What's the Point of (Something Like) the Child Trust Fund?

Stuart White
Jesus College, Oxford stuart.white@jesus.ox.ac.uk
Outline of presentation for the seminar on 'Asset-based Welfare in Ireland? Lessons from the UK Child Trust Fund', Trinity College, Dublin, March 28, 2008.

The Child Trust Fund

All children get a payment at birth (£250, £500 for poorest families).

Family may save up to £1,200 per year in the accounts.

Funds held in the account until child reaches 18.

Account-holder may use the account as he/she likes at 18.

Tom Paine, *Agrarian Justice*, 1797

- **'…A PLAN FOR MELIORATING THE CONDITION OF MAN, BY CREATING IN EVERY NATION A NATIONAL FUND,**

  To pay to every Person, when arrived at the Age of TWENTY-ONE YEARS, the Sum of FIFTEEN POUNDS Sterling, to enable HIM or HER to begin the World!' (Paine, 1995 [1797], p. 409.)

- 'When a young couple begin the world, the difference is exceedingly great whether they begin the world with nothing or with fifteen pounds apiece. With this aid they could buy a cow, and implements to cultivate a few acres of land; and instead of becoming burdens upon society...would be put in the way of becoming useful and profitable citizens.' (Paine. 1987 [1797], p.483.)

- Did Paine have a point?

Academic ideas in the 1990s

- Bruce Ackerman and Anne Alstott, *The Stakeholder Society* (1999). They argue that every US citizen should receive a grant of $80,000 on maturity, conditional on completing High School and not having a criminal record, financed from a tax on inherited wealth.

- Michael Sherraden, *Assets and the Poor* (1991). He argues that conventional anti-poverty policy is too ‘passive’. He proposes Individual Development Accounts (IDAs): special saving programs for individuals in asset-poor, low-income households in which savings are matched by the government or another party (e.g., in ratio of 1:1 or higher). He claims that the experience of saving has a positive psychological effect, giving the poor a greater sense of control over their lives.

Assets and security

An important feature of poverty is insecurity related to the difficulty of coping with unexpected shocks to expenditure (e.g., the sudden need for a new fridge) or to income (e.g., due to the loss of a job).

Assets increase resilience to shocks and so improve the quality of life (Lister, 2006).

Assets and independence

- An individual has independence to the extent that she/he is able to live without being ‘at the mercy’ of more powerful others (employers, spouses, bureaucrats).
- Independence is compromised when one relies on another – employer, spouse, bureaucrat – for access to a basic income.
- Assets enhance independence by giving one a source of income/consumption that others do not control.
- James Meade: **‘A man with...property has...bargaining strength and a sense of security, independence, and freedom....He can snap his fingers at those on whom he must rely for income, for he can always rely for a time on his capital’** (cited in Ackerman and Alstott, 1999, p.25).

Assets and self-definition

- An important aspect of freedom is power of self-definition (autonomy): the power to reflect ambitiously on what one wishes to do with one’s life and act on one’s informed decision.
- A lack of assets in early adulthood compromises the power of self-definition. Young people are less able to meaningfully pose the question: ‘What do I want to do with my life?’
- Bruce Ackerman and Anne Alstott:: ‘…just at the moment we expect young adults to make responsible life-shaping decisions, we do not afford them the resources they need to take a responsible long-term perspective....’ (Ackerman and Alstott, 1999, p.35).
- <u>A related point</u>: policies like CTF are not aimed only at children but at young people: a key aim is to develop a more consistent approach to supporting people in the transition from childhood to adult life (e.g., rather than just giving <u>some</u> young people a big boost through subsidized higher education.)

Assets and equality of opportunity

- Equality of opportunity is a widely supported norm.
- Inequality of financial inheritances (especially in early adulthood when life-shaping decisions are made) conflicts with equality of opportunity. (Financial inheritances are more likely, and likely to be higher, the higher the social class from which one comes; Rowlingson and McKay, 2006).
- Universal capital grants or similar policies can potentially help to reduce inequality in financial inheritance and so enhance equality of opportunity.

The ‘Asset-Effect’?

- There are a range of empirical studies showing positive correlations between holding assets and desirable life-outcomes (for the individual and society).
- However, the extent and nature of the so-called ‘asset-effect’ remains controversial. Some studies have cast doubt on the existence of certain alleged asset-effects.
- Two influential studies: Bynner (2001), McKay and Kempson (2003). The former finds evidence of a general asset-effect, the latter finds no evidence of this effect.

Asset-holding and saving

- In discussing the ‘asset-effect’ it is also important to distinguish between the alleged effects of <u>holding assets</u> and of <u>accumulating assets</u>, i.e., saving.

- Arguments for matched savings programs (e.g., Individual Development Accounts in the USA) focus as much, if not more, on the latter as on the former.

- Sherraden: ‘When people begin to accumulate assets, their thinking and behavior changes as well. Accumulating assets leads to important psychological and social effects…not achieved…by receiving and spending an equivalent amount of regular income’ (cited in Boshara, 2001, p.5).

A saving effect?

- There was widespread experimentation with Individual Development Accounts in the USA in the 1990s/2000s (e.g., American Dream Demonstration project). The research on the projects finds some evidence of the claimed psychological effects (Sharraden, 2002).

- The British government has run two pilot for a Saving Gateway policy akin to the IDAs. Research into the first pilot also found evidence for the psychological effects posited by Sherraden (Kempson,McKay and Collard, 2005).

- If the CTF spreads or deepens a ‘saving habit’, then it might have similar effects: but note that in its existing form the CTF lacks any matched savings element (in contrast to early proposals, e.g., Kelly and Lissauer, 2000).

Financial education

- It is also argued that policies like the CTF can assist in developing ‘financial literacy’ amongst citizens.

- Teaching financial literacy when children have little or no expectation of having any financial wealth to manage on maturity faces a problem of weak motivation. It is possible that policies like the CTF can improve incentives to learn, and make the learning process concrete, raising standards of financial literacy.

Summary

The case for a policy like the CTF rests on the alleged benefits from universalizing the holding and saving of assets. These alleged benefits include:

- security;
- independence;
- power of self-definition (autonomy);
- greater equality of opportunity;
- improved motivation for financial education;
- gains to self-esteem and motivation from increased saving/acquisition of a ‘saving habit’.

What about the alternatives?

- Critics argue that the money spent on CTF-like policies would be better spent on public services (education) or income transfers.
- Focus group work by Rajiv Prabhakar (Prabhakar, 2008) shows that parents receiving the CTF do not support using the money for higher benefits or increased education spending.
- The British government already spends large sums on both education and subsidizing saving (e.g., through tax reliefs for pension saving). Both sets of expenditures are poorly targeted in terms of social justice. In this context, it is arbitrary to pit CTF against increased education spending, e.g., in the early years. We can and should radically redistribute the existing spend on education and savings to support <u>both</u> CTF-style policies and increased education spending on the early years.

References, Further Reading, Websites

- Basic arguments:
- Ackerman, Bruce, *Social Justice in the Liberal State* (New Haven, Yale University Press, 1980).
- Ackerman, Bruce, and Alstott, Anne, *The Stakeholder Society* (New Haven, Yale University Press, 1999).
- Lister, Ruth, 'Poverty, Material Insecurity and Income Vulnerability: The Role of Savings', in Sonia Sodha and Ruth Lister, *The Saving Gateway: From Principles to Practice* (London, ippr, 2006).
- Meade, James, *Efficiency, Equality, and the Ownership of Property* (London, Allen and Unwin, 1964).
- Paine, Thomas, 'Agrarian Justice', in Michael Foot and Isaac Kramnick, eds., *The Thomas Paine Reader* (Harmondsworth, Penguin, 1987 [1797]); or Thomas Paine, Mark Philp, ed., *The Rights of Man, Common Sense, and Other Political Writings*, (Oxford, Oxford University Press, 1995 [1797]).
- Paxton, Will, and White, Stuart, with Maxwell, Dominic, eds., *The Citizen's Stake: Exploring the Future of Universal Asset Policies* (Bristol, Policy Press, 2006).
- Prabhakar, Rajiv, *The Assets Agenda* (Basingstoke, Palgrave, 2008).
- Prabhakar, Rajiv, Rowlingson, Karen, and White, Stuart, *In Defence of Inheritance Tax* (London, Fabian Society, forthcoming).
- Sherraden, Michael, *Assets and the Poor* (New York, M. E. Sharpe, 1991).
- Sodha, Sonia, 'A National Saving Gateway: From Principles to Practice', in Sonia Sodha and Ruth Lister, *The Saving Gateway: From Principles to Practice* (London, ippr, 2006).
- Related empirical research
- Boshara, Roy, ed., *Building Assets: A Report on the Asset-Development and IDA Field* (Washington, D.C., Corporation for Enterprise Development, 2001).
- Blanchflower, David, and Oswald, Andrew, 'What Makes an Entrepreneur?', *Journal of Labour Economics* 16, 1998, pp.26-60.
- Bynner, John, 'Effect of Assets on Life Chances' in John Bynner and Will Paxton, eds., *The Asset-Effect* (London, ippr, 2001).
- Gamble, Andrew, and Prabhakar, Rajiv, 'Attitudes of Young People Towards Capital Grants', in Paxton and White with Maxwell, eds., *The Citizen's Stake*.
- Kempson, Elaine, McKay, Stephen, and Collard, Susan, *Incentives to Save: Encouraging Saving Amongst Low-Income Households* (Bristol, Personal Finance Research Centre, University of Bristol, 2005).
- McKay, Stephen, and Kempson, Elaine, *Savings and Life Events*, DWP Report 94 (London, Department of Work and Pensions, 2003).

- Page-Adams, Deborah, and Vosler, Nancy, 'Predictors of Depression among Workers at the Time of a Plant Closing', *Journal of Sociology and Social Welfare* 23, 1996, pp.25-42.
- Prabhakar, Rajiv, *The Assets Agenda* (Basingstoke, Palgrave, 2008).
- Rowlingson, K. and McKay, S. (2005), *Attitudes to Inheritance in Britain* (Bristol: Policy Press).
- The *Findings* is downloadable from: http://www.jrf.org.uk/knowledge/findings/socialpolicy/0385.asp.
- The full report is downloadable from: http://www.jrf.org.uk/bookshop/eBooks/1861347707.pdf.
- Sherraden, Michael, *Individual Development Accounts: Summary of Research* (St. Louis, Center for Social Development, Washington University, 2002).
- International discussion
- Boshara, Roy, ed., *Building Assets: A Report on the Asset-Development and IDA Field* (Washington, D.C., Corporation for Enterprise Development, 2001).
- Centre d'Analyse Strategique, *Les Donations en Capital Pour les Jeunes* (Paris, Centre d'Analyse Strategique, 2007).
- Organisation for Economic Cooperation and Development, *Asset Building and the Escape from Poverty: A New Welfare Policy Debate* (Paris, OECD, 2003).
- Social and Enterprise Development Innovations, *Savings and Asset-Based Policy in the UK: Observations for Canada*, February 2004.
- 4. Websites
- http://www.childtrustfund.gov.uk/ (Britain)
- http://www.ippr.org/assets/ (Britain)
- http://assetbuilding.org/ (USA and general)
- http://gwbweb.wustl.edu/csd/asset/ (USA)
- http://www.cfed.org/ (USA)
- http://www.sedi.org/ (Canada)