Inclusion in Asset Building: Research and Policy Symposium

Asset Based Policies for the Poor: A Perspective from the Left

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Comments

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Introduction

Advocates of asset building for the poor, such as Michael Sherraden, make a provocative and compelling case. They argue convincingly that to advocate exclusively for increasing the consumption opportunities for the poor, and to ignore asset building, is to miss a deeper understanding of poverty's causes and cures.

And yet, despite the fact that there is considerable activity in the policy area around asset building, this theme often gets short shrift in the policy debate regarding the poor. Most popular discussions about working poverty seem to focus on jobs, wages, and incomes. When most advocates for low-income families tick off their policy solutions, Individual Development Accounts (IDA's), for example, are either unmentioned or an afterthought. Why is that?

In this brief paper, I offer some thoughts on this question, from a left-leaning perspective. The first thread of the argument points out the primacy of paid employment in the current poverty debate. Welfare reform in tandem with a tight labor market and surpluses in the Federal budget provide a unique and timely opportunity to advocate for policies which improve the quality of jobs in the low-wage labor market, raise after-tax earnings, and subsidize work-related supports. In this policy climate, asset-based policy has less immediate political currency.

The next section examines two other reasons why asset-based policies too often get short shrift: the immediacy and magnitude problems. To better understand the immediacy point, I explore poverty's determinants through a common decomposition technique, and examine the extent to which savings plays a determinant role. My sense from this exercise and from the literature is that most of the poor's immediate economic problems call for income or consumption-based solutions. Of course, if the poor had the assets of the better off, many of these immediate problems wouldn't develop, which leads to the question of whether IDAs held by the poor can generate large enough savings to be as transformational as we want them to be.

Finally, I briefly examine the political economy of asset based policies for the poor. These are highly redistributive policies, and if they are large enough to make a difference, they are likely to invoke the same government dependency critique that was potently wielded against welfare benefits. In my view, that is a perfectly fine battle to have. Certainly assets have been systematically distributed away from African-American families, for example, throughout our history. But I argue that progressive policy advocates should avoid depending exclusively on redistribution through the tax system to lift the economic fortunes of the poor. The primary distribution, or market outcomes, should also be fair game.

The Primacy of Work

The contemporary debate over reducing poverty focuses almost exclusively on work in the private sector, not on savings or asset formation. This is not a new state of affairs. For the past few decades two related themes have dominated the debate over poverty policy. In fact, it is probably fair to say that these two themes have dominated the debates since the English Poor Laws and the Speenhamland Act. First, there is the issue of whether the able-bodied should be required to work. Second is the question as to whether government programs to alleviate poverty worsen the problem by inculcating dependency and other behaviors viewed unfavorably by the tax-paying public.

Regarding the first point, at least from the perspective of safety net policy, the debate appears to have been settled in favor of work. Things were leaning this way when the Family Support Act was enacted in the late 1980s, but the passage of welfare reform in 1996 sealed the deal: the solution to poverty for most able-bodied poor persons was determined to be employment, and this has come to mean employment in the private sector. In former President Clinton's original formulation, those who made good faith efforts to find jobs but failed to do so under the time limits were guaranteed some type of employment, usually "workfare," where they could work off their welfare grant through community service. While plans like this exist in some localities, the thrust has clearly been towards private sector employment.

As is now well known, the poor have responded to both this policy thrust and to the tight labor market by working more than ever before. In fact, the employment rates of low-income single mothers have reached historical highs (see, for example, Bernstein, 2000). In our recent release of *State of Working America* we show that the share of poor, mother-only families with any positive hours of work went from 50% in both 1979 and 1989 to 65% in 1998. Their average annual hours (pooling across the family) went from about 550 in those earlier time periods to 808 in 1998, close to 50% increase.[1]

Those leaving the welfare rolls have seen their earnings increase along with others in the low-wage sector, but not by much. The "leaver studies" typically find former welfare recipients in fairly rocky low-wage careers, with intermittent periods of work, hourly wages in the $7/hour range, and little wage mobility.

I stress these findings not to rehash what is at this point pretty widely accepted by most analysts but to point out that this is where I think the current policy battle is, and should be, drawn. The theme among conservatives is that caseloads are down, employment rates are up: end of story. The counter-theme among progressives is that the goal of welfare reform was not to transform the welfare poor into the working poor; it was to significantly lift the living standards of former recipients, and that hasn't happened.

If Congress wants the poor to move from welfare to work, then they have a responsibility to ensure that those who are responding to the call can at least leave poverty, and better yet, raise their incomes to levels suggested by the family budget literature. This work finds that in order to meet their basic consumption needs, working families need incomes that are closer to twice the poverty level.[2]

These facts have led to a policy environment that is more conducive to a set of "make-work-pay" policies than might have been expected given the general theme of fiscal restraint that has dominated recent policy debates. For example, a more generous Earned Income Tax Credit and a higher minimum wage are two work-related policies which may be enacted in the near future.

[1] This calculation includes those with zero hours in each time period. Omitting those mother-only families with no hours in the paid labor market, we find that average annual hours of work went from 1,020 in 1979 to 1,237 in 1998.
[2] See, for example, Bernstein et al, 2000.

Similarly, the expansion of work-supports in the form of subsidies for child care, health care, transportation, and so on, have political currency right now. Such ideas are correctly and convincingly cast in the framework noted above: Congress and state legislators have an obligation to make sure that those playing by the new rules are meeting their consumption needs. And these policies go beyond helping the poor—they also reach the near-poor.

Of course, poor families also need to meet their needs regarding savings or asset-building, but this line of argument connects less directly to the current work-centered debate.

This is, admittedly, a narrow and time-sensitive view of the current debate. Those promoting asset development take the longer view, a view that is consonant with the whole theme of saving for the future. My only point here is that I sense a significant political opening to push for policies which 1) smooth the path from welfare to work by subsidizing work supports such as child care and transportation, 2) raise workers pretax wages and 3) raise post-tax income.

It should be emphasized that work-based policies are by no means the only game in town. Welfare reform also allows states to establish IDA programs with TANF funds and discount IDA assets when determining TANF eligibility. There are also pilot programs in over thirty states, most of which target the working poor. But these programs are smaller and reach many fewer people than the work-based programs mentioned thus far (e.g., the EITC, the minimum wage, subsidized work supports). I would also argue that they do not have the same political resonance in the current debate. I would not, however, argue that they are any less important, and ultimately represent an important and overlooked aspect of the economic lives of the poor.

The Economic Constraints Facing the Poor: The Immediacy Problem and the Magnitude Problem

In an earlier life, I was a social worker in East Harlem working with poor, minority families. As you can imagine, people came to my office with all sorts of problems, but I can’t remember anyone ever complaining about their lack of assets.

This is not, of course, because they did not need savings. In fact, as the work of Michael Sherraden and others has emphasized, access to savings could clearly have solved some problems, such as the abused partner who doesn’t have the resources to move out. Yet for these economically constrained and highly stressed families, assets were an unthinkable luxury.

To my discredit, I did not think of them either. Myself and my colleagues were simply firefighters, looking to extinguish the flames of hunger, homelessness, lack of health care, abuse, etc., before they consumed our clients. Due to the immediacy of the poor’s income constraints we were—and I suspect most still are—focused exclusively on providing consumption, not savings, opportunities.

Of course, while front-line social workers and progressive policy wonks may ultimately serve the same clients, they clearly have different time horizons. But, as many IDA advocates underscore, most policy analysts continue to focus on consumption, or income-oriented solutions. Certainly part of the reason for this is our consciousness about the determinants of poverty today.

It seems axiomatic to assert that the most immediate determinant of poverty is lack of income. But a recent article on asset building for the poor stated, "For the vast majority of households, the pathway out of poverty is not through consumption but through saving and accumulation."[3] It is important to clarify this apparent contradiction.

Those for whom this quote resonates would probably argue that only by significantly increasing their earnings' capacity can the poor lastingly climb out of poverty. And to do so doesn't mean a dollar increase in the minimum wage or a program that, by providing better child care, enables one to work an extra few hours per week at a $7/hour job. It means being able to finance a college education, relocating to a better neighborhood, maybe even starting a new enterprise. Such arguments certainly make sense, but can we learn anything from the literature on poverty's determinants to assess the validity of this reasoning?

One way to frame this research is in terms of micro and macro factors. At the micro level, the most important events associated with lifting families out of poverty tend to be earnings or transfer gains and family structure changes. At the macro level, the strength of real economic growth and the distribution of that growth are the key determinants.

A typical analyses of poverty's determinants take the form of Table 1, from Mishel et al, 2001 (this table decomposes changes in the rate of poverty, but it could easily be applied to levels as well). Each entry in the table represents the contribution to the change in the family poverty rate due to the named factor. For example, over the full 29 year period covered by the table, educational upgrading by family heads lowered poverty by 3.9 percentage points, while "family structure" (the shift to family types more vulnerable to poverty, such as single-parent families) added 3.1 points. On the macro side, economic growth lowered poverty by 4.3 points, but inequality's growth, particularly in the 1980s and 1990s, more than offset this effect.

Perhaps more convincing research on poverty's determinants comes out of longitudinal studies which follow families over time.[4] These studies also find the family structure changes, such as marriage or a child leaving home, and earnings gains are most highly associated with poverty exits.

It is not obvious what one learns from these studies about the lack of assets as a poverty determinant, but such information is, to some extent, embedded in the results. For example, the race result in Table 1 is of course driven by the fact that minorities have higher than average poverty rates and their share of the population has increased over time. But it is not ordained from above (or below) that minorities should have higher poverty rates than whites. It is, in large part, a legacy of discrimination, a factor that has clearly had devastating effects on the ability of minorities to build assets.

Perhaps it is most elucidating to look at the "big ticket items"—the largest entries—in the table, and evaluate them in terms of assets. On the poverty reducing side, these are the education levels of family heads, and the overall growth in the economy. Leading to higher poverty are the growth of income inequality and family structure, or the increase in single-parent families.

[3] Boshara et al, pg. 11.
[4] See, for example, OECD, forthcoming.

Other than education, none of these factors seem *directly* related to asset building (though, as in the case of race, connections can be made). Building human capital through education is, of course, a major goal of such programs, and in this sense, it is clear that the lack of human capital is an asset that has historically been in terribly short supply among the poor.

Nevertheless, as the table shows, we have made progress on this front. Over the 29-year period covered by the table, family poverty rates were lower by four percentage points thanks to the educational upgrading (and thus, higher earnings) of family heads. This is the result of a long-term trend, a huge national investment of hundreds of billions of dollars in building human capital.

Two points emerge from this analysis. First, from the perspective of immediacy, asset building cannot quickly put out the flame of poverty and economic despair. That task lies with income and consumption related policies. Once the flame is extinguished, assets can help ensure it doesn't re-ignite.

But second, once we relax the immediacy criterion, the role of asset-building becomes clear. A low-skilled person with savings can become more highly skilled. An impoverished family with unstable housing can move to a better home in a better neighborhood, something that appears to be associated with better outcomes in the longer term.[5]

These laudable uses of assets raise the magnitude problem, i.e., given their income constraints, even with generous matches, how likely is it that the poor can save enough for these large investments? Many advocates of IDAs to whom I have spoken are quite candid about these limitations. It is common for them to stress that the income constraints facing the poor and the cap on most IDAs make it unlikely that a poor family will get very far towards meeting the costs of college education, home ownership, or starting a business. One recent study found that IDAs were leading to saving in the neighborhood of between $20-$30 monthly, which, with a generous three-to-one match could lead to $1,000 a year of savings.[6] This is by no means trivial, but it is unlikely to foot the bill for the kinds of investments that can change the economic trajectory of a poor family. This estimate is also an upper bound. According to another recent study, it is not even clear if IDAs, as currently implemented, are leading to increased savings, compared to the savings that would have occurred in the absence of the program.[7]

Thus, IDA policies will have to become much more generous if they are going to be truly "transformative." Yet, if they are reach such magnitudes, will they run afoul of the second historical theme noted above: inculcating dependency? Will taxpayers support this high level of redistribution? I turn to these questions in a final section.

[5] See Rosenbaum and DeLuca, 2000.
[6] See Center for Social Development, 2001, Executive Summary.[MS and LM: correct me if I've got this wrong]
[7] [MS and LM: As I recall this came from a paper presented by Stegman—can you confirm that I've got this right and give me the citation?]

The Political Economy of Asset Development

As articulated in this volume, there are good socio-political reasons to support asset based policies for the poor. Pride of ownership, a sense of future opportunity, the ability to accumulate human capital or to save for a big ticket necessity—all of these are part of middle-class and up consciousness and lead to a sense of economic security that I suspect is absent for many poor families.

But there are some important political/economic connections that asset-based policies fail to make. First, wage-based policies unify the working class in a way that asset-based policies do not. In fact, it is worth noting that many right-wing advocates support IDAs, because they think such policies will connect low-income persons with more of an "ownership" consciousness and less working class solidarity (see Richard Nadler's piece in this volume). On the other hand, one of the potential outcomes of welfare reform is the unification of the poor and the broader working class in a way that previously did not exist. To the extent that poor persons, who previously had sporadic experience in the labor market, move towards full-time, full-year work, their political consciousness may converge with persons higher up the wage scale (but still below the median). They will potentially become more familiar with and concerned about the variety of economic trends which have negatively affected the working class, from wage inequality to macro-policy. They are also becoming targets for unions focusing on organizing the low-wage labor market, such as the Service Employees International Union.

One can imagine a working-class coalition of workers coming off welfare, unionists, immigrants, living and minimum wage advocates, and other groups of traditionally low-wage workers (such as minorities). In the current type of political climate, the first call for such a coalition, I suspect, would be for their "fair share" of economic growth through higher wage rates. That is, their initial target is likely to be the primary, not the secondary distribution of wages or incomes, the latter being the target of the asset-based approach.

This raise the important point that asset-based policies for the poor are purely redistributive (the same can be said for the EITC). Most progressives are, of course, very comfortable with this aspect of the policy, but my view is that it is a mistake to depend exclusively on redistribution through the tax system, as opposed to policies like wage mandates or collective bargaining which redistribute the gains of productivity growth through the primary distribution, or market outcomes.

Progressive social policy has become too complacent about accepting market outcomes. With the exception of the minimum wage, which doesn't get a lot of support from even progressive policy analysts, today's strategy might be characterized as "let the market do its thing; we'll fix it with the fisc." This view seems to maintain that if inflation-adjusted low-wages start to fall again, as they have for most of the past twenty years, we'll get them to raise the EITC again, or we'll push for higher matches in our asset plans.

There are two reasons why this strategy is problematic, at least for the foreseeable future. First, to consistently push for ever more redistribution risks raising the dependency critique which was wielded so potently during the welfare reform debate.

Second, to uncritically accept market outcomes unnecessarily limits both the debate and its potential outcome. We should reject the neo-classical notion that any intervention in the primary distribution leads to sub-optimal outcomes. This is not always the case regarding economic aggregates (GDP, productivity, job growth) and it's much less so regarding distributional outcomes. While some interventions could reek havoc—a $15 hour minimum wage would surely lead to job losses—others can improve living standards of low-wage workers without negatively affecting market outcomes, or at least affecting them such that the benefits outweigh the costs. As former labor secretary Ray Marshall likes to say, "Sometimes the free hand is all thumbs."

Expounding on my current favorites, in terms of policies that affect pretax wages, is beyond the scope of this paper. The list would include minimum wages, unions, and full employment policies. But the point here is that asset-based policies which are purely redistributive cannot be the only part of the puzzle.

Conclusion

Nobody, of course, thinks assets are the only answer to all the poor's problems. I'm sure most progressive advocates feel as I do that asset building is one leg of the stool. We should avoid the either/or trap, one which those of us who focus exclusively on wages, income, and short-term consumption fall into too often.

Asset-based policies for the poor obviously deserve our attention, focus and support. We should continue to evaluate them and expand the ones that seem most effective. At the same time we should recognize their limits. The contemporary policy debate focuses primarily on the labor market and this offers a unique political opening to push for measures to improve the performance of the low-wage labor market. Also, the immediacy of consumption deficits among the poor continues to militate for the primacy of the income-based approach.

This does not imply a secondary role for asset building—it just states that you need to put out the fire before you start building the new house. Which raises the point that for IDA's to realize their stated goals, they will need to be more generous. This suggests a bold redistributive agenda, one which is worth supporting, but one which will engender strong political opposition from conservative forces. Thus, progressives cannot simply accept market outcomes and dedicate ourselves to repairing the damage in the secondary distribution. We need also to alter the power dynamics of the current economy so that the fruits of economic growth are more fairly divided.

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Table 1 The Impact of Demographic and Education Changes on Family Poverty Rates				
	1969-79	**1979-89**	**1989-98**	**1969-98**
Actual Change	-0.5	1.2	-0.1	0.5
Total Demographic Effect	0.5	-0.3	-0.4	-0.2
Race	0.3	0.4	0.3	1.0
Education	-1.6	-1.2	-1.0	-3.9
Family Structure	1.9	0.7	0.5	3.1
Interaction	-0.2	-0.1	-0.1	-0.4
Economic Change	-1.0	1.4	0.3	0.8
Growth	-1.5	-1.3	-1.5	-4.3
Inequality	0.5	2.7	1.8	5.1

Source: Mishel et al, 2001.