CSD Speech

Asset-Based Policy and the Child Trust Fund

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Thanks to Prime Minister Blair, Chancellor Brown, Home Secretary Blunkett, Treasury Secretary Kelly, others. . .

I am delighted to speak for a few minutes on asset-based policy and the Child Trust Fund.

Perspective: Transformation in Social Policy

It may be useful to stand back and look at the larger picture.

Income support has been the signal idea of the Social Welfare State.
It is an industrial era idea.

The primary policy instruments have been social insurance and means-tested income transfers.

Income support was a sufficient policy when the economy offered many long-term, stable, and low-skilled jobs.

Income support has maintained people. But it has not enabled them develop.

Income support is a <u>passive</u> social policy.

The industrial-era economy is passing. Labor 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 <u>active</u> social policy, one that promotes engagement.

Asset holding 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 self, financial instruments, and enterprise for greater returns.

Widespread asset holding promotes <u>engagement</u> in the economy and society.

Asset-Based Policy Is Developing

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 recognized.

Although sometimes called "privatized" 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.

Asset-based policies are growing rapidly. They may be the fastest growing social policy in many countries around the world.

This is very likely a historic transition toward asset accounts as a main social policy instrument.

This is a transition, I believe, from Social Welfare State to Social Investment State.

But Leaving the Poor Behind

But the poor, who do not qualify for the tax benefits, are usually left behind.

Asset-based tax benefits are extraordinarily regressive. The well-off get almost all of benefits.

Thus, the State is, perhaps unwittingly, becoming part of the structure of asset inequality.

It is important to note that, today, no universal, progressive asset-based policy exists on the planet.

Experimentation in the United States

In the US, we have been experimenting with progressive asset-based policy in the form of matched saving, called Individual Development Accounts (IDAs).

An extensive program of research has accompanied these experiments and we are learning quite a lot.

One thing we are learning is that even the very poor can save when there is a structure and incentives to do so. In IDA research, we find that 2,400 participants on average make a deposit in 6 of every 12 months and have net savings of $19 per month. With an 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 people of very low incomes (under 50% of the poverty line), controlling for other factors, save as successfully as people with greater incomes (up to 200% of the poverty line). In other words, those with very low incomes save at a higher rate. This finding is stable and consistent throughout our IDA research.

These saving amounts may seem like small sums, but they are meaningful for impoverished households. Among those who have used their savings, 28% have made a home purchase, 23% have used the funds for small business, and 21% have used the funds for education.

IDA participants are very positive about the program. Many say that it has enabled them to "visualize a future" and provides a "way to reach goals."

Another thing we are learning is that IDAs are very popular with the general public. There is widespread political support for this idea.

More than 40 US states have some type of IDA program, and federal support is moving toward higher levels.

We are hopeful that federal legislation, the Savings for Working Families Act, will raise funding for IDAs into the billions of dollars.

Buy these are only small steps.

Vision and Leadership

Vision and leadership will be required to include all of the poor in asset accumulation policies.

Inclusion of everyone in asset-based policy will reduce social inequality and divisions, and increase economic activity and growth.

New thinking and new calculations on the part of government will be required.

In the Social Investment State, there is not necessarily a tradeoff between redistribution and growth. Promoting and subsidizing asset holding by the poor can contribute to growth in the long-term.

Inclusion in asset-based policy is likely to be a key to social and economic progress in this century.

On the political front, the party that creates a universal asset-based policy may create a broad constituency in support of this policy.

Focus on Children

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 in life rather than latter.

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. As my friend Ray Boshara at the New America Foundation aptly puts this: “One generation's inequality of outcomes need not be the next generation's inequality of opportunity.”

Child Trust Fund

Among many possible asset-based policy options, the proposed Child Trust Fund offers the greatest opportunity for long-term transition toward an inclusive asset-based policy.

As my colleague in the United States, Fred Goldberg, is fond of saying: The first step toward an inclusive asset-based policy is to “put the plumbing in place,” that is, to give everyone an account.

When accounts are in place, there will be creative policy-making and private initiative, impossible to define or predict ahead of time, to fund the accounts.

Over time, a Child Trust Fund will develop into a system of life-long accounts for the entire population.

It will be a public good, like the national highways and the Internet.

In this process, the 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.

Leadership in the United Kingdom

The leadership of Prime Minister Blair, Chancellor Brown, Home Secretary David Blunkett, and Treasury Secretary Kelly in this policy initiative cannot be understated. The work of the Institute for Public Policy Research has been invaluable. This policy leadership in the United Kingdom is very impressive for those of us from the US who are watching, and occasionally participating.

I am impressed that an idea can move relatively quickly to the forefront, and major change can be initiated in a relatively short period of time.

I am also impressed that this change is understood not merely as a new “program,” but as new way of thinking, as a new social policy that is a better fit with changing economic conditions.

Other Nations Will Be Influenced

In the United States, there have been proposals for something like the Child Trust Fund for several years. These proposals are gradually gaining prominence, and have support within both major political parties.

A major demonstration of children and youth accounts is being planned by Bob Friedman of the Corporation for Enterprise Development. The goal is to put children's savings accounts on the front burner in US policy.

If the United Kingdom were to move ahead with a Child Trust Fund, this example would be influential in the United States. It could become the final push that creates a similar policy across the Atlantic.

I would be delighted to see the United Kingdom move ahead with the Child Trust Fund, in part because I think a similar policy would soon follow in the United States.

Indeed, a Child Trust Fund in the UK could become a truly international example, ultimately influencing policy in many nations.

Historic Opportunity

I can think of no better way to demonstrate leadership on the world stage than by enacting a Child Trust Fund.

One hundred years from now, this will be recognized as the first universal, progressive asset-based policy in the world, a historic transition, a policy that set the stage for a new and inclusive Social Investment State.

Just as von Bismark of Germany is credited with beginning the Social Welfare State in the late 19th century, the creator of a universal, progressive children's account will be credited with the beginning the Social Investment State at the beginning of the 21st century.

A Child Trust Fund will be a lasting contribution to the world, discussed and debated long after many current events have faded from memory.

We hope you continue to keep your eye on this larger picture, and we thank you for your leadership.