Comment w/c 9th April

IPPR's wrong answer to inter-generational re-balancing

"Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime."

Chinese Proverb

Think Tanks do a valuable job of giving new ideas a platform, and they're at their best providing regular debate on radio as is the case with the Institute for Economic Affairs and the New Economics Foundation. Sometimes they go a step further in establishing commissions which may give the appearance of a quasi-governmental body set up to tackle an entrenched problem.

The Institute for Public Policy Research (IPPR) has just done this with its **'Commission on Economic Justice'** . It published this report last week, proposing the construction of a sovereign wealth fund worth £186 billion and giving all 25-year olds £10,000 as a one-off 'Universal Dividend' by 2030, in order to tackle the issue of inter-generational wealth polarisation.

However unfortunately, and notwithstanding their eminent panel, they have failed to explore the options fully and to learn the lessons of the past. In particular, their proposal for the £10,000 'Universal Dividend' for all young people at the age of 25 flies in the face of experience with the Child Trust Fund (CTF), which is showing that universality may suit the rich but does little to help the poor.

Share Radio has long advocated a **more egalitarian form of capitalism** - indeed it features as a tab on our homepage - but the IPPR's proposal is definitely not the answer.

Being driven by the same problems does not necessarily result in coming up with the same answers, and the IPPR proposals fail on almost every score. This kind of untargeted giveaway, built on the same concept as universal benefits (which developed from post-war socialist policies and have crippled the national debt over the ensuing 70 years), is a recipe for failure, quite apart from the damage which would be incurred in building the fund itself. Its flaws need to be thoroughly exposed so that it can't confuse and delay real solutions to the problem.

Firstly, hand-outs of wealth don't work by themselves. It is vital that they are accompanied by building a sense of ownership, and this needs to be developed by a 'learning and earning' process.

The Labour Government distributed Child Trust Funds (CTFs) to all children born from 1 September 2002, until they were stopped by the incoming Coalition Government on 2 January 2011. If families didn't apply in the child's first year after birth, HM Revenue and Customs opened the accounts in any case and allocated them to a number of CTF account providers – universality in action.

Amongst families in receipt of Child Tax Credit (the poorest 17% of the population), virtually all of these children's accounts were allocated by HMRC. The 'Addressee Gone Away' rate for such children is now 33% : meaning that 400,000 accounts worth c. £600 million are now lost.

The 'Addressee Gone Away' rate for the rest of the population is much lower - just over 10% - but that still means a further 600,000 lost accounts.

Of course the corresponding figures for wealthy families are much lower, because they recognised the value of the Government's giveaway.

The Share enterprises (The Share Centre, The Share Foundation and Share Radio) are now undertaking a major effort in conjunction with trade association TISA to re-couple lost Child Trust Funds to their rightful owners, and the poster in the right-hand column will increasingly appear in schools over the next few months as we seek to make in-roads for the

600,000 lost accounts referred to above, **setting out a straightforward process to 'find my CTF'** . We have a much more focused initiative, described below, for the 400,000 lost accounts of children in families in receipt of Child Tax Credit.

Universal wealth distribution principally benefits the rich: it does not re-balance wealth across society. It also fails on two critical grounds – firstly, because it reduces the amount available to the poor, and secondly, because it is not accompanied by a 'learning and earning' process which can build a sense of relationship for young people from families not used to handling savings and investment.

Some years ago I met with **Muhammad Yunus** , the founder of the micro-finance movement. His system is based on loans, not grants, and when I asked what was the significance of that choice his answer could be paraphrased in our quote of the Chinese proverb above: " *Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime."* In other words, in the case of micro-finance, loans build a sense of relationship and develop potential, whereas grants are just money.

So when The Share Foundation built its **Stepladder of Achievement (Stepladder Plus)** for Looked-After children, it was on an 'incentivised learning' basis. As the steps of literacy, numeracy and financial capability are achieved, there's more money allocated to their Junior ISA accounts. We're now proposing that same structure for finding the lost 400,000 Child Trust Funds for families in receipt of child tax credits, and providing a targeted and earned inheritance of up to £10,000.

Universal grants don't work any more than the Liberal Party's idea of 'Universal Inheritance', also referred to in the Commission's report. Targeted incentivised learning does work: IPPR, please take note.

Meanwhile in those families which are not in the poverty range, it is right that parents and grandparents should set up their own arrangements for providing inheritance for their own children and explaining how to make good use of it, not seek to have it provided via the IPPR Commission's concept of a universal one-off state dividend. **Our newsletter a fortnight ago** focused on this issue of inter-generational inheritance right across society.

The IPPR proposal is also far more costly than it need to be, and has to resort to an inappropriate sovereign wealth fund model to make their numbers add up. The time for them to have pushed for this idea would have been 30 years ago when North Sea oil was in its infancy – that's when the Norwegian and Alaskan funds (cited in the IPPR report) were established. There's no point now in attempting to 'shut the door after the horse has bolted': the proceeds of North Sea oil have, as the Commission points out, now been squandered in decades of public expenditure.

Further, the range of funding sources for building their sovereign wealth fund are also deeply flawed:

- The report proposes an incremental 3% scrip levy on corporate profits, representing a huge increase over time in state intermediation for publicly listed companies, just at the time when the Government is trying to make the United Kingdom more appealing as a place to do business post Brexit.
- The report speaks of additional capital taxes on older, wealthy people: compulsory charges which will deter wealth creators from staying in the United Kingdom after their retirement, thus impacting revenues for the Exchequer.
- It proposes transferring the state's holdings in rescued banks to the sovereign wealth fund: but these bailouts resulted in significant increases in national debt, which needs to be repaid. They are not available for asset transfer.
- It even advocates borrowing more money to purchase assets, on the basis that returns on the additional investments will exceed interest paid - thus leveraging the fund in a similar fashion to the disastrous Church Commissioners' experience 27 years ago.

And, on this final point, the assumed rate of return for the fund carries no risk assessment, and is therefore likely to be substantially over-optimistic.

Let no one be deceived: this is not, as it claims, offering 'spread capital ownership' but is rather a thinly disguised but a significant expansion of state control. It is anything but egalitarian capitalism.

In contrast, The Share Foundation's proposals for a highly targeted programme of incentivised learning for young people aged 15-17 in families in receipt of Child Tax Credit offers awards up to £10,000. It also comprises an inbuilt process for finding those lost Child Trust Funds, and it is achievable in the short term (the next two years) at a very small fraction of the cost of the IPPR proposal. It could even be funded from voluntary payments for universal services used by higher rate taxpayers, if the Chancellor so decides.

The young recipients' awards may be of the same order as the IPPR proposal but that's where the comparison ends. The Share Foundation's incentivised learning proposal can be both delivered and effective before the oldest Child Trust Fund recipient is 18 (September 2020), and it will empower several million young people from the most disadvantaged families before the IPPR proposal would even begin to deliver its 'Universal Dividend'.

So the most worrying thing about the IPPR proposal is its capacity to confuse and obfuscate a very pragmatic solution to the very real, and correctly identified, challenge of inter-generational wealth re-balancing: let's hope it proceeds no further.

Gavin Oldham

Share Radio