

The Youth Legacy Proposal

- breaking the cycle of economic deprivation -

The experience of nearly two decades of capitalism has produced much change for good, but has also polarised society in a way that was thoroughly predictable. The extremes of capitalism and socialism are each unappetising: they are indeed logically unstable as one leads inevitably to the unfairness of an entrenched economic elite while the other denies the scope for individual enterprise. We believe that a stable balance can be achieved by using inheritance levies as an opportunity to redistribute wealth to young people, thereby breaking the cycle of deprivation which tightens its vicious circle from one generation to the next.

The extremes of the right are no better than the extremes of the left and generate just as much social discord: if not worse. Beggars on the streets, penthouses and slums side by side, north-south divides, social degradation in an underclass, are not features which encourage peace and harmony. It is not sufficient to claim that poorer individuals should grasp opportunities and that they simply represent the idle of our society; the fact is that they have neither the initial capital resources nor, in many cases, the education to be able to shake themselves free of their situation.

Unregulated capitalism not only denies equality but also equality of opportunity; thus it can never become a stable long-lasting socio-economic system. In due course, the manifest unfairness of both wealth concentration and lack of

opportunity will stir the people to rise up and challenge the economic aristocracy, and once again the good will be thrown out with the bad.

The objectives of Youth Legacy.

This proposal presents a way forward to a more egalitarian capitalism which seeks to allow full rein to capitalism's best characteristics whilst ensuring a substantial degree of equality of opportunity as the generations move on. The central proposal is extremely simple, and if it were a constitutional feature it could operate under governments of all shades of political hue, provided that they were committed to individual ownership.

It seeks to achieve four specific objectives:

- (i) as described above, to ensure a continuing broadly-spread distribution of wealth throughout the population, thereby acting as an adjusting balance to the natural tendency of capitalism to make the rich richer, and the poor poorer: but preserving the positive attributes of individual ownership which are so essential in encouraging enterprise.

- (ii) to provide young people with an initial capital base for a financial start in adult life.

- (iii) to encourage a wider and deeper extent of individual asset ownership.

(iv) to avoid the conversion of privately-owned capital into Government expenditure by turning Inheritance and Capital Transfer taxes into levies for re-distribution.

The Youth Legacy proposal

The core of the proposal is to transform Inheritance tax/Capital Transfer tax into a capital re-distribution rather than collection of Government revenue. The mechanism already exists for collecting this levy, and the proposal would leave its degree of severity as a matter for individual Governments to decide.

Instead of paying the levies directly into the Government's budget each fiscal year, Government bonds would be issued to the equivalent value and would be distributed equally and freely to all U.K. resident, individuals reaching the age of 18 during that fiscal year. Based on recent figures of annual tax revenue and population census, it is estimated that, at present, each individual's bond would be worth well over £2,000: there were 680,000 young people reaching 18 in 1994/5.

The bond itself would be a seven-year maturing index-linked gilt-edged stock, and would form the first investment in a portfolio which could have the following characteristics:

- switching would be fully permitted at any time, involving sale of the bond, with allowable re-investments being Equity shares and investment trusts, other gilt-edged stocks or unit trusts. Options, futures and other types of leverage would not be permitted.

- the portfolio would operate along PEP lines; therefore all dividends and capital gain would be tax-free. Additional cash could be injected up to the PEP limits, but withdrawals during the seven year period would not be permitted to exceed the value or proportional element of those additional injections: in other words, the initial capital re-distribution would be “locked in” for seven years to enable the individual to become used to the experience of owning capital.

- notwithstanding the limitation on withdrawal, dividends may be paid directly to the individual, thus enabling familiarisation with receipt of investment income.

- the “controlled withdrawal” status of the portfolio would end after seven years, coincident with the maturity of the initial Government bond.

- the security of the portfolio may be used at all times as collateral towards starting a small business or other approved purposes.

Assessing the impact

Assessing the effects of the proposal in terms of the objectives set out above, the most significant is in enabling wealth distribution without endangering wealth creation through individual enterprise. During a person's lifetime, the ability to not only generate but also benefit from increased wealth will not be abated, and even when inheritance or a capital gift is made the effect will be no harsher than at present if current rates are unchanged. The Youth Legacy proposal would

effectively act as a check on the concentration of wealth between generations by virtue of the life cycle so far as both suppliers and recipients of capital were concerned.

It is inevitable that differences in the annual distribution would occur as the years go by; indeed the concept of distribution only to “those coming of age” would initially pass over all those already over 18. However, it will be seen that the proposal is a genuine effort to give the young a chance to develop self-sufficiency, and that it will form a long-term basis for a less-polarised, thus more harmonious, society. A distribution fixed annually by the Government of the day is not recommended; this could bring the mechanism itself into disrepute by leaving it too open to political manipulation.

The proposal also adopts a constructive approach to wealth distribution; in disallowing early withdrawal it positively encourages a learning process so that young people have a good opportunity to come to appreciate the value of having access to a “capital reserve”. During this period, guidance from financial services such as banks and building societies would become available, at low cost or free of charge, to assist with handling investments and the emergence of PEP intermediaries has already demonstrated that a wide range of organisations are prepared to provide a portfolio monitoring/intermediary role, even for small portfolios such as these.

Government revenue will of course be impacted in due course, but the “gilt-edged stock” aspect of the proposal avoids an immediate impact on cashflow (although it does have an effect on central government debt) for the initial period of seven

years. However, the proposal does ensure that capital in the private sector does remain in private hands after re-distribution, an important factor in avoiding the current practice of “nationalising capital” via capital taxes (only to turn that capital into government expenditure).

A socio-economic system for the future

The challenge of introducing a form of wealth distribution which does not impact the proper operation of capitalism has remained elusive ever since the concept of socialism first laid down its egalitarian challenge to the free enterprise system. The Youth Legacy proposal provides a steady state, long term solution to this challenge without adversely affecting any element of the population since it only redistributes the funds of the dead: which would otherwise be converted to general Government expenditure.

Although this paper is written in the context of the United Kingdom, there is no reason why its applicability could not be more universal. There is an urgent need to find middle ground as the world moves away from socialism: perhaps this proposal for a more egalitarian form of capitalism, in which the young are presented with a greater opportunity to develop their potential, has a role to play not just in the western economies, but also in those countries emerging from decades of communism. It may also provide a channel by which the affluent western countries can help the third world.

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