Child Trust Funds – the "fourth pillar" of the welfare state

Ruth Kelly

Welcome

It is great to have the opportunity to address you here today and tell you a little about the genesis of the Child Trust Fund, which was introduced in the early 2000s, and the philosophy which unpinned the policy. I was the Treasury minister at the time responsible for their implementation.

The idea was always ambitious.

Tony Blair, then Prime Minister, described the introduction of the funds in 2003 as

"A big, progressive idea with far-reaching consequences for extending opportunity in Britain. It flows from our belief that the duty of government is not just to attack entrenched privileges that hold people back, but to vigorously promote equality in life chances. It is a decisive moment in our second-term mission to create a society that is open, genuinely based on merit and the equal worth of all"

Some traced the origin of the thinking behind Child Trust Funds back to Thomas Paine who, in 1797, proposed a national fund to pay £15 to every 21-year-old in England. Or to James Meade, the Nobel prize winning British economist who wrote half a century ago that "an unequal distribution of property means an unequal distribution of power, even if it is prevented from becoming too unequal a distribution of income".

More recently, back in the late 1990s and early 2000s, thinkers such as Will Paxton and Gavin Kelly (no relation) at the Institute for Public Policy Research started to develop what they described as a new type of "asset based welfare', while on the other side of the Atlantic, scholars in the US, such as Michael Sherraden were beginning to argue that the poor could build significant assets with the right jump start. He also contended that assets change people's perspectives: "While incomes feed people's stomachs, assets change their heads" he said/ (Sherraden 1991).

Drawing on this thinking, the IPPR developed a model in which 'baby bonds' would be given by the government to each child at birth. As a fairly new back bench MP, I was involved in various discussions around the topic. The salience of the thinking was significantly bolstered by work carried out by academics at UCL using the National Child Development Study, which found that adults aged 23 in 1981 who had received at least £5000 at the time of the survey were twice as likely to be in self-employment as those who hadn't received an inheritance (controlling for other factors). Indeed, research based on the same survey in 2001 suggested that holding a mere £300-£600 had a positive impact on health, the labour market and educational attainment.

This insight, combined with the fact that two-thirds of all UK adults aged 35–44 had less than £500 in savings or financial assets in the late 1990s, together with the rapid growth in public resources being spent on middle-class tax reliefs for asset accumulation, helped create political appetite in Labour circles for new policy thinking on how to spread financial wealth.

It was against this intellectual backdrop that in the run up to the 2001 election, the Labour government presented asset-based welfare as a new 'fourth pillar' of the welfare state (after work, income and public services). The Child Trust Fund initiative was a

central part of the 2001 manifesto – alongside a Savings Gateway , which matched pound for pound the savings of undersaved adults. I was lucky enough to be made Economic and then Financial Secretary to the Treasury after the election 2001 with responsibility for savings policy for a number of years.

Why was I so convinced of the merits of the policy? Well of course the evidence from UCL helped. But also because it tallied with my view that we needed to open our eyes to more fundamental causes of poverty and lack of ambition. I believed that wealth or assets are in many ways even more important in determining life chances than income - as your total wealth better captures the resources that you have access to at any one time.

And not only that, but asset ownership or property ownership brought other important benefits to individuals – providing extra security, a financial cushion for when things go wrong, an ability to cope with large one-off costs such as a car breaking down or a child starting school. This extra security means that people are able to take extra risks, such as starting a new business or undertaking more education or training.

During my time in those roles (Labour's second term in office) there was a series of consultations covering questions of policy design — how much would the state transfer, at what age, who could run these accounts, what could they charge, what happened when parents failed to open accounts, and so on. The Child Trust Fund was finally launched in the 2003 Budget with accounts going live in early 2005 (although children born from September 2002 onwards were eligible). It was to be both universal – a financial contribution from the Government for each child born after 1 September 2001 – and progressive – with a greater endowment for children from poorer backgrounds. Around 700,000 babies are born each year in Britain. For each new-born child the Government was to make an initial endowment of at least £250, rising to £500 for the poorest children. Subsequent endowments were planned for when the child turned 7, 11 and 14.

The intention was that children would see their endowments grown over time, add their own contributions over time (or have them added to by friends and family), start to plan their future and then be able to invest in their talents and ideas when they turned 18.

We hoped that families of all income brackets would start to save for their children, committing an extra £5 or £10 a month to their child's funds. I remember describing how I hoped children in the playground would be discussing what they would do with their 'wealth' when they grew up. That the Maths curriculum would adapt to talk about interest rates, asset classes and investments as interest grew. That children would take on Saturday jobs to pay extra into their Child Trust Fund.

The idea was that by the age of 18, the fund would have accumulated into an asset of several thousand pounds, enabling all young people to have the chances only available to some. Enabling them to have the backing of a real financial asset to invest in activities such as learning, buying a home or setting up a business. Indeed universalism – the fact that every child had an account – and financial education were both to be critical parts of the story.

Five years on, when the new Coalition government announced the funds were to be axed as part of their first Budget, more than 6 million accounts had been opened. And the Child Trust Fund was replaced by the Junior ISA .

Nothing on the scale of the Child Trust Fund had been tried before anywhere else in the world. I strongly believed then, and still believe now, that welfare policy cannot just be seen as meeting immediate needs – but that a longer-term view needs to be taken.

Behaviour needs to be changed, confidence promoted and people's individual talents backed.

It's also worth spending some time considering the mechanics of the CTF operation as we now consider ways of reuniting funds with their intended beneficiaries.

There were essentially two routes by which a child trust fund account could be opened, either by the "responsible person" or by the Inland Revenue. The working assumption was that in the great majority of cases the child's parents would open the account, with the Revenue having a fall-back role in the event that no account was opened. Vouchers were sent to all the parents of new born children and they had up to 12 months to choose and open an account for their child. If nothing was done with the voucher and the time expired, a 'default' account would be opened for the child.

Of course, the families of children who failed to open an account for their child were among the most vulnerable in the country. We aimed to ensure that there was both a diversity of account providers for these accounts and that they were invested in equities, given the long time frame over which they were designed to operate. In the event, 14 providers came forward to offer "default accounts" for these children. It was the responsibility of HMRC to contact the families and let them know of the account, which I am sure they did attempt to do. I am not sure there was much attempt to follow up after that, either by HMRC or by the providers, despite the providers being allowed to charge up to a maximum of 1.5% of the value of the fund every year.

The Share Foundation has found that over 40% of all young people who are now eligible (that is, aged 18 or over) to access their savings account have not done so. The average value of over 1.17 million accounts as yet unclaimed by young adults is £1,900, meaning that over £2 billion is waiting for the rightful owners to come forward and access their funds.

So what does this teach us? For this part of my speech, I am drawing on the insights of one of the intellectual drivers of the initial policy – Gavin Kelly at the Resolution Foundation.

First – as we clearly knew from the start of the project - there were never going to be any early winners from the policy. As Gavin has written: "By any standards, a near two-decade lag from initial announcement to the creation of real beneficiaries is a long stretch."

Secondly, the timing was not great, if you are thinking about how radical new policy is best embedded in democratic systems. The Funds were a product of thinking in the first term of New Labour "when new Labour think tanks were in the ascendancy and Government debt was much less of an issue that it is today". There seemed to be room for both radicalism and experimentation. Certainly a belief that anything was possible.

By the time the policy was implemented in practice, however, – it takes a lot of time to work up detailed proposals and pass all the relevant legislation in parliament – Labour was heading toward the end of its second term and only a few years away from the complete change of regime. Yet the policy was never developed with the imperative to gain a cross-party consensus before its introduction.

And thirdly, the policy never had a groundswell of support clamouring for its introduction – and nor was it in place long enough to develop one. Poverty campaigners had a very mixed response at the policy's inception, although they became more enthusiastic as it developed. More 'purist' economic think tanks, such as the Institute for Fiscal Studies, as I

remember, argued that ‘wealth didn’t really matter’ in the sense that it was really just a reflection of the accumulation of income - the proper focus of policy.

These points are all fair. While Labour used the Child Trust Fund as a main plank of its campaigns in 2010, few actually decried the removal of the policy as one of the first acts of the Coalition Government. It was one conditions the Liberal Democrats imposed on the Coalition as a price of their support, as the country entered an era of austerity.

Nevertheless, despite the austerity of the Coalition and Conservative years, the need for a policy to help build capital for the poorest in society has never been greater. As Liam Byrne MP, Chair of the Business and Trade Select Committee, has pointed out, since 2010, the wealth of the top 1% of the population has increased 31 times the wealth of the rest.

Child Trust Funds are one measure to spread opportunity, by redistributing capital. Liam has proposed the creation of a UK sovereign wealth fund, grown over the years to around £180bn and from which dividends of around £10,000 are paid to every young person, to help provide a deposit for a home – in the form of a matched savings bonus/and tax break.

And there are lots of other ideas. But first we must ensure that our young people can benefit from the capital that has already been put aside for them.

You’ll be hearing a lot more about how to do that today.

Thank you for coming.