Opportunity and Assets: 
The role of the Child Trust Fund

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The government has announced two innovative new asset-based welfare policies – the Child Trust Fund and the Saving Gateway. The former has been announced and consulted on, but not yet introduced. The latter is now being piloted for eighteen months, after which it will be rolled out nationally.\(^1\)

This seminar explored some of the arguments behind asset-based approaches and some of the issues raised by the two policies. The main speakers were Kevin Rudd the Shadow Foreign Secretary from Australia and Bob Friedman, director of the Corporation for Enterprise Development from the United States.

Welcome - Rt. Hon. David Blunkett (Home Secretary)

David Blunkett opened the seminar by stressing the importance attached to asset-based welfare by the government. He reminded people that he has consistently been engaged in the debate and that work he commissioned, while Education Secretary, was instrumental in the development of the Child Trust Fund. One of the reasons he has been so interested in this area is the potential worsening of wealth inequalities. A worrying divide between ‘haves’ and ‘have nots’ could be opened up even further. For example, greater regional inequality could result from housing inheritance. Inheriting a property in the South East will give people a considerable head start in life.

Presentation - Kevin Rudd (Shadow Australian Foreign Secretary)

In his presentations Kevin argued that the asset-building agenda should not be considered a peripheral issue for the centre-left. It is an issue which should be put at the heart of contemporary political debate. Indeed, around the world centre-left parties are examining the possible role that asset-building can play in improving people’s life chances.

\(^1\) For further details on these policies see
www.hm-treasury.gov.uk/Consultations_and_Legislation/consult.savasset/consult.savasset_index.cfm
and
www.hm-treasury.gov.uk/Consultations_and_Legislation/savingassets/consult_savingassets_index.cfm
He pointed out that in the last decade one of the most significant, and welcome, shifts in the political landscape has been a move away from a caricatured view of the left being pro redistribution and the right being pro private property. The left has begun to realise that assets and wealth are important to people who want to “get on”. It taps into deeply felt aspirations and should be harnessed for progressive ends rather than left to the clutches of the right.

Existing policy approaches, such as investment in education and improvements in income were vital and should not be compromised. However, asset-based approaches must be used to complement existing policies and could be seen as a third way within the third way. There was a real danger that concentrating merely on income could at best only maintain people just above the poverty line. Only by complementing existing provision with asset-based policies could the state allow people to “get on”.

Kevin finished his presentation with a potential problem. The long-term nature of the Child Trust Fund could mean that it does not fit well with the electoral cycle. It will need to be sold to the public as there are not necessarily any short-term gains to point to. Such arguments must be developed as the centre-left can ill-afford to leave the issue for the right.

**Presentation - Bob Friedman (Corporation for Enterprise Development)**

Bob Friedman argued that people needed to have policies put in place which increased their confidence, allowed them think longer term and to take greater control of their lives. This was what an asset-based agenda helped to achieve.

He outlined the success that Individual development Accounts have achieved. There are now 20,000 Individual Development Accounts (IDAs) in the US. IDAs are local community based organisations which, like the Saving Gateway, are designed to provide structures and incentives which allow people on low incomes to accumulate assets. He pointed out that one of the main lessons learnt from IDAs has been that the poor, even the very poor are able to save and that they can use the money to improve their situation.

Bob also argued that one of the main advantages of an asset-based approach was that it connected people to the economy. This could be in a very direct way by ensuring that people become ‘banked’ and open a bank account for the first time, or in more indirect ways by making people feel like stakeholders in the society in which they live.

Bob then pointed out that in the US the main challenge now being faced was the need to “go to scale” – to move from local programmes run by small community based organisations, (as all IDAs are), up to larger policies which will be available to more people regardless of where they live. This was an issue which the Saving Gateway would also face and needs to be recognised from the start of the piloting process. Bob concluded by saying that the UK, when the Saving Gateway is rolled out nationally and when the Child Trust Fund is implemented, will become the world leader on

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² For further information see [www.cfed.org](http://www.cfed.org)
asset-based welfare. People from around the world, and particularly the US, will be looking eagerly towards the UK.

**Response - Ruth Kelly MP (Financial Secretary to the Treasury)**

In response to the presentations Ruth Kelly reiterated the government’s commitment to policies which allowed people to build assets. She agreed that assets were what allowed people to “get on” in their lives. People wanted assets – they reflect basic human ambitions and aspirations - and the left should reflect this with policies designed to allow all the opportunity to accumulate some wealth.

She argued that the government has made real progress in many policy areas relating to children and early years. She pointed to Sure Start and policies to open up learning opportunities to people from all backgrounds. However, these successes needed to be complemented by policies which concentrated on the assets which people have. Assets can give people hope and allow them to think ahead and plan for the longer term.

Another reason for interest in assets is the current unequal distribution of wealth. Ruth pointed out that overall distribution of wealth is far more skewed than that of income. The wealthiest one per cent of the population possess approximately a quarter of all personal wealth in the UK. About a third of the adult population in the UK have no financial savings at all. What is more there are signs that wealth inequality is increasing.

Part of the response to this situation has been the announcement of the two government asset-based welfare policies – the Child Trust Fund and the Saving Gateway. The Saving Gateway is being piloted in five different locations around the country and will be evaluated before being rolled out nationally and made available to all people. The Child Trust Fund has been consulted on and illustrative figures have been suggested for the size of the government endowment to be paid into all newborn children’s accounts. Ruth concluded by saying that asset-based policies are absolutely vital to the whole agenda of increasing opportunity.

**Points from the floor**

*Mark Latham (Australian Labor Party)*

- Asset-based approaches could be seen as a form of social investment. Investing in people through individual accounts also surmounts the cynicism that many people feel towards the government.
- There is a danger of ad-hocery with many different forms of individual accounts being introduced. For example we could have a situation where we have the Child Trust Fund, some form of Individual Development Account (or in the UK case the Saving Gateway) and an Individual Learning Accounts. Does it make sense to have different administrative structures for all these? Mark argued that they could all be joined together and in the Australian case suggested that this could be achieved by adapting the existing superannuation scheme.
• Asset-based policy could be seen as a form of “after sales service” for people when they have moved out of poverty. Existing policies tend to leave people to their own devices once they have moved from the lowest income deciles. Asset-based policies could be seen as one way of allowing people both to escape and then to stay out of poverty.

Matthew Taylor (Institute for Public Policy Research)
• The Child Trust Fund should be seen as being a response to some new problems faced by policy makers. Firstly, people’s lack of savings is a new concern and secondly there is increasing evidence that people bob in and out of poverty. We need to develop ways of ensuring that people do not fall back into poverty and social exclusion once they have escaped it.

• Concerning the justification for the Child Trust Fund, Matthew argued that when the left talks about social justice and redistribution it must also ask what this is for. Why do we want a more equal distribution of wealth? This should not be just a technical issue but instead that we want a more equal distribution of wealth because it will strengthen citizenship. Part of the narrative which supports the Child Trust Fund should be an expanded notion of citizenship.

Charlie Leadbeater
• We should explore how tangible assets (such as financial savings and physical assets) relate to the accumulation of intangible assets (such as human and social capital). If we are to have a wholistic view of people’s welfare than a personal balance sheet should include both these different sets of assets. Indeed, financial assets could only be important in so far as they actually lead people to accumulate intangible assets.

Kate Green (National Council for One Parent Families)
• Income based policies and asset-based policies should not be seen as in competition. Instead progress on both needs to be made simultaneously.

• She also pointed to the figures for the levels of saving among single parents. They are a group who is extremely unlikely to have any assets at all and this can have considerable negative effects on their children’s life chances.

Julian Le Grand (London School of Economics)
• In response to Charlie Leadbeater’s point about tangible and intangible assets, Julian argued that there was some evidence which linked the two. Research has shown that people who have financial assets tend also to have greater marital stability and higher rates of employment. This it is argued is because people who have assets are able to feel more secure, think longer term and plan ahead in a way that people with none cannot do so.

• The issue of restrictions on the uses for funds when Child Trust Fund holders reached the age of eighteen was also raised. Previously Julian had been pro restrictions on the uses and that these could include education, home ownership or enterprise. However, he had more recently started to think that having restrictions on the uses would be difficult and costly to police. This would be particularly the case if small business start-ups were to be one of the restricted uses available to people.
Mary Francis (Association of British Insurers)
• We need to explore how the Child Trust Fund can be linked to financial education. This could be through a formal link with the national curriculum.
• When the policy was implemented people should be given the maximum amount of choice as to where they could open an account.

Paul Ennals (National Children’s Bureau)
• There were a number of points which needed to be addressed before the government should move forward further with asset-based welfare.  
  - There are some question marks over the research behind the Child Trust Fund, carried out by John Bynner at the Institute for Education. It was difficult to prove the direction of cause and effect. Was it assets which caused the changes in behaviour and the different outcomes or was it these different character traits and outcomes which effected whether or not people had assets?  
  - Assets should only be seen as part of a multi-systemic approach to the tackling of poverty. It needs to be implemented alongside other policies concentrating on income, education and health.  
  - We needed to be clear why money should be invested in asset-based policies rather than in income based policy and service provision. Are assets the best use of the marginal pound?

Gavin Kelly (Prime Minister’s Strategy Unit)
• Addressing one of the issues raised by Paul Ennals, Gavin accepted that it was difficult to pick apart cause and effect in the research on the impact of holding assets on life chances. However, this was not through lack of trying. John Bynner’s research did try and control for everything that it could. This included the obvious such as income and social class, but also attitudinal factors such as degrees of fatalism about the future. It is also the very nature of longitudinal data that cause and effect are difficult to pick apart – nothing will ever be proved conclusively.  
• The are some issues concerning the progressivity of the Child Trust Fund. While it was important that the Child Trust Fund was universal as this gives all a sense of entitlement and citizenship, it was also important that it was progressive. The question was whether the figures which had been chosen by the government (of £500 for children from low income families at birth and £250 of those from wealthier families and £100 and £50 respectively as top ups) were appropriate. There was no science behind these figures, they simply felt intuitively correct.  
• The Child Trust Fund is truly radical and ground breaking. Though exciting from a policy makers perspective this does raise questions about how it can be sold to the public. What messages can be used to sell the policy.

Fred Goldberg (former US Commissioner of the Internal Revenue Service.)
• If we assume that asset-based policies will happen then the really important questions how will they actually be implemented and designed? He argued that any new policy needs to have a number of things underpinning it to be successful. It must reflect the social values of the population and also be based on a solid administractive platform. Fred thought that the Child Trust Fund fulfils the first of these but as of yet lacked the administrative platform. However once this has been formed and the ‘plumbing’ was in place then the policy could be extended and expanded.
• A universal system of individual accounts could form the basis of much future welfare reform.

  *Will Hutton (The Work Foundation)*

• If wealth distribution was to be genuinely achieved then we might require some more fundamental reforms of the tax system. He pointed out that the obvious candidate for reform was inheritance tax.

  *Donald Hirsch (Adviser to the Joseph Rowntree Foundation)*

• Although supportive of the approach, Donald had a number of reservations. These included that view that the size of the asset accumulated in the Saving Gateway and the Child Trust Fund might not be sufficient to ensure that the benefits which people claim for assets would occur.

• He also questioned the long-term impact that asset-holding could have on income. If it could be proved that holding assets will lead to increased income in the long run then there was a good case for asset-based welfare, however in the absence of strong evidence for this it seems more appropriate to put the money into increasing people’s incomes.

  *David White (Tunbridge Wells Equitable Friendly Society)*

• Based on practical experience of marketing children’s saving products, concerns about young adults wasting their money when they turn eighteen are misplaced. The majority of people would spend their Child Trust Fund on Higher Education or in other positive ways.

• Saving for children was very different from saving for oneself. Parents are interested in ensuring that their children have the best possible start in life and they along with grandparents would be able to contribute to the Child Trust Fund.

  *Elaine Kempson (Personal Finance Research Centre – Bristol University)*

• We must suspend middle class attitudes towards what it is useful and what it is useless for people to spend the money on. For many people on low incomes an asset at the age of eighteen would best be spent on driving lessons and car or to enable them to set up independently and move out of the family home.

  *Will Paxton (Institute for Public Policy Research)*

• For three reasons we should not consider the value of the funds accumulated in either the Saving Gateway or Child Trust Fund too little.
  - The median levels of asset-holding among young and low income adults was currently so low that the accounts would make a considerable difference to the current situation.
  - Research suggests that it only requires a relatively small asset for the positive effects on life outcomes to occur.
  - Once the infrastructure of accounts has been put in place the value of the endowment could be increased.

• Picking up on Will Hutton’s point, while there was a clear case for the reform of inheritance tax from a centre left perspective, this was politically problematic. One of the arguments for the Child Trust Fund in the long run is that if introduced it could open up wider debates including that on inheritance tax.
Michael Sherraden (Centre for Social Development)

- Michael agreed with many of the comments concerning asset-based policies needing to complement income-based provision. However, moving away from merely relying on income and towards asset-building meant that we could create a more active welfare state.
- The theory of Amartya Sen has been important in underpinning asset-based strategies in developing countries and his emphasises on the development of people’s capacities rather than merely maintaining people in their poverty should be applied more fully to the modern welfare state.

Closing remarks - Bob Friedman (Corporation for Economic Development)

- The relationship between tangible and intangible assets was important. The experience of the US shows that there is a strong relationship between financial assets and less tangible assets. It appears that people change their attitudes when they accumulate an asset, which can have spill-overs into other forms if assets, be they social or human.
- Not having conditions would make the policy untenable in the US. The _quid pro quo_ for people receiving the government contribution to the accumulation of an asset was that they should spend it in certain ways. He also argued that having restrictions would ensure that people had a goal towards which their saving was aimed. This has proved important in the US, if not always initially popular with IDA participants.
- On the question of assets vs. income, there should not be a direct trade-off. The two should be complementary, but it was important to stress that we will probably never be finished with the business of ensuring that people’s incomes are sufficient.
- Finally, Bob argued that asset-based policies could be seen, not as a welfare policy, but in the context of existing asset-accumulation policies which benefit the wealthy. In other words rather then being a new welfare policy, the Child Trust Fund could be seen as an extension of asset-based policies which already exist, and which are currently pro rich.

Closing Remarks - Kevin Rudd (Shadow Australian Foreign Secretary)

- In his final remarks Kevin commented on the ability of government to sell the policy to people. He argued that we needed to be sure that the policy was not hijacked and its original purposes not subverted. He also thought that for the policy to be more easy to present to a sceptical public some way should be found to massage up the value of the funds to be accumulated in the accounts. It would look better if the original endowment, for those on low incomes was more than £1,000.
In her final remarks Ruth concentrated on the question of restrictions. The government have consulted on this issue and decided against restrictions. This was partly for practical reasons. However, it was also because children will be engaged in the accounts as they grow up, they will receive education linked to the national curriculum and therefore might be expected to think hard about how to spend their money when they turn eighteen.