

Discussion

Danny Alexander MP:

I am enthusiastic about the possibilities of asset welfare based policies, I feel that returning to this previously held policy would be good for the Liberal Democrats. The UK has both low social mobility and high income inequality. Furthermore research by the Sutton Trust shows that children born in the 1970s are less socially mobile than those born in the 1950s, and that current levels of social mobility are amongst the lowest in the world. This is why these two issues are so key to the Liberal Democrats.

Research has shown that there is a link between the empowerment that comes with asset ownership and the ability to transcend one's social position. So far however Liberal Democrats have seen Child Trust Funds (CTFs) as a gimmick, partially because of the expense and partly because of fears about what people will spend their money on. However, if the Liberal Democrats could find a form of asset based welfare that overcomes these perceived problems, it may well help them better achieve their policy aims of solving the problems of social mobility and income inequality.

Sam Brittan (Financial Times)

It is miraculous that the CTF exists. It was not supported by any of the Labour front bench, but rather insisted upon by two key advisors, whilst opposition parties have roundly condemned it. However, much of their opposition to it has been a knee jerk reaction and they should not continue to do so. Improving asset based welfare is much better than rejecting it.

Asset based welfare stands in a long line of Liberal reforms that include the Land Tax and the minimum income guarantee. However so far it is: 1) too small to make a significant impact 2) badly named, because it benefits young adults and their parents, not children, and 3) too concerned with what people spend their money on, which a true liberal will see as 'none of your business'. The Liberal Democrats must stop opposing it and concentrate on improving it. Resources should not be taken from income tax, but from other sources of capital, such as that generated by the auctioning of 3G mobile phone licenses.

Paul Rowen MP

What is the CTF supposed to achieve? At the moment young people can't afford to buy a house, even 10 years after graduation. Before tuition fees this was less of a problem. Poor parents will not be able to invest a lot into their child's CTF, so will end up with one worth only about £2,100 which is not sufficient to make a dent in the average student debt of £20,000 or more. We need better ways of encouraging saving rather than giving out money that is anyway insufficient to achieve our aims.

David White (Children's Mutual)

I have seen the CTF through from an early stage, I have also worked selling Baby Bonds, the savings package CTFs replaced. The CTF has been a tremendous stimulus to parental savings. People already know that they should be saving, but now more and more of them are actually doing so. For the past two years, half of those parents setting up a CTF with us have also set up a direct debit, and the average saved each month is £24. With the Baby Bond both figures were lower with the average amount saved was £15 per month. The average CTF is, therefore, maturing with around £10,000.

Whilst it is true that take-up of the scheme runs at only 75% this is extremely high and compares favourably with the take-up of occupational pensions for example, which include matching contributions, stands at only 51%. Furthermore, it is not true that only the more wealthy parents are saving for their children's future. Even with those setting up a CTF who are just off 'welfare dependency' 28% are now making regular contributions. There have also been huge benefits in financial education because more parents are dealing with financial instruments such as direct debits, and even beginning to think about stock market prices.

We must not only consider the CTF as helping to pay for university education. £2,100 could help a child learn to drive and perhaps even provide them with their first car, something that makes them instantly more employable and empowered. Young people know that they must spend wisely. Perhaps however more could be done to incentivise certain types of spending - for instance by setting up a mortgage product to help young people use their matured CTF in buying a house.

Baroness Falkner of Margravine

The most significant factor affecting social mobility is education, not asset wealth. Providing people with more assets is relatively small beer. I have an instinctive aversion to state interventions such as this, but I also feel that it would be better to target any extra funding to tackling the problem of housing young people, rather than handing out a cash bonus.

Tim Nichols (Child Poverty Action Group)

We want to help families earn more, rather than providing extra cash for young adults, so I would have to question the priority being given to asset based welfare. Is it really true that people would prefer future assets to present income? I would also like to know whether the amount being saved in a CTF is in-fact directly proportional to parental wealth? On the other hand CPAG is strongly in favour of the sort of behavioural change that the CTF is promoting, empowering individuals and providing financial education. It might be better therefore to stick to the Savings Gateway, which is purely focused on behaviour change and helping families stay away from high interest loans. The Liberal Democrats currently have the right approach: to focus on tackling the entrenchment of poverty and wealth.

Rajiv Prabhaker, LSE

Housing is an issue that comes up often in our focus groups. People are keen to use their CTF to help pay for a house, but that doesn't mean we should deprive them of the choice to do something else with it. On the other hand, there are other asset based policies that could help with this, such as equitable housing stakes. These could be modelled on the same lines as the savings gateway.

Stuart White, Jesus College, Oxford

Whilst it is true that education matters, it is not the only factor effecting social mobility. Research shows that class of origin affects class of destination even when we control for equal levels of educational attainment. At present, the government spends a lot of money both on providing human capital, through education, and on promoting accumulation of financial capital, such as through tax relief for pensions saving. However much of this is not being spent equitably: education spending does not go enough where it is most needed (in the early years), and nor does spending on promoting financial asset accumulation (which disproportionately benefits the better-off). A focus on early years education and more inclusive asset based welfare schemes like the CTF are both important ways of redressing the existing inequity in public spending.

Danny Alexander MP

We can link the CTF into life long savings, for instance, by allowing it to be used as the first contribution to a pension scheme, or a similar personal account that allows withdraws at other significant life stages (such as New Zealand's Kiwi Saver). There are also many other ways of providing asset based welfare that are nothing to do with the CTF, so we don't just have to decide yes or no to that one policy.

David White

It is true that the richer parents are the more they save in their CTF, although there is not a linear relationship between the two. Before the CTF we knew that the rich would provide more resources for their children. However, now the poor are increasingly doing so as well. Asset based welfare schemes allow us to give something to the poor and improve the prospects of self-improvement.

CFTs do have a fixed maturity date of 18 at which money can be withdrawn, though there is some provision for disabled children to withdraw money earlier. This is primarily because anything else just becomes too complicated, especially for those with poor financial education. The CTF is very popular, especially amongst those parents of current 18 to 30 year olds who didn't benefit from it, and who complain that without it they have had to stop saving for their own pensions or take on extra debt.

Sam Brittan

The CTF is not the be all and end all for tackling poverty, but the urge to make it more complex should be resisted. Too much complexity has the effect of distorting the market, as the American Housing situation all too well demonstrates, so there is a virtue in simplicity.