

# CSD Testimony

## **Inclusion in Asset Building**

Testimony for Hearing on  
“Building Assets for Low-Income Families”  
Subcommittee on Social Security and Family Policy  
Senate Finance Committee

Michael Sherraden

**CSD Perspective 05-24**

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**Center for Social Development**



George Warren Brown School of Social Work

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## **Inclusion in Asset Building**

Thank you, Chairman Santorum and Members of the Subcommittee. I am honored to present testimony today on inclusion in asset building. My statement is an overview of reasoning, theory, research, policy innovations, challenges, and potential for an inclusive policy for asset building in the United States, and beyond.

### **Context and Meaning of Asset-Based Policy**

The term “assets” has many potential meanings. These include financial wealth, tangible property, human capital, social capital, political participation and influence, cultural capital, and natural resources. While all of these meanings have value, I focus on meanings of assets that have direct relevance for social policy.

Public policy cannot do all things well. Policy is most successful in simple, large-scale tasks. More complex and particular tasks are often better left to communities and families. This thinking is captured by a saying from Confucius: “Governing a large country is like frying a small fish. You can ruin it with too much poking.”

Considering asset building in the context of public policy, it may be wise to focus on building financial wealth for the purpose of household social and economic development. Building financial wealth is something that public policy can do simply and effectively, and outcomes can be measured.

Income (as a proxy for consumption) has been the standard measure of poverty in the social policy. To be sure, income and consumption are essential, but they do not improve long-term conditions. Development of families and communities (that is, reaching potential) occurs through asset accumulation and investment (Sherraden, 1991).

From this perspective, income inequality is different from asset inequality in both extent and meaning. As an example, we can look at US income and net worth inequality by race. The ratio of white to non-white income is about 1.5 to 1, which is a large inequality. This means that the typical white person in America has about 50 percent more income than the typical person of color (African Americans and Latinos are the largest non-white groups). However, the ratio of white to non-white net worth (total assets minus total liabilities) exceeds 10 to 1 (Oliver & Shapiro, 1995; Kochhar, 2004). In other words the typical white person has net wealth more than ten times greater than the typical person of color. If assets represent potential for social and economic development, asset inequality may be the most fundamental racial issue in the United States.

As another view of why assets matter, we can compare household income poverty and asset poverty. Haveman & Wolff (forthcoming, 2005) have undertaken a detailed study of “asset poverty” in the United States. They find, for the year 1998, that official income poverty rate was 10.0 percent. As one definition of asset poverty, they look at net worth below three months of income at the poverty line. By this measure, they find a 25.5 percent asset poverty rate. As another definition of asset poverty, they look at liquid assets

(cash, savings accounts, checking accounts) below three months of income at the poverty line. By this measure they find a 39.7 percent asset poverty rate.

In 1999, the net worth of the poorest 10 percent of US households was negative \$1,800 (Caner & Wolff, 2004). Between 1983 and 2001, the average net worth of the poorest 40 percent of US households declined by 44 percent, falling to \$2,900 in 2001 (Wolff, 2004).

In other words, a large percentage of US households are “asset poor”. The above figures suggest two things: One, many US households have little financial cushion to sustain them in the event of a job loss, illness, or other income shortfall. And two, development of these households is limited by lack of assets for investing in education, homes, businesses, or other strategies to get ahead.

Today there is increasing questioning of income as sole definition of poverty and well-being. Amartya Sen (1993, 1999) and others are looking toward capabilities. Asset-based policy can be seen as part of this larger discussion. Asset holding is one measure of long-term capabilities. As public policy, asset building is a form of “social investment” (Midgley, 1999).

Asset-based policy would shift social policy from an almost exclusive focus on maintenance, toward a focus on development of individuals, families, and communities. In this sense, asset-based policy is an explicit complement to income-based policy (Sherraden, 1991).

This is not to say that there is no role for social insurance. Indeed the right idea is to *balance* asset-based policy with social insurance, supplemented by means-tested assistance where necessary. As I have testified before the President’s Commission on Social Security, if there are to be individual accounts, these should be above and beyond the existing Social Security system (Sherraden, 2001).

The goal of asset-based policy should be *inclusion*. By inclusion, I mean that policy should: (1) bring everyone into asset-based policy, (2) make asset-based policy life-long and flexible, (3) provide at least equal public subsidies for the poor in dollar terms; and (4) achieve adequate levels of asset accumulation, given the purposes of the policy.

### **Can Public Policy Aim for Asset Accumulation?**

Asset-based policy is not new. The United States and many other countries already have large asset-based policies. In many cases, these operate mostly through the tax system, i.e., the public transfers occur via tax benefits (either tax deferments or tax exemptions). In these circumstances, the poor, who have little or no tax liability, often do not receive any benefits.

Examples of US asset-based policy include: home ownership tax benefits; investment tax benefits; defined contribution retirement accounts with tax benefits at the

workplace, such as 401(k)s, 403(b)s (named after sections of the internal revenue code); and defined contribution accounts away from the workplace, such as Individual Retirement Accounts (IRAs), and Roth IRAs. Other asset accounts with tax benefits include Individual Training Accounts, Educational Savings Accounts, State College Savings (529) Plans, and Medical Savings Accounts.

These asset-based policies in the United States are growing rapidly. Individual account policies have all appeared since 1970, and there are more variations of these all the time. Total tax expenditures for asset building in homes, retirement accounts, and investments are growing rapidly.

Altogether, asset-based policies in the United States are large and regressive. Over \$300 billion annually in tax expenditures for assets (homes, investments, retirement accounts), and over 90 percent of this goes to households with incomes over \$50,000 per year (Sherraden, 1991; Howard, 1997; Seidman, 2001; Corporation for Enterprise Development, 2004).

The shift to individual asset accounts in social policy is occurring in many countries around the world, and policy discussion is emerging (e.g., OECD, 2003; World Economic Forum, 2003; USAID, 2004). Indeed, as a global phenomenon, this is a near revolution in public policy. This is especially true in retirement policy. It is rare to see a new retirement policy based on principles of social insurance, and common to see a new retirement policy based on principles of defined contribution in the form of individual accounts. It is possible that asset accounts will become a primary social policy instrument during the 21st century.

At the same time, the poor do not have the same opportunities and subsidies for asset accumulation. The reasons are threefold. First, the poor are less likely to own homes, have investments, or have retirement accounts, where most asset-based policies are targeted. Second, the poor have little or no tax incentives, or other incentives, for asset accumulation. Third, asset limits in means-tested transfer policies discourage saving by the “welfare poor,” and probably also the “working poor” (Powers, 1998; Ziliak, 1999). In effect, the United States and many other countries have a dual policy, consisting of asset building subsidies for the non-poor, and asset building disincentives for the poor. This dual policy is both unfair and counterproductive. If asset building is how individuals, families, and communities develop, then a sensible public policy would promote asset building for all, because this would have the greatest payoff in social and economic development.

Given these conditions, we may ask: Why not asset accumulation by the poor?

### **Policy Innovation**

My first insight for this thinking came during my discussions with “welfare” mothers during the 1980s. The women said that part of the problem was that they could

not “get anywhere” because they could not accumulate resources for long-term goals such as better housing, education, or starting a small business.

These discussions led to a proposal for Individual Development Accounts or IDAs. IDAs were proposed as (1) universal savings accounts, (2) started as early as birth, (3) with savings matched for the poor, up to a cap, (4) multiple sources of matching deposits, (5) accompanied by financial education, and (6) savings to be used for investments in homes, education, business capitalization, or other development purposes (Sherraden, 1991).

Since asset-building and IDAs were proposed, there has been modest policy progress in the United States. There have been increases in welfare asset limits in nearly all states during the 1990s. IDAs were included as a state option in 1996 “Welfare Reform Act”. The federal Assets for Independence Act, first public IDA demonstration, became law in 1998. Other legislation to extend IDAs is before the US Congress (Boshara, 2003; Cramer et al., 2005). Over 40 US states have adopted some type of IDA policy (Edwards and Mason, 2003). All of this signals a change in thinking, but not yet a major change in policy. Most IDA programs in the United States are very small.

The most important contribution to date is that saving and asset accumulation by the poor, which was seldom discussed 15 years ago, is today a mainstream idea in the United States, and political support is bipartisan. Both Republicans and Democrats use the language of “asset building”, “asset-based policy”, “stakeholding”, and “ownership society”.

Research on IDAs at the Center for Social Development at Washington University in St. Louis (CSD) has had some impact policy development elsewhere, including the Saving Gateway and Child Trust Fund in the United Kingdom (HM Treasury, 2001, 2003; Sherraden, 2002; Paxton, 2003; Kempson et al., 2003, 2005), Family Development Accounts in Taipei (Chen, 2003), IDAs and “Learn\$ave” demonstration in Canada (Kingwell et al., 2003), and matched savings programs for the poor in Australia, Uganda, and elsewhere.<sup>i</sup>

## **Theory and Evidence**

Two general theoretical statements underlie this work. The first is that saving and asset accumulation are shaped by institutions, not merely individual preferences. In CSD’s research on IDAs, we have identified the following institutional factors that may affect saving and asset accumulation: (1) access, (2) expectations, (3) information, (4) incentives, (5) facilitation, (6) restrictions, and (7) security (Beverly & Sherraden, 1999; Sherraden, et al., 2003; Sherraden & Barr, forthcoming, 2005). These constructs appear to be useful in explaining saving outcomes, and they have direct relevance for policy.

For example, we find in research on IDAs that, controlling for many other factors, the monthly saving target (expectation) is associated with a 40-to-50-cent increase in average saving for every dollar the target is increased—a huge effect. We find that financial education (information) up to about 10 hours is associated with increased saving

performance, but after 10 hours there appears to be no effect. Because financial education is expensive, this is important to know. We find that increasing the saving match (incentive) keeps people saving in the IDA program, but among the “savers” does not increase amounts saved. This result is very similar to findings in research on 401(k)s. We find that direct deposit (facilitation) also keeps people saving but among “savers” does not increase amounts saved (Schreiner et al., 2002; for the most recent analyses see Schreiner & Sherraden, forthcoming, 2005).<sup>ii</sup>

We find that IDA participants see the program as an opportunity (access) that they would not otherwise have, because few are offered retirement plans at work. In a focus group, one potential IDA participant said, “I get it. This is like a 401(k), only for us.” We find that IDA participants like the fact that their matched saving account is “off limits” and can be used only for specific purposes (restrictions), even though this is contrary to mainstream economic theory which assumes that people prefer as much choice as possible (Margaret Sherraden et al., forthcoming).

These and other results from IDA research have direct relevance for saving policy, program, and product design.

The second theoretical statement is that assets have multiple positive effects, not merely deferred consumption. To take one example, it may be that homeownership creates not just financial equity in housing, but also more stable and more committed citizens. Theory regarding effects of asset holding, when specified and supported by evidence, has the potential to provide a solid rationale for inclusive asset-based policy. The possible effects of asset holding are to: (1) improve household stability, (2) create orientation toward the future, (3) stimulate enhancement of assets, (4) enable focus and specialization, (5) provide a foundation for risk taking, (6) increase personal efficacy, (7) increase social connectedness and influence, (8) increase political participation, and (9) enhance the well-being of offspring (Sherraden, 1991). A broad range of research in economics, sociology, political science, anthropology, and social work provides evidence generally in support of these propositions (for reviews, see Page-Adams & Sherraden, 1997; Scanlon & Page-Adams, 2001).

### **Research on Effects of Assets**

In this section, I briefly review some of the research on effects of asset holding. First we turn to examples of basic research, using existing large data sets.

In a study of the “asset effect” Bynner & Paxton (2001) use the longitudinal National Child Development Study in the United Kingdom. They find that holding assets at age 23 is associated with later positive outcomes such as better labor market experience, marriages, health, health behaviors, and political interest. This generally supports the “multiple positive effects” perspective on asset holding. These researchers also find that the presence of an asset appears to matter more than the monetary value of the asset. This latter finding raises theoretical, measurement, and policy issues that are important. For

example, if the presence of a housing asset matters most, then policy should encourage home ownership as early in adult life as possible.

In a study using the Panel Study of Income Dynamics (PSID), accompanied by field interviews, Shapiro (2004) finds that intergenerational wealth transfer is very different by race. He also finds that the presence of small wealth at critical times, especially for home ownership and being in a better neighborhood for schooling, can have “transformative” effects on the life course. This idea of a “transformative” asset at critical times may have important policy implications.

Looking at the impact of wealth on child developmental outcomes, Williams (2003), using the PSID, finds that, controlling for many other factors, parental wealth is positively associated with cognitive development, physical health, and socio-emotional behavior of children. This supports the proposition of assets leading to better well-being of offspring--in this case, above and beyond economic well-being. Williams finds that the effects occur even among very income-poor families. She also finds that wealth seems to be a better predictor of well-being as children grow older (while income is a better predictor when they are younger). This last finding may suggest that “asset effects” are a long-term phenomenon, perhaps not easily measured in the short term.

In a study of assets, expectations, and educational performance, Zhan & Sherraden (2003), using longitudinal data from the National Survey of Families and Households, find that low-income, single mothers’ assets are positively associated with children’s educational attainment. These results occur in part through expectations of the mother: Assets are associated with higher educational expectations, which are in turn associated with higher educational attainment. This study supports a cognitive theory of “asset effects”, wherein assets may change thinking, which in turn may change behavioral outcomes. Also of note in this study, income is associated with educational achievement when assets are not in the model. However, income becomes non-significant when assets are included. This finding suggests that much prior research on effects of economic resources on well-being may be under specified when assets are not included in the regression models.

In a test of assets on multiple outcomes, Yadama & Sherraden (1996) use the PSID and simultaneous equation modeling to test alternative theories within the same study. The focal explanation is that assets lead to positive attitudes and behaviors. The two alternative explanations are that (a) positive attitudes and behaviors lead to assets, and (b) income leads to positive attitudes and behaviors. All three explanations are supported to some extent in the analysis, but the focal explanation has the strongest support. The finding that assets lead to positive attitudes and behaviors, and positive attitudes and behaviors lead to assets may be a glimpse of a “virtuous cycle”, wherein household development is a reinforcing feedback loop. Arguably, the most efficient use of public policy is to find such virtuous cycles and support them.

Turning to examples from applied research on IDAs, we turn to some of the results of the American Dream Demonstration (ADD). ADD was the first major demonstration of



IDAs. It took place at 14 IDA programs around the United States. ADD from 1997 through 2001, with research continuing through 2005. ADD was organized by Corporation for Enterprise Development (CFED) in Washington, DC, and research designed by Center for Social Development.

One of the most important findings in ADD is that, controlling for many other individual and program variables, income was only weakly associated with saving outcomes, i.e., the poorest participants saved about as much as those who were not as poor, and saved a higher proportion of their income (Schreiner et al., 2002). This finding suggests that saving by the very poor should not be dismissed in public policy.

Turning to uses of IDA savings, at the last data collection point, 754 participants (32 percent) had taken a matched withdrawal (“purchased an asset”). Of these 28 percent were for home purchase, 23 percent for microenterprise, 21 percent for post-secondary education, and 18 percent for home repair. The intended use among the remaining IDA “savers” was 55 percent for home purchase (Schreiner et al, 2002). These results indicate a high demand for home ownership among this group, and raise the question of demand for home ownership among low-income people in general.

Turning to possible effects of IDAs, a cross-sectional survey of ADD participants reports the following: On perceptions of economic effects, 59 percent agree or strongly agree that, because of the IDA, they are more likely to work or stay employed, and 41 percent are more likely to work more hours. On human capital effects, 59 percent agree or strongly agree that, because of the IDA, they are more likely to make educational plans for themselves, and 60 percent to make educational plans for their children. On security and control effects, 84 percent agree or strongly agree that, because of the IDA, they feel more economically secure; 93 percent feel more confident about the future; and 85 percent feel more in control of their life (McBride et al., 2003). Because these are only opinions, and the data are cross-sectional, these results are only suggestive, but they do indicate that asset holding in the form of IDAs may have very positive psychological and behavioral outcomes.

On IDAs and future orientation, in-depth interviews with IDA participants and controls reports that IDA participants say they can “see more clearly” and “better visualize a future” than they could before IDAs. IDA program are said to “create goals and purpose”, and provide “way to reach goals” (Margaret Sherraden et al., forthcoming). These findings may support a cognitive approach to understanding “asset effects”, that is, it appears that asset holding changes the way people think.

Experimental results from ADD report that, compared to a randomly assigned control group, IDA participants increased their rate of homeownership and total assets. Positive effects appear to be stronger for African Americans (perhaps because past practices have discriminated against African Americans in home ownership, leading to greater demand). The IDA program did not affect net worth over the time of the study (Mills et al., 2004). These results may suggest that IDAs can move people into asset holding, though effects on net worth, at least in the short term, are not evident. In

additional analysis of these data, we find evidence of positive social outcomes in marriage and household relationships (CSD research in progress).

Overall, results from both basic and applied research suggest that asset holding has multiple positive effects.

### **Directions for an Inclusive Asset-Based Policy**

Reflecting on progress to date, this body of work is contributing to a change in thinking about poverty and policy. The idea of inclusive asset building is now common in US policy discussions. This is apparent in proposals for expanded IDAs, such as legislation for the Savings for Working Families Act currently before the US Congress, and many other ideas and proposals for asset building. But today we are far short of a large, inclusive policy.

So that discussion of large-scale policy does not seem entirely speculative, we turn next to proposals for a large, inclusive saving plans in the United States, and a universal, progressive child saving policy in the United Kingdom.

President Clinton proposed Universal Savings Accounts (USAs) in his State of the Union address in 1999. In his State of the Union address in 2000, Clinton offered a similar proposal, saying:

*Tens of millions of Americans live from paycheck to paycheck. As hard as they work, they still don't have the opportunity to save. Too few can make use of IRAs and 401(k) plans. We should do more to help all working families save and accumulate wealth. That's the idea behind the Individual Development Accounts, the IDAs. We ask you to take that idea to a new level, with new retirement savings accounts that enable every low- and moderate-income family in America to save for retirement, a first home, a medical emergency, or a college education. We propose to match their contributions, however small, dollar for dollar, every year they save.*

The USA proposal in 1999 was like a 401(k) for all workers, with deposits and matching funds for those with lowest incomes.

During the presidential campaign of 2000, George W. Bush proposed \$1 billion in tax credits to financial institutions to match savings in IDAs. During the campaign, Bush (2000) said:

*If a low-income person is able to save up to three hundred dollars, we will encourage banks, with a federal tax credit, to match that amount. The money can then be withdrawn tax free to pay for education, to help start a business or buy a home.*

*The great promise of our time is to fight poverty by building the wealth of the poor. A home to anchor their family. A bank account to*

*create confidence. And, I believe, a personal Social Security account, which would give millions of low-income Americans not just a check, but an asset to own, a stake in our prosperity.*

### **Potential of Children's Savings Accounts**

With Senator Santorum as a leader and original co-sponsor, a visionary and bipartisan ASPIRE Act, which would create a savings account for every newborn in the United States, has been introduced in the Congress in 2004 and 2005.<sup>iii</sup>

A serious discussion of asset-based policy began in the United Kingdom in 2000 (Kelly & Lissaur, 2000; Nissan & LeGrand, 2000; Institute for Public Policy Research, 2001). In a major policy development in April 2001, Prime Minister Tony Blair proposed a Child Trust Fund for all children in the United Kingdom, with progressive funding. He also proposed a demonstration of a Saving Gateway, matched saving for the poor. Blair (2001) said:

*I believe we have already made important strides in extending opportunity for all – through improving skills and work, through improving living standards, and through improving the quality of public services.*

*But now we want to add a fourth element: more people getting the benefit of assets and savings, so that we help spread prosperity and opportunity to every family and community.*

*We want to see all children grow up knowing that they have a financial stake in society. We want to see all children have the opportunity of a real financial springboard to a better education, a better job, a better home, a better life.*

In April 2003, Prime Minister Blair announced that he would go forward with the Child Trust Fund. Beginning in April 2005, each newborn child is being given an account, retrospective to children born from September 2002. The children receive an initial deposit of at least 250 pounds, and children in the bottom third of family income will receive 500 pounds. Additional government deposits are not yet specified. (HM Treasury, 2003). The Child Trust Fund provides universal and progressive contributions to the child's account. As David Blunkett (2000) observed when he was Secretary of State for Education and Employment: "We are on the cusp of a different way of looking at the welfare state – one which focuses on capital and assets."

Universal and progressive accounts for all children at birth have been proposed in the United States by Sherraden (1991), Lindsey (1994), Boshara & Sherraden (2003), Cramer (2004), and Goldberg (forthcoming, 2005).<sup>iv</sup> Children's savings accounts (CSAs) may be a promising pathway to inclusive asset building in United States. As one perspective on this, the United States is one of the few economically advanced nations without a children's allowance (monthly cash payment to all families with children). The average children's allowance in Western Europe is 1.8 percent of GDP. The United States is unlikely, for ideological and political reasons, to adopt a children's allowance, but a

CSA is ideologically and politically much more likely. Even 0.1 percent of US GDP would be enough for a \$2,500 start in life account for every newborn (see Curley and Sherraden, 2000).

The Ford Foundation and several other foundations are now in the process of demonstrating and testing an inclusive CSA in the form of the Saving for Education, Entrepreneurship, and Downpayment (SEED) initiative. SEED is a demonstration and research partnership among CFED, CSD, the New America Foundation, the Institute for Financial Security of the Aspen Institute, and others. The goal of SEED is to model, test, and inform a universal CSA policy for the United States. I am particularly grateful to the Ford, Charles Stewart Mott, and MetLife Foundations for funding SEED research, so that we can learn as much as possible from this demonstration.

The potential of CSAs as a long-term pathway to inclusive asset building may be great, because: (1) lifetime accumulation and compounded earnings will lead to greater asset accumulation; (2) it is likely that having an account from birth will create positive psychological and behavioral effects for both parents and children; (3) there are very important reasons to save for education and home ownership, in addition to retirement (education and home owning are ultimately retirement strategies as well); and (4) newborns are in some ways more politically appealing than adults. Regarding the last point, investing in children can be a bipartisan effort, even in these partisan times (see for example the bipartisan effort for the ASPIRE Act).

Of course, a CSA is not ultimately about children. After several generations of children born with a CSA, everyone would have an account throughout life.

Thinking about this in terms of institutions and behavioral economics, there is a great deal of current research and discussion about “defaults”, that is, putting people in a saving plan (or some aspect of it) unless they make a choice *not* to participate (sometimes called “opt out” or “automatic”). We might think of a universal CSA as the ultimate “default”—every child would automatically be born with a birth certificate and an asset-building account.

Looking to the future, CSAs may also have appeal in developing countries, and for international aid. Although it may seem farfetched today, it is conceivable that, when information technology is well developed, there could be an account for every newborn on the planet. No other single strategy that would have a greater impact on economic development. For example, one of my former graduate students, Fred Ssewamala, now on the faculty at Columbia University, is testing CSAs with HIV/AIDS orphans in Uganda. His strategy is to enable the children to save enough to pay for secondary school (four years of secondary school costs about US\$600). These young people will be vastly better off economically and socially if they complete secondary school. If every child had an account, these could be targets for international aid that goes directly to children—avoiding dictators, mismanagement, and corruption.

Such accounts would promote international ties and might even contribute to mutual interests, tolerance, and peace. For example, imagine what would happen if every child in the Middle East had a Middle East Development Account (MEDA), and some portion of the billions of dollars that pour into violence in that region instead poured into MEDAs.<sup>v</sup>

### **Transnational Accounts in the Future**

Looking to the future, the world is becoming more global. During the 20<sup>th</sup> century, social policies were created within nation-states. With more mobile populations, and increasing regional and global ties, it is very likely that social policies will begin to transcend national boundaries during the 21<sup>st</sup> century (this is already apparent in the European Community and in some aspects of regional agreements elsewhere). Eventually, workers should be able to participate in retirement plans and health care policies, regardless of where they work. Asset accounts may be the chief instrument for regional and global social policies, due to ease of portability (Sherraden, 1997).

As one small example, IDA projects with remittances to Mexico are under discussion. (Remittances are capital flows from expatriate workers to their home country. US-to-Mexico remittances are substantial, larger than foreign direct investment in Mexico.) Mexican workers could build assets in IDAs wherever they were working. Eventually there might be regional, portable accounts, perhaps called North American Development Accounts (alas, the acronym NADA means “nothing” in Spanish; probably a different name will have to be found). These accounts could be used for housing, education, retirement savings, and other social and economic purposes.

## Public Sector Role

In America, we have very well developed financial services and as efficient, transparent, and secure financial markets as any in the world. These markets are a huge national and global resource. In any savings policy, it would be almost foolish not to use private markets for investments.

This said, however, there is a necessary role for the public sector in an inclusive savings policy.

Although sometimes called “private” or “privatized”, asset building in the form of defined contribution individual accounts (the most likely vehicle for this policy) are in fact defined and regulated by government, often with large public subsidies through the tax system. In these fundamental senses, these are *public* policies.

There is a critical role of the public sector. Large-scale, inclusive asset building cannot occur through private corporations or non-profit organizations. Government will be required for: (1) establishing the institutional framework that brings everyone into the asset building and keeps costs low, (2) legal protections and regulation, and (3) resources for inclusive asset building.

Major long-term challenges include: (1) financial infrastructure (the ability to take deposits and hold accounts), (2) investment risk (both individual and for the pool of accumulated capital), (3) government risk (stability of policy, effectiveness of governance), and (4) currency risk (primarily the threat of inflation).

The considerable advantages of asset building as a family and community development strategy are that: (1) it is simple and clear, (2) it is easy to communicate, (3) it has widespread appeal and acceptance, (4) it is flexible and adaptable, (5) it can be both a large policy and a local strategy, (6) outcomes are relatively easy to measure, (7) multiple positive outcomes are likely, and (8) theoretical propositions are testable.

The basic principles for an inclusive asset-based policy are (in order of priority): (1) universal: bring everyone into asset-based policy; (2) fair: at least subsidies for the poor; <sup>vi</sup>(3) life-long: birth to death, and flexible across the life course; and (4) adequate: sufficient assets to achieve policy purposes.

## The Challenge of Inclusion

The greatest challenge in asset-based policy is *inclusion*. This challenge is in part technical, in part academic, and in part political, but mostly it is a matter of policy design.

The technical capability to create universal asset accounts is rapidly developing. Information technology will one day make it possible to give everyone an account, with instantaneous and secure investment options in any of the financial markets in the world. This technical capacity, one aspect of “globalization” in the information age, has the potential to sweep the entire planet into social and economic development more completely than has heretofore occurred.

Academically, the knowledge base for how to shape asset-based policy, and its likely effects, is also developing, as illustrated by research examples in this testimony. There is more work to do in specifying and testing theory, and drawing policy implications. To keep this in perspective, however, we can already say with confidence that asset holding is likely to have multiple positive effects. Some of the most important effects may be with development of children. Moreover, we have reason to think that institutional factors such as access, information, incentives, and facilitation affect saving and asset accumulation, and these have direct policy relevance (as discussed above).

Still other considerations are political. Creating an inclusive asset-based policy will require visionary leadership, raising asset building to the level of a long-term national project. This project would be, in the most basic sense, creation of a universal system of accounts, an infrastructure to promote asset accumulation. This is perhaps analogous to creation of a national system of highways to promote transportation. Once the infrastructure is in place, development will occur.<sup>vii</sup> Political leaders and planners would have to understand asset building in these expansive terms. Once established, such a policy would likely generate strong political support, for example note the exceptional popularity of the Central Provident Fund of Singapore (Sherraden et al., 1995; Vasoo & Lee, 2001), and the same is likely to happen with the Child Trust Fund in the United Kingdom.

Looking to the future, asset accounts are ideally suited to the 21st century economy because of their greater individual control, choice, and portability, even across national boundaries. The continuing development of information age financial services will be a key to asset-based policy by increasing feasibility and reducing risks.

### **Pathway to Inclusion: Not Just Saving Products—a Saving Plan**

If saving and asset building are to be inclusive, the policy must be in the form of a *savings plan*, such as a 401(k) or 403(b) plan, the Federal Thrift Savings Plan, or a College Savings (529) plan. Such plans are in fact how most Americans are able to save.

To bring this point home, each of this in this room should pause and ask ourselves how much retirement savings we would have if we were not in a 401(k), Thrift Savings Plan, or similar saving plan structure. Every American should have this opportunity.

Savings plans (contractual savings) have important features that lend themselves to *inclusion*. These features are: centralized and efficient accounting, outreach and education, a limited number of low-cost investment options, low initial and on-going deposit requirements, automatic deposits, and opportunities to establish other practices and “defaults” that increase saving performance. These include automatic enrollment, savings match, match cap (amount of savings that can be matched), a default low-cost fund, automatic increases in savings deposits with pay raises. During the payout period, it may be desirable for a required minimum annuitization for income protection.<sup>viii</sup>

For these very good reasons the ASPIRE Act calls for a plan structure something like the Federal Thrift Savings Plan.

At the Center for Social Development, we think there is also potential in using College Savings (529) plans as a platform for inclusion in asset building. To be sure, some state 529 plans have high fees and high investment costs, and such plans are undesirable. But some state 529 plans keep costs low, have very low deposit requirement, provide outreach to state residents, and match savings for the poorest savers. These state plans, or something like them, have the potential to be a platform for an inclusive children’s savings account (for research and discussion, see Clancy & Sherrden, 2003; Clancy, Orszag, & Sherraden, 2004; Clancy, Cramer, & Parrish, 2005).

Recognizing the importance of a plan structure, President Bush, when discussing individual accounts and Social Security in his 2005 State of the Union Address, said:

*The goal here is retirement, so we will set careful guidelines for personal accounts. We’ll make sure the money can only go into a conservative mix of bonds and stock funds. We’ll make sure that your earnings are not eaten up by hidden Wall Street fees. We’ll make sure there are good options to protect your investments from sudden market swings on the eve of retirement. . .*

*Personal retirement accounts should be familiar to federal employees, because you already have something similar, call the Thrift Savings Plan, which lets workers deposit a portion of their paychecks into any of five different broadly-based investment funds.*

While I do not think that personal accounts should be “carved out” of the existing social insurance system, I heartily agree that there is an important role for inclusive personal accounts in public policy. In this regard, President Bush is exceptionally wise in calling for a savings *plan* with a few simple investment options, very low costs, incentives for those with low-incomes, and basic protections that are possible only within a plan structure.



## **Conclusion**

If properly designed as an inclusive and low-cost savings plan, an inclusive asset-based policy would be a large-scale public good. All citizens could benefit. The policy could drive asset accumulation in households, spur economic development, and create more engaged citizens for many decades into the future. This is not farfetched. A transition to asset-based policy is already occurring and will likely continue. The major challenge is to have the vision and commitment to include everyone, and the policy wisdom to use a savings plan structure to do so.

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## Resources on Asset-Based Policy and Research

New America Foundation  
Washington, DC  
[www.newamerica.net](http://www.newamerica.net)

CFED  
Washington, DC  
[www.cfed.org](http://www.cfed.org)

Institute for Public Policy Research  
London  
[www.ippr.org.uk](http://www.ippr.org.uk)

Center for Social Development  
Washington University in St. Louis  
<http://gwbweb.wustl.edu/csd/>

## Endnotes

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<sup>i</sup> CSD has consulted in the policy and program innovations listed here.

<sup>ii</sup> These findings on IDAs are based on account monitoring research in the “American Dream Demonstration” (ADD). ADD was implemented by the Corporation for Enterprise Development (now CFED). ADD research at CSD was funded by the Ford, Charles Stewart Mott, F.B. Heron, and MetLife Foundations.

<sup>iii</sup> An important background paper for what became the ASPIRE Act was written by Reid Cramer (2004). Ray Boshara and his team at the Asset Building Program at the New America Foundation have been very instrumental in organizing the introduction of the ASPIRE Act.

<sup>iv</sup> Discussions of CSAs in the United States go back at least to the George H.W. Bush administration. Goldberg was a proponent of CSAs in the Bush senior administration, and at the request of the Bush White House, Sherraden outlined a plan for a CSA with an initial deposit of \$1,000 for all children in the United States.

<sup>v</sup> Preliminary discussions are underway for a Middle East Development Account. This is tough going; dialogue is often impossible; but we hope for a small pilot project to begin.

<sup>vi</sup> I prefer that asset-building policy is progressive, i.e., greater subsidies for the poor, but I would settle for a policy that is at least fair, i.e., equal subsidies for everyone in dollar terms. Today, asset-based policy in the United States is a long way from fair. To take one example, some wealthy households get \$20,000 or more in annual subsidy for home ownership (via the mortgage interest tax deduction), while most poor households get nothing. A fair home ownership policy would provide the same dollar amount to every household.

<sup>vii</sup> For this insight on universal asset accounts as a public infrastructure and public good, I am indebted to Fred Goldberg.

<sup>viii</sup> These plan features are expressions of institutional constructs for saving, discussed above.