

recapitalising the poor why property is not theft

Max Wind-Cowie

Progressive Conservatism Project

DEMOS

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Max Wind-Cowie

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Max Wind-Cowie
July 2009

Foreword

The best chapters in economic history are those that embrace the many, not the few. In 1950s America, there was a sense that everyone could share in prosperity. In 1980s Britain, Margaret Thatcher led an ownership revolution that gave millions a new stake in our economy. That was truly popular capitalism.

Compare that to today – capitalism has never been so unpopular. Too often, it seems as if the winners have taken it all. Today, the poorest half of the world's population own barely one per cent of the world's wealth. And at home, the numbers living in severe poverty are rising. We may have a lot of capital, but not many capitalists.

That's not fair and it's not right. It's now vital that we put wealth back into the hands of the poorest so they can not only lift themselves out of poverty – but keep themselves out too. We won't do that through the old approaches of shuffling state money around and reinforcing the culture of dependence. As this report shows, we need to reform welfare and give people the chance to start their own businesses and own their own assets.

This is a good example of progressive conservatism: the progressive aim of tackling poverty achieved through the conservative means of social responsibility, not state control. Through decentralisation and innovation we can succeed where the old-fashioned top-down bureaucratic approaches have failed.

While we won't agree on all the proposals in this report, it is certainly an important contribution to solving one of the most important challenges we face in rebuilding our broken economy and mending our broken society.

David Cameron
Leader of the Conservative party
July 2009

Summary

‘When a young couple begin in the world, the difference is exceedingly great whether they begin with nothing or with fifteen pounds apiece,’ wrote Thomas Paine in 1795. ‘With this aid they could buy a cow and implements to cultivate a few acres of land; and instead of becoming burdens upon society... would be put in the way of becoming useful and profitable citizens.’¹

This pamphlet is entitled ‘Recapitalising the Poor’. The phrase is not simply a convenient label for the policies outlined, but goes to the heart of both the problem and the progressive conservative solution. As David Cameron said, ‘Spread opportunity and wealth and ownership more equally through society and that will mean, as some have put it, recapitalising the poor.’²

For the purposes of this pamphlet, the poor are literally those who do not own and who have no realistic avenue to ownership. The poorest quarter of our population own less than 1 per cent of the UK’s total assets. Indeed, within that tier of people, 11 per cent own assets of a total value less than £500.³ For progressive conservatives, these are the poor.

Progressive conservatives believe that it is important to link a person’s acquisition of assets and capital (where the state helps to facilitate that acquisition) with their financial and social contribution to society. They do not believe in simply throwing wealth at people. This pamphlet addresses how progressive conservatives can transform the resources already available to the poor, turning them from supportive, ameliorative resources of care into mechanisms that enable the ‘entrepreneurial poor’ to build a wealthier future for themselves and their families.

A progressive conservative approach is built on the following assumptions:

- *Something for something.* When the state gives you a hand up, you should be prepared to give something back. Progressive conservatives do believe in intervening to help the poor to acquire assets, but on the condition that the beneficiaries of such a policy step up and take responsibility for their lives.
- *Children should have a fair start.* Progressive conservatives believe that the socio-economic status of your parents still has far too much influence over your life-chances. This is unfair and punishes the children of the poor. It is progressive to attempt to intervene in order to reduce unfair disparities in our society and conservative to argue that in our capitalist society it is counter-productive for ownership to be concentrated in the hands of the few.
- *Ownership is good.* Ownership has positive behavioural effects on individuals and families, gives people a stake in their community and their society and promotes democratic engagement. Progressive conservatives believe that it is important to encourage wider ownership.

This pamphlet demonstrates the social damage inflicted by the asset gap. It is a progressive conservative premise that communities, families and individuals who do not own assets are disadvantaged, and that this disadvantage is negative for the successful operation of a capitalist democracy. Fairness is important to this debate, but progressive conservatives are also concerned with the wider economic and social impact of what we call the 'absence of ownership' in elements of British society.

The pamphlet proposes a radical redistribution of wealth, from the state to individuals and from individuals to themselves. It argues that welfare and the tax system are disempowering for the poor but could be used to promote self-reliance and independence. It lays out examples of how a progressive conservative government might transform this philosophy into practice:

- *Instigate a Grand Recapitalisation Act*, on the model of the US Community Reinvestment Act, in order to promote ethical, fair credit in poor communities. Credit is an asset; when used properly it can help to lift the poor into the ranks of ownership.

Progressive conservatives should be clear, in the wake of the banking crisis, of what is expected from financial institutions in respect to the vulnerable and be firm in asking them to deliver.

- *Return to Real National Insurance.* This proposes ring-fencing a proportion of our poorest workers' taxation and using it to help them build for their futures. By hypothecating their tax and encouraging them to invest, progressive conservatives can successfully recapitalise the poor with savings, reduce the impact of the pensions crisis and promote financial literacy and forward planning.
- *Capitalise housing benefit.* This would allow people to capitalise their housing benefit so that they can purchase a stake in their home. At the moment housing benefit is literally dead money for the state. By allowing those who wish to build their way to ownership to use money they are already entitled to, progressive conservatives can help to end the culture of dependency that dominates poor communities.

The examples laid out above, and worked out in detail in later chapters, are not an exhaustive account of how a progressive conservative government should legislate in its first term. Rather they explore the progressive conservative approach and demonstrate how, in practice, the conservative underpinning can achieve the ultimate progressive aim of transformative recapitalisation in Britain.

Progressive conservatives believe that ownership is central to a person's relationship with their community and their society. By taking steps to provide the entrepreneurial and the aspirational with routes to ownership, progressive conservatives can make a fairer society that is also wealthier and more productive. This is a truly conservative agenda, but one that they have struggled to articulate. In order to justify and explain a wholesale recapitalisation of the poor, the Conservative party must develop the language of conservatism in relation to assets and wealth.

Introduction: A progressive conservative language

*Popular capitalism is nothing less than a crusade to enfranchise the many in the economic life of the nation.*⁴

Margaret Thatcher, 1968

Assets matter. They lie at the heart of a person's relationship to their personal wealth, their position in society and their ability to meet economic challenges. Where a person's income undoubtedly affects their ability to spend, a person's assets determine their ability to plan, invest and secure a future of their choosing.

Interpretations of how to apply an asset-based approach have varied and developed among conservative thinkers and governors. Thatcher's pursuit of 'right-to-buy' was an asset-based initiative, but one that exclusively rewarded the entrepreneurial and those who had access to capital or credit – without seeking to tackle underlying causes of asset inequality. Because of its reliance on the availability of capital, the initiative failed to live up to some of its own driving rhetoric. Ownership is key to economic enfranchisement and to the sustenance of a popular, capitalist democracy – therefore government should actively seek out ways of enabling ownership among those unable to achieve it on their own.

This concern with ownership is not new for conservatives. Noel Skelton's 1920s appeals for a 'property-owning democracy' encapsulates a long-standing sensitivity to the link between social and political harmony and a fair distribution of ownership. Conservatives have long understood that the capitalism they defend is the fairest and most moral means of distributing assets and wealth; they seek to strengthen capitalism and to ensure that all have access to the markets that make it work.

Assets matter

For progressive conservatives the defining symptom of economic wellbeing is not the income you receive (important though that is) but the assets that you own. A home, stocks and shares, meaningful savings or a pension are vital to insulating you from financial shocks and giving you ownership over your future. This pamphlet outlines the current state of ownership in the UK, addresses the problems that ownership gaps can produce and argues for a set of policies designed to actively increase ownership. It also explains why this issue is important for progressive conservatives and how recapitalisation can help to create a more engaged, entrepreneurial and active society.

The massive unevenness of asset distribution in the UK has profound implications for society as a whole: ‘Greater inequality is associated with a societal deterioration in the quality of social relationships, lower levels of trust [and] increased violence.’⁵ Progressive conservatives do aim to redress the unfairness of asset distribution but their overall goal is broader – to achieve more ingrained social justice and to benefit from the positive societal changes that greater equality promotes.

Of course, issues of fairness and social justice are traditionally the stomping ground of thinkers of the left. The Institute for Public Policy Research’s work on asset distribution and asset welfare in the 1990s put assets on the British political agenda and led to Labour’s experiments with asset welfare, the Child Trust Fund and the Saving Gateway. Thinkers and writers of the left, from Professor Stuart White to Frank Field MP, have long argued the case for an approach based on assets. Since 1997, Labour has sought to find the language and the methodology to enact asset-based welfare schemes: ‘In 2000 an IPPR paper recommended an asset-based approach for the UK. Since then, the Labour government has introduced a number of reforms designed to enable increasing numbers of people to benefit from asset ownership.’⁶

‘The Labour party’s 2001 general election manifesto promises to create a new pillar of welfare policy built around the individual ownership of assets (Labour party 2001). When he was Home Secretary David Blunkett argued that individual

asset-ownership was important for the future vitality of progressive politics (Blunkett 2001).⁷

But, the achievements of the Child Trust Fund and the Saving Gateway notwithstanding, the left has failed to find the language or mandate to justify a truly asset-centric view of wealth. They have, by their own admission, struggled to articulate the need for asset-based welfare without leaning heavily on unpopular leftwing discourse with echoes of socialist redistribution. The left has been trapped by their own discourse and have been unable to articulate the wider importance of asset wealth and the importance, beyond fairness, of enlarging the ranks of ownership. Instead they have tended to ignore the issues of wealth and asset inequality, concentrating instead on topping up the incomes of the very poor and supplementing benefits for the unemployed.

For progressive conservative thinkers, the distribution of assets takes on an even more essential import. In sharing the progressive objectives more commonly associated with the left, they are driven by concern for fairness, the importance of life-chances and an abhorrence of poverty, and the understanding that the economic success of a nation and traits that conservatives would value in a population – such as entrepreneurialism, efficiency and autonomy – require the alleviation of poverty. In identifying as conservative, they self-consciously assert that the route to these ends is best carved out through the territory of the conservative tradition.

For progressive conservatives, therefore, it is a disappointment that, between 1976 and 2003, the poorest half of the population went from owning 12 per cent of wealth to owning just 1 per cent.⁸ They know that, although this alarming vacuum of asset wealth is most damaging and disenfranchising for those who have been left behind, it also has profound and worrying implications for society as a whole.

A progressive conservative approach is radically different from either purist redistribution or the fanatical defence of the existing imbalance that has characterised much of the political attitude to wealth distribution for the past 20 years. Asset poverty, and the disadvantage that it causes, offends their

progressive sensibilities; the solutions, as explored in this paper, emerge from their passionate belief in the values of the conservative movement. Progressive conservatives reject both the current settlement and any attempt to undermine the concept of ownership through a massive and ongoing redistribution of privately held assets. Instead they look to the status quo and ask how it might be used differently, in order to redistribute from the state to the individual, and from a person (through their welfare entitlements) to themselves. Their view of wealth and welfare is underpinned by the same logic that drives Michael Gove's views on education: that the state has a duty to provide and to assist but that, beyond this duty, the individual should be empowered to take control of their provision. Therefore they do not seek to take wealth away, nor to drip-feed through income support, but to use the existing system more dynamically to aid fairer distribution of ownership and to promote a healthier capitalist nation.

Tax credits, the minimum wage and income support all help to prevent total financial dereliction for families who earn too little. However, they have been unsuccessful at lifting people out of dependence in the long term; they have provided palliative care for the poor rather than offering a route into independence and wealth. As discussed above, the baggage of socialism and the fear of alienating middle class voters have handicapped Labour. They have been unable to take decisive action. A Conservative government is not hindered by history. Conservatives can, and should, be bold in making the argument for asset-based recapitalisation from both the imperative to fairness and the logic of economic growth and social wellbeing. This paper will outline the policies that can deliver assets into the hands of the poor but, more importantly, it will lay out the themes of the argument for state intervention that a Conservative government should take to its voters.

Conservatives do not believe that people should spend their lives in a state of dependency; they believe in capitalism and in the capitalists that can make it work. Where members of the left have been compelled (by fear and a lack of necessary will) to satisfy themselves with attempts to alleviate poverty, progressives on the right seek actively to reduce its grip on

families and communities. The Labour government has made good headway; the Child Trust Fund and the Saving Gateway are examples of the right kind of thinking and are explored in more detail later in this pamphlet. But it is the right, with its commitment to ownership and its belief in self-reliance, that is best placed to make the case for a wholehearted redistribution of assets. A progressive conservative government should not simply seek to help the poor to get by, but to build an economy where the poor become owners who can transform their assets into drivers of affluence. Ours is the language of the value of the entrepreneur, the benefits of capital and the beauty of a functioning market. So too, in observing the wholly disproportionate division of asset wealth, should be the language of recapitalisation.

1 The problem with income

Income support, by which means a government supplements a person's income in order to prevent it from falling below an agreed watermark, undoubtedly prevents literal dereliction and helps to ensure that people are fed and clothed. However, this approach is incapable of being the agent that might permanently lift a person out of poverty and dependency. It serves as a safety net against destitution, but not as a springboard to affluence. As Michael Sherraden argues, income support is useful but insufficient if we genuinely aspire to reduce, rather than simply alleviate, poverty.⁹ The more that people are excluded from the ownership and free exchange of assets, the more we are left with Jeff Gates' system of 'capitalism without capitalists'.¹⁰

Welfare operates almost entirely on the assumption that income is the key to helping individuals and families out of poverty. Benefits are paid in the same way as a salary; tax credits are drip fed into the family purse and housing benefit mimics a standing order with your landlord. But income quickly becomes outgoings and the amounts that are paid are not enough to sustain meaningful saving. Progressive conservatives want people to save, and to accrue assets, for many reasons, but it is no good simply imploring them to do so – they must be prepared to give them a hand and to help them into a mindset and position where saving is attractive and practical.

Responsibility for tomorrow

Progressive conservatism under David Cameron has come to terms with the issues surrounding intergenerational fairness and responsibility. The Conservative party accepts – on issues such as the environment, climate change, planning and energy – that they must make tough decisions today in order to protect the

wellbeing of tomorrow. This philosophy should be applied to financial planning. The wealth and asset gap, especially in areas such as pensions provision and home ownership, has perturbing long-term implications for our society. Progressive conservatism must break with the short-termism of both the ideological right and New Labour. There are investments that need to be made today so that we do not let down our children and grandchildren. A Conservative government must be prepared to be principled and tough in making these decisions.

This pamphlet will examine the extent to which asset poverty is a problem in modern Britain. It will look at examples of asset-based recapitalisation from other countries, asking what has and what has not worked. Finally it will lay out three policy examples that demonstrate how the progressive conservative philosophy can be translated into practice. All of these examples are inherently conservative and deliberately progressive. Conservative because they are built on a belief that private property is central to the health of society; progressive because we acknowledge that a grossly skewed distribution of assets and wealth is unsustainable and disempowering. The aim, fundamental to both strands of progressive conservative thought, is to take a radical approach to ‘expanding the ranks of capitalists’.¹¹

Asset poverty at home and abroad

It is a well-known and well-discussed statistic that the poorest half of the world’s population own just 1 per cent of its wealth. This grim and unequal reality is, of course, both shocking and profoundly wrong. However, as well as taking steps to redress the balance on a global scale, we ought to be looking inwards and observing the massive inequalities of wealth and ownership in the UK.

This chapter will explore the disproportionate distribution of asset wealth in the UK. It will argue that the larger problem, that our nation’s assets are too concentrated and too jealously guarded by commercial elites, can also be examined through two interrelated but different prisms. First, there is the asset vacuum

at the bottom of our economic ladder. For families and individuals throughout the UK this does not simply mean that they own too little; in reality they own nothing. This is not a shortage but a total absence of assets. This is clearly unfair, but it is also wholly disadvantageous to those who are affected, whether as individuals or as families.

The second problem with the distribution of assets is broader and, potentially, more controversial. This chapter will look at the societal impact of asset poverty – how it affects communities, impacts on crime and drives down democratic and political engagement. It is a clear facet of our argument, as touched upon in the introduction, that ownership is good. It is good for those who own, good for their families, good for the wider community and therefore good for society. What is not good, and is the root cause of the problem in question, is the wholly concentrated and monopolistic possession of assets to the detriment of others. For progressive conservatives, the problem is therefore not that there is too much ownership but that there is not enough.

Assets are absent

The poorest quarter of our population own less than 1 per cent of the UK's total assets. Indeed, within that tier of people, 11 per cent own assets of a total value less than £500.¹² This means that their entire net worth, once whatever income they might accrue is discounted, comes to less than the cost of a council tax bill.

At the other end of this spectrum, 3 per cent of the population hold roughly one-sixth of our total asset wealth. Translated into real terms, this means that roughly one and a half million people hold assets worth a total of one trillion pounds.¹³ This does not simply represent a gap in the distribution of assets, it is far more damaging than that; this is an absence of any meaningful asset ownership affecting around 15 million people.

The absence of assets poses significant challenges for individuals and families. The lowest 11 per cent, those whose assets are worth is £500 or less, are less secure, less independent and have fewer opportunities to grow wealth.

Security

Security, in the context of individuals' and families' financial health, is having some level of defence against the unexpected. Knowing that you can get through the unforeseen and that you have enough in reserve to survive a bump in the road. In essence, security means having enough set aside to get through the proverbial 'rainy day'.

Savings, pensions, stock and shares are all assets, which have the potential to provide security. They can insulate you when times are difficult or jobs are few; they can protect your standard of living when you can no longer work and they can be leveraged to finance a change of direction or a long-cherished dream.

A person without pension provision is at the mercy of the state's capabilities at the time they retire; they are not secure because they have no control over their standard of living or income. At present, 80 per cent of people earning the minimum wage have no private pension provision and have not opted into an employer pension scheme;¹⁴ they are insecure. The same can be said for people with no savings or investments – they are left to the whim of either the state or the market with no breathing space and no reserves.

Independence

For progressives, independence is key to a person's chances of 'authoring their own life-story'. It is important that people have control over their lives, and that they are empowered to make decisions and take chances; all of these facets of a full and rounded life are complicated by an absence of assets.

If you own nothing then your self-reliance is compromised. A person with assets is, to some extent, insulated from fluctuating rates of credit or from inflation in the price of food. Of course, these things affect everyone but, for those who own, the impact can be mediated and diluted. Assets can be transformed into liquid wealth, and vice versa, in order to defend independence from outside intrusion.

Those who rely on others to sustain even the basic cost of living become wholly dependent. The state makes benefits recipients its dependants by providing an income to sustain

rather than a route out of reliance, compelling our most disadvantaged to a Faustian pact, which gives them enough to get by but never enough to buy. This lack of independence creates a culture of supplication and denies people the chance or the motivation to kick out on their own and take control.

Opportunities

No assets translates as no leverage. Aside from labour (important and valuable as that is), the asset-poor have nothing with which to bargain in the market places that constitute modern society. Time off to retrain? Impossible without either funding or savings. Want to pay your child's tuition fees? Then you must find someone to lend you the money. Need to move to take a better job? Then you'd better pray they'll pay for relocation.

A person with a bright idea for a business and the skills to make it happen needs seed capital to get it off the ground. For some people, friends and families can provide the start-up funds to help make their entrepreneurial dream a reality. For others, there is the possibility of using their assets to generate capital – taking a loan against their home or divesting stock: 'Holding other influences constant, people who inherit cash, who win the lottery, or who have large family assets, are all more likely both to set up and sustain a lasting small business.'¹⁵ However, if our budding businessman is asset poor and comes from a community that reflects their socio-economic status, neither of these options is available. The loss to the individual and their family of the opportunity to pursue a goal and to build a more self-reliant life is clear. There is also a profound potential for loss to the wider economy; the business may well have been a success, paid taxes, employed labour and benefitted the community.

Society suffers

Asset poverty is a problem for those it directly affects but is also a pressing concern for society as a whole. As outlined above, the impact on the security, independence and opportunities of the asset poor has negative implications for economic innovation,

pension liabilities and the skills base. We are all poorer for the lack of entrepreneurialism in the bottom quarter, all put at risk by the burgeoning pension crisis and all let down by the skills shortage. Asset poverty is not simply unfair and inequitable, it is damaging to the economic wellbeing of Britain.

Criminality and behaviour

Ownership, and shared or mixed ownership, can be gateways to behaviours which society generally acknowledges as good, from active participation in the economy to membership of your local Neighbourhood Watch scheme. A correlation can also be observed between areas that are highly asset-impoverished and those that have the highest levels of anti-social behaviour and low-level criminality. Newham is one of the most asset poor boroughs in London. Only 43.6 per cent of its households are owner occupied compared with the London average of 56.5 per cent, a proportion that has slumped by 6.2 per cent since 1991.¹⁶ Newham also has England and Wales' highest level of concern about anti-social behaviour, with 53 per cent of people referencing it as a priority concern.¹⁷ This correlation is the same throughout London: the asset-poor areas have substantially higher levels of concern, and rates of reporting, for anti-social and low-level criminality.

Of course, other factors can, and will, come into play here. It is too simplistic to lay the blame for ASBOs, graffiti and petty crime at the door of asset poverty alone. However, it is clear that where whole communities are bereft of ownership, and the opportunities that come with it, there is little incentive for the protection of property and the defence of assets.

If no one on your street owns their own home, or is responsible for the upkeep of their house, then there is little motivation for maintaining standards of appearance and little opportunity to actively improve on what you have. Studies such as Sampson's 'broken windows' work have demonstrated the potential for disrepair and petty vandalism to spread when nothing is done to combat them. A desire to live in a nice, clean and presentable area may well be strong, and there are many

examples of communities who have come together against numerous obstacles to achieve just that, but it is a poor cousin to the sense of ownership and the awareness of the possibility that one may wish to sell up and move in the future: ‘Living in a neighbourhood of concentrated poverty has pernicious effects on a wide range of individual outcomes – economic self-sufficiency, violence, drug use, low birth-weight, and cognitive ability, to name but a few.’¹⁸ Communities would benefit from greater ownership because it drives greater personal responsibility – to one’s own property and, by virtue of the bargain of mutual respect that property owners must make, for others’ too. Although it must be clear that owning a home is not, by any means, the only route to asset enfranchisement, it remains the most popular form of high-value asset ownership in the UK and is the primary asset for two-thirds of UK families.¹⁹

Democracy

Asset wealth also affects behaviour in relation to our democratic process. Figures show that self-employed people, whose time, equipment and capital are all personally held assets, are 5 per cent more likely to vote than employees and 23 per cent more likely than the unemployed.²⁰ Those who are able, through their skills and access to capital, to branch out on their own and take control of their means of production are far more likely to seek to influence their government and the state in which they live and work. This is only natural; these people have more at stake, are more independent and have assets to protect. For those who live in dependency, either on the state through benefits or on the market through low-paid employment, have good reason to be suspicious of politicians bearing gifts. They are the forgotten class, chastised for the little that they get and criticised for their inability to save or provide. One might imagine that dependency would produce vigorous action, and that those who are most reliant on the generosity of the state or an employer would be most passionate in protecting what little they get and in demanding more. Instead, though, dependency has produced a culture of cynicism and disenfranchisement. The dependency

state is also the patronage state, in which the poorest keep quiet and disengaged in return for subsistence.

In a democratic society it is damaging and de-legitimising if swathes of the community either refuse to participate or are cowed into apathy. The figures above help to demonstrate the link between ownership and political engagement, a link long trumpeted by conservatives from Skelton to Thatcher. Low turnout at elections, the rise of the BNP in poor white communities and the pervading distaste for politics are all threats to the consensual and democratic system of government in this country – fighting these trends requires, in part, a concerted effort to give people the ownership and investment that provides them with a meaningful stake in that system.

Social poverty

The cost to society should also be viewed through the context of people's social and civic engagement. More basic than criminality, anti-social behaviour or democratic participation is the everyday cost that is inflicted by asset poverty on the associative bonds that defend a society from atomisation and decay.

The Home Office's 2001 *Citizenship Survey* reported that people who live in Britain's most deprived areas are half as likely as those from affluent areas to socialise regularly with friends or to have visitors to their homes.²¹ In addition, 'those who own more property are more likely to volunteer, to volunteer for multiple associations and organisations, and to assume leadership roles in their organisations than those who have fewer of these advantages'.²² The asset poor are less connected to neighbourhoods, communities and civic society than those who own. This has a negative impact on the directly affected, as friendship, social behaviour and voluntary work are all considered to be 'good' for individuals. However, the profound negatives for society outweigh even the personal cost of these asset-related deficiencies. Not only does it mean that a potential resource for the third sector is reluctant to become involved; it means that entire communities are experiencing social decay and

fragmentation, which jars with the progressive conservative call for stronger and more autonomous communities.

Asset poverty affects us all

The problem, then, is multifaceted and complex. Asset deprivation is real and afflicts a quarter of our population, while 11 per cent have no asset wealth whatsoever. This has profound implications at all levels of society; impacting on individuals' social and economic lives, communities' success and vibrancy, democratic engagement and the Treasury's health. It is pertinent and problematic for us all.

Although it would be foolish and naive to argue that recapitalisation is a panacea for the ills that afflict modern Britain, it is fair to say that uneven distribution and asset poverty do contribute to wider problems. Government will not put an end to anti-social behaviour by increasing home ownership, nor engineer full election turn-outs by encouraging entrepreneurialism, but it can help to end the asset trap that actively prevents the willing and ambitious from building their way to a more secure, independent and self-reliant life. In doing so it can re-engage with people who have been left behind and feel disenfranchised and disengaged from our market-based democracy.

A stake, in your home, your community and your future, is the prize. For progressive conservatives it is a prize well worth having.

2 Learning from the best

It is fortunate, in approaching recapitalisation, that asset welfare is by no means untested. Projects and programmes have been attempted, at home and abroad, with mixed success. The progressive conservative commitment to actively reducing the ownership gap in our society places new emphasis, and demands more dynamic innovation, but they should be at pains to learn from our peers.

In seeking to build assets among the poor it is especially vital that we recognise good news when we see it. Some of the most creative and successful recapitalisation projects have been developed in desperately poor countries. Although the logic of this is clear enough (the poorer a nation the more imperative to encourage and support the building of assets), all too often policy makers in the west have ignored lessons from the developing world. Bangladesh's Grameen Bank, microfinance in India, Oxfam's goat donation programme – all of these involve asset-building recapitalisation and contribute to the wealth of knowledge and expertise that progressive conservatives should draw on in developing their own solutions.

For too long, the problems of the world's poor have been imagined to be irreconcilably different. Progressive conservatives view poverty through the paradigm of asset-deprivation and, therefore, believe that being poor in Bangladesh and being poor in Bolton are not so utterly dissimilar. They can, and must, learn from those organisations and innovators who have achieved, in far more difficult circumstances, the very things that they seek to achieve.

Microfinance has been pivotal in lifting some of the world's poorest communities into self-sufficiency. Development organisations and NGOs, free to try new things and innovate, have long recognised the importance of assets in creating long-

term solutions to extreme disadvantage. The famous Oxfam motto ‘Give a man a fish and he will eat for a day, give a man a fishing rod and he will eat for life’ is best understood as an appeal for an asset-based development policy.

The right kind of debt

In Bangladesh, the Grameen Foundation has successfully engaged poor communities in entrepreneurialism and personal credit. The approach, designed to help lift some of the world’s poorest out of poverty, holds lessons for a recapitalising government in the west.

Core to Grameen’s success has been the concept of ‘solidarity lending’. In the UK there is little infrastructure devoted to enabling, and encouraging, innovative credit solutions for the poor. Where there are attempts to replicate such schemes, the lack of incentives for major banks and financial institutions often make it difficult for community credit groups to find partners.

Grameen, like many successful microfinance institutions, grew out of a community specific project. Progressive conservatives should encourage such solutions in the UK. Therefore, rather than seeking to simply replicate Grameen, they should focus on developing a framework of legislation that encourages and incentivises innovation and promotes partnerships.

Solidarity lending

Solidarity lending is a cornerstone of many microfinance initiatives, most famously in the work of the Grameen Bank in Bangladesh. It encourages groups and communities to band together in order to gain access to credit, and then to share the responsibility for repayment. These solidarity groups have a common interest in ensuring that individual loans, which have been bundled to the group by a finance provider, are repaid because failure to do so would damage the whole group’s ability to borrow. This peer pressure effectively diminishes the

requirement for banks to spend on administration and collection of debt and reduces the amount of security required for loans. The collectivised nature of the original loan, which is then filtered down into individual sums by the group, also makes microfinance more viable for mainstream banks.

Saving with a clear purpose

In the USA the Individual Development Account (IDA) was developed in response to the acknowledged difficulty that low-income families had in building up savings and acquiring assets. IDAs are interesting in that they adapt the ‘matched savings’ model and introduce an element of mixed provision – the participants’ savings are matched by a coalition of government, the private sector and charities – with an element of compulsion (matured IDAs are only expendable on a fixed set of assets: purchasing a first home, pursuing post-secondary education or starting or expanding a small business). IDAs thereby overcome two of the core risks of asset-building. By building a mixed pool in order to match the funds, IDAs avoid placing an unbearable strain on the government in times of high demand and, therefore, minimise the risk of discrediting the scheme through restrictions on access. More importantly, through restrictions on what the matured IDA may be used for, the scheme ensures that end result of the savings scheme is a practical and recapitalising asset investment.

Although the Child Trust Fund and the Saving Gateway have been attempts at asset building through savings, they have failed to make the positive impact on asset wealth that the IDAs have. Progressive conservatives should not be afraid of exercising a level of paternalistic concern over the use of savings, where those savings are built with the direct assistance of the state. The multi-faceted controls on IDAs – financial literacy training and limited potential use of the funds themselves – mean that the government investment has a more assured positive outcome in affecting long-term behaviour.

Singapore

Singapore has a strong tradition of dynamic, asset-based recapitalisation and provides us with a powerful set of clues to what may prove successful. Especially important, in the Singaporean example, is their continued use of asset programmes to drive social policy. Partly through their dynamic recapitalisation policies, Singapore has managed to cultivate the highest density of asset-wealthy persons of anywhere in the world.²³ Additionally, Singapore has a spectacularly high level of home ownership: 92 per cent²⁴ compared with around 70 per cent in the UK.²⁵

Singapore established a Central Provident Fund (CPF) in 1955 as a compulsory savings scheme to provide a secure retirement for Singaporean workers. It forms the central pillar of the unique Singaporean vision of the welfare state and the saved funds can now be used by citizens for a variety of purposes, restricted to education, housing or entrepreneurialism.

The central, driving policy behind Singaporean asset-based recapitalisation is the Central Provident Fund (CPF). Working Singaporeans and their employers make monthly contributions to the CPF and these contributions go into three accounts:

- the Ordinary Account – savings can be used to buy a home, pay for CPF insurance, investment and education
- the Special Account – for old age, contingency purposes and investment in retirement-related financial products
- the Medisave Account – savings can be used for hospitalisation expenses and approved medical insurance.

CPF savings earn a minimum risk-free interest of 2.5 per cent guaranteed by the government. In 2008 and 2009, Special, Medisave and Retirement Account savings earn a guaranteed minimum 4 per cent interest. In addition, the first \$60,000 in combined CPF balances, with up to \$20,000 from Ordinary Accounts, will earn an extra 1 per cent interest.²⁶

This is a wholesale, assets and savings-based recapitalisation programme for the entire Singaporean population. The contributions are compulsory, gains are guaranteed by the government, and the assets are restricted in their potential use.

What works in Singapore cannot be directly reapplied to the UK. Singapore has a much longer tradition of these kinds of programmes, the population is better used to making compulsory, hypothecated contributions and the Singaporean government has fewer liabilities in terms of the direct delivery of services such as healthcare. However, this does not mean that we cannot all learn from, and attempt to adapt, the Singaporean example. It is clear from the success of CPF that compulsion and restriction can be used to achieve good results from asset-based recapitalisation initiatives.

Child Trust Funds: Progressive but not conservative

The Child Trust Fund (CTF) is a long-term, state aided savings scheme for children in the UK. Every child born on or after 1 September 2002 is eligible for a CTF and the government provides parents with a start-up stake of £250 in order to encourage take-up. At the age of 7 a further £250 is invested, with a means-tested additional £250 for children from poorer families.

The fund is only accessible to the child on, or after, their 18th birthday. They are free to spend any funds accrued as they wish.

CTFs are an asset-based, capitalising mechanism aimed at both developing the resources available to young adults and encouraging financial literacy. In this respect they are laudable from a progressive conservative perspective. However, a progressive conservative would also argue that they have fundamentally failed at achieving a larger or more ambitious agenda, which would be the wholesale improvement of life-chances and financial engagement using assets as a trigger.

Progressive conservatives have three main criticisms of the CTF scheme.

- They are wholly focused on an individual child, and only useful once that child becomes an adult. CTFs treat asset poverty as if it is a personal problem that can be resolved with an injection of cash on your 18th birthday. For progressive conservatives this is

false. Asset poverty, when experienced by families, begins to affect a person's life-chances, outlook and societal role long before they reach adulthood. For progressive conservatives, any intervention that waits until a poor child has reached adulthood represents an attempt to ameliorate failure instead of addressing the problem.

- They fail to promote any particular outcome for public money. Unlike US schemes such as IDAs (discussed above), CTFs do not have restrictions on what they may be used for. Where public money is used to build an asset it is right and fair for the public to have some say in how that asset may be used. There are things that government would like CTFs to be spent on – further education, a deposit or as a platform to further saving. Government should be prepared to exercise a degree of control on the use of CTFs in order to ensure that they are used to contribute to building a better and more capitalised society.
- CTFs have not been used to drive up standards of public financial literacy and further savings behaviour. Government has not sought to reward thriftiness and further saving by matching parental contributions (bar tax advantages), nor has it built in any training in financial literacy. These failings mean that opportunities to widen the benefits of the scheme have been missed.

The Saving Gateway: Small but perfectly formed

The Saving Gateway scheme is a matched savings fund that will be available to people in 2010 if they also receive:

- Income Support
- Jobseeker's Allowance
- Incapacity Benefit
- Employment Support Allowance
- Severe Disablement Allowance
- Tax credits – if they have an income below £15,575.²⁷

Participants will be able to invest up to £25 a month for a maximum of two years, after which time each pound saved will

be matched with 50p from the government. Under this scheme the maximum final sum would be £900 (not including any interest accrued).

Savers will be able to spend money from the matured fund on anything they choose, and will be free to withdraw money from their savings at any point during the two-year scheme.

The Saving Gateway is a recapitalising scheme that gets closer to the progressive conservative ideal. Its success, in pilots, has been in encouraging greater future-orientated behaviour and long-term saving among participants. After the 2005 pilot of the Saving Gateway, '86% [of participants] said they have a savings account compared to 66% before the Saving Gateway scheme'.²⁸ There is also evidence that the Saving Gateway has helped to reduce the debt burden on poorer families, helping them to use income more effectively and acquire assets: '46% saying they have no debt compared to 38% when the accounts were six months old and at account maturity'.²⁹ This demonstrates the scheme's potential as a weapon against debt cycles in poorer families; having a small sum stashed away helps low earners to pay for unexpected costs out of their pocket and reduces dependency on debt.

The Saving Gateway has largely been a success by progressive conservative standards. However, the purposes to which Saving Gateway funds have been applied during the course of the second pilot scheme are worrying. As many participants spent their savings as continued to save and, of those who spent savings, the most popular purchase was a holiday.³⁰ Around 12 per cent of participants used their savings to pay off bills or on day-to-day expenses.

The Saving Gateway will be finally rolled out in a way that has been specifically designed to prevent some of the concerning behavioural trends above; experts in the field, such as Sonia Sodha of Demos, are confident that it will help to build savings behaviour among low earners. The scheme will be targeted at low-income individuals and families in order to prevent abuse and will resemble the original pilot more closely than the second: 'Three months after account maturity in the first pilot, 91 per cent of participants still had a savings

account of some kind, and 41 per cent were still saving fairly regularly.³¹

The Saving Gateway scheme is designed to help people develop a financial buffer against unexpected costs. By growing a flexible cash asset, low-income families will be able to reduce the necessity of falling into debt cycles.

However, for larger-scale, and more long-term, asset-based recapitalisation programmes it is important to restrict the use of funds. Although people should, of course, be free to use their money and savings for any purpose they wish, it is fair for government to place restrictions on funds that public money has helped to develop. It may be important for families to spend money on a holiday or paying off a bill, but these are not constructive ways of building a path out of dependency. The Saving Gateway is an excellent resource for developing levels of financial resilience among poor families; however it is not the model for a large-scale recapitalisation programme.

We can, and should, learn from the world

Asset-based recapitalisation has been successful throughout the world, in countries as diverse as the USA, Singapore and Bangladesh. In the UK we have had limited success, but have focused on the process of saving to the detriment of the result of ownership. We can, and should, learn from successes elsewhere in order to build a dynamic and assertive asset-based recapitalisation programme at home.

The lessons from other countries, as well as from the weaknesses in our own attempts, point to a need for more prolonged involvement, and intervention, in asset accumulation among our low-income and asset-poor. As well as enabling saving and encouraging future-orientated behaviour, government should be prepared to engineer the use of the resources we are equipping people with. An asset-building programme that ends in the participant spending their lump sum on a holiday or on paying off the everyday bills has failed. Progressive conservatives want people to own so, where they

have assisted them in accumulating wealth, they should ask them to spend it on things society views as valuable.

Finally, it is clear from asset-based programmes around the world that imaginative and innovative use of existing funds can be invigorating for recapitalisation. Government should be more flexible in how it views benefits, tax and other financial relationships between individuals and the state.

Funding the policies

The next three chapters lay out examples of how a progressive conservative philosophy might translate into practical policy. These examples are constructed to illustrate what the principles of conservative recapitalisation are; they are not a step-by-step guide to what legislation ought to be enacted.

All of these policies have the potential to cost money. The Progressive Conservative Project will be outlining where the necessary savings can be made in a separate booklet.

3 Credit where credit is due

Credit has acquired particularly negative connotations over the last 18 months. The financial crisis has rightly focused attention on the nature, and effects, of a capitalist society that relies on debt as an economic driver. But credit, like so many tools, has both positive and negative implications and outcomes. Credit or, more pertinently, having potential access to credit is an asset that gives people financial independence and security. A pool of capital that can be called upon, as and when it is needed, gives people another layer of protection against the unpredictable and unforeseen. It can also be used to build greater independence for the future. Credit is a great equaliser.

Earlier this pamphlet discussed the importance of capital in allowing people to invest in their futures, whether through starting a business, buying a home or investing in their own or their children's education. So that everyone has access to this capital, it is important to ensure that as many people as possible own, but essentially credit is also a means to building people's capacity to mastermind their own futures. Asset-building is elemental to a progressive conservative approach to recapitalisation, but it is also vital to find ways of engineering the financial system more widely, so that it actively enfranchises those who are left behind.

Credit, therefore, is an asset and it would be wrong for us to deny the poor access simply because we are traumatised by the recession. It was not lending to the poor that caused this collapse; it was the inability of banks and financial institutions to get their money back and to manage risk effectively. On this front, community reinvestment trusts (CRTs) and community development finance institutions (CDFIs) provide an encouraging opportunity. Research shows that Community Reinvestment Act regulated lenders in the USA were actually

significantly less likely than other lenders to make the kinds of risky home purchase loans that helped fuel the foreclosure crisis³² despite the fact that they were 16 per cent less likely than ordinary providers to deny a loan application outright. This goes some way to demonstrating the positive impact that community reinvestment can make.

Progressive conservatives should look at the US Community Reinvestment Act as a potential model for reinvigorating intermediary banking in the UK, but they should not accept it wholesale, nor feel bound by the limitations in the USA's ambition.

The problem is debt

The poor pay more for their credit. As banks prefer well-established borrowers, with high incomes and pre-existing asset security, those on our financial fringes are frequently left to less reputable financial institutions. In the current economic climate, and the atmosphere of risk aversion in lending, this problem is likely to be exacerbated. Bank of England data shows the massive problems now affecting asset-poor families who might attempt to gain credit from mainstream financial providers – ‘growth in the stock of unsecured lending has slowed sharply over the past year or so, and the monthly net flow of lending was negative in February for the first time since the series began in April 1993’.³³

Although there are both moral and financial imperatives for banks to ensure that borrowers are able to pay back the credit they are given, a financial system that routinely excludes the poor from participation will actively prevent them from self-determined asset-building. New enterprise and personal ambition are inhibited by a banking system that does not engage the poor.

In the absence of mainstream financial products the poor often have to rely on peripheral avenues for credit. So called ‘payday loans’ and door-to-door lending schemes routinely charge interest in excess of 1,000 per cent APR. Because of their disenfranchisement from mainstream credit, the poorest fifth of the UK population spend an average of 12 per cent of their

disposable income servicing unsecured credit – this is four times the ration for those in the wealthiest fifth.³⁴ It is also extremely worrying that it was largely as a result of the previous recession (in the early 1990s) that ‘sub-prime’ lending emerged to service the needs of those who were left outside traditional credit; it would be hugely irresponsible to allow the same vacuum to develop now.

Recapitalising in practice

The American Community Reinvestment Act (CRA) is the product of nearly 30 years of legislative fine-tuning and policy shifts. Having learnt from early mistakes, and experimented in effective means of encouraging equitable credit provision, the USA provides policy makers in the UK with a terrific opportunity. Unlike American law makers, progressive conservatives do not start from a position of ignorant good-will; they can be hard nosed and evidence based in their approach.

The US model imposes a statutory obligation, on retail banks, to provide credit services that meet the needs of low and moderate-income communities. This serves two primary goals: it increases the flow of capital to the poor, allowing the purchase of assets, and it reduces the impact of predatory lending on the poor.

The US CRA ensures that there is regular evaluation of financial institutions’ track record in meeting the credit needs of the community that it serves. This evaluation is then made public and used to assess whether the financial institution is excluding poor areas and neighbourhoods from credit (‘redlining’, as this practice is known in the USA).

Put more simply, lenders that make money in a community are not allowed to discriminate against qualified applicants in that same community. The CRA does not compel lenders to enter into new markets, or suddenly to begin working in areas of the country where they did not previously operate. Rather, it acts as a check on banks and financial institutions to prevent them from excluding people from affordable credit, in areas where the ban already works, simply on the basis of their postcode.

There are two further points about the CRA that are important to recognise:

- The CRA does not give generic rating criteria for assessing the performance of the financial institutions that it regulates. It takes full account of the individual circumstances of institutions.
- The CRA does not encourage or require the provision of high risk lending. The language of the CRA specifically places a demand on institutions that all CRA lending ‘should be undertaken in a safe and sound manner’.

What it does

When banks that are pursuing discriminatory credit practices are exposed under the CRA they are told to enter into a CRA agreement. These agreements are binding and lay out how a financial institution intends to remedy its credit and financial service bias. CRA agreements have led to several US banks entering into relationships with intermediaries that have the expertise and the understanding to operate on their behalf in poorer areas. These intermediaries act as the bank’s broker in communities and neighbourhoods that have not been adequately served by the institution.

Many CRA audited institutions choose to exercise their responsibilities in poor communities through intermediaries. In doing so, they have helped to refinance community-based lenders and localised finance providers: ‘The CRA has encouraged US banks to partner with CDFIs, ensuring a strong community finance sector delivering responsible and sustainable support in disadvantaged areas.’³⁵

Reconnecting the poor with safe credit

A Conservative government should instigate a British version of the Community Reinvestment Act. Although the UK banking sector is different from that in the USA, the UK has a more homogenous banking sector and fewer localised financial institutions, there is still widespread disenfranchisement of the

poor from safe credit. Indeed, the process of consolidation in the banking sector may have made banking more discriminatory and further restricted access to credit for the entrepreneurial poor:

As institutions ceased to specialise, they converged on the most profitable activities. This meant that less profitable activities, such as maintaining a branch network and relationships with small businesses, were neglected. This must be tackled if we wish to recapitalize the poor and strengthen ownership opportunities.³⁶

A British CRA is also an important tool for cultivating a growth in community finance in the UK, creating a more diverse and robust financial sector to serve vulnerable communities. Community finance already plays an important role; such institutions have ‘levered £365,000,000 additional funds into the UK’s most disadvantaged communities’.³⁷ A British CRA could help to leverage funds for use by community finance, micro-credit organisations and local lenders.

By compelling banks to consider their lending policies, and end geographical and neighbourhood discrimination, progressive conservatives can help to reconnect poor people to mainstream finance. In doing so they can not only help to boost wealth in these communities but also aggressively tackle predatory lending.

4 Real National Insurance

National Insurance, as created in 1911 and expanded in 1946, was designed to provide insurance, first against illness and later against old age and unemployment. The desire was explicit: to provide a level of protection for the waged poor and to prevent the kind of destitution that had once led the elderly to the poor house and the unemployed to the streets. Contributions for National Insurance have always been obligatory, in recognition of the fact that, on small incomes and with mouths to feed, savings or insurance are not always a poor family's first priority.

National Insurance no longer fulfills the purpose for which it was conceived. Where once it was promised as a hypothecated contribution, in which what you had paid in related to the level of support you could expect, it has become simply another component of income-based taxation.

A pension is a key asset. One of the driving factors for saving, and for future-orientated behaviour in general, is recognition of the need to build reserves to provide for yourself when your circumstances change. Private pensions give resilience against unforeseen circumstances, independence from the state in old age and security for the future. Therefore, an important aspect of any asset-based recapitalisation programme will be a measure to drive up pension take-up, and to help those who have not participated to build a worthwhile stake in their retirement.

In addition to the personal benefits of pension provision there are important societal implications. National Insurance cannot meet the full costs of an aging and longer-lived population. Already, the state pension (provided for by National Insurance contributions) is worth 20 per cent less, relative to income, than it was in the 1950s.³⁸ Because of this, some 60 per cent of pensioners will soon be eligible for means tested

benefits³⁹ as they rely on the state pension and it fails to provide them with an acceptable level of income.

There has for some time been a consensus that greater private provision must be made by individuals in order to secure their retirement and provide for old age. Without private arrangements, people are left hugely vulnerable to the capacity of the state to provide, a capacity that diminishes exponentially as the working population shrinks in proportion to those it must support. If we, as a society, are to face the challenges of ageing and ensure a good quality of life for our retired then we must take dynamic action to provide them with the tools to provide for themselves in old age.

Ring-fenced tax accounts

A progressive conservative perspective on pensions must begin from the premise that it is good for people to own them themselves. Although the state ought to provide a safety net for the aged, people should strive for independence from the Treasury so that they can assert real control over their lives once they have left employment. As well as being economically beneficial for the Treasury, private pension provision is good for individuals and represents a real and tangible asset to which all should have access.

Future orientated behaviour is important for the dignity and security of people. Research has demonstrated that assisted and matched savings schemes, such as the Child Trust Fund and the Saving Gateway, have been effective in helping people to get into the habit of saving for the future.⁴⁰ The dual challenges of an increasingly impoverished elderly and an ever-shrinking pension pot should be met head on with a new scheme that builds on initiatives that have been shown to work. What follows is a worked-up example of what a progressive conservative policy of Real National Insurance might look like.

Government should be prepared to invest in pension provision for our poorest workers without demanding the right to administer those pensions itself. Therefore, this pamphlet proposes to ring-fence a portion of the waged poor's taxes for the

specific purpose of recycling that money back into their pockets – earmarked for the purchasing of a private pension.

That money should be transformed into a pension voucher, which they can use to invest in a private or occupational pension of their choice – and which they would be free to move between accounts without cost. In essence, this money will be a pensions voucher for use at that person's discretion.

They should also be able to top-up their savings pot as in doing so they can increase the size of their pension pot. As an additional incentive, another stream of tax revenue will be provided in order to match-fund voluntary contributions.

This scheme will hit the Treasury's resources, but the impact of the loss of revenue, from the bottom and the very top of the tax spectrum, will produce several beneficial outcomes for the economy and for society. First, in providing a basic level of saving for the very poor (without reducing already strained incomes) it can provide low earners with a level of financial security that lies outside the state. Second, the responsibility for choosing which pension scheme to fund with their rebate voucher will help to engineer a culture of financial literacy, confidence and future orientated behaviour among people who have long been disenfranchised by the financial sector. For the wider population, this scheme also offers a starting point for a real attempt to tackle the impending pension crisis head on.

What will it do?

The proposal is that for people aged between 16 and state pension age, whose gross income from employment is under £15,000 per year, one-half of the income tax they pay is ring-fenced and used to pay into a pension scheme of their choice (either a personal, occupational or stakeholder pension). This scheme will be ongoing, and will be supplemented with financial literacy education in order to provide people with the best possible information on the value of their asset and to encourage active participation.

Individuals would receive regular updates on how their pension fund was growing, its current value and what the

expected value at retirement would be. They would also have the opportunity to costlessly switch funds or redirect investments to different funds at periodic intervals (as happens with a defined contribution personal pension at the moment).

For individuals whose gross income from employment is more than £15,000 per year, the ring-fenced contribution from income tax receipts is tapered away in a linear fashion until those earning £20,000 or more receive no ring-fenced contribution. For progressive conservatives, it is important to help build assets such as pensions among the low-paid. They do not wish to disincentivise ambition so it would be wrong to sever a person's state assistance as soon as they nudge past a certain threshold. For this reason the approach will taper state aid until the point at which people should, responsibly, be able to save in their own right. See figure 1.

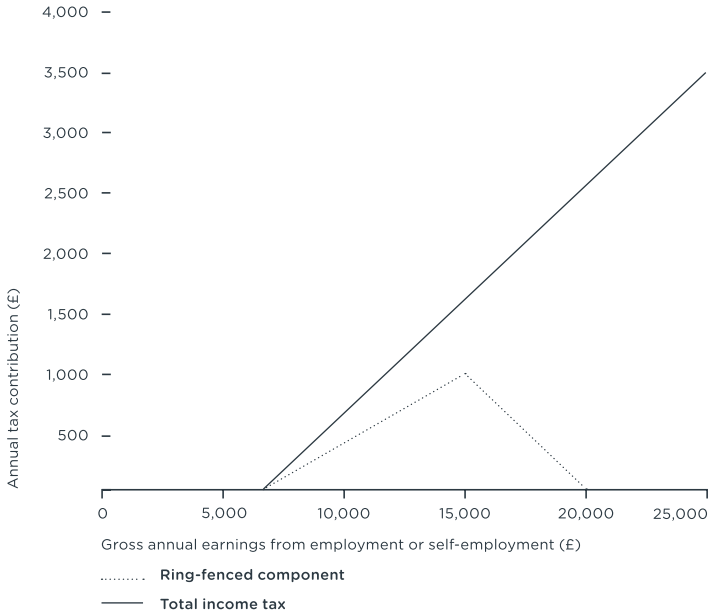
With 50 per cent of the income tax paid by someone on minimum wage invested into the plan, and a real annual return to the pension fund (including reinvestment of dividends) of 7 per cent (a very ambitious but obtainable return), the minimum wage investment would produce a total pension pot at age 68 of around £216,000.

At a 4 per cent annuity yield rate – which is a more average return – this would produce an annual income in retirement of £8,640 – or around £166 per week. By comparison, the Pension Credit level for a single person is currently £130 per week – or around £6,760 per year.

This scheme produces an income for a single person that is around 30 per cent higher than the Pension Credit level – the government's poverty line for pensioners. For two-person households, assuming both adults had paid into the scheme, their combined income would be around £332 per week – almost 70 per cent higher than the Pension Credit couple level of £198 – without the need for further assistance from the state.

With an average annuity yield of 4 per cent, a target annuity level of around £169,000 would be required to give someone a pension equal to the Pension Credit level on retirement at age 68. The minimum required annual return on investments for the fund to produce a final 'pot' of £169,000 is

Figure 1 **Contribution schedule for 'Real NI' and tax paid**



6.27 per cent per annum – which is a very reasonable expectation for a pension fund with diverse investments.

What will it cost?

There can be no doubt that funding a Real National Insurance pension policy entails investment. For progressive conservatives, as argued in the introduction to this pamphlet, long-termism must be central not only to individual behaviour but to governmental behaviour. For an initial investment of £5 billion a year, a Conservative government has the opportunity to:

- lift low-waged pensioners out of poverty without the need for demeaning means-tested top-ups or continuous state aid

- re-establish the link between hard work and financial stability by incentivising even low-paid employment through long-term asset-based pension help
- encourage saving behaviour and reward thriftiness among the poor.

The costs are laid out in tables 1 and 2.

Table 1 **Results from costing 'Real National Insurance'**

Shows the number of working-age adults in each group (estimated to the nearest hundred thousand using the FRS data), the total amount of ring-fenced pension contribution for each group, and the average amount of contribution per person in the group (assuming that 50% of the income tax paid by each person in the target group is placed in the pension ring-fence).

Group	Number of working age adults (millions)	Payments per year into Real NI (£bn)	Average payment per person per year (£)
Gross income zero (not in work)	9.2	0	0
Gross income £0-£12,000	6.4	1.08	169
Gross income £12,000-£15,000	2.6	1.83	704
Gross income £15,000-£20,000	4.3	1.89	440
Gross income more than £20,000	12.8	0	0
TOTAL	35.5	4.80	361*

*conditional on payment being more than zero.

As Table 1 shows, the total cost of the policy (in terms of income tax revenue being ring-fenced and so foregone for other purposes) is just under £5 billion per year. Just over 13 million adults would receive some pension contribution from the income tax ring-fence.

Table 2 **Comparison of payment to men and women from 'Real National Insurance'**

Group	Number of working age adults (million)		Payments per year into Real NI (£bn)		Average payment per person per year (£)	
	Men	Women	Men	Women	Men	Women
Gross income zero (not in work)	3.9	5.3	0	0	0	0
Gross income £0-£12,000	2.1	4.4	0.39	0.69	181	157
Gross income £12,000-£15,000	1.1	1.5	0.79	1.04	718	693
Gross income £15,000-£20,000	2.3	2.0	0.97	0.93	417	465
Gross income more than £20,000	8.8	4.1	0	0	0	0
TOTAL	18.3	17.2	2.23	2.76	402	349

Rewarding savers

Progressive conservatives believe that responsibility is to be rewarded, and that the state should actively encourage all sections of society to engage with their futures in a meaningful and constructive way. It is progressive to ensure that vast wealth is not concentrated in perpetuity in the hands of small groups. Progressive conservatives should, therefore, use tax revenue to provide matching for any supplementary payments into these accounts.

Savings

For the first few years of the scheme, there would only be a limited reduction in Pension Credit expenditure, as it takes

decades for reasonable-sized pension entitlements to be built up. For progressive conservatives, taking responsible and tough decisions to try and put Britain back on a reasonably self-reliant footing, this is acceptable as long as there are savings in the future.

If the scheme has been running for several decades, and the 18-year-olds of today have built up full contributions records and retired, we can make some rough estimates of how much might be saved.

In 2007/8, total expenditure on Pension Credit was around £7.5 billion, of which £6.35 billion was Guarantee Credit and the rest was Savings Credit (which provides additional support for Pension Credit claimants who have a small amount of private savings income).⁴¹

If our Real National Insurance scheme had already been in existence for several decades by now, how many of the current working-age population could be expected to have built up a pension fund value sufficient to avoid having to claim Pension Credit at all?

Anyone earning over £9,300 per year would have acquired enough through the scheme to avoid having to claim the single Pension Credit. For couples, joint earnings of £14,200 (an average of £7,100 each) would be enough to see them above the Pension Credit line for a couple.

We can calculate the number of single people and couples who meet these minimum gross income criteria, as a percentage of the population. For these people, no Pension Credit payment would be needed in retirement.

Performing this analysis suggests that out of the population of 22–31 year olds, around 39 per cent of single people in the working age population (1.3 million out of 3.3 million) and 14 per cent of couples (250,000 couples out of 1.8 million couples) would need to receive some Pension Credit payment.

This gives a total projected eligibility proportion for pensioner benefit units (singles plus couples) of around 30 per cent. Currently, the Department for Work and Pensions' figures suggest that around 45 per cent of pensioner benefit units are currently eligible for Pension Credit. Real National Insurance

could, therefore, reduce Pension Credit eligibility in the pensioner population from 45 per cent to 30 per cent – a reduction of one-third. This means that entitlement would fall by 15 per cent. In terms of raw expenditure, this would equate to a saving of at least £2.1 billion on Pension Credit guarantee payments alone.

This is likely to be an underestimate of the savings. First, many of the group whose earnings were not high enough to escape Pension Credit completely will nonetheless build up some pension fund entitlement – which would reduce the amount of Pension Credit they would need to receive. Also, any additional matched contributions would increase the value of pension funds for many of this group – and reduce necessary Pension Credit expenditure still further.

Overall it is not unrealistic to expect that Pension Credit expenditure could be at least halved when the pension funds instituted by the Real National Insurance policy start to mature.

Summary

It is a long-established principle, when seeking to encourage financial engagement among the low-waged, that an element of direction, in terms of controlling the use of savings, can help to develop the capacity and willingness to participate. This proposal builds on these ideas, in the interests of the individual good (pensions mean a more secure and independent future) and the collective good (we are seeking to soften the potential devastation of the pension crisis).

By giving up £5 billion in taxes from our poorest, the Treasury can build social, political and financial capacity through this scheme. This will not only help to build a more resilient and robust population – capable of caring for themselves in retirement – but also encourage workers on low incomes to build up long-term savings and provide them with real incentives.

5 Benefitting from benefits

Progressive conservatives want to redistribute from the state to individuals. It is wrong that money that is designated for individuals' use – because of need, illness or entitlement – is spent at the discretion of the state and not of the person. Of course government has a right, indeed a responsibility, to ensure that the money it spends is spent responsibly and that taxpayers get value for money. However, when people are placed in a position of ongoing dependency, reliant on drip-fed handouts to sustain themselves, government is failing.

Because progressive conservatives view wealth through the paradigm of ownership they see the current delivery mechanisms for benefits as ineffective and unhelpful. By supplementing incomes progressive conservatives can provide a safety net against dereliction but never a springboard to success.

All benefits entitlements ought to be flexible and malleable, in order to suit the dual interests of the recipients and the state. Happily, those dual interests are largely mutually constructive. The state should, and in the present circumstances arguably must, aim to cut its number of dependants and limit its role in keeping people's finances afloat. Individuals are best served by schemes that promote their independence, reduce their reliance on the state and promote self-reliance. By capitalising welfare, and helping to give people an economic stake that is meaningful to their lives, the state can reduce its long-term obligations while promoting financial security and enabling economic independence.

A home of your own

Housing Benefit provides desperately needed assistance to people who cannot afford a place to live. Progressives believe

that this is an essential safety net for the poor. Unfortunately, though, it does not serve as a springboard to ownership.

Currently recipients of Housing Benefit use their entitlement exclusively to rent property. In addition, 'the structure of housing benefit gives tenants no incentive to negotiate or shop around in relation to their housing expenditure'.⁴² In effect, the government subsidises private landlords directly and decouples the cost of housing from decision making for the poor.

Housing Benefit, as presently constituted, is the opposite of an asset-based, recapitalising benefit. It pays out, year on year, with no discernible benefit for the state or long-term advantage for the recipient. In recognising the ongoing disempowerment that Housing Benefit embodies, the government should be prepared to offer asset assistance to long-term claimants.

What will it look like?

The aim is to provide low-waged families who claim Housing Benefit with a route into home ownership, and out of dependency. This scheme would apply to families working and receiving Working Tax Credit and Housing Benefit (HB) for a minimum period of two years. After this time, a family would be able to apply to receive their predicted Housing Benefit, over a five-year period, as a capital grant – to use in paying the deposit on a home.

In order to make these new home owners more resilient, and ease the burden on families, government should offer long-term, fixed-rate mortgages (at below market rates) using the mortgage providers in which the government has full or majority ownership – Northern Rock, Royal Bank of Scotland and Lloyds HBOS group. In this way, government could maximise the security for homeowners, and reduce the risk of people slipping into negative equity or being suddenly unable to make repayments due to interest hikes. The rate of interest for these loans should be set at around 4 per cent.

By providing these secure loan options government can lower the cost of a mortgage for poor, working families and ensure that it fulfills its responsibilities to people whom it has

encouraged to purchase their home. Of course, not everyone in the target group will have the desire, or the capabilities, to own a home with state assistance. However, this scheme would make a meaningful difference to the way Housing Benefit works for those in employment and could ease many poor families into ownership. This scheme aims for big changes but accepts the need to start small. See tables 3 and 4.

Table 3 **Average monthly mortgage payments – initial assumptions**

Area	Average mortgage (average house price – deposit)	Monthly payment (assuming 5.7% APR) ⁴¹	Monthly income excluding HB	Mortgage payment as % of income
London	£293,000	£1692	£1,638	103%
South	£124,100	£785	£1,274	62%
Rest	£95,200	£602	£1,325	45%

Table 4 **Average monthly mortgage payments – revised assumptions**

Area	Average mortgage (average house price – deposit)	Monthly payment (assuming 4% APR)	Monthly income excluding HB	Mortgage payment as % of income
London	£196,850	£877	£1,638	53%
South	£124,100	£662	£1,274	52%
Rest	£95,200	£508	£1,325	38%

As can be seen from tables 3 and 4, the repayment-to-income ratios become more affordable when a fixed rate is applied.

It is also important to understand that these mortgage payments are still unrealistically high. They have been calculated on the basis of average flat or terraced house prices in each area. As these are averages, it is certain that there will be dwellings on the market selling at below these prices. If families were able to purchase suitable housing at (say) 65 per cent of the average flat or terraced house value, the mortgage payments as percentages of average incomes would improve still further – as shown in table 5 – to 32 per cent in London and the South, and 22 per cent in the rest of the UK. These are much more reasonable levels of housing costs as a proportion of incomes.

Table 5 **Average monthly mortgage payments if families purchase a flat or terraced house at 65% of average current prices**

Area	Average mortgage (average house price—deposit)	Monthly payment (assuming 4% APR)	Monthly income excluding HB	Mortgage payment as % of income
London	£164,400	£517	£1,638	32%
South	£75,500	£403	£1,274	32%
Rest	£58,100	£292	£1,325	22%

There are two other points to bear in mind regarding affordability:

- Affordability should improve over the course of the mortgage, provided that average earnings increase in the economy.

- House prices in the UK may have further to fall, which would improve the affordability of the scheme still further.

Costs and savings

The average Housing Benefit weekly payment for those households eligible for the scheme is £64. This means that the average cost to the government of each lump-sum Housing Benefit grant would be approximately £17,000.

If all the 115,000 eligible households took up this scheme, the overall cost to the government would be approximately £2 billion. This would be recouped over five years due to the reduced overall expenditure on Housing Benefit (because families in the scheme are no longer claiming Housing Benefit). After the five-year recoupment, government would make a real terms saving of around £400 million a year for this cohort alone; within a further five years government would have made an overall profit through this scheme.

Risks

It can be argued that encouraging home ownership among the low waged is irresponsible; for conservatives this argument holds little weight. There are significant risks – of people finding themselves unable to maintain ownership or of such a scheme entrenching inequality between the waged poor and those who are wholly dependent on benefits. However, progressive conservatives should be clear about the aims of such schemes: by defining ownership as a goal (rather than simply as a route) they set themselves the challenge of widening participation. Of course it is a great shame that not everyone can benefit. However, it is important that ownership is encouraged and enabled whenever it is a viable proposition. Because they believe in independence and self-reliance, progressive conservatives seek to arm the poor with the tools, in the shape of assets and capital, with which they can construct their own lives.

Summary

Benefits and welfare represent the drip-feeding of resource into the pockets of the poor, sustaining and protecting but never transforming. Progressive conservatives believe in lifting people out of dependency; they should be prepared to use the existing benefits and welfare structure to achieve this aim. The current system prevents dereliction but it does not offer a route to ownership; this can be radically addressed while also saving money for the state.

Conclusion: Recapitalising the poor

Progressive conservatives have a moral and practical imperative to use assets to recapitalise this nation's poor. The gap in asset ownership in the UK is profound, and it is damaging. The social, financial and democratic fabric of Britain is being undermined by an acute absence of ownership among our low-waged.

Conservatives have a long tradition of concern with ownership. Disraeli, Skelton, Macmillan and Thatcher were all Conservative politicians who were preoccupied with widening the ranks of ownership, convinced that the benefits outweigh the cost and that a capitalist democracy needs owners to sustain it.

In this pamphlet we have laid out a progressive conservative discourse on recapitalisation, with examples of how the theory might translate into practice and policy. A progressive conservative government should use regulation to force financial engagement between banks and the disenfranchised poor, encourage micro-credit and micro-finance methods tested abroad, use the tax system to recapitalise and turn the benefits system into a dynamic wealth creation mechanism.

Most importantly, a progressive conservative government should prize financial responsibility at all levels of society. The state must learn from the disastrous lessons of the past and make tough, long-term decisions that insulate this country from future shocks and risks. Individuals must learn to take responsibility for their lives and for their futures. The state does have an obligation to enfranchise the poor; in return the poor have a responsibility to step up to the mark and to work actively for self advancement and self reliance.

As progressives, Cameron's conservatives cannot meekly accept the status quo. They know that there are issues of fairness as well as practical necessities for the proper functioning of our capitalist society that compel them to take action.

Notes

- 1 Paine, *Agrarian Justice*.
- 2 See <http://conservativehome.blogs.com/torydiary/files/davidcameronsdavosspeech.pdf> (accessed 13 Jul 2009).
- 3 Barwell, May and Pezzini, 'The distribution of assets, income and liabilities across UK households'.
- 4 Margaret Thatcher, Speech to Conservative party conference, 1968.
- 5 Wilkinson, *The Impact of Inequality: How to make sick societies healthier*.
- 6 Sodha and Lister, *The Saving Gateway*.
- 7 Gamble and Prabhakar, 'Assets and poverty'.
- 8 See www.statistics.gov.uk/cci/nugget.asp?id=2 (accessed 22 Apr 2009).
- 9 Sherraden, *Assets and the Poor*.
- 10 Gates, *The Ownership Solution*.
- 11 Ibid.
- 12 Barwell, May and Pezzini, 'The distribution of assets, income and liabilities across UK households'.
- 13 Cunningham, 'Stuck in the middle'.

- 14 See www.statistics.gov.uk/cci/nugget.asp?id=1277 (accessed 14 Jul 2009).
- 15 Blanchflower and Oswald, 'Measuring latent entrepreneurship across nations'.
- 16 See 'Newham in the Census – a synopsis', available at www.newham.gov.uk/Services/CensusInformation/AboutUs/censussynopsis.htm (accessed 1 Jun 2009).
- 17 See www.ipsos-mori.com/_assets/reports/asb-report.pdf (accessed 1 Jun 2009).
- 18 Sampson, 'Moving to inequality'.
- 19 See www.statistics.gov.uk/downloads/theme_social/TablesV2.xls (accessed 14 Jul 2009).
- 20 See www.statistics.gov.uk/cci/nugget.asp?id=1008 (accessed 14 Jul 2009).
- 21 Home Office, *Citizenship Survey*.
- 22 Pearce, *Volunteers*.
- 23 See www.bcg.com/impact_expertise/publications/publication_search.jsp (accessed 14 Jul 2009).
- 24 Ibid.
- 25 See www.statistics.gov.uk/Cci/nscl.asp?ID=6921 (accessed 14 Jul 2009).
- 26 See <http://mycpf.cpf.gov.sg/CPF/About-Us/Intro/Intro.htm> (accessed 14 Jul 2009).

- 27 Directgov, 'Saving Gateway – what it is and who qualifies', available at www.direct.gov.uk/en/MoneyTaxAndBenefits/ManagingMoney/SavingsAndInvestments/DG_10010450 (accessed 14 Jul 2009).
- 28 Ipsos MORI, *Saving Gateway*.
- 29 Ibid.
- 30 Ibid.
- 31 Sodha and Lister, *The Saving Gateway*.
- 32 Traiger & Hinckley, *The Community Reinvestment Act*.
- 33 Bank of England, *Trends in Lending*.
- 34 Gibbons, 'Taxing times for the poor'.
- 35 CDFI, *Money for Change*.
- 36 NEF, *I.O.U.K.*
- 37 CDFI, *Money for Change*.
- 38 Government Actuary's Department, 'Government Actuary's Quinquennial Review of the National Insurance Fund as at April 2000'.
- 39 Pensions Policy Institute projections of future eligibility for means-tested benefits, Dec 2007.
- 40 Ipsos MORI, *Saving Gateway*.
- 41 See *Hansard*, 3 Jul 2008, available at www.publications.parliament.uk/pa/cm200708/cmhansrd/cm080703/text/80703wo005.htm (accessed 14 Jul 2009).

42 Kemp, *Housing Benefit Reform*.

43 Monthly mortgage payments are derived from the APR using the formula

$$m = \left(\frac{Ar(1+r)^n}{(1+r)^n - 1} \right) / 12$$

where m is the monthly mortgage payment, A is the starting value of the mortgage, r is the APR and n is the number of years of repayment in the mortgage term (we have assumed a 25-year mortgage).

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Progressive conservatives believe ownership is central to a person's relationship with their community and their society. In Britain today, the poorest quarter of our population own less than 1 per cent of the UK's total assets. To be poor is not simply to be without income, but to be without the assets necessary to have a meaningful stake in our capitalist democracy. Assets determine a person's ability to plan, to invest and to secure a future of their choosing.

The welfare system does not do enough to address social exclusion or give the poor the opportunity to help themselves. It instead drives a state of dependency that plagues the most disadvantaged communities in Britain. Addressing the asset-gap is key to promoting fairness, independence and giving individuals the opportunity to take responsibility for their futures.

This pamphlet is inherently conservative and deliberately progressive. Conservative because it is built on a belief that private property is central to the health of society and progressive because it acknowledges that a grossly skewed distribution of assets and wealth is unsustainable and disempowering. It puts recapitalisation at the heart of a progressive Conservative policy.

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