The case for Universal Basic Capital: a £10k grant for every 18-year-old

*What if we gave young people £10,000 on their 18th birthday? In an age of growing inter-generational inequality and resentment, **Julian Le Grand (LSE)** explains the thinking behind an idea whose time may have come.*

A lot of people are going to find themselves in a precarious situation at the end of this pandemic. The state can support them in a number of different ways: the classic one, very fashionable at the moment, is to support people by giving them doses of income. One of the better-known ideas is Universal Basic Income (UBI). I want to talk about a slightly different version of UBI. We call it Universal Basic Capital (UBC). The idea is not so much to act as a safety net, but as a springboard for people to leap out of the pit in which they may find themselves, and to propel themselves to the heights of better living conditions and a more equal society.

UBC is very simple. Every citizen receives a grant of capital on reaching the age of maturity, financed out of either general revenues or an inheritance tax. Sometimes it may be distributed at birth. The 18th century thinker Tom Paine was probably the first to suggest it, but in the 1990s I introduced it to modern policy discourse, advocating giving a £10,000 grant to everyone at the age of 18, financed out of inheritance tax. Ideally, it would be marked by a what we might call a Citizen's Day: a public ceremony, when people would receive the sum and the right to vote.

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In the run-up to the 2020 US presidential election, the candidate Cory Booker endorsed the idea, put forward by in the US by academics William Darity and Darrick Hamilton in an attempt to correct racial inequalities in wealth. It became part of the Black Lives Matter debate, and was prompted by the fact that the wealth of the average white family in the US is 15 times that of the average black family, and ten times that of the Hispanic. Overall, the top 1% in the US own nearly a third of all wealth and the bottom half only 1.9%. In the UK, wealth inequalities are also entrenched. In 2016 the top 10% in the UK owned just under half the country's net wealth, and the bottom 30% just 2%.

But, apart from trying to redress these inequalities, UBC has another fundamental point in its favour, which is the way it can influence the course of people's lives. As Abigail McKnight, Director of LSE's Centre for the Analysis of Social Exclusion has shown, if people have an asset at a young age, they have better outcomes in terms of their life cycle – earnings, employment and social factors such as marital stability – and this is true even when you control for a variety of other factors, such as income and personality type. In the developing world, as the LSE's Oriana Bandiera and Robin Burgess have found, a capital grant of $550 was enough to lift ultra-poor families people out of poverty and – importantly – to keep them out of it.

The principal argument against UBC is the splurge problem. If you give people £10,000 at the age of 18, won't they just spend it all on drugs, or trips to the Bahamas? One way is to make its award conditional – it could only be used to pay university fees or start a small business, for example. But that would be illiberal and inconstant: after all, we subsidise the acquisition of human capital through education without putting any restrictions on its use. Also, enforcing conditionality can be difficult: for instance, someone could start a business and close it the next day.

A better solution to the splurge problem is applying what might be called the Doolittle rule. In the film My Fair Lady, adapted from George Bernard Shaw's play Pygmalion, Professor Higgins offers Doolittle, an impoverished dustman, £10. But he turns it down, saying: 'Ten pounds is a lot of money: it makes a man prudent-like and then goodbye to happiness. You give me what I ask for': £5, to be spent on 'one good spree for myself and the missus'. So the Doolittle rule requires the UBC not to be so small so as to fund a spree, but rather to be large enough to be potentially life-changing – such as £10,000.

The importance of the Doolittle rule can be illustrated by the fate of a form of UBC that we had in the UK. It was set up by the Labour government in 2003 and called the Child Trust Fund. In an act of policy vandalism, the Cameron government disposed of it in 2011 to very little protest, possibly because the sum involved was so small – only £250. The Fund had been launched with a great deal of enthusiasm by Tony Blair and other senior Labour politicians: it was widely welcomed in the press and elsewhere, encountering little opposition, apart from on the extreme right (which regarded it as a handout) and the extreme left (which saw it as too individualistic). So the Fund appeared to have a lot of support – and yet it became apparent when it was abolished under the ideology of austerity that the support was a mile wide and an inch deep.

The principal lesson from the ease of disposing of the Fund should be that any UBC policy needs to be organised in such a way that, if it were abolished, there would be significant losers – especially among the middle classes. Alongside this, the fact of the loss should be large, obvious and immediate: not a vague sense of a small loss some 18 years in the future. Establishing a coming-of-age ceremony would help make any subsequent abolition tangible.

Universal Basic Capital would use the wealth of an older generation to fertilise the growth of a younger generation. With young people having made so many sacrifices during the pandemic, that's going to be particularly resonant now. It could become a powerful instrument for the young to revitalise the economy and rejuvenate the wider society.

This post is based on Julian Le Grand's contribution to Beveridge 2.0: The Supportive State, an event hosted by the LSE School of Public Policy in January 2021, and Le Grand, J., 2020: A Springboard for New Citizens: Universal Basic Capital and a Citizen's Day. LSE Public Policy Review, 1(2). It represents the views of the author and not those of the COVID-19 blog, nor LSE.

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