

Why Do Assets Matter?

Assets, Equality and Ethnicity –
Building towards Financial Inclusion



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Runnymede Financial Inclusion Programme

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Omar Khan

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Glossary

Assets: economic resources. These can be tangible or intangible, and current or fixed. Sometimes the term 'assets' is used to include financial assets only; that is, excluding housing and pensions values.

Collateral: An asset used to secure against a debt. Collateral is often required to get a loan, and it can also reduce the cost of a loan. If a debt is not repaid, the collateral can be seized by the lender.

Debt: See liability.

Equity shares: A model in which two or more entities share the value of an asset. For example, a homebuyer may purchase a portion, say 70%, of the equity of his or her property, with the remaining 30% being held by an investor, public body or partner.

Financial wealth: Savings plus investment (not including pensions and housing) minus debts.

Fixed assets: Assets that cannot easily be converted into cash ('non-fungible'), e.g. equipment, land, buildings, computers, fixtures and fittings.

Gross assets: The total sum of a person's or household's savings and investments, including pension wealth and housing.

Individual Development Account (IDA): An account developed in the USA in the 1990s to increase the savings rate of low-income households. IDAs typically offer 'matched' savings rates, or other non-interest-paying mechanisms to grow their savings.

Individual Savings Account (ISA): An account developed in the UK in the 1990s (applied in 1999), to encourage savings by allowing investors to save and/or invest within a limited tax-free 'envelope'. Government contributes the tax it would otherwise have taken.

Intangible Assets: Things of value that cannot be easily converted into cash or consumed directly, for example human capital, patents or copyrights.

Liability: A present obligation from past action. In financial terms, these obligations are the same as debt.

Liquid Assets: Assets that can be easily converted to cash. Cash itself is the most 'liquid' asset.

Marketable wealth: Marketable wealth is more or less 'liquid', and includes savings and investments, but typically not pensions and housing. (See also financial wealth)

Matched Savings: A different way of rewarding savings than interest, and used to augment small savings or regular savings in company or government schemes by 'matching' government or company contributions to what the saver has contributed in pre-defined proportions. There is a long tradition of matched savings, even if they are not normally understood as such, e.g. public-sector and company pension schemes (both defined benefit and defined contribution, though with very different levels of employer contribution). The Saving Gateway is an example of a government matched savings scheme, as are ISAs, where the government contributes the tax it would normally have taken.

Net assets (also net worth): Gross assets minus a person's or household's total debts or liabilities. (See also liability)

Nominal wealth: Wealth that is difficult to realize in full, and that is likely to be illiquid – property being perhaps the best example.

Pension wealth: The total value of what a person holds in pension funds. It is at some stages nominal wealth in the sense that its value has to be realized via annuities and lump sum payments on maturity.

Savings and investments: Savings are often thought of as an asset of sorts, typically held in cash and often contrasted to investments. Savings are about providing insurance for later expenditure, i.e. a kind of delayed expenditure. Investments can provide income and are seen as vital to the growth of the economy in general and entrepreneurialism in particular.

Subprime: Refers to loans where the rate of interest is significantly higher than the bank rate of interest. In the United States, the equivalent of the Bank of England's interest rate is called the 'prime' rate, while loans that charge much higher sums are 'subprime'.

Tangible assets: Things of value that can be touched, for example property, equipment and cash. Not all tangible assets are liquid assets.

Value Added Tax (VAT): A consumption tax on goods in the UK and throughout Europe.

Wealth: Savings plus investments (including pensions and housing) minus debts. (See also net assets)

Abbreviations

BME: Black and minority ethnic people

CTF: Child Trust Fund

DWP: Department for Work and Pensions

IPPR: Institute for Public Policy Research

ONS: Office of National Statistics (now National Statistics)

SG: Saving Gateway

Foreword

Wealth, and their relationship to it, preoccupies very many people in the UK today.

Whatever people's lifetime aspirations and expectations of accumulating wealth, in reality very few ever acquire significant amounts of what researchers and policymakers call *assets*. While income inequality in the UK attracts more attention, asset inequality in fact outstrips it in significance, with wide-ranging consequences for us all, not least in terms of social mobility. In 2003, according to the Organisation for National Statistics, the wealthiest 1% owned about 20% of the UK's marketable wealth, whereas in contrast 50% of the population shared only 7% of the total wealth. The National Equality Panel, reporting just this month, has found that whereas the top 10% of families in the UK have asset wealth in excess of £850,000, the bottom 10% of families can lay claim to less than £9000 worth of assets – nearly 100 times less.

A cycle of inequality persists, often an intergenerational one: the less income you have the fewer your opportunities to accumulate assets; the fewer assets you have, the more you are likely to pay for credit, leaving you with less disposable income to save for accumulating assets. This link between assets and social mobility explains why our report focuses on asset-based policy, especially for groups that currently lack them.

For example, Black and minority ethnic groups are twice as likely as white groups to have no savings, with 60% of Black and Asian people in the UK having no savings at all. The National Equality Panel (2010) has disaggregated these data further, finding that whereas average household asset wealth among white families was £221,000, the figure for Pakistani groups was £97,000, for Black Caribbean £76,000 and for Black African and Bangladeshi groups only £21,000 and £15,000 respectively.

Our report highlights gender too – women have less pension wealth than men and lower savings generally – and we discuss the impact of age on asset-holding. The lifetime consequences for people who do not have assets and do not accumulate assets as they age are wide ranging, and include:

- Limited access to higher education
- Lack of options in choosing your first job
- Limits to the amount of time you can devote to childcare
- Decreased capacity for buying or renting a property of your choice
- Restricted ability to travel, socialize, have a fulfilling retirement and more besides
- Problems with access to affordable credit

Yet for many, the notion of saving with a purpose has lost its meaning since credit has taken over as the way of paying for key purchases, even very expensive ones. And although 100% mortgages are almost extinct in the fallout from the financial crisis, the size of deposit needed to buy a property has reduced significantly over time and people have been allowed to borrow more.

The consequence of this balloon of borrowing is a mountain of debt. And since 2008 we have become less sanguine about the size and security of these debts – and of the wider financial system – as their effects on our economy have become clearer. Now would be a good time for government to seriously examine the value of promoting savings, asset building and better financial management in general, and support a more solid future for all by responding with constructive short- and long-term policy proposals.

With this purpose in mind, our report examines, in some detail, who has assets and who does not. It discusses the variety of reasons why assets matter, both socially and financially. And it proposes ways to increase asset-holding so that everyone in the UK has a better chance of realizing their aspirations and participating in a more socially responsible and egalitarian British society.

Dr Rob Berkeley
Director, Runnymede Trust
January 2010

Executive Summary

Six main observations about the importance of assets

- Asset inequality significantly affects many people in the UK, including Black and minority ethnic people, and should be a concern of policymakers.
- Financial inclusion policy fails to take adequate account of asset-building policies, despite the fact that assets are even more unequally held than income and directly affect financial inclusion.
- Assets are important because they have clear financial benefits, but they can also improve people's life-chances and social relations.
- Asset-building policies should go beyond consumer choice and financial goals to consider their impact on reducing social inequalities.
- Alternative policies have the capacity to deliver the benefits of holding assets to everyone, but introducing these policies will require political leadership.
- To benefit the worst off, assets must be financially stable, and also provide above-inflationary increases, something markets can't always reliably deliver.

This report considers the role of assets from the perspective of ethnicity. More broadly, it evaluates how assets are currently distributed among people of varying characteristics, and whether measures could be taken to increase asset-holding in the United Kingdom today. In our report we refer to these measures as 'asset-based' or 'asset-building' policies. One of our key findings is that Black and minority ethnic (BME) people have fewer and lower-value asset-holdings than white people. Although there are many reasons for this lower asset wealth, asset-building policies could potentially provide BME people with different and multiple benefits.

Having few or minimal assets – or indeed having no assets – will cause problems for people who run into financial difficulty or require emergency funds to buy a product they need. Assets can also impact on people's capacity to take up everyday financial goods and services. There is evidence that those who save early on in life

are more likely to save through their lifetimes and build up assets this way. Evidence also tells us that assets, whether saved for or otherwise acquired, have a marked effect on a person's life-chances.

Assets have developed a particular importance for thinkers on both the left and right of the political spectrum. Whether to defend the importance of property rights or to link the distribution of assets to citizenship status or to identify a wider 'asset effect' on people's attitudes towards and behaviour in markets, political thinkers and activists have for some time ascribed a role to assets beyond their financial implications.

Key observations and data on asset distribution and equality

The report divides into four main sections and a conclusion. Key findings, summarized section by section, are tabulated on pp. 5, 6 and 7. Within the body of the table, we expand on the six main findings highlighted above

Key observations and data on asset distribution and equality tabulated (1)

Section 1	
Section 1 surveys the evidence on asset-holding in the UK, with particular reference to ethnicity, gender and age	
1.1 Asset distribution	Assets are far more unevenly distributed in the UK than income. Anywhere from 10–20% of people have no assets at all, whereas the highest-earning 10% have half of all assets.
	'The wealthiest 1% owned approximately a fifth of the UK's marketable wealth... Half the population shared only 7% of total wealth' (http://www.statistics.gov.uk/cci/nugget.asp?id=2)
	Two-thirds of households in Britain have less than £3000 in non-housing savings and assets.
Assets are very unevenly held in the UK (as section 1.1 of our report explores). By documenting the evidence on asset-holding in the UK, we show just how many people lack adequate assets and how inequitably these assets are distributed compared with income. We explain the causes and effects of having very few assets, or none.	
1.2 Housing, assets and policy	Roughly 70% of UK homes are owner-occupied. Fully 40% of the total wealth in the UK, or £6875 billion, is held in housing.
	In 2003 the most wealthy 50% owned 99% of the non-housing asset wealth; put another way, half the UK population owned only 1% of non-housing assets.
	As an asset, housing is not only fairly <i>illiquid</i> , but its value is often 'nominal'. Whatever the valuation of a property, homeowners rarely realize this full value, especially as an asset.
	Housing is not just an asset. Everyone needs a place to live, and people derive real financial and emotional benefits from living in homes that they own. The legitimate aims of housing policy will not always coincide with the goals of asset-building policies.
1.3 Assets and ethnicity	Every Black and minority ethnic (BME) group is less likely to have savings, and less likely to have large amounts of savings, including ISAs, premium bonds and stocks and shares. Over 60% of Asian and Black British people have no savings at all, twice the rate for white people.
	BME people have a much less diverse range of types of saving products, no more than one-third as many as white people.
	While Bangladeshi (55%), Pakistanis (45%) and Black Africans (30%) are particularly likely to work in low-income employment, all BME groups have lower incomes than white groups; this affects their ability to build up savings.
	Some BME groups have very low home-ownership rates, especially Bangladeshi, Black African and Black Caribbean groups. Those who do own homes, e.g. Pakistanis, may own properties of less value.
Black and minority ethnic people have low levels of assets (section 1.3 of our report examines the situation). It is hardly surprising that migrants and their children have fewer assets than those with generations of inherited wealth in the UK. We are not referring only to the well-off, but people who over multiple generations have inherited money or property from parents or other relatives. This disadvantage for relatively recent migrants is compounded by higher rates of unemployment and in-work poverty among almost all BME groups. If BME people were starting out with more assets to support them, they might not have to take up low-paying jobs with poor prospects for further training and promotion.	
1.4 Assets and gender	Because assets are usually measured in terms of households, it is not easy to measure women's assets precisely.
	Women have far less pension wealth than men, and because of lower earnings over a lifetime they also hold lower savings generally, as much as 40% less than men's savings.
	Women have less savings because of the gender pay gap, because they work fewer hours, and because they are more likely than men to leave paid employment for caring responsibilities.
1.5 Assets and age	Asset-holdings increase with age and peak at 60–64. Most people under 30 have negative financial wealth and few assets. By the time people are over 80, however, their median wealth is only £8000 compared to £26,000 for people aged 60–64.
	Older people may be asset-rich but poorly off because they cannot easily access the capital in their home or other assets. They may end up selling their homes for financial or other reasons.
	Inequalities in savings and assets increase as people leave the labour market. For retired households in the bottom quintile of UK society, 82% of their income comes from cash benefits (mainly their state pension), whereas among the wealthiest quintile this figure is only 27%.
	Given the younger age profile of BME people, they will be less able to avail themselves of familial redistribution of assets over generations, raising significant questions for social mobility.

Key observations and data on asset distribution and equality tabulated (2)

Section 2	Section 2 addresses the aims of asset-based policy. Five justifications are identified and explained.
2.1 Financial/Wellbeing arguments	These arguments for asset-building highlight their importance in improving people's financial wellbeing: either because of the importance of assets for participating in the wider economy (i.e. financial inclusion); or because people need a basic level of assets to live a decent life. Low levels of asset-holdings can reduce the possibility for saving and investment in the wider economy,
2.2 Distributive concerns	Arguments about asset distribution: efficient markets require everyone to be able to access and compete on fair terms; while fair life-chances require a more equitable distribution of assets.
2.3 Behavioural arguments	Owning assets has widespread and diverse effects on people, especially on their confidence, ability and willingness to engage in the economy and plan for the long term: 'while income feeds people's stomachs, assets change their minds' (Sherraden (1991) <i>Assets and the Poor</i> , p. 13).
2.4 Citizenship	Some asset-based arguments focus on the idea that people ought to hold a 'stake' in their society. Equal participation arguably requires people to have some minimal level of assets; 'having a share' in a community perhaps corresponds to the notion of 'community cohesion'.
2.5 Freedom-based accounts	<p>Political thinkers and activists have long linked asset-holding with individual liberty. Economists sometimes argue that a right to property is a foundational freedom on which all others rest, an argument that is also prominent among philosophical libertarians.</p> <p>Left-leaning strains in the liberal tradition have said that for people to make free choices they should not be forced to work in conditions they would otherwise reject in order to survive. If people had assets they might consider alternative employment, training or education, allowing them more freedom to choose the kind of life they would like to lead.</p>
<p>In Section 2 of the report we have been considering and clarifying why assets matter. Among the possible benefits that derive from the possession or acquisition of assets are: improving people's financial status and decision-making, changing people's behaviour, improving opportunities, promoting personal autonomy, fostering basic citizenship, facilitating access to better housing, upgrading labour market outcomes, encouraging community cohesion, supporting greater economic efficiency and, beyond that, (national) economic growth and fiscal stability. Such a range of possible benefits demands a variety of assessments of existing or possible asset-building policies (addressed in Sections 3 and 4 respectively), whether in terms of justifying a particular policy, or evaluating whether a policy has achieved its intended outcomes. For example, a policy that intends to improve life-chances must have more wide-reaching effects than one that simply aims to provide people with savings to pay for basic goods, such as washing-machines or boilers.</p>	

Section 3	Section 3 evaluates existing asset-based policies, and how they have been justified by policymakers
3.1 Government understanding of asset-building	Existing asset-building policies such as the Child Trust Fund and Saving Gateway seem to fit behavioural and perhaps poverty-alleviation aims better than other 'asset-effect' aims, though the Treasury recognizes the value of social justice arguments as well.
3.2 Child Trust Fund	With the Child Trust Fund, wealthy parents are likely to be able to provide their children with a fund of £30,000 or more, while poorer children will likely end up with less than £2000. This outcome undermines social justice goals, and increases inequality.
3.3 Saving Gateway Scheme	<p>Studies suggest that only 12% of the bottom quintile will benefit from the Saving Gateway, so this scheme might be more usefully interpreted as a poverty alleviation measure.</p> <p>BME people might receive a slight advantage from both of these policies: because they have a younger age profile (and so proportionally more of them will have a Child Trust Fund); and because they are more likely to be disadvantaged (and so qualify for the Saving Gateway).</p>
3.4 Housing and asset-based policies	Alternative home-ownership policies are less developed. They could achieve an asset-effect, but are difficult to implement, and housing policy aims may not accord with asset-based policy.
<p>In Section 3 our report's focus on reducing ethnic and other inequalities has influenced our assessment of asset-building arguments and policies. Could asset-building measures reduce ethnic inequalities in the UK today? From the perspective of race equality – and indeed equality generally – the most obvious justification for assets is that they should augment the life-chances of those who currently lack them, and thereby support their participation in democratic decision-making institutions. This signals a need for more significant policy interventions than the current asset-based welfare agenda recommends. Although policies may have multiple aims, our focus on ethnic inequalities means that in our report we have emphasized the wellbeing, distributive and citizenship arguments in favour of asset-building.</p>	

Key observations and data on asset distribution and equality tabulated (3)

Section 4	
<p>Social justice and citizenship aims probably require more systematic (and costly) policies than those currently considered. Section 4 considers such policies, and explains how they have long been grounded in ideas such as private property, wellbeing, and participation.</p>	
4.1 Asset inequality and taxation	<p>Existing policy taxes assets quite lightly, which is of much greater benefit to the well-off than the poor. For example, Capital Gains Tax is only 12%, and only 6% of estates pay inheritance tax.</p> <p>No asset-based benefits are provided to people in the bottom income quintiles, whereas tax incentives on savings, especially ISAs and pensions, but also Child Trust Funds, provide those in the upper income quintiles with greater assets than if those savings had been taxed as income (or indeed as ordinary savings products).</p>
4.2 Inheritance tax and wealth tax	Inheritance tax might be viewed more favourably if the revenue was used to create a universal citizen's stake, or assets for all.
4.3 Council tax or property tax?	Higher and more targeted property taxes could be levied, with the resultant revenue used to provide assets for all.
4.4 Basic or citizen's income	Depending on how difficult it proves to offer financial education to everyone, on the varying asset-management capabilities of different people, and on how many people end up losing money on their assets, 'basic income' policies could do better than asset-building strategies in meeting the ambitious goals suggested by the 'asset-effect'.
4.5 Shared or collective ownership	A variety of more or less radical ideas and policies advocate providing shared ownership for everyone in (part-)publicly owned institutions or in public goods. These policies match up with citizenship ideals, but they also provide a more universal way of improving asset-holding for those who currently lack them.
<p>Section 4 of our report has been looking at alternative policies – how and why they could help realize the benefits that holding assets can bring. Policies must be viable and cost-effective. However, critical thinking about how we might achieve the various aims of asset-building allows us to reflect on the ideal of an ownership society in which every citizen has some asset or other. If that ideal requires radical policies, we should either admit that it is an ideal that we cannot (wholly) achieve, or consider how we might make those seemingly radical policies more feasible to implement.</p>	

5 Conclusions	
	To be effective, any assets must be stable and secure, but also grow at more than the rate of inflation.
	BME people should be made aware of their eligibility for existing saving schemes. This includes asset-based schemes such as the Saving Gateway and Child Trust Fund, but also ISAs and premium bonds.
	BME people would benefit from universal policies that achieved asset-building for everyone, but they would also benefit from targeted policies inasmuch as they currently lack assets.
<p>In conclusion (Section 5) our report considers how, in order to benefit the worst off, assets must be financially stable, and also provide above-inflationary increases, something markets can't always reliably deliver. Many of the asset-building policies we've recommended focus on the importance of equal citizenship in particular. Market-based outcomes, however, typically result in some 'losers', and do not often deliver equal benefits for all. This raises a question for asset-based policies, and indeed policies such as stakeholder pensions: how fair or reasonable is it to expose people to the vagaries of the market when the intention is to provide security of outcome? Especially if the aim is to provide every citizen with a stake, then market-based asset-building measures may need to be supported by a government guarantee to protect people from losing some agreed basic value of their asset and the benefits that should flow from it.</p>	

Introduction

This report examines the role of assets in relation to the ethnicity of those people who have them – and those who currently have few assets or none. More broadly, it evaluates how asset distribution varies with the varying characteristics of the asset-holder, and considers measures that might be taken to increase asset-holding in the United Kingdom today. Throughout the report we refer to these measures as ‘asset-based’ or ‘asset-building’ policies.

Discussions on financial topics are often perceived as technical and difficult, but most of us are familiar with the underlying ideas, concepts and products (e.g. equity, assets or pensions), and more or less successfully negotiate the financial world on a day-to-day basis. Nevertheless, it is important to be clear and consistent about such terms as ‘assets’ and ‘savings’. In a glossary to this report, we have defined a variety of financial concepts and products, but first we outline what we mean when we use the word ‘assets’ in this report, and therefore what we consider to be ‘asset-building’ policies.

Defining assets

We define assets to mean *anything that has economic value*, though most typically something that can be *converted into* cash. Countries and companies may be said to hold assets, but this research focuses mainly on assets held by individuals or households. As they obviously have economic value, savings are a kind of asset, although it is perhaps useful to distinguish assets from savings, mostly on the basis of the *purpose* for which items of economic value are accumulated.

Not only are *savings* usually held more or less directly in cash, but typically they do not provide the same opportunities for investment as other kinds of assets. An asset such as a house or investment fund can provide a beneficiary with an income (for example in rent), while savings tend to grow more slowly and only later are they spent or invested in other ways. Saving money for a rainy day is a way of delaying or preparing for later expenditure or consumption, while other kinds of

assets provide the more diverse and wide-ranging benefits we outline in section 2.

This report follows discussions of asset-based policies in focusing on particular kinds of assets. First, asset-building policies should provide *tangible* assets – namely those that we can see or touch such as cash or property. Our various skills and personal characteristics are sometimes called ‘assets’: a firm or a country counts the skills, talents and combined technological developments of their employees or citizens as intangible assets (for example, patents). While it is of course important that policy improves people’s education and skills, these *intangible* assets (or human capital) are not the focus of this report. As a distinctive policy concern, asset-based measures aim to build up *tangible* assets such as cash, bonds, stocks, property or pensions.

This raises a second consideration, namely the extent to which asset-based policies should provide *liquid* assets. The greater the ‘liquidity’ of an asset, the easier it is to convert into cash. Cash savings accounts are therefore very liquid. By contrast, assets with long repayment tenures are far less liquid, while company holdings such as property, equipment or machinery are often described as ‘fixed’ assets, as it is very difficult to convert these assets into cash. An important complication for some fixed assets is that they may depreciate in value, a problem that is exacerbated in times of rapid technological change and innovation (a computer that is only a few years even months old is worth much less than what was paid for it).

The third and final consideration for asset-based policies is whether we should be concerned with increasing people’s *gross* assets or their *net* assets. Readers will be familiar with this difference in terms of income, where their *gross* income is typically defined as a pre-tax, pre-expenditure salary. Like net salary, *net assets* are calculated post-expenditure, which in the case of assets typically requires us to count and deduct a person’s *liabilities* from their gross assets. Liabilities are simply pre-existing obligations, ordinarily to pay back a debt. Debt is not unduly threatening when

individuals are able to pay back or meet their liabilities.

The vast increase in debt – and its acceptance as a way of increasing consumption and growing the economy – suggests that asset-building policies should concentrate on *gross* assets. A person with a large mortgage and/or other debts (for example a business loan), but who is able to afford their monthly repayments without too much difficulty may have negative *net* wealth: the value of their liabilities may outstrip the value of their assets. Furthermore, while a house is indeed an asset, a mortgage is a liability, and it is often hard for someone who struggles to meet his or her mortgage (and other) liabilities to tap into the putative value of their house. Yet if well-off individuals appear to have minimal or even negative wealth, this is not because they lack sufficient assets; rather it is because they have used (or ‘leveraged’) those assets for various purposes, such as taking out an additional loan for further investment.

While people may indeed make poor decisions about the value of a particular asset or liability, negative wealth is not always a bad thing: successful entrepreneurs often risk losing their prized assets in order to have the opportunity to grow their businesses further.

On the other hand, it may be argued that people do not and cannot have negative net assets for a long period of time. Some wealthy people may be able to invest even where they have negative wealth, but at some point they must repay all their liabilities. By contrast, poorer people who struggle to meet their liabilities are unlikely to be able to ‘leverage’ their minimal assets for investment purposes, so it may seem inadvisable for policy to focus on *gross* assets. Rather, asset-building policies should ensure that people – particularly poorer people – have adequate *net assets* to provide them with the various benefits we outline in section 2.

Why asset-building policies

The technical difficulties already suggested indicate that policy research on assets or finance (e.g. public policies that raise the question of ‘tax incentives’) is perhaps destined for think-tank recycling bins or university libraries. However, the ongoing economic crisis has reminded us all of the impact of financial institutions on our everyday lives, and raised the question of how financial products and services might be provided to all of us. This

is not only a matter of independent regulators acting responsibly and effectively, but of citizens understanding and debating how our shared and individual resources can and should be distributed.

Having only minimal assets – or indeed having *no* assets – is a problem for people who run into financial difficulty or require emergency funds to buy a necessary product. But assets can also impact on people’s capacity to take up other financial goods and services. More specifically, those who don’t have any savings or assets are exposed to high charges for credit and insurance products, and are likely to find themselves in further financial difficulty.

There is also some evidence that those who save early on in life are more likely to save throughout their lifetimes and that assets have a strong influence on a person’s life-chances.¹ Assets have been particularly important for thinkers on both the left and the right side of the political spectrum. Whether to defend the importance of property rights or to link the distribution of assets to citizenship status or to identify a wider ‘asset effect’ on people’s attitudes towards and behaviour in markets, assets have long inspired political thinkers and activists beyond their financial implications.²

The global economic downturn has highlighted the importance of assets to the broader economy. In the UK at least, this has resulted in debate and concern over the housing market, and the viability of an ever-increasing rate of growth in property value. But if the link between the current economic crisis and ‘toxic assets’, especially risky mortgage products, is widely accepted, this has not resulted in a sudden appetite for technical analysis of finance and economic theory. While a certain amount of technical language is necessary in any discussion of assets and their benefits, the concepts involved are not as difficult as they might appear.

Most people in the UK think about the financial and non-financial aspects of their asset holdings on a weekly basis whether they realize it or not. Whether it comes to buying or selling a home, putting away money for a pension, saving for a grandchild, or buying various kinds of bonds, almost everyone in the UK would like to build up assets for themselves and their families. Some people, however, find it more difficult to build up their assets, and this report assesses whether groups including Black and minority ethnic (BME) people are particularly likely to have reduced

access to assets. It further considers how various policies could help to build assets for everyone in the UK, whether and how assets could be provided to everyone, and how they could be more fairly distributed. In particular, it moves the debate beyond the important but dominant question of housing, and considers how non-housing policy could support alternative sources of wealth.

Structure of the report

Our report is divided into four main sections. In the first, we survey and explain current asset-holding in the UK, including by ethnicity, gender and age, while in section 2 we summarize various ways in which assets may be important for people. Section 3 evaluates existing asset-building policies; and section 4 considers alternative asset-building policies, especially those that respond to existing inequalities.

Policy recommendations and policy constraints

Within the report we consider some unlikely (and sometimes unpopular) policy suggestions, including public ownership, basic income, inheritance tax and the pros and cons of levying a wealth tax. It is important to get people to think more critically about how we might achieve a fairer society, but we must also recognize that proposed solutions may not be feasible for a variety of reasons. Constraints may be financial (i.e. a proposed policy would be too costly), or derive from the fact that an idea may have no obvious policy recommendation. This report takes seriously one of the major lessons of behavioural economics – that we need to understand how people actually respond to economic markets and make decisions about their lives more generally. One example is the debate on the kinds of incen-

tives, restrictions and ‘top-ups’ we should attach to the Child Trust Fund. Another is to point out the undoubted economic benefits of a wealth tax or greater inheritance tax, as people would be likely to ‘leverage’ their assets efficiently – that is, they would be more likely to use and invest their savings to maximize their growth.

Methods and data

The main method employed in this report is the literature review. The literature on assets is extensive and diverse, but there is less discussion of how assets interact with various ‘equality strands’, namely race, gender, disability, sexual orientation, age and religion/belief. We link these issues and literatures to show why assets matter for responding to inequality specifically on grounds of race, gender and age.

Current data on assets is mainly based on surveys conducted for the government, especially the Family Resources Survey (FRS) carried out by the Department of Work and Pensions. This report also presents data from Ipsos-MORI’s financial services survey as previously analysed in Runnymede’s report on *Financial Inclusion and Ethnicity*.³

Other sources of data referenced in this report include the British Household Panel Survey (BHPS), the English Longitudinal Survey on Ageing (ELSA), and the Households Below Average Income (HBAI) dataset. Although we do not directly cite these sources, some of our evidence derives from primary or secondary sources that have analysed these datasets.⁴

Finally, we interviewed a dozen experts in this area, including academics and practitioners, who are recognized by name in the Acknowledgements. We also discussed this research with policy-makers from HM Treasury, especially the Child Trust Fund and Financial Inclusion teams.

Section 1: Understanding Assets and Their Distribution in the UK

Assets are important for everyone in the UK. However, the widespread agreement that assets are a good thing does not mean that everyone agrees on *why* they are good. Among the possible benefits that derive from the possession of assets are: improving people's financial status and decision-making, changing people's behaviour, improving opportunities, promoting personal autonomy, basic citizenship, housing, labour market outcomes, community cohesion, greater economic efficiency, and even supporting (national) economic growth and fiscal stability.⁵

Given such multiple benefits, it might seem impossible to provide a single answer to the question 'why do assets matter?' In section 2 of this report we consider a variety of reasons why asset-building policies matter, and explain why their distribution should or should not be a matter for public policy. But to understand and assess those arguments, it is first necessary to understand some basic facts: How many people in the UK have assets? How are these assets distributed among various groups and individuals? Do some people face particular struggles in getting assets? What is the link between assets and social mobility? How are assets accrued over the life-course, and how is their accumulation affected by other individual characteristics such as ethnicity, gender and age?

Whatever the reasons why assets matter, it is clear enough that assets have a significant impact on people's wellbeing in liberal democracies such as the UK, and that increasing people's assets would have beneficial effects both for them and for society at large.⁶ And given the low level of assets among the majority of people in the UK – one in five people in the UK has no assets at all⁷ – it may seem obvious that asset-building policies are necessary, however they are justified. Poorer people in particular often lack 'rainy day' savings, and can be exposed to 'subprime' and even illegal lending practices in times of financial need.⁸ The next subsection outlines existing evidence on asset-holding and their distribution among different groups in the UK.

Table 1. Marketable wealth

	1976	1986	1996	2000	2003
Most wealthy 1%	21	18	20	23	21
Most wealthy 10%	50	50	52	56	53
Most wealthy 50%	92	90	93	95	93

Source: Adapted from ONS: <http://www.statistics.gov.uk/cci/nugget.asp?id=2>

1.1 Asset distribution in the UK

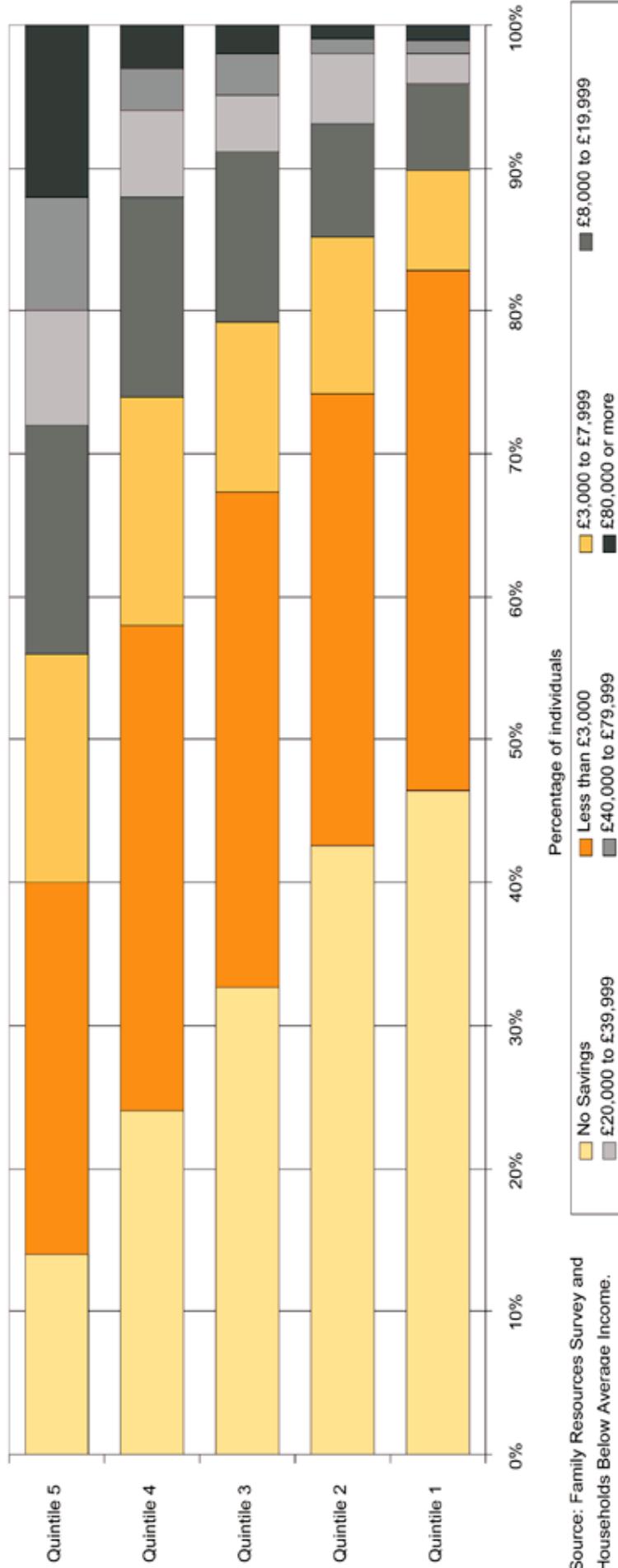
While income inequality attracts greater attention, assets are far more unevenly distributed in the UK than income.⁹ Anywhere from 10% to 20% of people have no assets at all, whereas the highest-earning 10% have half of all assets (see Table 1).

Existing data on assets are based on different surveys, with different sample sizes and methodologies, which makes it difficult to compare these data; but there are fundamental difficulties for those collecting data on assets.

First, existing surveys are typically based on *households* rather than individuals. As families often share assets, this is understandable – perhaps unavoidable – particularly in terms of data collection. However, as individual family members rarely share assets equitably, the *benefits* of family assets are unlikely to be shared by all. Second, because the data on assets are self-reported, people may misrepresent their actual financial position, either because they do not fully remember all of their savings and wealth, or because they do not wish to report a private and sensitive issue. Finally, although the major surveys cited in this report – the Ipsos-MORI Financial Services Survey and the Department for Work and Pensions Family Resources Survey – aim for a representative sample, they may undercount those who lack assets, a problem the DWP responded to by changing its methodology for the 2007/08 Survey.¹⁰

According to the Office for National Statistics (ONS): 'The wealthiest 1 per cent owned approximately a fifth of the UK's marketable wealth in 2003. In contrast, half the population shared only 7 per cent of total wealth'.¹¹ As Table 1 indicates,

Figure 1. Savings and assets by equivalized net disposable household income quintile (before housing costs), 2006/07



Source: Family Resources Survey and Households Below Average Income.

these figures have stayed quite consistent over the past 30 years, and do not seem to have changed considerably during either Conservative or Labour administrations. By ‘marketable wealth’, this table means *tangible* assets, namely those that can be touched such as cash, but also assets such as housing, which cannot easily be converted into cash (i.e. less ‘liquid’ assets).

There are important reasons why assets are very unevenly distributed, even more so than income: ‘People build up assets during the course of their working lives and then draw them down during the years of retirement, with the residue passing to others at their death’.¹² Furthermore, those who develop significant and stable savings see their interest ‘compound’ over time, meaning that their assets grow more for them than for those who have to dip into their savings or are unable to save consistently during their lifetime. Finally, assets are generally taxed less than income, meaning that those who accumulate assets and savings keep a larger share of their asset growth than they do of their income.¹³ As we suggest in later sections, the various tax incentives for savings, including ISAs, pensions and Child Trust Funds, only increase inequality, as the better-off can allocate a higher proportion of their disposable income to saving within these various products. In addition, better-off people face higher income-tax rates and so benefit more from a tax-free savings product.

Evidence for how income differential over a lifetime leads to greater inequality in asset-holdings can be found in the Department of Work and Pensions Family Resource Survey. Note that unlike the ONS data above, these data do *not* include housing. Figure 1 indicates that nearly half of those in the bottom quintile have no *non-housing* assets, and less than 5% have more than £20,000 in liquid assets. The correlation between higher income and greater assets is quite strong, but it is worth noting that even among the richest quintile almost 15% have no (non-housing) assets and another 25% have less than £3000 in savings and assets. Around two-thirds of all households in Britain reported less than £3000 in non-housing savings and assets.

In the next subsection we explain why many asset calculations do not include housing, and also how including housing changes the overall picture of asset-holding. Before doing so, we further clarify the difference between *gross* assets and *net* assets, a distinction we raised in the introduction. The

vast majority of households have significant debt, whether in terms of their mortgage, personal or business loans, or indeed credit card debt, and this is subtracted from their gross assets (such as the value of their homes) when calculating their net assets. But debt is not always bad, especially if that debt is based on profitable investments, or a mortgage.

This report does not argue that asset-building policies should focus on net or gross assets. For purposes of investment and wealth creation, *gross* assets are arguably more important, and debt is a central part of our economy. Perhaps counter-intuitively, focusing on a more equitable distribution of *net* assets may lead to greater inequality. This is because *liabilities* (or debt) are even *more* unequally held than assets; that is, the wealthy hold a greater proportion of overall UK debt than they do of overall UK assets. But should this imbalance be a proper target of policy? Should we really try to ‘redistribute’ liabilities or debt so that the poor have more of it and the wealthy have less?

Rather, it may be argued that debt-reduction is a more important or urgent policy priority than asset-creation; and perhaps we should aim to eliminate debt for the poor before we consider asset-building measures. Debt-reduction policies could still accord with asset-building policies that focus on *net* rather than *gross* assets (because reducing debt increases net assets by definition). In any case, it is important to appreciate the role of debt in financing consumer spending in the UK, how it is distributed, and how it may undermine the benefits of asset-building policy.

1.2 Housing, assets and policy

It may seem surprising or odd to exclude housing value when calculating asset holdings, particularly as the average price of a home in the UK is over £200,000, and roughly 70% of UK homes are owner-occupied. Fully 40% of the total wealth in the UK, or £6875 billion,¹⁴ is held in housing. In fact many figures on assets exclude housing, especially those that concentrate on liquid or financial assets. As an asset, housing is not only fairly *illiquid* (i.e. difficult to convert into cash), but its value is often described as ‘nominal’. Whatever the official market valuation of a property, homeowners rarely realize this full value, especially *as an asset*.

Not only is it somewhat uncertain whether a

homeowner can sell their property at a particular price, but most sellers still hold significant liabilities against the value of their home – namely their mortgage. Unless their mortgage has been repaid, they will never actually receive the full asset-value of their home in cash: the value of this asset is therefore ‘nominal’. Furthermore, people are often unwilling to use their home as collateral. They value their home too much to risk losing it if they default on an additional loan or lose money in an investment. Finally, everyone must live *somewhere*. A homeowner who sells their home either has to rent out another property to live in, or – as seems more likely given the UK’s homeowner culture – buy another property whose value will again be only ‘nominal’ unless they have fully paid off their mortgage.

But given its prominence as a kind of asset for most people, it is worth explaining the contribution home-ownership makes to overall assets and their distribution in the UK. The ONS explains that wealth distribution is ‘even more skewed if housing is excluded from the estimates, suggesting this form of wealth is more evenly distributed’.¹⁵ Non-housing assets include stocks and bonds, but also savings and pensions. Table 2 shows that in 2003 the most wealthy 50% owned 99% of all non-housing asset wealth; put another way, half of the UK population owned only 1% of non-housing assets.

The change seen since 1976 can in part be explained by rising house prices: whereas 40% of all wealth in 1977 came from housing, by 2003 this had risen to 57%. Furthermore, home-ownership has risen considerably in the past 30 years, from 58% (or 12 million households) in 1981 to 70% (18 million households) in 2003. One-third of this increase has been accomplished through the Right to Buy policy first implemented in 1980.¹⁶

The various aims of the Right to Buy policy are

Table 2. Marketable wealth less value of dwellings (%)

	1976	1986	1996	2000	2003
Most wealthy 1%	29	25	26	33	34
Most wealthy 10%	57	58	63	73	71
Most wealthy 50%	88	89	94	98	99

Source: ONS ‘Share of the Wealth’ report: <http://www.statistics.gov.uk/cci/nugget.asp?id=2>.

discussed further in section 2. It was prominently supported by the Thatcher government in the early 1980s as a way of increasing home-ownership for people who lived in publicly owned properties (‘council’ or ‘local authority’), and to reduce the number of properties owned by the state.¹⁷ The policy granted a ‘discount’ to council tenants based on their length of tenure, with the result that the more long-standing the tenant, the less they had to pay to own their properties.

Rather than analyse the contentious consequences of Right to Buy, we merely note here that housing is not just an asset. Everyone needs a place to live, and many people derive real financial and indeed emotional benefits from living in homes that they own. For example, owning a home can save people costs once their mortgage is paid off, which is particularly important for when people retire: a much greater pension income would be required to cover the cost of renting a house in retirement. People have legitimate and sincere desires to own their home, but this isn’t always primarily a financial decision. Indeed, recent evidence found that 36% of all children in poverty live in owner-occupied households, suggesting that home-ownership is not always a guarantee against poverty, and still less a sure way of building up assets.¹⁸

As section 2 explains, we should not assume that the legitimate aims of housing policy will coincide perfectly with the goals of asset-building policies. If people are to benefit from an ‘asset effect’ (most notably defended by Michael Sherraden), it may be important for them to have a more diverse range of assets, and to be able and willing to sell or use their assets as collateral (for example as a deposit) in times of financial need. These are actions that people may understandably be reluctant to take when it comes to their home.

1.3 Assets and ethnicity

Current evidence on assets and savings broken down by ethnic group suggests that every minority ethnic group is less likely to have savings, and less likely to have large amounts of savings (see Tables 3 and 4). Data on asset-holding particularly is quite poor, but are due to be updated and expanded in current and forthcoming surveys, especially the ONS’s Wealth and Asset Survey, and the UK Household Longitudinal Survey.¹⁹

However, existing data compiled by the ONS,

Table 3. Savings by ethnicity

Ethnic group	No savings (%)	Less than £1500 (%)	£1500 to £10,000 (%)	£10,000 to £20,000 (%)	£20,000 or more (%)
White	32	21	26	9	13
Asian or Asian British	60	15	16	5	5
Black or Black British	63	18	15
Mixed	46	25
Other ethnic groups	50	18	19
All households	33	20	25	8	13

Source: ONS (2005: 81).

DWP and Ipsos-MORI indicate that Black and minority ethnic people are less likely to have savings. Table 3 shows that some minority ethnic groups are twice as likely as the white group to have no savings at all, in fact over 60% of Black and Asian people in the UK have no savings.

Not only do BME people have a lower rate and amount of savings, but this deficit applies across the range of mainstream financial products, including ISAs, premium bonds and stocks and shares

Table 4 presents DWP data for ISAs and premium bonds, products that are in part supported by government policy, and shows that only Indian groups are even half as likely to take up these products, with Pakistanis and Bangladeshis being very unlikely to have taken up either product.

The IPSOS-Mori Financial Services dataset provides further evidence of the lower level and diversity of savings. As with DWP data in Table 4, the data in Table 5 show that all BME groups are much less likely to have ISAs, premium bonds

Table 4. Savings prevalence of different products, by ethnicity (DWP, 2006 FRS Survey)

Ethnic group	ISAs (%)	Premium Bonds (%)
White	34	24
Indian	25	10
Bangladeshi/ Pakistani	7	2
Black/Black British	14	6
Chinese	n/a	n/a

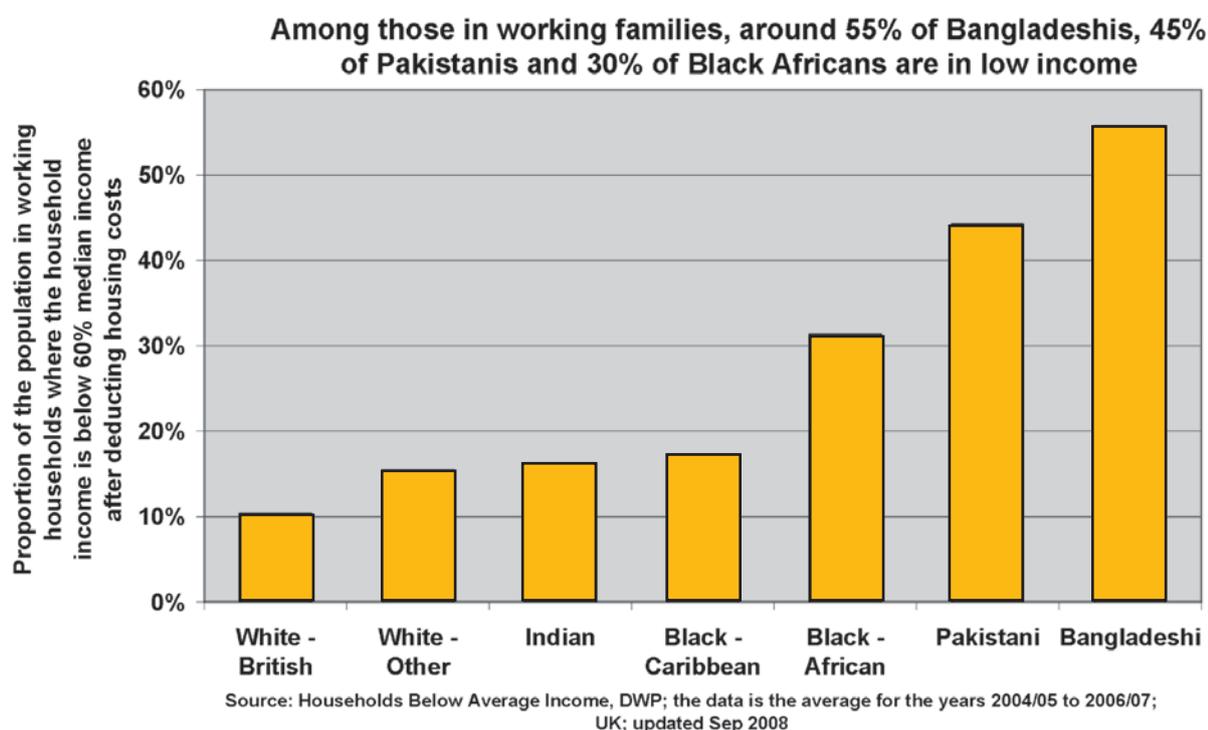
and shares, and breaks down the data even further in terms of different ethnic groups. It is difficult to know which of the data is more accurate for premium bonds and ISAS, but the trend is the same in both datasets: white groups are clearly most likely to have taken up these savings products, followed by Indian groups, while Black groups and Bangladeshis and Pakistanis are far less likely to have done so.

Table 5. Savings prevalence of different products, by ethnicity

Ethnic group	Investment types (100 scaled to White groups)	Stocks and shares (%)	Premium Bonds (%)	ISAs (%)
White GB/Ireland	100	18	20	26
Indian	35	12	4	8
Pakistani	20	7	3	4
Bangladeshi	12	3	1	4
Caribbean	20	7	2	6
African	15	5	2	4
Chinese	20	1	0	7

Source: Analysis of Ipsos-MORI Financial Services Survey commissioned by the Runnymede Trust.

Figure 2. Low income and ethnicity



Note: Reproduced from: www.poverty.org.uk

The first column in Table 5 further indicates the low level and diversity of BME savings. The IPSOS-Mori MFS asked respondents about the kinds of investments they had, and in this table 100 represents the average response for white people. Only Indian groups reported even *one-third* as many products as white respondents, and all other groups reported between one-eighth and one-fifth as many investment types. This suggests that the savings of minority ethnic groups are much less diversified, and thereby more exposed to risk. If they were to build up more – and more diverse – assets, they would be less exposed to the ups and downs of their income, the savings rate, and the wider economy.

Three other areas of research can explain Black and minority ethnic people's lower rate of savings. Number one is their higher rate of unemployment and their greater likelihood of living in a low-income household. Not only are most BME people less likely to be in paid employment (though rates of course vary across different ethnic groups), but they are also more likely to have lower wages and to suffer from in-work poverty (see Figure 2). People in general build up their assets over a lifetime. Those on low incomes are less likely to have been able to build up significant savings

or assets over their lifetimes. While Bangladeshis (55%), Pakistanis (45%) and Black Africans (30%) are particularly likely to work in low-income employment, all BME groups have lower income than white groups (see Figure 2).²⁰

A second area that deserves further analysis is that of home-ownership. While Indian and Pakistani groups match White British rates of home-ownership, other groups, in particular Bangladeshi, Black African and Black Caribbean, are much more likely to rent from the social sector; and Chinese and Black African households are disproportionately found among private renters (see Table 6). Lower rates of home-ownership are likely to result in lower levels of assets, especially among those for whom the home is their single greatest asset – i.e. most people in the UK. Furthermore, even where BME groups have high rates of home-ownership, they are more likely to be paying off a mortgage, in part because of their younger age profile compared to that of white home-owners.

Even among groups that own their homes, there may be significant variance in terms of the *value* of those homes as an asset. For example, the three areas with the greatest proportion of Pakistanis are Birmingham (average property cost £139,146),

Table 6. Housing tenure by ethnicity, 2007–08

Ethnic group	Owned outright (%)	Owned with mortgage (%)	Rented from social sector (%)	Rented privately (%)
White British	34	38	17	11
Mixed	11	29	33	28
Indian	28	45	7	20
Pakistani	29	40	16	16
Bangladeshi*	9	29	47	15
Black Caribbean	14	35	41	11
Black African	4	24	44	28
Chinese*	15	37	13	35
All	31	37	18	14

Data: Housing in England 2007–08 (DCLG, 2009: 33).

*According to the DCLG, ‘These estimates have a large sampling error because of their small sizes and (for Bangladeshis) the clustering of the Bangladeshi population’ (as above, p. 33). Data from previous surveys suggested similar figures, with a slightly higher number of Bangladeshis living in social housing.

Bradford (£140,195), and Glasgow (£126,621); and in London the boroughs with the largest Pakistani populations (Newham, Waltham Forest and Redbridge) are among those with the lowest property values; at the time of these estimates (Q2 for 2009) the average property value in the UK was £224,024.²¹

A third and final point concerns social mobility, and its relationship to lower asset-holdings among Black and minority ethnic groups. On the one hand, the lower asset profile of BME people reduces their social mobility (as parents are less able to help their children financially in the competition for jobs and education), while on the other hand reduced social mobility prevents people from building up assets. Without assets, a person is less able to take advantage of opportunities, and poorer life-chances limit their opportunities to accumulate assets.

There is limited data on social mobility and ethnicity in the UK, but an important study by Lucinda Platt has shown that mobility for many Black and minority ethnic groups is lower than for white groups, although some groups, especially Indian Sikhs and Hindus, seem to have done significantly better.²² Yaojun Li has analysed employment data that suggests that Black African people were most likely to become unemployed in the 1980s economic downturn, even though these people were among the most highly qualified in the sample.²³ Richard Berthoud’s analysis of

the economic downturn in 2008–09 found that black and minority ethnic people (and people with lower educational qualifications) are once again more disadvantaged than others by the ongoing recession.²⁴ These data suggest that many Black and minority ethnic people have worse outcomes in the labour market, a factor that obviously reduces their opportunities for social mobility, and their ability to accrue assets.

1.4 Assets and gender

It is difficult to measure asset-holdings by gender as most existing data is based on households rather than individuals. In the past it has been assumed that assets are jointly and equally held by married couples, but researchers and policymakers no longer assume that household assets are fully shared between men and women, including homes. As even savings accounts are often jointly held, data on women’s asset-holdings remain difficult to calculate.

Pensions provide perhaps the best evidence on asset differential between men and women. Pensions are indeed an asset. They have the particular benefit of being both stable and non-accessible for short-term consumer spending. But those virtues also have drawbacks, as we explain in section 4. Evidence from the late 1990s showed very large differences between men and women with respect to pensions wealth (see Table 7). Women’s lower earnings and their greater

Recent reforms to pension provision

Basic State Pension and State Second Pension (S2P)

Whilst the gender pension gap has narrowed somewhat as a result of changing labour market participation and previous pension reforms, inequalities remain with only around 30% of those women who reach State Pension Age (SPA) currently being entitled to a full Basic State Pension (BSP) compared with around 85% of men. Income-wise, women reaching SPA currently receive, on average, less than 80% of the state pension that men receive. Retired men also average between £50 to £100 per week more private pension income than women of the same age.

Women's state pension coverage will improve significantly as a result of reform, as they will increasingly build up an individual state pension entitlement based on their own contributions, regardless of their marital or partnership status. Around 75% of women reaching SPA in 2010 will be entitled to a full BSP. This will rise to over 90% in 2025, and government estimates that, by 2050, state pension outcomes will be very similar for men and women.

Reforms have significantly simplified the additional state pension (once known as SERPS, now the Second State Pension or S2P). At present this additional pension is extremely complex because of the number of changes that have been made to it since its inception in 1978. Pensions Acts measures of 2007 and 2008 will mean that government will in future be able to provide workers with earlier, clearer and more accurate forecasts of their overall state pension income (BSP plus S2P) in retirement.

Another key reform means that contributions for those who act as family carers will be valued equally with paid contributions. Changes to the crediting arrangements will extend the coverage of the State Second Pension (S2P) to a wider group of carers, people with children up to the age of 12 and people with more severe levels of impairment (i.e. those eligible for the support component in Employment and Support Allowance, who will start to build up S2P after 13 weeks rather than 52), and ensure that credits for part-years will count. All of these credits are crucial when building up an entitlement to S2P: there is no reduction in qualifying years as with the BSP, so every single year credited counts.

These reforms will benefit all contributors and people who are credited into the system, but with the targeted nature of S2P, going forward, low earners will particularly see the value of these measures.

Pension Age

Between 6 April 2010 and 5 April 2020, measures introduced in the Pensions Act 1995 will bring about the gradual equalization of the State Pension age at 65 for both men and women.

The Pensions Act 2007 introduces further increases in the State Pension age, so that by the middle of the century it will have increased from 65 to 68. This will affect everyone born on or after 6 April 1959. Starting in April 2024, it will increase from 65 to 66 by April 2026, and will then increase from 66 to 67 between April 2034 and April 2036, and from 67 to 68 between April 2044 and April 2046.

Personal Accounts (PAs)

- PAs are a real opportunity to ensure that anyone with economic disadvantage (women, long-term disabled, ethnic minority groups, carers) can save for their retirement in a good-quality pension scheme.
- Lack of private pension provision is the key factor that determines inequality in retirement income. Taken in conjunction with the changes to BSP, PAs could make a real difference to the value of women's pensions in future and to reducing pensioner poverty in general.
- When this scheme comes into being, those not offered or able to take up a company or private pension scheme can be automatically enrolled into a PA. There will be a range of such schemes for people to choose among. DWP estimate that 10 million people could be eligible for auto enrolment into PAs; 48% of these will be women; and women in this target group are concentrated at the lower income end (43% of all female employees earn between £5000 and £15,000).

http://www.pensionspolicyinstitute.org.uk/uploadeddocuments/PPI_EHRC_The_Underpensioned_Nov_2008.pdf

<http://www.dwp.gov.uk/docs/ia-state-pension-reform-09.pdf>

Table 7. Pension wealth, by gender

Total pension wealth (£s)			
	Female (n = 17,547)	Male (n = 17,849)	All (n = 35,396)
Median	1,809	12,834	5,171
Mean	8,843	29,089	19,052
% of which:			
State	43%	38%	39%
Occupational	47%	55%	53%
Other	10%	7%	8%

Source: Warren et al. (2001).

likelihood to take career breaks or to work part-time explain much of this variance.

Gender differentials in pension wealth are likely to have reduced in the last 15 years, in part because of government policy eventually to equalize the state pension between men and women. Recent Pensions Policy Institute research has shown how changes in pension policy will result in the convergence of men's and women's state pension, though not for many decades.²⁵ Two major changes are worth noting. First is the reduction in 'qualifying' years (to 30 years) of National Insurance contributions necessary for a person to earn a full state pension. Second is the 'second state pension', currently a somewhat less understood policy that ultimately aims to improve pensions provision for lower-income people. Though there is a lot of detail, the basic aim of the second state pension can be expressed as making provision for access to a higher level of pension for low earners, but also disabled people, part-time workers and carers, who may have contributed less than the required level of National Insurance payments. As women are more likely to be carers and to work part-time, or to leave the labour market for a number of years, they are likely to benefit from these changes.

While the changes to state pension policy will result in equal state pensions for men and women in about four decades (see the Info Box opposite), women will still have much lower pensions provision in the future so long as they earn lower wages and have to take time out of paid employment to look after children or older relatives. The gap in occupational pensions is likely to have reduced in the past 20 years through women's greater participation in the

labour market, but around a third of working women do not have a pension, compared to less than a quarter of men.²⁶ Furthermore, because on average women live longer than men, their pension pots provide them with lower levels of annuity income.

Pensions inequality is, however, only one aspect of the story of unequal asset holdings by gender. According to a recent report, women have lower levels of savings, and are also more likely to have savings

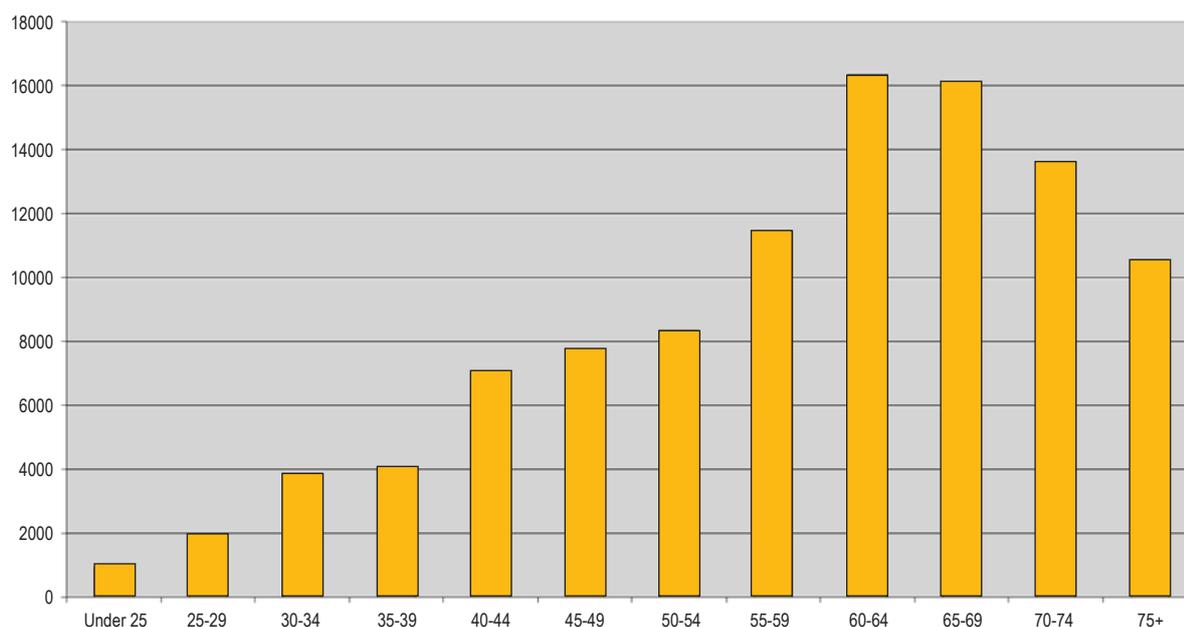
products that 'correlate with a reduced financial wellbeing and with a lesser tolerance of risk'.²⁷ There are deeper but well-recognized reasons why women have lower savings and assets than men, mainly related to differences in labour market participation and caring responsibilities.

As we have already explained, savings accumulate over a life-course and people who save more regularly and in larger amounts will have much larger savings for later in life. In terms of employment, women currently earn 12.8% less per hour and 21% less per week than men (in part because of greater levels of part-time work), a deficit that has significant implications for their ability to save and accumulate interest on savings.²⁸ The gender pay gap and their lower labour market participation result in women earning substantially less than men over their lifetime, with the result that the savings and investment gap between men and women may be as much as 40%.²⁹

The above research also shows how women's assets are significantly affected by particular life events, most notably the birth of a first child. Both men and women see a significant drop in their savings following the birth of a first child. But because men's employment is not usually disrupted in the same way as women's when they have a child, men are usually able to recover this difference more quickly and go on to earn greater amounts later in life.

1.5 Assets and age

A number of intricate issues revolve around age and asset-holding. On the one hand, data show that asset-holding increases significantly as people get older.³⁰ Most people under age 30 in the UK have negative levels of savings and wealth, while those

Figure 3. Financial wealth (£) by age band

Source: Banks, Smith and Wakefield (2002).

over 60 can be holding hundreds of thousands in ‘nominal’ wealth. As we explained above much housing wealth is ‘nominal’ because people cannot easily convert the value of property into cash, and because people hold liabilities (or debt) in the form of a mortgage; people may also be unwilling to ‘leverage’ or use housing wealth to finance further investments.

Two main factors explain older people’s higher levels of assets. First, as we have already explained, people build up savings and assets across a whole lifetime and, as interest is compounded, people gain significantly larger amounts as their savings ‘pot’ gets bigger (pensions savings in particular). Second is the impact of home-ownership, and of mortgage repayment terms in particular. Most people sign a 25- or 30-year mortgage when they buy their home, during which period they are carrying a mortgage debt that is sufficient to offset the value of any savings or assets they may hold. Once a mortgage is repaid, however, a person’s home becomes a very valuable asset, but this is unlikely to occur before they reach 50 or 60 years of age.

On the other hand, many elderly people are ‘asset-rich’ but still quite poorly off because they cannot easily access the capital in their home or other putative assets (hence the interest in ‘equity release’, a policy we consider below). Recent PPI research suggested that there is a large potential

stock of housing wealth for older people to use as an asset, but also discusses limitations on the possibilities for (and value of) equity release for many people.³¹ Financial and other reasons often require older people to sell their homes, whether to move closer to their children, to pay for in-house health and social care, or indeed to move into a care home. As Figure 3 shows, although people become wealthier as they get older, this peaks at 60–64, after which wealth levels decline. Although initially this is a somewhat gradual decline, by the time people are aged 80+, their median financial and physical wealth (this term is from ONS and represents what we have called ‘tangible’) is only £8000, compared to £26,000 for people aged 60–64.³²

A further problem is the high level of inequality among older people, which is greater than that of the overall population.³³ Inequalities in savings and assets increase in reality as well as significance as people retire from work or are forced to leave the labour market. Without steady employment income, most older people need to draw income from their savings and assets (including pensions). As Table 8 shows, for retired households in the bottom quintile, 82% of their income comes from cash benefits (mainly their state pension), whereas among the wealthiest quintile this figure is only 27%.

Furthermore, although assets peak at 60–64 years, increasing levels of debt for younger people

Table 8. Income, pensions and wealth among retired households, 2007/08 expressed as a percentage of income per annum

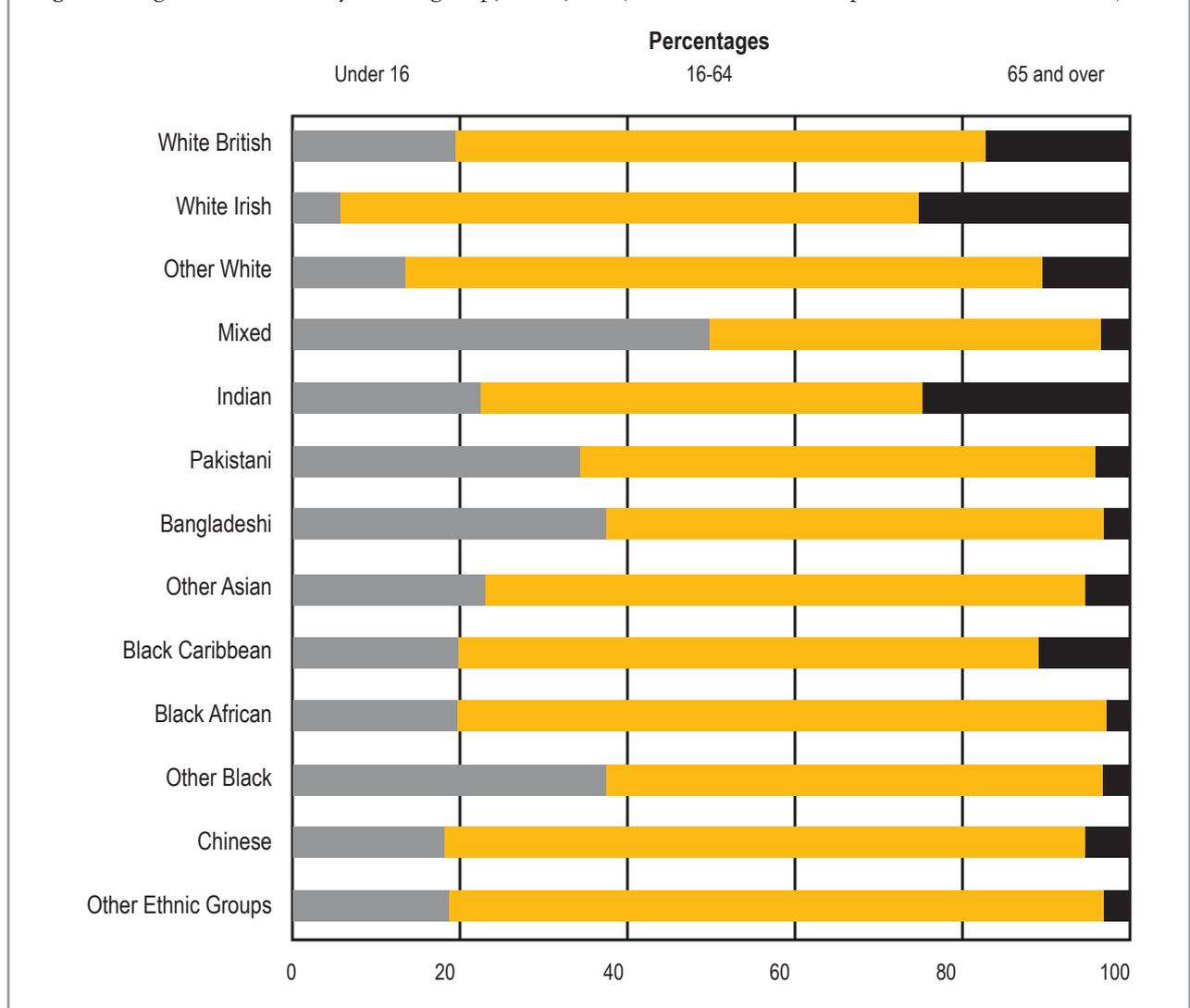
	Bottom quintile	2 nd quintile	3 rd quintile	4 th quintile	Top quintile	All retired households
Final income	£10,789	£14,579	£16,167	£19,154	£29,046	£17,947
Of which:						
Occupational pensions	£981	£2458	£4234	£7118	£17,116	£6381
Cash benefits as a percentage of gross income	82	74	65	53	27	50
Retirement pension as a percentage of cash benefits	84	75	70	72	73	74

Source: Barnard (2009: 11).

and the unprecedentedly high valuation of the housing market has made it increasingly common for parents to support their children for longer in the life-cycle, by contributing towards a deposit on a house, for example. The Centre for Policy on Ageing has shown how some of these factors have

led to increasing financial abuse of older people, most notably by their children and other relatives.³⁴ Of course most financial transfers between parents and children are not abusive, and without such support far fewer first-time buyers would be able to afford their homes.

Figure 4. Age distribution: by ethnic group, 2001, GB (2001 Census data reproduced from ONS site)



Given the younger age profile of Black and minority ethnic people, they will be less able to avail themselves of this kind of familial redistribution of assets over generations. And given the link between social mobility and assets, this raises significant equity considerations. As the BME population ages, we will be better able to compare their asset-holdings and those of other groups. Figure 4 shows the age distribution by ethnic group at the 2001 Census, showing that 50% of Mixed people, and 35–40% of Bangladeshi, Other Black, and Pakistani people are under 16; this compares to under 20% for White British people.³⁵

1.6 Section summary

By documenting the evidence on asset-holding in the UK, we have shown in particular how many people lack adequate assets and that assets are more inequitably distributed than income. In summary, this section has demonstrated that:

- Inequality in asset-holdings, which is more marked than income differentials, becomes even greater when home-ownership is removed from calculations.
- BME groups have lower incomes, and therefore are less able to save.
- Some BME groups are less likely to own homes, and so have to rely on non-housing assets, which they often also do not have.

- Those who do own homes are likely to do so in areas where house prices are much cheaper, which results in lower asset values for the home-owners.
- Older people tend to have greater and more diverse assets, but among the over-60s inequalities increase once more. For most home-owners in the UK, accessing the capital in their largest single asset, their home, is not straightforward.
- Women have fewer and less diverse assets, due mostly to disrupted earnings following the birth of children, but also because of other caring responsibilities and lower pay.
- Evidence on equality and asset-holding is not very good, and further research is necessary to understand how assets are distributed among people in the UK. Recent surveys will fill some of these gaps, but will still require sophisticated analysis to understand asset-holding by ethnicity.
- BME groups will much less often be the beneficiaries of a redistribution of familial assets as these families are ‘young’ in terms of asset-building.

In sections 3 and 4 of this report we assess existing policies and possible alternatives for asset-building and distribution. Section 3 addresses justifications for asset-building policy, or why people have recommended asset-building policies.

Section 2: Why Do Assets Matter?

To assess and understand the consequences of asset-building policies – or indeed any policies – we must first understand *why* assets might be promoted. This is important in terms of justifying a particular policy, and also in evaluating whether a policy has achieved its intended outcomes. For example, a policy that intends to improve life-chances must have more wide-reaching effects than a policy that simply aims to provide people with savings to pay for basic goods, such as washing machines or boilers. This is not to suggest that either goal is more important, just that asset-based policies aimed at improving life-chances might look quite different from those that intend to promote a savings habit.

In this section we offer five basic arguments for why assets matter. Broadly speaking, advocates of each of these arguments tend to emphasize two contrasting approaches. One approach is concerned primarily with improving the efficiency of economic markets. The second is more explicitly normative and value-sensitive, highlighting principles that should be adopted as norms to guide society and individual action, such as social justice or personal autonomy. However, as we outline below, it is not easy to arrive at widely acceptable definitions of and requirements for efficient markets, let alone normative concepts. This leads to disagreement, even among those who agree that a particular aim is indeed desirable, on how policy might achieve these aims. We do not explicitly endorse any of the arguments outlined below. What we do is highlight the considerations that are relevant to an evaluation of existing and proposed policies. We also explain why these different arguments may or may not be relevant in the context of building assets for Black and minority ethnic people, or indeed for all those who currently lack them.

2.1 Financial/Wellbeing arguments

Some defenders of assets focus primarily on their financial benefits – how assets help individuals to get loans and build further wealth. To understand the importance of these effects, consider a person who faces an unexpected but necessary cost, such

as paying for a new washing machine or sofa or a funeral for a close family member. Most of us face eventualities like these at some point in our lives. Those who can afford to save usually try to put money aside to meet such costs, but many people struggle to make ‘rainy day savings’.³⁶

Thinking about these financial or wellbeing considerations can be approached either in terms of efficiency or justice. To take the efficiency arguments first: For a market economy to function efficiently and therefore successfully, everyone should be able to access and compete in the market on fair terms. Where people are limited in their access to savings, credit and other financial goods and services because they have no (or low-value) assets, they may be prevented from participating in markets, and markets are thereby inefficient.

At a macroeconomic level, countries need individuals to have a certain level of savings. While consumer spending drives modern economies such as Britain, too much individual debt has a serious impact on the stability of a particular economy, as evidenced in most developed world economies in the current recession. Not only does debt repayment reduce consumer spending (and so impact on the wider economy), but it also reduces the possibility for saving and investment.

In terms of the normative or justice-based arguments, having a minimum level of savings can be linked to the idea that everyone ought to have a basic standard of living. Some wellbeing arguments may advocate a very low baseline of £1000-worth of assets, while others might press for ten (or more) times that amount. For example, recent JRF research suggested a minimum income of nearly £14,000 per year, though this relates to expenditure rather than assets.³⁷

The important idea behind both justice-based and efficiency approaches is that everyone should have a basic minimum, however we specify the goods or opportunities that define it. Emphasizing the link between a basic minimum of assets with

an efficient and just capitalist market is nothing new. Such thinking dates as far back as the 16th century,³⁸ and historically such ideas have been promoted as policies by both the Liberal and Labour parties, a tradition we revisit below.

Whatever the minimum level of assets required for human wellbeing, those who have no assets will fall short of this level. As shown in section 1 above, Black and minority ethnic people are among those least likely to have assets. They also have less put aside in cash savings, earn lower incomes and are less likely to be home-owners. The assets they do have are likely to be less varied, especially among such products as stocks and shares. So whether a minimum level of assets is argued for on the basis of efficiency or social justice, BME groups, and indeed other groups in the UK who have no, or very low-level, assets would clearly benefit.

2.2 Distributive concerns

Many proponents of asset-building policy argue that people should not only have a basic minimum of assets, but that assets should be more fairly distributed in society.³⁹ While almost no-one argues that everyone in society ought to have the exact same asset share, the significant inequality in existing asset-holdings is considered to be unjustifiable both in terms of market efficiency and social justice.

As we have already suggested, efficient markets require that everyone should have the opportunity to compete against existing firms or those who provide a service. In existing markets, however, the costs of entry can be very high, and economists increasingly study the effects of certain unavoidable costs (e.g. the capital and labour requirements for an entrepreneur to compete in large-scale car or airplane manufacturing).⁴⁰ Other costs, however, are more easily supportable for everyone. One obvious example is education. To determine who is best able to take advantage of market opportunities requires that everyone should be decently educated, and that this should include a grounding in basic financial matters. In our existing market economies, where the cost of education and training is extremely high, even the most rigorous defenders of free markets have argued for a more equitable distribution of assets, a point we return to in sections 3 and 4.⁴¹ The basic point is that assets ought to be ‘leveraged’ – that is, used to

generate more income and wealth – and so are best utilized by more entrepreneurial (not to say more risk-taking) individuals in order to maximize wealth creation.

From the point of view of distributive justice, asset-based measures support fairness in life-chances. The idea that assets should be more evenly distributed has a long pedigree, dating at least to the time of the influential political theorists Thomas Paine (1737–1809) and the Marquis de Condorcet (1743–94).⁴² The barriers to fair life-chances in the UK may derive not simply from a lack of assets, but from inequality of asset-holding in the population as a whole. This obstructs social mobility: whereas wealthy young people can take a gap year or even spend many years exploring different careers and personal life plans because of parental support, poor young people cannot do so because their parents cannot afford (i.e. do not have the assets) to support them. In the US there is a good deal of evidence that high-income earners are less likely to ensure the middle-class position of their children if they lack assets. ‘New’ wealth is therefore less able to ensure the class position of their children than is ‘old’ money, the crude definition of which is a household that has accumulated assets over the generations.⁴³

2.3 Behavioural arguments

While financial and distributional concerns are the oldest arguments for asset-building, research that focuses on the way in which assets affect behaviour has recently brought the idea of asset-building onto the policy agenda. Behavioural arguments for asset-building vary depending on the kinds of behaviours that should be fostered, and also the ways in which such behaviours could or should be fostered (i.e. via incentives, government intervention, or through the market).

The current interest in asset-based policy seems to derive from a particular interpretation of the idea that assets have a significant impact on people’s decision-making and behaviour. According to Michael Sherraden, owning assets has widespread and diverse effects on people, especially on their confidence, and their ability and willingness to engage in the economy and plan for the long term:

Income only maintains consumption, but assets change the way people interact with the world. With

assets, people begin to think for the long term and pursue long-term goals. In other words, while income feeds people's stomachs, assets change their minds.⁴⁴

The idea of such an 'asset effect' doesn't necessarily require – but nor does it rule out – an equitable distribution of assets. Rather, it suggests that having some assets is good for individuals, and also for markets. Where people have assets, markets operate more effectively for at least two reasons. First, asset creation can allow everyone to access the market, and to consider how best to maximize their talents and efforts. Those without assets cannot easily make such choices and therefore end up in 'suboptimal' jobs in the labour market. A second explanation for why assets improve market efficiency focuses on their potentially transformative effects on people's attitudes and behaviour: that is, owning assets makes people recognize the economic benefits of such ownership, and ultimately encourages people to act on the basis of a profit motive to maximize the value of their asset.

This latter possibility points to a more explicitly normative argument for asset-building, typically associated with the political right and neoclassical economic theory. According to this theory, a person who owns assets (or property) is more likely to behave in an economically rational and self-interested way, by maximizing the value of their assets.⁴⁵ Although most neoclassical economists disavow the idea that their ideals have any implications for ethics, many proponents of an ownership society also clearly believe that home-ownership creates *better people*, and not just better markets.

Any claim that a particular set of behaviours is better than others is sometimes viewed as controversial, particularly where the state is involved in promoting those behaviours. Scepticism that any code of moral behaviour could ever be agreed was the stated reason why neoclassical thinkers such as Friedrich Hayek supported the market as a neutral arbiter of various preferences.⁴⁶ Hayek and his followers emphasize the diversity of views surrounding what constitutes a good life or action, and the resultant difficulty of resolving disagreements through moral argument; the market is then interpreted as a technical non-moral procedure for adjudicating these conflicts by determining the costs of these different 'preferences'. Yet while

Hayek claims to reject an endorsement of any particular way of acting, his theory does result in the greatest rewards for those who maximally pursue self-interested behaviour.

Another but perhaps less controversial 'behavioural' argument is that having assets results in a person behaving more prudently, and being better able to manage their money. While people will of course have different preferences and evaluative (moral) commitments, modern economies require certain skills and attitudes, and these may be better fostered by promoting asset-holding. Whether or not people should behave as neoclassical economics assumes, we need to think pragmatically about how people can benefit from the fair operation of markets, which remain an effective way of distributing goods and services and which are unlikely to be replaced in the delivery of financial products in particular.⁴⁷

The role of individual preferences has sometimes been downplayed by economists, many of whom take existing preferences as an unchangeable given. But if particular kinds of preferences can be changed or are likely to change, it then seems sensible to promote financial behaviour that will lead to better outcomes. Say, for example, that some minority ethnic or migrant groups have different savings preferences – for housing rather than pensions. Yet if these groups were to prefer putting their money into home-ownership because of the relative stability of housing in the countries in which they were born, rather than for pensions (which might be more reliable in the UK than housing) should policymakers attempt to 'incentivize' BME people and migrants to increase their take-up of pensions?

Note that the particular problem in this example is purely hypothetical (pensions are not necessarily more reliable than housing in the UK), but it arises from the possibility that different kinds of people will have different preferences. The difficulty for those who want to reject the idea of (re)shaping people's preferences is that some preferences and behaviour will lead to better or more stable outcomes than others, but people are not always in control of, or even aware of, how their preferences might influence their economic outcomes. If government is supposed not to shape people's beliefs and attitudes, neither can it remain agnostic if some people have significantly worse outcomes and lower levels of wellbeing than others.

2.4 Citizenship and the ownership-society

A fourth argument for asset-building policy is a citizenship argument. In general such arguments are normative – they suggest that citizenship ought to include ownership of some assets. These arguments relate to social justice concerns with the distribution of assets and can be compared to T. H. Marshall’s famous theory of citizenship rights.⁴⁸

According to Marshall, citizenship rights expanded from the 18th and 20th centuries to include first civil, then political and finally social rights. This typology is often invoked to explain and justify the welfare state, whereby everyone is ensured basic goods as a matter of citizenship, and in which redistributive taxation has ensured that everyone has a basic standard of living.

Citizenship arguments resonate with aspects of a wellbeing or distributional account, but are distinctive in explicitly linking assets to citizenship. While everyone contributes to and benefits from social cooperation, the political sphere requires all of us to participate as equals in public debate. Furthermore, the state is obliged to treat everyone with equal concern and respect and protect our rights in a way that markets and other institutions and personal relationships are not.

We may either emphasize how equal participation requires people to have some minimal level of assets, or perhaps, more controversially, suggest that the very notion of the political implies that everyone should share the benefits of social cooperation. Policies including public ownership, cooperatives and citizen’s stake make some use of these ideals, and further suggest greater democratic control over collectivized assets. An important debate in this context is whether people who do not contribute to or participate in the political process undermine justifications for asset-building policies on the basis of citizenship participation or contribution. For example, Stuart White has suggested that the notion of ‘reciprocity’ is an important requirement for asset-based policies; in other words, those who get a citizenship-based asset should in return contribute to and participate in democratic society.⁴⁹

These sorts of arguments have been largely associated with the ‘left’ of the political spectrum, but they have also occasionally been pursued by right-of-centre or conservative commentators. Those conservatives who place a high

value on community-belonging and traditional social practices sometimes argue that markets destroy those communities and traditions. A recent example is Philip Blond’s ‘Progressive Conservatism’ (or ‘Red Tory’) project that emphasizes the importance of providing ownership for the knock-on effects it has in supporting better and more cohesive communities.⁵⁰ Whether or not we agree with Blond’s proposals, we need to think more deeply about how ‘having a share’ in a community corresponds to the notion of ‘community cohesion’.

2.5 Freedom-based arguments

The fifth and final justification for asset-building policies relates to individual freedom. Political thinkers and activists have long linked asset-holding and individual liberty. Theorists such as John Locke developed an analogy out of the notion of ‘self-ownership’ to argue that individuals had a right to any land in which they had ‘mixed’ their labour.⁵¹ Because human beings ‘own’ their particular capacities, talents and efforts, Locke’s claim is that the products of our efforts should also be ours. The idea that the right to property is a foundational value in liberal society is central to much of the liberal tradition, and continues to inform centre-right analysis of individual freedom. Economists sometimes argue that a right to property is a foundational freedom on which all others rest, an argument that is also prominent among philosophical libertarians such as Robert Nozick.⁵² On the other hand, some left-leaning thinkers have also been moved by the Lockean argument, especially for those concerned that the value of a person’s labour might be ‘stolen’ unless we defend people’s right to own property.

More left-leaning strains in the liberal tradition have suggested an alternative linkage between ownership and individual freedom; for people to make free choices they should not be forced to work in conditions they reject in order to survive. It may seem that people are nowadays never required to work as ‘forced labour’, but theorists including Phillipe Van Parijs have questioned whether existing markets do provide ‘real freedom for all’.⁵³ For example, do people who have to take the first job on offer at age 18 really have equal freedom compared to those who spend a gap year travelling the world or those who begin a course at university? Here the argument is that if people had

assets they might consider alternative employment, training or education, allowing them more freedom to choose the kind of life they would like to lead.

2.6 Assets as one justification for policy

Before concluding this section, it is worth explaining an important point about policy in general, and asset-based policy in particular. This is that arguments for asset-based policies are not limited to the value of assets themselves or indeed to any of the justifications discussed above. Rather, assets are also implicated in other policy areas, such as housing, consumer confidence, the labour market and even in terms of the fiscal stability of the country.

On the one hand, these multiple desirable aims may seem a good thing for advocates of asset-based policy. If assets achieve so many desirable individual and social goods, how can they be criticized? On the other hand, these multiple aims make it more difficult to pin down exactly what asset-based policies are supposed to achieve. Furthermore, these aims may conflict, or at least the policies recommended may conflict. This arguably makes it more important to specify clearly which aims asset-based policies are proposed to achieve, and why and how the policy is designed in order to achieve these goals.

While we do not explicitly endorse any of the justifications listed above, this research concerns assets as a way of responding to ethnic inequalities. So although policies may have multiple aims, this focus on ethnic inequalities means that we are slightly more likely to emphasize the wellbeing, distributional and citizenship arguments for asset-building in the following two sections. That is, we consider how asset-building measures might reduce ethnic inequalities in the UK today.

2.7 Section summary

This section has addressed the question: what is the *aim* of asset-based policy. Responses have included: to make people more confident, to ensure better access to markets, to increase social mobility, to enhance social justice and to expand the notion of citizenship. This question matters not only because there is disagreement in the literature, but because the answers affect the kinds of policies we might develop, how existing

policies are framed, and how we assess policy consequences.

More specifically, we assessed five kinds of arguments for asset-building, each of which may be justified in terms of efficiency or justice.

- *Financial/Wellbeing arguments.* Assets are important for improving people's financial wellbeing. This may be because having assets supports people's participation in the wider economy (i.e. their financial inclusion), or because a basic level of assets is essential for people to live a decent life. Low levels of asset-holdings can also jeopardize the wider economy, and reduce the possibilities for saving and investment.
- *Distributive concerns.* Discussions about the distribution of assets sometimes reference market-based and justice-based arguments. On the one hand, efficient markets require everyone to be able to access and compete in the market on fair terms; on the other, fairer life-chances would require a more equitable distribution of assets.
- *Behavioural arguments.* Owning assets has widespread and diverse effects on people. In particular, it improves people's confidence, their ability and willingness to engage in the economy, and plan for the long term: 'while income feeds people's stomachs, assets change their minds'.⁵⁴ Assets may also make people more rationally self-interested.
- *Citizenship.* Some asset-based arguments focus on the idea that people ought to hold a 'stake' in their society, and that doing so can increase participation. Equal participation arguably requires people to have some minimal level of assets; either because the very notion of the political implies that everyone should share the benefits of social cooperation, or because 'having a share' in a community corresponds to the notion of 'community cohesion'.
- *Freedom-based accounts.* Political thinkers and activists have long linked asset-

holding and individual liberty. The idea that the right to property is a foundation stone of a liberal society is central to much of the liberal tradition. Economists sometimes argue that a right to property is a foundational freedom on which all others rest, an argument that is also prominent among philosophical libertarians. Left-leaning strains in the liberal tradition have suggested an alternative linkage between ownership and individual freedom: for people to make free choices they should not be forced to work in conditions they reject in order to survive. Here the argument is that if people had assets they might consider alternatives – whether

in employment, training or education – allowing them more freedom to choose the kind of life they would like to lead.

It is worth clarifying whether the seemingly universal support for greater saving and asset-holding always derives from the same sorts of considerations – and whether the supporters would recommend the same sort of policies. Furthermore, some policies that increase assets may also have other benefits, some of which may be deemed more fundamental than any asset-effect – such as increased life-chances, or greater citizenship participation. In section 3, we draw out the worthwhile nature of these arguments by analysing existing asset-based policies.

Section 3: Existing Asset-based Policies

Having set out some of the evidence on assets in the UK, and various arguments for why and how assets should be increased or more equitably distributed, in this section and the next we consider the variety of policies that might bring those (diverse!) goals from theory into reality. In this section we evaluate the extent to which some existing policies can be understood as asset-building. Our assessment of these policies highlights concerns relating to ethnicity and equality in a way that policy documents do not always make clear.

3.1 Government understanding of asset-building

In 2001 the Labour government set out its understanding of and justification for existing asset-based policies in the important document *Savings and Assets for All*, which explained the benefits of assets and savings as follows:

In addition to the direct financial benefits of saving, there are indirect behavioural benefits to be gained through promoting saving. There is some evidence to suggest that the *process* of saving has a positive impact on individual's self-reliance, and attitude towards personal development. This behavioural benefit of saving offers one important rationale for the Government to become involved in encouraging saving. Many of the direct financial benefits of owning a stock of savings could be delivered through income transfers, grants or loans. The behavioural benefits, however, can only be realised if individuals are encouraged to develop a 'saving habit'. There is also an argument that behavioural benefits in individuals, such as greater focus on the future, have broader social benefits which the Government should seek to pursue.⁵⁵

This quote indicates that the Treasury is principally concerned with the behavioural and further financial benefits of asset-building policy. Critics of Labour have suggested that their policies on savings and assets, but also in terms of the 'choice

agenda', show that they view individuals as financially prudent consumers of various goods and services.⁵⁶ The statement quoted above aligns their policy with behavioural aims, with its suggestion that a good citizen should be financially aspirant and oriented towards the market, and aiming to maximize their income through their choice of employment.

At the same time, however, the government explicitly recognizes that assets would have a beneficial impact on social mobility and achieve other good outcomes. For example, the Treasury cites evidence 'that asset poverty has a strong independent effect on young people's chances in life'. In particular, they note that employment and earnings correlate quite strongly with savings and assets, and thereby improve 'people's economic and social wellbeing'.⁵⁷

This quote explains why Labour government policy is often summarized in terms of 'asset-based welfare'. This terminology is much influenced by the important work of the Institute for Public Policy Research (IPPR). From 2000 the IPPR explained the benefits of asset-holding in terms of asset-based welfare and commissioned a number of influential academics and policymakers from around the world to explain these ideas.⁵⁸

The term 'asset-based welfare' explains how asset-building policies are perceived as supplementing other social policies, in particular targeted benefits provision and universal service delivery such as the National Health Service. It also implies that 'welfare' is the most important aim or benefit of these policies, a notion the government seems to endorse. The IPPR has at times suggested a more expansive notion of the benefits of asset-based welfare, in particular how assets may be conceived as a 'citizen's stake', but that is not the reading of asset-based welfare found in *Savings and Assets for All*. In general, the Treasury document follows Sherraden's analysis of the value of assets by focusing more on financial wellbeing and on the behavioural consequences of having more assets. That is, the emphasis is more on efficiency concerns

than justice-based ones, though the latter are not entirely lacking.

3.2 The Child Trust Fund

Savings and Assets for All concludes with a section on two possible policies, namely a Child Trust Fund and the Saving Gateway. Both of these have now been implemented, with the Child Trust Fund made available to every baby born in the UK since 1 September 2002. The Child Trust Fund (colloquially known as the CTF or ‘baby bond’) provides each of these babies with a £250 initial voucher, and the Treasury then provides another £250 contribution at age 7. Children from more disadvantaged backgrounds – those eligible for the full Child Tax Credit (household income below £16,040 in 2009) – can receive a larger initial grant of £500 at birth and a further £500 at age 7, and all funds can be ‘topped-up’ to an amount of £1200 per year (£100 per month).

According to the Treasury, the CTF conforms with the three aims of its ‘active welfare strategy’:

Security: in future all children will have the backing of a stock of financial assets at the start of their adult lives, helping to cushion the impact of unforeseen circumstances;

Opportunity: funds can be used to take advantage of opportunities throughout adult life, enabling individuals to play a more confident and continuous role in their communities;

Responsibility: development of the saving habit will promote independence and financial education will help individuals to make better financial choices throughout life.⁵⁹

Comparing these aims to those outlined in section 2 above, it seems that the government is concerned to improve financial wellbeing and financial behaviour, but also to use asset-based policy as a way of improving life-chances (‘opportunity’) for all. On the other hand, the four objectives that the CTF is supposed to achieve focus more on behaviour and a narrower conception of financial wellbeing. These are summarized as follows:

- help people understand the benefits of saving and investing;
- encourage parents and children to develop the savings habit and engage with financial institutions;
- ensure that in future all children have a

financial asset at the start of adult life to invest in their futures; and

- build on financial education to help people make better financial choices throughout their lives.⁶⁰

In the documentation that accompanies the CTF, the government clearly recognizes the effect that asset-building can have on improving life-chances. Evaluating the importance the government places on these distributive concerns is in part a matter of interpretation, though the behavioural and financial effects of the Child Trust Fund are more prominently and frequently mentioned. An alternative way of assessing the aims of the CTF is to consider its actual design and implementation, and in particular four features of the policy.

(i) The first feature is that while the CTF is in general universal (it applies to everyone born in the UK), it also includes a greater initial endowment for children from disadvantaged backgrounds.⁶¹ This targeted larger sum allows the policy to be more distributively fair, in that children from disadvantaged families – namely those who currently lack assets – get a larger initial asset; as the Treasury puts it, the CTF is ‘both universal and progressive’. The progressive nature of the policy clearly indicates an ambition to improve the wellbeing of poorer people, although the amounts involved may not be adequate to support the more ambitious aim of improving life-chances.

(ii) The second feature of the policy is that a CTF may be ‘topped-up’ to a maximum of £1200 per year, or roughly £100 per month. While these sums may be quite small for wealthier families and investors, they are beyond the reach of many people in Britain. Significantly, the difference between funds that have consistent and large payments as compared to those that have none, or few or infrequent payments becomes very large over 18 years. And given that only one-third of households report savings of more than £3000 at any time (and only 20% among the bottom income quintile), it is very likely that the top-ups will lead to greater asset inequality. To understand these effects, Table 9 shows how different monthly contributions can lead to vastly different totals in Child Trust Funds when, at the age of 18, children become eligible to access their fund.

Table 9 demonstrates that it is the monthly

Table 9. Size of Child Trust Fund given 4% return with various monthly top-ups⁶²

Monthly top-up	Total (£) at Age 18 (including £250 or £500 additional sum at age 7)	
	Initial endowment £250	Initial endowment £500
None	893	1783
£5	2492	3383
£10	4092	4983
£20	7292	8184
£40	13,694	14,585
£100	£32,897	£33,788

top-ups that alter the ultimate size of a CTF, much more than the differential endowments the government provides to disadvantaged children. Even a typical CTF with contributions as small as £5 each month will be significantly larger than one that gets the £250 at a child's birth and again at age 7.⁶³ And as the table indicates, a fund with the maximum payments of £100 per month can expect a total value of over £30,000; this compares to less than £2000 for children from disadvantaged families who benefit from the additional government contribution but whose families are unable to contribute any further to the fund. Of course it is significant that the extra £250 the government provides to disadvantaged children doubles the amount for a family that cannot afford any top-ups, from £893 to £1783.

The top-up feature of CTFs significantly undermines its distributive effects. Not only do the top-ups largely determine the size of the fund at age 18, but these savings are tax-free and so provide a way for wealthy parents to pass on their wealth without contributing to the public purse. It could perhaps be argued that CTFs redistribute assets intergenerationally among wealthy people, but this is not a very relevant sort of asset inequality in the UK. Whatever the aims of the CTF as an asset-based policy, the form of the policy means it cannot equalize assets or provide equal life-chances for all; but it can ensure that everyone has at least some assets when they turn 18. Whether the size of this asset – less than £1000 for people who don't add any top-ups –

provides any wider citizenship benefits is far from clear, especially given the cost of tuition fees. Is £1000 really enough for poorer children to attend university (a three-year commitment) and gain entry to the attendant economic and employment opportunities that education provides?⁶⁴ On the other hand, if the CTF is supposed to provide young people with appreciation of the importance and value of assets, some may argue that the distributional inequality in the CTF is less important than the fact that *every* child gets one.

(iii) A third feature of the CTF's operation is that parents can choose how they wish the fund to be invested in terms of three differing accounts: an interest-bearing cash account, a stakeholder account, and a non-stakeholder shares account. Two aspects of this choice are worth noting. First is that fully 25% of parents don't make a decision regarding the kind of account and so have their child's fund automatically enrolled into a stakeholder account.⁶⁵ The lack of parental engagement also extends to top-ups, where many do not seem to be making additional monthly payments, whether because they are unable to, unwilling to, or simply unaware of this option.

Another difficulty parents face is deciding which *specific* Child Trust Fund to invest in. Even those parents who are willing and able to 'top up' their child's fund may not be able to understand which CTF product is the most relevant for them. There are 71 providers of CTFs, and while each provider is required to offer a stakeholder account, almost all seem to offer more than one kind of CTF product.⁶⁶ Not only does this create confusion, it also means that the returns on funds will vary enormously; while some of these differential outcomes will be based on greater financial awareness, some will be based on unfortunate or unlucky investments. All funds have some risk attached to them, but is it fair for a child whose parents were fortunate enough to earn up to 7% interest to have almost twice the fund of one whose parents only got 1 or 2% interest? If the aim of the CTF is to provide young people with a good start in life and to engage in the savings habit, it is important that very unequal results do not undermine these aims; in any case these unequal (and regressive) outcomes certainly call into question the notion that the CTF will make life-chances more equal or contribute to citizenship participation.

(iv) The fourth and final feature is that the child gains full control of the fund when they turn 18. This suggests that government did *not* want to dictate what the Child Trust Fund should be used for. While government ‘paternalism’ is often controversial, there is some concern that 18-year-olds may not behave responsibly with their fund and instead spend it on holidays, cars or other consumer goods (sometimes called ‘stakeblowing’). But while the government was uncomfortable with the notion that it should prevent certain uses of a CTF, they also rejected setting out any such restrictions on the basis that it would be impractically difficult to monitor and enforce them. In fact, children are given some control of their CTF from the age of 16. That is, they can choose how to invest it at that point, further providing them with greater familiarity of financial products.

Having set out the government’s aims for the CTF, we can evaluate whether any further equity issues arise. Existing data does not provide a breakdown of CTF take-up, value or type of fund by ethnicity. But given the lower levels of financial awareness for most BME groups, and that immigrant groups in the past have been found to have lower take-up of a range of financial products, we might expect BME parents to have been less aware of CTFs, less likely to choose a product, and less likely to top-up their funds.⁶⁷ Given the lower levels of existing savings,⁶⁸ and also of income,⁶⁹ it is unlikely that many BME parents will be able to put aside additional money for their children. On the other hand, the CTF benefits only those born after 2002 and, as the BME age profile is much younger than the national average,⁷⁰ they are more likely to benefit as (proportionally) more of them will be able to receive a Child Trust Fund.

3.3 Saving Gateway Scheme

The government has recently announced that it will implement the Saving Gateway Scheme in 2010 following assessments of the pilot programmes that ran from 2005 to 2007. The policy was first designed in 2001, and applies only to those in receipt of:

- Income Support
- Jobseeker’s Allowance
- Incapacity Benefit
- Employment Support Allowance
- Severe Disablement Allowance
- Tax credits – an income below £15,575

Unlike the Child Trust Fund, the Saving Gateway explicitly targets those who currently lack adequate assets. Under the scheme the government will ‘match’ every pound saved with a 50p contribution, up to a maximum of £25 per month (or a total of £300 per year).

The notion of ‘matched’ savings is sometimes criticized, as this is significantly different from how ‘mainstream’ savings products are delivered, namely through the application of interest. Furthermore, the ‘matched’ amount is quite high at 50% of the total saved, perhaps suggesting that savers will be unwilling or unable to take up more ‘mainstream’ products. However, evidence from similar schemes in the USA – Individual Development Accounts (IDAs) – found that matched savings support a high return in quality-of-life investments (education, training, self-employment and home-ownership), and influence people towards adopting a culture of saving and investing.⁷¹ Including financial education as part of the Saving Gateway programme could further boost its potential for developing wider notions of saving amongst low-income participants.

The Saving Gateway has already been subjected to extensive evaluation and assessment, so here we simply highlight potential equality issues. It is of course good that the scheme focuses specifically on low-income groups, and there is some indication that it will indeed promote savings and encourage greater participation in financial decision-making among these people through the matched savings rate.⁷² Furthermore, because the Saving Gateway is likely to be delivered by trusted local intermediaries such as social housing landlords, the scheme will be more easily delivered to people who have less trust in and familiarity with mainstream or high street financial institutions.⁷³

In terms of ethnicity the evaluation of the pilot programme found little variation in take-up of the Saving Gateway.⁷⁴ For reasons we have already explained, namely lower income, less awareness of financial products, and barriers related to migration status and language, these findings may seem surprising. As the policy develops, we should continue to monitor SG take-up among different groups, including BME people.

But perhaps the biggest equity consideration in evaluating the Saving Gateway is whether it is a good and effective policy for very poor people. In general, critics such as the Institute for Fiscal Studies (IFS) question whether asset-based policies are an appropriate response to the needs of very poor people and query the evidence on whether asset-based policy products have in fact realized the benefits cited by the policy's defenders.⁷⁵ An early IFS evaluation of the Saving Gateway pilot suggested that only one in eight of the poorest fifth of the population will benefit in the way government expects, and the remainder may need to borrow to save into the scheme. People on low incomes do not have any disposable income to allocate to saving in the first place, and to the extent that people are enduring a hand-to-mouth existence, increasing their income may be a greater priority than encouraging them towards long-term thinking and financial planning.⁷⁶

These critics of the Saving Gateway would rather increase benefit payments, strengthen the Social Fund and consider other ways of increasing income. They argue that alternative non-asset (and targeted) policies would have greater impact on the wellbeing of the poor. Their point that some relatively well-off people such as older people with low incomes and students might be targeted by the scheme explains why there are restrictions, as listed above, to prevent such people participating in the Saving Gateway.⁷⁷

Such criticisms focus on distributive and wellbeing considerations for asset-based policies, but do not touch on citizenship arguments. However, as neither the CTF nor the Saving Gateway is justified on those grounds (nor do the amounts involved seem large enough to do so), it is perhaps understandable that participation and the wider development of 'ownership' have been peripheral to the debate. If the IFS is right that, given the level of their financial needs, some people should not be saving, it might perhaps be more open to a policy that provided everyone with an asset as a 'citizen's stake' and did not require them to save anything out of their current income. Such sums might also need to be considerably larger in value than those figuring in the CTF and SG. We consider these alternatives in section 4.

3.4 Housing policy and asset-based policy

Having discussed policies that are widely understood in the context of assets, we now focus on housing policy. As we have already noted, housing is the single greatest asset for most people in the UK. However, housing policy has been arguably dominated by the consistent goal of increasing home-ownership over the past 30 years, among both Conservative (e.g. Right to Buy) and Labour (e.g. Shared Ownership) governments.

While housing policy and asset-based policy may seem obviously in accord, there are significant differences. Housing policy must in part be driven by the requirement for everyone to have shelter (and to improve substandard housing for basic health reasons), and may also make assumptions about why home-ownership is valuable to people in non-asset terms. Some interpretations of asset-based policy – especially those that emphasize behavioural change – match housing policy quite well, but others do not. If assets are to be relatively exchangeable for cash and provide citizens with a stake, housing policy may not be the best lever for advancing those aims. And other aspects of housing policy – such as the development of 'mixed' residential areas and the 'regeneration' of particular urban areas – do not seem to be relevant for asset-building (although these may of course be very desirable aims). To the extent that there are limits to levels of home-ownership, asset-building policies may have to take these factors into account as well.

Here again it is worth noting data on ethnicity and housing tenure. According to John Hills' important study, 70% of social tenants have incomes with the poorest two-fifths of overall income distribution, and the proportion of social tenant householders in paid employment fell from 47% to 32% between 1981 and 2006. This has occurred against a backdrop where 27% of all BME householders are social tenants (including half of Bangladeshi and 43% of Black Caribbean and Black African householders), compared to 17% of White householders.⁷⁸ However, there is a need for more research on the links between ethnicity, tenancy and mobility.⁷⁹

We try to evaluate policies such as equity shares, shared ownership and other housing proposals fairly and on their own merits, but it is significant that these policies are not always or best justified based on their contribution to asset creation.

3.4.1 Equity shares in social housing

Equity shares in social housing are based on the idea that existing social tenants could gain a share (or equity) in their existing housing in a way that would be more flexible and financially inclusive than the ‘right to buy’. However such schemes are implemented, they are intended to provide the various benefits of asset-based welfare by providing tenants with a stake in their property. The Labour government seriously considered this idea from 2001 onwards, resulting in a review published by the Office of the Deputy Prime Minister, and further research by the IPPR and the Chartered Institute of Housing.⁸⁰

Social housing was identified as a possible source for building assets because of the low level of asset holdings in that sector, and because a possible ‘asset-effect’ might be particularly beneficial for the majority of people living in social housing who current lack an asset. Not only would disadvantaged people benefit from rising house prices, but they might also develop a stronger interest in maintaining and improving the property, and in developing longer-term plans; they might become more ‘financially included’ as well.

Practically, a variety of ideas were considered, though none were fully piloted and the idea now has little support, perhaps because of concerns about feasibility and cost. Discussions on equity shares were not explicit about what proportion of a property a social housing tenant might be expected to earn, although amounts as low as 5% or 10% were considered.⁸¹ Determining how to distribute these assets – and what share different tenants might get – is another difficulty, with suggestions that a tenant’s stake could be linked to length of tenure, ability to pay or, more controversially, behaviour. Although the literature clearly allows for individuals to sell their stake immediately, this would potentially undermine the wider ‘asset-effect’ goals. To encourage people to keep and leverage their assets, and to realize any asset-effect, stakes might have to be less than 50% of a property, although if equity stakes were too small they might not produce any change in tenant behaviour.

Moving from behavioural to more financial considerations, an equity stake might allow tenants to access other financial products and services, for investment or for paying a loan. Equity share schemes would probably need to be non-centralized in order to fit the needs and situation of a specific

community and to be regulated and monitored for compliance with market values and fair practices. In addition to practical concerns about the viability and cost of equity shares, there is evidence of landlord and lender scepticism regarding the application and administration of an equity share scheme, and their buy-in would be crucial to the success of any policy in this area. However, landlords and lenders favour the formation of an ‘asset account’ (discussed below), where the benefits of any such policy are slightly more limited, over one with any formal ownership rights.⁸²

In terms of equality, a major concern with equity shares and indeed all housing policies is that housing, like many other assets, is not always a stable investment. The housing market goes up and down – sometimes precipitously – and poorer people in general might not benefit as much from rising prices if their properties were in less desirable areas. Landlord and lender scepticism could result in the most disadvantaged not benefiting, especially if there are conditions on who can get a share, and how much. Also, the landlord and lender preferred ‘asset account’ (see next section) might not deliver the full benefits of asset-holding, particularly if people couldn’t easily access the funds, but also if the intention were to provide a citizenship stake.

With respect to ethnicity, these policies could have a beneficial effect if fairly implemented. This is because a disproportionate number of some groups – particularly Bangladeshis and Black Africans – live in social housing. There is evidence that such groups also prefer home-ownership and might be willing to take advantage of schemes that make that option more affordable while also allowing them to stay close to family and friends.⁸³

3.4.2 Shared ownership

Shared ownership schemes are largely based on the same principles as shared equity in social housing, in particular by focusing on how owning a share of one’s home can have wider behavioural effects. However, shared ownership typically applies only to people in paid employment and also permits the taking of larger shares in the property. For example, new property developments sometimes include a mix of shared ownership, especially for ‘key workers’ such as nurses or teachers. The buyer gets a significant ‘share’ of ownership (say 50% or 75%), and pays rent on the remainder of

the property's value. Shared ownership may be a positive factor in transforming an area through regeneration, and owner-tenants with significant stakes in their homes may be more committed to their area.

As with all housing-based schemes, an evaluation of shared ownership is dependent on the state of the housing market. Tenant-owners will see their ownership share increase if house prices go up, but this can reinforce inequalities by area/postcode as tenants in good (i.e. already prosperous) areas would benefit the most. Furthermore, if prices go down, this could contribute to further 'residualization' of low-value areas (i.e. already poor or disadvantaged areas) when prices are static or falling. Given that some BME groups – for example Pakistanis – currently own property in areas with lower property values, this concern is not entirely academic.

3.4.3 Equity release

In section 1.5 we discussed how asset-holdings increase as people get older, peaking at age 60–64, and reducing slowly until age 75, beyond which they decline precipitously. This decline of assets in old age is partly explained by the dwindling size of people's savings and pensions pots as they draw down income from them. But it is also a fact that the value of many people's pensions cannot be satisfactorily inflation-protected. Those purchasing annuities out of defined contribution pension schemes cannot always afford to live with the extremely low levels of startup income proposed by pension providers when offering income growth as opposed to a fixed amount per year. But opting for the fixed rate means their income will decline sharply in real value year on year.

As is widely recognized, a major reason for significant asset-holding among people aged 60–64 is that assets and wealth accumulate over a lifetime, and are spent after retirement. More significantly, for this section, people often own their homes outright by the time they turn 60. However, much of this wealth is nominal: people cannot easily access the value of their home, and find themselves asset-rich but cash-poor.

'Equity release' schemes are intended to respond to the position of retired people who own their home but have relatively little income. The idea is that a portion of their asset (i.e. their home) could be sold off to provide them with a steady stream of income over a number of years, just as pensions

provide people with annuities. Organizations such as Age Concern publish guides to equity release, and report increased interest in it over the past 5 years.⁸⁴

Such schemes still have fairly low take-up, in part because of an image problem following mis-selling of these products in the 1980s.⁸⁵ Furthermore, no major bank offers these products, and those that do, appear to charge high rates of interest relative to the size of mortgages. As explained in section 1.3 above, housing is not simply an investment, and when it comes to equity release, both parents and children often have emotional attachments to their homes that prevent them from viewing or using their property solely as an asset. More people appear willing to 'downsize' to another home, and use the resultant savings as a stream of income, than to release equity in their existing home, though it is important for the Financial Services Authority to continue to support these latter products for those who desire them.

3.4.4 Other possible housing-based policies

Researchers have suggested that home-ownership significantly reduces the self-perceived economic stresses of blue-collar employees, increases community stability and relations and reduces anti-social behaviour.⁸⁶ Although the evidence for these putative benefits is somewhat inconclusive,⁸⁷ duration of residence rather than type of tenure appears to be the most decisive factor in the development of social capital. *Non-ownership* housing policies would therefore be worth investigating, but as these do not directly involve asset-building, we only briefly summarize some of the proposed options:

Tenant Asset Accounts:

- Have potential for accruing 'rental miles' dependent on length of time in house and adherence to tenancy agreement through a special savings account.
- Do not involve reliance on property value, so make it a more tangible and simple option.
- Ensuring tenants have a bank account aids financial inclusion – with a potential major role for social landlords to help in delivering the account.
- 'Rental miles' accrued could be potentially 'cashed-in' for rent-free weeks or to develop a share in ownership.

Link to the landlord's equity or success:

- Gives tenants access to increased value of their landlords' equity/business plan rather than individual equity in their own homes.
- A share in the housing association is viewed as an incentive to look after the property.
- Gives tenants a stake in housing and a role in the accountability of the landlord.

These policies may be relevant for asset-building because they suggest an *alternative* to ownership as a way of thinking about housing policy. While home-ownership is likely to be central to housing policy for all governments in the UK, it is worth considering how alternative kinds of housing policy may better realize the asset-building aims identified in this research, particularly for groups who currently lack assets but also live in worse housing conditions.

3.5 Universal and targeted policies

Having explained various government policies in some detail, and how they might be justified on the grounds of asset-building, it is worth explaining a final point about the nature of policy. The relationship between targeted and universal policies is a concern that is consistently raised in the debate on assets. Advocates of asset-based welfare policy, such as Sherraden, recommend targeting the poorest, as they currently lack assets or require them to meet rainy-day needs; they would also benefit most from any changed behaviour and attitudes. Others, however, recommend a universal policy, as this would better represent the idea of assets as a universal citizenship stake.⁸⁸

In some ways the Saving Gateway and Child Trust Fund represent these two different ways of designing policy – and arguably suggest different kinds of benefits. The question of 'targeting' policy at various 'equality strands' is perhaps more controversial, but it may be the case that certain groups are more likely to be poor – or that assets will be particularly good for addressing their needs and improving their wellbeing. One example might be domestic violence; women with more assets are better able to leave an abusive relationship.⁸⁹ The important point is that targeted policies are justifiable where the targeted group has legitimate and unmet needs. Whether or not policies should be targeted or universal in part depends on what the justification of the policy is, and how the proposed beneficiaries are currently faring.

3.6 Section summary

Two key flagship policies have been developed in line with the government's asset-based welfare agenda: the Child Trust Fund and Saving Gateway. The design of these policies suggests particular kinds of justifications for asset-building, namely those focusing on financial wellbeing, increasing a saving habit, and consumer choice. There is nothing necessarily objectionable about these aims, but these policies – in particular the Child Trust Fund – could have been justified on different grounds, in particular to support citizenship participation or improve life-chances. Indeed, the IPPR has recently suggested that the term 'Child Trust Fund' inevitably sidelines the distributional and citizenship goals of the policy, while other terms (say a 'Citizen's Stake') might have better achieved these outcomes.⁹⁰ To summarize the key arguments here:

- Asset-building policies are more likely to focus on behavioural arguments, though the Treasury recognizes the value of social justice arguments as well.
- Current asset-building policies such as the Child Trust Fund and Saving Gateway seem to fit behavioural and perhaps poverty-alleviation aims better than other 'asset-effect' aims or social justice.
- With the Child Trust Fund, children of wealthy parents are likely to have a fund of £30,000 or more, while poorer children will end up with less than £2000. This undermines social justice goals, and increases inequality.
- As only 12% of the bottom quintile will benefit from the Saving Gateway, it may be better interpreted as a poverty alleviation measure.
- Other policies, especially those related to home-ownership, are less developed. They could achieve an asset-effect, but they are difficult to implement, and housing policy has other aims that may not fit with those of asset-based policy. Perhaps most problematically for asset-building aims, housing is vulnerable to price decreases.

In the next section we consider alternative policies that could realize these wider aims.

Section 4: Alternative Policies

A variety of asset-based policies have potential for further development, and in this section we consider some of them in greater detail. Some are relatively constrained in their application and build on existing arguments in their favour. Others are also proposed, but may seem too radical or utopian to be implemented. While it is of course important that policies are viable and cost-effective, critical thinking about how we might achieve the various aims of asset-building allows us to reflect on the ideal of an ownership society in which every citizen has some asset. If that ideal requires radical policies, we should either admit that it is an ideal that we cannot (wholly) achieve, or consider how we might make those seemingly radical policies more feasible to implement.

4.1 Understanding asset inequality and taxation

We have already highlighted that asset inequality is far greater than income inequality, and how this affects social mobility and life-chances, but we haven't fully explained how and why those inequalities diverge so significantly. One major reason is the UK's system of taxation. Put bluntly, while income and consumption are fairly significantly taxed, wealth is very lightly taxed. For example, Capital Gains Tax at only 12% compares favourably with the top rate of income tax at 50%, while only 6% of estates pay inheritance tax.⁹¹

In fact, when it comes to income inequality, the provision of various *benefits* (whether cash benefits or in-kind benefits) does far more to reduce inequality than *taxation*, suggesting that greater wealth inequality would perhaps require wealth transfers to the poor. As we explain on the basis of DWP calculations, the distribution of various kinds of benefits is more progressive (i.e. much greater proportional amounts go to the poor) than is the collection of various kinds of tax (i.e. the wealthy do not pay more proportionally in terms of tax on their income than poorer people do).

Prior to the collection of income tax and the provision of various social benefits, the inequality

between the top income quintile and the bottom quintile is 16 to 1. Following the application of all taxes and benefits, this reduces to 4 to 1.⁹² Not all taxes are progressive: consumption taxes such as VAT and those applied to tobacco and alcohol are generally regressive, but income tax is only somewhat progressive.⁹³ That is, the higher a person's salary, the greater the proportion of their income that they pay in income tax, but this effect is perhaps less significant than sometimes appreciated.

Compared to taxation, the delivery of benefits is much more progressive. The bottom quintile of households receives £6450 in cash benefits (compared to £1680 for the upper quintile) and £7480 in in-kind benefits (compared to £3800 for the top quintile). The key conclusion is that *the provision of benefits does much more to reduce income and consumption inequality in the UK than does income tax*. Of course income tax funds a great deal of benefits transfers, and so is vital to these distributive effects.⁹⁴

This is important because not only is wealth very little taxed, but there are no asset-based benefits provided to people in the bottom income quintiles, whereas tax incentives on savings, especially ISAs and pensions, but also CTFs, provide those in the upper income quintiles with greater assets than they would have got if those savings had been taxed as income (or indeed as ordinary savings products). That is, the tax structure on savings and assets is quite regressive, though this may be explained by the need to offer people incentives to save (and the wealthy being more able to do so).

Before turning to alternative tax-based policy suggestions for raising assets, the above discussion raises the issue of savings mechanisms that do not fall into the category of asset-based welfare, such as ISAs, premium bonds and stakeholder pensions. The government insists that ISAs and premium bonds are meant to raise revenue (via National Savings and Investments – NS&I) or increase the savings habit.⁹⁵ Yet however these policies are justified, their distributive effects and variable

take-up are significant. Not only are poorer people much less likely to have significant ISAs (or indeed CTFs), but evidence in Table 4 above suggests that BME people of all backgrounds are less likely to take up ISAs and also premium bonds. Here we suggest that the government needs to do more to make sure these people are targeted and made aware of their eligibility for existing saving schemes. This includes asset-based schemes such as the Saving Gateway and Child Trust Fund, but also ISAs and premium bonds, ideally in a non-complex, user-friendly literature that is accessible to BME and disadvantaged populations with no or little background of regular savings.

Figure 5 shows the GINI coefficients – a technical measure of inequality – for (a) wealth and (b) income distribution before tax in the UK, and indicates how wealth (or non-housing assets) is more unequally distributed than income. The further the curved and the dotted lines in Figure 5 deviate from the 45-degree straight line, the greater the level of inequality. We can see that in the UK identified wealth was significantly more unequal than income before tax in 1999, and the difference would be even more stark if the chart included a line representing post-tax income. Although these data are now quite old, these differences are unlikely to have changed in the meantime.

Exploring the consequences of these differences in taxation is the main focus of the next two subsections. Taxation deserves further consideration not only because wealth is very unequally distributed and very lightly taxed, but also because it is a relatively more feasible area in which policy-makers could implement asset-building measures. It has also been given inadequate attention from the point of view of asset-based welfare.

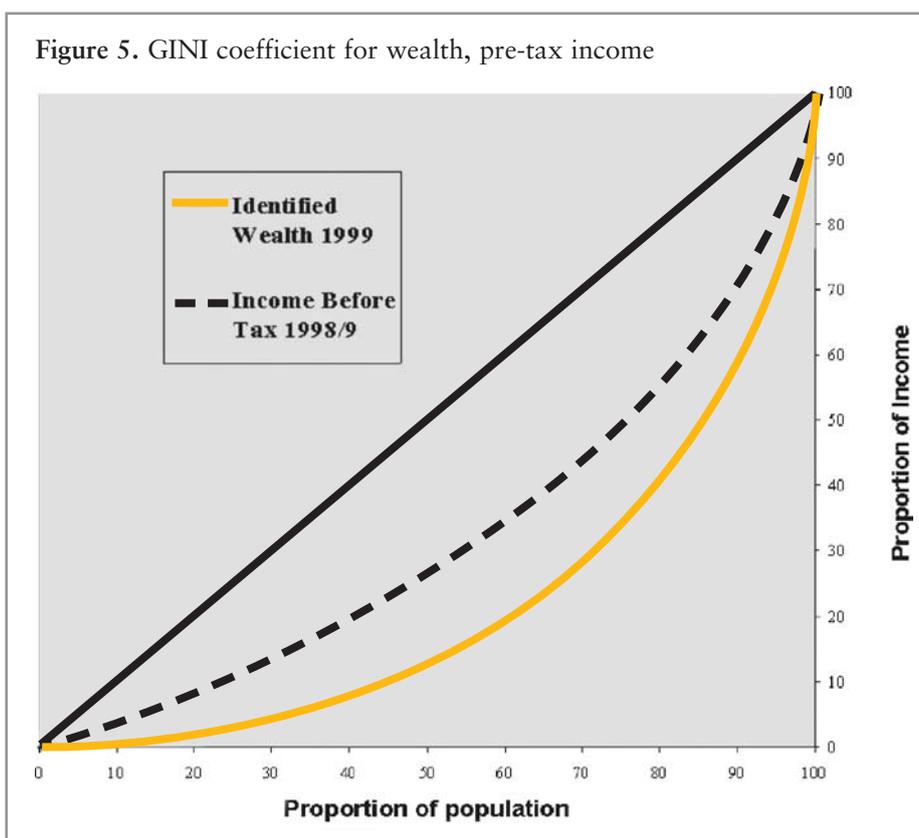
4.2 Inheritance tax and wealth tax

Inheritance tax seems to be politically unpopular, but it is a simple way of taxing and redistributing assets. On the one hand it is fair to redistribute assets in a more egalitarian way, while on the other hand it might be considered very inefficient for people without entrepreneurial or productive skills to inherit assets. The case for inheritance tax reform has been made by organizations ranging from the Fabian Society⁹⁶ to the *Economist*,⁹⁷ and it may now be more palatable politically following the decline in property values and the arrival of excessive remuneration among very wealthy executives in the financial sector.

Inheritance tax might be viewed more favourably if the resultant revenue were used to create a universal citizen's stake. The argument is that the benefits an individual receives from social

cooperation and efficient markets should be more widely shared. This is not only on grounds of fairness, but also to ensure that assets are better leveraged (in other words, people would be less likely to amass large sums if they knew it was going to be more heavily taxed, and would instead put those assets to greater productive use in the economy), and that the average inheritor of the tax (i.e. everyone) would be more likely to be entrepreneurial. Where home-owning 60-year-olds inherit properties or wealth from their 90-year-old parents, or where unemployed trust fund

Figure 5. GINI coefficient for wealth, pre-tax income



children inherit billions from their entrepreneurial parents, it is very unlikely that they will put that wealth to productive economic use (investment), especially compared to a society in which wealth was more widely distributed.

Some arguments for a citizen's stake have focused on a broader wealth tax, levied at say 1% or 2% of wealth (over a certain amount).⁹⁸ This would again seek to ensure that assets were more efficiently used, and would arguably create greater economic creativity and productivity – many assets are currently simply sitting in bank accounts. It would also, of course, have potentially far-reaching distributive effects, and would arguably be less controversial than inheritance tax (an unpopular tax, even though it affects only 6% of households).⁹⁹ Current concerns about bonuses and excessive pensions suggest that people are relatively comfortable with the idea that large amounts of wealth should be taxed, although they might of course feel quite different if the tax were applied to them directly. Discussions of wealth tax always lead to consideration of its effects on the very wealthy, and whether this would result in them leaving the country; a broader concern is that wealth taxes would reduce rather than increase the tax base.

If a wealth tax of 1% or 2% were to be implemented, however, it could greatly increase funding for policies such as the Child Trust Fund and perhaps allow asset-building policies to achieve distributive and citizenship goals.¹⁰⁰ That is, a wealth tax could provide a significant asset to everyone and so provide a genuine 'citizen's stake'. In providing everyone with an asset, it would also achieve the current aims of encouraging a savings habit and altering people's view of financial products and services more generally, but particularly among the poor and other groups (BME people for example) who currently lack such assets. This would result in an 'ownership society' for all.

4.3 Council tax or property tax?

Currently, council tax is not widely discussed in the context of assets, but it is discussed in the context of other policy debates. One explanation is that council tax could be used to provide local government with greater control over spending, while another is that older people seem to pay a great deal of council tax even as their income drops precipitously following retirement. The

Liberal Democrats and other critics point out that the existing council bands are quite narrow, meaning that very highly valued properties do not pay significantly more tax than medium-sized properties.¹⁰¹ This is another example of how wealth (or assets) is taxed less than income.

This latter concern points to a possible asset-based policy development: to tax properties at a certain proportion of their value, say 1–2% per annum. For most properties this would result in a reduction or freezing of their current payments, but for very highly valued homes, this would result in significant increases in property tax. The point is not to tax people heavily for its own sake, but rather to use wealth taxes to build up assets for everyone, and so to allow everyone to participate more equally in public institutions. This would also result in greater individual liberty, as everyone would have an asset on which they could draw down funds and so consider alternative training or education rather than take a low-skilled job with few prospects for personal growth. To develop this policy, it would perhaps be necessary to reformulate the tax: from being a 'council tax' for residents of a particular locality to a 'property tax' on wealth to provide assets for everyone or to create a true 'ownership society'. These assets could then be used to access training or education, or invested, thus providing more equal chances for everyone to access the labour market.¹⁰²

As there has been substantial discussion of council tax reform in the direction we have indicated – and also to increase the powers of local government – we will simply raise a few final tax-related policies that might be implemented. First is the repeal or reformulation of VAT and all other consumption taxes. Consumption taxes are regressive, but they have the significant benefit of being easy to collect. If ease of collection leads to more tax revenue being collected, this may result in some progressivity, as lower-income people are likely to get more of the greater share of benefits available for distribution. Furthermore, some consumption taxes (such as those on alcohol and tobacco) have other aims, to do with behavioural change in particular and reimbursing the NHS for the extra costs of patient treatment that result from certain kinds of consumption. In any case, a variety of taxes and tax incentives – including those relating to ISAs and pensions – have regressive effects, and such tax policies would need to be

redesigned to ensure that asset-based welfare policy is fair and enhances citizen participation.¹⁰³

4.4 Basic or citizen's income

The idea that everyone should have a basic, or minimum, income is an old one. At least as early as 1795, in *Agrarian Justice*, Thomas Paine recommended £15 annual income for every 21-year-old as a basic citizen's income.¹⁰⁴ This would translate into roughly £10,000 in today's money, not far from the Joseph Rowntree Foundation's research suggestion that a minimum income standard in 2009 would be nearly £14,000.¹⁰⁵ Debates on the idea of basic income fed into the development of the Child Trust Fund.

Discussions about basic income tend to focus on distributive, freedom-based and citizenship arguments.¹⁰⁶ As we have already outlined those claims, we instead explain what a basic income would look like, and how it might be funded. Proponents of basic income suggest slightly different aims, but they would all recommend a significant income for every individual living in a particular nation-state, generally at a level to meet basic needs. While some emphasize the poverty-reducing effects of this policy, most focus on how it would open up the labour market and allow people to make freer choices across a range of financial and non-financial decisions. Feminist defenders of basic income have also suggested that it might address or halt the devaluation of caring, and also provide women in abusive relationships with the financial wherewithal to leave those relationships without suffering financial ruin.¹⁰⁷

Funding for a basic or citizen's income might come from the variety of wealth taxes suggested above. A basic income could reduce the need for means-tested benefits and allow significant savings to be made not just in terms of the cost of these policies but in administrative efficiencies too. Delivering a universal lump sum annually to every citizen would be far less costly to administer than the existing means-tested benefits and would reduce concerns about 'welfare cheats' and such problems as overpayment of tax credits.¹⁰⁸ As *everyone* would get the income (including the likes of Richard Branson, the Duke of Westminster, Alan Sugar and David Beckham), there would also be less concern that the policy would be 'stigmatizing'.

It is worth emphasizing that basic income is not in fact an 'asset-building' policy. Rather, it

provides direct and consistent income to people, which they can choose to convert into an asset, but which they may also spend as they please, but which is less easy to 'waste' than a large asset, such as the \$80,000 capital grant proposed by Bruce Ackerman and Anne Alstott.¹⁰⁹ For some proponents of basic income, this is a strength, as managing assets not only requires significant financial education, but also because investments are inherently risky, and people may always lose a portion or all of their assets through no fault of their own.¹¹⁰ Depending on how difficult it proves to provide financial education to everyone, on the varying asset-management capabilities of different people, and on how many people end up losing money on their assets, we may legitimately wonder whether asset-building strategies can alleviate poverty, much less achieve the more ambitious goals suggested by the 'asset-effect'.

4.5 Shared or collective ownership

The final set of policies we consider are various kinds of shared or collective ownership. Such ideas and institutions, or 'cooperatives', have a long history from Robert Owen's New Lanark in Scotland to *kibbutzim* in modern Israel to the Prince of Wales's development of Poundbury in Dorset. While the details vary considerably, the general idea is that some kind of a community (often workers) share in the product and the administration of an institution. Cooperatives of various kinds are sometimes popular among agrarian workers and shop workers, and they have also functioned in the more hard-headed financial sector in the form of cooperative banks and credit unions.

Ideas such as mutuality and cooperation are perhaps more fashionable than they were only a few years ago. But historically, they have been advanced from the time of the early Industrial Revolution among such pioneers as Arkwright, Owen and Wedgwood, whereas in more recent times the Liberal Party was still endorsing various kinds of cooperatives as late as the 1990s. For example, in 1986/1987 the SDP endorsed the notion of a 'Citizen Unit Trust' – in which 1.5 shares per every 100 commissioned in the private sector would be provided to every citizen. This was endorsed by Paddy Ashdown in 1989, and Stuart White and others have shown how the 'new Liberalism' of the 1920s and 1930s influenced

Liberal policy ideas for many decades.¹¹¹

But whatever the appetite for cooperative banks or shops, the idea of public ownership is far more controversial. Because of its ideological connotations with the worst excesses of Communist parties in the Soviet Union and China, but also because of the inefficiencies of many nationalized industries, any suggestion of ‘public ownership’ is fairly unpopular. Yet at the time of writing (October 2009), the British government – and thereby the taxpayer – has taken large (and in some cases majority) shareholdings in banks including the Royal Bank of Scotland and Lloyds. This degree of public ownership of banks, along with the wider effects of bank failure on the economy and individual wellbeing, has given further impetus to the idea that such ownership should be used to everyone’s benefit.¹¹²

An alternative idea subject to less controversy – and one that is of some use in thinking about asset-building policy – is that of a ‘public good’. Public goods are widely discussed in the economics literature. Examples include national security or other basic needs such as water and public transport. Such goods are public because they are ‘non-excludable’ – no-one can be denied their provision once the good has been provided to everyone; and ‘non-rival’ – meaning that one person’s consumption of the good does not undermine anyone else’s consumption. Not all existing goods may seem to meet these criteria, and non-economists often conceive of public goods as those goods that cannot or should not be delivered by the market, either because efficient market delivery of such goods would create unfairness (say by charging unaffordable amounts for drinking water), or because the goods in question are intrinsically linked to the notion of equal citizenship or human dignity.

Whatever one’s definition of a public good, some kinds of social assets may be seen as public goods. Economists often worry about the ‘tragedy of the commons’ whereby lack of responsibility and accountability regarding the use of public goods (for example, lands) results in their abuse and deterioration, but such tragedies also seem to affect financial markets. In any case, the point is that certain assets and resources may be viewed as a kind of public good, and so subject to some kind of shared ownership and democratic decision-making.

A variety of schemes have been put forward to think about shared or collective ownership around the world. For example, in France it was proposed that all large, highly profitable companies should issue a small number of shares to be held by every citizen. Less radical ideas might include issuing government bonds to every citizen, or providing everyone with a share in nationalized banks or other institutions owned in whole or in part by the state. Sharing in the ownership of a publicly significant good might realize the value of citizenship, while public discussion regarding the use of one’s share could contribute to democratic functioning. The idea of workplace democracies may have fallen out of fashion, but the notion that employees should ‘take ownership’ of company policies and practices is a widely held tenet of management philosophy. And as we noted above, ‘public ownership’ is an accurate description of the current (October 2009) status of major British banks, a status that may allow or even require ensuring that ownership benefits everyone.

In sum, there are a variety of more or less radical ideas and policies for sharing ownership in (part) publicly owned institutions or in public goods. These policies certainly match with citizenship ideals, but they also provide a more universal way of improving asset-holding for those who currently lack such assets. Such policies could also be targeted at those who currently lack assets. The difficulty with targeting cooperative and collective ownership policies is that those who aren’t included have neither commitment to the policy, nor do they benefit from it, especially in terms of citizenship participation.

4.6 What kind of assets?

One issue we haven’t yet fully tackled is what kind of assets people should have. One major concern for asset-building policies is to ensure that the assets are in fact wanted by the wider population, but an equally pressing issue is that the assets in question shouldn’t devalue. The problem of asset depreciation is often prominent for organizations that invest in infrastructure as technology changes quickly (as in the case of computers), but it has also become sensitive and prominent in the context of some pensions funds that in the UK have lost much of their value.

Pensions are undoubtedly a kind of asset, and they have particular features that raise wider issues

for asset-building policies. This is that assets *cannot* be accessed for use before retirement. This raises a significant difficulty. On the one hand, assets such as pensions are designed to smooth consumption over the lifecycle. People who have retired have no income and require an asset (typically a pension but perhaps additional property or bonds or other investments) to provide them with enough income to meet basic needs. On the other hand, this report has shown how assets provide significant behavioural and opportunity advantages, especially if they can be used as an investment.¹¹³

Here the tension is between an asset being absolutely *stable* or *secure*, and an asset being *productive*. In terms of policy, the question lies in terms of the *accessibility* of an asset (or, more precisely, access to the cash value of an asset). The stability requirement for assets suggests that assets should *not* be easily accessible, or immediately convertible into cash. Pensions are the most obvious example of a secure, inaccessible (until retirement) asset, but many people approach their property in similar terms.

But for assets to provide significant opportunity or productive benefits, they should be fairly accessible. If a young person is to consider ‘leveraging’ an asset to provide training or further education, or a grandfather taps into a similar asset for a career change or to invest in a niece’s creative entrepreneurial activities, they must in fact be able to realize the value of their asset. A pension fund or similar ‘inaccessible’ asset cannot be used as collateral for people to avail themselves of new opportunities.

The tension between security and accessibility is particularly relevant for those who lack assets, including many women, BME groups and poor people more generally. Because they lack assets, poorer people require their assets to be secure; after all, if their (only) asset defaults, they have nothing left to fall back on, unlike the more prosperous who will have a diverse portfolio of assets.

Conversely, those without assets also need those assets to be productive in order to avail themselves of opportune or behavioural benefits. If people are to become more willing or ‘capable’ of managing their money or investing wisely, they should be able to access their assets, whether to use them for further training and education, to pursue a career that better suits their skills, or to invest in the market and engage in financial products.

However, accessibility can run against *stability*; if a training opportunity or investment turns sour, the asset-holder loses some or all of the value of those assets, and also any future benefits they might have derived from them.

This tension explains some of the difficulties confronted when designing asset-building policies, particularly when targeting those who currently lack assets. From existing schemes like the Child Trust Fund to proposed alternatives such as equity shares, the actual policy design has tried to meet the twin, but at times competing, requirements of stability and accessibility. For example, the CTF allows 16-year-olds a limited access to their fund (to decide how to invest it up to maturity). Until this point their asset is quite stable and secure, but fairly inaccessible. When their asset is fully accessible, at 18 years, its stability may be at an end, as some 18-year-olds may ‘waste’ their asset on immediate consumption.

We cannot fully respond to this dilemma here, but would like to emphasize two points. First, asset-building policies, especially for those that currently lack them, must provide assets that have some stability. Furthermore, for people who are limited to a single asset or just a few, those assets must grow at least at the same pace as the basic standard of living. Assets that lose value are of dubious value, and as the ‘law of diminishing marginal utility’ argues, a pound increase in consumption provides much more benefit to poorer people than wealthy people. This returns us to an earlier observation: that very poor people may be better advised to increase their consumption and thereby improve their wellbeing *today* rather than forego that consumption for the future. If assets decrease in value, present consumption is even more desirable. Asset-building policies must therefore not only provide stability, but also ensure that those assets rise along with or faster than inflation.

Secondly, that policy must anyhow allow people some access to their assets. Whether to induce behavioural change, to allow people greater freedom, or to provide more equal life-chances and wider life-choices, people will need to ‘leverage’ their assets. These two requirements (stability and accessibility), when combined, suggest that there is a need to develop different and various asset-building policies. They certainly indicate the need to go beyond the housing market and the limited

ambitions and opportunities that arise from the CTF and Saving Gateway. Developing different kinds of assets and a resultant diversity of wealth would not only be better for individuals, but would benefit the wider economy as well.

4.7 Section summary

Realizing the various benefits that assets can provide probably requires more than the relatively limited policies the government has implemented. The most obvious but perhaps politically sensitive way of building up assets for everyone is to tax them at a higher rate, and to use the resultant revenue to fund various asset schemes for all. *To be effective, the resultant assets would have to be stable and secure, but also grow at more than the rate of inflation.*

More specifically, we have argued that:

- Social justice and citizenship aims require support from more systematic (and costly) policies than those currently considered.
- There is a long history of such policies, grounded in ideas that include private property and wellbeing, and the importance of making these accessible to everyone.
- Such policies would be costly, but perhaps easier to administer than some existing asset-building policies; they would also require political willingness to increase taxation on the more prosperous.
- BME people would benefit from universal policies that achieved asset-building for everyone, but they would also benefit from targeted policies inasmuch as they currently lack assets.
- Providing benefits does much more to reduce income and consumption inequality in the UK than the current income tax setup.
- The tax and benefits system could be structured to build up assets for all. Existing policy taxes assets comparatively lightly (with Capital Gains Tax at 12%, and only 6% to 7% of estates paying inheritance tax) – a much greater benefit to the well-off than the poor.
- People in the bottom income quintiles receive no asset-based benefits. This contrasts with the situation above, where wealth is very little taxed, and the provision of tax incentives on savings, especially ISAs and pensions, and CTFs too, provides those in the upper income quintiles with greater assets than if those savings had been taxed as income (or indeed as ordinary savings products).
- Government needs to do more to make sure that BME people are targeted and made aware of their eligibility for existing saving schemes. This includes asset-based schemes such as the Saving Gateway and Child Trust Fund, but also ISAs and premium bonds, ideally in a non-complex, user-friendly literature that is accessible to BME and other populations either unfamiliar or uncomfortable with government-supported savings schemes.
- In addition to inheritance tax or a wealth tax, higher and more targeted property and inheritance taxes could be levied, with the resultant revenue used to provide assets for all. Inheritance tax might be viewed more favourably if the revenue were used to create a universal citizen's stake.
- Depending on how difficult it could be to provide financial education for everyone, on the varying asset-management capabilities of different people, and on how many people end up losing money on their assets, we might legitimately wonder whether policies such as 'basic income' could do better than asset-building strategies in alleviating poverty and in providing the more ambitious goals suggested by the 'asset-effect'.
- Proposals for schemes that offer shared ownership in publicly owned institutions or in public goods match well with citizenship ideals; they also provide a more universal way of improving asset-holding for those who currently lack such assets.

Section 5. Conclusions

This report has critically appraised the role of assets (including housing) to enhance financial inclusion, with particular application to ethnic equality. We have outlined existing levels of assets in the UK and evaluated existing ideas and policies. In this concluding section we focus more directly on the impact (or potential impact) of existing and proposed asset-building policies on ethnicity, and extend those considerations to other equality ‘strands’, i.e. gender, disability, sexual orientation, age and religion/belief.

As we demonstrated in section 1, Black and minority ethnic groups in particular are hampered by lower levels of assets. It is hardly surprising that migrants and their children have fewer assets than those with generations of inherited wealth in the UK, but this disadvantage is compounded by higher rates of unemployment and in-work poverty among almost all BME groups. We still need to develop a better understanding of why BME people end up with particular labour market outcomes, but were they to have more assets to begin with, they might not have to take up low-paying jobs with poor prospects for further training and promotion.

To what extent asset-building policies would then target BME people depends on how the policy might be designed and justified. In general we have argued that universal policies could realize some citizenship aims, but also that wellbeing and distributive concerns might require targeted asset-building policies to support those who currently lack savings and assets, including BME people. However, such targeting might be more successful in its delivery if the policy were designed and marketed specifically to ensure it is taken up by those who are in greatest need of these new asset-based products, BME people in particular. As we have suggested, better marketing and information might improve BME uptake of ISAs. Similar strategies might work for more ambitious asset-building policies too. Generally, however, BME people will be targeted because they currently lack assets, rather than on the grounds of their ethnicity.

Even if policies are delivered universally, they

may provide different benefits to different people. For example, asset-based policies may allow everyone to participate in society, but some people may *already* be able to participate. They would then experience a renewal of the same policy benefit – and the policy would be justified in the same way for everyone – but those currently lacking assets would get an additional benefit in terms of being able to participate for the first time.

Something similar can be said of wellbeing arguments: while greater assets improve everyone’s lives, they are particularly likely to improve the lives of those who currently lack assets, both in terms of basic wellbeing, but also in terms of social mobility and life-chances. For example, a creative and artistic person working as a cleaner could decide to develop their skills as a sculptor, while a person disappointed with their career after a decade or more of experience could get further training to pursue alternative labour market options.

While the Child Trust Fund seems to balance universality and progressiveness, its design suggests that it benefits wealthier parents and their children far more than poorer families through the operation of top-ups and tax relief. This could further undermine any beneficial effects it has for poorer children through its counter-effect of widening inequality. If there is limited money to go around, it might be better for the CTF to target poorer families only, especially if the aim is a universal one – to get everyone to participate as an equal in a democratic society. We have suggested that many BME households will struggle to realize the potential benefits of CTFs, and that the design and explicit justification of this fund cannot achieve distributive, citizenship or freedom-based aims.

Conversely, the Saving Gateway does target disadvantaged families, and thereby benefits those groups specifically. Yet the amounts involved here may be too small, and the individuals too badly off, to expect very ambitious outcomes from this policy measure. So while SG targeting is indeed a good way of improving the wellbeing of those who are currently disadvantaged, and may indeed make

people more likely to get into the savings habit, it does not ensure that the potential beneficiaries improve their life-chances or gain the ability to participate fully and equally in decision-making institutions.

That some groups may always require significant levels of cash benefits (including part-time workers, the retired, carers, people with serious physical disabilities and others) suggests that policy should not *divert* these necessary funds to small-scale asset-building projects. On the other hand, that these people are often viewed as being of lesser status or less deserving of the opportunity to fully contribute to democratic decision-making suggests that some kind of shared or collective ownership could benefit them greatly and improve the worth of our democratic institutions for everyone. Given the current structure of income tax and benefits in the UK, one suggestion we have pursued is that wealth-based taxes (whether directed at inher-

itance, overall wealth or property) could be levied to provide a fund that supports asset-based benefits for all.

The justification of any policy ultimately affects whether it should be universal or targeted (and at whom it should be targeted), and asset-based policies have many plausible and legitimate goals. Any particular justification directs the response towards certain kinds of asset-based policies and explains how such policies might be evaluated, though of course people of good faith may disagree about whether a particular policy can in fact achieve those ends. From the perspective of race equality – and indeed equality generally – the most obvious justification for assets is to improve the life-chances of those who currently lack them, and thereby support their participation in democratic decision-making institutions. This firmly signals a need for more significant policy interventions than the current asset-based welfare agenda recommends.

Endnotes

- 1 Altmann (2003); Zhan and Sherraden (2003); Rank (2008).
- 2 The link between property and the liberal tradition dates at least to John Locke (see his *Two Treatises on Government*, originally published in 1689), and has been addressed by most political theorists ever since. A crude summary would be that right-leaning liberals tend to emphasize the freedom-based and market-oriented behavioural arguments for owning property, while left-leaning liberals rather emphasize equal opportunities and citizenship. John Rawls's influential *Theory of Justice* (1971) advocated the idea of 'property-owning democracy', and though this seems to have been distinct in meaning from existing social democratic states, he didn't elaborate at length on his understanding of the concept. But for a recent consideration of Rawls's meaning, see Williamson and O'Neill (2009). The term 'property-owning democracy' was prominent among Conservative thinkers and politicians in the 1970s and 1980s, and inspired the Right to Buy Policy (Cutler, 1970; Thatcher, 1978). Michael Sherraden's work has arguably been more influential among policymakers, in particular his claim for a wider 'asset effect' that builds people's self-confidence, encourages greater participation in markets and improves economic well-being (see Sherraden, 1991). Philippe Van Parijs's *Real Freedom for All* (1995) is a sophisticated philosophical exploration of related issues, although policy thinking is more likely to derive from Ackerman and Alstott's *The Stakeholder Society* (1999), in which they proposed an \$80,000 capital grant for all US citizens. Very recently right-leaning thinkers have focused on the importance of creating assets for everyone, especially Phillip Blond (2009a, b).
- 3 Khan (2008).
- 4 The Office for National Statistics has conducted a further study on assets, but the results are not due for release until late 2009 at the earliest.
- 5 Evidence on the relationship between high savings and economic growth holds particularly for developing economies, but has been an important assumption in the economic growth model literature since the 1930s. Early examples are Domar (1946); and Harrod (1939). The Solow model (as in Solow, 1956) and theories of 'endogenous growth' (e.g. Lucas, 1988) also point to the importance of savings, while more recently the savings rate in the USA has been highlighted as a cause of or contribution to the current recession. One of America's most influential economist-policymakers has stated: 'I am reluctantly convinced that the most serious problem we have faced in the last 50 years is that of low national saving' (Summers, 2004).
- 6 Sherraden (2005); Scanlon (2001).
- 7 This estimate is from Bank of England-funded research (see Barwell, May and Pezzini, 2006). A lower figure of 10%, but dating from 1999, is presented in Paxton (2002). The DWP's (2009) Family Resources Survey finds a higher figure of 27%, but these data do *not* include housing. As explained in note 10 below, on pp. 38–9 of the Barwell et al. article, and throughout this report, it is not easy to calculate asset holdings.
- 8 Two separate court judgments in the north of England in August 2009 revealed the extent of repayments to loan sharks. One woman who borrowed £500 ended up paying £88,000 in interest, and in both cases the lenders targeted disadvantaged people (see Wainwright, 2009).
- 9 For data on income inequality in the UK see Brewer et al. (2009).
- 10 The 2007/08 FRS report summarizes the difficulties of data on assets: 'The data relating to assets and savings should be treated with caution. Questions relating to assets are a sensitive section of the questionnaire and have the lowest response rate. A high proportion of respondents do not know the interest received on their assets and therefore around one in six cases are imputed (the Methodology outlines the imputation methods undertaken). Evidence also suggests that there is some under-reporting of capital by respondents, in terms of both the actual values of the assets and the investment income' (DWP, 2009: 76).
- 11 ONS website: <http://www.statistics.gov.uk/cci/nugget.asp?id=2>. The information in this table is based on Inland Revenue data.
- 12 <http://www.statistics.gov.uk/cci/nugget.asp?id=2>. ONS 'Share of the Wealth' report. The Nobel-winning economist Franco Modigliani proposed this 'life-cycle theory' of savings in the 1950s (see Ando and Modigliani, 1963). Since the 1980s this thesis has been questioned on the basis that people save more than is necessary for their older age (e.g. Kotlikoff and Summers, 1981).
- 13 Capital Gains Tax in the UK is levied at 18%, and it is therefore very advantageous for wealthy people to convert their income into investments. Although there are now limits to the total amount that high earners can put into their pensions, contributions of up to £235,000 per year are tax free. Even the 40% Inheritance Tax is lower than the 50% top rate of taxation (and equal to the 40% rate); estates are also exempt on the first £325,000, and only 6–7% of estates currently pay it.
- 14 Pensions Policy Institute (2009). According to this report, 30% of the UK's wealth is held in pensions.
- 15 <http://www.statistics.gov.uk/cci/nugget.asp?id=2>. ONS 'Share of the Wealth' report.
- 16 Data for this paragraph are from Khan (2008: 53).
- 17 Thatcher (1978).
- 18 See Centre for Housing Policy (2000).
- 19 The literature on assets and ethnicity is thus quite limited, although Warren and Britton (2003) highlight the diversity of ethnic economic attainment. In the US there is much more developed literature, including at the Institute of Assets and Social Policy at the University of Brandeis [<http://iasp.brandeis.edu>]. See also Oliver and Shapiro (1995) and Conley (1999).
- 20 See also Palmer and Kenway (2007); Li, Devine and Heath (2008). The latter report explains how, given current levels of education, even people from Indian and Chinese backgrounds are doing worse in the labour market than white British people.
- 21 All data cited from the BBC website: http://news.bbc.co.uk/1/shared/spl/hi/in_depth/uk_house_prices/html/qs.stm. Sources for these data are: England and Wales: Land Registry of England and Wales, Crown copyright. Figures for England and Wales are for the period April to June 2009. Scotland: Registers of Scotland Executive Agency. Figures for Scotland are for the period January to March 2009.
- 22 Platt (2005a: 445–61; 2005b).

- 23 Li and Heath (2008).
- 24 Berthoud (2009).
- 25 Stevenson and Sanchez (2008).
- 26 Steed (2007).
- 27 Westaway and McKay (2007).
- 28 National Statistics data 2008: <http://www.statistics.gov.uk/cci/nugget.asp?id=167>. These data derive from the Annual Survey of Hours and Earnings (ASHE), and are based on *median* hourly pay, excluding overtime.
- 29 Westaway and McKay (2007: 12).
- 30 Banks, Smith and Wakefield (2002).
- 31 PPI (2009).
- 32 ONS data and analysis: <http://www.statistics.gov.uk/cci/nugget.asp?id=1269>
- 33 For a graphic representation of the rising inequality until age 75, see Banks, Smith and Wakefield (2002: 10).
- 34 For a comprehensive review of the literature, see Crosby et al. (2008).
- 35 ONS data, based on 2001 Census analysis: <http://www.statistics.gov.uk/cci/nugget.asp?id=456>
- 36 For a recent review of poorer people in the UK, see Kempson and Finney (2009) for the Financial Inclusion Taskforce (HM Treasury). See also Schreiner and Sherraden (2007); Beverly and Sherraden (1999).
- 37 Joseph Rowntree Foundation (2009): <http://www.jrf.org.uk/publications/minimum-income-2009>
- 38 The idea that people should have a guaranteed minimum is very old, and dates at least to Thomas More (1479–1535) and Johannes Ludovicus Vives (1492–1540). Although these thinkers argued more for a minimum income, later writers in the UK, including John Stuart Mill, Bertrand Russell, G. D. H. Cole and in particular the Nobel Laureate economist James Meade, explained the link between the idea of a basic minimum and an efficient and just capitalist market.
- 39 From a UK policy perspective, see publications by the IPPR, and also the IFS; e.g. Paxton (2003); Emmerson and Wakefield (2001).
- 40 For an insightful explanation of the limits of the ideal model of markets and the resultant need for regulation in large industries see Baumol (2000) on 'Public Interest Standards for Canadian Rail Rate Regulation: Differential Prices, Access and Price Ceilings': [http://www.reviewcta-examenlrc.gc.ca/submissions-soumissions/June30/Baumol%20William%20J%20\(CN\).pdf](http://www.reviewcta-examenlrc.gc.ca/submissions-soumissions/June30/Baumol%20William%20J%20(CN).pdf)
- 41 Although this was not a key element in interpretations of economists such as Friedman and Hayek by their most ardent supporters in the UK and the US in the 1980s, both thinkers explicitly endorsed the negative income tax and the idea of greater assets for the poor, and Hayek explicitly endorsed both the idea of social insurance and a minimum income for every person (see Friedman, 1962; Hayek, 1944). In fact, President Richard Nixon almost managed to push a negative income tax through Congress in the early 1970s.
- 42 According to Paine, every person should receive an income of £15 per year, roughly equivalent to £10,000 in today's money (see his 'Agrarian Justice' in Kramnick, 1987). Paine also initiated the thought that land was a common asset, an idea now typically referred to as 'Georgism' after the American political economist Henry George (1839–97), and one that we shall consider again in the context of citizenship arguments.
- 43 For discussion, see Khan (2008).
- 44 Sherraden (1991: 13).
- 45 See Cutler (1970); Thatcher (1978).
- 46 In, for example, Hayek (1978).
- 47 Although studies on how to effect behavioural change are quite limited, evidence from the US has found that seminars on financial education in workplaces increase people's saving rates, including contributions to a private pension (Bernheim, Garrett and Maki, 2001).
- 48 Marshall (1950).
- 49 White (2003).
- 50 Blond's contribution to DEMOS (2009a). For Blond's focus on assets, see his *Guardian* article (Blond, 2009b).
- 51 John Locke, *Two Treatises on Government* (1689).
- 52 See Nozick (1974) for example.
- 53 Van Parijs (1995).
- 54 Sherraden (1991: 13).
- 55 HMT (2001: 10).
- 56 Hewitt (2002), quoted in Khan (2008: 59, note 198). See also Watson (2009), and publications listed in the bibliography in Khan (2008).
- 57 HMT (2001: 12–13); see also Bynner and Despotidou (2000).
- 58 For example, Regan (2001); Paxton (2003); Paxton, White and Maxwell (2006).
- 59 HMT (2003: 1).
- 60 Ibid.
- 61 HMT (2003: 32).
- 62 The amounts in Table 9 have been calculated by the author. We have used 4% as a return for two reasons. First, it is somewhat easier to calculate than the government's estimation, based on 7% notional interest but 2.5% yearly inflation; the government estimates are very similar to those found in this table. Second, many CTFs will not be invested in high-yield funds but rather more stable, lower-yield funds, especially those who have not chosen their own fund. Currently, of course, funds offer much less than 4% interest, though this is likely to change as the market recovers from the recession and the interest rates rise from their current historically low levels.
- 63 This is not wholly surprising as £5 a month over 18 years amounts to £1080 of contributions, or £580 more than the additional government contribution for disadvantaged children. But the point is that top-ups drive much more of the difference in sizes between funds than do the amounts provided by government.
- 64 The Institute for Fiscal Studies has suggested that greater government expenditure would be a better use of public money than the Child Trust Fund, especially given the need to cut government expenditure. While cutting the Child Trust Fund may make some children's lives worse, cutting public services may make their lives even worse again, especially poorer children (see Emmerson, 2009).
- 65 Figures available on the HMRC website at: http://www.hmrc.gov.uk/stats/child_trust_funds/child-trust-funds.htm.
- 66 http://www.childtrustfund.gov.uk/templates/Page____1243.aspx
- 67 See the Ipsos-MORI evidence in Table 5 above.
- 68 See Table 3, in section 1.
- 69 See Figure 2, in section 1.
- 70 See Figure 4, in section 1.
- 71 Schreiner and Sherraden (2007); see also the discussion in *Savings and Assets for All* (HMT, 2001).
- 72 Schreiner, Clancy and Sherraden (2002); see also the discussion in *Equity Shares in Social Housing* (ODPM, 2003b).

- 73 For a discussion of a scheme in which a modest sum is added to monthly rent and placed into an SG account, see Terry (2008).
- 74 Kempson, McKay and Collard (2005).
- 75 See the IFS's technical evaluation (Emmerson and Wakefield, 2001).
- 76 Ibid.
- 77 These criticisms are also implicit in the Liberal Democrat rejection of the Child Trust Fund, and among those who think that the amount of saving involved is so tiny as to be unlikely to achieve its intended aims. See also Emmerson and Wakefield (2001).
- 78 Hills (2007).
- 79 Peach and Byron (1994) appears to be the only research on the Right to Buy and ethnicity, and it is now 15 years since it was published.
- 80 ODPM (2003a); see also ODPM (2003b).
- 81 Chapman and Sinclair (2003).
- 82 ODPM (2003a). Some also argue that certain people should be excluded from equity share schemes (e.g. those with a criminal record or those with rent arrears).
- 83 DCLG (2009a).
- 84 'Silver surge of interest in equity release', Age Concern website (19.07.06): <http://www.ageconcern.org.uk/AgeConcern/60F8C21631B04A029FC3401CA6136660.asp>. See also Age Concern's factsheet on equity release: <http://www.ageconcern.org.uk/AgeConcern/fs65-equity-release.asp>
- 85 Pensions Policy Institute (2009).
- 86 For a good review, see ODPM (2003b).
- 87 Rohe, Van Zandt and McCarthy (2001).
- 88 Sherraden (2005).
- 89 Pateman (2004).
- 90 See Sodha and Maxwell (2005); Sodha and Lister (2006).
- 91 For a further explanation of wealth tax in the UK, see footnote 13.
- 92 Barnard (2009).
- 93 This claim may seem controversial, but the reason is that income among the bottom quintile is only £4900 (before cash benefits), while they pay £1240 in direct taxes and national insurance contributions (or 25.3%). The top quintile pays a much greater share (£18,460) in direct taxes and national insurance contributions, but this also represents 25.3% of their average income (before cash benefits) of £72,890. These figures are at best approximate, especially among the lower quintile, as many make very little or no income and report vastly different incomes from year to year; there are also many retired people among the bottom quintile who have no earnings. If non-retired households are included, then income tax becomes slightly more progressive, with the bottom quintile paying only 20% of pre-benefit income compared to 25% for the upper quintile. These data will probably alter somewhat with the implementation of the 50% top tax band, after which income taxes will be much more progressive for those earning over £150,000 in income (i.e. less than 1% of the population).
- 94 The nature of targeted benefits (especially those that are means-tested) means that even if the wealthy paid less proportionally in income tax, the distribution of those revenues in benefit payments would be broadly progressive.
- 95 See the NS&I website: <http://www.nsandi.com/>. Also see discussion in Khan (2008).
- 96 Prabhakar, Rowlingson and White (2008).
- 97 'The case for death duties', *The Economist* (25 Oct 2007).
- 98 Ackerman and Alstott (1999).
- 99 http://news.bbc.co.uk/1/hi/uk_politics/6949753.stm
- 100 The resultant funding could of course be used to increase benefits. This might have the advantage of more directly improving the wellbeing of disadvantaged people in the UK, but would arguably not have the sorts of 'citizenship' benefits suggested by asset-building policy. One clear advantage of using a wealth tax to fund asset-building measures specifically is that the link between the tax and the benefit is explicitly focused on assets as a way of improving life-chances and enhancing citizenship participation.
- 101 See the Liberal Democrats' 'Axe the Tax' site: http://campaigns.libdems.org.uk/axe_unfair
- 102 In this brief section we cannot address the various pitfalls of such reforms, but note the potential inflationary effects on the rental market (as landlords would face additional costs), the potential depressing effect on property prices (as people can only afford properties of lesser value if they face greater monthly costs), and the necessity to provide some kind of exemption for older people below a certain income/wealth threshold.
- 103 Indeed, the government explicitly recognizes this point, as in the most recent (2009/10) Budget. Although the 50% top rate of tax attracted the most attention, the reduction of the threshold for pensions tax relief from £102,000 to £51,000 has a much greater effect (see Collinson, 2009).
- 104 For a good history of basic income, see Cunliffe and Erreygers (2005).
- 105 Joseph Rowntree Foundation (2009) Minimum Income Standard: <http://www.jrf.org.uk/publications/minimum-income-2009>
- 106 A good accessible summary can be found online at: <http://www.usbig.net/whatisbig.html>. Other important texts include Cunliffe and Erreygers (2005), and the various contributions of Philippe Van Parijs (especially Van Parijs, 1991, 1995; Reeve and Williams, 2002).
- 107 For example, Pateman (2004): <http://www.polisci.ucla.edu/faculty/pateman/politicsandsociety.pdf>
- 108 There are of course concerns about the cost of administering such a policy. These are addressed in the US context in Garfinkel, Huang and Naidich (2002).
- 109 Though the latter 'wastage' argument was arguably a greater influence on Treasury policy, see Ackerman and Alstott (1999). For a collection of essays on the relative merits of stakeholding and basic income, see Ackerman, Alstott and Van Parijs (2005).
- 110 For the concern that asset-building policies would require significant investment in (financial) education, see Stuart White's 'The Citizen's Stake and Paternalism' in Ackerman et al. (2005).
- 111 See Stuart White's discussion on this topic at the Fabian Society blog: www.nextleft.org (see also White, 2003).
- 112 The idea of a 'windfall' tax, for example 1% on bank profits to provide 'public benefit', is one such idea, and is ably defended by the Urban Forum: <http://www.urbanforum.org.uk/>
- 113 The exposition in this subsection is much indebted to written comments from and conversations with Paul Cox; any errors or confusion remain the author's responsibility.

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