Covid-19 and the Child Trust Fund

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Abstract

Young people are likely to bear much of the economic fall-out from Covid-19. There is a case of targeting special help for young people. From September 2020, the first generation of Child Trust Funds begin to mature. One practical challenge to using Child Trust Funds to channel emergency payments are the presence of dormant accounts. But an infrastructure of accounts for young people exists and the UK government also provides help in finding 'lost' accounts. A reborn Child Trust Fund would revisit earlier conceptions of it as a capital grant and it could contribute to bottom-up models of social democracy.

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Introduction

Young people are likely to bear much of the economic fall-out from Covid-19. Gustafsson (2020) reports survey data soon after the shutdown of the UK economy in March 2020 that suggests that 18-24 year olds (excluding students) were more likely than other age groups to have been either furloughed or lost their jobs because of Covid-19. One third of 18-24 year olds lost their jobs or were furloughed, and this is around ten percentage points higher than then next most badly hit age group (60-64 year olds) (see also Joyce and Wu 2020). Henehan (2020) argues that experience from previous recessions such as the aftermath of the 2007-2008 global financial crisis shows that the effects are most severe for those students that have recently left full-time education. Concern is voiced about the 'scarring' effects of Covid-19 for the future pay and employment prospects of young people.

Emergency income payments have been part of the global response to Covid-19. In the United States, emergency direct payments of $1,200 are provided to each person and up to $500 for each child up to 16 (although these are tapered off for those on high incomes and no payments are made for those with an income of $99,000 a year) (Inland Revenue Service 2020). In the UK, Chancellor Rishi Sunak announced financial support for furloughed employees. For employees, the government provided a taxable grant that paid 80% of the wages plus employer National Insurance and pension contributions. Similar support was given to the self-employed. These schemes ran for the summer before being gradually wound down.

There is a case of targeting special help for young people. From September 2020, the first generation of Child Trust Funds begin to mature. The Blair government provided a £250 endowment (or £500 for those from low income backgrounds) into an 18-year account for all babies born from 1 September 2002. Originally, family and friends could save up to £1,200 a year into these accounts.

New Child Trust Funds were an early casualty of the Conservative-Liberal Democrat coalition government's austerity cuts to public spending in 2010. Existing Child Trust Funds (or replacement Junior ISAs) could be used to channel emergency payments to the Class of 2020. Payments into these accounts would revisit earlier conceptions of the Child Trust Fund as a capital grant rather than a savings scheme. These might be funded by taxation on wealth rather than extra borrowing to avoid recipients having to face higher taxes later in life to pay for this borrowing.

One practical challenge to using Child Trust Funds in this way is a large number of dormant accounts. Estimates from 2017 suggest that there may be around 700,000 dormant accounts (City of Westminster 2017). There are around 6.1 million Child Trust Funds (HM Treasury and Osborne 2013). But an infrastructure of accounts for young people is already in place and the UK government also provides help in finding 'lost' accounts. Payments would only go to those turning 18 and so would exclude other young people. But when a person turns 18 they make important choices about whether to continue in education or try and get a job. There is a case for help at this particular point.

The rise and fall of the Child Trust Fund

The fate of the Child Trust Fund mirrors the rise and fall in 'New Labour'. This was a policy that was introduced by the Blair government in 2005. In the run-up to the 2001 general election, Tony Blair was looking for high-profile proposals to put in its manifesto. Around that time, two centre-left think tanks the Fabian Society and Institute for Public Policy Research both published pamphlets proposing a capital grant for young people (Le Grand and Nissan 2000; Kelly and Lissauer 2000). The fact that two different think tanks proposed a similar idea was probably important for catching Blair's attention.

Although the authors of the Fabian Society and IPPR pamphlets each proposed an endowment for young people, there were important differences between these schemes. These differences reflected the different strands of thought that fed into the Child Trust Fund. Le Grand and Nissan (2000) drew on a ‘basic capital’ tradition that stressed the importance of a capital grant for liberty and equality. Thomas Paine’s (1987) [1795] pamphlet *Agrarian Justice* that was published during the eighteenth century is an important forerunner of this tradition. Paine argued that the earth in its natural state the earth was uncultivated and the property of all. Private property developed as a way of cultivating the earth and leading to the development of civilised society. But private property also restricted ownership and so dispossessed some of their natural inheritance. To compensate people for their loss, Paine proposed that all 21 year olds should receive a £15 grant and £10 per year would be paid to those over 50. The wealth of each generation would be taxed to provide the capital grants for the next generation.

Paine’s theory of justice outlined two key themes in the basic capital tradition. First, the payment of a grant at a young age as a matter of justice. Second, a link between the taxation of wealth and capital grants. Le Grand and Nissan (2000) built upon this tradition with their proposal for a £10,000 grant for all young people. Le Grand and Nissan (2000) argued that the grant should be provided at the age of majority at 18. The £10,000 figure is a substantial sum that would give young people the financial resources to support a wide variety of life choices. They also proposed that a tax on inherited wealth could be used to fund these grants.

Asset-based welfare

An alternative ‘asset-based welfare’ tradition is important for the IPPR scheme. The US academic Michael Sherraden (1991) pioneered asset-based welfare. Sherraden (1991) argued that for much of the twentieth century, social policy sought to relieve poverty through transfers of income through the tax and benefit system. Although Sherraden (1991) supported this income relief, he claimed that these transfers of income do not stop poverty from arising in the first place. He argued that providing people with an asset changes the way that people think and behave in the world. For example, owning an asset prompts people to make the personal investments such as training that would enhance their employment prospects.

Sherraden (1991) developed an Individual Development Account proposal to embody his claims about an asset-effect. These are special saving accounts aimed at those on low incomes. Savings made into these accounts would attract matching savings (up to a cap) from public or private organisations. Funds in these accounts would be used for certain purposes, such as paying for training, putting a deposit on a home or starting a business.

The IPPR scheme was strongly influenced by the Individual Development Account model. Kelly and Lissauer (2000) proposed a Children’s Opportunity Fund that would provide £1,000 for every newborn. Savings into the Children’s Opportunity Fund would attract matches from government, with children from poorer backgrounds possibly attracting higher matches from government. Giving the asset at birth would allow an asset-effect to develop as the young person grew up.

After Labour won the 2001 general election, a small number of ministers at the heart of New Labour worked with the Institute for Public Policy Research to develop the Child Trust Fund proposal. This involved the Secretary of State for Education and Employment David Blunkett, Chancellor Gordon Brown and Blair. Sherraden was invited to the UK to outline his ideas and contribute to discussions about the Child Trust Fund proposals. Empirical research in the run-up to the Child Trust Fund suggested that a modest endowment of several hundred pounds was enough to yield an asset-effect (Bynner and Paxton 2001).

There was little discussion of the Child Trust Fund idea within the wider Parliamentary Labour Party or the wider labour movement. This perhaps exemplified Blair's 'sofa style' government. Initially, Blunkett led on the Child Trust Fund idea and showed interest in it as a contribution towards active citizenship (Blunkett 2001). But Brown ultimately took charge of this policy and it was absorbed into the Treasury's savings agenda.

A New Labour clique was responsible for introducing the Child Trust Fund. However, this meant that the Child Trust Fund's fate was tied closely to that of New Labour. It did not gain deep roots within the Labour party or the wider society. This meant that the policy was as quick and easy to topple as it was to erect. One of the first acts of the Conservative-Liberal Democrat coalition government was to stop the government endowments into Child Trust Funds from January 2011 (with an exemption though for children in local authority care). The Conservative-Liberal Democrat government also created a Junior ISA policy as a replacement for the Child Trust Funds. Existing Child Trust Funds could be transferred into Junior ISAs from 2015 (HM Treasury and

Osborne 2013; Edmonds 2014). Junior ISAs marked the end of the capital grant policy and its change into a simple savings product.

A reborn Child Trust Fund?

Emergency income payments provide people with immediate financial help to cope with the public health measures taken to limit the spread of the virus and the longer-term effects on the economy. Emergency payments allow people to pay for basic necessities such as rent, heating or food.

There is a long-standing debate in social policy about the merits of universal or means tested support. Universal payments have the virtue of simplicity. This is useful for providing immediate relief to people. There are a range of ideas for such payments. Standing (2020) makes a case for a universal basic income that would give each citizen an income payment to stop a collapse in demand of goods and services caused by the pandemic. Summers et al (2020) call for an increase in Child Benefit payments from £20.70 for the first child per week (and £13.70 for subsequent children) to £50 per child per week to help households during the pandemic. They also suggest abolishing the taper that exists for households where there is at least one person who has a taxable pay of over £50,000 a year.

The Child Trust Fund provides an opportunity for targeted help for the upcoming cohort of 18 year olds. In the UK, young people leave compulsory education or training at age 18. They make decisions about whether to continue study at college or university or try and get a job. Providing young people with a capital grant at 18 would resonate more with those basic capital models than those versions that see the Child Trust Fund as a savings policy. One issue is the size of the special payment. A.B. Atkinson (2015) recommended a revival of the Child Trust Fund for reducing inequality. He suggests that a lifetime capital receipts tax (which taxes the gifts or inheritances receives over their lifetime) could be used to pay for a £5,000 grant for all. Some young people already may have substantial sums saved in their Child Trust Funds. Others may have little more than the original £250 grant plus the interest over the 18 years (minus any charges). A one-off payment would therefore go to rich and poor alike. But the same payment has the virtue of simplicity.

When the Child Trust Fund was in operation there was controversy about the number of accounts that were left unopened by parents. The UK government provided parents or guardians with the initial £250 voucher but it was their responsibility to open an account on the child's behalf. However, if parents or guardians did not open an account, then the UK government would open an account for the child from a list of providers. Official figures show that between 1 September 2002 and 2 January 2011, the government opened around 30 per cent of all Child Trust Fund accounts (HM Revenue and Customs 2013). At the time, the unopened accounts by parents or guardians prompted political criticisms that parents and guardians were not engaging with this policy. The presence of 'lost' accounts also signals a lack of engagement among some young people and their families.

The above highlights possible pitfalls with using Child Trust Funds to channel emergency payments. On the other hand, a majority of parents or guardians opened a Child Trust Fund account at the time, even though the initial endowment was fairly modest. Also, the unopened accounts might point to other barriers that parents or guardians faced in opening accounts (such problems in choosing between the different types of account on offer) rather than a lack of interest in the policy. The unopened accounts may be more due to problems in the financial services sector, such as the failure of financial institutions to provide clear and simple information, than a parental rejection of this policy.

A key advantage of the Child Trust Fund is that a network of accounts already exists for the entire generation of 18 year olds. This overcomes one obstacle for making emergency payments, namely the lack of a bank or savings account to receive such payments. From age 16, young people take increasing responsibility for managing the account although they cannot access the funds until the Child Trust Fund (or Junior ISA, if the Child Trust Fund was transferred to a Junior ISA) matures. Young people would probably have an incentive to engage with the Child Trust Fund if the government makes a sizeable deposit at 18.

A bottom-up social democracy?

One might view a reborn Child Trust Fund as an isolated policy designed to meet a specific need at the moment. But a renewed Child Trust Fund might also contribute to a project of renewing social democracy. Political traditions such as liberalism, conservatism and social democracy constantly adapt to new conditions and challenges. Within social democracy, there has been a historic debate over the merits of ‘top-down’ versus ‘bottom-up’ social democracy. Top-down social democracy has often relied upon the state to advance equality. Bottom-up social democracy places more emphasis on associations such as trade unions or citizen assemblies to pursue social democratic goals. Of course, social democracy may be a blend of both top-down and bottom-up steps as different approaches may be appropriate in different situations.

The Child Trust Fund might contribute to those bottom-up strands of social democracy by empowering people by providing them with the money that they need to make their plans a reality. For example, Piketty (2020) advocates a participatory socialism that involves a wider redistribution of wealth and income. He proposes taxing wealth to pay for a one-off capital grant as part of his plan for creating a more equal society. Elsewhere, Atkinson (2015) presents a renewed Child Trust Fund as part of a wider programme of 15 reforms for creating a more equal society.

When the Child Trust Fund was first being discussed, it was seen as a contribution towards new types of polices for equality based on ‘asset-based egalitarianism’. For its supporters, such policies were not usually seen as a replacement for traditional income redistribution done by the state as it was accepted that such relief was still important. But providing people with these assets was thought to be an important complement to these other policies and help underpin a free and equal citizenship (White 2003). Placing emergency payments into these Child Trust Funds might be used to revisit these earlier debates and so add to the task of renewing social democracy.

Conclusion

The scale of the government intervention so far suggests that the effects from Covid-19 may be as large as those from the 2007-2008 global financial crisis (Office for Budget Responsibility 2020; Bank of England 2020). For example, the Office for

Budget Responsibility (2020) published a scenario of the economic impacts of Covid-19 that predicted that real national income would fall by about a third in the second quarter of 2020. Public sector net borrowing would rise to about 14% of national income and this would be the highest annual deficit since the Second World War.

Young people promise to be particularly hit by this crisis. A challenge for policy-makers is devising policies that can reach young people quickly and provide immediate relief. Proposals also need political support as well as co-operation from different interests to become a reality. An advantage of the Child Trust Fund is that the first wave of accounts will be maturing while the effects of Covid-19 are falling down. Emergency payments into these accounts offer the prospect of immediate relief.

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