IPPR Commission on Economic Justice

Our Common Wealth

A Citizens' Wealth Fund for the UK

Policy Paper

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The IPPR Commission on Economic Justice

The IPPR Commission on Economic Justice is a landmark initiative to rethink economic policy for post-Brexit Britain.

Launched in November 2016, the Commission brings together leading figures from across society – from business and trade unions, civil society organisations and academia – to examine the challenges facing the UK economy and make practical recommendations for reform.

The Commission is undertaking a wide-ranging programme of research and policy consultation on issues including industrial strategy, macroeconomic policy, taxation, work and labour markets, wealth and ownership, sub-national economic policy and technological change. Through a major programme of communications, events and stakeholder engagement it aims to contribute to both public debate and public policy on the economy. Non-partisan, it has been welcomed by both government and opposition parties.

The Commission's Interim Report, *Time for Change: A New Vision for the British Economy*, was published in September 2017. Its Final Report will be published in autumn 2018.

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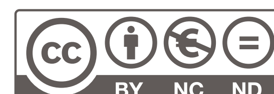

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Summary

60 SECOND SUMMARY

A declining labour share of national income, together with unequal capital ownership, mean wealth inequality in the UK has risen and is set to rise further. A Citizens' Wealth Fund, a type of sovereign wealth fund owned by and run in the interests of citizens, would help address this problem by transforming a part of national private and corporate wealth into shared net public wealth, and using the income to ensure everyone benefits from rising returns to capital.

A UK Citizens' Wealth Fund could be worth £186 billion by 2029/30, if capitalised from 2020/21 using a mix of asset sales, capital transfers, new revenue streams, a small amount of borrowing and returns reinvested through the decade. This would be large enough to pay all 25-year-old UK-born citizens a one-off capital dividend of £10,000 from 2030/31. The fund would be owned and run in the interests of citizens, but managed independently, within democratically-set ethical and social restrictions.

EXECUTIVE SUMMARY

The uneven distribution of capital ownership is a powerful driver of inequality. Since the late 1970s the share of national income going to labour has been in decline. If capital were shared equally this would not increase inequality, but capital in the UK is deeply unequally shared. The wealthiest 10 per cent of households own almost two thirds of financial wealth, while the least wealthy tend not to have any stocks or shares. Economic trends including automation and the rise of digital platforms are likely to amplify this force for divergence.

With a declining labour share of national income, there are a number of options to reduce wealth inequality. One way is to increase the bargaining power of labour in order to reduce the decline. A second is to tax capital and income from capital more effectively, and use the receipts to distribute wealth and income. A third is to spread the ownership of capital more broadly across society .

A Citizens' Wealth Fund, a type of sovereign wealth fund owned by and run in the interests of citizens, would help achieve the last of these, giving every citizen a stake in the economy and ensuring all can benefit from rising capital income. Such a fund could be capitalised in part through progressive taxation on wealth. We propose that the fund pays out a dividend worth £10,000 in today's prices to 25-year-old citizens, providing a minimum inheritance for young people to invest in their futures.

A Citizens' Wealth Fund could also equalise wealth between generations by storing and investing present windfalls for the benefit of future generations who may not have the same revenue streams. If a fund had been created from the North Sea oil revenues in the 1980s, it would be worth over £500 billion today. There is a strong case that the revenue from future potential windfalls and asset sales, such as the sale of RBS and spectrum sales, should be shared with future generations rather than facilitating lower taxes for current generations.

Over 70 governments around the world have sovereign wealth funds, including those of Singapore, France, Ireland and nine US states. These vary in how they are capitalised, invested and governed, as well as how returns are distributed.

This paper sets out an illustrative model of how the UK could set up a Citizens' Wealth Fund paying out a universal dividend to all young citizens from 2030/31:

Setting up and capitalising the fund

- The fund would be capitalised from 2020/21, with returns reinvested up to 2029/30, through the following sources:
  - reformed wealth taxes, including a new accessions or gift tax to replace inheritance tax
  - a scrip tax of up to 3 per cent requiring businesses to issue equity to government, or pay a tax of equivalent value. This would moderately dilute shareholder value but would not affect firms' working capital
  - asset sales including the government stake in RBS and the wind down of UK Assets Resolution programme
  - transferring the Crown Estate into the fund.

Where these revenue sources are already accounted for in government budgeting, this will require a reallocation of current spending plans. We propose reversing some policies including the Help to Buy extension (funded through asset sales). We also propose issuing government bonds to fill the shortfall, taking advantage of the historically low cost of borrowing to invest in assets that would generate a return higher than the cost of debt.

Management and investment

- Parliament should establish the fund and its governance structure in legislation. This should include a board with members appointed through a public appointment procedure.
- The fund should be independently managed by the board and a fund agency. Parliament should set the investment mandate and ethical restrictions on how the fund can invest, including sustainability requirements.
- We believe average returns of 4 per cent above CPI per year are achievable, as most funds around the world have comfortably reached or exceeded this rate in the long-term. The benchmark return should be reviewed periodically and Parliament should be able to adjust the target, to manage the risk of lower returns.

A universal capital dividend

- We estimate that the above capitalisation sources, reinvested through the 2020s at 4 per cent real return, would generate around £186 billion by 2029/30. This would be large enough to pay all UK-born 25-year-olds a one-off capital dividend from the following year, worth £10,000 in today's prices.
- We propose that such a dividend should also be paid to citizens born outside of the UK who have held citizenship for a number of years; this would require a larger fund, beginning payouts later, or a smaller dividend.
- A one-off capital dividend paid to 25-year-olds would provide a lump sum at an age where young people are looking to invest in their futures, for example through buying a property, investing in education, or starting a business. Currently only the wealthy benefit from the security and opportunity that having assets brings. Providing everyone with the means to invest in their future and take risks would equalise the 'opportunity effect' of holding assets.
- We propose that the use of the dividend should be unrestricted to avoid market distortions and excessive paternalism.
- The dividend would be taxed as dividend income to increase the progressiveness of the proposal, with returns to the Treasury reinvested in the fund.

A Citizens’ Wealth Fund as set out above would be a mechanism to transform national private and corporate wealth, which are currently very unevenly distributed, into public wealth, so that everyone can have a stake in the economy. By owning wealth in common, the fund would act as a force for economic equality by distributing returns to capital more widely. It would also facilitate the fair sharing of public asset sales and other windfalls between generations. It could therefore be a powerful tool to tackle growing wealth inequality in the UK.

Introduction

The UK is a wealthy nation, but that wealth is very unevenly divided. The aggregate total wealth of all private households in Great Britain was £12.8 trillion in the most recent Wealth and Assets Survey (ONS 2018). However, the wealthiest 10 per cent of households own 44 per cent of the nation's wealth, while the least wealthy half of households own just 9 per cent (ibid). Wealth is twice as unequally distributed as income in Great Britain. These inequalities exist between individuals and families, between areas of the country, generations and genders, as well as between people from different ethnicities and class backgrounds (Roberts and Lawrence 2017).

Having fallen for much of the 20th century, wealth inequality has risen since the mid-1980s. A primary driver of increasing wealth and income inequality is the growing income share of capital relative to labour, combined with the unequal distribution of capital.[1]

While labour's share of income rose from the post-war period up until the 1970s, it subsequently declined until the 2008 financial crisis (see figure I.1). A declining labour share occurs when wages grow more slowly than productivity, and the returns to capital exceed the rate of economic growth. This trend has been observed in most advanced economies, driven by a combination of global economic integration and technological change, and their impact on both capital and labour markets, along with political choices relating to the regulation and taxation of labour and capital (Dao et al 2017). A declining labour share reflects a major shift in how economies generate growth and distribute their rewards, with a growing proportion of the gains from growth flowing to capital rather than labour.

In the 21st century the rate of return to capital, including housing and equity, has returned to its trend of exceeding the rate of growth of the economy as a whole. Globally, the wealthiest fortunes are held almost exclusively in financial assets, which have risen at a rate of 6–7 per cent per year (after inflation) since the 1980s. This is three to four times more rapidly than either growth in GDP or of world per capita wealth (Piketty 2017).

Three powerful trends make it likely that capital's share of national income will continue to increase. First, the value of land continues to rise faster than economic growth. Fixed in supply and owned by a declining proportion of the population, the value of land has increased more than fivefold since 1995 – and at £5 trillion now represents more than half of UK total net worth (ONS 2017a). Rising house prices have led to home ownership now being at its lowest rate for almost three decades, while landowners have seen increasing income from property (Roberts and Lawrence 2017).

Second, growing automation in the economy represents a substitution of capital for labour. If it becomes easier and cheaper to replace human work by increasingly capable robots and artificial intelligence, automation could accentuate existing trends in the capital and labour shares (Lawrence et al 2017).

Third, the rise of highly profitable digital platform monopolies, with workforces which are relatively small proportional to value added, is also likely to put downward pressure on labour's share of income. The growth of 'superstar firms' which are able to use aggregation and analysis of data to make supernormal

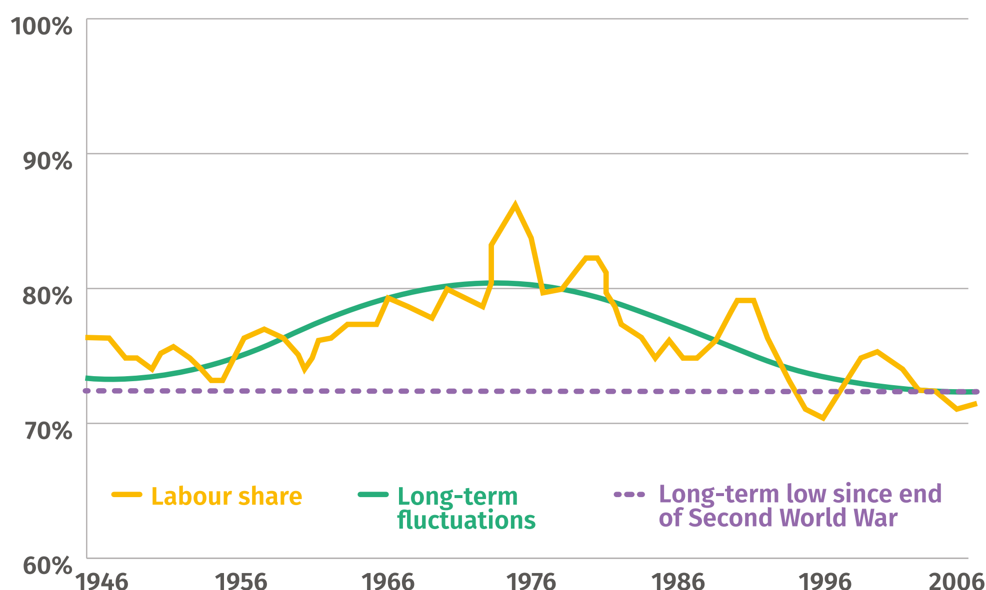
1 The analysis in this section is drawn from two companion IPPR Commission on Economic Justice policy papers: *Capital Gains* and *Wealth in the twenty-first century* (Lawrence and Mason 2017; Roberts and Lawrence 2017).

profits, and to dominate not just current digital markets but future ones in artificial intelligence and machine learning, is likely to lead to a growing capital income share (Autor et al 2017).

FIGURE I.1

GDP growth was driven by rising wages for a quarter of a century, but since the mid-1970s the share of wage in national income has been falling

Total wages in the economy as a proportion of GDP, actual and long-term fluctuations, 1946–2008



Source: OECD 2015

If capital were shared equally, the rising value of capital and the growing share of capital income would not matter for inequality, since the benefits would be broadly distributed. However, as demonstrated above, this is not the case. Financial assets are particularly unequally owned. The wealthiest 10 per cent own almost 70 per cent of the UK's financial wealth - worth over a trillion pounds - including almost four-fifths of shares (ONS 2018).

The highly unequal ownership of capital means that a rising share of capital in national income increases both wealth and income inequality. As Thomas Piketty has demonstrated, without policy intervention this dynamic of divergence will continue to deepen if returns to capital exceed returns to labour (Piketty 2014).

As well as inequality within generations, inequality has also worsened between generations. Young people have been particularly affected by rising house prices: home ownership among 25-34 year olds fell from 59 per cent in 2003 to 37 per cent in 2015 (Corlett and Judge 2017). This is in part an intergenerational issue: each generation since the post-war 'baby boomers' now has less wealth than the generation before them had at the same age (D'Arcy and Gardiner 2017). But it can also be understood as a trend towards widening wealth inequality; some of the younger generation will inherit large amounts of wealth, albeit later in life than their parents due to rising life expectancies, while a large proportion of young people will inherit almost nothing.

This report is concerned with how to address rising wealth inequality in the context of a declining labour share. We propose here that the UK establishes a Citizens' Wealth Fund, progressively capitalised, and paying out a one-off, universal capital dividend to all 25-year-olds.

1. A UK Citizens' Wealth Fund

WHY SHOULD THE UK SET UP A FUND?

A sovereign wealth fund (SWF) is a state-owned investment fund, through which public wealth is invested in shares, land and other assets domestically and internationally. Such funds have existed around the world since the 1950s, but have risen sharply in number since 2000, and there are now over 70 government funds, in countries such as Norway, Singapore, New Zealand, Australia, France, and the UAE.

Sovereign wealth funds have been set up for a variety of purposes. The main ones have been to reinvest resource royalties and taxes to avoid economic shocks and for future government revenue, to manage exchange rates, to diversify resource-rich economies, to generate a steady stream of current account revenue growing faster than the working age population, and to pay a dividend in recognition of the collective ownership of resources.

Unlike resource-rich countries, the UK does not now have large oil reserves or a need to control its exchange rate through foreign direct investment. But there are strong reasons for the UK to establish a form of sovereign wealth fund with explicitly social goals.

With a declining labour share of national income, there are a limited number of options to reduce wealth inequality. One way is to increase the bargaining power of labour, thereby changing the distribution of rewards at the level of individual firms and sectors to reverse the decline of the labour income share. A second is to tax capital and income from capital more effectively, and use the receipts to distribute wealth and income. A third is to spread the ownership of capital more broadly, both in terms of land and property wealth, and corporate capital (i.e. business ownership).

The IPPR Commission on Economic Justice is exploring all of these options. IPPR has previously set out mechanisms to broaden the ownership and control of companies through scaling the employee ownership trust model and expanding cooperatives and mutuals, for example (Lawrence and Mason 2017). But employment-based methods of expanding ownership can only provide a stake for the employed, and are unlikely to reach a scale where all employed individuals benefit.

A collectively owned sovereign wealth fund provides a mechanism for all citizens to hold a stake in national wealth, and benefit from increasing returns to capital.[2] A progressively funded sovereign wealth fund distributing a financial dividend also redistributes individual wealth.

Due to the long term nature of a sovereign wealth fund, this redistribution takes place between generations. Indeed, most countries use sovereign wealth funds at least in part to spread the benefits of resource rents, asset sales and other windfall gains over multiple generations. In the UK, over the last 30 years, the proceeds from privatisation of state assets have been put into the consolidated public accounts to fund current expenditure. They have therefore benefited the generations who were net receivers of state expenditure and policy choices

2 For a fuller discussion of labour share arguments for a 'property-owning democracy', including universal dividend payments, and the extent to which different political parties have engaged with these ideas previously, see White 2013.

at that time. Between the years 1980/81 and 1989/90 North Sea oil raised £166 billion in taxes (in 2011 prices). Instead of establishing a sovereign wealth fund, increasing investment, reducing national debt, or decreasing liabilities – all which would have increased public wealth – the UK used part of its tax windfall to fund the reduction of non-oil taxes (Cummine 2016). While this may have boosted private wealth in some instances, the collective stewardship of finite resources which would have occurred through investment in a sovereign wealth fund, would have created a lasting, equitably-held asset. By contrast, the temporary boom in the 1980s spurred by tax cuts enabled by North Sea oil increased both intergenerational and national inequality in the UK. No mechanism was established to ensure future generations could share in that windfall (McLean et al 2013).

A different approach to oil revenues was adopted by Norway, which invested its income in a sovereign wealth fund established in 1990. Today, Norway's fund is worth over US$1 trillion. Had the revenues from North Sea oil been invested in a sovereign wealth fund in the 1980s, as happened in Norway, such a fund would have been worth over £500 billion today (Lansley 2016).

Spending windfall gains on current expenditure has the effect of making public finances appear more sustainable than they really are, and, substantively, of depriving future generations of their share in asset sales. While this approach may result in lower public sector net debt, in the long term holding assets on the asset side of national accounts bolsters public sector net worth and can generate sustainable revenue streams (Atkinson 2015). Sovereign wealth funds can hold and invest those assets, and distribute the returns both within generations and over multiple generations. While North Sea oil and the 3G and 4G spectrum sales can no longer be used to capitalise a UK fund, there are other forthcoming asset sales and assets with potential revenue streams which could be shared with future generations. We explore these in chapter 3.

The purpose of a sovereign wealth fund in the UK would therefore be to provide all citizens with a share in returns to capital generated by the economy, and to ensure that windfall income is shared with future generations. We propose that such a fund should be a Citizens' Wealth Fund: established by the state, but owned by and run in the interests of citizens.

WHAT ARE THE FEATURES OF WEALTH FUNDS?

The character of a sovereign wealth fund depends on its purpose and is shaped by how it is capitalised and governed, how it invests its funds and how returns are spent. Different funds approach these questions in different ways. Funds are typically capitalised, managed and returns distributed at the national level, but there are also funds run by states and municipalities, such as the Alaska and Texas Permanent Funds.

- *Capitalisation*: A range of sources have capitalised the world's sovereign wealth funds. These include royalties and taxes from natural resources, balance of payments surpluses, foreign exchange reserves, the proceeds of privatisations, the transfer of publicly owned equity and other assets, general taxation, fines and fees, and bond issuances.
- *Investment*: Funds are typically mandated to generate a defined return on their investment while taking acceptable but not excessive levels of risk. Among leading wealth funds, returns of at least 4 per cent per annum after management fees and inflation is common. For example, the nominal returns in the ten years since the global financial crisis, during which returns have been lower than previously, of the New Zealand, Australian and Norwegian funds are 10.59, 8.1 and 6.16 per cent respectively (GNZS 2018; Future Fund 2018; NBIM 2017). We discuss potential returns to a UK fund in chapter 3.

Sovereign wealth funds usually invest in a broad range of assets, primarily equities, but also government bonds, real estate, hedge funds and private equity. More recently, a number of funds have imposed increasingly stringent ethical obligations and screening methods on their investments.

- *Governance:* Funds typically operate at arm's length from government, either as an independent body or within the central bank. They typically receive their investment mandate from the government, which usually appoints the board and decides how the returns to the fund should be distributed. The majority of sovereign wealth funds have also committed to the Santiago Principles, which require funds to have in place a transparent and sound governance structure that provides adequate operational controls, risk management, and accountability (IWG 2008).
- *Distribution:* Funds distribute their returns in different ways, typically shaped by government decisions. Returns may be reinvested in the fund, used for public spending (including government investment and service delivery), hypothecated to cover specific current and future liabilities, or used for issuing a dividend.

THREE EXAMPLES FROM AROUND THE WORLD

The following examples demonstrate a variety of approaches taken to capitalisation, governance, investment and distribution by countries and states with comparable democracies and economies to the UK.

Australia

Australia's Future Fund was established in 2006. It consists of the primary Future Fund, and additional special purpose public asset funds managed by the same board: the DisabilityCare Australia Fund, Medical Research Future Fund, and Nation-building Funds. Altogether these funds were worth A$159.5 billion (£89.6 billion) as of September 2017.

Each fund has a specific investment mandate determined by the Australian government, which also determines how income drawn down from the funds is allocated. Investment decisions are made by an independent, government-appointed board, which is advised by the Future Fund Management Agency. Investment is in a broad range of assets and includes Australian as well as international investment.

Payments from the funds are determined by the Australian Government. The Future Fund is the largest of the funds, worth A$134.5 billion, having delivered a nominal return of 7.7 per cent pa since inception. It was established to help the Australian government meet future liabilities for the payment of superannuation to retired civil servants with unfunded pensions (Future Fund 2017). Payments from the DisabilityCare Australia Fund are used to pay for Australia's National Disability Insurance Scheme to support Australians with a significant and permanent disability and their carers; payments from the Medical Research Future Fund provide grants of financial assistance to support medical research and medical innovation; and payments from the nation-building funds currently support investment in infrastructure including educational infrastructure.

Since the Future Fund was established, investment returns have added $74 billion to the original contributions received from Government, which were $60.5 billion at the time of transfer. These came from budget surpluses and proceeds from the sale of the government's holding of telecommunications company Telstra. No contributions have been made to the fund since 2008.

Alaska

In 1976, the Alaskan government established the Alaska Permanent Fund through an amendment to the state constitution requiring 25 per cent of rent and royalties from the state's mineral, oil and gas resources to be deposited in the fund. The constitutional amendment specifies that this principal must be used for income-producing investments rather than spent. As of the end of 2017 the fund was worth US$64.5 billion (APFC 2017), and the annualised five-year nominal return gross of fees was 9.10 per cent.

The fund is managed by the Alaska Permanent Fund Corporation. The Corporation produces annual reports on both the size of the principal, and the size of the Earnings Reserve Account, from which spending is permitted. Almost two-thirds of the fund is invested in stocks and bonds, but the fund is also invested in private equity, real estate, hedge funds, infrastructure and cash.

From the outset, Alaskan citizens have enjoyed a stake in the fund's performance in the form of an annual dividend. Every year since 1982 all eligible citizens of Alaska who apply have received a personal cheque for their per-capita share of a proportion of the fund's annual earnings. A resident who received an annual payment from 1982 to 2015 would have received a total $39,100 equivalent to $56,100 in 2016 dollar terms, or $1560 per year on average (Cummine 2016).

Norway

Norway's Government Pension Fund Global is a sovereign wealth fund capitalised using the proceeds from Norwegian oil, including emissions taxes, revenues and royalties, payments for oil exploration licences and dividends from the partly state-owned Statoil. It is managed by Norges Bank Investment Management (NBIM), part of the Norwegian Central Bank, and its mandate is defined by the Ministry of Finance. The fund's goals are to safeguard wealth for the benefit of future generations when oil-related income will decline, and to smooth out the disruptive effects of oil price fluctuation.

The Norwegian government first transferred capital to the fund in May 1996. In September 2017, the fund exceeded US$1 trillion in value for the first time, a thirteen-fold increase since 2002, and $192,307 per Norwegian citizen. The fund generated an annual return of 6.17 percent between 1 January 1998 and the end of 2017. After management costs and inflation, the annual return was 4.16 percent (NBIM 2018). Of the assets at the end of 2017, 66 per cent were equities, and the rest were property and fixed-income investments, with all investment occurring outside of Norway (NBIM 2018). The government is able to draw down an average of 3 per cent of the fund's value each year, with the returns used to support the public finances (ibid.) It did so for the first time in 2016. This fiscal spending rule was reduced by the government in 2017 from 4 per cent due to uncertainty that the returns of the last two decades can be replicated in future.

The fund operates with stringent ethical investment requirements. To support this, the Council on Ethics was established in 2004 to help advise and maintain the fund's ethical guidelines, in concert with the Ministry of Finance.

2. A citizens' dividend

A UK Citizens' Wealth Fund would have the goals of spreading capital ownership to counter the effects of a declining wage share, and redistributing wealth between and within generations. These goals are met by the choice of how to capitalise the fund, which we consider in chapter 3, as well as how to distribute the returns.

There is a strong argument for a fund with these objectives to distribute at least some of the returns in the form of a dividend, rather than using them for current expenditure or future state expenditure. A dividend would provide a tangible return from the fund to people in the UK, and a clear benefit from investment. It would mirror individual capital ownership by providing an income stream, and help to counter the effect of a declining labour share of national income. A dividend would also institutionalise the citizens' claim on returns to capital: when Alaska, the only nation or state with a sovereign wealth fund that pays out a dividend, proposed temporarily withholding payments, there was much political controversy and ultimately the proposal was rejected as unconstitutional in court. The controversy showed that Alaskans considered the fund to be the property of citizens, rather than the state (Cummine 2016a).

The alternative of putting returns into consolidated government funds for current public expenditure would meet the requirement that people benefitted from growing capital income, but would risk feeling inconsequential to people's everyday lives and finances. This would risk political support and also would not offer a means to directly redistribute wealth to individuals in cash terms. It would therefore address wealth inequality less effectively.

There are multiple options for how a dividend could be structured, and these would need to be considered in order to establish the fund. These options include, for instance, the frequency of payments. An annual payment would resemble income, and would necessarily be smaller than a less frequent dividend. A larger one-off dividend would more closely resemble a transfer of capital, though ultimately whether it remained an asset would depend on the recipient's use of the payment. Who holds the right to receive the dividend could also vary, potentially based on citizenship, length of residence, or age. To better target the dividend to those who would most benefit from it or who do not otherwise hold wealth, it could be means-tested or taxed. The dividend could either be restricted or unrestricted in terms of what it is spent on; for example, it could be limited to spending on education or housing, in the way that pensions have previously been limited to the purchase of an annuity.

In our example of how a fund could operate, we propose a Citizens' Wealth Fund that pays a dividend on the following basis:

THE DIVIDEND WOULD BE STRUCTURED AS A ONE-OFF 'CAPITAL DIVIDEND' RATHER THAN AN ANNUAL PAYMENT

A fund generating a return big enough to pay a substantial sum to all adults each year would need to be unfeasibly large. For example, a fund worth £186 billion in 2029/30 with a 4 per cent real return could pay out just £129 to all adults in annual payments from 2030/31, but as much as £10,000 in a one-off payment to all UK-born 25-year-olds (see table 2.1).

TABLE 2.1

A fund worth £186 billion by 2029/30 could pay for a £10,000 one-off dividend for all UK-born 25-year-olds in the following year

Size of fund in 2030/31	£202.3bn	
Interest in that year, assuming interest accrues one year after investment	£7.43bn	
Recipients of dividend in 2030/31	**Number of recipients (to nearest 10k)**	**Size of dividend (£, to nearest £)**
All adults	57,630,000	129
All working age adults	44,010,000	169
UK-born 25 year olds	720,000	10288

Notes: 2017/18 prices. If the criterion for the right to a dividend was residence in the UK rather than birth, the fund would need to be large enough to generate an £8.7 billion return for a £10,000 payout. Further modelling in chapter 5.
Source: IPPR analysis using live births data from Statistica (2017) and population projections from ONS (2017).

There are other, substantive arguments for a one-off payment. If it was designed to encourage individuals to invest the payment, it would represent a capital transfer and redistribution of wealth. This could be achieved by requiring the dividend to be paid into a savings account, which could be tax-free (like an ISA) to encourage additional saving. The Government could work with the financial sector to devise an appropriate product.

A one-off payment would be received in addition to income, and enable recipients to invest in things currently available only to those who inherit or have large incomes from which to save. These might include education, a house or flat, starting a new business, taking time out to care for a child, or paying off debt. Studies controlling for background factors have shown an 'asset-effect' on life chances. Having some wealth aged 22 is associated with positive impacts when reaching age 33, including participation in work, higher wages, good health, absence of depression and greater political agency (McKnight 2011; Bynner and Paxton 2001). Those with assets are better able to take risks and invest in new ventures: among successful entrepreneurs, the most commonly shared trait is not personality but access to financial capital, often through gifts and inheritance (Bahaj, Foulis and Pinter 2016; Blanchflower and Oswald 1998). A capital dividend of this kind would mimic inheritance, essentially providing all citizens with a minimum inheritance. It could be used to gain support for reform of inheritance tax to make the tax more redistributive, if proceeds from the tax were used to capitalise the fund (see chapter 4).

THE DIVIDEND WOULD BE PAID TO 25-YEAR-OLDS

A lump sum payment at age 25 would go to people at the moment in their lives when wealth makes a substantial difference to life opportunities. This would provide capital income at an age where young people are looking to invest in their futures (rather than simply spending it on current consumption, potentially 'unwisely'). For example, approximately two-thirds of first-time buyers of homes are between the ages of 25 and 34 (DCLG 2017). From the age of 25 students are classed as independent from their families for means-testing purposes.[3]

The ideal of each citizen starting out in life with capital is an old one. Thomas Paine recommended a citizen's dividend in 1796 in *Agrarian Justice* (Paine 1796). The Nobel-prize winning economist James Meade argued for a collective ownership fund to provide a universal endowment in the 1960s (Meade 1964).

3 See: https://www.gov.uk/student-finance

More recently, Labour introduced Child Trust Funds in 2005, which provided universal payments to all children paid into tax-free savings accounts. The policy followed recommendations by IPPR and the Fabian Society to provide each child in the UK with a capital endowment, though the policy that was enacted transferred a smaller sum than either thinktank recommended (Kelly and Lissauer 2000, Nissan and Le Grand 2000). The Liberal Party also have a policy of Universal Inheritance for all young people.

Restricting the dividend to younger people also helps the fund to meet its intergenerational justice objectives; so long as the fund is capitalised from wealth accumulated by today's older generations such as the baby boomers, a dividend to young people represents a transfer from those generations to future generations.

Eligibility would be set by citizenship, and whether the individual was a UK citizen at an earlier stage such as the end of secondary education (16), to ensure it is paid to people with a long-term connection to the UK, and reflect that the fund is owned by the citizens of the country. The exact design of this criterion, including whether European Union (EU) citizens resident in the UK are eligible, will depend on the agreement reached between the UK and EU relating to equality of treatment following the UK's departure from the EU.

If the one-off dividend were introduced overnight at the full rate, this could seem unfairly arbitrary to people who recently turned 26. One option for a transition arrangement would be for the returns in the first year of payment to be divided in decreasing increments between year-cohorts from age 25 to 34. In this first year only, individuals up to age 34 would be eligible for a payment, but the payment would be smaller the older the recipient.

THERE WOULD BE NO RESTRICTIONS ON WHAT THE DIVIDEND COULD BE SPENT ON

Restrictions are likely to distort markets; for example, if restricted to housing deposits, we would expect homes in the first-time buyer market to increase in value. They also impose a level of paternalism on income that private wealth-holders do not have, and can be difficult to enforce, limiting the extent to which the proposal would mimic individual capital ownership. However, restrictions could increase the political popularity of the dividend, for example reassuring voters that the money could not be spent on 'frivolous' items, so policymakers may wish to consider them. A less interventionist approach would be to provide tax incentives to spend the dividend on particular items or investments. Paying dividend payments directly into savings accounts might also affect how the recipient views the payment, and encourage saving.

DIVIDENDS WOULD BE TAXED

While the dividend is universal, policymakers may wish to target the payment to provide more to those who need it most. This would make the proposal more progressive and also reduce the cost, allowing additional returns to be reinvested to grow the fund. There are several options for how this could be achieved; we propose that the dividend is taxed. Means-testing on current wealth could simply result in families transferring wealth after the age of 25 to avoid the tax, and means-testing on any measure would be administratively burdensome. We propose that the dividend should be taxed as dividend income in that year, as this is most analogous to individual asset ownership. Under current policy, this would mean the dividend would be taxed after the first £5,000 at 7.5 per cent for income within the basic rate band, 32.5 per cent for income within the higher rate band, and 38.5 per cent for income within the additional rate band.[4]

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4 https://www.gov.uk/government/publications/dividend-allowance-factsheet/dividend-allowance-factsheet. In a forthcoming paper, we will set out how dividend income tax could be reformed to raise more revenue, more fairly; if implemented, this would change the tax rates applied (Blakeley, Roberts and Murphy, forthcoming).

3. Capitalising a Citizens' Wealth Fund

Many, but not all, sovereign wealth funds are capitalised using royalties and tax revenues from natural resources or fiscal surpluses. But even where there are no natural resource rents or fiscal surpluses, there are multiple sources from which the UK could capitalise a Citizens' Wealth Fund. These include both one-off asset transfers and continuous revenue streams. The latter could be used to grow the fund until it is a sufficiently large size, at which point the fund could be capped. The New Zealand Super Fund is an example of a fund that was capitalised through general taxation rather than resources or other windfalls.

Some of the sources listed below are not accounted for in current expenditure plans, but others are. Where this is the case, we identify where spending could be reduced, for example by cancelling policies funded by asset sales such as Help to Buy. Alternatively, new sources of revenue would need to be found to make up the shortfall in current expenditure, from taxation or borrowing. All of the capitalisation sources below involve an opportunity cost; increased taxes or existing assets could always be used for current expenditure today, and in the case of the UK, reducing the size of the deficit. However, there are strong justifications for using the money to capitalise an intergenerational fund.

First, capital raised from wealthier individuals to generate collective benefits is redistributive. Given our proposal to use the payments for a dividend for all 25-year-olds, capitalisation mechanisms that primarily affect typically older wealthy individuals, such as those in the baby boomer generation, will represent a transfer from older generations to younger generations who are less likely to obtain the same wealth without inheritance.

Secondly, government borrowing alongside running a deficit is fiscally sensible if we consider public sector net worth, including assets, rather than public sector net debt. It is true that deficit reduction could benefit future generations at the expense of today's generations. But with the government's cost of borrowing at historically low levels, long-term expected returns to a Citizens' Wealth Fund would exceed the cost of servicing debt. Additional liabilities would be matched by new assets (though adding risk to either side of the balance sheet should also be considered). In December 2017 fund managers at M&G Investments argued that 'today represents a near unprecedented chance for the Treasury to borrow money for the long-term at negative interest rates after inflation', and that the bond market could comfortably absorb £100 billion of borrowing for the purpose of setting up a sovereign wealth fund (Hanson and Lonergan 2017).

ONE-OFF ASSET TRANSFERS AND CAPITAL RECEIPTS

Transforming the proceeds of asset sales into a permanent asset

- The Office for Budget Responsibility (OBR) has forecast that the proceeds of planned asset sales between 2017/18 and 2022/23 will raise around £55 billion (OBR 2017). These include the sale of Lloyds Banking Group and RBS, and the rundown of the UK Asset Resolution's assets including Bradford & Bingley and NRAM plc loan books (OBR 2017). Whether these assets should be privatised is a separate question. However, if, as currently planned they are sold off, then it is more equitable and efficient to convert the revenue generated into long-term assets that generate a continual return for the public, than to repeat the mistakes of the 1980s with North Sea oil and allocate the revenue to current

spending. Maintaining existing assets as assets rather than selling them for current expenditure bolsters public sector net worth in the long term and allows the transfer of public wealth between generations, even if there is an increase in public sector net debt (Atkinson 2015).

- Some policies that have been funded by commitments to sell assets could be reversed. For example, £20 billion of RBS shares and UKAR assets will be sold by 2022/23 in order to fund the government's Help to Buy extension. However, this policy has been shown to largely benefit the already wealthy and increase house prices (Provan et al 2017; Van Lohuizen 2015). This money could instead be used to capitalise a Citizens' Wealth Fund, providing everyone with capital rather than just those with access to mortgages.
- A review of the public estate could also identify public assets which could be used to capitalise the fund. Around two-thirds of public wealth is held in land, property and infrastructure. It may not be optimal to sell this property off, for instance because it could be suitable for housing (McCann et al forthcoming). While it is possible that these assets could be managed better, we do not propose that an income-maximising Citizens' Wealth Fund would do this best. However, there may be land unsuitable for housing or public use which could be held by the fund to generate income, or if appropriate, sold.

Future royalties and rents

- The fund could be boosted by future revenue from public assets such as income from spectrum sales. The potential value of these is uncertain: the sale of 3G in 2000 raised £22.5 billion, whereas the sale of 4G in 2013 raised only £2.3 billion. New income-generating public assets could also be created. For example, IPPR is examining the possibility of a public/private data bank that would own socially generated data, and licence, for a fee, the beneficial use of the data to companies.

Transferring the Crown Estates into the fund

- The assets of the Crown Estate are worth £13.1 billion, and are run much like a sovereign wealth fund. The Estate is managed by a semi-independent, incorporated public body, accountable to Parliament, which reports annually on performance. The Estate, as well as potentially the Duchy of Cornwall (worth £1.04 billion as of autumn 2017) and the Duchy of Lancaster (£0.5 billion as of autumn 2017) could be incorporated into the fund, paying a grant to the royal family similar to the Sovereign Grant (15 per cent of Crown Estate profits). The Treasury already receives the income generated by the Crown Estate for current expenditure, so transferring the Crown Estate to the fund would require reduced spending or additional borrowing to compensate for the income foregone.

BORROWING

Given the low cost of long-term borrowing and the higher real rate of return for the majority of sovereign wealth funds – and broader returns on global equity - one source of capitalisation could be to issue government bonds to raise funds to purchase a broad portfolio of assets (Lansley 2017). This would represent a partial transfer from current taxpayers, in servicing the debt, to future recipients of the dividend.

POTENTIAL REVENUE STREAMS

Continuous revenue streams could be used to capitalise the fund until it reaches a sufficient size to maintain the dividend value in real terms, accounting for population projections. Revenue streams could then be reallocated to current expenditure, although revenue streams from assets that should be permanently preserved, such as natural resources, may be retained in the fund.

A scrip tax

- A scrip tax is a tax on corporate profits paid by firms issuing equity to government instead of cash. This transforms a stream of payments in the form of corporation tax into an asset that produces returns. A scrip tax would be paid by issuing new equity, which would moderately dilute shareholder value but would not reduce a corporation's working capital. A form of scrip tax was the intended mechanism to capitalise Sweden's 'wage-earner funds', at the core of the innovative 'Meidner Plan' in its most ambitious formation. The plan was designed in the 1970s to expand common ownership of the Swedish economy by requiring firms to transfer equity to worker-owned funds depending on their rate of profitability (Furåker 2015).
- A scrip tax could be set at a low rate and still create a substantial stake for the fund over time. For example, corporation tax is expected to raise £276 billion between 2018/19 and 2022/3 (OBR 2017). A share of this could be in the form of equity if a scrip tax was applied as a proportion of the overall corporation tax rate. This would mean the government would have to make up the shortfall in its current revenues through other means. Alternatively, the scrip tax could be additional to current corporation tax, and it is this option that we propose. Given the UK's relatively low corporation tax rate among advanced economies, the failure of reductions to significantly increase corporate investment or revenue, and its planned reduction to 17 per cent by 2020 – our view is that corporations could bear a 3 per cent scrip tax in addition to current corporation tax.[5] This would make the rate of corporation tax plus a scrip tax 20 per cent of corporate profits, the same rate as corporation tax in 2015. HMRC estimates that a 1 per cent increase in the rate of corporation tax in 2017/18 would raise £2.7 billion a year in 2021/22 (Miller 2017), suggesting a 3 per cent scrip tax could raise an estimated £6–7 billion worth of equity a year in the 2020s. Applying a scrip tax would consequently generate significant amounts of equity, enabling the fund to steadily accumulate assets over time. Businesses unable to issue equity would pay the equivalent value of a scrip tax in cash.
- There are several alternative options for the design of a scrip tax. These include a scrip levy on only the largest corporations, analogous to the apprenticeship levy (Painter et al 2018). The tax could also be levied on mergers and acquisitions (which have often been proved not in the interests of the acquirer's shareholders), or on foreign acquisition of British businesses. A scrip tax could also be levied on demutualisation in order to protect mutuals, and where demutualisation does take place to maintain a stake in the business for the public (Holtham 1997; 2014).

Hypothecated wealth taxes

- The Commission on Economic Justice is considering the fairest and most efficient way to tax private wealth. One option would be to hypothecate part of the revenue from increased wealth taxes into the fund. So long as returns to the fund were used for public benefit, this would represent a redistribution of wealth from the wealthy today to the less well-off

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5 See Blakeley (2018). IPPR recommends an increase in corporation tax alongside reductions in employer national insurance contributions in that paper; these two recommendations would need to be considered alongside each other.

tomorrow. There is a particularly strong argument to hypothecate a reformed inheritance or accessions (gifts) tax, if the sovereign wealth fund were designed to pay out a capital dividend resembling minimum inheritance as we propose (Paxton et al 2006).

Annual returns

- The fund would expand as its investments yielded returns, minus any spending from the income. The majority of sovereign wealth funds have managed to deliver a consistent real rate of return of CPI plus 4 per cent or more in the past decade. Until the fund makes payments in the form of the dividend, all of the returns could be reinvested. Beyond that date, surplus returns above the specified dividend could be reinvested. Most funds around the world reinvest part of the returns; the Australian Future Fund has added more than its initial endowment in this way (see above).

4. A fund owned by and governed in the interests of citizens

A UK Citizens' Wealth Fund would ultimately be the property of UK citizens, who would collectively own the fund, its assets, and its returns. As the ultimate owners, the governance of the fund should be structured in a way to ensure that the public have both control and benefit of their fund and its assets (Cummine 2016). This could be achieved through indirect democratic means, if Parliament acts as an 'agent' on behalf of the people in setting up the fund and its investment mandate. It could also be achieved by including members of the public in governance arrangements.

We propose the following structure, drawing on models from around the world.

SETTING UP AND DEFINING THE INVESTMENT MANDATE OF THE FUND

Parliament should set up the Citizens' Wealth Fund through an Act of Parliament. Its Founding Charter should:

- clearly define the overarching objectives of the fund
- establish clear roles and responsibilities to ensure the fund is run transparently and accountably
- set out the structure of the fund to ensure the operational independence of the fund's management, including the role and powers of the board, the management agency, and the government, and how they relate to the public and bodies representing the public
- define the duty to distribute the fund's returns and how that process will be decided
- constitutionalise a broad ethical investment obligation in the operation of the fund.

To help grow the fund to an adequate size, legislation should prohibit drawdowns from the fund until 2030 /31, unless under exceptional circumstances and changes to legislation. It should also limit the proportion of the fund that can be spent each year in order that its size can be maintained for future generations.

Parliament, as the democratic representative of citizens, should determine the investment mandate of the fund, including ethical and social parameters within which the independently-managed fund can invest. This should include:

- *A benchmark return* expected of the fund over the long-term. A benchmark average real return target of 4 per cent per annum would be a reasonable goal with acceptable but not excessive levels of risk. This is below the average rate of return rate of other leading wealth funds around the world and similar to that of existing UK funds such as the Crown Estate.

  The benchmark return should be reviewed periodically and Parliament should be able to adjust the target. While most sovereign wealth funds are still receiving healthy returns, declining economic growth rates do present a downside risk: the returns of the past thirty years may not be repeated. The structure of the fund should reflect this risk and uncertainty, including flexibility in target setting. For example, in 2017 Norway reduced its target return from 4 to 3 per cent after inflation and management costs.

- *Ethical investment obligations*. As a public fund, the CWF should be subject to ethical guidelines that specify which companies and economic activities it can and cannot invest in. This might for example include prohibitions on investing in tobacco, the arms industry, investment that could directly or indirectly breach human and labour rights, and the fossil fuel sector. We would expect these guidelines to be subject to public debate and parliamentary decision.

  It is possible that ethical restrictions on the investment of the fund would reduce the returns generated. But this may nevertheless be appropriate to be consistent with public values and attitudes. Most funds impose ethical restrictions on their funds, including the Norwegian and New Zealand funds, which have continued to see strong growth. The Norwegian management agency has calculated that ethical exclusions have in total reduced the return by 0.06 percentage points annually since 2006 (NBIM 2018).

  We do not propose that the fund should invest in order to generate a social return rather than a financial return, as we do not believe the fund is the best mechanism to achieve this. Doing so would deplete the size of the fund over time and therefore be unsustainable without some income generation. However, the fund's mandate to maximise income should be subject to the constraints of ethical obligations.
- *The broad basket of assets the fund should invest in* as a proportion of the overall fund, including equities, bonds, land, and other assets, both in the UK and globally.
- *Targets for the proportion of the fund to be invested domestically and abroad*. It is likely that an income-maximising UK fund will include both domestic and international investments, in order to diversify risk and take advantage of the best investment opportunities. There is also a strong argument that in order to effectively broaden capital ownership and collectivise returns to capital in a world with increasingly mobile capital that is difficult to tax, the fund should own assets globally (Holtham 2014). However, Parliament may wish to specify that the fund considers options to invest in the UK to boost the UK economy and increase popular support for the fund, as the New Zealand government does with the New Zealand Super Fund. Parliament may also want to specify proportions of domestic and foreign investment if the fund reaches a sufficient size such that investment decisions impact on the value of sterling.

MANAGEMENT OF THE FUND

The fund should be managed by an independent board at arm's length from government. The board would be responsible for the fund's overall investment strategy, but its investments decisions would be managed on a day to day basis by the fund's agency. The board should make investment decisions in pursuit of its given mandate, and should review, approve and oversee the investment strategy of the fund.

The board should be appointed using a public appointments procedure similar to that of the BBC. Board members should serve a fixed term and be eligible for reappointment. A range of measures are available to ensure the board has the requisite expertise, independence and experience; these include a ban on political appointments, technical expertise requirements stipulated in legislation, and limited tenure (Alsweilem et al 2015). The board should include lay members of the public, and individuals from all constituent nations of the United Kingdom.

OVERSIGHT ON BEHALF OF CITIZENS

As the fund is ultimately owned by citizens, there should be oversight mechanisms to ensure the board and agency are managing it in their interests.

The board and agency would be required to publish comprehensive reports on its activities, including quarterly portfolio updates with details of the investment activity and performance of the funds.

The board would report annually to Parliament on its performance, and the fund's executives and board would appear before the Treasury Select Committee on a regular basis to report on its operation. Other economic institutions could also play a role in oversight of the fund, such as the National Audit Office, and the Office for Budget Responsibility in providing projections of revenue. In the case that the fund could impact the value of sterling, the Bank of England should be consulted on setting the investment mandate including foreign investment.

DISTRIBUTION OF THE FUND'S RETURNS

We propose that up to 4 per cent of the fund, averaged over a number of years, should be available to be spent by Parliament for the purpose of paying out a dividend. The £10,000 dividend (or equivalent value) should be set in legislation, able to be amended only through secondary legislation debated in Parliament.

In this report we propose a single fund for the UK, as a larger fund will be better placed to maximise long-term returns. However, there would in principle be scope for devolved parliaments to establish their own funds.

Where returns exceed the benchmark return required for a £10,000 dividend over a number of years, the board could determine whether additional returns are reinvested, and if not, what they should be spent on. If returns are lower than expected or targeted over a medium-term timeframe, Parliament should use its ability to amend the value of the dividend through secondary legislation to ensure the sustainability of the fund.

5. A £10,000 capital dividend for all 25-year-olds by 2030

We set out here an illustration of how a Citizens' Wealth Fund could be capitalised and invested to generate a large enough return to pay every 25-year-old a capital dividend by 2030/31 worth £10,000 in today's prices.

SIZE OF THE FUND

There are 723,000 people born in the UK expected to reach the age of 25 in 2030, and we use this figure as a proxy for the number of UK-born citizens. To provide a dividend in that year worth £10,000 in today's prices requires an annual income stream of £7.23 billion. At a real return of 4 per cent, the fund would need to be worth at least £181 billion by 2029/30 to generate this level of income in the following year.[6]

In practice, the dividend is unlikely to be allocated to UK-born citizens only: some citizens may live abroad, and others may not have been born in the UK. We propose that the right to the dividend should be limited to those who have been citizens for some specified period of time, such as 10 years.[7]

The cost of this modified proposal is therefore not equal to our estimates for UK-born citizens. Given the unknown nature of future citizenship it is not possible to estimate the exact cost of the proposal, but it is likely to be higher, given positive net immigration. If a dividend were paid to all 25-year-olds living in the UK in 2030/31, including non-citizens, the cost would be £8.79 billion, implying a fund worth £220 billion by 2029/30.[8] The cost of a dividend based on some 'length of citizenship' criterion is therefore between £7.23 billion and £8.79 billion.

CAPITALISATION SOURCES

We estimate that a fund worth £186 billion in 2029/30 would earn sufficient returns to allow payment of a £10,000 dividend to all 25-year-olds in the following year. It could be capitalised by investing a range of sources between 2020 and 2030. We assume such a fund would accumulate at a 4 per cent real rate of return over a 10 to 20 year period, with no dividends paid out until 2030/31.

Our modelled capitalisation sources are:

Consolidated asset transfers:

- the Crown Estate (we do not include here the 15 per cent portion generating the Sovereign Grant, though this would in practice be managed by the SWF). Proceeds from the Crown Estate are currently accounted for in current expenditure, and would therefore need to be replaced by borrowing or raised revenue. **£11.1 billion**
- Royal Bank of Scotland (RBS) shares not yet announced for sale. In the Autumn Budget these were valued at £8.7 billion: the value at the time of sale would depend on the share price (OBR 2017). **£8.7 billion**
- proceeds from the UK Asset Resolution Ltd (UKAR) wind down and RBS sales that have recently been announced to fund the Help to Buy extension (OBR

6 In our modelling, interest accrues after one year.

7 As described in chapter 2, the exact design of the criterion, including whether EU citizens are eligible, will depend on the agreement reached between the UK and EU relating to equality of treatment following the UK's departure from the EU.

8 IPPR analysis using IPPR tax and benefit model. Population estimates based on projection for whole population.

2017). UKAR and currently planned RBS sales could be used for the fund by cancelling the Help to Buy extension. **£20 billion.**

New capital income and revenue streams (annual figures)[9]

- New taxes including reformed wealth taxes and a scrip tax. We do not model the size of increased revenue, but include in our illustration a reasonable estimate of **£9 billion.**
    - *Reformed wealth taxes*. A forthcoming IPPR paper will present how reform of inheritance tax and other wealth taxes could raise substantial sums. For example, inheritance tax (IHT) raised over £5 billion in 2016/17; reforming IHT to a gift tax to broaden the base could significantly increase this revenue (Blakeley, Roberts and Murphy, forthcoming).
    - *A scrip tax*. The revenue from a scrip tax would depend on how it aligns with corporation tax and its design. We estimate a scrip tax of 3 per cent could raise approximately £6-7 billion per annum.
- Future spectrum sales and potentially revenue from new assets such as a UK data bank. We do not know how much these would raise, but given previous spectrum sales we conservatively include an expected £2 billion per year in the second half of the decade. This is subject to high levels of uncertainty. **£2 billion.**

Borrowing

- Borrowing at a level at historically low rates of interest. We include £10 billion of borrowing in our illustration. (Additional borrowing may also need to occur to account for asset transfers which have already been allocated for planned spending). **£10 billion.**

Together and invested up to 2029/30, these sources could capitalise a Sovereign Wealth Fund worth £186 billion (2017/18 prices, see table 5.1).

TABLE 5.1

Asset transfers and new revenue streams could create a fund worth £186 billion by 2029/30

(£bn) Capitalisation source	Year										
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Consolidate 85% of Crown Estate	11.1										
New taxes including wealth taxes and a scrip tax	9	9	9	9	9	9	9	9	9	9	
Transfer of RBS and UKAR assets previously announced for sale			20								
Remaining RBS sale				3	3	2.7					
New revenue streams including spectrum sales						2	2	2	2	2	
Issuing government bonds	10										
Total for year	30.1	9	29	12	12	13.7	11	11	11	11	
Annual rate of return (%)	4	4	4	4	4	4	4	4	4	4	
Cumulative size of fund	30.1	40.3	70.9	85.8	101.2	118.9	134.7	151.1	168.1	185.8	
Return to the fund assuming interest accrues after one year		1.2	1.6	2.8	3.4	4.0	4.8	5.4	6.0	6.7	7.4

Sources: OBR 2017; authors' estimations based on OBR 2017. Tax revenues are estimated using a zero growth assumption for modelling purposes. In reality, growth and real-terms increases in the value of wealth would be imply rising revenue. For modelling simplicity, we have not applied HM Treasury Green Book discount rates to these estimates.

9 The potential revenues from each of these are uncertain. These estimates are conservative, and provided for illustrative purposes only.

Beyond 2030, the fund may need to grow further in order to provide a return large enough to maintain the size of the dividend given population increases. This could be achieved by reinvesting some of the return in the fund, or capitalising the fund through a continuous revenue stream such as a scrip tax or reformed inheritance tax, until the fund is deemed sufficiently large. Without further capitalisation, this would reduce the size of the dividend that could be paid.

A fund worth £186 billion could generate a £10,000 one off dividend for all 25-year-olds in 2030/31, if the fund achieves 4 per cent average annual real return, with a small amount remaining as a margin of error or for reinvestment (see chapter 2).[10]

TAXING THE DIVIDEND

If funded through the above capitalisation methods, a Citizens' Wealth Fund paying out a universal dividend would be progressive. Our proposal to tax the dividend would make it more so. While the dividend would be universal, it would be taxed as dividend income. As set out in chapter 2, under current policy this would be charged on dividend income exceeding £5000 in that year, at 7.5 per cent, 32.5 per cent and 38.5 per cent for income falling into basic rate, higher rate and additional rate bands respectively. This would return a portion of the dividend to the chancellor, who could reinvest it in the fund.

10 If this return were required by the chancellor to cover the cost of servicing debt, the dividend would need to be smaller or the first payment delayed.

6. Conclusion

A Citizens' Wealth Fund would transform a part of national private and corporate wealth into shared net public wealth. The universal dividend would provide a minimum inheritance to all, countering the increase in inequality of wealth and the unequal opportunities it confers. To meet these objectives, the fund should be owned by and run in the interests of citizens, with democratically set parameters and mandate. With effective capitalisation and stewardship, the Citizens' Wealth Fund would accumulate assets on behalf of everyone – current and future generations included. In doing so, it would provide a vehicle for citizens to hold a collective claim on the economy, and share in increasing returns to capital.

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Our Common Wealth
A Citizens' Wealth Fund for the UK
Policy Paper

The IPPR Commission on Economic Justice is a landmark initiative to rethink economic policy for post-Brexit Britain. The Commission brings together leading figures from across society to examine the challenges facing the UK economy and make practical recommendations for reform.

A declining labour share of national income, together with unequal capital ownership, mean wealth inequality in the UK has risen and is set to rise further. This policy paper sets out why a Citizens' Wealth Fund, a sovereign wealth fund owned by and run in the interests of citizens, would help address this problem by transforming a part of national private and corporate wealth into shared net public wealth. It sets out how such a fund could be capitalised, and proposes that the income generated should be used to provide a 'universal dividend' to all young people. In this way the rising returns to capital, and the opportunities derived from wealth, can be more fairly distributed across society.

The IPPR Commission on Economic Justice

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