



Savings, Responsibility and Opportunity in America

Dalton Conley, New York University

New America Foundation | April 20, 2009

When President Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, he changed the moral debate over poverty. No longer could Ronald Reagan's heirs wave help-wanted ads and ask sarcastically why those welfare queens couldn't find a job when there were so many to be had. Now everyone was working, training for a job, or looking for one. It was the law, after all. With benefits now linked to work, progressive politicians could have argued for a new type of social safety net. But they missed the opportunity to rethink the social contract in this new moral universe.



In the meantime, another important economic trend has emerged: the end of private savings in America. In 1984, the private savings rate stood at 10.4% of national income. By 2006--even before the most recent economic crisis--it had slid into the red. We have the lowest savings rate of the G20 countries, and the lowest rate since the Great Depression necessitated negative savings. It is understandable that Americans may refrain from saving when faced with job loss, health crisis or other deleterious economic shocks. How is it possible, however, that we had negative savings prior to the recession, in a time of economic growth? It turns out that the run-up in housing prices during the bubble's expansion led many Americans to count on continuously rising capital values to pull out equity, creating a negative savings rate even as overall net-worth levels remained stable (for a time, at least). The disturbing juxtaposition of diminished savings when times are both good and bad suggest that something more fundamental--that is, structural--has shifted to erode the basis for thrift in America. What exactly is the deeper problem and what can be done about it? This essay will first discuss the current state of asset security and volatility for American households, then address the role of savings and assets in a more complete, intergenerational view of economic mobility and opportunity. Following that, I briefly outline the problems of over-reliance on siloed and employer-based savings plans; finally, the essay concludes with suggestions about how to systematically redesign asset-related policy in line with the insights provided throughout.

The Dynamics of Savings and Wealth

There are, of course, a number of macroeconomic factors that contribute to the national decline in savings. But there are also a number of structural impediments to savings, and a corresponding lack of barriers to credit and consumption. The main one is the same issue that is at the root of the health-care crisis: over-reliance on employers to provide the main mechanism for savings. In an era of flextime and frequent job change, only about half of workers are covered by employer-sponsored retirement plans. And less than 30% of low-income workers have the opportunity to take advantage of such plans. Just as it does not make sense for the U.S. to lean on employers to provide health care from a competitiveness or efficiency standpoint, the same can be said for savings policy. It is time to recognize that a system created in a previous labor market does not work in today's post-industrial climate.

Individuals should be able to enjoy all the tax and match benefits of savings no matter for whom they work (or whether they do not work at all, in the case of children, the retired or homemakers). Among other problems with the asset accumulation landscape in America is the fact that tax-preferred savings plans are siloed--there are (many) plans for retirement, plans for medical expenses and plans for educational expenses.

The need to align savings policies becomes all the more important when we recognize the salience of savings and assets to other important realms of social and economic life. It was only fairly recently that social scientists

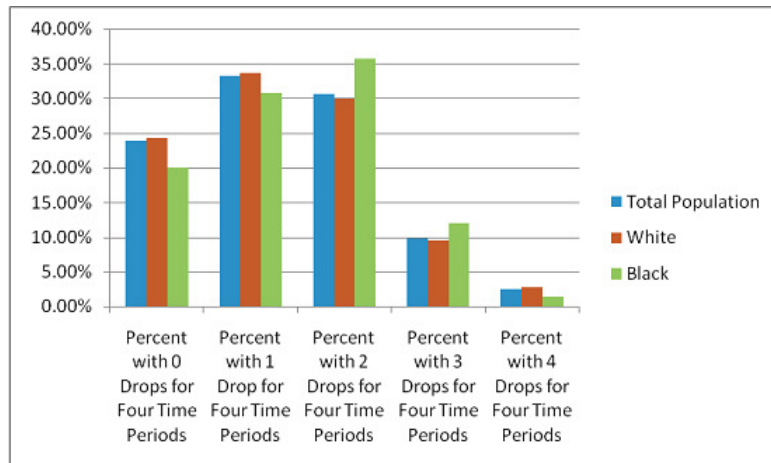
concerned with the determinants of mobility and opportunity recognized the predictive power of parental wealth on children's achievement. This is due to the fact that--for a variety of technical and epistemological reasons--reliable data on assets and liabilities was not collected as part of most household economic surveys. Then, in 1984, two longitudinal studies added questions about wealth, debt and asset types to their surveys: the Survey of Income and Program Participation (SIPP), which is a short-term panel combined with a repeated cross-section, and the Panel Study of Income Dynamics (PSID-mentioned above), an ongoing longitudinal study that began in 1968 with 5,000 American families (including an oversample of low-income households). The National Longitudinal Survey of Youth soon followed suit as well.

Meanwhile, in 1992, Michael Sherradan forcefully argued that assets must be part of any comprehensive safety net in his book, *Assets and the Poor*. By 1995, Melvin Oliver and Thomas Shapiro persuasively argued that wealth differentials were crucial to understanding the persistence of black-white inequality in *Black Wealth/White Wealth*. And in 1999, I used intergenerational data to show that, along with parental education, parental assets are the single best predictor of educational (and other socioeconomic) success for blacks and whites. Parental wealth proves so powerful, in fact, that when added to statistical models, parental income, occupation and race no longer appear to matter. That is, while race, income, job status and net worth all tend to vary hand-in-hand, careful statistical parsing shows that it is really net worth that drives opportunity for the next generation. Most recently, the Pew Economic Mobility Project has highlighted the importance of assets to enhancing mobility and opportunity.

These various statistical models on the role of wealth in the attainment level of offspring are based on observational data--meaning they result from analysis of existing responses to economic surveys. So there is always a lingering worry that the effect of parental net-worth (or education for that matter) is not really causal, but instead reflects the unobserved differences between asset-holders and the asset-less. However, given the number of "control" variables, I am betting that the possibility that unobserved differences explain these strong effects is minimal. That said, however, new research needs to be funded to test these outcomes in an experimental fashion. The American Dream Demonstration Project evaluation has tried to assess the impact of participation in an asset-matching Individual Development Account plan. However, this and other evaluations have focused more on the mechanics of savings and withdrawal and less on the social outcomes for offspring in any sustained manner. Also, the nature of the program makes it difficult to disentangle the impact of savings from the impact of asset-holding.[1]

These cautions aside, there are manifold reasons to expect parental assets to be causal with respect to the attainment level of offspring: having assets provides the economic resources for education--including tuition and extracurriculars--and serves as a proxy for a high-quality school district. After all, income flows are what pay the weekly bills; assets are the stuff mobility is made of. Second, there is the fact that having assets may create a future orientation and a greater investment in capitalism.[2] The very fact of having wealth that compounds may affect what economists call someone's "discount rate"-relative valuation of the future versus the present. When the future seems brighter and the trade-offs between the future and the present become more tangible thanks to the visible activity of investments, an individual's time horizon may lengthen. This could have all sorts of spill-over effects such as deferment of gratification, better health behaviors, avoidance of risk, and advance planning. (For example, parental net-worth and parental education are the two best predictors of teenage childbearing and welfare

Figure 1: Percentage of American Households that Experienced Wealth Drops in Inflation-Adjusted Dollars between 1984 and 2003



(Data from Panel Study of Income Dynamics)

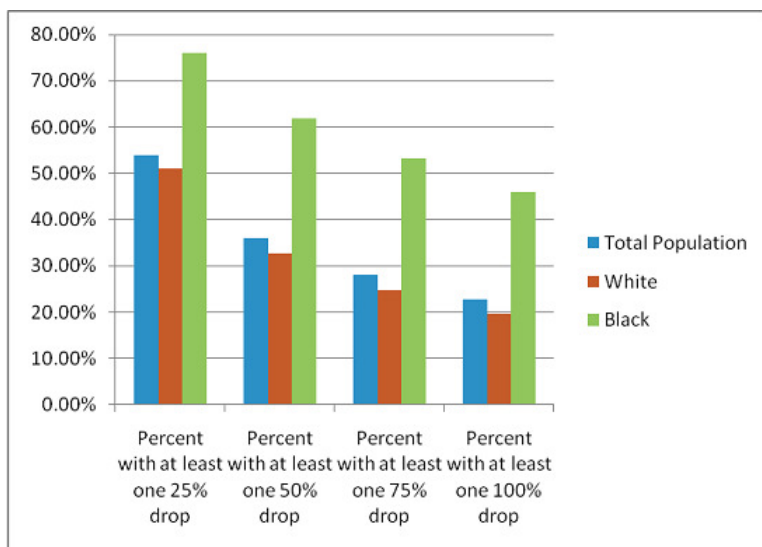
usage.) Third, net worth may provide a sense of security and status that translates to confidence and higher aspirations.

This last issue of economic security has gotten a lot of attention as of late; however, almost all analysis has focused on income volatility. Wealth has been regarded as a cushion that absorbs some of the income shocks, but little consideration has been given to the stability (or volatility) of wealth stocks themselves. This is particularly concerning in a period of recession and financial chaos--especially such a period that follows a boom in which net private savings was negative. In a recent analysis, University of New Hampshire sociologist Rebecca Glauber and I examined wealth volatility over the course of the two decades between 1984 to 2003, a period of incredible growth both in the value of equities and in the number of Americans who participated in the stock market (either directly or indirectly through mutual funds and 401(k)s). Likewise, this was also a period of almost continuously rising home ownership rates. We have calculated descriptive statistics for total net-worth, which includes home and business equity, the value of defined contribution pensions, other forms of financial assets and even vehicles. We have also run these figures without housing wealth included in order to factor out the vagaries of the housing market, and the story remains very much the same.

In this analysis, we found that there is substantial volatility among the U.S. population. Figure 1 presents the percent of individuals who experienced drops in their wealth as measured over four time periods: 1984-1989; 1989-1994; 1994-1999; 1999-2001; and 2001-2003. We have adjusted wealth for inflation, and one drop in wealth signifies at least a one dollar drop from one time period to the next. Because we would expect individuals to spend their wealth during retirement years, our sample consisted solely of pre-retirement adults. Thus, a drop in wealth for this working-age population may indicate a significant event, perhaps related to shocks in their health or their job, or to an event of more limited magnitude such as college tuition payments or moderate housing or stock price fluctuations.

We find that a significant proportion of individuals in the U.S. experienced at least one drop in wealth during these years. African Americans and whites have a similar average number of drops in wealth over the 20-year period. About 24% of whites experienced zero drops in their wealth, and about 20% of African Americans experienced zero drops. Of course, these figures reveal nothing about the magnitude of the drops, and a one-dollar drop may be very different from a \$10,000, or a 100% drop in wealth.

Figure 2: Severity of Inflation Adjusted Net-Worth Drops Expressed as a Percentage of Base Net-Worth for U.S. Households between 1984 and 2003



(Data from Panel Study of Income Dynamics)

Figure 2 presents findings on the magnitudes of wealth drops. Over half of the U.S. population experienced at least one 25% drop in wealth over a two decade period. The median wealth drop here is low, at \$302, indicating that most individuals who lost at least one-quarter of their wealth were relatively un-wealthy to begin with. African Americans were also much more likely than whites to experience a drop of 25% or more. Although only about 50% of all whites experienced a drop of 25% or more, over 75% of all African Americans experienced such a drop. The same patterns emerge for drops of 50% of wealth. Over 36% of the U.S. population experienced at least or one 50% drop in wealth, but African Americans were much more likely than whites to experience a 50% drop in wealth. Finally, when we consider substantial losses of wealth--a drop of at least 100%--we see that a large

proportion of the U.S. population experienced this form of wealth volatility. Just under one-quarter of all individuals in

our sample experienced at least one drop of 100% in wealth. Of course, it is debatable whether a 100% wealth drop is as meaningful when one's asset holdings initially consisted of \$1,000 as compared to \$100,000 or \$1,000,000. There are cases to be made for presenting raw figures as well as percentage drops. (We have done both in a related paper. In each case, the data show a significant amount of wealth volatility even before the most recent housing and security market crisis.) This experience of wealth volatility obviously became more universal during the 2007-09 period. But even in the best of times (as reflected in our data), it is not at all uncommon. In other words, whatever we found for this period in terms of wealth insecurity is probably at least doubly true during a severe downturn.

Savings across the Life Course (and Generations)

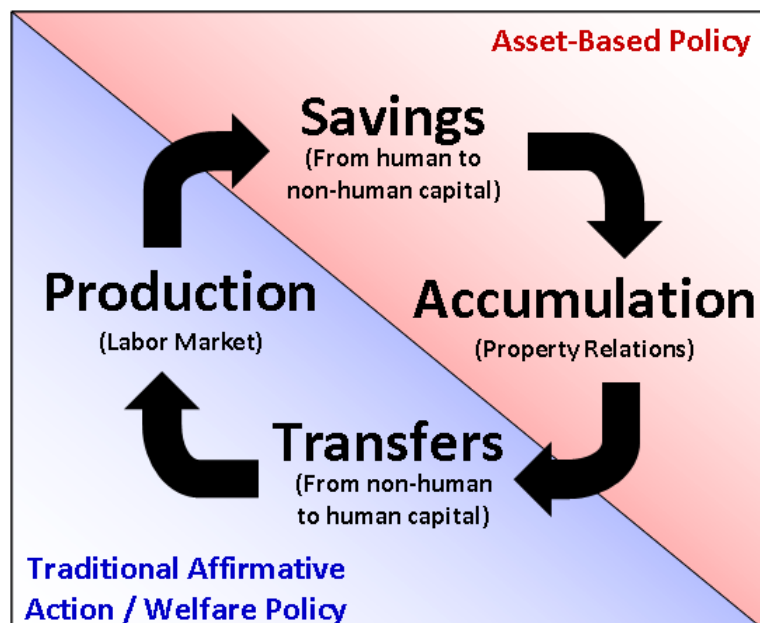
While there remain many questions to be answered, there is a growing consensus that shoring up the financial fundamentals of the Social Security system is simply not enough to ensure the economic security of an aging Baby Boomer population as it moves into retirement (and promote opportunity among the younger generations). A consensus is emerging that Americans want to preserve the Social Security system as it currently exists--as a form of social insurance--but also want to build upon that baseline system to create a true, private national savings system. And as any financial advisor will tell her client, retirement security is not something that can be addressed in the decade prior to leaving the labor force. Rather, Americans need a much longer-term strategy. I argue that we need a broad definition of retirement security initiatives that includes savings policy from cradle to grave. With parents spending more and more for their children's education, one can no longer talk about retirement security without acknowledging the need to save for all of life's important investments and expenses. When we recognize the imperative of savings across the life-course, we see significant deficiencies in our current approach that call out for action.

One way to understand the role of wealth and savings vis-à-vis intergenerational economic mobility and opportunity is depicted in Figure 3. In this framework, assets--or what I call non-human capital (I use this term instead of "physical capital," since much of today's wealth is held in highly abstract financial instruments)--inform our class position in one of two dimensions of socioeconomic status: the accumulation dimension. The other dimension--the labor market--is where most social scientists and policymakers have located their efforts, giving short shrift to the accumulation dimension, or, alternatively, overlaying the two into one thereby creating a moiré pattern of sorts.

If socioeconomic opportunity and security reside in these two different dimensions, we can describe the articulation points between them. When we save, we are converting our returns in the labor market back into non-human capital, like a squirrel storing up nuts for the winter. Likewise, we can "cash in" non-human capital and convert it into human capital by using that equity to pay for formal education, credentials and social capital (i.e. contacts). In other societies, where higher education is almost entirely a free, public sector endeavor, this may not be a particularly important link. But in the U.S., where not only is college expensive, but the quality of K-12 education is highly correlated with the local property tax base (i.e. home values), this is quite an important pivot point in the reproduction of class status.

Of course, any of these mechanisms can work intra-generationally as well as inter-generationally. For example, we may finance

Figure 3: The Role of Earnings and Assets in the Transmission of Economic Status across Generations



our own human capital acquisition through continuing education. Alternatively, we may provide labor market returns directly to our children, skipping the step in savings. And, of course, we may use non-human capital to better our position in the labor market, bypassing the education system by, say, starting our own business.

Traditionally, much thought and action has gone into the lower and left quadrants: education, welfare and labor market policy. These are the domains of the New Deal and its heirs. There has yet to be systematic thinking about a social contract (and safety net) that addresses the accumulation dimension of socioeconomic position, or about savings policies that are universal and comprehensive, the way job creation, education and income support policy has been conceptualized. (Social Security, in this view, is more like a form of income insurance than an asset/saving policy since it is not fungible, though there is much debate around how to classify this program.)

Savings and wealth accumulation has, of course, been fostered by the government--but most of the incentives are tax-based, and therefore benefit those at the top. The insights of this model invite us to examine more closely the public policy structures that invite, require, and preclude participation in savings and accumulation activities.

Obstacles to Savings

Policymakers can address several legal-social structures that depress savings in general, and among low-income households in particular. These include recognizing the limits of employer-based savings plans, the regressive nature of savings incentives delivered through the tax code, a proliferation of account types and tax rules, and the lack of commitment to mechanisms which might work instead. Each of these deserves a brief discussion.

Over-reliance on Employer-Based Plans. Like our health care system, our retirement savings system is broken partially due to its historic linkage to employers. But today, in an era of flextime and frequent job change, only about half of workers are covered by an employer retirement plan. And less than 30% of low-income workers (the bottom fifth) have the opportunity to take advantage of such plans. Like our employer-based health care model, America's savings policy undermines economic competitiveness and efficiency. It is time to recognize that a system created in a previous labor market does not work in today's climate. Individuals should be able to enjoy all the tax and match benefits of savings no matter for whom they work.

Too Many (Non-Progressive) Plans. Traditional IRAs, Roth IRAs, 401(k) plans, Simple 401(k); 403(b) Plans; 457 Plans; Thrift Savings Plans; Simple IRAs--given the nature of politics and the policy-making process, legislators will often add to the existing smorgasbord of programs rather than stoke opposition by replacing existing ones. The result is too many plans creating confusions and working at cross-ends. However, as with tax reform, there comes a time to overhaul and simplify the system, and that time is now. This is especially important to working families, since the tax benefits--and thus the gains--from the aforementioned plans are concentrated disproportionately among high-income Americans.

Siloed Savings Plans. In addition to the various retirement savings options listed above, we also have savings plans for health and education: HSAs, Coverdell IRAs, and 529 Plans. However, an integrated, lifetime savings policy would create a single mechanism to incentivize savings for a variety of productive purposes.

Lack of Commitment Mechanisms. We know from behavioral economics (the concept of "hyperbolic discounting") that individuals find it easier to make future commitments, yet we continue to have a policy that disregards this fundamental aspect of human nature. We need a policy that allows individuals to commit to future withholdings, even if they do not feel ready to contribute at present. We also need to offer individuals the option of electing for "covenant" savings plans. Borrowing from the covenant marriage movement, this election would stiffen the rules for withdrawal and strengthen one's future contributions commitment. And finally, since behavioral economics has shown that individuals have a tendency to rely on the status quo rather than make active financial choices, we need the tax system to force individuals to "opt out" of withholdings for universal savings accounts rather than opt in.

These are some of the obstacles embedded in our current approach to savings. But if we are to recognize the role that savings and wealth accumulation play in social outcomes, we need to find ways to remake the social contract in ways that create opportunities for all Americans to participate.

We have a responsibility to ensure that our public policies identify ways to overcome these obstacles and create

access points for more American families to save and prepare for their future. This will be even more vital in the years ahead as the country struggles to rebuild its economy and families struggle to rebuild their balance sheets. We will need a new set of ideas-and bold action to get us there.

New Ideas to Help More American Save and Build Wealth

Savings and thrift are part of a long American cultural tradition spanning back to the writings of Benjamin Franklin. But in a consumer-driven, "on-demand," affluent economy, the hard part of saving (as everyone knows) is being able to forget about all the seemingly endless needs and wants that arise each pay cycle and, instead, squirrel away part of our paycheck. Those belonging to the middle and working classes have it particularly rough in this regard: they have more financial pressures, and they frequently do not have an employer who is willing to match savings with company funds.

In fact, H&R Block recently conducted an experiment in which one group of income-tax filers was offered a 50% match to divert some of their tax refund to an individual retirement account. Only 14% took the company up on its offer (though this figure was higher than among those who were offered no match or a smaller one). This relatively low figure may strike some economists as irrational--especially given the fact that clients could have gamed the system by withdrawing their money (minus penalty) the next day for a handsome profit. However, many of Block's clientele are folks who can barely make ends meet on a day-to-day basis. Plus, they are uncertain about the future--and rightly so. Who knows how long they will hold onto their present jobs in an age of employment instability? Who knows if they will even live long enough to enjoy the fruits of their IRA? They may be figuring that \$500 in hand now is a lot more valuable than \$750, plus compounded interest, 20 or 30 years in the future.

If it is true that future uncertainties combine with today's financial stresses to squeeze lower-income families' savings, then there is a silver lining in these data, a way to provide these families an easy savings mechanism over the long haul: no-money-down, long-term matches (using toward better ends the logic of the balloon mortgage payment and other tricks of the sub-prime lending market). Instead of having to make repeated "savings decisions" to fork over my tax refund year after year in order to qualify for a saver's credit (under the current IRS policy) or an IRA match (under the Block experiment or a similar policy), I would agree to set aside future wages--say, 4% annually for 15 years. In return, I get a \$1,000 initial deposit into my savings account, and I get a 50% government match for that 4% over the course of the next decade and a half. The key is that the government would be asking low-income savers to commit to squirreling away future earnings, not current tax refunds (as compared to the H&R Block experiment or the current U.S. saver's credit). The start date could be a fixed date--two or three years hence--rather than a discrete event (such as new employment or a raise), since the latter triggering mechanism presents problems of perverse incentives. This commitment structure gives them something now, and they pay later--taking advantage of what we know about hyperbolic discounting. Such use of "commitment mechanisms" is gaining traction in policy circles, largely thanks to the work of Cass Sunstein and Richard Thaler in their book, *Nudge*.

Building on this idea, such a plan could borrow an idea from the covenant marriage movement[3] to strengthen the commitment even further. In this plan, the penalties for non-qualified withdrawal are more severe. We could use the future match rate as an incentive for individuals to commit to greater savings, for example, by offering a 50% match for the first 3% of earning committed to savings; 55% for the next one percent and 60% for the next one percent, thereby creating the maximum incentive for everyone to put away 5% annually. Individuals could save more of their pretax income (up to, say 10%) on this tax preferred basis; however, the match would end at 5%. The entire system would be limited in the same way FICA is limited to the first \$97,500 currently in order to ensure some progressivity.

Lest more restrictive withdrawal penalties seem overly-stringent, I advocate a universal savings plan for lifetime use. Too much of our current savings policy is focused exclusively on retirement needs. Long-term savings for higher education come in a distant second. However, we know that there are many reasons for families to save. There are intermediate savings goals, such as accruing enough to start a business or amass a down payment for a home purchase. There are also short-term savings that are merely intended to buffer anticipated or unexpected shortfalls over a course of months. With the multiple time-frames, needs, and family accounting practices in mind, I propose that we scrap savings silos in favor of multi-purposed, lifetime savings plans. In other words, we could have one tax-preferred asset account that would function as a 529 college savings plan (or children's savings account for other

long term investments), a private unemployment insurance account, a health spending account, and a universal IRA. Thus, withdrawals (up to certain percentage limits for each category) could be made for a wide range of qualifying reasons, at any point in the life course. Such a plan would be intended to replace all retirement savings plans--employer- and individual- based-as well as savings policies not intended for retirement.

The Lifetime Savings Plan would be a single account that could be individually managed on-line (with several default options that are based on age, family structure and risk preference). The only restrictions come at the time of withdrawal and are based on proportions of current value and lifetime withdrawal to date. These would be nested from short-term to long-term. For example, the entire amount could be used as a traditional IRA, liquidated without penalty upon qualifying age or event (following the same rules as IRAs currently do.) One-fourth of contributions (and associated matches, interest and capital gains) could be used for educational expenses; another fourth for first time home purchases and/or small business start-up costs; and another fourth for health care, unemployment or disability "insurance" to supplement other social insurance against these negative shocks. (These percentages could obviously be jiggered.) An alternative plan would treat the use limits as tax-favored lines of credit. For example, in one manifestation, individuals could withdrawal up to, say, half of their contributions (and associated matches and gains) at any time for a qualified use (i.e. health, education and so on), with the proviso that they are immediately put on a payment reschedule to replenish that money (adjusted for an implicit rate of return).

But the key, multi-use, "lifetime" provision to any permutation is that, unlike the current 529 college savings plan, for example, if children forsake higher education expenses, that amount simply gets "rolled-over" into the retirement portion of the tax-preferred savings account instead of punished by a reduction in returns.

And since some evidence from the American Dream Demonstration project and elsewhere suggests that, once the initial barriers to saving have been surmounted, individuals tend to save more (i.e. saving is addictive), I propose that these universal "Family Savings Accounts" be seeded with \$1000 at birth-mimicking the Blair "baby bonds" policy that has been successfully implemented in the United Kingdom. Parents could then direct a proportion of their matched savings to their children's accounts with no tax penalty. This will make every child grow up with an asset/savings orientation. A successful retirement security orientation must begin with the right policies even in the cradle.

A bipartisan policy that strove to do this--the Americans Savings for Personal Investment, Retirement, and Education Act (ASPIRE)--was introduced into Congress in July 2004 by then-Senators Santorum, Corzine, and Kennedy and then-Representatives Ford, Petri, and English. It was also reintroduced in the 109th Congress. The act proposed an initial \$500 for each child born after December 31, 2006 and then another supplemental contribution up to \$500 for families below the median income. For households up to the median income, there would be dollar-for-dollar matching up to the first \$1,000 (in the House version of the bill) and up to \$500 (in the Senate version). The program cost was estimated to cost \$3.25 billion during the first year and \$37.5 billion over the subsequent ten.

While savings accounts are important, it is also necessary to address home-ownership policy since the family house remains the model asset for most American families. Currently, the biggest policy to support home-ownership, other than the mortgage interest deduction, is the Federal Housing Administration's mortgage program, which insures loans made to homebuyers through traditional lenders (i.e. it decreases risk to lending agencies by underwriting the loan).

However, many of the most disadvantaged Americans--and minorities in particular--do not qualify for FHA loans. Into this breach stepped a North Carolina organization called Self-Help. In 1998, Self-Help received a \$50 million grant from the Ford Foundation (at that time the largest single grant Ford had made in its history). This gift helped fund a new type of philanthropy in America, micro-credit (although this had long been practiced in the developing world). Rather than giving direct aid to needy families, the money was used to underwrite (i.e. insure) the mortgages of underserved low-wealth families that aspire to home-ownership but have trouble securing loans in the private market. This innovative strategy allowed the \$50 million to mushroom into \$2 billion in mortgages. These funds made home ownership possible for 27,000 families over a five-year period.

Applicants to the Self-Help program may secure a loan despite (1) "Credit delinquencies within the past year," (2)

"Bankruptcy within the past 3 years," (3) "Recent collection accounts, judgments, charge-offs or settled accounts," (4) "Recent job changes," (5) "Condos that don't meet FHA, VA or conventional guidelines," (6) "Homes that don't meet FHA, VA or conventional guidelines," or (7) "Income sources that don't meet conforming guidelines." What the Ford Foundation and Self-Help were essentially conducting was a large scale economic experiment into whether market failure exists in mainstream lending. The data are now in and show that, indeed, though the average days of arrearage for the Self-Help clientele were higher than those in the conforming market, the default rate was exactly the same. What this tells asset scholars is that something is not working correctly in the way that loans are underwritten in the private market. It could be that credit scores are poor predictors (and we can't know since the formula is proprietary), or the culprit could be any of the other dimensions upon which Self-Help "relaxed" traditional restrictions. The bottom line is that there is a gap in the market: many of these borrowers should be able to qualify for traditional mortgages, whereas now they are being shunted into the sub-prime market, which--with its higher rates and other disadvantageous terms--produces a vicious cycle of loan default.

The Challenges Ahead

While I have focused here on improving savings and ownership opportunities for low-income Americans, effective policies could (and should) be made universal. This ensures both fairness and political support. But it should be noted that, in general, it is lower-income Americans (and minorities in particular) who face a savings/assets crisis. Although fixing the system for the poorest among us is the key to improving savings rates for America as a whole, it is also important that any asset-promotion endeavor by the public, private or third sector is *not* hijacked by a traditional New Deal-style worldview. Helping families help themselves through asset accumulation is a different form of policy and charity than the traditional social insurance model. However, when powerful advocacy groups see a new source of potential revenue, the asset agenda, which links responsibility and opportunity, could be quickly hijacked by a traditional redistributive policy framework.

Similarly, traditional advocates for the economically disenfranchised are often hostile to asset-based approaches. (I was once shouted down by a group of left-wing low-income housing advocates for suggesting that we sell public housing to the residents for a dollar per unit.) This is largely due to a perception that asset-based social policy is intended to supplant the income insurance function of more traditional welfare programs. Often, asset programs--like Thatcher's conversion of public housing into privately-owned units in the United Kingdom--are seen by those on the left as a way for the government to dispense once and for all with its social contract obligations. This resistance can be overcome, however, when asset policies are pitched as necessary complements to income security. Likewise, although some politicians and pundits on the right are sympathetic to the asset-based approach to promoting opportunity (Bob Dole once said, "I'm for anything that increases home-ownership since home-owners vote Republican"), others are resistant to any role for government whatsoever.

In the standard, industrial society model of Keynesian economics, job growth is what drives the economy, and consumption, in turn, is what drives job growth. As a result, most politicians are obsessed with employment as the main avenue to economic security--the idea that we need to create ever-more jobs, and find people to fill them. This bias leads to a tilting at windmills on the part of political leaders, particularly during election years--and doubly so during *recessionary* election years.

Mainstream Democratic politicians are right about the fact that productivity gains are not equally distributed to workers. But they are mendacious in promising that they can fix the problem by scuttling trade deals or mailing tax rebate checks. In a globalized economy where wages are always lower somewhere else, trying to keep manufacturing jobs here is a losing battle. Instead we should focus on de-linking economic security from the vagaries of the labor market to the maximum extent possible, by helping average Americans benefit from owning assets. That is, we Americans should be thinking about ourselves as an investor society, as global capital managers, in which our assets are deployed productively such that benefits are shared broadly. Yes, it may take a feat of imagination to envision this investor society during a period of recession, but if we don't take stock of our fundamental policy strategies during a downturn, when will we?

With the current consumption-based approach to social and economic policy, there will always be a disconnect between the macroeconomic health of the U.S. economy and the economic fortunes of the typical American family.

That's because productivity growth results in the shedding of jobs and a windfall for the few--the executives and major shareholders--instead of the many. By contrast, if everyone were a stakeholder, productivity gains could instead be distributed in the form of dividends. When productivity rose, we could actually work less, and take more time off when our kids were born or our parents were ailing, for instance. Such a work-deemphasizing approach would represent nothing short of an entirely new economic policy--one more fit to a post-industrial knowledge economy than the New Deal's vestigial, social insurance model.

Notes

[1] As a result of these shortcomings, a large scale project to evaluate the behavioral consequences of stakeholding is sorely needed. Does owning assets reduce risky behavior? Does it lead to increased investment in human capital within and across generations? Does it lead to greater civic participation? Does stakeholding result in more social stability in terms of family dynamics? Observational data would seem to tell us that the answer to all these questions is "yes." But large-scale (and therefore expensive) social experiments are needed to confirm this informed intuition. Likewise, experimental evidence is needed to parse out what types of assets matter and why. For example, does home ownership have the same effects as liquid forms of wealth?

[2] See, for example, quasi-experimental evidence from Colombia in Rafael Di Tella, Sebastian Galiani and Ernesto Schargrodsky, "The formation of beliefs: Evidence from the allocation of land titles to squatters." Working paper, Harvard Business School.

[3] Now legally an option in three states (Louisiana, Arkansas and Arizona). These marriages generally require pre-counseling and provide more limited grounds for divorce.

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