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From Asset Building to Balance Sheets

A Reflection on the First and Next 20 Years of Federal Assets Policy

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The views expressed in this paper are my own views, and not necessarily the views of the Federal Reserve Bank of St. Louis or the Board of Governors of the Federal Reserve System.

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Introduction

In spring of last year, Michael Sherraden invited me to give a guest lecture in his “Asset Building Research, Innovation, Policy, and Practice” graduate school seminar at Washington University in St. Louis. The day’s topic was asset building and public policy, and he had asked me to talk about what we had accomplished, what we had learned, and where assets policy might be headed. I also used the opportunity to make a brief observation about policy innovation. After the lecture, Sherraden asked me to consider writing up my lecture for publication, which I was pleased to do.

I had recently moved to St. Louis after spending the better part of the previous 20 years in Washington, DC, where I had focused my work on advancing asset-building policies for the poor. Stated simply, I had been eager to take Sherraden’s seminal idea, as outlined in *Assets and the Poor* (Sherraden, 1991), and make it a reality among policymakers in Washington.

Between 1990 and 2010, I was fortunate to have worked for Congressman Tony Hall (D-OH), Chairman of the Select Committee on Hunger in the U.S. Congress, Bob Friedman at CFED, and Ted Halstead at the New America Foundation—all true visionaries who recognized both the power of Sherraden’s idea and enthusiastically encouraged me to pursue it, committing staff and other organizational resources along the way. I was also grateful for the leadership of several foundations that were eager to invest in policy efforts to build assets for the poor through my work and the work of many others. Needless to say, the accomplishments the field realized over these last two decades belong to many.

This paper is not a history of the development of the idea or the field,¹ nor does it document every single asset-building policy or regulation proposed, advanced, or achieved. Nor do I attempt to make the case for asset-building policies here—although such arguments are well justified, given that current public policy allocates up to \$548 billion per year to help mainly higher-income households build assets, while doing relatively little for lower-income families (CFED, 2010; Cramer et al., 2012; Sherraden, 1991). Rather, this is a reflection on my nearly 20 years on the “front lines” in Washington, DC, trying to advance Sherraden’s account- and savings-based policies to build assets for the poor. I convey history only as necessary to make some larger narrative or point about federal

¹ See Sherraden (2000) and Miller-Adams (2002) for good summaries of the early evolution of the asset-building field.

assets policy. I was both a witness to, and modest participant in, ushering in this new paradigm for inclusive development, and hope that my reflections offer some value to future efforts to build assets and stronger balance sheets for the nation's poor.

The First 20 Years

Below I discuss the first ten years (1990-2000) of federal assets policy, followed by the next ten years (2000-2010), encompassing the Administrations of George H.W. Bush, Bill Clinton, George W. Bush, and Barack Obama.

The first decade: 1990-2000

Sherraden's idea first appeared on my desk in 1990, before *Assets and the Poor* was published, in the form of articles he wrote for CFED (Sherraden, 1989), the Progressive Policy Institute (Sherraden, 1990a), and *Social Services Review* (Sherraden, 1990b). I had been asked by Chairman Tony Hall to read and talk to people with the hope of finding new ideas to end hunger and poverty, not just alleviate it. Perhaps due to my background in accounting, the idea of focusing on savings and assets, and not just income, made sense to me. I called Sherraden and invited him and Bob Friedman to meet with Chairman Hall for breakfast in the U.S. Capitol. That meeting led to the drafting in 1991 by all four of us of what seven years later would become the bi-partisan Assets for Independence Act (U.S. Congress, 1998), or AFIA, which authorized \$25 million per year to test and expand Individual Development Accounts, or IDAs, nationwide. Another outcome of the meeting was the first Congressional hearing (U.S. Congress, 1991) on assets and IDAs, convened in October 1991 by Hunger Committee Chairman Hall and Ranking Minority Member Bill Emerson (R-MO).

As the Congressional record makes clear, asset building had already attracted the attention of Democrats and Republicans alike (notably Congressmen Fred Grandy (R-IA) and Mike Espy (D-MS) and Senators Jack Danforth (R-MO) and Bill Bradley (D-NJ)); the Bush Administration (especially HUD Secretary Jack Kemp and White House staffer James Pinkerton); the Congressional Black Caucus; and major national publications including *The Washington Post*, *The Chicago Tribune*, *The National Journal*, and *The New York Times*. Early support for asset-building policies at the state and federal levels centered on microenterprise development, raising asset limits in AFDC (now TANF) and other "welfare" programs, and IDAs. Most of the focus was on working-poor adults, although it is often forgotten that Sherraden's original conception of IDAs was for a universal savings account at birth, now often called children's development accounts (CDAs) or children's savings accounts (CSAs), which did not receive any serious attention from policymakers, funders, or the field until the early 2000s.

One of the reasons Sherraden's idea caught on was that poverty debates were focused on welfare reform or, as President Clinton put it, "ending welfare as we know it." Many policymakers and journalists were thus receptive to new ideas to combat welfare and poverty (which, at the time, were

often equated). Many will recall that it was largely the political right (like Fred Grandy and Jack Danforth), centrists (like Tony Hall and Bill Bradley), and “New Democrats” (such as Bill Clinton and Mike Espy) who were challenging the status quo and appeared most open to new ideas, including Sherraden’s.

The political left, meanwhile—perhaps as the architects and guardians of the nation’s modern welfare state—seemed the least receptive to new ideas, including asset building for the poor. Many left-leaning academics, non-profit leaders, and Members of Congress were, in fact, dismissive, and even hostile, to Sherraden’s ideas—despite the fact that Sherraden has never advocated for reductions in income support; in his view, asset building and income support were always complements. Many on the political left purported to know what was best for the poor, and what the poor were capable of. It was not uncommon for me and Sherraden to hear comments—including from Representative Tom Downey, the chairman at the time of the powerful subcommittee in Congress that oversaw the nation’s welfare system—such as, “If the poor could save, they would not be poor,” or, “If they can’t buy shoes, how can they save?”

Nor was it just Congress that had serious reservations about Sherraden’s ideas. There was, for instance, much tension at a roundtable in New York City organized by the Ford Foundation—an early and highly influential investor in the field—where Sherraden presented *Assets and the Poor* to some of the nation’s leading left-leaning academics and non-profit leaders. Also, when Clinton signed the welfare overhaul in 1996 (U.S. Congress, 1996), the Administration officials who resigned in protest expressed skepticism about proposals to help the poor save and build assets. Alvin Shorr (1991), a self-declared “unrepentant liberal” who reviewed *Assets and the Poor* for *The New York Times Book Review*, voiced deep skepticism and lectured Sherraden on what poverty was and how to fix it. Melvin Oliver and Thomas Shapiro (1996), authors of the prize-winning and highly influential *Black Wealth/White Wealth*, relayed similar stories to me of their efforts to promote the asset-building perspective among the left.

How to gauge these differing reactions among the political left and right? To begin with, the left’s resistance confirms, at least for me, how radical Sherraden’s idea was when it was first proposed. It is, of course, not uncommon for the “establishment” of any field to reject a new way of thinking about a long-standing problem or challenge. For instance, last year’s recipients of the Nobel Prizes in Chemistry (Dan Shechtman) and Physics (Saul Perlmutter, Brian P. Schmidt, and Adam G. Riess) were ridiculed and even shunned for years by their peers for the very ideas that ultimately earned them the Prizes (Chang, 2011; Overbee, 2011). As Kuhn (1962) has noted, the process by which new paradigms come to be accepted often requires the supporters of the old paradigm to grow old and pass from the stage.

Meanwhile, the positive reception of some centrists and members of the political right to the asset-building idea reflected their location outside (or partially outside) the dominant paradigm, or outside what Kuhn called the “normal science.” They were willing to consider new ideas, including

Sherraden's, amidst the perceived failures of AFDC/welfare to reward work and reflect the values of the American social contract. Asset building, by contrast, appeared to reward saving and lead to financial independence, values in line with the social contract. Ideas have value in and of themselves, and can be judged purely on their merits, but their receptivity depends on timing and their relation to the existing paradigm.

Yet, even among enthusiasts, and certainly among skeptics, it was clear that data were needed to show that the poor could, in fact, save if offered the opportunity. Accordingly, CFED and Center for Social Development (CSD) at Washington University's Brown School raised funds from several foundations to launch the American Dream Demonstration project in 1997, which tested nearly 2,400 IDAs in 13 sites nationwide (including one experimental site in Tulsa, Oklahoma).² In ADD, savings of the working poor were matched over a 24-month savings period on a 2-1 basis, with allowable uses for first-home purchase, small-business development, and post-secondary education and training—the “big three” (Center for Social Development, 2003).

Later on in this essay I will discuss the impact of the ADD results on the direction of the field but here I would like to reflect on the interesting reaction to IDAs and ADD among policymakers. Proponents of the five-year, \$125 million Assets for Independence Act, led by Senator Dan Coats (R-IN)—which became law in 1998, one year after ADD was launched in 1997—felt that IDAs were too powerful an idea to limit to the 2,400 accounts ADD was just starting to test. The reaction was *not*, “Well, let's see how that demonstration turns out, and then we'll consider doing more.” Meanwhile, Senators Joe Lieberman (D-CT, at the time) and Rick Santorum (R-PA) heard about IDAs and said, essentially, “This idea is way too good to limit to the ADD and AFIA demonstration projects.” Accordingly in 1999, only a year after AFIA become law, Lieberman and Santorum introduced the Savings for Working Families Act (SWFA), which authorized \$12.5 billion in federal tax credits to financial institutions that set up and matched IDAs (U.S. Congress, 1999).³

Earlier that same year, just up Pennsylvania Avenue, Treasury and White House staffers, including Cliff Kellogg, Michael Barr, and Gene Sperling, had learned of the *preliminary* ADD finding that low-income workers in ADD were saving about \$30 per month. This finding, among other things, led to the call by President Clinton in his 1999 *State of the Union* for over \$500 *billion* for Universal Savings Accounts (USAs), matched savings accounts geared toward retirement for lower- and moderate-income workers (Clinton, 1999).⁴ Clearly, the policy was way ahead of the practice.

² CFED conceived and organized ADD; CSD conducted research; and 12 private foundations provided funding: the Ford Foundation, Charles Stewart Mott Foundation, Joyce Foundation, Citigroup Foundation, Fannie Mae Foundation, Ewing Marion Kauffman Foundation, John D. and Catherine T. MacArthur Foundation, Levi Strauss Foundation, Rockefeller Foundation, Moriah Fund, and the Metropolitan Life Foundation.

³ Credit for the idea of an IDA tax credit to financial institutions belongs to Professor Michael Stegman, then director of UNC's Center for Community Capitalism and now policy director at the MacArthur Foundation.

⁴ Perhaps not coincidentally, CFED had issued a report in 1996 calling for “Universal Savings Accounts” for the entire population, although under CFED's proposal withdrawals were permitted for both pre-retirement and retirement assets.

The day after the State of the Union, the White House called and said, “OK, we’ve teed up USAs for you—now we need you to work out the details.” Rather fortuitously, the same day I received that call, CFED and CSD had convened the inaugural meeting of the “Growing Wealth Working Group”—an attempt to bring about 20 of the best minds together to discuss larger-scale asset policies—so the USAs policy design opportunity presented to me was relayed to them.

USAs, however, ultimately failed due to political tensions between Democrats and Republicans in Washington, as did Clinton’s similar \$54 billion proposal for Retirement Savings Accounts (RSAs) in 2000. Nonetheless, the progress was remarkable: Between 1997 and 1999, the field went from a few million for ADD, tens of millions for AFIA, a few billion proposed under SWFA, and several hundred billion proposed under USAs. And both USAs and RSAs laid the foundation for the more modest “Savers Credit” signed into law in 2001; efforts to reform and expand the Savers Credit continue to this day.

During this period, some questioned the ability of existing asset-building interventions to reach scale, while others offered different policy routes to scale—that is, how to cost-effectively deliver matched savings to millions, not just thousands, of low-income persons. At the 1999 IDA and assets conference convened by CFED in Washington, two keynote presentations challenged, even unsettled, the field. First was Peter Tufano’s “cookies” speech, where he compared the labor-intensive cookies his mother made—IDAs—to the mass-produced, lower-cost, and mass-marketed “Oreos” the field needed to make. Tufano’s argument, essentially, was that if the field wanted to be serious about reaching scale, it had to consider lean and cost-effective financial products—to move “from a program to a product,” as Deidre Silverman of Alternative Federal Credit Union put it in her comment from the floor. Then, in a rather surprising keynote that followed Tufano’s, Senator Rick Santorum—while very supportive of IDAs and the overall goal of widespread wealth creation—argued for a very different approach to wealth building on a broad scale: “privatization” of Social Security. Under this proposal, younger workers would be given the option of directing some of their payroll taxes into their own accounts, meaning a reduction in guaranteed benefits later in life. This proposal was a bold “carve out” from Social Security, one in stark contrast to the “add on” approach of President Clinton’s USAs proposal.

Santorum’s challenge was not aligned with the views of most the asset-building field because it appeared to achieve asset development for the poor at the expense of weakening the social safety net. Nevertheless, his remarks further distanced the assets field from many on the left who were already skeptical that the poor could or should save their way out of poverty. For influential individuals like Bob Greenstein of the Center on Budget and Policy Priorities and Robert Kuttner of the American Prospect, Santorum’s speech raised legitimate concerns that asset building could potentially be co-opted by the right to help dismantle the American welfare system.

Other critiques from the left existed as well. Robert Kuttner, for example, once remarked to me that IDAs were “weak tea”—a small and inadequate response to big problems of wealth inequality and

lack of opportunity among the poor. Others on the left worried that because there was only so much political appetite for funding programs directed at the poor—whether income support or asset building—that the bi-partisan appeal of building assets would threaten the funding of more traditional anti-poverty programs such as food stamps, TANF, unemployment insurance, and the Earned Income Tax Credit. Although advocacy and funding for asset building never developed to a level that could seriously threaten these programs, the concern never abated.

At the dawn of the field's second decade, in short, it was for many on the traditional left to find common ground with the asset-building field, despite the fact that most of the asset-building field itself was comprised of left-leaning program operators, advocates, funders, and policy experts. And yet, in its first decade, the field had already made a significant impact on poverty, savings, and welfare state debates—despite the fact that the field's actual policy accomplishments in its first ten years were quite modest: passing AFIA, getting IDAs included in TANF, launching a small IDA program in HHS's Office of Refugee Resettlement, launching a small (though highly successful) savings program for public housing residents, and securing small and various IDA measures in several states. Yet these modest policy advances should not detract from the field's most significant accomplishment in its first decade: offering a truly new perspective on poverty and social policy debates, and bringing real attention—which continues to this day—to the size of our nation's wealth gap, which dwarfs the income gap and may be, as many in the assets field believe, more consequential.

The second decade: 2000-2010

The Bush years

In 2000, Presidential hopefuls George W. Bush and Al Gore supported IDAs—both AFIA and SFWA—in their official policy platforms, with Governor Bush even dedicating a campaign event to IDAs in Ohio. Support for SFWA, under the leadership of CFED, meanwhile, had been growing in Congress as well. The field's optimism around getting an IDA tax credit established in the tax code further increased in spring 2002 when the Senate Finance Committee, and then the full Senate, passed SFWA as part of the CARE Act, with the full expectation that the Senate bill would be adopted by the House and conference committee and then sent to the President Bush for his signature. However, the House balked and the larger tax package (of which IDAs were a small part) fell through. Despite further impressive organizing efforts by CFED over the next several years, SFWA never again progressed beyond a bill introduction. In addition, President Bush eventually withdrew IDAs from his Administration's budget, and the measure was never taken up again by the field.

Beyond IDAs. In fact, the death of the IDA tax credit marked a shift in the field to larger-scale policy efforts that generally moved beyond IDAs. Ambitious policy efforts now began to move towards tweaks and improvements to existing products, tax credits, and systems. The emerging view among

policy advocates was that we should try to make existing products *resemble* IDAs rather than *expand* IDAs. Accordingly, efforts emerged to match contributions to 401(k)s or IRAs (which have pre-retirement uses including first home purchase and post-secondary education) for low-income savers, make it easier for them to buy Savings Bonds, and open 529s at birth for all newborns. The field also developed interest in the Savers Credit (U.S. Congress, 2001), a tax credit designed to encourage retirement savings in IRAs, 401(k)s, and the like by low-income workers. The credit was already in law and targeted to low-income workers, yet its impact was limited: It was only partially refundable, provided very modest savings incentives, and was restricted to very low-income workers. The field joined forces with the Brookings Institution and other advocates to address these limitations while also proposing that the credit apply to savings for college (in 529s and Coverdell's), not just retirement savings.

Finally, the field began to focus more on the asset-building opportunity presented by the annual filing of taxes by lower- and moderate-income Americans, millions of whom were eligible for tax refunds averaging nearly \$3,000 due to the Earned Income Tax Credit (EITC). While Tim Smeeding (2000) had called the EITC and asset building a “marriage made in heaven,” that marriage was not consummated until around 2003-2004 when the tax-preparation/VITA and asset-building fields cross-pollinated and began showing up at each other's conferences. An early goal of both fields was implementing a “split refunds” policy, which enables taxpayers to automatically and easily save a portion of their tax refunds right at tax time in up to three separate accounts. Although the Bush Administration first proposed split refunds in 2004, the policy was not adopted by the IRS until 2006 with the introduction of IRS Form 8888. Since then, the field has capitalized greatly on this infrastructure, which makes it possible, for example, for a consumer to purchase Savings Bonds directly with their tax refund. Overall utilization of Form 8888, however, remains well below its potential.⁵

The Ownership Society. Although President Bush withdrew his support for IDAs, he kept the asset-building field in the spotlight with his call for an “Ownership Society,” by which more Americans would have an ownership or property stake in America (Bush, 2005). While the proposal encompassed homeownership, 401(k)s, new tax-favored savings accounts called Retirement Savings Accounts and Lifetime Savings Accounts, health savings accounts, and (early on) IDAs, his main route to broad-based ownership was, similar to Santorum's, through privatizing Social Security. Most in the field doubted that privatizing Social Security was the best route to expanding ownership opportunities to more Americans, but the idea of broad-based ownership was in line with the field's vision and provided an opportunity to argue for more inclusive wealth building. For example, I published an op-ed in *The Washington Post* entitled “Share the Ownership” (Boshara, 2005) while David Brooks, that same day, published an op-ed in *The New York Times* entitled, “Mr. President, Let's Share the Wealth” (Brooks, 2005). Both articles gave credit to President Bush for his vision of

⁵ The Doorways to Dream Fund, based in Boston, was instrumental in pioneering research and demonstration projects that made split refunds and other tax-time savings opportunities (including Savings Bonds) possible.

an Ownership Society but urged that he adopt policies, such as progressively funded savings accounts at birth for all newborns, that broaden ownership opportunities to those who own little.

The concerns and soul-searching that Santorum prompted at the 2000 IDA conference—was this an opportunity to be seized, or would the field be helping to legitimize some on the right’s efforts to dismantle the welfare state?—were alive and well with President Bush’s vision for an Ownership Society. For example, when Santorum and Senator Jim DeMint (R-SC) joined forces with Senators Charles Schumer (D-NY) and Jon Corzine (D-NJ) to introduce the ASPIRE Act in 2004 (U.S. Congress, 2004)—a significant accomplishment for the field—there were serious concerns among many in the field that the accounts ASPIRE created would be funded by “carve-outs” from Social Security, despite promises by Santorum and DeMint to the contrary. Furthermore, many on the left worried that, even if asset accounts were funded as “add-ons” and progressively, too many risks were being “individualized” instead of “pooled,” as social insurance programs are designed to do. Jared Bernstein (2006), then with the left-leaning Economic Policy Institute, called such Ownership Society proposals “You’re On Your Own,” or “YOYO,” economics.

Finally, President Bush’s emphasis on an Ownership Society reflected a transition toward policy based on ideology rather than evidence. By this I mean that public policy matters were largely driven by their affinity to an overall ideology, in this case “Ownership,” and less by an allegiance to research and data. (Of course, the assets field itself was driven by a similar powerful idea, although we worked hard to ensure that our policy efforts were guided by research and demonstration results.)

From ADD to SEED: Accounts at birth proposals emerge. With ADD successfully completed in the early 2000s—although research continues to this day tracking some longer-term outcomes⁶—the field turned to child savings accounts, or CSAs. The SEED Initiative, led by CFED and the Ford Foundation, along with many other partners and funders, was launched in 2003 to test CSAs in community-based organizations around the country as well as to inform and advance a national CSA policy.⁷ Around the same time SEED was getting underway, Congress began taking an interest in CSAs through a variety of proposals—some automatically creating accounts at birth, some opened up voluntarily, a few focused on pre-retirement assets, and others focused just on retirement. These proposals spanned liberal Democrats, such as Hillary Clinton and Chuck Schumer, and conservative Republicans, such as Rick Santorum, Jim DeMint, and Jeff Sessions (Cramer et Al., 2007). A Senate Finance Committee hearing on building assets (U.S. Congress, 2005), convened by Senator Santorum, highlighted the ASPIRE Act. The Bush Administration, largely due to the advocacy of

⁶ See the research of Michal Grinstein-Weiss at UNC-Chapel Hill, and many others, for assessments of the longer-term impacts of IDAs on homeownership, retirement, social well-being, and other outcomes.

⁷ The SEED Policy & Practice Initiative was a partnership between funders, CFED, the Center for Social Development (CSD) at Washington University in Saint Louis, University of Kansas (KU) School of Social Welfare, New America Foundation, Aspen Institute Initiative on Financial Security (IFS), and several community partners. For a full list of funders and partners, and summary of lessons, see http://csd.wustl.edu/Publications/Documents/SEEDSynthesis_Final.pdf

Bush senior advisor and speechwriter Michael Gerson, included universal CSAs at birth in the 2005 State of the Union, but the proposal was deleted in the final moments due to objections from the White House economic team (Gerson, 2007).

At the state level, the Center for Social Development launched the “SEED for Oklahoma Kids,” or “SEED OK” Initiative,⁸ to experimentally test 529s at birth, while Maine offered a 529 at birth for each newborn using private funding. California managed to get a bi-partisan CSAs at birth bill introduced, a remarkable feat in California, but its backers quickly dropped it when anti-immigration forces and budget-hawks noisily objected.

Meanwhile, also around this time, the UK’s Labour Party, under the leadership of then-Prime Minister Tony Blair, began pulling together what was to become the Child Trust Fund. The Child Trust Fund set up savings accounts at birth for each of the roughly 700,000 children born in the UK every year, beginning in 2002, but unfortunately ended in 2010 upon the election of the Coalition Government (Cramer, 2007; Sherraden, 2001, 2002).⁹ (Interestingly, the Conservative Party supported the Child Trust Fund, but funding was curtailed by the Chancellor of the Exchequer, a Liberal Democrat). Also in the 2000s, other nations and municipalities outside of the US launched or refined their CSA policies, adding even further momentum for these proposals worldwide (Loke & Sherraden, 2009).

While nothing became law in the US, this impressive progress in just a few years revealed three insights. First, the bi-partisan appeal of asset-building was strongly affirmed even as bi-partisanship began to fade in the mid-2000s and the proposals rose well into the multi-billion dollar levels. Second, though, that very bi-partisanship could fade when the proposals are too ambitious or are perceived as too much of an entitlement. For instance, when Hillary Clinton entered the race for the White House and inadvertently called in a 2007 public appearance for \$5,000, instead of \$500, at birth for all newborns, her “Baby Bonds” proposal quickly became a divisive political issue that resulted in both her and many Congressional Republicans distancing themselves from the idea. (When no Democrats could be summoned, I was left to defend the Baby Bonds proposal on national television, in a debate with Stephen Moore of *The Wall Street Journal*.) And third, as Fred Goldberg, Bob Friedman and I (2010) discuss in a separate article, we learned that we have to be clear on the problem we are trying to solve—poverty, inequality, savings, financial literacy, child poverty, lack of productive assets, reducing reliance on government? We tried all of these such that

⁸ See <http://csd.wustl.edu/AssetBuilding/SEEDOK/Pages/default.aspx> for more information on SEED OK.

⁹ The first influence of IDAs in the UK was the creation of the Savings Gateway—matched savings accounts by the poor, similar to IDAs in the US. Pilots for the Savings Gateway were very successful, and it was set to roll out to the whole county, but was also curtailed in 2010.

CSAs became a solution in search of a problem—and, politically, a proposal that solves everything solves nothing.¹⁰

CSAs also presented a number of challenging policy design issues that the SEED Policy Council worked thoughtfully through, resulting in a statement of principles to guide CSA policy design. To this day, however, the field has not reached consensus on the best product design, the extent to which the public and private sectors are leveraged in account creation and implementation, or how we would propose that Congress pay for CSAs for all newborns.

What generates savings? Moving beyond the match. Another important development impacting the direction of federal assets policy was the gradual shift away from the centrality of the savings match. From the field's inception in the early 1990s, the match was seen as the best way to incentivize savings, accumulate assets, and inject a dose of equity and fairness into existing asset policies which heavily favor higher-income households. The IDA match was a way to lay the groundwork for a more “inclusive” asset development policy, one in which savings subsidies were available to the entire population, not just to higher-income households. To this day, matches remain critical for accumulating sufficient savings to purchase an asset and for achieving fairness and a more inclusive economy—and, for these reasons, securing matched savings deposits in public policy should remain a central goal of the field. However, three developments gradually led to the realization that the match was not necessarily the best mechanism for generating savings.

First was the ADD finding (Schreiner, Clancy, & Sherraden, 2002) that showed what while matches were effective in attracting low-income people to IDA programs, they were not the most important predictor of saving. Rather, features such as match caps (the total amount matched, as opposed to the match rate), automatic deposits, and other program features mattered more in generating savings in IDAs. These programs characteristics are, in fact, part of a larger “institutional” theory of savings developed by Sherraden, Sondra Beverly, and others (Beverly & Sherraden, 1999). Second was the growing influence of behavioral economics, which was demonstrating the power of defaults, “nudges,” and “hassle factors” in generating savings (Thaler, 2000). Similar to Sherraden's institutional view of savings, behavioral economics found (and continues to find) that small changes in program design can yield relatively large changes in savings behavior, even among low-income households. Finally, the advent of budget deficits in this decade forced the field to develop policy strategies (such as “split refunds”) to generate savings that did not depend on federally funded matching deposits—especially new public matching funds, which had proved to be difficult to secure even with budget surpluses earlier in the decade.

¹⁰ Interestingly, “building savings and financial literacy” proved to be among the most effective solutions for promoting CSAs among policymakers—these were problems Congress *already* recognized and wanted to solve, so our task was to sell just the solution instead having to sell the problem *and* the solution. Similarly, college savings accounts at birth seem to be perceived as an effective solution to the college debt and affordability problem, but broader-purpose accounts at birth (as in the ASPIRE Act), even though it included withdrawals for college, was not. The problem-solution link had to be direct.

Not just long-term assets, but unrestricted savings as well. Another surprising and constructive development affecting federal assets policy was a growing recognition of the importance of unrestricted, emergency, or flexible savings for low-income families. This development was in contrast to the field's original focus on long-term asset accumulation (i.e., first home, higher education, and small-business). In fact, this restricted focus on long-term assets was critical to the political appeal of IDAs: These are the kinds of assets that promote more self-reliance and less dependence on government, while also buttressing the equity argument that the non-poor receive generous tax-breaks for accumulating these very assets. Yet evidence of the need for more flexible, short-term savings was compelling: In ADD, for instance, about two-thirds of the participants took unmatched withdrawals, forfeiting a 2-1 match, just to have access to their cash (Schreiner, Clancy, & Sherraden, 2002). Meanwhile, scholars such as John Caskey and Michael Barr were beginning to seriously study alternative financial services and the unbanked, while new organizations, such as Center for Financial Services Innovations (CFSI), launched and led by Jennifer Tescher, were seeing how lack of cash and other factors were driving low-income families to check-cashers, pay-day lenders, and the like. Eventually, the field began working more closely with the Center for Responsible Lending and other organizations that were attempting to regulate or slow the growth of providers of alternative financial services.

One of the results of this new emphasis was the development of the “AutoSave” proposal and demonstration project in 2006 by Reid Cramer at the New America Foundation. AutoSave, which models in many ways the successful “Auto401(k)” experience, called for and tested automatic payroll deductions into unrestricted savings accounts held by financial institutions outside the workplace.

Further attention was also devoted to capturing tax refunds for the purpose of accumulating unrestricted cash. This work inspired New America to develop the “Savers Bonus” proposal (Newville, 2009), which matched the savings of low-income tax filers who saved for shorter-term needs (through shorter-term Certificates of Deposit and Savings Bonds) as well as savings for longer-term needs. Building on the Savers Bonus idea was the “\$AVE NYC” demonstration project pioneered by Jonathan Mintz and Cathie Mahon of New York City's Office of Financial Empowerment. \$AVE NYC showed that low-income people can, with proper incentives and program features, successfully save for shorter-term purposes at tax time (Black & Cramer, 2011). Interest in developing liquid and financial assets has continued to this day, recognizing that more liquid assets cushion families against financial shocks, reduce reliance on alternative providers of financial services, promote access to mainstream financial services, and provide the savings necessary to get the “big three” assets—a home, an education, or a small business. Politically, however, it is hard to imagine securing matching funds for unrestricted savings at least among federal policymakers, since tax breaks are conditioned upon saving for certain assets.

The Obama years

The Obama years also marked another series of transitions in federal assets policy, some due to the advent of the Obama Administration itself, others the result of further learning in the field, and some due to changes in the broader economy. With the exception of the “Ownership Society,” the key developments of the Bush era continued to influence the direction of federal assets policy in the Obama Administration.

Bush v. Obama. From an asset-building policy perspective, a few things distinguished the Obama Administration. First, and in sharp contrast to the Bush Administration’s emphasis on ideology, was an emphasis on evidence-based policymaking. I recall attending several meetings at the White House in the early years of the Obama Administration where I and my New America colleagues were grilled about the evidence to support our ideas on CSAs, tax-time savings, and the like. Ideology, other than the President’s notion of helping struggling (and mostly middle-class) families move forward, was not a factor. Second, this Administration did not just embrace behavioral economics, but hired some of its most prominent academics—including Cass Sunstein and Austin Goolsbee—to run key White House offices, while keeping Richard Thaler and other top-tier behavioralists in close contact. Their ambition was (and remains) to apply behavioral economics not just to savings policy but to health, environmental, and other policy areas as well.

Third, and unlike the Clinton and Bush Administrations, the Obama Administration never really embraced “asset building” per se, but has vigorously embraced some of the field’s longer-term goals for low- and moderate-income families. These include (a) promoting financial access and capability, including the testing of the new “MyAccountCard” smart card, the promotion of “Bank On” campaigns nationwide, and “SaveUSA” pilot grants to promote saving at tax time; (b) expanding post-secondary education access and completion opportunities, especially through an historic expansion of Pell Grants, better-priced student loans, and “Race to the Top” grants throughout the country; (c) promoting retirement security among low- and moderate-income workers through reforms to the federal Savers Credit and the creation of “AutoIRAs”; and (d) proposals to raise asset limits in a wide range of public assistance programs (Cramer & Black, 2011).

And while not calling for matched savings per se, the Administration’s promotion of improvements to the federal Savers Credit—which, as mentioned, matches the retirement savings of very low-income workers—reflected its interest in subsidizing savings at the low end. Again, the field has lent its voice to this effort in Congress while simultaneously calling for the credit to apply to contributions to college savings accounts as well. Unlike the Bush Administration, child savings accounts were not of interest to this Administration, in part due to the resistance of then-OMB director Peter Orszag and current senior economic advisor Gene Sperling, both friends and strong allies of the field who strongly preferred savings subsidies targeted to workers instead of children. However, the Obama Administration was instrumental in enabling taxpayers to buy Savings Bonds

directly at tax time through the use of the “split refunds” tax form and, more recently, permitting taxpayers to buy Savings Bonds for children or others.

Homeownership and the financial crisis. The Administration’s advocacy of homeownership has, naturally, been ambivalent in light of the housing and foreclosure crisis. Their efforts, not yet fully successful, have been directed toward stopping foreclosures, refinancing existing troubled mortgages into ones with better rates, and—more successfully—organizing forums about what a “responsible” homeownership policy might look like in the years ahead.

Yet the housing crisis, and resulting significant reductions in homeownership and financial wealth across all households from 2007-2009, had a more immediate and soul-searching effect on the field: It called into the question the very rationale of the field—to build wealth for lower-income families. The field was not to blame for this, of course (although some on the political right tried, incorrectly in my view, to blame CRA), and could legitimately point to studies showing that wealth-building can be done responsibly. Good examples include Self-Help’s 50,000-plus families in the Community Advantage Program, who repaid their loans and saw their home equity increase over the last several years (Quercia, Freeman, & Ratcliffe, 2011). Another is the CFED-Urban Institute IDA study, which found that low-income homeowners who participated in programs providing extensive financial education and matched savings on their down payments were two to three times less likely to lose their homes in the recent wave of foreclosures than similar families in the same communities (Rademacher et al., 2010). Few Americans doubt, however, that assets matter, but the downturn has generated some productive discussions within and well beyond the assets field about *how* to best achieve building wealth, for whom, and at what point in the life cycle. This crisis, of course, paved the way for the creation of one of the Administration’s signature accomplishments, the new Consumer Financial Protection Bureau.

Finally, with the economy falling into the “Great Recession” beginning in late 2007, promoting *savings* by households was not received with enthusiasm given significant policymaker efforts to increase *spending* to boost the economy. What may have been right for households and for the economy over the longer term was not right for the economy at that moment—an embodiment of the “paradox of thrift” that Keynes popularized. Naturally, most families in the US started in 2008 to do what was right for them by paying down their debts and rebuilding their savings—or “deleveraging”—but this certainly was not going to be subsidized by Congress. The Obama Administration has now even dropped its support of the Savers Credit in its most recent budget, although it continues to promote “AutoIRAs” (automatic payroll deductions into privately held IRAs for workers lacking access to 401(k)s), whose impact on the federal budget is more modest.

Overall policy progress, 2000-2010

As mentioned at the opening of this essay, I do not attempt to capture all of the field’s accomplishments. To see these in great detail, one should read the *Assets Report*, published annually

by the New America Foundation, beginning in 2004. Here I want to step back and highlight some of the overall progress the field has made in the last decade.

As I stated, the field ended its first decade with modest actual policy accomplishments (measured in terms of funding allocated by Congress), and meaningful impacts on poverty, social policy, and inequality debates. The field's second decade, however, saw some real and measurable policy progress (including the creation of the Consumer Financial Protection Bureau), while the field itself, as I have just shown, productively charted new directions in federal policy in light of research findings, hands-on experience, and overall changes in the financial sector and broader economy.

The field also broke more regularly into mainstream media, with several of the field's program operators, policy advocates, accountholders, researchers, and others being featured much more frequently in *The New York Times*, *The Los Angeles Times*, *The Washington Post*, CNBC, CNN, National Public Radio, *The Atlantic Monthly*, *Esquire*, and the like. These had a huge effect in popularizing the idea of asset building and giving it further credibility among policymakers.

During the Bush Administration, and with its support, the field had some noteworthy accomplishments. These include (a) implementing "split refunds"—a major, low-cost accomplishment that could generate billions of dollars in new savings at tax time by low-income families; (b) excluding college and retirement savings accounts from determining eligibility for the food stamp (or SNAP) program, as signed into law in the Farm Bill; (c) the creation of the federal Savers Credit, discussed already, which matches retirement savings by low-income workers; and (d) getting several bi-partisan, multi-billion dollar CSA bills introduced in Congress, as well as helping to inspire and inform the launch of the Child Trust Fund in the UK. Finally, while the field cannot claim credit for this, the passage of the Pension Protection Act of 1996 removed some of the legal roadblocks for employers to adopt "opt-out" 401(k) policies—another low-cost policy change that, according to the Brookings Institution, was poised to generate over \$40 billion in new retirement savings by low-income workers (although actual savings have not been measured, to the best of my knowledge).

Finally, the most significant policy accomplishment for the field during the Obama years thus far has been, in my view, the creation of the new Consumer Financial Protection Bureau, which holds significant potential for protecting and building wealth for low- and moderate-income families in the US. Given the larger number of Administration briefings provided by the asset-building field, the existence of explicit wealth-building directives in the Consumer Financial Protection Bureau (CFPB), and the number of positions within the Administration and CFPB now filled from the ranks of the assets field, I think it is fair for the field to take some credit for this major accomplishment.

The Next 20 Years: From Asset Building to Balance Sheets

Economic context

Three inter-related trends are likely to shape the economic context in which the field will advance federal assets policy—budget deficits, slow economic growth, and financial insecurity reaching well into the middle class.

First, as many budget experts point out, rapidly rising health care costs and the aging of the population (exacerbated by the Great Recession) are the main drivers of long-term budget deficits while, most experts agree, both higher tax revenues *and* spending cuts are needed to bring the budget back in balance. Yet any consensus on raising taxes seems elusive, unfortunately, meaning that most significant budget cuts will come from spending cuts—and *not* to more politically protected mandatory spending programs (especially the “big three” of Medicare, Social Security, and Medicaid). Instead, spending cuts will be focused on the discretionary spending programs that support education, environmental protection, housing assistance, public safety, and most of the public safety net programs that low- and moderate-income Americans rely on (Emmons, 2011a). With a shrinking public safety net and overall fewer investments in education, housing, economic development and the like, families will need to save and invest more to achieve financial stability and mobility.

Second, overall economic growth, which generally boosts household incomes, is not likely to be strong over at least the next several years. As my St. Louis Fed colleague William Emmons (2010, 2011b) observes, the economic recovery and high levels of unemployment are likely to be “prolonged and painful” due, in the near term, to the lost consumption associated with higher saving and greater debt repayment—or “deleveraging”—by households,¹¹ and, over the longer term, as our nation seeks new models of economic growth to stimulate demand. Moreover, he argues, Americans must save more while policymakers must regularly balance the budget even in the face of “looming deficits of unprecedented size.” As of this writing, there are some signs of modest recovery, but nothing appears on the horizon to resolve these longer-term, structural issues about the sources of economic growth and employment in the US.

Moreover, even when the economy does start growing again, reports on growing inequality over the last generation show that the gains are not broadly shared. Most recently, the non-partisan Congressional Research Service (Hungerford, 2011) showed that after-tax income for the top 1% of taxpayers rose a dramatic 74%, on average, between 1996 and 2006, while the top 0.1% nearly doubled their income over that decade. Meanwhile, the bottom 20% of taxpayers saw their income fall by 6%, while those in the middle experienced a gain of only 10%. Interestingly, over that time frame, higher earners derived less of their income from wages (falling from 35% to 25%), and

¹¹ McKinsey (2009) estimates that every percentage point increase in the savings rate results in \$100 billion of lost consumption.

dramatically more from their assets: income from capital gains and dividends grew by nearly 7.5 percentage points to 38.2% of earnings. With roughly half of all Americans lacking financial assets (Bricker et al., 2011), and the likelihood that wages will not increase in any meaningful way for workers in the years ahead, there is little reason to believe that whatever economic growth the US may achieve in the next decade or longer will deliver much income growth to the majority of American households.

Not surprisingly, increasing inequality has also resulted in a growing number of financially unstable families, with nearly half of all households experiencing instability or feeling economically fragile. For example, almost half of all households surveyed in the 2009 Survey of Consumer Finances (SCF) had less than \$3,000 in liquid savings (Bricker et al. 2011). Nearly half of all Americans consider themselves financially fragile, meaning that they would “probably” (22.2%) or “certainly” (27.9%) be unable to come up with \$2,000 in 30 days to cope with a financial emergency (Lusardi, Schneider, & Tufano, 2011). Similarly, almost half of all Americans report having trouble making ends meet (Lusardi, 2011). And the Census Bureau (2011) recently reported, in the new Supplemental Poverty Measure, that nearly half the United States lives within 200% of the poverty line, or just under \$45,000 per year for a family of four.

In sum, three inter-related trends—diminishing public safety nets and investments, slow or stagnant economic growth, and a rising number of Americans experiencing financial insecurity—bring three implications for the future of the asset-building field. First, Americans are going to need to save and invest more to achieve economic security and mobility—they will, like better-off Americans, need to derive more of their income and security from what they own, not just what they earn. Among other things, this suggests the development of assets earlier in life, better returns on the savings and assets low-income families own, and supplementing labor-market income with income derived from the ownership of small and micro-businesses.

Second, those same Americans who need to save and invest more will have a harder time doing so, forcing the field to be creative about the strategies we pursue. A great example of this type of innovation, and among the ways the field will reach scale, is the “Supervitamin” idea being advanced by Jonathan Mintz, the Commissioner of New York City’s Department of Consumer Affairs (Mintz, 2011). Under this approach, asset building is integrated (as part of a “5-step program,” for instance) into city-run programs combating homelessness, domestic violence, drug addiction, and the like. The “Supervitamin” of savings and financial stability cuts across and can help ameliorate these and many other social problems. Another interesting and promising innovation is the “Refund to Savings” or “R2S” initiative pioneered by Michal Grinstein-Weiss of UNC-Chapel Hill, Dan Ariely of Duke, and the Intuit Corporation, which together are testing savings and debt reduction

“prompts” in Intuit’s TurboTax tax-preparation program. R2S is leveraging the tax-filing moment, IRS form 8888, and the vast, private sector reach of TurboTax.¹²

Third, the field’s reach and relevance have moved beyond low-income families to the bottom half of the American population, making new political opportunities possible. The recent and widespread attention to growing inequality in America, the “99 percent,” the racial wealth gap, the “shrinking middle class,” and the elusive American Dream are all, in my view, manifestations of financial instability working its way up the income ladder and spurring more and more Americans to press policymakers and Presidential candidates for solutions. These solutions are not likely to be asset building per se, but will likely—as indicated in President Obama’s (2011) speech in Osawatomie, Kansas—focus on helping Americans save, reduce their debts, get their kids to college, pursue homeownership (for those ready and able), and secure a comfortable retirement. Accordingly, the field’s opportunities in the years ahead lie in leveraging these efforts, *grafting* progressively funded accounts and programs onto larger policy efforts aimed at restoring the middle class. The field should not, just to clarify, expand its reach to include the middle class; rather, the focus on targeting the middle class by policymakers presents a great opportunity for the field to ensure that policies to reach further down the income ladder are *included* in measures to address rising middle class financial insecurity.

From asset building to balance sheets

This broader economic context in which American families must manage their finances should encompass a broader context at the household level as well: the entire balance sheet. By balance sheets, I mean a household’s financial services, savings, debts, and assets.

This balance sheet approach, in fact, allows us to understand the recent financial crisis as a series of balance sheet failures. Looking back over the last decade, we have now seen the immense damage to families, communities, and the broader economy when we, as a nation, were not sufficiently attuned to four balance sheet challenges facing American households: (1) reliance on wealth-depleting financial services; (2) low levels of savings; (3) high and risky levels of consumer and mortgage debt; and (4) no diversification of assets beyond housing (Boshara, 2011).

The effects have been devastating. When the housing bubble burst, the wealth of many households plunged, leaving balance sheets, according to some economists, at a historic low. For instance, Mian and Sufi (2010) report that both household debt-to-income and household debt-to-assets ratios reached their highest points since 1950, with the debt-to-income ratio skyrocketing from 2001 to 2007 by more than it had in the prior 45 years. While balance sheets have improved somewhat in the last couple of years, financial instability remains severe among the poor and persons of color, and reaches into the middle class. For example, three-fifths or more of families across all income

¹² See <http://assets.web.unc.edu/files/2011/07/Proceedings-Report.pdf> for more information about R2S.

groups, according to the 2009 Survey of Consumer Finances of the Federal Reserve (Bricker et al., 2011), reported a decline in wealth between 2007 and 2009, and the typical household lost nearly one-fifth of its wealth, regardless of income group. Also, the Pew Research Center (Kochhar et al., 2011) finds that, in 2009, typical net worth stood at \$5,677 for blacks, \$6,325 for Hispanics, and \$113,149 for whites.

Moreover, recent research shows that weak balance sheets contributed significantly to the financial crisis and economic downturn of the last few years: According to economists Mian and Sufi (2010), 65% of the 6.2 million jobs lost between March 2007 and March 2009 are due to household “deleveraging”—families needing to reduce their debts (especially mortgage debt) and rebuild their savings. And weak balance sheets remain at the core of our economic downturn. Christine Lagarde (2011), head of the International Monetary Fund, remarked last year: “Today, the headline problems are sovereigns in most advanced nations, banks in Europe, and households in the US...the fundamental problem is that weak growth and weak balance sheets—of governments, financial institutions, and households—are feeding negatively upon one another.” Central to the balance sheet challenge is mortgage debt: roughly three quarters of all debt is mortgage debt, and nearly one in four homes with mortgages have negative equity (CoreLogic, 2011; Federal Reserve, 2011).

So if we can understand the financial crisis and then the economic downturn as a series of *reactions* to balance sheet failures, then it makes sense to think about *proactively* rebuilding the American balance sheet to help both households and the broader economy move forward. The four balance sheet failures must be turned into four balance sheet challenges and opportunities. Specifically, we must: (1) improve access to wealth-building financial services; (2) generate savings, especially unrestricted savings and savings that lead to productive assets; (3) reduce consumer and mortgage debts; and (4) use savings and “good” debt to secure a diversity of assets.

The balance sheet approach seems appropriate, too, for the emerging economic era I just outlined: families need to derive more of their earnings, security, and mobility from what they own while living in an economy that makes that difficult. That is, families cannot afford high levels of debt with little savings; cannot afford to have all their assets in housing; and cannot afford the pay-day lender on the corner when they need reasonably priced small-dollar loans from their community bank or credit union. They need, in other words, to look at their *entire* balance sheet, and how all the pieces fit together.

And this integration is how, in my view, the field needs to think of its challenges in the years ahead. Thankfully, the field appears to be naturally and constructively moving in this direction already, given the broad and expanding scope of the field and the wide range of conferences, working groups, research projects, advisory boards, etc. affecting the balance sheets of struggling Americans.

Ten promising directions for stronger American balance sheets

With this balance sheet approach in mind, I would like to suggest ten promising, longer-term directions for the field for the next 20 years. Note that these ideas in no way represent everything that could be or needs to be done; several organizations, representing a wide range of work affecting the American balance sheet, have laid out detailed policy agendas including, for example, the Assets Agenda of the New America Foundation. Nor does this list simply recycle the range of ideas I offered in my “Building Assets Through the Life Course” paper published as a New America Fellow last year (Boshara, 2011). Nor do I believe that federal policy development and action, while necessary, are sufficient; clearly, much more, including building public support for our ideas, will be critical.

Instead, based on my reflections on the field’s first 20 years, and in light of where I think the economy is headed and the balance sheet approach I recommend, I offer what I think are ten promising and interesting directions that sometimes challenge the field to rethink why we matter and how we can achieve a more inclusive assets policy for millions of Americans.

1. Why we matter. Asset building has proven to be relevant to a number of problems and debates among policymakers, whether it be savings, ownership, poverty, or financial literacy, among others. Yet “asset building” itself does not appear to be the strongest framework or argument for why this idea matters, at least in Washington. Nor do I think being a solution in search of a problem, which we tried in our efforts to promote CSAs, is a sustainable strategy—although a certain degree of nimbleness is always necessary in a political setting. But what framing could be effective? Through my service on the Advisory Board of Pew’s Economic Mobility Project, I have come to see (a) why, from a research perspective, assets matter for economic mobility, and (b) how powerful this framework is for bringing Democrats and Republicans together.¹³ As mentioned earlier, we will be more effective if we provide a solution to a problem Members of Congress and the White House *already* want to solve, instead of trying to sell them on both the problem (poverty, asset poverty, inequality, etc.) *and* the solution. Finally, while I have only recently begun this work at the Fed, I believe that—especially as we search for new drivers of economic growth, and a growing number of weak balance sheets are inhibiting economic growth—we must show, with greater research and quantitative rigor, why healthy balance sheets matter for the nation’s economic growth and well-being. Although some research in this area already exists (such as Mian & Sufi 2010), much more needs to be done. In fact, Daron Acemoglu and James Robinson (2012), in their insightful new book *Why Nations Fail*, show that the wealth of a country is most closely correlated with the degree to which the average person shares in the overall growth of its economy. This, they demonstrate, is achieved through inclusive political and economic institutions, which often involve some degree of property or asset ownership.

¹³ This was demonstrated in a recent front-page story in *The New York Times* (DeParle, 2012), which showed that everyone sees “not moving up the economic ladder” as a problem the nation needs to solve.

2. Further strengthen the assets and education link. While I recommend the overall framework of economic mobility to promote assets, it is well documented that post-secondary education specifically is among the key drivers of both economic mobility and a nation's overall economic prosperity. And, as demonstrated most recently in a series of papers authored by William Elliott¹⁴ and by several studies published by the Center for Social Development,¹⁵ there is a growing body of research showing how savings and assets matter for college access and completion—that dedicated college savings accounts help forge what researchers (Elliot III et al., 2011) call the “college bound identity.” Several initiatives are bringing the assets and post-secondary education worlds together, with much hope and enthusiasm. The Department of Education, for example, announced last September that 42 of its 66 “GEAR UP” grants will provide college savings accounts to at-risk middle school children nationwide.¹⁶ A few years ago, the College Board (2008) recommended low-income students receive “Early Pells” in the form of deposits into college savings accounts. Forward-looking demonstration projects, especially the CSD-led “Seed for Oklahoma Kids” is testing the effectiveness and scalability of the 529 platform for college savings. Also, the Partnership for College Completion aims to integrate college savings into more traditional college-readiness programs for more than 6,000 kids in KIPP charter schools in five cities;¹⁷ the Mississippi College Savings Program is setting up college savings accounts for over 700 low-income children in early childhood centers throughout the Delta;¹⁸ and San Francisco will offer a college savings account to every kindergartner by the end of 2012 through the “Kindergarten to College” program.¹⁹ These and other research and policy development efforts are well warranted and are likely, in my view, to lead to greater knowledge, better public policies, and ultimately better education and mobility outcomes for potentially millions for lower-income children and youth.

3. Engage in our nation's homeownership debate. The housing crisis, while far from resolved, has spawned a constructive debate about the future of homeownership policy in the US—a debate to which the assets field cannot afford not to contribute. Certainly our economy will never fully recover until we reduce excessive mortgage debt and strengthen the housing sector. Yet, because of the housing crisis, many might too easily dismiss homeownership as a route to wealth creation for lower-income families, and some may try to unfairly undermine our nation's progress on expanding homeownership among non-whites. These would be mistakes. We must remember that, historically, homeownership has been an effective route to wealth accumulation and upward economic mobility for generations of families, including and especially for low- and moderate-

¹⁴ See http://assets.newamerica.net/publications/policy/why_policymakers_should_care_about_childrens_savings for links to all the papers in the “Creating a Financial Stake for College” series.

¹⁵ See <http://csd.wustl.edu/AssetBuilding/Pages/ABPubs.aspx> for a full list of CSD's publications regarding assets and college access and completion.

¹⁶ Press release available at <http://www.ed.gov/news/press-releases/new-gear-grants-awarded-help-more-275000-middle-schoolers-get-pathway-success-co>

¹⁷ See <http://www.partnershipforcollegecompletion.org/>

¹⁸ See http://cfed.org/blog/inclusiveeconomy/mississippi_college_savings_account_program_launch/

¹⁹ See <http://www.k2csf.org/>

income and minority families. Going forward, then, our responsibility is to promote responsible paths to homeownership for those who are ready and qualified, with a more clear understanding of both risks and rewards for all stakeholders. This field, with its experience with IDAs and SELF-HELP's secondary mortgage program, has much to say, especially since families will now need to bring both savings and more "readiness" to the table. My colleagues at the Board of Governors of the Federal Reserve (2012) released a white paper earlier this year about the issues and tradeoffs policymakers must consider for homeownership policy in the years ahead; a similar paper, building on the homeownership experience of the asset-building field, would be an ideal place to begin for the field's important contribution to this consequential debate.

4. Engage the Consumer Financial Protection Bureau. The field needs to be heavily engaged in the direction of the Consumer Financial Protection Bureau (CFPB), not just in its creation. While real threats to its scope and power exist, the CFPB is currently poised to have a significant impact on the existence and regulation of products that are essential to protecting and rebuilding American balance sheets. Research findings and evidence, especially, will be crucial to the direction and impact of the Bureau.

5. Contribute to research and discussions on how to distribute the downside of risk. In my view, skepticism still remains around the very wisdom of advocating for wealth-creation strategies among lower-income families in light of the massive loss of wealth in the last five years—and we need to take these concerns seriously. In addition to getting the products, counseling, and "skin in the game" right, we should think more seriously about how to distribute the downside risks of asset-building policies more equitably. There should not, of course, be a risk-free asset development strategy—one should be subject to risks if one can reap rewards, but risks should be more equitably distributed. For example, it was largely low- and moderate-income and minority Americans who suffered the wealth losses associated with the 30% decline in housing prices since 2006, while of course reaping few of the benefits. Can there, then, be a way to insure against such losses, which would benefit both households and the economy? Barry Bluestone (2011) at Northeastern University proposes the creation of a federal "home price insurance" program, which would charge a \$500 fee that covers 80% of any loss in home value for homes kept for at least three years. Similarly, Robert Shiller (2003) in his book, *The New Financial Order*, also offers new public and private insurance schemes to help families insure against losses of livelihoods and homes due to economic changes beyond their control. A roundtable discussion on this topic, hosted by the assets field, might be highly instructive.

6. Promote assets early in life. I am among those who still believe that the field's best idea is to start asset building as early in life as possible, given what research has found about the power of the "asset effect" thus far and the opportunity to accumulate meaningful savings by age 18. However, many remain skeptical, believing that, for instance, subsidies are better targeted at workers (Sperling and Orszag), families and communities (the Annie E. Casey Foundation), or towards other programs aimed at poor kids (the Children's Defense Fund), although, to be sure, these efforts may be seen as

complementary instead of competitive. We may never fully win these arguments; however, most importantly, we need to continue to test and generate evidence, learning from SEED, SEED for Oklahoma Kids, Kindergarten to College, and other efforts to make the case that something like the ASPIRE Act or 529s at birth merit further attention from policymakers nationwide. We also have to address the CSA product challenges, which have bedeviled many CSA demonstrations thus far. Along these lines, the President’s Advisory Council on Financial Capability recently and officially (on April 9, 2012) recommended that Treasury and Congress consider a “Kids Roth”—a slightly modified Roth Individual Retirement Account (IRA) that permits children, on a voluntary basis, to open and make contributions to a life-long, tax-benefited account that can also be used for postsecondary education and homeownership, as current Roth IRAs allow (Beck & Boshara, forthcoming). The creation of such a nationally sanctioned product directed at kids would likely cost the federal government little but would spur further experimentation around CSAs by the field, financial institutions, financial educators, and others. A Roth at birth would also provide a national product into which public seed and matching deposits could be made, should federal funding opportunities arise.

7. Get financial access right. In the “balance sheet” approach that I recommend above, my view is that getting financial access right is the *sine qua non*: If we cannot get access to mainstream financial services right, then we cannot get the rest of the balance sheet—savings, good debt, and a diversity of assets—right. Thanks to the leadership of CFSI and others, the field has made enormous progress on this front. From them we have learned that we must not just look to banks and credit unions, whose roles remain crucial, but to other distribution channels such as retailers (e.g., Wal-Mart and K-Mart), pre-paid companies, mobile platforms, web-based services, and payment and benefits systems, which are innovating and bringing down transaction costs at a breathtaking pace. Direct deposit, for example, holds enormous potential to foster financial inclusion: research shows that it predicts mainstream banking, account longevity, better credit scores, and the likelihood of having longer-term savings such as for college and retirement—yet only 44% unbanked consumers receive paychecks via direct deposit, compared to 70% nationwide (Schneider & Hachikian, 2009). The field may want to consider conducting a national direct deposit campaign with employers, financial institutions, and non-profits, and then leverage that platform for asset-building opportunities.

8. Promote unrestricted savings. Just as financial access may be the *sine qua non* of healthy balance sheets, unrestricted savings may be the “connective tissue” linking efforts to reduce predatory lending, build financial access and capability, stabilize households facing job losses or health emergencies, and make longer-term investments in an education, home, business, or retirement. Perhaps no other issue holds the potential to bring together these four areas or “sub-fields” into a powerful coalition. The need is well documented: Several recent studies found that roughly half of all American households lack sufficient savings or liquid assets: CFED (Brooks and Wiedrich, 2011) reports that 43% of Americans are “liquid asset poor”; the Federal Reserve (Bricker

et al., 2011) found that almost half of all households had less than \$3,000 in liquid savings, and, as mentioned earlier, Lusardi, Schneider, and Tufano (2011) found that nearly half of all Americans “probably” or “certainly” would be unable to come up with \$2,000 in 30 days to cope with a financial emergency. Finally, the Consumer Federation of America (Fox, 2007) found that families earning \$25,000 with no emergency savings were eight times as likely to use payday loans as families in the same income bracket that had more than \$500 in emergency savings. While the need is clear, the strategies are disparate: Policymakers need to raise asset limits in public assistance programs, boost the EITC and better connect it to savings accounts (building on the “\$aveNYC” program), and clarify consumer protections around emerging cards and technologies. Employers need to encourage direct deposit and embrace innovations like AutoSave, while financial institutions need to promote innovations like D2D’s “prize-linked savings” as well as profitable but responsible small dollar lending and savings programs (Lopez-Fernandini, 2009). It seems like a “Cash Coalition” or working group that brings the various stakeholders together would be a constructive next step.

9. Think small. As I have noted before, the field has been surprised at how much savings can be generated even among lower-income households without a match or new public outlays but with small changes in existing products, tax credits, and systems. With austerity becoming the “new normal” in Washington—even Senator Dan Coats (R-IN), the champion of the Assets for Independence Act, no longer supports IDAs because he now claims to be more fiscally conservative—it behooves the field to dedicate serious thought to the next “split refunds” or “auto 401(k)” —low-cost regulatory and policy changes that yield billions of new savings. I have mentioned some of the lower-cost innovations already, many of them driven by employers or financial institutions: direct deposit, pre-paid cards, AutoSave, prize-linked savings. And, as I have stated, I believe tax-time strategies—such as the Refund to Savings Initiative—have only just begun to deliver on their immense promise. Yet some of these innovations need Congress, such as the Kids Roth, while others, such as improvements to 529s, need state legislatures. A roundtable and year-long policy and regulatory review of the next generation of low-cost savings and balance-sheet building strategies could prove to be among the field’s most influential documents at this particular moment. A great place to start would be both New America’s Asset Building Program (New America Foundation, 2011) and CFED (2012), which have recently compiled compelling lists of low-cost policy and regulatory ideas to build savings and assets.

10. Think big. Austerity becoming the new normal does not preclude a large budget, tax, or Social Security deal from coming together—as is expected in a budget and tax deal in 2013. The field cannot afford not to be ready for that moment. It is important to recall that funding for the EITC increased in the 1993 deficit reduction deal (U.S. Congress, 1993), while the Balanced Budget Act of 1997 (U.S. Congress, 1997) brought increases in programs reaching lower-income households such as Pell Grants, Hope Scholarship Credits, Children’s Health insurance, and the like. Currently, Pell Grants (\$36 billion in FY 2012) and the EITC (\$52 billion in FY 2012) are the nation’s two largest anti-poverty programs, and both were expanded during eras of fiscal restraint. The lesson here is

that when big money is on the table, big things are possible for low-income families. Yet to succeed in that moment, the field must be ready with some big ideas that also could be supported by Republicans and Democrats alike—as well as by other advocates for low-income families, who are also poised to win in a large budget or tax deal. Could, for example, the assets field and more traditional anti-poverty advocates join forces in favor of another historic expansion of the EITC better linked to savings? Could we imagine a novel solution to the deeply dismaying and growing racial wealth gap? Could the education and assets field think about the next round of Pell Grant expansions linked to at-birth deposits into the 529s of all newborns? Or solvency revisions to Social Security linked to at-birth deposits in a Kids Roth? The nation’s new austerity is in fact beginning to seriously question, for the first time, the economic value of the home mortgage interest deduction, making potential funding streams possible. But the coalitions in favor of redirecting those subsidies, or any new subsidies, must begin to be built now, as the fight for tax dollars and subsidies in the anticipated 2013 budget and tax deal is expected to be intense.

A Brief Reflection on Policy Innovation

I would like to close with just a brief thought on policy innovation, reflecting on some of the insights from the first two decades of the asset-building field presented in this essay.

Of course, policy innovation in the assets field began with Michael Sherraden’s social innovation of building assets for the poor. He documents how his conversations with welfare mothers in the 1980s, who felt trapped and unable to move ahead, happened to occur as he was participating in and attending meetings regarding Washington University’s retirement plan. The plan, which made it simple for him to save and build wealth and which was well subsidized by both the University (though matching deposits) and the federal government (through tax breaks for retirement savings), inspired Sherraden to wonder why that same infrastructure couldn’t be applied to poor people to help them save and build wealth. A few years later *Assets and the Poor* was published.

How, then, did this social innovation become a policy innovation that caught on in Washington, DC? Three things: timing, innovative people and institutions, and testing.

Timing

Any innovation is, by definition, a unique product of its time. As I discussed earlier, one of the key reasons Sherraden’s idea caught on among many Republicans and conservatives and “new” Democrats was that they were eager for new ideas to “end welfare as we know it.” Asset building was, of course, a truly new, even radical idea that, importantly—and, unlike the existing welfare system at the time—reinforced core American values of reciprocity (matches must be earned by saving first), independence (savings and assets will free you of government assistance and help you achieve financial independence), and stake-holding (the Jeffersonian ideal of property-owning citizens). Moreover, asset building reflects the idea of *inclusion*—that everyone, regardless of income,

race, or background, shares at least equally if not progressively in our public policies to build assets (Sherraden, 2001, 2002). Indeed, one could see our nation's progress—ending slavery, giving women and minorities the right to vote, broadening access to public education, etc—as a process of gradually including more and more Americans in the American Dream. Asset building, properly implemented, can help fulfill this inspiring vision over time.

Innovative people and institutions

Innovators need to get their ideas down on paper, of course, as Sherraden did in both academic journals and non-profit publications, as mentioned earlier. Yet it was people who served as the critical link between Sherraden's idea and policy innovation, especially those based in Washington, DC, whose mission was to find and promote new ideas: Will Marshall of the Progressive Policy Institute, Tony Hall of the Select Committee on Hunger, Bob Friedman of CFED, Ted Halstead of the New America Foundation, William Raspberry of *The Washington Post*, Clarence Page of the *Chicago Sun-Times*, and others. They organized further publications, events, roundtables, Congressional hearings, meetings and receptions in Congress, op-eds in major newspapers, and eventually, demonstration projects. These bridge-building people and institutions were critical; policy innovation could not have happened without them.

Testing

As I showed, it was clear that Sherraden's idea, powerful as it was, needed evidence to move forward. The American Dream Demonstration (ADD), organized by CFED, with research designed by CSD, and supported by a group of highly innovative foundations, wisely tested the idea and, most importantly, tested the principal doubt held by policymakers and many others: could the poor save? Policy innovation, in order to move forward, must first understand what doubts or concerns policymakers and other “gatekeepers” may have around a new idea. ADD not only tested the right question, but its 13 demonstration sites scattered around the US began to build a constituency for the idea: It was no accident that Senator Dan Coats of Indiana, who led the passage of the Assets for Independence Act in 1998, was inspired by Eastside Community Development, an ADD site in Indiana. As I have said previously, sometimes ideas move forward in a political setting because of the evidence, indifferent to the evidence, or despite the evidence—but in this case evidence was essential.

Upon reflection, I am impressed with the impact a relatively few committed people could have in advancing a policy innovation. A little known secret, at least in DC, is that a surprisingly small number of committed people can move a new idea forward. Washington is built around issues: small communities of experts, advocates, academics, sometimes lobbyists, and Congressional and Administration staffers who know each other well and matter enormously to the success or failure of new ideas. The assets field was resisted by one of those communities (left-leaning poverty experts) while embraced by another (upstart think tanks, non-profits, non-mainstream politicians,

etc). Getting a few of the leaders in the community one is trying to impact can have a large, disproportionate effect in a policy setting—although it is not enough just to establish an idea in a policy or intellectual setting; public support must be built as well, something the assets field has been learning over the course of the last couple of decades.

My last thought is that, as I show in my book with Phil Longman (2009), *The Next Progressive Era*, we are in a once-in-a-century period of great flux, looking for new models of economic growth, rewriting the rules of the financial system, learning that our and the fates of other nations are more intertwined than ever. And these are exactly the times for social and policy innovation, when new ideas and models are most readily received and poised to have the greatest impact.

And how will you know if you are on to something truly new and potentially big? If enough people say it is not possible.

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