



Briefing Paper BP8-2016

Is the Defence of Asset-Based Welfare a Defence of House Prices?

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Introduction

Asset-based welfare (ABW) was one of the most innovative social policy agendas of the last Labour governments (Prabhakar 2008). ABW insists that the individual ownership of assets is important for individual welfare. The US academic Michael Sherraden coined the term ABW. In his book *Assets and the Poor* Sherraden argues that welfare policy relies on transfers of income through the tax and benefit system to reduce poverty (Sherraden 1991). Although Sherraden supports such income transfers, he claims that it is also important to pay attention to the ownership of assets. Income is a flow of money while assets are a stock of resources. Sherraden says that there is an 'asset-effect', where the individual ownership of assets changes the way that people think or behave. In particular, if people hold an asset, then they take active steps to stop poverty from occurring.

ABW was influential for new Labour. This led to policies such as the Child Trust Fund (CTF) and the Saving Gateway (SG) idea. Under the CTF, all babies born from September 2002 qualified for a £250 endowment that was paid into a special 18 year account. Family and

friends could save up to £1,200 in these accounts each year and children from poorer backgrounds qualified for an extra 'progressive universal' top-up of £250 to the initial endowment. The SG was to be a special 2 year savings account aimed at those on low incomes. Under the SG, every £1 saved by the account holder would attract a 50p match from government, although the total government contribution would be capped at £300. The SG was supposed to be rolled out nationally after 2010. The Conservative-Liberal Democrat government cancelled this roll-out in the first wave of austerity cuts to public spending. The Conservative government in 2016 though revived the SG idea when it introduced its 'Help to Save' ISA aimed at those on low incomes (HM Treasury 2016).

There is growing criticism of ABW from within the academy. These critics argue that in practical terms ABW is dominated by housing assets. This matters because ABW is presented as part of New Labour's efforts to use rising house prices as a basis for economic growth. Watson (2008) writes that: 'Homeownership dominates wealth holdings in Britain to such an extent that the defence of asset-based wealth is, to a large degree, the defence of house prices' (Watson 2008, 299). In particular, ABW boosted consumer demand for housing. This was combined with light touch financial regulation which meant the easy availability of credit. This stoked a house price bubble. The bursting of this bubble though was one of the key causes of the 2007-2008 financial crisis and this critique directly implicates ABW as one of the causes of the crisis.

The role of housing in wealth

Critics of ABW highlight the important role that housing plays in national wealth. The table below is data from the Wealth and Assets Survey between 2012 and 2014 and shows the different types of wealth owned by different slices of the population.

Table: Total wealth in Great Britain 2012-2014

Great Britain	£ Million			
	Property Wealth (net)	Financial Wealth (net)	Physical Wealth	Private Pension Wealth
1st	-2,276	-11,766	17,769	1,958
2nd	1,505	194	43,761	9,625
3rd	22,963	4,445	74,254	41,095
4th	105,473	15,359	85,208	86,448
5th	202,786	29,077	98,684	142,376
6th	321,936	49,388	112,628	209,847
7th	424,158	90,442	130,787	335,455
8th	554,397	147,992	149,291	542,571
9th	745,383	239,117	178,874	944,303
10th	1,550,866	1,032,125	260,715	2,145,006

Source: Wealth and Assets Survey, Office for National Statistics (2015)

The table shows wealth by deciles, that is from the poorest 10% of the population to the wealthiest 10% of the population. The table shows four main types of wealth for each decile, that is property wealth, financial wealth (which includes savings or current accounts and stocks and shares), physical wealth (such as artworks or motor vehicles) and private pension wealth. The table shows that property wealth is the single most important part of wealth for the 4th to the 8th deciles. For the poorest decile, physical wealth is the most important part of wealth and for the wealthiest 9th and 10th deciles private pension wealth is more important than property wealth.

ABW and Housing

Property is therefore the most important type of asset for a large slice of the population.

Does this then mean that ABW is therefore dominated by housing? This briefing paper suggests that it is possible to unpick housing from ABW. New Labour associated ABW with a very specific agenda that concentrated on spreading modest amounts on development of financial wealth such as the CTF and SG. New Labour did not tend to use ABW to refer to policies on housing. The explicit ABW agenda was not about housing.

Although New Labour did not use ABW to refer to housing, it might be countered that there is an implicit ABW agenda and commentators apply the ABW label retrospectively to refer to a whole set of policies that concentrate on the accumulation of any sort of asset. One danger though with this approach is that this arguably gives a false coherence to a wide range of different policies towards assets. New Labour, as with any government, had a wide range of policies towards assets and these policies were not always consistent. New Labour policies towards housing arguably do not fall into the same category as the policies towards the SG and CTF. For example, the SG was much more about helping low income people have a financial buffer of a few hundred pounds to protect from everyday shocks such as the breaking down of a washing machine rather than priming people to enter the housing market. The sort of sums that might be saved in the SG would not be enough to give people a deposit for a house (unless supplemented by significant, non-Government provided, resources at a level much above the match levels available).

A post-financial crisis ABW

This briefing paper suggests that conflating ABW with housing overlooks the distinct character of ABW for New Labour. ABW for New Labour was much more about the asset-effect associated with modest amounts of financial wealth rather than the housing market. Furthermore, New Labour policies towards housing built on more long-standing trends in the housing market since the end of the Second World War and before the emergence of ABW as an anti-poverty strategy.

It is possible though to develop ABW in different ways and one option is to make more explicit how it is distinct from policies towards housing. Another strand of literature that fed into ABW was work on 'basic capital' that insisted that people should receive a capital grant as a right of citizenship. This is a strain of thought that can be traced back to Thomas Paine in the eighteenth century and modern versions of this idea can be seen in the work of commentators such as Julian Le Grand and David Nissan who proposed that all citizens should receive a £10,000 grant once they turn 18. A.B. Atkinson has recently revived a similar idea in his proposals for reducing widening wealth inequality. None of these ideas endorse the accumulation of housing assets, and indeed one way of paying for such grants is to tax housing wealth more heavily. This means that it is possible to support ABW even if one also rejects that rising house prices should be the basis for economic growth.

References

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