

# **ASSET-BASED WELFARE AND POVERTY**

**Exploring the case for and against  
asset-based welfare policies**

Edited by Claire Kober and Will Paxton



**END CHILD POVERTY**  
once and for all

# End Child Poverty

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## About the authors

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## Foreword

There is, perhaps for the first time, agreement across the political spectrum that ending child poverty is a laudable goal. The political debate has shifted and there is an acceptance of the need to help the vulnerable and deal with the root causes of society's ills. This is all a far cry from the days when 'poverty' was a word that could not be spoken, Ministers denied its existence and some even denied that there was such a thing as society.

Whilst there is agreement about the problem, the challenge is to develop an effective policy response. Boosting the incomes of the worst off will always be at the core of any anti-poverty strategy. However, policy makers need to be aware that poverty is a multifaceted problem and therefore requires an integrated response across a range of policy areas.

This is why End Child Poverty has been holding a series of seminars examining different aspects of poverty. Previous seminars have discussed child poverty and health, the tax and benefits system and supporting poor families. The papers in this pamphlet were presented at a joint End Child Poverty/ippr seminar, which explored the merits of an asset-based approach to tackling child poverty.

Asset-based welfare is a new but growing area of debate in British welfare policy. At its core is the view that people's welfare is best understood by measuring income and assets. The Labour Government has announced two explicit asset-based policies: the Child Trust Fund, better known as the 'baby-bond', and the Saving Gateway, which is currently being piloted. Though very different in structure, these policies have the common aim of allowing more and ultimately all people to accumulate a financial asset.

The contributions to this publication offer a range of different perspectives on the importance of asset-building and its relevance to an anti-poverty strategy. Three of the chapters are broadly supportive of asset-based welfare, while two are more sceptical.

The supporter's case is made by Mark Latham, the Australian shadow minister for Economic Ownership; Michael Sherraden, a US academic; and Will Paxton, from ippr. Mark opens the publication by placing the debate in a broader context. He argues that spreading economic ownership is one of the central challenges faced by modern states. Michael Sherraden, who has worked closely on the implementation of asset-based policies in the United States, outlines some of his experience and argues that there is a strong case for complementing existing provision with asset-building policies. Finally, Will Paxton discusses how assets could be directly related to debates about poverty.

The counter-argument is put by Martin Barnes of the Child Poverty Action Group and Matthew Wakefield from the Institute for Fiscal Studies. Martin makes some specific criticisms of some of the US evidence and argues that Government should prioritise increasing incomes and not asset-building. Matthew analyses in detail the two Government proposals and suggests that they have drawbacks and that other forms of intervention could be more effective.

The contributions to this publication give a unique overview of the current debate about asset-building and raise some important questions about the relationship between asset-based welfare and ending poverty. As such their publication makes an important contribution to the debate on asset-based welfare and its role in broader social policy.

*Graeme Brown, Development Director  
End Child Poverty*

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# **Economic ownership – expanding the winners' circle**

*Mark Latham*

I have spent most of this year talking to people about economic ownership and assets. The response from the general public has been positive. People know that in affluent nations, assets are important. For families, they provide a sense of security, something to fall back on in tough times. For young people, they offer opportunity and a flying start to life. For the working class, assets are the key to a dignified life. They tap into the traditional values of pride, effort and thrift. Most importantly, they allow people to leave something better for the next generation – reflecting our natural urge to create a nest egg for our children.

In recent decades Australia and other western countries have been through an ownership revolution. In the 1950s, 60s and 70s the ratio of household wealth to disposable income never moved. It flat-lined at around 400 per cent. Then in the mid-80s everything changed. The deregulation of the financial system opened up a new generation of economic opportunities. Share ownership, business ownership and bigger and better home ownership. Australia's wealth-to-income ratio is now 600 per cent.

Assets have become a regular part of our economic culture. People are no longer content to leave their savings in passive bank accounts. They want their money to work for them, turning over and trading up as often as possible. Even the family home has become a tradable economic asset. The Sunday papers have become a weekly real estate guide, with a suburb-to-suburb breakdown of property values. This reflects the changing nature of aspiration. We live in a more dynamic and mobile economy, where people with skills and determination can quickly climb the ladder of opportunity.

Working Australians have had a taste of economic ownership and they want more. Not the cars and refrigerators that their parents aspired to but real economic assets, such as equity investments, business ownership and financial nest-eggs.

## **Economic equality**

Currently around 60 per cent of Australian households are significant asset owners. But this is not enough. We should aspire to universality and the ideals of a stakeholder society. This is why we want ownership for all; not 60 per cent but 100 per cent. The problem with the ownership revolution is that it did not create enough owners. This is the key to economic equality in Australia and around the world. While much of the public debate deals with income-related issues, such as changes to the industrial relations system, taxation policy and social security, the real action is on the assets front.

The distribution of wealth is a far bigger problem than the distribution of income. While the top 20 per cent of Australian households earn 38 per cent of the nation's income, the bottom 20 per cent earns 8 per cent. The distribution of assets, however, is twice as bad. The top 20 per cent of households own 65 per cent of Australia's wealth, while the bottom 20 per cent own nothing at all. Asset inequality has a huge impact on people's life chances. Ownership gives you a stronger sense of self-esteem and belonging. It provides the economic security from which people can take risks and accumulate further wealth. Internationally, research studies have linked holding assets to stronger health outcomes, higher education attainment and greater community participation.

While self-evidently asset depreciation is a cause of poverty, the problem runs far deeper. Without a sense of ownership and self-esteem, poor families lose direction and hope for the future, thereby entrenching the poverty cycle. The problems of one generation are passed on to the next. I can take you to parts of my constituency of Werriwa, where families are into their third and fourth generation of poverty and despair. At the other end of the scale, it is a different world. Ownership is taken for granted, as family inheritances pass on the benefits of asset accumulation and expensive education. In a buoyant economy, these intergenerational differences are wider still. Inheriting a home in Sydney or Melbourne, for instance, has become the equivalent of winning the Lotto. As asset prices continue to grow, people outside the ownership tent are left further behind.

Generational effects are a primary source of inequality in our society. It is impossible to achieve social justice without first tackling them. Government policies need to break the asset poverty cycle and the absence of inherited wealth in disadvantaged families. We need to replicate the process of asset transfer that occurs in wealthy families within poorer households.

In the past, public policy has encouraged a limited range of financial assets, such as home ownership and superannuation (pensions saving). These schemes, however, have been available to everyone bar the poor. It seems surreal that the left has tolerated such a massive inequity. It has been happy to pay income support to the underclass and asset support to the middle class. Indeed, means-tested payments have actively discouraged asset accumulation. If welfare recipients save more than a small amount they become ineligible for income support. Not surprisingly, these arrangements have made the poor welfare dependent and the rich asset dependent. In this way inequality has been institutionalised in our society. The true left-wing policy is to give low-income earners equal access to asset support because the best type of welfare safety net is a trampoline.

The new role for government is to facilitate asset accumulation among the victims of poverty and economic insecurity. It needs to develop a stakeholder welfare state, in which all citizens have access to various forms of capital. Each of its welfare programmes needs to include an asset-building strategy for the disadvantaged. Stakeholder democracy aims to reduce the underlying causes and extent of inequality by affecting the distribution of assets. If the market system produces less inequality to begin with, the task of income redistribution is not as severe. The welfare state can be more preventative and enabling, rather than just reactive and passive.

Recently the National Centre for Social and Economic Modelling (NASTEM) produced a report highlighting the equalising role of stakeholder policies. If the money from Australia's superannuation scheme is discounted from the nation's asset base, then wealth inequality has increased sharply over the past 15 years. When these superannuation assets are included in the calculations inequality has not moved. Against all international trends and expectations, the situation has not worsened. This is the bell-ringer for the left. Social justice relies on giving Australian workers an ownership stake. Not just in their retirement years, but through all parts of the lifecycle. A nation of asset-owners is an egalitarian nation.

## **Policy proposals for Australia**

Economic ownership is an important part of the Australian Labor Party's policy review. Already this year, we have announced a number of new initiatives to help people save and accumulate assets. I recently outlined two initiatives, both of which will now be developed in more detail.

The first is the creation of Nest-Egg Accounts similar to the UK’s proposed Child Trust Fund. It will be a savings plan through which families can provide for the future needs of their children. We want to ensure that as young Australians turn 18, they have a nest-egg or endowment of resources behind them. There can be few things worse in our society than moving into the adult world without skills, without savings and without hope for the future. Yet this is the prospect that thousands of young people face every year. It is one of the reasons why inequality is so entrenched. Some families pass on shares to their children while others have nothing more to offer than a lift to the social security office. Nest-Egg Accounts aim to break this cycle and to give young people a flying start to their adult lives. The endowment could be used for a range of purposes, such as Higher Education, home ownership or small business start-ups.

This is a program that takes young people seriously, providing adult resources as young people move into adulthood. It also backs the strong desire of parents to pass on assets and resources to the next generation. It follows the principle of mutual responsibility; government provides an endowment for each newborn child but then the families themselves are expected to add to the accounts. It is the youth equivalent of superannuation, a long-term savings plan at the other end of the life-cycle. Just as we want older people to be secure in their retirement, we need to give younger people some peace of mind and encouragement for the future.

Based on the British experience, it is envisaged that Nest-Egg Accounts will be based around the following principles:

- provision of government seed funding for newborn children, with some top-up funding later on;
- eligibility for the accounts will be means-tested;
- additional contributions will be payable by family members, with strong tax incentives;
- assets will be invested in the managed funds industry, enjoying the benefit of diverse portfolios and compound interest;
- there will be no access to the accounts until the child is 18;
- financial education will be provided as the accounts develop, creating a culture of savings and financial responsibility among young people.

A second policy proposal is for the establishment of Matched Savings Accounts; a new way of encouraging poor people to save for home ownership and their children’s education. This will be similar to the Saving Gateway in the UK and Individual Development Accounts in the US. One of the mistakes of the welfare state has been to underestimate the capacity of disadvantaged people to save. The US experience has shown that the poor can save and invest, once they receive the right kind of incentives. This process, in turn, creates spin-off benefits in terms of self-esteem, health and career prospects.

The Australian Labor Party wants to develop a national program of Matched Savings Accounts. We want to work with the welfare and corporate sectors to find new solutions to poverty. Asset-based welfare is achieving results in other parts of the world. It is time for Australia to catch-up and tackle the root causes of poverty, fostering self-esteem and self-reliance through savings.

## **Conclusion**

More than ever ownership matters. It is fundamental to working class culture and people's aspirations for a better life and the transfer of assets and opportunity to the next generation. The left should aim to build on existing achievement, such as the superannuation scheme in Australia and extend the reach and purpose of institutional investment. The objective is to provide savings and asset opportunities across the life-cycle. As families plan and provide for their children's future, as young adults enter the home ownership market, as people meet the costs of life-long learning, as workers move in and out of jobs and then into retirement. We want to create a new era of mass ownership and equality.

Asset-based policies aim to move with the tide of economic change. The new economy is placing a premium on asset accumulation. This is a new benchmark against which the notion of social inclusion needs to be measured. A good society has each of its citizens actively participating in the benefits of financial, human and social capital. The purpose of a modernised welfare state should be to assist this process.

# From a social welfare state to a social investment state

*Michael Sherraden*

Income support has been the signal idea of the Social Welfare State. It is an industrial era approach which has led to the primary policy instruments being social insurance and means-tested income transfers. Income support, on its own, was an effective policy when the economy offered many long-term, stable, and, by today's standards, low-skilled jobs. Income support has maintained people when they did not have income from industrial production, but it has not enabled them develop. In short income support is a *passive* social policy.

The economy in which income based policies were sufficient is passing. Labour markets are less stable. In order to be employed, people will have to make decisions and invest in themselves throughout their lifetimes. In this new economy, people must be in control of resources and, in effect, make their own social policy decisions. What is needed in this post-industrial economy is an *active* social policy, one that promotes engagement.

We say that people have assets when they accumulate and hold resources for the longer term. When this happens it has many positive effects for individuals and families (not merely deferred consumption). These positive effects include greater long-term thinking and planning for the future, increased participation in the community and investments in oneself, financial products, property, and enterprise for greater returns. Widespread asset holding promotes engagement in the economy and society.

While income, used for consumption, is the standard measure of poverty, it is important to recognise that it is not income which allows people to improve their situation in the long-term. Development occurs through asset accumulation and investment. Of course income-based policies must remain in place. Indeed in many cases boosting incomes and introducing asset-based policies are complementary and asset-building should not be seen as a replacement for existing provision. However, without some emphasis on assets people will not be given the maximum opportunity to realise their potential and escape poverty.

In response to a changing economy, asset-based policy is already occurring. This can be seen, for example, in the introduction of various forms of pension accounts held as individual assets. Asset-based policy is a major social policy transformation, occurring in many countries, including the United Kingdom, though it is as yet little recognised. Although sometimes called "privatised" accounts, the state is a major participant in this new asset-based policy. Indeed, the state is leading the way by defining these policies, regulating them, and providing tax benefits as subsidies for asset accumulation. What we are witnessing could be characterised as a transition from a Social *Welfare* State to a Social *Investment* State.

Although this shift is occurring, not all of society is benefiting. The poor, who do not qualify for the tax benefits, are usually left behind. The distribution of tax relief is extraordinarily regressive both in the UK and the US. The well-off get almost all of the benefits. In the US over £300 billion is annually spent on tax expenditures for middle-class asset-building. Astonishingly over 90 per cent of this goes to households with incomes over \$50,000 (approximately £30,000). Thus, the state is, perhaps unwittingly, becoming part of the structure of asset inequality. In effect what we have at the moment is a dual policy – heavily subsidised asset-building for the non-poor and income transfers for the poor. This allows the wealthy to invest and develop their capacities but means that too often the poor, though having their income maintained, are unable to develop out of their poverty.

## **Experimentation in the US – Individual Development Accounts**

The challenge for policy makers is to develop strategies that spread the opportunity to accumulate assets to more people and ultimately the whole population. Across the globe there are some interesting and innovative developments and thinking which have led to progressive and inclusive asset-building policies being announced and implemented.

In the US, we have been experimenting with progressive asset-based policy in the form of matched saving accounts, called Individual Development Accounts (IDAs). These are programmes operated by local community based organisations that offer appropriate structures and incentives allowing low income Americans to accumulate an asset. The main incentive is of course the match. The level this is set at differs from programme to programme. Though sometimes it is as high as 5:1 the average level is approximately 2:1. When people have accumulated an asset there are only certain things they can spend the money on. This includes home ownership, micro enterprise and education.

Part of the rationale for designing IDAs in this way can be found in an alternative theoretical perspective on saving. Neo-classical economists argue that people save when they value future consumption over current spending. In other words such economists give primacy to individual preferences. Supporters of IDAs believe that this is too simplistic and misunderstands the process of saving. Instead of looking merely at individual preferences we also need to account for *institutional* structures.

Factors affecting saving may include the expectations placed on people; the incentives provided; information available; how easily accessible savings opportunities are and the facilitation of ongoing saving. All these factors feed into the design of IDAs. There is an expectation on people with monthly savings goals; the incentives are appropriate and real; information and education are provided as an integral part of the programmes; because the programmes are provided by local community based organisations they are accessible and it is more likely that people will continue to save.

IDAs are an integral part of an emerging anti-poverty strategy in the US. From being only a proposal in 1988, today there are now over 400 programmes operating. More than forty states now have some type of IDA scheme and there is currently legislation before Congress, which would lead to a large scale rolling out of the policy. With widespread and bipartisan support there is a good chance of this being passed in the near future.

## **Lessons from Individual Development Accounts**

Our experience with IDAs has fed into the development of the Saving Gateway in the UK. In the US an extensive program of research has accompanied the introduction of these programmes and we are learning a lot. A major IDA demonstration known as the American Dream Demonstration (ADD) has been organised and implemented by the Corporation for Enterprise Development. The research program for ADD has been designed and implemented by the Center for Social Development at Washington University in St. Louis. There are a few particularly important lessons, which should aid policy development in the UK.

Firstly, even the very poor can save within an appropriate structure and given adequate incentives. In IDA research, we find that 2,400 participants on average make a deposit in six of every 12 months and have net savings of \$19 per month. With the average match rate of 2:1, asset accumulations are \$680 per year. (These average figures include all non-savers and dropouts. Savers have higher sums.) It is noteworthy that IDA participants of very low incomes (under 50 per cent of the

poverty line), controlling for other factors, save as successfully as IDA participants with greater incomes (up to 200 per cent of the poverty line). In other words, those with very low incomes save at a higher rate, a finding that is stable and consistent throughout our IDA research (Clancy, M, Schreiner, M and Sherraden, M, forthcoming).

Secondly, although the sums accumulated can seem small, they are meaningful for impoverished households. Among those who have used their savings, 28 per cent have used them to help make a home purchase, 23 per cent have used the funds to start up a small business, and 21 per cent have used the funds for education. We are seeing a real investment in people's lives and real changes to their prospects and chances of permanently escaping poverty.

Thirdly, IDA participants are very positive about the program. Many say that it has enabled them to 'visualise a future' and provides a 'way to reach goals' (Sherraden, M and others, forthcoming). Participants also speak of being in greater control of their lives and having a greater sense of security, which fits with the theory that holding assets has advantages beyond deferred consumption.

Fourthly, the character of the locally delivered programme itself is important in affecting the success or otherwise of individual savers. The quality of local provision and education provided is extremely important. For example, a community-based organisation that knows its local population and is trusted by people will be more successful. Similarly if programmes are strongly goal-orientated then they are more likely to be a success. Although people might not like the restrictions on the uses to start with it becomes a positive thing as people aim specifically to spend the money on certain things. Here, of course, there is an interesting difference between IDAs and the Saving Gateway, which has no such restrictions.

## **The next steps**

In the US there is now an active debate about how to implement asset-building policies at a larger scale and reach more people. IDAs remain locally based and geographically targeted. The vision is of a fully inclusive system which covers the whole country and to which all people on low incomes would be eligible. There is currently legislation before Congress. We have also had various proposals from both Democrats and Republicans for large-scale asset-building policies. President Clinton proposed perhaps the most ambitious when he outlined Universal Saving Accounts (USAs) in 2000. This would have matched the savings of all low-income workers and then allowed them to save it for both retirement and pre-retirement uses, such as education.

USAs died mainly for political reasons. The ambitious desire for large-scale policies remains though and both presidential candidates in 2000 proposed schemes. The Bush version is for individual accounts in social security, a controversial proposal that has withered with the decline in the stock market. It will, however, almost certainly be resurrected in the years ahead. It is very popular with younger Americans. The most critical issue is whether the poor will receive subsidised deposits into their accounts.

If we are to include all of the poor in asset accumulation policies then vision and leadership will be required. Inclusion of everyone in asset-based policy will reduce social inequality and divisions and increase economic activity and growth. In the Social Investment State, there is not a trade-off between redistribution and growth. Promoting and subsidising asset holding by the poor can contribute to growth in the long-term. Indeed, inclusion in asset-based policy is likely to be a key to social and economic progress in this century.

## **Focus on children – the Child Trust Fund**

Asset holding may make the most sense in the case of children. This is true for several reasons. First, asset building is a long-term process. Starting early will result in greater accumulations. Second, asset holding probably changes outlook and attitudes in positive ways and we know that it is far easier and more effective to change outlook and attitudes earlier rather than later in life. Third, the whole family can be engaged around asset-based policy for children. Parental expectations for children will be changed. Parents themselves may learn from this process. Finally, this is the most direct and effective way to alter class reproduction and prevent intergenerational poverty. One generation's inequality of outcomes need not be the next generation's inequality of opportunity.

The proposed Child Trust Fund will reduce class divisions, increase opportunity, spark individual engagement and initiative, and increase both economic growth and active citizenship. Given the transformation from Social Welfare State to Social Investment State, the Child Trust Fund is perhaps the single most important policy that could be enacted. This proposal would go a long way toward achieving the core goal of asset-based welfare; the inclusion of the whole population in asset-building. Asset-based welfare would have positive outcomes for families, children, and for the nation as a whole. Not least, the Child Trust Fund would enable more children in the UK to grow up without their future being blighted by poverty.

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# Assets and the definition of poverty

*Will Paxton*

There are a number of arguments put forward for thinking about asset-building strategies. Many of these revolve around enabling people to cope with change and to take opportunities. It is argued that assets or stocks of wealth provide financial security and allow people to meet lumpy costs. Increasingly in the modern economy, with greater labour market change and family breakdown, people have to meet one-off costs due to periods of change and transition. It is also true that having a lump sum can facilitate investment in future aspirations very directly. Assets allow people to take opportunities, which might otherwise have been closed to them. They could, for example, be used to invest in education or simply to buy a car to get to and from work.<sup>1</sup>

There are three further arguments for asset-based welfare that warrant discussion. The first of these is the worrying trend towards greater wealth inequality and *asset exclusion*. Overall wealth distribution is incredibly unequal. Indeed it is far more skewed than income distribution. What is more, there are signs that inequalities are actually becoming more acute. In 1998 the top 1 per cent of the population held 17 per cent of all personal wealth. By 1999 this figure had increased to 23 per cent (Inland Revenue, 2002).

Perhaps most worrying though, there has been an increase in the number of people who are asset-excluded. That is people who have no wealth whatsoever, be it in the form of housing, pensions or liquid savings. Between 1978 and 1996 the number of people who are asset-excluded doubled from 5 to 10 per cent of the population. The figures are even higher for younger people and for those from low-income groups (IPPR, 2002). Policy makers should be concerned about a growing gap between the 'haves' and the 'have nots' opening up. Unchecked these trends could increase in the coming decades, particularly as some inherit property in prosperous areas like the South East while others merely pass on a tenancy agreement to their children.

Another argument for examining asset-based welfare focuses on what has been labelled the 'asset-effect'. Put very simply this hypothesises that holding assets will change people's behaviour and the way they think about the future. It is classically argued that assets can have a beneficial psychological effect, which has benefits over and above what increased income would provide. As Michael Sherraden has argued: 'income only maintains consumption, but assets change the way people interact with the world. With assets, people begin to think for the long-term and pursue long-term goals. In other words, while income feeds peoples' stomachs, assets change their minds.' (Sherraden, 1991)

There is a growing body of empirical research that supports this argument. The weight of evidence now suggests that it is true that assets have significance beyond their value as stored income. Practical experience in the US with Individual Development Accounts (IDAs) has shown that building assets can have positive psychological impacts. People report having a greater confidence about the future and a feeling of empowerment and control over their lives. More rigorous research on longitudinal data sets has also demonstrated that there are links between assets and later life outcomes such as greater family stability, improved health and better labour market performance. In the UK the most

<sup>1</sup> For further details on these arguments see Kelly, G and Lissauer, R (2000) *Ownership for All* IPPR, London.

significant research into these questions was carried out by the Centre for Longitudinal Studies based at the Institute of Education. One interesting finding from this research was that for the positive latter life outcomes to occur, the asset did not need to be very large (Bynner and Paxton, 2001).

Another reason for being interested in assets concerns our definition of welfare. In the past welfare, and by extension poverty, has been measured predominantly in terms of income. However, there is increasing recognition that this does not present a nuanced enough view of human welfare. Assets and wealth should be considered part of any definition. Just as any accountant worth his salt will measure the health of a firm by examining its cash flows and capital stocks, a fuller measure of human welfare should include people's income (their cash flows) and their asset-holding (their capital stocks).

### **The Child Trust Fund and Saving Gateway**

For these and for other reasons the UK Government has developed two explicit asset-based welfare policies. It is important to stress that these policies are not the sum of an asset-based approach and that a coherent, progressive asset-building strategy across public policy would involve a number of new policies and adaptations of those that already exist. That said, the two policies announced are significant as the first explicit and progressive asset-based policies.

The first is the Child Trust Fund. Very simply it will grant all newborn children an endowment in their own individual account. This will then be invested and accumulate, with the help of additional contributions from the state, parents and extended family until the child turns eighteen. At this point they will be able to access the money and spend it as they see fit. Given that financial education and advice will be closely tied to the account as the child grows up, we would expect the vast majority of people to spend the money sensibly. The overriding aim of the policy is to increase opportunity and grant all young adults a stake in the society in which they live. This will improve life outcomes and ensure that all have a feeling of citizenship.

To complement the universal Child Trust Fund, the government has also announced a targeted matched savings account for low-income adults. The Saving Gateway, as it is called, will be available to all adults under a certain income and will match individual's contributions at a rate of one-to-one up to certain limits. This is not about citizenship, but instead it will attempt to reduce asset exclusion and ensure that more people develop the savings habit. The Saving Gateway is currently being piloted in five different locations around the country (See HMT, 2001 April and HMT, 2001 September for more details).

### **Definitions of poverty – beyond income**

If poverty is merely about income then it might be thought that asset-based welfare, (and the Child Trust Fund and the Saving Gateway specifically), would not have any relevance. However, one thing which is evident about recent debates on the definition of poverty has been the shift away from simplistic one-dimensional views of poverty as a phenomenon measured only in terms of income. In the UK there appears to be little support for an absolute definition of the poverty line, as occurs in the US. Instead we tend to discuss the merits of different relative measures for poverty. The working definition used by the government is 60 per cent of median income.

Recently though there has been increased interest in non-monetary factors and recognition that poverty is too complex to be captured by income alone. We can see this in the terminology that is now used. Often where we might have said 'poverty' in the past, policy makers now talk about 'social exclusion'. This, it is

argued, better captures the multifaceted nature of deprivation and poverty. Already in Ireland and at the EU level deprivation indicators have been included in definitions. It has also been recognised that depth of poverty should matter as much as the numbers of people in poverty. Similarly, the length of time people spend in poverty is also important. Those who simply fall below an arbitrary income level for a short period of time are not going to be as disadvantaged as those who have had to live under a certain income for a long period.

### **Assets and the definition of poverty**

Given that there has been this debate on the definition of poverty and a shift away from income, the questions arises; what role should assets play in debates on poverty? There is some empirical evidence to suggest that assets should be accounted for. Research from Ireland has shown that those below half average income looked less 'poor' than those below 60 per cent of average income but at the same time reporting basic deprivation. This basic deprivation could be in a number of forms including financial strain and degrees of fatalism. However, importantly the other factor which was significant in spotting the truly deprived and 'poor' was levels of savings and assets (Nolan, 2001).

More fundamentally asset-based approaches could allow people to escape poverty or prevent it before it happens. It is often argued by proponents of asset-based welfare that higher income, on its own, will not allow people to escape poverty. It will simply maintain people, at best, just above the poverty line. It will not allow them to 'get on' and move into a long-term sustainable situation above any poverty line. Similarly, it is argued that having assets can protect against falling into poverty in the first place. Amartya Sen, who has worked mainly in the development context but whose ideas are relevant for the developed world, has argued that possessing assets can reduce people's vulnerability. With a buffer to fall back on in difficult times people are able to adapt and protect themselves. Even if assets should not form part of the definition of poverty, they should still be considered an important part of the solution to poverty.

So in summary, there has been a shift away from income as the only measure for poverty. There is a strong case for any definition of poverty to reflect a view of 'welfare' which is more nuanced and includes assets. Second, assets could also be a better reflection of permanent real poverty, which is what we are most concerned about. Those who only fall into poverty for a short time are less likely to have to run down all their assets and less likely to suffer poorer outcomes later in their life. Thirdly, assets should be seen as part of preventative strategies to reduce poverty.

It is also worth pointing out that savings and assets being part of a definition of poverty actually chimes with the public's view. It might be thought that people would say that savings should not be considered essential. However, the Joseph Rowntree Foundation/New Policy Institute Poverty and Social Exclusion Report found that 66 per cent of the public thought that having regular savings of £10 a month was necessary for all households (Rahman et al, 2001).

### **The Child Trust Fund, Saving Gateway and poverty**

Much debate has focused, not on the issues just discussed, but on the impact that the Child Trust Fund and Saving Gateway will have on poverty. Again it is important to note that if any one of these specific policies does undermine poverty reduction aims and people therefore believe them to be undesirable, that does not mean that asset-building more broadly understood should be rejected. There are a number of ways of ensuring that people can build assets and some may be more appropriate than others in certain circumstances.

There has been some criticism of the Saving Gateway. It is argued that because it relies on people saving that it could actually increase poverty in the short term as people go without. I think that there are good arguments against this view but even if you accept it as a valid argument this should not mean that asset-based approaches are all bad.

In defence of the Saving Gateway a number of points can be made. Firstly, the evidence from the US suggests that people on low incomes can save and that they do so first-and-foremost from increasingly budgeting their money or working more. UK research also supports this. Studies by the Personal Finance Research Centre found that when examined over a period of time, non-saving is virtually non-existent, even among those on low incomes. It is also true that people already manage fluctuations in their consumption and sometimes have to meet lumpy costs. However, at present they do this largely through the use of expensive and, too often, extortionate credit. Thirdly, it should be stressed that any saving into the Saving Gateway is voluntary. No one is being forced into anything. Finally, and perhaps most importantly, it seems churlish to try and tell people on low incomes what they should be doing with their money. Just like wealthier individuals they should have the option of saving and this requires that appropriate structures and products be put in place.

Finally, the Child Trust Fund. If our definition of child poverty is based on an income measure, or one that includes only certain deprivation indicators as the child grows up then the Child Trust Fund will make no impact. The significance of the policy is more in terms of the longer-term opportunities and life chances of children. It's supporters claim that it will challenge intergenerational poverty and reduce the chances of people falling into poverty later in their lives. It may not directly affect today's poverty levels but in the long run it could be an effective way of preventing poverty.

## Conclusion

If the government is to realise their goal of abolishing child poverty by 2020 existing policies will not be sufficient. Boosting the income of families and encouraging more people to enter work will help many, but it does not provide the whole answer. A variety of different policies will need to complement each other. An important part of any long-term and fundamental attack on the root causes of poverty should be a concentration on asset-building. There is increasing practical and academic evidence that holding assets is important in improving life chances. This needs to be recognised and fed into the ongoing struggle to both reduce current and prevent future poverty.

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# Reaching the socially excluded?

*Martin Barnes*

A twenty year target to eradicate child poverty provides the opportunity as well as the challenge to look at policies for the long-term. Poverty is a complex issue, particularly when seeking to understand and address matters such as attitude and behaviour.

On the issue of child poverty we cannot be politically neutral. The debate is driven, sometimes held back, by differing values, beliefs and ideology, but also different views on the relevance of economic and institutional structures and relationships. There are fundamental structural reasons why poverty and inequality exists, but understanding cause and affect, let alone coming up with solutions, is not easy. We must take advantage of the commitment and passion to tackle child poverty by being ambitious, risk-taking and optimistic. But as important we must recognise that there is no one magic wand. We must avoid the appearance of hype and false hope.

The objective to encourage and support families to save and acquire assets is right. However, despite the focus on supporting poor families, some feel a deep sense of unease and uncertainty about asset-based welfare. It is an unease that we have to face up to. So what are the reservations on asset-based welfare?

## Assumptions and judgements

There are concerns about the assumptions and judgements that some supporters of asset-based welfare hold. For example, about the efficacy or legitimacy of a welfare system delivering income transfers. Whilst asset-based welfare can be a positive response to poverty and inequality, there are worries that in delivering partial solutions, it might become a distraction or diversion from addressing root causes. Asset-based policies could fill the space needed for more radical solutions.

It is also likely that there were time-specific reasons why asset-based welfare started to gain support during the 1990s. When they were first proposed the stock market was at record highs. Things have changed. It is perhaps ironic that attention is being given to how the poor can be encouraged to acquire assets, when western economies are now beginning to pay the price for the excesses of the 1980s and 1990s. Ironic, too, is the fact that some central banks and governments want consumers to spend, not save, to maintain growth and avoid the risks of recession.

This could be the third consecutive year in which the stock market has fallen, the first time this has happened post-World War II. In the 1980s and 1990s the talk was of 'share owning democracy'; private pensions linked to a booming stock market; unprecedented windfalls from demutualisations and the floatation of newly privatised companies. The 'asset rich' had never had it so good. But even if the good times are only temporarily over, the ripple effects of the bursting of the asset bubble might last for far longer. Witness the growing crisis in private and company pensions with a steep falling off in confidence in the Financial Services industry. The implications of this for asset-based welfare seem not to have been thought through.

## Complementing existing provision?

Advocates of asset-based welfare argue that it should complement existing welfare provision. This, however, is by no means the shared view of all. Some support

asset-based welfare on the premise that so called traditional welfare systems and income transfers have failed. 'Benefits breed dependence – assets build hope'. We must be alert and not naïve about the political context, both today and in the future. Asset-based welfare could become a Trojan horse for undermining existing welfare provision.

We must remember that so-called 'dependency' on benefits is not the fault of the poor, but instead is due to the loss of employment, discrimination, low pay, structural changes in the labour market and lack of investment in developing skills and training. In response to the claim, sometimes made, that increased welfare spending did not reduce poverty, it was often because the numbers of people living in poverty increased for the reasons listed above. On any debate on welfare, stereotypes and prejudice lurk in the shadows. Commentators and politicians are ready to marginalise and demonise or to encourage 'wedge politics' and 'downward envy'. If it no longer works to attack the poor, then undermine the systems that support them.

### **Can the poor save?**

Supporters of asset-based policies claim that the poor can save. Many find this counter intuitive. It invites the response: 'If they can afford to save, can they be poor?' The assertion may also surprise the half of lone parents on income support who are repaying social fund loans. It may also surprise the families who lack sufficient income to provide necessities for their children. The two million plus children who, according to the Breadline Britain survey (Gordon, D and Pantazis, C, 1997), go without two or more items such as a properly fitting pair of shoes, a warm home or a weekend holiday once a year. Claims that the poor can save should be handled with extreme caution.

The reasons why people save are complex, with different theories, differing assumptions and conclusions. Whilst there are unquestionably psychological factors that influence motivation and attitudes towards saving, economic factors must ultimately be the key determinants. This is not to say that strategies to influence behaviour are invalid or cannot work, but instead to emphasis that immediate needs and the means to meet them are largely dictated by resources in the form of cash. It is difficult to find the means to save for a rainy day if the roof is already leaking and the walls are damp.

In the document launching the Child Trust Fund and Saving Gateway the Government stated that the poor currently do not save due to "apathy, inertia or lack of information". These factors might have some impact but they do not account for the simply barrier of lack of income. If it is simply income poverty which means the poor are unable to save this begs the question as to whether a more appropriate policy response is simply to increase incomes.

### **Limitations of US evidence**

When drawing on US evidence to support asset-based welfare we must account for two things. First we must factor in the very different history and values towards welfare in the US context. Secondly, there are some question marks over the evidence from Individual Development Accounts(IDAs).

A research organisation called ABT Associates carried out an evaluation of asset-based welfare programmes for the US Department of Agriculture's Food and Nutrition Service (ABT, 2000). Published in February 2000 the report provided an objective and thorough assessment of asset-based welfare programmes, but has received relatively little attention in the UK. They concluded that:

*Although there appears to be no lack of attention to (asset accumulation initiatives), such initiatives have simply not been active long enough for a body of impact research to evolve. Moreover, there exists no body of theoretical literature on asset accumulation incentives...The literature does not address the issue of how (accumulated) assets were obtained (via incentives or not) or what the effect of incentive mechanisms might be. Thus a major point of the analysis of the literature is that because of those gaps, we are left to largely infer the implications of this work for asset accumulation policy specifically.*

The aim of IDAs is to turn savings (cash) into non-liquid assets. The ABT report argues that there is insufficient research to examine the mechanisms by which savings are transformed into assets. It cannot be assumed that people with cash want to turn them into non-liquid assets. Poor people might prefer to have assets available for the explicit purpose of meeting immediate needs such as emergencies. The ABT report suggests that poor households would be reluctant to 'lock-up' their entire cash savings in assets which are non-accessible and non-liquid.

In short we need to know more about the how and why assets are obtained. The risk with asset-based welfare is that we can jump from agreeing that having assets is a good thing straight to introducing policies to encourage the accumulation of assets, with insufficient knowledge of the process in between.

The ABT report goes on to look at the literature on the consequences of accumulating assets. It argues that 'there are some important limitations in this body of literature. First, the interpretation of results is often ambiguous because the direction of causality is unclear.' Although many studies conclude that assets cause particular changes, such as higher self-esteem and household stability, it is equally plausible that such factors are the determinants, not solely the outcomes, of asset accumulation.

Another shortcoming of the research literature is that it tends to treat all forms of assets as the same, whereas in reality different types of assets have very different effects on outcomes. It is not a case of 'one size fits all'. I would suggest that any policy responses must reflect and be sensitive to this fact. Indeed, some studies have cast doubt as to whether ownership of non-liquid assets is entirely positive. Ownership of a home or business can restrict mobility and maintenance can drain resources that would otherwise meet other needs. Assets alone do not provide clear routes out of poverty.

The ABT report concluded that the literature on asset-based initiatives for the poor is 'small and incomplete'. On assets accumulation initiatives explicitly, the literature 'virtually non-existent'. Although there are significant difference between the Savings Gateway and IDAs some conclusions listed above are still relevant and should act as a warning to UK policy makers.

## **What should the priorities be?**

Conservative estimates have put the cost of a Child Trust Fund at £300 million a year (IPPR, 2002). Any asset-based policy should be considered against the existing 'to do' list. Where else could the money be spent? The most pressing need in my view is for reform of the social fund. It is now a year and five months since the then Social Security Select Committee published a detailed and considered report on this issue (DWP, 2001). The cross-party committee concluded that unless radically reformed the social fund would undermine the Government's strategies to tackle child poverty and social exclusion, that the social fund needed an urgent overhaul and injection of cash. While we talk about incentives to save, the evidence that families are struggling will be demonstrated today at social security offices across the country. Perhaps this should be our priority.

## Conclusion

Research on the effects of income poverty reveals measurable and significant negative outcomes for children. Children living in income poverty are: less likely to do well at school; less likely to stay on at school after 16; at greater risk of low pay and unemployment later in life; more likely to become drug or alcohol dependent; as boys more likely to get in trouble with the police and as girls more likely to become a parent at a young age. This is before addressing the stigma and embarrassment that living in income poverty can cause. How far can a Child Trust Fund or Savings Gateway mitigate or neutralise these outcomes? Can the support for low-income families delivered through asset-based welfare be sufficient to make a significant sustained difference? This is why we do not criticise the principle, but are cautious as to whether in practice the outcomes will be as significant, politically risk free and sustainable as claimed.

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# **The Saving Gateway and Child Trust Fund: A critique**

*Matthew Wakefield<sup>1</sup>*

In April 2001 the Government announced two asset-based policy proposals: the Saving Gateway and the Child Trust Fund. This paper will provide a critique of both policies, outlining their main features and discussing the potential advantages and disadvantages of an asset-based approach to welfare reform.

## **The Child Trust Fund**

The stated aim of the Child Trust Fund is to ensure young people are 'able to embark on their adult lives with a financial asset to invest in their future' (HMT, April 2001). If the policy were introduced in the form envisaged in Government consultation documents (HMT, April 2001 and HMT, September 2001), then the Child Trust Fund will be a universal policy. An account would be set up for each newborn child and the Government would pay an initial contribution into each account. The size of this initial contribution would depend on a means-test, but all children would receive something: the scheme exemplifies what the Government is calling 'progressive universalism'.

If the size of endowment is as in the example quoted in the Government's initial consultation document then poorer families would have an initial endowment of £500 at birth with additional £100 state contributions at the ages of 5, 11 and 16. If the child came from a family with higher-income, then they would only have £250 placed in their account at birth and subsequently only £50 at the ages of 5, 11 and 16 (HMT, April 2001).

It would be possible for the child or family and friends of the child to make supplementary contributions to the account. Up to some annual contribution limit, possibly of £1,000, the growth of these contributions could be exempt from tax in a similar way to the method that applies to the growth of funds held in Individual Savings Accounts (ISAs). Other features of the Child Trust Fund might include:

- money held in the accounts can be invested in a wide range of vehicles, including equities;
- neither the child nor their parents or guardians will be able to access assets, including their own contributions, before the fund matures;
- the child will be given access to the funds at age 18 and there will be no restrictions on how funds can be spent;
- financial education, including through the National Curriculum, will be integrated with the accounts.

The Child Trust Fund would benefit the young adults who received an asset that they could spend, and would also help those from low-income families the most. However, money spent on a Child Trust Fund cannot also be allocated to other policies and policy makers need to ask whether the money could be better spent elsewhere. For example, redistributing by paying extra cash transfers through the Child Tax Credit could be more beneficial to poorer families and their children than

<sup>1</sup> The argument presented in this paper is Matthew Wakefield's and does not reflect the views of the Institute for Fiscal Studies as a whole.

giving the resources to children once they have grown up. Families could, if they wanted, save such funds in a child's savings account.

Other interventions could also be more effective than the Child Trust Fund in opening up opportunities to young adults. Spending on primary and secondary education, targeted at less-privileged areas or low-achieving pupils, might be a better way of equipping children to seize opportunities as they enter adulthood. Financial support for children from poorer backgrounds who go into tertiary education might be a better way of making that opportunity available to them.

Perhaps the strongest case for the Child Trust Fund can be made along the lines that the policy might, in addition to providing young adults with an asset, help children to learn about financial assets and forward planning. Even here though, it is possible that financial education on its own would provide better value for money.

## The Saving Gateway

The proposed Saving Gateway would be a new form of savings account available to families (or adults in families) with lower incomes.<sup>2</sup> The Saving Gateway is currently being piloted in five locations in England. Whether it will be rolled out nationally, and what a national scheme would look like, will depend on the results of these pilots. If it is rolled out, key features might include:

- the government will match individual contributions, probably at a rate of 1:1.
- accounts could run for either three or five years;
- the overall limit to the amount that will be matched could be around £1,000 and the monthly limit to the amount matched around £25;
- savers will have access to their own funds but not to the matched deposits;
- there will probably be no restrictions on what people can spend the money on;
- financial education will be a key component of the policy;
- the assets will be held in cash deposits.

When the account matures, it will be possible to transfer the funds held into a stakeholder pension or an Individual Savings Account (ISA) without this counting against the annual contributions limit for that savings vehicle.

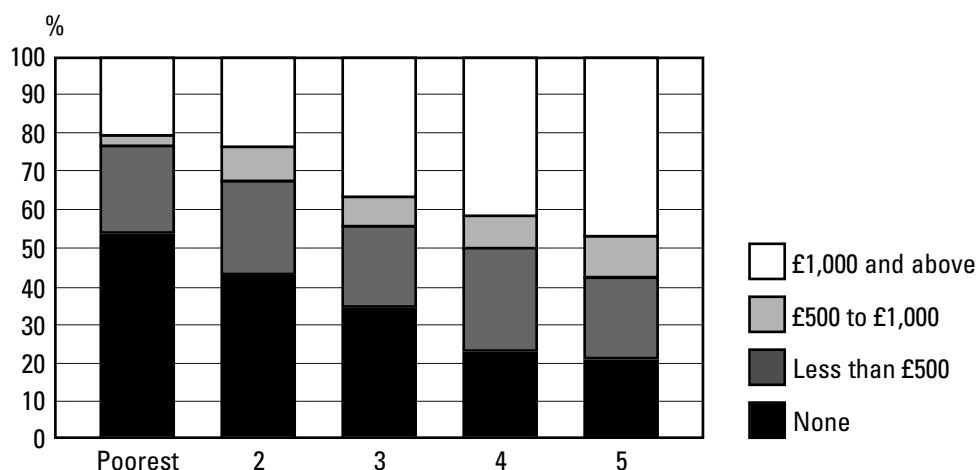
The stated aim of the Saving Gateway is 'to increase rates of saving and asset ownership among lower income households' (HMT, April 2001). Presumably it is hoped that doing so would raise the welfare of the affected households.

There is a danger that the Saving Gateway will not actually create many new savers or much new saving. The chart illustrates that there are already quite a few savers in the kind of households who might be targeted by a Saving Gateway. In the third poorest tenth (the bar labeled 3) of the non-pensioner income distribution, about 44 per cent of people already have more than £500 pounds of financial assets. Moving up the income distribution, about half of people in the next tenth have more than £500 in financial assets. Even amongst those without financial assets, it is not obvious that everyone should be saving. Students would probably prefer to be borrowing against expectation of higher income in the future; those who are temporarily out of work might need to run down any rainy day funds that they have rather than build up new ones.

2 For more details, see Emmerson, C, and Wakefield, M (2001), *The Saving Gateway and the Child Trust Fund: Is asset-based welfare 'well-fair'?*, IFS Commentary 85, Institute for Fiscal Studies: London, (<http://www.ifs.org.uk/pensions/abw.pdf>).

## Are lower income families saving?

The chart shows proportions of households in the bottom half of the UK income distribution (for households with a head aged under 60) with non-pension financial wealth in certain bands. This segment of the income distribution is sub-divided five groups, ranging from the tenth of the population with the lowest incomes up to the ten per cent just below the middle of the income distribution.



Source: British Household Panel Survey, 1995.

The problem with the Saving Gateway is not just that some people in a target income group might not benefit from being encouraged to save and so will choose not to opt in. Those who already have assets might be able to transfer these straight into a Saving Gateway account. Those without might realise that they could profitably 'borrow to save'. A matched savings account effectively pays very high interest, meaning that many people could borrow funds to put into a Saving Gateway, and then have more than enough in the account to pay off their loan. If transferring assets and 'borrowing to save' become prevalent then the exchequer would end up paying out matching money without this creating the new savers and savings that were hoped for.

Again, alternative policies could be better value for money to help people in the Saving Gateway target population. It is likely that an important part of any Saving Gateway scheme will be financial education and information. Money spent on matching could alternatively be used to provide a substantial amount of financial education or information, perhaps through schools or local voluntary sector organisations. Research on whether such education and information is helpful to families in the Saving Gateway target population, or whether it is only helpful when provided alongside financial assets, would be useful.

Another alternative is to allocate money to increasing the generosity of cash transfers paid to lower-income families. Those who wanted to could choose to save such extra income but would also have the option of spending the money on any pressing needs. Support provided in this way would also be available to all those in the targeted income range, and not just those able to find a way to put money into a savings account.

## Conclusion

The Child Trust Fund is a policy intended to support young adults and their families. The Saving Gateway is a policy intended to benefit lower-income families. Both use methods that are somewhat different from traditional forms of support via income transfers or funding of public services. The proposed policies offer

support either in the form of an asset or only if funds are put into a particular asset.

Proponents argue that this new form of support would complement existing provision. However, policy makers always need to be aware of the alternative ways of spending funds. Extending existing programmes could also add to the existing scale of support for young adults or those on lower-incomes. If there is additional money available to spend on policies to help young adults or lower-income families, careful thought should be given to what represents the best way of spending this money.

Only if asset-based welfare policies are judged to be the best use of extra spending should they be introduced. It is not clear that this case has been conclusively made. Some of the arguments presented here suggest that there are concerns with the asset-based policies that have been suggested for the UK, and relative merits of the existing schemes. For example, it is relatively easy to target income benefits at those who currently have low-income. The debate is ongoing, and a full evaluation of the Saving Gateway pilots will help to decide what role, if any, the suggested asset based policies ought to have.

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