Inclusion in Asset Building: Research and Policy Symposium

Going to Scale: Principles and Policy Options for An Inclusive Asset-Building Policy

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Center for Social Development

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ABSTRACT

This paper presents some principles and policy options for achieving larger-scale, progressive asset-building policies. This is not a theoretical paper about policy development, Congress, and the Administration, but rather reflects CFED's direct experience with practitioners, policymakers, and others in forging progressive asset-building policies for Individual Development Accounts (IDAs) and other asset-building tools. Specifically, this paper will (1) discuss principles and dimensions of asset-building policy, and (2) summarize the status of current asset development policies, and offer a set of policy recommendations to reach scale.

I. Principles and Dimensions for Large-Scale Asset-Building

From the earliest days of the American Republic, when Thomas Jefferson talked of "a nation of small farmers and shopkeepers," there has been an economic correlate of political democracy. Just as we believed that democracy works best if all ideas have access to public debate and consideration, so we have believed that the economic marketplace will work better to the extent it harnesses the ideas and energies of all citizens. Indeed, if we examine our history to discern the policies that have created significant, widely shared and enduring economic progress, they are democratic investments in the common genius of the American people: universal education, the Homestead Act, the GI Bill.

Of course, the realization of that economic ideal, like the realization of its political correlate, has been slow and difficult. Gloria Steinem reminds us that at the founding of the republic, "We the people" meant white male adult landowners. Gradually we added excluded groups—African Americans, women, immigrants, non-landowners, and youth. Of course, we still have a long way to go before "We the people" means all Americans even in the political system. But, clearly, the next phase of the civil rights movement lies in increasing economic participation.

Our economic history, like our political history, is also the story of opening the ranks of economic actors. For the first hundred years of our history, African Americans were property; they did not own it. For 150 years, banks lent against only capital and collateral; it was not until the early decades of the 20th century that they began to lend against wages. And it was only the creation of the 30-year mortgage by the federal government that brought homeownership within the purview of the middle class—even as it restricted homeownership opportunities to African Americans by restricting the mortgages to new construction in the suburbs backed by restrictive covenants. Worker rights, universal education, public libraries, trust-busting, and the creation of public markets, anti-discrimination laws, and small business programs—each of these opened the economic system to broader participation. When the Great Depression threatened to sideline most of the American people from economic participation, the New Deal, World War II, and the GI Bill rescued the middle-class and laid the foundation for our post-war growth.

We have finally come to recognize that widespread asset poverty looms as a major barrier to economic participation (and productivity). As this Symposium attests, and its papers document, a majority of American households are asset-poor at a time when access to the economic mainstream—a downpayment on a home, capitalizing a small business, post-secondary education, a retirement nest-egg—requires at least a few thousand dollars. It is becoming increasingly clear that work and income alone will not allow many—most—working families to escape poverty and achieve a modicum of economic independence and security.

Much of the asset disparity of the country is the result of policy (Sherraden, 1991, 2000; Corporation for Enterprise Development, 2001) and, in Oliver and Shapiro's (1995) memorable and well-documented phrase, "the sediment of past discrimination." Today, our nearly $300 billion per year asset-building policy for individuals (Sherraden, 2000) rewards homeownership, business ownership, savings and investment, and pensions through the tax system in a way that excludes most of the very people who lack assets (and tax liability). Meanwhile we have generally penalized asset acquisition by poor and low-income people through policies ranging from asset limits and benefit reductions in income-support programs, mismanagement of tribal and individual trust funds, and higher effective tax rates on income than capital. We believe that if exclusionary asset can be effective in amplifying asset inequality and its myriad psychological, social, and economic effects, then inclusive asset policy could be equally effective at spreading the creation of wealth.

For these reasons and more, we need an inclusive asset-building system in this country. And we need a large one. The aim of this paper is to suggest principles and policy options that should guide the development of such a system, both in design and implementation. While the authors take responsibility for the lessons we offer, the teachers we have had in the process have been superb. Our discussion draws from several sources, among them:

- The seminal work of Michael Sherraden and the Center for Social Development (CSD) whose work, including such pieces as *Assets and the Poor* (1991), *Social Security in the 21st Century* (1996), and *Savings Patterns in IDA Programs* (2000) created the research, theoretical, and policy framework for asset-building policy.
- The scholarship of most of the authors of other papers presented at this Symposium, and the pioneering work of Peter Barnes on common assets.
- The Growing Wealth Working Group, a national braintrust of 50 experts in tax policy, asset building, and development policy convened by CFED and CSD to flesh out large-scale asset-building principles and policies.
- The Downpayments on the American Dream Policy Demonstration (or, the American Dream Demonstration, or ADD), which CFED had the good fortune to organize, and our 13 community partners, 2,400 accountholders and evaluation partners from whom we could learn. ADD is the first large-scale, well-funded and multi-dimensional test of the efficacy of IDAs as a tool for economic independence. Funded (and guided) by 11 national foundations, this $15 million demonstration is now beyond its halfway point.[1]

[1] *The Downpayments on the American Dream Policy Demonstration (ADD*) specifically addressed the barriers constraining the growth of the field. Thus ADD's five objectives:

- Develop and conduct "best practice" IDA initiatives in ten (ultimately 13) diverse communities which benefit from access to the best information available about best practices;
- Create at least 2,000 IDAs for low-income families;
- Create an inclusive learning network among the burgeoning number of community, state and Federal IDA initiatives;
- Identify and evaluate the economic and social effects of IDAs, and the savings, asset-acquisition and economic literacy they entail; and
- Inform and impel state and Federal policy development.

ADD partners developed a new best practice, and shared their lessons through a regularly updated design handbook, annual conferences and semi-annual partner meetings, and an internet-based learning network. Banks, credit unions, CDFIs, and other types of financial institutions partnered. Evaluated earlier and more comprehensively that any new development strategy we know of pursuant to the evaluation design and data produced by the Center for Social Development (CSD) of Washington University, ADD is also teaching us about the attitudinal, behavioral, social and economic effects of saving and asset holding. Almost 2,400 accounts have been established within ADD, and accountholders are testifying to fundamental economic and social changes larger and earlier than we dared hope for. Indeed, we are on the verge of seeing multi-billion dollar IDA tax policy proposals backed by strong bipartisan teams and the rapid development of private financial institution products.

- The larger IDA field, some 300-plus community programs strong, as well as their financial institution, philanthropic, policymaker, and community partners and a network of more than 100 VISTA volunteers in programs across the country, all linked by the IDA Learning Network and national learning conferences that CFED sponsors.
- Twenty-one years of research and development of economic development policies and programs designed to build assets and enterprise in low-income communities. A significant portion of our work over the years has been in the area of microenterprise and entrepreneurial development, two of the least understood and least appreciated asset-building strategies.

To be sure, most of the above involve IDA practice and policy. IDAs—matched savings accounts accompanied by financial education and earmarked for high return assets (generally business development, post-secondary education, homeownership, and sometimes retirement investing)—are only one form of asset building. Other approaches exist, deserve to be developed, and will certainly yield additional lessons. But IDAs have proven to be remarkably impactful and suggestive. In fact, the apparent simplicity of IDAs—clearly one of their attractive features—masks the fact that they are really a well-packaged set of different asset-building tools. Certainly, the last five years have taught us a good deal about the dimensions and techniques of asset building that should guide the development of practice and policy going forward.

A. The Dimensions of Asset-Building

Twenty-one years of exploring what makes for effective economic development policy and programs has only underscored Belden Daniels's essential insight that, "Development is something people do, not something done to them." The effectiveness of IDAs—which are, after all, rather modest injections of cash and training—can only really be explained by the way low-income and very poor people use them. It is accountholders themselves, who sacrifice to save and earn matches; who organize their consumption and reduce their debts; who plan and prepare for their business, education, or home; who hope and initiate; and who teach their kids, spouse, and neighbors about saving and asset-building.

When Muhammed Yunus (founder of the Grameen Bank in Bangladesh, which has lent to millions of impoverished women) was asked what relevance anything that happened in Bangladesh could have to do with the U.S., he responded, "I think our experience stands for the universal truth that there among the poor—anywhere—people of tremendous talent and energy." Everything we have learned in two decades of economic development work in communities across this country and around the world reinforces our conviction that there are many poor and low-income people who are limited not by lack of capacity—we all have our weaknesses—but by lack of real and accessible economic opportunity. In this sense, the center of asset-building policy is the recognition that people, including low-income people, are themselves assets, in the way that John McKnight and John Kretzman (1993) use the term. As Sherraden (1991) writes of asset building: "The underlying assumption is that the national economic pie is not finite. It can grow with the spirit and ability of the people. Paradoxically, the more people who have a piece of the pie, the faster it will grow."

The related conclusion of a major study CFED undertook for the Charles Stewart Mott Foundation a decade ago was that economic opportunity programs are effective to the extent that they build the confidence, competence, and connections of low-income people. IDAs are effective precisely because they are able to impact the three "c's" by applying a fourth: capital. In fashioning asset-building policy, then, it is crucial to keep in mind that *asset-building policy is effective to the extent it engages the minds, hearts, and energy of people and help connect them to the larger world.* It certainly is easy to envision a system that does not, but such a system would be misguided.

That said, with benefit of hindsight, we discern at least five distinct asset-building tools and dynamics built into IDAs, which should at least be considered in designing any asset-building strategy: savings, matches, education, investment, and accounts. The power of IDAs may thus reside in the fact that this apparently simple tool combines so many elements. Big systems are built with such simple, flexible tools.

1. Savings. The dynamic of savings is poorly understood by both neoclassical economics and the popular culture as deferred consumption—what is left over when you subtract expenses from revenues, a sort of economic spinach. Saving should be understood not as deferred consumption, but as the base for economic progress. The poor save in IDA programs—the very poor at about four times the rate of the less poor (Schreiner et al., 2001)—because this is, in their eyes, the price of stability and hope. They understand that a dollar saved today, multiplied by a match, embellished by the miracle of compound interest, and grown by value-added investment in such high return, value-added economic activities like higher education, business development, and homeownership, is twenty dollars or more tomorrow.

Regular savings lie at the center of IDA programs, and in fact early practice lessons revolved around how to array match rates, minimum and maximum deposits, personal finance training, and other aspects of IDA programming to require and reinforce savings habits. ADD accountholders often treat monthly statements like diplomas. We often forget that one of the virtues of money and numbers is that they provide an easy way to mark progress—not always an easy thing to mark in the amorphous world of development. At the outset of ADD we expected that IDAs might be judged successful once accountholders began to actually use them to purchase assets. Instead the fundamental psychological shift seems to come much earlier, after about six months during which accountholders for the first time experience a measure of economic control when they realize that they have steadily increasing assets. Even if their asset purchase is months or years away, they see that, multiplied by matches, they can reach their goal.

It is possible to conceive of an asset-building strategy which does not require savings, but the impact would likely be different and the politics more difficult without such a clear showing of commensurate effort on the part of account holders. Sherraden (2000) instructs rightly that we need to look for "the powerful independent variable"—the single intervention that is capable of producing multiple positive effects. Such is the power of savings and asset-accumulation that they produce changes in aspiration, economic and social behavior, and sound economic investment. ADD programs found, for example, that trying to require personal finance training before allowing matched savings resulted in high program drop-out rates. But once matched savings began, accountholders began to appreciate the value of the training offered.

Andrew Oerke, poet and economic development specialist, noted that "Development is a conversation." Without savings, the asset-building conversation diminishes markedly.

2. Matches. IDAs add deposits from public and private sources to match the savings of low-income IDA holders. Savings alone can surely help build assets, but without the input of resources from elsewhere, the asset disparities and asset poverty of the country are likely to overwhelm bootstrap efforts. The family is not always recognized as a financial institution, but when it comes to asset building, it is an essential one. Asset holding is a multigenerational dynamic, the funnel through which the assets of one generation are transmitted to the next. Downpayments for houses often come from parents. It is not likely that we can create an asset floor beneath the asset-poor majority in this country without at least beginning to offer low-income and low-wealth people incentives (subsidies) comparable to those now provided only the non-poor (mostly the wealthy) through the tax system—incentives averaging several hundred to several thousand dollars a year. By offering these payments as a savings match, IDAs link such incentives to saving actions by asset builders. Again, it would be possible to decouple these tools, for example, by automatically depositing $1,000 into the account of every child or every poor child born in the country, or through other applications. But there will be different effects.

3. Education. Accountholders typically comment that they come to IDA programs for the match, but they stay because of the training. IDA programs generally provide at least 10 to 20 hours of training on such topics as credit repair, budgeting, consumption, compound interest, financial institutions, how assets grow in a business, home or with post-secondary education, retirement saving options and investments. Peer group exchange and asset-specific training in entrepreneurship, homeownership, and effective post-secondary education augment this training. This education element is, unfortunately, labor intensive and expensive, but many accountholders and practitioners believe it is at least as important as other aspects of the program. Indeed, practitioners are coming to believe that the key way to increase savings levels and regularity is to clarify and underscore asset goals, which certain training activities do. Of course, we do not require non-poor Americans opening IRAs or 401(k)s to complete any training program despite the fact that there is little evidence they are more financially literate. The intermediate investments IDAs underwrite are more inherently risky than retirement saving, and the poverty of current accountholders means there is less room for failure.

4. Investment. Seizing on the public (and private) matches, some see IDA programs as wealth redistribution programs. In so doing, however, they miss the wealth creation aspects of IDAs—savings, education, and particularly the returns of investment uses. The earmarked uses of most IDAs—savings, business capitalization, homeownership, post-secondary education and training, and retirement—are, on average, some of the highest return investments in our economy, and the way most families, communities, and nations move forward economically. Again, these investments are not without risk—some houses will decline in value, some businesses will fail, some educations will not lead to living wage jobs—but in general, the returns are high. We need to recognize not only the miracle of compound interest, but also the magic of entrepreneurship, enterprise, and learning these investments summon from accountholders. The investment nature of IDAs suggests a reason they are so attractive: they can generate returns. It also suggests that it is important to evaluate, monitor, and advocate for IDA and other asset-building programs on a return on investment basis. Three years ago we at CFED created a model for this sort of analysis[2]

5. Accounts. The fact that IDAs are structured as accounts in financial institutions owned directly or indirectly by accountholders is at once obvious and ignored. Asset accounts are becoming a preferred tool of public policy for many reasons (Sherraden, 1996), including the fact that individuals want more control over their lives and that new technology enables us to individualize socioeconomic policy. Opening accounts in financial institutions begins to connect the marginalized poor to the economic mainstream and its institutions.

B. The Asset-Building System

The demonstrated promise of IDAs underscores a broader challenge and opportunity; indeed, from the beginning of the IDA field, we knew that if IDAs worked at all, millions, if not tens of millions, of Americans deserve and can take advantage of the kind of asset-building opportunity IDAs represent. A majority of American households are asset-poor in that they have less than $1,000 in investable assets (Anderson, 1999; Haveman and Wolff, this volume). Just under half of all working people take home less than $15,000 in annual wages and nearly three-quarters make under $30,000—working poverty for families (Goldberg and Graetz, 1998). The key question is how do we move from a system of community-based demonstration initiatives averaging 100-200 accounts to a system of millions of accounts and billions of dollars? At least five more design principles suggest themselves:

1. Inclusive and Progressive. Assets are necessary for people to grow socially and economically. The issue is not that significant minorities of the American population have assets. Indeed a large asset-building tax policy bringing significant subsidies and incentives already exists to help the top two quintiles of Americans to accumulate assets (Sherraden, 2000; Wolff, 2001). The issue for us is how to extend effective asset-building incentives and access to the asset-poor majority who cannot take advantage of current asset-building tax incentives; who generally do not work for employers offering pension coverage or matched savings programs like 401(k)s; who live in families without assets; and who often are not served by mainstream financial institutions. Some, like former IRS Commissioner Fred Goldberg, Jr., argue that the crucial move is to create a universal infrastructure, "where everyone has a number, everyone plays," and that the amount of the incentives is less important at the beginning.

An equitable, productive asset-building system must offer access, facilitation, information, and incentives to low-wealth families (Beverly, 1997; Beverly and Sherraden, 1999). Since the challenge is to bring asset-building supports to the excluded, it must be progressive, balancing existing incentives, and access with equivalent or larger investments in the asset- and income-poor majority.

2. Large and Real. As noted above, the goal is to bring asset opportunity to tens of millions of American families. Some 40 million families are working but still relatively poor; their incomes are less than 200% of the official poverty measure. At the same time, an inclusive asset-building policy must enable the poor to accumulate a sufficient nest-egg—at least a few thousand

[2] Friedman, Clones, Wilson, The Return of the Dream: The Probable Economic Returns of a National Investment in Individual Development Accounts.

dollars in a few years—to give them a realistic chance to achieve their asset goal when pieced together with other programs. Multiplying thousands of dollars by millions or tens of millions of accounts suggests clearly that we are talking about a policy funded in the billions of dollars, if not tens or hundreds of billions. Initial proposals may be as relatively small as a few or even ten billion, like the *Savings for Working Families Act of 2001* or a basic system of children's savings accounts. But soon it must reach the magnitude of the Earned Income Tax Credit (funded at about $30 billion per year), and ultimately could increase to claim a decent share of the nearly $300 billion of dollars devoted to asset subsidies for non-poor individuals.

3. Build on Existing Asset-Building Programs. It seems to us that, like current asset policies, this inclusive policy will find such funds in the tax expenditure system, which already underwrites investments at this level and has been the fastest growing segment of public funding at both the state and federal levels. Indeed, inclusive asset building primarily requires that we figure out how to extend such existing policies as IRAs, 401(k)s, home mortgage interest deductions, and tax breaks for business investment, and post-secondary education to people, and communities they do not already reach. Refundable tax credits would be the most direct (albeit the least politically viable) way to accomplish this expansion or inclusion, but it is possible to use tax credits to employers, financial institutions, and private contributors to extend the system as well.

4. Complement Safety Net Programs. Asset-building policies are a complement to income-support policies, not a substitute. We need a better safety net, but we need a better ladder too. Indeed, the two systems are interdependent: we only have hope of taking decent care of those who cannot support themselves in the mainstream economy if we offer those who can a reasonable opportunity to succeed. Two critical directives emerge from this: first, we must remove the asset-building penalties enmeshed in current safety net programs so that low-income people can begin to move forward economically without being pulled back by counterproductive rules; and, secondly, we must work to find explicit ways that some of the returns from asset-building policies can go to develop the safety net programs. But note: we must not wait to build the relatively underdeveloped asset-building system until we complete work on the safety net. That day may never come.

5. Multi-sectoral. While it is possible to imagine a universal savings and investment system operated almost wholly by government, not unlike Social Security, it seems that the development of an optimal system will be enhanced by the contributions of different sectors with different strengths. Moreover, the greater the stakeholders in the emerging system, the faster it can grow. Therefore we see the emerging marketplace as one which holds separate and complementary roles for low-income families, the public, private (e.g., corporations, financial institutions), philanthropic, and non-profit sectors. Indeed, each of these sectors is already involved in IDAs as small demonstration initiatives, and role of each will most likely change as we move to scale.

Specifically: *public policy* must move from sponsoring thousands of accounts (through general fund appropriations of millions of dollars) to providing billions of dollars of asset-based tax incentives equivalent to those now granted only to the non-poor and mostly the wealthy. In general, these incentives should range from a few hundred to a few thousand dollars per year per accountholder—the first or second match of savings. IDAs, children's savings accounts, employer-based accounts, democratized IRAs, and other similar matched savings programs should be developed. (See next section for specific policy recommendations.)

Financial institutions must move from providing IDAs as a community development tool to providing them as a profitable product capable of reaping returns from an emerging market of new savers, investors, entrepreneurs, homeowners, and skilled employees. They will need to find ways to reduce the cost of managing smaller accounts using new technologies and forging new partnerships. *Employers* will need to see savings matches as a new way to retain and upgrade employees as well as to supplement wages by harnessing public incentives. *Community-based organizations* will need to develop larger-scale, lower-cost and more effective techniques for outreach, recruitment, counseling, training, and monitoring serving thousands of accountholders. The *philanthropic sector* will need to be galvanized with tax incentives to fund non-profit operations and matches. And, finally, *accountholders* will have to own, drive, and advocate for the system.

C. Scale and Community

This dream of a universal savings and investment marketplace evokes nightmares for some. Community activists and social service providers who have embraced IDAs as a community program fear that a move to scale—especially one where financial institutions and the tax system are major actors—will drive out non-profit providers and quality, community-sensitive programming, either directly or indirectly by failing to provide an adequate funding stream. The result, they fear, would be a "universal system" that effectively excludes the poorest, those most in need of training, rural citizens, Native Americans, etc.

On the other side, financial institutions and businesses fear that over-emphasizing the soft programmatic aspects of IDA programs rather than its essential identity as a financial product or service, will permanently undermine the growth of the system and limit the availability of IDAs to a few boutique programs of widely varying quality.

These and other nightmares are possible, but not inevitable. Perhaps we should envision a necklace: a universal basic financial product and incentive (or match) available everywhere (through every outlet we can imagine from on-line to the local check casher and ATM), enhanced where there are capable and interested non-profits (of all descriptions) which can take advantaged of well-developed programmatic standards (e.g. best practice personal finance curricula and outreach materials) financed through incentive-galvanized philanthropy and government support.

It is, therefore, these principles, dimensions, and experiences that should guide the development of progressive public policies to build assets. As the next section shows, significant progress has been made, but much more work needs to be done.

II. How to Get There

If those are the principles, then what is the map? This section will provide: (1) a brief description of the status of federal and state asset development policies; and (2) a set of specific policy options for inclusive asset development policies.

Long-time advocates of IDAs have always seen IDAs as a downpayment on a much larger system, a way of first establishing that low-income people can save and accumulate assets. One could say that the goal is to move from "pockets of success to universal access." However, it is important to reiterate here that "universal access" does not mean expanding a new poverty program but rather expanding the reach of the asset-building system already in place for the tax-paying non-poor through tools like IDAs, children's accounts, and the like. In thinking about how to build an inclusive assets policy, this distinction is of the greatest importance and has large implications for policy design and advocacy.

For example, it means that the key starting point is the tax code where asset-building expenditures to individuals total, as already noted, nearly $300 billion per year. It also means that assets policy advocates are not primarily focused on the traditional domestic poverty committees in Congress or the traditional Executive branch departments, such as Health and Human Services, but rather on agencies such as Treasury and the tax-writing committees in Congress. In the anti-poverty world, this is a very important shift. Certainly, traditional anti-poverty advocates have, for example, rightly focused on the regressive nature of the tax code, but rarely have they viewed the tax code as an opportunity to create wealth.

Thus, if the challenge is to extend the reach of the current assets policy system so that it is inclusive, then a fundamental policy design point is that we already know how to do asset-building—that this country has already figured out very effective systems (historically and currently) to foster landownership, homeownership, business development, retirement savings, and post-secondary education. This does not mean that there are not a large set of policy development and design challenges, nor does it mean that getting these progressive policies in place will be easy; but it does mean that we are not, in this sense, pushing a new idea or that we have to start from scratch.

A. Status of federal and state asset-policies

Before we attempt to map the paths to an inclusive federal assets policy, it is necessary to begin with a summary of current IDA and asset-building policies and proposals.

While federal IDA policy proposals have existed since the early 1990s, only in the last three or fours years (and especially in the last two) has there been significant progress in moving these policies through Congress and signed into law.[3] Below is a summary of the existing resources and policies for IDAs, as well as a summary of the significant progressive proposals to build wealth that were recently, and are currently, under consideration.

1. Federal IDA Policies

In general terms, the federal government is supporting or promoting IDAs (and similar asset-building tools for low-income families) in three ways: inclusion in existing programs; dedicated demonstrations; and "getting to scale" proposals.

[3] For an excellent summary of the genesis of federal IDA policy see Michael Sherraden (2000). For a detailed description of current and proposed IDA policies, see CFED (2001) and www.idanetwork.org.

a. *Inclusion of IDAs in existing safety net, economic development, and financial integration programs:* Starting in 1996, IDAs or IDA-like accounts have been incorporated as an allowable (but not required) use of the following federal programs:

- Temporary Assistance for Needy Families, or TANF. In the welfare overhaul of 1996, states were given the option of including IDAs in their TANF programs. As of this writing, 32 states have done so, but only 15 have actually used their TANF funds for IDAs, and only seven of those have allocated any significant amounts to IDAs.
- Welfare-to-Work Grants. In 1997, Congress made about $3 billion available for the hardest-to-serve persons moving from welfare to work, and allowed grantees to use these funds for IDAs. Thus far, three states have secured these funds for IDAs, as has the City of New York.
- Community Reinvestment Act. In 1999, the Treasury Department clarified that IDAs could count under a wide range of tests under the Community Reinvestment Act.
- Bank Enterprise Award Program. Also in 1999, Treasury's Bank Enterprise Award Program, which provides competitive grants to financial institutions for community development activities, offered $50 per IDA to help offset the administrative costs of IDAs. In the 2000 RFP, that amount was increased to $100 per IDA.
- Family Self-Sufficiency Program. Public housing residents receiving Section 8 funds are permitted to set up escrow accounts through which increases in their income can be deposited while still paying the same amount of rent, representing an indirect match from the local housing authority. Funds in the accounts may be used for anything, but many residents have used the money for downpayment on a home.
- Electronic Transfer Accounts (ETAs) Financial institutions that offer ETAs—which are designed to deliver federal benefits, such as Social Security payments, electronically—are permitted to add a savings product such as IDAs to the account. As of November 2000, more than 600 financial institutions in over 9,000 locations were offering ETAs, although few have been linked to a savings product.
- Affordable Housing Program of the Federal Home Loans Banks. A number of FHLBs around the country offer IDA-like matched savings programs (with up to 3-1 matches) for low-income families saving for a downpayment on a first home.
- Tax treatment of IDAs. While technically not a funding source, the IRS issued an ruling in October 1999 which states that, for IDAs funded through the *Assets for Independence Demonstration Program,* interest on individual deposits is taxable, but all matching funds (and interest earned thereon) are not. Also, it was recently clarified with the IRS that this ruling could apply to non-AFI-funded IDAs, provided the structure of the IDA and IDA program resemble those funded under AFI.

b. *Federal IDA and related demonstrations.* Two agencies at the Department of Health and Human Services are running IDA demonstrations, and a "First Accounts" pilot was recently initiated by the Treasury Department:

- The Assets for Independence (AFI) Demonstration Program, authorized in 1998 by Congress for $25 million per year for five years, was appropriated only $10 million in its first two years and then $25 million in its third. Under AFI, competitive grants are made to community-based organizations to run IDA programs.

- The Office of Refugee Resettlement (ORR), using existing resources and legal authority (that is, without explicit Congressional action), has awarded over the last two years approximately $15 million in competitive grants to 30 community-based organizations serving refugees.
- First Accounts, a $10 million Treasury project designed to bank the unbanked who are not federal benefits recipients, will support pilot partnerships between financial services providers and community organizations to provide the unbanked with access to low-cost accounts, ATMs and other electronic banking points, and financial literacy education. Like ETAs, financial institutions can link a savings product to the First Account.

c. "Getting to Scale" Proposals, 1999-2000. Beginning in early 1999, billion and multi-billion dollar progressive asset-building proposals began to emerge from both sides of the aisle, from both ends of Pennsylvania Avenue, and from both Presidential candidates. The following policies were proposed:

Clinton Administration Proposals

- **Universal Savings Accounts (USAs).** In his 1999 State of the Union address, President Clinton announced a $38 billion per year USA proposal to build retirement savings for low- and moderate-income American workers. Overall, 98 million adults would receive an automatic government contribution to their USA every year. In addition to the automatic contribution, the government would match, dollar for dollar, voluntary contributions to the USAs by low- and moderate-income workers. The proposal was bold, and seminal in the asset development field—but it never made it to Congress and was rarely discussed, largely for partisan political reasons.
- **Retirement Savings Accounts (RSAs).** In response to the negative reaction to USAs on Capitol Hill, and building on the specific citation of IDAs in the 2000 State of the Union address, President Clinton proposed in early 2000 "Retirement Savings Accounts," or RSAs, funded at $54 billion over 10 years. RSAs are retirement-focused but, significantly, allow pre-retirement withdrawals for a first home, college, or medical expenses after five years of saving in an RSA. RSAs are progressively matched, with match rates as high as 2-1 for those families earning less than $25,000, with matches phasing out at about $80,000. RSAs, too, did not receive Congressional consideration, although a greatly scaled-down version of RSAs was proposed by Senator Max Baucus of Montana.

Congressional Proposals and Resolutions

- **Savings for Working Families Act (SWFA).** The SWFA was first introduced in April 1999 and then again in early 2000, and was sponsored by Senators Joseph Lieberman and Rick Santorum and Representatives Joe Pitts and Charles Stenholm. The bill proposes a 1:1 match, up to $500 per year per person, for savings in an IDA, and provides a full tax credit to financial institutions and others that provide the matching and programs funds. The bill—the first multi-billion proposal specifically aimed at expanding IDAs—came very close to being enacted in late 2000. As of this writing, a version of the SWFA appears likely to become law under President Bush.
- **Taxpayer Refund Act of 1999.** Significantly, approximately $840 million in IDA tax credits were included in the Taxpayer Refund Act of 1999—the $792 billion Republican tax bill that passed the Senate in July 1999, but subsequently vetoed by the President. The exact provisions were also included the Democratic alternative offered by Senator Moynihan.

- **1999 and 2000 Budget Resolutions.** Non-binding "Sense of Congress" language was adopted in the 1999 Budget Resolution and "Sense of House" language was adopted in the 2000 Budget Resolution stating that "Congress should modify the Federal tax law to include provisions which encourage low-income workers and their families to save for buying a first home, starting a business, obtaining an education, or taking other measures to prepare for the future." IDAs were specifically mentioned in 1999 Findings and in 2000 Resolution. These Resolutions sent an important signal but did not have the force of law.
- **Various proposals for children.** Federal proposals to establish savings accounts for all children have emerged over the last few years on both sides of the aisle in Congress (see Curley and Sherraden (2000) for an excellent, detailed summary), although none of them have became law. For example, Senator Bob Kerrey of Nebraska, along with others, long championed "KidSave" accounts (first as part of Roth IRAs, and then as a grant to be repaid later in life), but the proposal never emerged from the Senate. Also, recent Republican proposals to eliminate the federal estate tax (or "death tax") was rhetorically met by counter-proposals from some Democrats to preserve the estate tax and use the "saved" revenues to establish and fund accounts for all children.

2000 Presidential Campaign

- **Governor Bush's "New Prosperity Initiative."** In April of 2000, Republican nominee George W. Bush pledged to create 1.3 million IDAs. Similar to the *Savings for Working Families Act*, Governor Bush's proposal uses tax credits to financial institutions to set-up and match IDAs. As President, Bush has included an IDA tax credit in his Budget Blueprint, and he appears willing to include this in his tax package, although the funding level and parameters have not been disclosed.
- **Vice-President Gore's "Retirement Savings Plus" (RSP) proposal.** In June of 2000, Democratic nominee Al Gore proposed approximately $200 billion for RSPs, which combine some of the features of the Presidents USAs and RSAs proposals. Generous matching funds (up to 3-1), as well as pre-retirement uses for homeownership and post-secondary education, were included.

2. State IDA Policies[4]

As reported by Karen Edwards of the Center for Social Development (CSD), IDA policy activity is flourishing at the state level. Almost half the states in the country preceded the federal government in passing IDA legislation. Thus far, state supported IDA programs are responsible for over $30 million in IDA match and program funding. CSD reports that, as of January 2001:

- 29 states have passed IDA legislation.
- 8 states have authorized state supported IDA programs, through administrative rule making.
- One state and the District of Columbia are poised to pass IDA legislation in the immediate future.
- At least 5 states plan to introduce or reintroduce IDA legislation in the 2001 legislative session.

[4] For further details on state IDA policies, see http://gwbweb.wustl.edu/Users/csd/ and the *State IDA Policy Resource Guide*, published in 2001 by the Corporation for Enterprise Development and Center for Social Development.

- Since 1996, 32 states included IDAs in welfare reform plans, for the possible use of TANF block grant funds.
- 22 state IDA programs have benefited from Asset for Independence Act (AFIA) or Office of Refugee Resettlement (ORR) IDA Program funding.
- 29 states either have, or are developing, statewide IDA coalitions or collaborative.
- IDA programs have been implemented, or are being planned, at the community and/or state level, in all but three states—Alaska, North Dakota, and Wyoming.

State appropriated funding streams come from a variety of sources including direct appropriations from state, county, and city general funds; Temporary Assistance to Needy Families (TANF) funds; Welfare-to-Work funds; Community Development Block Grants (CDBG); Community Services Block Grants (CSBG); dedicated tax credits; and leveraged private funds. Funding of IDAs by states appears likely to continue growing.

B. Policy Options

In February 2000, the Growing Wealth Working Group adopted the following goal, which was meant to help guide the development of asset-building policies: “We seek an asset-building policy that is inclusive, progressive, simple, participant-centered and enduring.” Specifically, each term means:

- *Asset-building* refers to financial accumulation and high return investments.
- *Inclusive* means everyone, universal. It includes information, incentives, access, and facilitation to bring everyone in.
- *Progressive* means more for the poor. It refers to both progressive distribution of benefits and adequacy of asset accumulation.
- *Simple* refers to administrative feasibility. To every possible extent, asset-building policy should be easy to understand and administer, and fit into existing patterns and resources.
- *Participant-centered* means that account holders have voice in the policy design and choice in application.
- *Enduring* has two meanings. One is sustainability of asset-building policy, which includes low operating costs, investment efficiency, and profitability. The other is life-long asset accounts for participants.

These policy design principles are meant to apply to and measure a wide range of policies; there is, after all, no blueprint or one way to build assets for low-income persons. Nor is it likely—or desirable—to happen in one fell swoop. More than likely, for political, fiscal, and practical (implementational) reasons, asset-building policies will be put into place incrementally, probably over the course of a few decades. And how that will happen is very hard to know, given the unpredictability of Congressional and Presidential elections, the state of the economy, and the longer-term performance of early asset-building efforts, such as IDAs.

Also, it is important to state that the larger assets framework articulated by Sherraden (1991; 2000) and Oliver and Shapiro (1995) is not just limited to the acquisition of assets, although the policy options listed below are. For many Americans the issue is also protecting, deploying, or controlling the assets they have (such as the need for many elderly citizens to guard against risky home equity loans, or the inability of Native Americans to deploy the vast assets they own). In addition, the options below do not explicitly address the are stark differences in wealth holdings between whites and non-whites, although most of the policy proposals are likely to disproportionately benefit non-whites, given relative differences in income. What follows, then, is a wide range of policy options to create and foster accumulation opportunities, which are generally not mutually exclusive.[5]

1. Expand IDAs for the Working-poor

Following the welfare overhaul of 1996, broad-based public sympathies for the working-poor, and the working-poor focus of most existing IDA programs, it is perhaps not surprising that policies to significantly expand IDAs for the working-poor have proved to be very popular in Congress.

Currently, the most significant (and politically viable) proposal to build assets for the working-poor is the *Savings for Working Families Act of 2001*, which offers federal tax credits to financial institutions and others to set-up, match, and support IDAs. Under this legislation, which is designed to help move IDAs to scale, the tax credits serve as a "pass through" of federal matching funds, a way to reach the working-poor other than through refundable tax credits to individuals. That is, the tax credit structure uses the bank's tax liability, instead of the accountholder's, to deliver the match. Individual deposits into an IDA would be federally matched on a 1-1 basis up to $500 per year, while allowing non-federal matches (public and private) to contribute to the accounts as well. A wide range of non-profit organizations, credit unions, CDFIs, Tribes, and others are expected to partner with financial institutions to implement the SFWA, which is expected to cost up between $10 and $20 billion and reach up to 20 million persons over a ten year period. As already mentioned, some version of this legislation is likely to become law in 2001.

2. Create and Fund Asset Accounts for Children, Starting at Birth

As discussed, a number of proposals to establish and fund accounts for children have emerged from Congress, academics, and analysts over the last few years (although not all of them are progressive). Beginning asset accumulation at birth through individual accounts for all children holds enormous potential to build an inclusive, universal system; reduce child poverty; provide an important orientation toward the future (and possibly change behavior); expand college attendance, homeownership, and business capitalization rates; much better prepare people for retirement; and foster intergenerational transfers of wealth. On this last point, Oliver (Corporation for Enterprise Development, 2000) has observed, "You can't transfer public assistance to the next generation."

This potential is, however, matched by a series of challenges. There is no shortage of ways to approach children's accounts (see Goldberg and Cohen, this volume; Curley and Sherraden, 2000; Ackerman and Alstott, 1999, Kuttner, 1998; and Rowe, 2001), and no shortage of difficult political, ideological, and administrative issues to resolve. As Goldberg and Cohen summarize, "[T]hree questions must be answered: (1) how are the accounts funded, (2) how are they administered, and (3) what rules govern distributions?"

[5] For further details on and the status of these proposals, see Corporation for Enterprise Development (2001) and www.idanetwork.org.

While these issues are difficult to resolve, there are two advantages of phasing in a children's savings accounts system over time that must be underscored. First, by funding cohorts of children as they are born, the cost of this system is spread out over several years. For example, for about $4 billion a year, each newborn child in the U.S. could get an account and a $1,000 start in life deposit. And second, after a few decades, since children grow up to be adults, a universal infrastructure—with accounts for everyone—would be in place. This would make the system much more feasible politically, administratively, and fiscally.

3. Provide Accounts for Everyone

If the federal government only set up accounts for everyone—and did not make a deposit at the start of life or annual deposits into any accounts—this alone would make an enormous difference: it would provide the universal infrastructure through which asset-building could occur. Recall from a previous discussion that a full 10 to 20 percent of all households presently are "unbanked," and that to participate in the asset development system, one must first and foremost have an account. These accounts then become the basis or entry point into financial products and a wide range of account-based subsidies, such as IRAs, 401(k)s, or children's savings accounts funded from individual, public and private sources.[6] Also, if Sherraden (1997) is correct that, at some point in the next ten or twenty years, all these individual asset accounts are going to merge into one account and system, providing those accounts up-front could greatly facilitate the poor's integration into that system.

4. Foster Financial Integration

Hogarth and O'Donnell (1998) show that lower-income families with a deposit account are more likely to become homeowners, to own a vehicle, to have insurance, to have term savings such as certificates of deposits, to have an IRAs, and to have access to other forms of credit (including major credit cards). And, they believe, "If financial institutions provide and market accounts to low-to-moderate income consumers, these consumers will take advantage of the opportunity." In short, they say, "If you build it, they will come." This research was in fact the rationale behind the recently enacted "First Accounts" pilot described above, as well as one of the goals of the federal EFT'99—to enable the unbanked to have an entry point into the financial mainstream, to get that "first account."

Realizing the full potential of EFT'99 is precisely the subject of Michael Stegman's very important book, *Savings for the Poor: The Hidden Benefits of Electronic Banking* (1999). He proposes greater interagency coordination at the federal level (especially between Treasury and HUD), a major financial education campaign, and some specific policy items to help EFT'99 achieve financial integration, with his principal recommendation being a national expansion of IDAs.

Caskey (this volume), a pioneer in research on the unbanked, also offers three important policy recommendations to be carried out in conjunction with private and non-profit efforts to reach the unbanked. First, government should help fund and evaluate pilot efforts to make affordable banking services more available in low-income communities. Second, government should

[6] Such an account—called Universal Savings Accounts, or USAs—was in fact proposed by the Corporation for Enterprise Development and Center for Social Development (1996), and may have contributed to the development of President Clinton's own retirement-only USA in 1999.

remove regulatory barriers that may prevent banks from implementing such pilots. And third, greater CRA weight should be given for the efforts of financial institutions to provide basic financial services to lower-income households.

5. "Democratize" Retirement Savings Policies and Participate in Social Security Reform Efforts

There are great opportunities—and equally as great threats—in moving asset development policies forward through reforms to and expansions of retirement policy. While the threats may appear to outweigh the opportunities, these retirement policies are nonetheless very likely to be seriously considered—and even become law—in the Bush Administration. Therefore, attempts to democratize such policies, or ensure that they are inclusive and progressive, must be pursued. For purposes of this discussion, retirement policy can be organized into three categories: (a) tax-favored, employer-based pensions such as 401(k)s, 403(b)s, and the federal government's equivalent, the Thrift Savings Plan; (b) private, voluntary savings accounts such as IRAs and Roth IRAs; and (c) Social Security. These three sources of retirement savings are, taken together, often called the "three-legged stool" of a secure retirement.

Employer-based accounts. The workplace holds great potential to build assets. Beverly and Sherraden's (1999) four "institutional determinants of savings"—access, information, incentives, and facilitation—are or can be present in the workplace. Also, stable incomes are more likely in the workplace, thus making saving more likely. Finally, there are many excellent workplace-based, defined contribution systems (which are increasingly replacing defined benefit pensions) to build on or learn from, such as 401(k)s, 403(b)s, Keogh's, the federal government's Thrift Savings Plan, and the TIAA-CREF plan available to teachers. However, a major challenge here is that not all employees had access to or participated in pension plans, and that existing plans disproportionately benefit higher-wage workers. Encouragingly, as Orszag and Greenstein (this volume) report, "[O]ffering low-and moderate-income workers the opportunity to participate in a matched savings program may be particularly important in encouraging a significant share of them to save." In addition to expanding the coverage of 401(k)s and other employer plans, policymakers could:

- Expand or learn from the Federal Thrift Savings Plan (TSP), a very successful $9 billion per year matched savings program available to 2.4 million federal workers (and better than most employer plans in reaching low-income workers)—but not available to the rest of the country. See Fisher (this volume) for an excellent summary of the TSP.
- Expand or learn from TIAA-CREF, the Teachers Insurance and Annuity Association-College Retirement Equities Fund, a $107 billion matched savings retirement system reaching 1.5 million persons employed at 4,800 institutions. A public-private venture, outsiders can invest in TIAA-CREF's portfolio (just like outsiders can invest in mutual funds managed by Fidelity or Schwab), but only those employed through the above entities can fully participate.
- Establish IDAs, or other progressively matched savings program, in the workplace. Once the *Savings for Working Families Act* IDA tax credit has been established for financial institutions (as the legislation proposes), and once the complex legal, tax, and coordination (with other benefits) issues associated with IDAs in the workplace are sorted out, then IDAs could potentially be established in the workplace by expanding the IDA tax credit to employers.

Private savings. Adding a refundability or direct deposit component to IRAs would greatly expand their reach and appeal to low-income persons. Unfortunately, legislation in Congress to (among other things) raise annual IRA contribution limits from $2,000 to $5,000 stands to worsen the already regressive nature of tax benefits for IRAs (see Orszag and Greenstein, this volume). Also, Orszag and Greenstein show that this bill—the *Comprehensive Retirement Security and Pension Reform Act*—would actually *reduce* pension coverage for some low- and middle-income employees.

Social Security. This paper will not and cannot do justice to the fierce debate over Social Security reform, in particular whether a portion of it should be "privatized." Nor can it ignore it. While it is clear that some see Social Security reform as the only or best way to build wealth on a large scale for all Americans (as well as the only or best way to "save" Social Security), and that others see Social Security as the most significant "safety net" program remaining for low- and moderate-income Americans that should therefore not be "privatized," what appears likely is that, at some point—possibly sooner rather than later given Republican control of both the White House and Congress—some portion of Social Security will be "privatized."

If that is the case, then it seems that advocates of asset development must be a part of that debate to ensure that such accounts are progressive, inclusive, and informed by the experiences of IDAs and other progressive efforts. Of course, it is possible that the political compromise might be something along the lines of President Clinton's 1999 USA proposal, which was progressive, matched, and privately-owned individual retirement accounts but funded from non-Social Security surpluses, not from Social Security taxes.

6. Revise and Coordinate Asset-Limits in Safety Net Programs, and Link Them to Asset-Building Policies.

Advocates of asset development have always stressed that asset-policies are a complement to, not a replacement of, income support or "safety net" policies. Given that such income support policies have traditionally disallowed the accumulation of savings and assets, and that lump-sum transfers are potentially a large source of savings, it is particularly important that the issue of assets be addressed in this context, preferably along three lines.

First, asset-limits in Food Stamps, Supplemental Security Income (SSI), Medicare, and (some) TANF programs should be raised, streamlined, and coordinated. The current system is very complex, with some asset-limits set by the federal government, other set by the federal government but subject to state interpretation, while others are determined by the states.[7] Second, beyond revising asset-limits upward, explicit asset-building opportunities should be explored and expanded in these safety net programs. And third, lump sum payments should be formally linked to asset-building programs, such as IDAs. The potential with the Earned Income Tax Credit is, in fact, enormous (see Smeeding, this volume).

[7] See the "Federal IDA Policy Briefing Book," forthcoming from the Corporation for Enterprise Development, for a detailed discussion of asset-limits and other asset issues in income support programs.

7. Expand State-level Initiatives to Build Savings and Assets

As discussed, most states have adopted IDAs or IDA-like laws, and that number is likely to continue to rise. Like the federal government, state governments have many ways to foster asset accumulation—and, given the continuation or expansion of the "New Federalism" or "devolution" or "decentralization" of much social policy, such state-level asset-building opportunities are similarly likely to expand. Furthermore, preliminary analyses of state-level asset budgets (by the Corporation for Enterprise Development) in California and North Carolina show that state tax and other policies encourage asset-building for the non-poor in the same ways that policy does at the federal level. Accordingly, social, tax, education, housing, business development, and economic development policies at the state level should be examined to expand asset-building opportunities for the poor. Finally, rapidly expanding state-sponsored college savings plans (so called "Section 529" plans) hold potential to foster savings for education among lower-income households, so these should be explored as well, and linked to IDAs where possible (as Vermont has recently done).

8. Explore and Expand Alternative Ownership Strategies.

The policy recommendations offered thus far are admittedly account-based. While not the focus of this paper, a broader view of ownership does reveals several other possibilities to create more stakeholders in America.

Jeff Gates, author of *The Ownership Solution* (1998) and *Democracy at Risk* (2000) has articulated several interesting and provocative models for "third-way capitalism" and "peoplizing ownership." While Gates sees great potential in revising tax and energy policy as well as government contracts as a means to expand ownership—and generally sees little potential in strategies based on household savings tied to labor—he is most enthusiastic about ways that corporations can "include more stakeholders as shareholders, transforming outsiders into insiders." Another interesting set of ownership initiatives has been articulated by the Capital Ownership Group (COG), which is an "informal 'virtual think tank' of several hundred activists, academics, and other professionals whose mission is to create a coalition that promotes broadened ownership of productive capital."[8]

Finally, there is the bold and interesting Sky Trust proposal of Peter Barnes and Rafe Pomerance, which stems from CFED's common assets work and is premised on the idea that the sky is a common asset not owned by government or private interests, but by all citizens. What makes the sky valuable, as an asset, is that its ability to absorb carbon emissions is limited—hence recent international attention to warnings to curb "global warming." The Sky Trust proposal would claim (possibly through the establishment of a trust) the sky as a common asset belonging to all citizens, charge corporations and others for the right to pollute it, and then use the proceeds to benefit all Americans on a one-person, one-share basis. A similar structure could be established for other commonly held assets, such as the broadcast spectrum, fisheries, and water.

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While the above agenda is without a doubt ambitious, it is important to observe that in just the last few years a strong academic and political consensus has emerged that progressive asset-building is the right policy direction (Corporation for Enterprise Development, 2001). The

[8] For more information on COG and its policy recommendations, see http://cog.kent.edu/.

question appears to be no longer "whether," but "how." Asset-building is now on the table. This, in our view, is remarkable, in light of our 20-plus years in the anti-poverty and economic development fields. This consensus, which represents and transcends both the political and ideological right and left, surely accounts for part of the success IDA policy has enjoyed in the last few years (with the hard data generated by ADD that poor people can save deserving a large share of the credit as well). The fact that IDA policy proposals (let alone multi-billion dollar USA and RSA proposals) have gone from a few thousand in 1996, to a few million in 1998, to the $10-$20 billion of the *Savings for Working Families Act* in 2001 speaks to the enormous appeal of the idea of building assets for *all* Americans; we applaud Sherraden and others for pioneering this truly novel idea. Clearly, a large set of policy and political challenges remain; the honeymoon may in fact end soon. Still, public policy is, in our view, the *sine qua non* of a truly just society built on widespread asset ownership, so it is imperative that these challenges be identified, addressed, and overcome.

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