Inclusion in Asset Building: Research and Policy Symposium

Asset Accumulation for the Poor? A View From the Right

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2000

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Center for Social Development

Washington
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George Warren Brown School of Social Work

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A View From the Right

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September 2000

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This paper was commissioned for the *Inclusion in Asset Building: Research and Policy Symposium*, Center for Social Development, Washington University in St. Louis, September 21-23, 2000.

The symposium was sponsored by the Ford Foundation and the George Warren Brown School of Social Work at Washington University. The organizers and editors were Michael Sherraden and Lisa Morris.

The notion that poor families should own financial assets remains controversial on both the Left and the Right. Many conservatives have become ardent advocates of "the new investor class" — a phrase that refers to wage earners who also own capital. And many have taken that a step farther, advocating programs that incentivize matched savings for the working poor.

On the Right, this movement is championed by some pro-capitalist economists. But it is also popular among Christian conservatives, who regard matched savings as a form of re-moralized welfare. The recipient, they reason, shows himself worthy of public aid by his effort to invest in himself and his family. Indeed, "assets for the poor" has become mainstream enough to find a niche in George W. Bush's economic plan, which includes Individual Development Accounts.

Why is this? If conservatives hold that market mechanisms are optimal, or at least adequate, to discharge society's obligation to the poor, then why do so many of them advocate policy changes which incentivize savings?

This paper will answer that question three ways. Conservatives have power-political, ideological, and ethical reasons to support asset formation among low-income families.

The Politics of Asset Holding

It is a cliche of American politics that Democrats are the party of wage earners, Republicans the party of asset-holders. But it is a cliche with a basis in fact. In January, 1999, Rasmussen Research conducted a 6,400-person survey which tabulated political party affiliation and asset ownership against a broad range of common demographic variables, including gender, age, race, income level, and marital status. The survey defined asset holders broadly, to include anyone owning $5,000 or more of stocks, bonds and mutual funds.

Politically, owners of portfolios generally favored the G.O.P. The entire sample was 36.9% Democrat and 31.6% Republican. But among non-investors, the Democrat advantage was 40.6%-27.1%, while among investors, the G.O.P. held a 37.9%-to-32.9% edge.

Less expectedly, portfolio owners trended Republican among core liberal constituencies. Indeed, asset-ownership was associated with increased G.O.P. affiliation among voters who were black, single, young, low-income, and female — all significant elements of the Democratic coalition. Among low income earners — workers earning $20,000-or-less per year — portfolio ownership reduced the Democrat advantage from 46.0%-to-22.1% (among non-asset-holders) to 43.0%-to-31.6% (among asset-holders). In other words, the Democrat/Republican gap decreased from 23.9% to 11.4%. And among lower-middle-class earners — workers earning more than $20,000, but less than $40,000 — a Democrat majority among non-asset holders (41.7%-29.1%) became a Republican majority among portfolio owners (38.6%-35.6%).

My analysis of the Rasmussen survey circulated widely among Republicans on Capitol Hill. I reported party affiliation among 43 separate demographic subgroups based on ownership or non-ownership of portfolio assets. The results are appended to this paper -- their first formal publication. Supplementary research demonstrated that whatever advantage the G.O.P. might derive from the growth of asset-holding would be magnified by the civic-mindedness of worker-capitalists. An

April, 2000 study I conducted for the Dean Witter Foundation found that investors were 13.5 percent likelier than non-investors to describe themselves as "high propensity voters," and 15.3 percent likelier to describe themselves as "absolutely certain to vote" in the 2000 presidential election.[1]

The Rasmussen numbers document the affinity of investors for the G.O.P., but do not explain it. However, periodic polls of investors conducted by the Nasdaq stock market give significant clues. *As people change their mix of wealth-seeking activities, they change the sources from which they acquire information*. Worker-capitalists *actively* seek information that will enable them to maximize their efficiency in their new vocation, as owners of capital. These new sources of information generally explain political events in terms more capitalist, less social-democrat, than the information sources they replace.

In its periodic examination of investor reading habits, the Nasdaq reported that the diverse investor class of 1997 was better read than the more economically elite pool of 1985. In 1997, more investors read *The Wall Street Journal*, *Forbes*, *Money*, and *Business. Week*. Other financial publications widely read in 1997, such as *Kiplinger's Report* and *Investors Business Daily*, didn't exist in 1985. The big losers in readership were metropolitan dailies, whose share as primary sources of investment advice declined from 58 percent in 1985 to 20 percent in 1997. The print generalists lost market share to the financials. The impact of this shift on workers' voting patterns is impossible to isolate (at least, with existing data). But clearly, the editorial content of *Forbes*, the *Wall Street Journal*, and *Investors Business Daily* differs markedly from that of the *Philadelphia Inquirer*, the *Washington Post*, and the *Los Angeles Times*.[2]

To summarize: *One explanation for the Right's growing enthusiasm for broad-based asset-holding was that it correlated positively with conservative political affiliation*.

Had the asset market not changed, this might have been irrelevant. Anatole France observed that in the French Third Republic, paupers and millionaires were treated alike when they attempted to sleep under viaducts. He meant, of course, that the amenities available to the one class were unavailable to the other, rendering the "equality" absurd. That asset-holding correlated with a Republican shift among lower-income voters would be moot had these workers acquired no assets. But the revolution in defined contribution plans in the 1980s and 1990s resulted in the widest diffusion of financial assets in human history.

By October 2000, 78 percent of American voters held stocks, bonds or mutual funds.[3] The most recent Federal Reserve numbers reported the median income of shareholders at roughly $50,000. Their median holding was $25,000.[4]

Fifty-five million of these new capitalists, owning $2.2 trillion of corporate assets, entered the market through work-based defined contribution plans. One type of defined contribution plan, the 401(k), enrolled 39 million participants with $1.5 trillion of assets.[5]

The spread of asset ownership included many workers of humble means. A Zogby survey conducted late in 2000 found that among Americans earning $15,000-or-less annually, 26.1% had an IRA or 401(k) account; 24.4% held mutual fund shares; 17.0% owned stocks outside of a retirement plan; and 15.1% were bondholders. Obviously these categories overlapped. But 45.9% of these low-income earners held at least one of these financial assets.[6]

Given the impressive growth of financial asset ownership. and the apparent correlation of this growth with G.O.P. affiliation, Republican leaders began to regard policies which incentivize asset formation more fondly. In 1999, the Rasmussen numbers circulated widely among Republicans on Capitol Hill, and the G.O.P. started pushing less for a flat tax, more for incentivized individual investment. The "new" emphasis included: Education Savings Accounts, Medical Savings Accounts, Personal Retirement Accounts both inside and outside of Social Security; expanded IRAs; expanded 401(k)s; "catch-up" provisions for older workers' retirement accounts; and Individual Development Accounts.[7]

The Ideology of Asset Democratization

But while the tactics of shareholding fascinated politicians of the Right, a different set of variables absorbed libertarian economists.

The emerging mass class of wage-earning capitalists represented something novel in history. The idea was not new in the United States. In 1798, fifty years before Karl Marx penned his *Communist Manifesto*, the American statesman Albert Gallatin launched the first profit-sharing plan at his glassworks in New Geneva, Pennsylvania. "The democratic principle upon which this Nation was founded," he wrote, "should not be restricted to the political processes, but should be applied to the industrial operation." [8]

In recommending a supplementation of workers' wages with profit- or asset-sharing, our future Treasury Secretary attacked the problem of "alienation" which would so exercise Karl Marx. But Gallatin's solution occurred *within* the propertarian order. Asset accumulation empowered the worker in his own person, through private ownership, rather than through some "revolutionary" vanguard which would hold the means of production in his name.

As America entered the 1990s, the apocalyptic tide of revolutionary socialism was receding from its century of bloody experiments. Globally, capitalist models of currency stability and open trade were creating (and distributing) wealth on a scale unprecedented in human history. But the electorates of the democratic nations seemed no closer to embracing a capitalist world view. Conservative intellectuals, proud of their reorganization of the industrial world in the 1980s, were at a loss to explain, let alone combat, the triumphs of Tony Blair and Bill Clinton, and the general resurgence of Social Democracy on the European continent.

What follows is a synthesis of the *theory of worker capitalism* as it has developed over the past four years, and the strategic concept of *investor-side supply-side incrementalism* that derived therefrom. Many economists, theorists and journalists have contributed to it, most notably Laurence Kudlow, John Hood, James Glassman, and Ben Wattenburg. But the specific form in which I shall present worker capitalism and its corollaries is that developed by myself and *National Review* senior editor Ramesh Ponnuru.[9]

Historical Backdrop

Although democratic capitalism has compiled an unparalleled track record of success in advancing material well-being for great masses of people, communism, its discredited half-brother, has maintained its psychological hold on wage workers wherever they have been enfranchised. Capitalist institutions grow only in republics. But even there, they rarely last. Indeed, their 225 continuous years under the United States Constitution comprise the longest period such institutions have been maintained anywhere on earth.

Examples of the ephemerality of successful capitalisms abound. The overthrow of the merchant princes by the guild system in late medieval Belgium; the demise of the Liberal Party in turn-of-the-Century England; the fall of the Argentine Republic to the Peronistas — in each case, a republican system that excelled in creating wealth was overturned by an enfranchised majority, and replaced with a system that brought economic catastrophe.

But if Capitalism's duration is fleeting in Republics, it thrives nowhere else at all. Republican institutions foster commercial law by restricting centralized authority. Historically, this has allowed customary and statutory contracts to evolve. A fungible currency that doubles as a store of value is the *sine non qua* of capital accumulation. Only the "split" governments of Republics successfully limit sovereign depredations — confiscation or debasement — against media of exchange.

Early Republics enfranchise property owners. Groups that own the means of production, including land, labor and transportation, share power. But over time, non-propertied groups are enfranchised as well — sometimes to swell armies, sometimes to bolster a group already empowered. A wage-earning class may be enfranchised by actions of an empowered class in a Republic to advance a market viewpoint (repeal of the Corn Laws), an anti-market viewpoint (the Catiline rebellion), or both. But once enfranchised, nothing in a wage worker's daily life conveys the "price" of public policy in market terms. The "marketplace of ideas" proves anything but — that is, no price signals reach the proletariat on market framework issues.

An enfranchised working class sometimes supports the position of its employers (as, for instance, in the McKinley vs. Bryan election of 1896). But workers may just as easily ally with other enfranchised interests, as in the New Deal coalition created by Franklin Roosevelt. Nothing in *daily life* conveys the laws governing capital markets to wage workers, who personalize their efforts to acquire wealth as a struggle against employers.

Viewed through the blinders of class warfare, policies that undermine the conditions of employment long-term are valued on their short-term impact. Thus, laws that inflate the currency, restrain trade, mandate wages and transfer wealth often prove popular among enfranchised wage workers. The structural problems introduced into the economy — reduced savings, capital flight — are not "priced" in the political system by those who have no stake in capital ownership.

This historical conundrum accounts for the psychological persistence of Marxism. The attempt to organize economic life independent of market price signals has been discredited, both in theory and in practice. But the attempt recurs in electoral politics. Class war undermined democratic capitalisms throughout their history. Thinkers on the Right regarded this structural myopia as a permanent information abyss sundering the classes that owned from the classes that earned. But when shareholding exploded at the end of the 1980s, some of us saw the wage-earning investor as the bridge across that abyss, to a post-Marxist world.

The theory of Worker Capitalism states that *as wage-earners expand their wealth-seeking activities to include capital ownership, they adopt some of the behaviors and attitudes historically associated with the bourgeoisie.* Seen in this context, the political findings in the Rasmussen survey were a mere fragment of a broader set of convergences. The most comprehensive summary of these findings to date is my own paper, “The Rise of Worker Capitalism,” published as Policy Analysis 359 by the Cato Institute (November 1, 1999). Here is a summary of some of the “bourgeois” attitudinal and behavioral shifts associated with shareholding:[10]

— asset holders are likelier to live married than non-asset holders;
— asset holders have a higher propensity to vote in elections;
— asset holders exhibit a higher level of job satisfaction;
— asset holders are likelier to identify with the interests of employers;
— asset holders favor public policies which cut taxes on savings and investments;
— asset holders are skeptical about the solvency of government entitlements, such as Medicare and Social Security; and
— asset holders are likelier to vote Republican.

A corollary to “worker capitalism” involves information acquisition: As wage-earners expand their wealth seeking activities to include capital ownership, they *actively* acquire sources of information to maximize their efficiency in their new vocation, i.e., capital ownership.

Extensive data verifies this corollary. The Investment Company Institute (representing much of the mutual fund industry) and the Profit Sharing/ 401(k) Council of America (representing companies with matched savings plans) routinely compile data on worker behavior in defined contribution plans. From this data we know:

— that workers’ participation rates in matched savings plans have increased steadily over time *at all income levels* where such plans are available;
— that workers’ are increasingly involved in evaluating investments pre-purchase, monitoring investment performance; and designing personalized investment strategies; and
— that employers are providing descriptive financial materials of increasing sophistication to their retirement-plan employees in response to demand for the same.[11]

Today, eligible working-poor families enter matched savings plans in significant numbers. When 401(k) plans were relatively new, in 1983, only 38.3% of all eligible workers participated. Now that rate is near 80%. Among workers earning $10,000-to-$20,000, the participation rate is now 46%. In other words, when the working poor are offered a voluntary matched savings plan, roughly half will participate over time.[12]

A Unique Class

How permanent is the American worker’s “love affair with markets”? Do worker capitalists comprise a new class in history, or do they merely recapitulate a periodic speculative exuberance of the American economy?

From the days of Albert Gallatin, profit-sharing plans, including payments of company stock, have existed in the American workplace. And from the Civil War onward, America had the world's most sophisticated infrastructure for capital diffusion. The North's military campaigns were financed by firms which mass-marketed public debt on low commissions — a daring innovation for its time. After the war, the nationwide sales infrastructure created by the bond house barons — Jay Cooke and a handful of others — provided the backbone of the American securities industry. Once established, these brokerages could handle the mass marketing of stock issues and private bonds as well as government issues.[13]

The earliest surveys of asset ownership, compiled in the 1930s, found roughly 10 percent of Americans holding company stocks and 12 percent holding bonds.[14]

A small number of influential companies used profit sharing and company stock to sweeten employees' compensation packages. These early plans emphasized a worker's unity of interest with his employer. But he chief impediment to the expansion of worker-capitalism was the literal-mindedness of its exponents. The employee's status as "capitalist" was captive to the fortunes of a single company — his own! Thus, many early profit-sharing experiments perished in the stock crash of 1892. Later, the market meltdown of 1929 liquidated about 70% of such plans.

This history is unlikely to repeat. Two technical innovations distinguish the current tide of worker capitalism from its predecessors. Both render worker investments more secure.

The first innovation was the rise of the defined contribution plan as the preferred successor to defined benefit (DB) pension plans. Under DB programs, union representatives negotiated specific benefit packages with employers, who then assumed full fiduciary responsibility for funding the benefits.

The capitalist crisis of the mid-1970s forced corporate America to obviate a sustained negative return on capital. With entire sectors of corporate America verging on collapse, industrial managers saw pension liabilities as an impediment to necessary restructuring. The replacement of DB programs with Defined Contribution (DC) plans became a top business priority. Under DC plans, workers assumed fiduciary responsibility for their own pension accounts. Typically, an employer would match a portion of what the employee set aside for his own retirement. Both employer and employee contributions were tax sheltered, providing the worker an additional incentive to save, and the employer an incentive to shift a portion of total compensation toward pensions. The DC fund itself was the individual private property of the employee, subject only to penalties for early withdrawal. And his was the fiduciary responsibility. The ultimate size of his retirement benefits depended on the performance of his plan assets during his working years.

The unions assumed this meant that pensions would be underfunded. Corporate leaders, seeking relief from one more bankrupting work rule, didn't care. But neither the captains of labor nor of capital anticipated what happened next. By incorporating capital ownership into the wage structure on a massive scale, these plans created a nation of capitalists, each plotting to maximize his-or-her return. In under two decades, history's first mass class of shareowning wage earners emerged, as DC participation grew to 55 million. (A benchmark for comparison: In France, where the unions successfully fought them, less than 1 percent of the working population is covered by DC plans.)

The realized rate of return on DC plans soon exceeded that of their DB progenitors. Moreover, workers flooded their personal DC plans with new savings. From 1983 onward, pension assets grew lustily, in aggregate, median and average.[15]

The second technical innovation — one which preceded the DC revolution, but exploded because of it — was the mass marketing of mutual funds. Mutuals provided workers with a direct, personally owned price signal that (unlike individual stocks) encompassed a broad swath of the international market. These funds, indices of capital ownership, rose or fell in value as free market policies advanced or receded. Moreover, the worker's capital involvement was insulated from the vicissitudes of any individual company — including his own.

Under the new regime of mass shareownership, responsibility for the welfare of capitalism was universalized within the proletariat. And for the first time in history, wage earners received genuine price signals regarding the welfare of that system. They received them literally, in the mail. They were called "monthly statements." The mutuals funds in DC plans became revolutionary tools of worker-investor consciousness.

These technical innovations occurred fortuitously in the midst of the greatest bull market in history. The Soviet collapse stimulated trade and currency reform throughout the developing world by eliminating "East-versus-West" military alliances as the basis for international transfers of capital. To attract private foreign investment, Third World regimes had to stabilize property rights and media of exchange. The resultant reforms expanded markets globally — a development highly advantageous to companies that produced goods and services efficiently, and to investors holding their shares.

Simultaneously, the technological revolution in computation triggered a sharp increase in worker productivity, which boosted inducements to invest.

Investor-side Supply-side

The theory of worker capitalism spawned a strategic approach called *investor-side supply-side incrementalism*. On the Right, the new thinking grew out of an uncomfortable recognition that supply-side politics had stagnated in the post-Reagan era. The same tax cut initiatives that removed some 33% of American families from the income tax rolls damaged the political prospects of reforming — that is, rationalizing — the tax code through a single low rate broadly applied. Supporters of worker capitalism argued that the essential goals of supply-side economics — a tax system that is lower and flatter in an economy that is less regulated — could be achieved by popular programs that reduce taxes on savings and investment.

Indeed, the argument on the Right between supporters and opponents of asset-formation policy centers on this point.[16] Supporters of investor-side supply-side contend that most so-called "flat tax" proposals, including those of Steve Forbes and Dick Armey, aim primarily at eliminating double taxation on investment. For instance, a tax rate that exempts 33 percent of families before kicking in a rate of 17 percent can be called many things -- but “flat” is not one of them. What it proves is that “flat tax” proponents can hire polling consultants as well as their foes. A true flat rate on income would be far lower, even if it were revenue-neutral. But such a rate would raise taxes for the millions of families who currently pay no income tax at all.

Proposals like Forbes’ really *would* flatten the existing rate structure. But they do it somewhat differently than advertised. The flat-taxers eliminate (or severely curtail) the taxation of investment income. This means that as an individual’s pattern of wealth acquisition shifts proportionally toward investments, away from wages, his effective tax rate will decline. As the breath and depth of worker capitalism increase, the progressivity of the code would decline overall — a goal conservatives applaud.

Recognizing the *essence* of the flat-tax strategy, investor-side supply-siders called for an end to the single-rate fetishism which sacrificed achievable goals of investment tax relief to unachievable goals of flat rates on earned income. We reasoned that the swelling ranks of investors created an historic opportunity to create a tax structure *both* lower and flatter. The core of the strategy was to rewrite the tax code to exempt much or all investment income from taxation. Then, as the mix of wealth generating activities of American workers shifted inexorably from wages to investment income, the structure for lower and flatter effective rates would be in place — in effect, a kind of reverse “bracket creep.”

A capital-friendly tax code is a principal goal of all supply-siders. We reasoned that as taxes are reduced on all forms of savings — retirement, health care, education, job training, home ownership — the scope of the income tax could be restricted to income retained for ordinary consumption expenditures in a yearly cycle. In effect, it would become a tax on “consumed income” — a backdoor approach to a pure consumption tax.

Legislative Strategy

Our congressional tactic is to place policies that incentivize self-investment into direct budgetary competition with programs that encourage programmatic government spending. Right wing proponents of asset incentives therefore advocate Educational Savings Accounts, Medical Savings Accounts, Personal Retirement Accounts (both inside and outside Social Security), and Universal IRAs, which fuse several long- and intermediate-term savings goals. (Individual Development Accounts are a form of Universal IRA.) Our agenda also includes expanded deductions for popular savings vehicles, such as IRAs, Roths, stock options, 401(k)s, and other DC plans, as well as tradition Republican policies to index capital gains while reducing the rates applied to them.[17]

Investment-side tax cuts create a terrain subtly advantageous to conservatives. Advocates of government spending programs use two tactics to expand them. First, they *broaden* the class of persons to whom transfer payments are available. Second, they *deepen* the recipients’ benefits. For instance, a housing program may initially convey a 20 percent subsidy to developers who service areas where the mean income is 70 percent of the official poverty rate. A year later, program advocates may recommend subsidies for areas where the mean income is, say, 85 percent of the poverty rate — that is, they attempt to *broaden* the program constituency by *diluting* its purpose. That done, advocates will attempt to enlarge the subsidy itself, say from 20 to 25 percent — that is, they'll *deepen* the benefit. As the years roll by, you may find a transferrable 50 percent developer subsidy "targeting" people earning 200 percent of the poverty level!

By this process, traditional spending programs, whether Headstart or HUD, are reduced to imbecility over time, servicing middle-class constituents with steep transfer payments siphoned through a bloated vendor bureaucracy. And in truth, the worse a program becomes, the more unassailable its position politically. It's constituency has been "widened and deepened" into permanence.

When one considers investor-side supply-side programs, the form is the same, but the substance is reversed. Take education savings programs — Coverdell accounts, as we call them, after the late Georgia senator who was their champion. They're a work in progress. The initial bipartisan program sheltered investment earnings tax free in an account dedicated to college education. In 1999, Republicans attempted to broaden the program's constituency by including tuition to elementary and secondary schools among the educational purposes to which tax sheltered funds could be applied. The G.O.P. leadership also deepened the benefit by increasing the annual contribution limit from $500 to $2000. In this form, the bill passed Congress handily, with considerable Democrat support, before President Clinton vetoed it.

In his campaign, George W. Bush not only revived the Republican plan, but expanded it. He proposed to hike the annual contribution limit to $5,000.

Al Gore countered with a different program — the 401(j) account. But Gore also broadened the program's constituency, expanding permissible tax sheltered uses of the accounts to include job training and adult education. And Gore also deepened the benefit, creating a generous matched savings plan financed with tax credits.

An expanded education savings program will soon become law. Regardless of its partisan parentage, it will both cut taxes and voucherize educational choices. And a broadened constituency will be mobilized to preserve its deepened benefits. Tactically, Coverdell's idea will advance through Congress like any spending program. Indeed, the green-eye-shades at CBO will score it as a "tax expenditure."

But how different the effect! To the extent that the purpose of the original ESA has been diluted, individuals will enjoy greater freedom over their education spending rather than less. And to the extent that the benefit has been enlarged — broadened and deepened — the amount of untaxed earnings will expand, rather than contract.

To summarize: Deepening the benefits of incentivized savings means expanding the tax cuts or credits that finance them. Broadening the base of beneficiaries means increasing the constituency for such tax cuts or credits. And diluting the purpose of such programs means perfecting the privately held financial assets they "create" (i.e., refund) as genuine private property, unrestricted by programmatic considerations. What started as a social program evolves into a tax cut.[18]

Investment incentives thus bear the same relation to the State as a virus to a computer, growing at its expense. Over time, incentivized savings programs will privatize functions of government and the taxes that pay for them piecemeal, through the ordinary workings of politics. The political code is the same — but the effect is the opposite, increasing freedom and limiting government.

Tactical Considerations

Free market economists generally reject social engineering through the tax code. Conservative supporters of incentivized savings are often attacked by our colleagues on this basis. We respond first, that incentivized savings are a form of tax cut, albeit imperfect, and second, that the imperfections are reduced over time as the programs expand through the political processes described above.[19]

Incentivized investment policies, even restricted ones, offer a broad scope of personal choice among programmatic elements, much like the best voucher programs, and an even broader choice between savings and consumption within each particular program. The perfection of property rights over time, achieved by the cynical (and dependable) dilution of political purpose, can deregulate entire functions of government, creating genuine markets where they do not currently exist.

But conservatives certainly do not support all laws which incentivize savings. We measure both the end -- does the program extend asset holding? -- and the means -- does it compete directly with vendor-directed spending?.

In my own journal, *K.C. Jones Monthly*, I developed the following tripartite test for conservatives who wish to expand asset formation while avoiding the shoals of social engineering:

— a) Is the program a tax cut?
  Asset formation must be "incentivized" not by new spending, but by a tax reduction or tax credit. Ideally, any tax credit should not exceed the recipient's total tax liability at the level of government that issues it. Better still, eligibility should be *proportioned* to one's actual tax liability.

— b) Are the financial assets private property?
  The "program", however restricted as to time and purpose, must be delivered in the form of a financial asset that is personally owned and managed by the recipient.

— c) Does the program leverage tax effort?
  A program which incentivizes an investment account must not be used to leverage "tax effort" at the state or local level, but may — indeed, should — be used to leverage additional tax cuts or credits at the state or local level.

Tactically, conservative advocates of worker capitalism are more flexible than these criteria might suggest. Many of us, for instance, support the Bush program for Individual Development Accounts despite the fact that the tax credit goes first to a vendor.[20] Tactical flexibility derives from the understanding that the incentivized savings programs that dominate the daily agenda of investor-side supply-siders are incidental to our primary goal: *the creation of a capitalist electorate.* We recognize that asset formation creates long-term habits and interests that operate independently of any program. We hope to accelerate the creation-in-progress of a mass class of capital-owning wage earners who, once initiated, will *actively* acquire the means to perfect their understanding of markets in their new vocation as capitalists. And this in turn will stabilize the essential structures of democratic capitalism.

The goal of creating more asset holders may therefore trump certain tactical considerations listed above. The transformation of the electorate into capitalists dictates what compromises we will accept. In public policy as in other fields, a genuine market must exist before individuals become rational players in it.

Ethical Concerns

Many on the Right support asset formation policies for moral reasons. Conservatives criticized Great Society programs for encouraging long-term dependency and discouraging initiative. Policies that build habits of long-term planning through self-investment answer these objections. Moreover, matched savings plans, which require positive effort from recipients of aid, are highly popular among those Christian conservatives who admire the private welfare associations of the 19th Century.[21]
These viewpoints too have a venerable history in the American workplace.[22] In 1939, with the nation on the verge of war, the U.S. Senate invited a group of industrialists to Washington to discuss labor relations. The senators were anxious to minimize work stoppages should the nation be drawn into hostilities.

Many of these businessmen had seen their asset-sharing plans collapse during the Great Depression. Nonetheless, those who had run such programs remained enthusiastic about their potential. In deposition after deposition, they maintained that laborers, as stock owners and profit-sharers, would develop event horizons longer than a paycheck period. They further believed that through profit-sharing the material interests of labor and management would be reconciled; that labor unrest and political class struggle would decline; and that labor productivity and compensation would rise in consequence.

General R.E. Wood, president of Sears, Roebuck & Co. summarized their attitude. “We believe,” he told the Senate Finance Committee, “that a successful profit-sharing plan does increase the employees’ responsibility, it helps to avoid labor unrest and strikes, and gives the employee a feeling of greater security and unity of interest with the employer. We believe, if adopted generally, that profit sharing would lead to a more flexible wage scale. We believe firmly in the joint contribution of employees and employer. It creates a feeling of mutual responsibility and trust.”

These captains of industry persuaded Congress to allow them to write off shared profits as a wage expense, avoiding double taxation on compensation. The DC plans of today are the lineal descendants of their efforts. Such programs are now sufficiently widespread that we can gauge the accuracy of the industrialists’ forecasts.

Personal Responsibility

A representative of the Visking Company told the Senate Finance Committee in 1939: “We are inclined to believe that as the reserve in any individual employee’s account increases, he looks more and more to it as a fund which will help him in his old age.”

Indeed, the availability of matched savings inclined eligible workers to save more. Research by

James M. Poterba, Steven F. Venti, and David A. Wise demonstrates that savings in 401(k) plans represents a net increase rather than a substitute for other savings.[23] And Andrew Samwick and Jonathan Skinner found that employees are less likely to liquidate retirement accounts the longer they have participated in such programs.[24] The growing availability of defined contribution plans has correlated with a general increase in retirement savings. Contemporary workers start their savings roughly nine years earlier than their parents.

Labor Peace

The plan managers who testified in 1939 knew that profit-sharing and stock ownership plans would reduce labor strife, a rising concern at the time. “We have not had a strike in 50 years,” said Proctor & Gamble Co.’s Richard Deupress. “Our turn-over of labor is almost nothing.”

Added Frank Gannett of Gannett Newspapers: “If most of our corporations would work out such a policy, we would have few strikes.”

M. L. Joslyn, President of Joslyn Manufacturing & Supply Co., extolled the role of profit-sharing in uniting divergent interests within an organization: “A corporation has three distinct interests—ownership, management, and labor—and each of those interests is essentially selfish. There is just one way to weld them together in a common cause, by devising a plan which secures better results to all those interests at the same time... Taking away from one interest and giving to another is never going to bring that about. We believe our plan recognizes all those truths. . . That is why it works and pays.”

The growth of asset ownership among the working population has tracked, if not caused, a remarkable increase of labor peace. From 1977, the year before 401(k)s were authorized, to 1997, the number of work stoppages declined from 298 to 29. The number of workers idled by strikes shrank from 1.2 million to 339,000. Workdays lost to strikes declined as a percentage of the nations labor hours from 0.1% in 1977 to 0.01% in 1997.[25]

Security and Total Compensation

Several industrialists argued that profit-sharing and asset-distribution, by making labor costs more flexible, might help reduce layoffs and bankruptcies. At the same time, workers might derive higher total compensation. H. S. Murray, president of Kalak Water Co., provided a hypothetical case: “John Smith receives a pay of $5,000 per year. The company has had a good year, and Smith asks for an increase to $7,000. He is entitled to it, but the $7,000 may result in increasing the fixed overhead of the company to a point where it would be burdensome during subsequent and less prosperous years. When those poor years come, no executive likes to reduce salaries and wages, and usually defers doing so until it becomes necessary to take drastic action. Rather do I prefer to see John Smith continue to receive an annual stipend of $5,000 with a profit-sharing plan whereby at the end of a good year he will not only receive the additional $2,000 which he desires, but perhaps $5,000. . . . Then, if off years ensue, the fixed overhead of the company has been maintained at a point where it is bearable under adverse conditions.”

Several healthy academic careers have been launched verifying this least-intuitive of the industrialists' claims.[26] James Chelius and Robert S. Smith found that asset-accumulation plans minimized turnover in small businesses that had them, particularly during downturns in sales. Surveys conducted by Hewitt Associates for the Profit Sharing/ 401(k) council of America found that companies lacking asset-accumulation plans had labor turnover rates 66 percent higher than those that had them. And finally, a 1989 Employees Benefit Report by the U.S. Chamber of Commerce found that overall manufacturing compensation was higher, occupation-by-occupation, in firms with asset accumulation plans despite a slight deficit in hourly wages and defined benefits in companies offering such plans.

Unity of Interests

The entrepreneurs testifying before the Senate in 1939 contended that worker-capitalism improved not only a worker's character, but also his productivity. "In our estimation," a Hammerhill Paper Co. executive told the Senate Finance Committee, "based upon approximately 30 years' experience, a profit-sharing plan or bonus system. . . helped to key up the organization, has provided an incentive for extra effort, and has been a means of stimulating and maintaining high standards of quality and the elimination of undue waste." "During the short time our plan has been effect," testified the representative of Pacific Iron & Steel Company, "we have noticed a reduction in waste. Men are very much interested in keeping costs down, hence are more careful when using machines. . . [P]rofit-sharers work for the best interest of the company."

Extensive survey material from many nations confirms the common-sense contention that companies which use capital as part of employee compensation enjoy a higher level of popularity and confidence among their workers. But hard data on worker productivity, compiled by Douglas L. Kruse of Rutgers, indicates that these attitudes translate into better workplace performance in companies offering asset-accumulation plans. Surveying 500 companies, half with such plans, from 1971 to 1991, Kruse concluded that the asset-sharers enjoyed worker productivity 3.5%-to-5.0% greater than companies lacking such arrangements.

Matched Savings

The "joint contribution of employees and employer" extolled by General Wood in 1939 can be understood as raises based on the bourgeois moral virtues of long-term thrift and deferred gratification. In effect, an employer offers a higher total compensation package to employees who cultivate these virtues, against an option of a lower total compensation, but a higher take-home pay. An employee, by electing to participate in such a plan, defines himself as an individual with a long "event horizon" — someone who takes a long view of his occupation and his own life.

The degree to which asset-accumulation indicates a heightened sense of personal responsibility has hardly been studied. But what little we know indicates a positive correlation. In surveys, asset-accumulators list their goals as: retirement security, education, health care, home ownership, and business startups. They spend more of their lives married than do their fellows who do not save. Moreover, in matched contribution plans, the act of saving — of deferring consumption for a long-term goal — is itself an emblem of responsibility. This is what endears Individual Development Account programs to many social conservatives, anxious to reclaim welfare not as they have known it, but as our forefathers did.

Conclusion

Understand: Inequality no more motivates conservatives to redistribute *assets* than *income.* The view from the Right evokes a vocabulary, a material analysis, and a moral perspective utterly alien to our colleagues on the Left. We are more concerned to destroy communism than to transfer resources, more interested in reforming the poor than in subsidizing them.

We are attracted by the concept of a nation of asset holders, because we believe that an electorate so constituted will be anti-socialist. We are attracted by incentivized asset accumulation because we believe that such policies will incrementally voucherize, then privatize, the social functions government has usurped. We support matched savings plans because we believe they improve the morals of their participants.

Given these understandings, we are prepared to march arm-in-arm with our colleagues on the Left into the brave new world of worker capitalism.

Appendix
Stated Democratic or Republican Party Affiliation:
Owners of Portfolios of Stocks & Bonds => $5,000 vs Non-Owners of Portfolios

A	B	C	D	E	F	G	H	I
	# of people in sample	portfoli o holders: % GOP	portfolio holders: % DEM	non-portfolio holders: % GOP	non-portfolio holders: % DEM	gap change: (C – D) minus (E – F)	Total % GOP	Total % DEM
		% GOP	% DEM	% GOP	% DEM		%GOP	%DEM
all persons in sample	6400	*37.94%*	32.91%	*27.07%*	40.58%	18.54%	*31.60%*	36.94%
all 18-29 yrs.	1040	*33.24%*	33.43%	*22.52%*	37.49%	14.78%		
all 30-39	1059	*32.96%*	27.10%	*30.82%*	36.41%	11.45%		
all 40-49	1282	*36.58%*	33.52%	*26.17%*	43.69%	20.58%		
all 50-64	1658	*35.55%*	34.64%	*28.04%*	44.98%	17.85%		
all 65+	1361	*43.89%*	36.80%	*32.49%*	47.44%	22.04%		
all under $20k	1249	*31.63%*	43.01%	*22.16%*	46.00%	12.46%		
all $20k-40k	2130	*38.67%*	35.55%	*29.12%*	41.67%	15.67%		
all $40k-60k	1360	*36.51%*	31.40%	*27.91%*	34.92%	12.12%		
all $60k-75k	538	*44.32%*	29.09%	*32.83%*	37.26%	19.66%		
all $75k+	831	*37.58%*	31.40%	*35.10%*	26.73%	-2.19%		
all males	2525	*39.39%*	28.40%	*27.91%*	36.12%	19.20%	*32.86%*	32.26%
all males 18-29 yrs	453	*33.83%*	28.67%	*25.91%*	33.56%	12.81%		
all males 30-39 yrs	456	*41.62%*	23.12%	*30.97%*	32.42%	19.95%		
all males 40-49 yrs	541	*37.61%*	29.55%	*25.53%*	39.63%	22.16%		
all males 50-64 yrs	625	*38.15%*	29.08%	*28.61%*	41.37%	21.83%		
all males 65+ yrs	450	*45.12%*	33.04%	*30.70%*	41.97%	23.35%		
all males under $20k	403	*27.90%*	32.91%	*20.15%*	44.56%	19.40%		
all males $20k-40k	812	*38.74%*	33.05%	*32.01%*	38.14%	11.82%		
all males $40k-60k	583	*41.96%*	26.74%	*27.57%*	26.55%	14.20%		
all males $60k-75k	250	*46.22%*	21.87%	*37.63%*	27.09%	13.81%		
all males $75k+	370	*36.08%*	29.38%	*30.17%*	23.68%	0.21%		
married men	1577	*41.30%*	28.59%	*31.82%*	33.25%	14.14%	*36.51%*	30.85%
unmarried men	948	*34.95%*	27.97%	*24.13%*	38.88%	21.73%	*27.86%*	34.19%
all females	3875	*36.45%*	37.56%	*26.33%*	44.50%	17.06%	*30.43%*	41.27%
all females 18-29 yrs.	587	*32.46%*	39.81%	*19.20%*	41.33%	14.78%		
all females 30-39	603	*36.75%*	31.33%	*30.66%*	40.45%	15.21%		
all females 40-49	741	*35.45%*	37.88%	*26.76%*	47.48%	18.29%		
all females 50-64	1033	*33.06%*	39.93%	*27.61%*	47.69%	13.21%		
all females 65+	911	*42.86%*	39.93%	*33.51%*	50.55%	19.97%		
all females under $20k	846	*33.77%*	48.82%	*23.69%*	47.10%	8.36%		
all females $20k-40k	1318	*38.60%*	37.90%	*26.50%*	44.87%	19.07%		
all females $40k-60k	777	*30.84%*	36.24%	*28.26%*	43.33%	9.67%		
all females $60k-75k	288	*41.76%*	38.84%	*27.59%*	48.35%	23.68%		
all females $75k+	459	*39.31%*	33.73%	*40.72%*	30.20%	-4.94%		
married females	2422	*39.01%*	35.10%	*29.70%*	41.57%	15.78%	*33.95%*	38.43%

A	B	C	D	E	F	G	H	I
	# of people in sample	portfolio holders: % GOP	portfolio holders: % DEM	non-portfolio holders: % GOP	non-portfolio holders: % DEM	gap change: (C – D) minus (E – F)	Total % GOP	Total % DEM
unmarried females	1453	*30.24%*	43.52%	*22.30%*	48.02%	12.44%	*24.87%*	45.74%
All Whites	5339	*40.59%*	31.40%	*33.31%*	34.42%	10.30%	*36.73%*	32.96%
All Blacks	672	*20.63%*	58.06%	*5.81%*	74.34%	31.10%	*10.15%*	68.74%
Married	3999	*40.17%*	31.82%	*30.64%*	37.89%	15.60%	*35.14%*	34.90%
Unmarried	2401	*32.66%*	35.51%	*23.21%*	43.49%	17.43%	*26.37%*	39.95%
Govt employee	672	*34.41%*	38.01%	*27.34%*	48.27%	17.33%		
Private sector employee	3087	*37.05%*	30.66%	*27.81%*	37.35%	15.93%		
Retiree	1735	*40.59%*	30.60%	*22.61%*	36.80%	24.18%		

(Data from Rasmussen Research; Calculations by Author)

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