Why Do Assets Matter?

Assets, Equality, Ethnicity – Building towards Financial Inclusion

Six Key Observations from this Report

- Asset inequality significantly affects many in the UK, including Black and minority ethnic people, and deserves the attention of policymakers
- Financial inclusion policy fails to take account of asset-building policies, despite assets being more unequally held than income and directly affecting financial inclusion
- Assets are important because they have clear financial benefits and can improve people's life-chances and social relations
- Asset-building policies should go beyond consumer choice and financial goals towards reducing social inequalities
- Alternative policies could deliver to everyone the benefits of holding assets, but political leadership is required
- To benefit the worst off, assets must be financially stable, and also provide above-inflationary increases

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This Publication is the Executive Summary of the report 'Why Do Assets Matter'

RUNNYMEDE
Intelligence for a multi-ethnic Britain

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

Having few or minimal assets – or indeed having no assets – will cause problems for people who run into financial difficulty or require emergency funds to buy a product they need. Assets can also impact on people's capacity to take up everyday financial goods and services. There is evidence that those who save early on in life are more likely to save through their lifetimes and build up assets this way. Evidence also tells us that assets, whether saved for or otherwise acquired, have a marked effect on a person's life-chances.

The report divides into four main sections and a conclusion. Key findings, summarized section by section, are tabulated below. Within the body of the table, we expand on the six main findings highlighted on page 1, and explain what they contribute to financial inclusion in the context of asset policy, ethnicity and equality.

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

Section 1	**Section 1 surveys the evidence on asset-holding in the UK, with particular reference to ethnicity, gender and age**
1.1 Asset distribution	Assets are far more unevenly distributed in the UK than income. Anywhere from 10–20% of people have no assets at all, whereas the highest-earning 10% have half of all assets.
	'The wealthiest 1% owned approximately a fifth of the UK's marketable wealth... Half the population shared only 7% of total wealth' (http://www.statistics.gov.uk/cci/nugget.asp?id=2)
	Two-thirds of households in Britain have less than £3000 in non-housing savings and assets.
Assets are very unevenly held in the UK (as section 1.1 of our report explores). By documenting the evidence on asset-holding in the UK, we show just how many people lack adequate assets and how inequitably these assets are distributed compared with income. We explain the causes and effects of having very few assets, or none.	
1.2 Housing, assets and policy	Roughly 70% of UK homes are owner-occupied. Fully 40% of the total wealth in the UK, or £6875 billion, is held in housing.
	In 2003 the most wealthy 50% owned 99% of the non-housing asset wealth; put another way, half the UK population owned only 1% of non-housing assets.
	As an asset, housing is not only fairly *illiquid*, but its value is often 'nominal'. Whatever the valuation of a property, homeowners rarely realize this full value, especially as an asset.
	Housing is not just an asset. Everyone needs a place to live, and people derive real financial and emotional benefits from living in homes that they own. The legitimate aims of housing policy will not always coincide with the goals of asset-building policies.
1.3 Assets and ethnicity	Every Black and minority ethnic (BME) group is less likely to have savings, and less likely to have large amounts of savings, including ISAs, premium bonds and stocks and shares. Over 60% of Asian and Black British people have no savings at all, twice the rate for white people.
	BME people have a much less diverse range of types of saving products, no more than one-third as many as white people.
	While Bangladeshis (55%), Pakistanis (45%) and Black Africans (30%) are particularly likely to work in low-income employment, all BME groups have lower incomes than white groups; this affects their ability to build up savings.
	Some BME groups have very low home-ownership rates, especially Bangladeshi, Black African and Black Caribbean groups. Those who do own homes, e.g. Pakistanis, may own properties of less value.
Black and minority ethnic people have low levels of assets (section 1.3 of our report examines the situation). It is hardly surprising that migrants and their children have fewer assets than those with generations of inherited wealth in the UK. We are not referring only to the well-off, but people who over multiple generations have inherited money or property from parents or other relatives. This disadvantage for relatively recent migrants is compounded by higher rates of unemployment and in-work poverty among almost all BME groups. If BME people were starting out with more assets to support them, they might not have to take up low-paying jobs with poor prospects for further training and promotion.	

Key observations and data on asset distribution and equality tabulated (1 & 2)

Section 1 (contd)

1.4 Assets and gender	Because assets are usually measured in terms of households, it is not easy to measure women's assets precisely.
	Women have far less pension wealth than men, and because of lower earnings over a lifetime they also hold lower savings generally, as much as 40% less than men's savings.
	Women have less savings because of the gender pay gap, because they work fewer hours, and because they are more likely than men to leave paid employment for caring responsibilities.
1.5 Assets and age	Asset-holdings increase with age and peak at 60–64. Most people under 30 have negative financial wealth and few assets. By the time people are over 80, however, their median wealth is only £8000 compared to £26,000 for people aged 60–64.
	Older people may be asset-rich but poorly off because they cannot easily access the capital in their home or other assets. They may end up selling their homes for financial or other reasons.
	Inequalities in savings and assets increase as people leave the labour market. For retired households in the bottom quintile of UK society, 82% of their income comes from cash benefits (mainly their state pension), whereas among the wealthiest quintile this figure is only 27%.
	Given the younger age profile of BME people, they will be less able to avail themselves of familial redistribution of assets over generations, raising significant questions for social mobility.

Section 2	**Section 2 addresses the aims of asset-based policy. Five justifications are identified and explained.**
2.1 Financial/Wellbeing arguments	These arguments for asset-building highlight their importance in improving people's financial wellbeing: either because of the importance of assets for participating in the wider economy (i.e. financial inclusion); or because people need a basic level of assets to live a decent life. Low levels of asset-holdings can reduce the possibility for saving and investment in the wider economy,
2.2 Distributive concerns	Arguments about asset distribution: efficient markets require everyone to be able to access and compete on fair terms; while fair life-chances require a more equitable distribution of assets.
2.3 Behavioural arguments	Owning assets has widespread and diverse effects on people, especially on their confidence, ability and willingness to engage in the economy and plan for the long term: 'while income feeds people's stomachs, assets change their minds' (Sherraden (1991) *Assets and the Poor,* p. 13).
2.4 Citizenship	Some asset-based arguments focus on the idea that people ought to hold a 'stake' in their society. Equal participation arguably requires people to have some minimal level of assets; 'having a share' in a community perhaps corresponds to the notion of 'community cohesion'.
2.5 Freedom-based accounts	Political thinkers and activists have long linked asset-holding with individual liberty. Economists sometimes argue that a right to property is a foundational freedom on which all others rest, an argument that is also prominent among philosophical libertarians.
	Left-leaning strains in the liberal tradition have said that for people to make free choices they should not be forced to work in conditions they would otherwise reject in order to survive. If people had assets they might consider alternative employment, training or education, allowing them more freedom to choose the kind of life they would like to lead.

In Section 2 of the report we have been considering and clarifying why assets matter. Among the possible benefits that derive from the possession *or* acquisition of assets are: improving people's financial status and decision-making, changing people's behaviour, improving opportunities, promoting personal autonomy, fostering basic citizenship, facilitating access to better housing, upgrading labour market outcomes, encouraging community cohesion, supporting greater economic efficiency and, beyond that, (national) economic growth and fiscal stability. Such a range of possible benefits demands a variety of assessments of existing or possible asset-building policies (addressed in Sections 3 and 4 respectively), whether in terms of justifying a particular policy, or evaluating whether a policy has achieved its intended outcomes. For example, a policy that intends to improve life-chances must have more wide-reaching effects than one that simply aims to provide people with savings to pay for basic goods, such as washing-machines or boilers.

Key observations and data on asset distribution and equality tabulated (3 & 4)

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

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

5 Conclusions

	To be effective, any assets must be stable and secure, but also grow at more than the rate of inflation.
	BME people should be made aware of their eligibility for existing saving schemes. This includes asset-based schemes such as the Saving Gateway and Child Trust Fund, but also ISAs and premium bonds.
	BME people would benefit from universal policies that achieved asset-building for everyone, but they would also benefit from targeted policies inasmuch as they currently lack assets.

In conclusion (Section 5) our report considers how, in order to benefit the worst off, assets must be financially stable, and also provide above-inflationary increases, something markets can't always reliably deliver. Many of the asset-building policies we've recommended focus on the importance of equal citizenship in particular. Market-based outcomes, however, typically result in some 'losers', and do not often deliver equal benefits for all. This raises a question for asset-based policies, and indeed policies such as stakeholder pensions: how fair or reasonable is it to expose people to the vagaries of the market when the intention is to provide security of outcome? Especially if the aim is to provide every citizen with a stake, then market-based asset-building measures may need to be supported by a government guarantee to protect people from losing some agreed basic value of their asset and the benefits that should flow from it.

Assets have developed a particular importance for thinkers on both the left and right of the political spectrum. Whether to defend the importance of property rights or to link the distribution of assets to citizenship status or to identify a wider 'asset effect' on people's attitudes towards and behaviour within markets, political thinkers and activists have for some time ascribed a role to assets beyond their financial implications. Now the global economic downturn – which in 2009 is officially a recession in most western countries – has highlighted the importance of assets not just to individuals but to the broader economy. In this context it becomes even more necessary to create the greatest potential for economic growth. Why shouldn't some of this derive from offering the majority in society who are operating without resources better access to the potential security of straightforward savings and well-advised asset support?

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About Runnymede
The Runnymede Trust is an independent policy research organization focusing on equality and justice through the promotion of a successful multi-ethnic society.

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