

Bonding with baby

Research shows that savings can transform behaviour, which is why inheritance tax should be used to fund baby bonds, argues **Julian Le Grand**.

That all young people should set out on their adult lives, not only with a good education but also with an endowment of capital, was an idea that I and colleagues put forward in the late 1980s, and again in 2000. The Institute of Public Policy Research also developed the idea in 2000, suggesting that the endowment be given at birth: an idea they imaginatively labelled a 'baby bond'. Further work has been done on the idea by my LSE colleague, Rajiv Prabhakar.

Tony Blair's government took up these proposals, opening child trust fund (CTF) accounts for every child born in the UK since 2002, with seed money of £250 and adding £250 to those from less well off families. Subsequently, there were extra payments for disabled children and for all children on reaching seven. These accounts would mature along with the child at the age of 18.

Many of the arguments for the baby bond were economic, such as raising household saving rates, and encouraging children's education in financial literacy and responsibility – issues that have acquired an even greater potency since the onset of the economic crisis in 2008. But the real drive behind the idea came from its social potential. Longitudinal studies showed that young adults with a small amount of capital at the beginning of adulthood had a significant advantage ten years later over those who did not, with more employment, higher earnings and better health – even when other factors such as income, family background and education are controlled for. It became apparent that ownership of even a small amount of capital assets encouraged people to invest, to save and to think about the future. More generally, it gave people a psychological and economic independence of position and thought. As the US academic Michael Sherraden put it: 'while incomes feed people's stomachs, assets change their minds'.

More generally, a universal endowment can be viewed as a badge of citizenship. On reaching maturity, all young people get the vote, giving them political power and responsibility. Along with graduating from school, having access to a capital endowment at the same age gives them social power and responsibility. Indeed, all three

– the vote, graduation and the maturing of the account – could be symbolised in a citizenship ceremony: a celebration of coming-of-age in 21st century Britain.

In the publications where colleagues and I put forward the idea of a universal capital grant, I suggested that the grant be financed by hypothecating the revenues from the inheritance tax. That way, the wealth of one generation could be spread around so as to fertilise the growth of the next – an idea that has been described as 'poetic, even beautiful, economics' by the Guardian columnist, Zoe Williams.

One of the more lamentable decisions of the current coalition government has been to suspend government funding of the Child Trust Fund. However, the idea of setting up children's accounts that seed future savings and asset-building is still on the policy agenda, with proposals being made by the pressure group Save Child Savings for preserving the infrastructure of the CTF, and, more ambitiously, in a new ResPublica publication by Philip Blond and Sandra Gruescu, for the whole CTF to be transformed into an Asset Building for Children (ABC) account. It is therefore worth thinking about how future government contributions to CTFs or ABCs might be funded – and perhaps therefore to consider again the inheritance tax idea.

There were close to 800,000 births in the United Kingdom in 2009. In 2009/10 inheritance tax revenues amounted to £2.4 billion. If all of that revenue had been used to fund a capital grant to every child born, the grant would have been £3,000: a tidy sum that, with parental and other contributions and the magic of compound interest, could have created some very sizeable capital endowments by the time the child turned 18. For instance, if the sum were invested in an account generating 3.5 per cent interest and if parents, grandparents and friends saved into the account at a total of just £15 a month, the amount available to the young adult at 18 would be close to £10,000.

But the real merit of the idea lies, I think, in its political appeal. Many people deeply resent inheritance tax. The Child Trust Fund has support, but not always very wide or

indeed very deep. Yoking the two together in this way could enhance the popularity of both. As the current universities' Minister, David Willetts, has pointed out, the baby boom generation has accumulated considerable wealth, along with some guilt at the series of lucky events that have contributed to their acquiring it. Here is a way of assuaging that guilt while pursuing a noble aim: that of helping the young. As the American novelist and playwright Thornton Wilder (who, through an accident of wartime, happened to be my godfather) said in his farce *The Matchmaker*: 'Money is like manure: it's not worth a thing unless it's spread and encouraging young things to grow.' ■



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