "provide individuals with crucial financial independence in periods of difficulty which might otherwise result in abuse or exploitation." This proposal was followed in a 2003 book by the proposal (among other policies) for a "sizeable capital grant" for every citizen upon maturity, which would act as a universal inheritance and which could be spent on education or training, starting a business, the costs of moving house to find employment, and to subsidise time away from the labour market to care for dependents.[78]

Gavin Kelly and Rachel Lissauer, and the Child Trust Fund (2000)

The Child Trust Fund is particularly significant in the history of UK asset-based welfare, as the only recent case when a government policy universally and unconditionally offered young people a cash grant. The scheme had a number of objectives, including promoting a 'saving habit', building economic citizenship, shifting the distribution of wealth, and bringing about behavioural changes through an 'asset effect'. It was first outlined in a 2000 paper by Gavin Kelly and Rachel Lissauer, and was launched in early 2005 with all British citizens born since 1 September 2002 eligible for the policy.[79] For children whose parents had registered in the child benefit system, the government contributed £250 (£500 for poorer families and disabled children) via a voucher at birth to open a savings and investment account in the child's name. An additional £250 was added on the child's seventh birthday, or again £500 for poorer families and disabled children. Relatives and others could contribute up to £1,200 per year, tax free, to the fund, while the accounts were not accessible by the child until they turned 18. Funds were stored in one of three types of account: bonds, shares and cash. Once recipients can access their funds, their use of the money will be unrestricted, although the policy was also rolled out alongside improvements to financial education (which was introduced into the National Curriculum in 2014, by which point a substantial proportion of schools had become academies and so were no longer bound by the curriculum). The Child Trust Fund continued to operate until 2011 when it was stopped by the coalition government, at which point 4.5 million accounts had been opened and 70 per cent of eligible children had had funds opened for them.[80]

How far did the Child Trust Fund succeed in building up asset-holding across the household income scale? While the take-up rate for the scheme was high, children from wealthier households received greater and more frequent contributions to their accounts than children from poorer households, as would be expected. The overall

77 S White, *The Civic Minimum: On the Rights and Obligations of Economic Citizenship*, Oxford University Press, 2003

78 S White, *The Civic Minimum: On the Rights and Obligations of Economic Citizenship*, Oxford University Press, 2003

79 G Kelly & R Lissauer, *Ownership for All*, Institute for Public Policy Research, 2000

80 HMRC, *Child Trust Fund Quarterly Statistics*, 2014

proportion of accounts which received additional contributions from family and friends was relatively small – in 2011-12 (the latest year for which figures are available) only 21 per cent of all CTF accounts opened while the scheme was active received contributions, a similar level to previous years.[81] Average contribution levels were highest in more affluent regions of the UK: London, the South East and South West. More critically, contribution levels were substantially higher – 27 per cent compared to 11 per cent in 2011-12 – for children who did not qualify for additional payment awards on the grounds of their families having low incomes. The average contribution made to the accounts of children from wealthier families was also higher, at £321 compared to £188 in 2011-12 among households that qualified for additional payments.

The Child Trust Fund's history also carries lessons for the political economy of other asset-based policies in the future.[82] While the policy was introduced at a time of fiscal strength, rising support for public services and 'progressive universalism', it was not backed by strong or lasting political arguments, it lacked a substantial political coalition or lobby behind it, and it was not strongly embedded within the wider agenda of Tony Blair's government.[83] None of the recipients of the scheme's government grants have had access to their savings yet, and the scheme gave grants at birth, so the losers from abolishing it were people who had yet to be born at the point of the announcement being made. Unlike the painstaking cross-party consensus behind pension reforms proposed by the Pensions Commission, the Child Trust Fund was introduced without sufficient engagement from the political opposition. Arguably, too, the amount of money the scheme paid out was large enough to be a substantial cost to the exchequer but too small to be transformative to recipients and hence provoke widespread opposition if it was removed. These factors combined to make the scheme relatively easy – and politically pain-free – for the coalition government to scrap soon after it came to power in 2010. If future universal asset-based policies are to be successful, then, in a more challenging political climate, they will need to be backed by a strong political narrative, sustained consensus-building, and the careful construction and deployment of a relevant evidence base.

81 HMRC, *Child Trust Funds: detailed distributional analysis 2012*, 2013

82 The author thanks Gavin Kelly for his analysis of the Child Trust Fund; all views expressed are however the author's alone.

83 D Ben-Galim, *Asset Stripping: Child Trust Funds and the demise of the assets agenda*, Institute for Public Policy Research, October 2011

Resolution Foundation

Intergenerational Commission

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

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>
> *developing practical and effective policy proposals; and*
>
> *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

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