Published on *Adam Smith Institute* (http://www.adamsmith.org)

Hauling down the kite [1]

Written by **Dr Madsen Pirie** [2] | Monday 18 June 2012

In his first Reith Lecture [3] this year (video [4]), Niall Ferguson draws attention to the debt overhang confronted by most democratic countries. He points out how much worse it is than commonly supposed, in that much of it does not appear in the official figures. For example, when unfunded liability for US Medicare, Medicaid and Social Security are included - the programmes America is committed to pay for in future years - the US debt is *thirteen times* the officially published figure.

It used to be called 'kiting' if you kept issuing bigger cheques to pay for the previous ones. The problem is how to bring down the debt kite, and The Adam Smith Institute published part of its answer in 1995. Instead of having future generations dependent on the support of future taxpayers, the ASI proposed a means whereby they could, starting at birth with an initial gift, build up funds over a working life that would pay for their own needs in retirement. The ASI called this "The Fortune Account [5]" (PDF), and it attracted much favourable attention and publicity.

Before the child reached working age, relatives could help build up its account with tax-protected gifts, and once paid employment began, each person would pay into their own account to build up enough funds for their future needs.

A major advantage of the proposal is that it removes a huge liability from government and lifts a huge burden from future taxpayers. It builds up real funds, creating a massive investment pool to facilitate future growth.

The IPPR later produced a much weakened version of the proposal, and now the Centre for Policy Studies has helpfully responded with a fairly vigorous one [6], calling the funds super-ISAs. This is good news. This is an idea whose time has come again 17 years after it was first mooted. With debt and future liabilities very much ringing alarm bells, it is time to look one by one at these entitlements, and to devise alternatives which replace future dependence with self-funded responsibility by people for their own futures. The Fortune Account is back on the agenda.

blog comments powered by Disqus [8]

Source URL: http://www.adamsmith.org/blog/welfare-pensions/hauling-down-the-kite

Links:
[1] http://www.adamsmith.org/blog/welfare-pensions/hauling-down-the-kite
[2] http://www.adamsmith.org/taxonomy/term/5779
[3] http://www.bbc.co.uk/news/world-18456131
[4] http://www.bbc.co.uk/programmes/b01jmx0p
[5] http://www.adamsmith.org/sites/default/files/images/uploads/publications/fortune-account.pdf
[6] http://www.telegraph.co.uk/finance/personalfinance/pensions/9331862/Babies-should-automatically-be-given-pensions-account-thinktank-says.html
[7] http://disqus.com/?ref_noscript
[8] http://disqus.com