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thinkpieces

ASSETS

Developing an inclusive assets policy

By Stuart White

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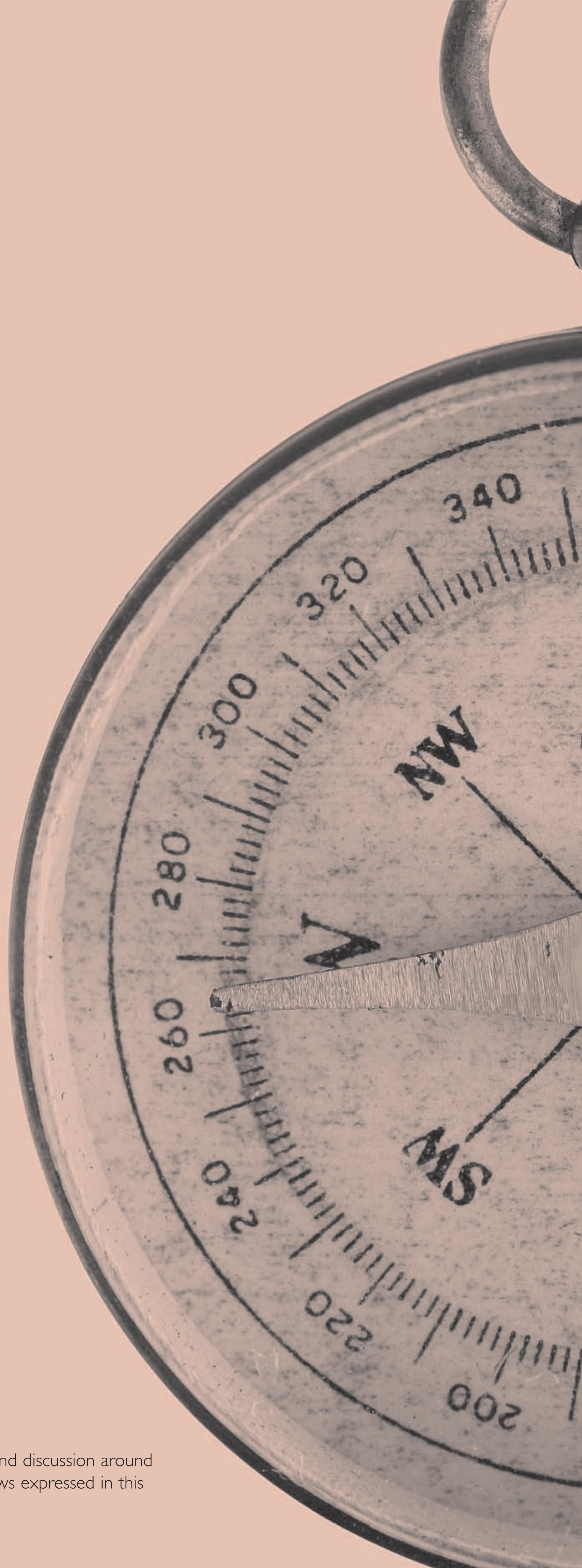

"While there is a lively academic debate about the exact nature and extent of the so-called 'asset-effect', there is a large body of empirical research which is consistent with these claims about the impact of wealth on personal freedom"

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Developing an inclusive assets policy

By Stuart White

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1. Wealth and freedom

Since the 1990s the distribution of wealth in Britain has become more unequal, following a relatively long period of stability. This is from a baseline of high inequality to start with. While some wealth inequality is to be expected as a function of age differences in the population, this demographic factor is unlikely to account for all (and probably not even for most) of the observed inequality. Wealth inequality is one powerful, life-shaping expression of class inequality in British society. Against this background, a particularly disturbing phenomenon is the level of asset poverty amongst households – the high proportion of households with no savings.

It is important to be clear that we are talking here about wealth rather than income. Income inequality did of course rise markedly in the 1980s and remains at very high levels despite the more redistributive tax-transfer policies that governments have pursued since 1997. But income refers to a flow of resources, wealth to a stock, and there are very good reasons for us to care about inequality in stocks as well as flows.

These reasons are centrally to do with the relationship between wealth and freedom. Someone who earns a high income but who has little or no wealth is constrained to keep working to maintain their income, whereas someone who has wealth is more able to take time out of work because their wealth can cushion the financial loss. Such a person does not have to put up with a bullying boss (or spouse) but has the financial independence to exit such relationships. Someone who has wealth in their early adulthood can afford to think more creatively about what they wish to do with their life than someone who has no wealth and who must get into work as quickly as they can to put bread on the table. They have much greater capacity for self-direction.

Given this greater freedom, people may feel generally more self-confident and willing to act creatively in economic and other contexts. This is not only good in itself, but may have desirable knock-on effects in terms of, for example, reduced income poverty. A financial buffer can help prevent the trigger events, such as divorce or losing a job, that cause falls into poverty. It can also help prevent short spells in poverty from becoming longer ones. If individuals have a financial buffer, financial shocks, such as a drop in income or the need for a one-off purchase such as a fridge, do not have to result in unsustainable debt spirals.

While there is a lively academic debate about the exact nature and extent of the so-called 'asset-effect', there is a large body of empirical research which is consistent with these claims about the impact of wealth on personal freedom.

So we have wealth inequality and asset poverty. And these things matter because of the importance of wealth to individual freedom. The question I shall address in this short paper is: How can we build an inclusive assets policy that will spread wealth so as to provide 'real freedom for all' ?

Before proceeding we should note one important limitation of the discussion. My focus here is specifically on ways of widening or equalizing individual wealth holdings. In consequence, some on the left might be inclined to criticize the sort of policy ideas I discuss here as 'individualistic'. To this anticipated criticism, I have two replies.

My first reply is to emphasize that the sort of policy ideas discussed here are not offered to the exclusion of other policy ideas, e.g., proposals for increasing community asset holdings. They are not offered as a replacement for the welfare state. They are not offered as the be all and end all of 'citizenship'. The focus here is on one specific set of ideas for making our society a more genuinely free (and just) society, and, as I have emphasized at length elsewhere, they need to be seen as part of a much larger package of reforms aimed at establishing a progressive, 'neo-republican' form of political economy.

My second reply to the anticipated criticism is to say that, within certain limits, there is nothing wrong with individualism. The concern for 'freedom' is properly a concern for the freedom of action of individuals as individuals, not only as members of communities acting in concert. It matters that this individual person be free of domination by others. It matters that this individual person have the effective freedom to think creatively about how to live her life. I understand inclusive assets policy as serving individualism in this sense, and this is surely a form of individualism that the left should endorse.

In thinking about the development of an inclusive assets policy, it may help to divide our analysis into three time frames: short-, medium- and long-run.

2. The short-run

What could and should we do over, say, the next four years or so to develop an inclusive assets policy? The proposals here start from a recognition of what the government has already done in this area. Here two initiatives are worth noting: the Child Trust Fund (CTF) and Saving Gateway (SG). The CTF provides a small amount for each child at birth which is held in trust to accumulate into a modest capital sum by the time the child reaches maturity. The initial state endowment is complemented by addition state 'top-ups' at ages 7 and 11, and by family contributions (up to a ceiling of £1,200 per year). The SG is a 'matched savings' program for low-income households. Participating households are able to set up special accounts and any savings they put into these accounts are then matched by the state (various matching ratios are possible). The SG has been piloted in a number of trials but has not yet been adopted nationally.

Given this context, the following might be some reasonable policy options:

1. Consolidation of the CTF. First, policy can aim to consolidate the CTF as a new entitlement, the foundation of a more inclusive assets policy. Consolidation involves two things.

(a) One is getting the policy on top-ups at ages 7 and 11 right. One of the major issues here is how far the top-ups should be varied according to the funds already in the CTF account and/or according to household income. A policy of giving each child the same top-up has the obvious disadvantage that it does not do more to top-up the accounts of children in low-income households whose family will be less able to save into the account than the parents of higher income households. Evidence shows that young people from low-income families are more likely to need the buffer and opportunities a CTF can provide, as they are much less likely to have access to family wealth and inheritance. One recent analysis favours a targeted approach while also noting the potential disincentives created by means-testing. Instead of £250/£500 at each age, the following structure would achieve a greater impact at the same cost.

CTFs: Increasing progressivity with age

	Birth	Age 7	Age 12
Richest 60%	£250	£200	£150
Second 20%	£500	£500	£500
Poorest 20%	£500	£650	£800

(b) A second issue concerns the size of the state's initial payments into CTF accounts. A key aim should be to make these payments bigger. The current levels are £250 for most children rising to £500 for the poorest third. Target levels for the near future might be to raise the initial endowment to around the level originally proposed by ippr - an average of £1,000 per child, with perhaps a little less for most children, a little more for children from low-income households.

2. National roll-out of Saving Gateway or a similar matched saving program for low-income households. Research on the SG suggests that it has had a positive effect on saving attitudes and behaviour amongst low-income households. A national roll-out of the Saving Gateway is one option for bringing inclusive assets policy into the lives of all of today's asset-poor.

3. Reform of inheritance tax. The above policies will cost significant sums. How can they be afforded? Here we might explore the contribution from the reform of capital taxation: to some extent, we should tax the wealth to spread the wealth.

One option here is to look at a progressive reform of inheritance tax (IHT). Recent research indicates that there is considerable public opposition to IHT. However, there are reforms we can make that would make the tax fairer and which would probably raise more revenue. In particular, we should look at the banding of tax rates over the tax threshold. At present, IHT applies at a rate of 40% to that part of an estate over £263,000. Maxwell proposes instead that we start with a lower tax rate of 22% and end with a higher tax rate of 50%.

While some such reform is desirable, by itself it is highly unlikely to raise all of the funds needed for the policies described above. Other options include looking at the resources currently devoted to the support of asset accumulation and considering how we might redirect some of these towards policies like those above. I take up this issue below in discussing reform options for the medium-term.

4. New 'time account' policies: making a start. Looking to the long-term, one aim of inclusive assets policy should be to enable people to have greater freedom to move in and out of labour force participation over the course of their working lives. People need time

out from employment: to care for others; to develop new skills; or simply to take a break and recharge their batteries – an opportunity that is very unevenly distributed at present. One very radical proposal is to create a time-limited basic income: an account which would provide an unconditional basic income for a period of x years (where x might be two or five or ten years...). But this is a very long-run prospect. More immediately, a progressive option is to look at ways in which employees can be better enabled to save and earn time-out entitlements. In recent work for the Scottish Council Foundation, Linda Boyes and James McCormick have explored some policy options of this sort:

(a) The right to bank leave and public holidays: Employees can be granted the right to 'bank' existing holiday entitlements over a number of years so that they save up a sizeable time-out period. For example, if an employee has an annual entitlement of 25 days holiday per year, she could bank five days a year for five years and then have an entitlement to 50 days leave in year six.

(b) The right to defer salary: Employees can be given the right to defer a portion of their salary so as to fund a period of time-out from their job. Boyes and McCormick give the example of employees in the British Columbia Public Service who have the right to defer between 10% and 33% of their salary over a period so as to accumulate a right to 6-12 months time-out.

3. The medium-run

1. Redirect existing subsidies to asset accumulation. One policy challenge for the short- to medium-run, already intimated above, is to think about how to reorient the very substantial public subsidy that currently goes towards private asset accumulation, particularly of tax relief for private pension saving. The annual cost of pensions tax relief in Britain at the moment is in the order of £14 billion. However, these resources are not at all well-targeted at building assets where a lack of assets is most pronounced. For instance, currently over 50% of the funds that go in tax relief for pensions go to people in the top 10% of the income distribution - to people who are already likely to have quite a good asset position. In the meantime the effects of under-saving are most damaging to those on lower incomes.

Clearly, what we do with this subsidy cannot be divorced from a reconsideration of pension policy. One option is to move away from tax relief and apply the matched saving principle: people receive public support for pension saving in the form of a matching contribution from the state. The level of matching contribution could diminish with the level of saving. This would make for a much more equitable distribution of the public subsidy to pension accumulation. In principle, subsidised saving could be into a scheme along the lines of the Turner Commission's proposed National Pension Savings Scheme.

One issue to consider is how the proposed SG integrates with a matching subsidy scheme for pensions. One possibility is to see the SG as a first step to pension saving. Perhaps government could set a default so that when SG accounts mature, the savings automatically go into a specified pension program unless the account-holder elects to use the funds in some alternative way.

4. The long-run

When we turn our attention to the long-run we cannot avoid the question of what our social ideal, or 'realistic utopia' , is. As I have argued elsewhere, I think a good model for the left is the model of a 'partnership economy' or 'property-owning democracy' developed in the work of the 'liberal socialist' economist, James Meade. Meade, a former student of G.D.H. Cole, spent a large part of his working life reflecting on the issue of how to design an economic system that combines efficiency, equality and individual liberty. His work remains a very useful reference point for thinking about what an egalitarian market economy might look like.

1. Development of community funds. One of the key elements of Meade's model is an emphasis on a degree of public ownership which he refers to as 'Topsy Turvy Nationalisation'. In contrast to the model of nationalization prevalent in post-war Britain, the state does not own and run specific firms or industries. Rather, it owns a portfolio of assets spread across firms and industries and it functions as a passive rentier, taking a return on its assets but not seeking to exercise control over how specific firms or industries are run. The returns to this wealth are to be used to help finance public spending. In recent years, Gerald Holtham has sought to revive interest in this idea, which he has called the 'community fund'. In his description of an ideal property-owning democracy, Meade envisages community funds that hold around 50% of the nation's productive assets. This picture of (literal) semi-socialism is, to be sure, wildly utopian by contemporary standards, but an important research area for contemporary social democrats concerns how governments might establish and develop community funds of this kind.

One interesting family of proposals, drawing on the example of the Alaska Permanent Dividend Fund, focuses on how governments might use the proceeds from auctioning the use-rights to various natural resources and environmental goods to establish these sorts of funds. In the United States, advocates of this approach have developed a proposal for a 'Sky Trust' which would derive its income from the sale of carbon emission permits to companies using fossil fuel. Other proposals focus on the sale of use-rights to 'spectrum

space' for use by telecommunications firms. (The most recent auction of spectrum space in Britain, in March 2000, raised £35 billion.) Community funds of this kind would provide a possible revenue stream to support the expense of more generous wealth-spreading policies.

2. A vision of the citizen's stake. Another key element of Meade's model of a property-owning democracy is what he terms the 'social dividend'. Each individual should have, as a right of citizenship, a claim on the capital of the nation. Meade envisages this as a periodic cash payment or basic income, but there are in fact a variety of forms which this citizen's stake might take. Looking to the long-term, we need a clear vision of the citizen's stake to which reforms in the short/medium-run are linked. Here I offer one possible model for the long-term.

The model consists of a set of core life accounts. These include: (1) a start-up account; (2) a time-out or sabbatical account; and (3) a retirement account. The purpose of the start-up account is to enhance options at the start of adult life and give everyone some initial financial security. The purpose of the time-out account is to ensure every person a reasonable opportunity to take time out from employment during working life. The purpose of the retirement account, obviously, is to provide a pension.

The CTF can be seen as an initiative designed to provide a start-up account for all. But we need to build on the existing CTF to ensure it does indeed provide a decent start for all by increasing the progressivity of planned top-ups while there are limited funds available. The SG can be seen in similar terms. It aims to help those who never had a decent start. And even in a world where all did have a decent start, it would be important to have policies like SG to help people who make poor use of their initial account. But, as suggested above, the SG can also be seen as a way of getting people started on retirement saving and so as a precursor to the development of a fuller form of retirement account. Proposals for banking leave and deferring salary in return for greater leave can be seen as initial steps towards the development of time-out accounts. More work is required to explore how we might start to move towards something more radical, e.g., to a situation where each citizen has a right to, say, three years time-out over a working life with adequate income.

The ideas floated in this short paper are all tentative and intended to provide a starting-point fir further discussion. In closing I wish only to emphasize again that this is a discussion that the left needs to have. The ambition of the left should not be only to alleviate the effects of wealth inequality and asset poverty but to challenge directly these features of a capitalist society. An inclusive assets policy is essential if the left is to rise to this challenge.

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Credits

i I would like to thank Dominic Maxwell and Sonia Sodha of the Institute for Public Policy Research for their input into this thinkpiece, particularly in considering future development of the Child Trust Fund.

ii W. Paxton and M. Dixon, 'The State of the Nation: An Audit of Social Injustice in the UK', in N. Pearce and W. Paxton, eds., Social Justice: Building a Fairer Britain (London, Institute for Public Policy Research, 2005), pp.21-61, specifically pp.52-54.

iii See G. Kelly, A. Gamble and W. Paxton, 'Stakeholding and Individual Ownership Accounts', in K. Dowding, J. De Wispelaere and S. White, eds., The Ethics of Stakeholding (Basingstoke, Palgrave, 2003), pp.42-64, specifically pp.43-44.

iv On this relationship, I am indebted to the discussion in B. Ackerman and A. Alstott, The Stakeholder Society (New Haven, Yale University Press, 1999).

v R. Walker, 'Opportunity and Life Chances: The Dynamics of Poverty, Inequality and Exclusion', in A. Giddens and P. Diamond, The New Egalitarianism (Cambridge, Polity Press, 2005), pp.69-85.

vi See R. Boshara, 'The Rationale for Assets, Asset-Building Policies, and IDAs for the Poor', in R. Boshara, ed., Building Assets: A Report on the Asset-Development and IDA Field (Washington, DC, Corporation for Enterprise Development, 2001), pp.5-24; and W. Paxton, 'The Asset-Effect: An Overview', in J. Bynner and W. Paxton, The Asset-Effect (London, Institute for Public Policy Research, 2002), pp.1-16. For a more sceptical view, see S. McKay and E. Kempson, Savings and Life Events (London, Department of Work and Pensions, 2003).

vii I take this phrase from P. Van Parijs, Real Freedom for All: What (if Anything) Can Justify Capitalism? (Oxford, Oxford University Press, 1995). Van Parijs argues in this book for a policy of unconditional basic income, rather than an inclusive assets policy of the kind I discuss here, but there are important family resemblances between these ideas.

viii See S. White, 'Rediscovering Republican Political Economy', Imprints 4, 2000, pp.213-235, and The Civic Minimum: On the Rights and Obligations of Economic Citizenship (Oxford, Oxford University Press, 2003). See also R. Dagger, 'Neo-Republicanism and the Civic Economy', Politics, Philosophy and Economics 5, 2006, pp.151-173, from whom I take the term 'neo-republican'.

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xi G. Kelly and R. Lissauer, Ownership for All (London, Institute for Public Policy Research, 2000).

xii E. Kempson, S. McKay, and S. Collard, Incentives to Save: Encouraging Saving Among Low-Income Households (Personal Finance Research Centre, University of Bristol, 2005).

xiii Fabian Society, Commission on Taxation and Citizenship, Paying for Progress: A New Politics of Tax for Public Spending (London, Fabian Society, 2000); M. Lewis and S. White, 'Inheritance Tax: What Do the People Think? Evidence from Deliberative Workshops', in W. Paxton and S. White with D. Maxwell, eds., The Citizen's Stake: Exploring the Future of Universal Asset Policies (Bristol, Policy Press, 2006), pp.15-36.

xiv D. Maxwell, 'Towards a Citizen's Inheritance?', in Paxton and White with Maxwell, eds., The Citizen's Stake, pp.37-54.

xv L. Boyes and J. McCormick, 'Having the Time for Our Life: Reworking Time', in Paxton and White with Maxwell, eds., The Citizen's Stake, pp.165-176.

xvi Boyes and McCormick, 'Having the Time for Our Life', p.169.

xvii Boyes and McCormick, 'Having the Time for Our Life', p.170.

xviii R. Altman, 'Beyond Tax Relief: A New Savings Incentive Framework', in W. Paxton, ed., Equal Shares? Building a Progressive and Coherent Asset-based Welfare Policy (London, Institute for Public Policy Research, 2003), pp.42-56; P. Agulnik and J. Le Grand, 'Tax Relief and Partnership Pensions', Fiscal Studies 19, 1998, pp.403-428.

xix One of the justifications for tax relief on pensions is that they represent deferred income, which is taxed later in retirement if pension income is above the single person's allowance. But double taxation occurs elsewhere in the system so this is not a compelling justification.

xx I take this phrase from J. Rawls, The Law of Peoples (Cambridge: MA, Harvard University Press, 1999).

xxi See N. Pearce, W. Paxton and S. White, 'Conclusion: What is the Best Way Forward for the Citizen's Stake?', in Paxton and White with Maxwell, eds., The Citizen's Stake, pp.177-191.
See J. Meade, Agathatopia: The Economics of Partnership (Aberdeen, University of Aberdeen, 1989) and G. Holtham, 'Ownership and Social Democracy', in A. Gamble and T. Wright, eds., The New Social Democracy (Oxford, Blackwell, 1999), pp.53-68. For related visions to that of Meade, see also M. Fluerbaey, 'An Egalitarian Democratic Private Ownership Economy', Politics and Society 21, 1993, pp.215-233; R. Unger, Democracy Realized: The Progressive Alternative (London, Verso, 1998), and What Should the Left Propose? (London, Verso, 2006); R. Unger and C. West, The Future of American Progressivism (Boston, Beacon Press, 1998); and Z. Cui, 'Liberal Socialism and the Future of China: A Petty Bourgeoisie Manifesto', paper presented at the International Economic Association Round Table, 'Market and Socialism in the Light of the Experiences of China and Vietnam', School of Business & Management, Hong Kong University of Science & Technology, Clear Water Bay, Kowloon, January 14-15, 2005. Available on-line, http://zhiyuancui.ccs.tsinghua.edu.cn.
D. Bollier, 'Using Stakeholder Trusts to Reclaim Common Assets', in Paxton and White with Maxwell, eds., The Citizen's Stake, pp.55-67. \

xxiv For further discussion, see Paxton and White with Maxwell, eds., The Citizen's Stake.

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