Building a Real “Ownership Society”

Dr. J. Larry Brown
American Public Human Services Administrators
Washington, D.C.
March 22, 2005

Ladies and Gentlemen:

I am grateful for the opportunity to address you today, and to share the podium with Clarence Carter, whose commitment and intentions I respect, but with whom I disagree on strategy.

President Bush has proposed several initiatives to create an “ownership society.” The premise is attractive, and deeply rooted in the American psyche. Ordinary people want the financial security, opportunity, and liberty that come with owning assets. A homeowner has more security, and hence more liberty, than a renter. A person with a pension or a savings account can look forward more confidently to retirement than one who must keep working out of financial necessity. An individual who “owns” skills and educational qualifications is better bolstered against economic change and more able to get ahead financially than one who is unskilled.

The idea of broadening ownership, of course, is far from new. It has been consciously promoted by public policy for two centuries. So, when the President declares, as he did at his acceptance speech at the Republican National Convention, that “Ownership brings security, dignity, and independence,” he touches something very resonant with all Americans. However, there is a fair debate about what it takes to truly bring the security and opportunity of ownership to more Americans, and about the relationship between social investment and personal security. In many respects, the Bush program is a turning away from well-established, successful policy-strategies of broadening ownership, and an intensification of the shifting of risk to individuals.

Most of us don't want to "own our own health plan," if that means greater expense when we get old and sick, or higher premiums if we are deemed at risk of illness. We want to be part of a broad health insurance pool, where the coverage is affordable and assured. Nor do we want to "own our own retirement," if that means the guaranteed part of America's pension system, Social Security, is raided.

The new push for an Ownership Society, ironically, comes at a time when government social investments and protective regulations are being reduced, and when a variety of risks (health insurance, pensions) are being shifted from large institutions (employers and government) onto individuals. In this context, the wrong sort of Ownership Society may actually make Americans less secure and less independent. Nonetheless, the President has done an immense service by putting the ideal of a society of owners front and center in national debate.

Since the Great Depression, there has been a bipartisan political consensus supporting policies that help middle-class and working-poor families cope with the multiple risks in our market economy. These risks include illness, unemployment, destitution in old age, hazards from defective products, polluted natural resources, industrial accidents, corporate and financial frauds, high unemployment, and other assaults largely beyond the individual's control. Many such government activities result from past abuses by the market system that devastated ordinary people. Such essential services as electricity, water, telephone, and, for that matter, private insurance of various kinds, have also been secured by government investment and regulation. Without these diverse government activities, ordinary families would be extremely vulnerable to risks beyond their control. During the past quarter-century, risks have been shifted from the society back to the individual, on several fronts.

Job insecurity. The expectation of secure employment in a stable industry or profession has evaporated, due to changes in the competitive climate, technological innovations, deliberate de-regulation, shifting norms of fairness and shifting power imbalances and the erosion of norms of comity and reciprocity between employer and employee. Deliberate public policy has exacerbated this job- and wage- insecurity by reducing the coverage and duration of unemployment compensation, making it more difficult to organize unions, deregulating once stable industries, weakening health and safety regulation, and letting minimum wage standards lag behind inflation. Needless to say, it is hard to take on the risks of ownership—a mortgage, a small business, a greater commitment to saving—when your livelihood is uncertain.

Health insecurity. Since the 1940s, good health insurance has been largely a fringe benefit of high-quality employment. As employment has become less reliable, so has health insurance. But even for those who stay with the same employer, health insurance today is often unreliable. It limits choices of doctor and hospital, restricts what is covered, and shifts out of pocket costs to workers. The problem is not just the rising number of Americans without any insurance, but the inadequate coverage provided to a great many who are nominally insured.

Pension insecurity. Since the 1980s, large corporations have been shifting the form of pension coverage from traditional “defined benefit” pensions that guaranteed a fixed sum as long as the retiree lived (often with inflation-adjustments) to defined contribution plans such as 401(k)s. These plans shift all of the risk from the corporate sponsor to the individual. In practice, they generally provide far less income security.

Housing insecurity. In recent years, thanks to very low interest rates, the percentage of Americans who are homeowners has reached a new peak. But broadened homeownership is at risk today. With the virtual shutdown of federal subsidies for rental housing, renters are paying record proportions of their income, making it hard to accumulate the savings to make the jump from renter to owner.

Education insecurity. Education is a critical personal asset. But today, the cost of post-secondary education is soaring out of reach. Even community college and public university tuitions are soaring at several times the rate of inflation, while federal Pell grants have lagged inflation and college-aid has shifted from grants to loans.

<u>Income Insecurity</u>. A related problem is what the Annie E. Casey Foundation calls "The High Cost of Being Poor." Lower income people's wages are not keeping pace with inflation. Their housing and education and healthcare and childcare costs are outstripping their earnings. Many live paycheck to paycheck, leaving them at the mercy of payday lenders, creditors who charge exorbitant interest rates, and even tax preparers who charge a quarter to a half of their EITC in exchange for providing the cash a few weeks early.

All of these increased risks and exposures to financial hardship make it more difficult for low- and moderate-income Americans to become secure owners. It is important to distinguish between risks that are incurred voluntarily and those that are beyond the control of a prudent individual. The former includes the risk of starting a business, or investing in a stock, or mountain biking down Fifth Avenue. If something unfortunate happens, well, too bad—that sort of risk was optional. The latter, involuntary risks include the risk that your corporate employer will outsource your job, or that your fish dinner will contain toxic mercury, or that your health plan will deny your doctor the right to provide necessary treatment, or that your company pension will collapse. It is the latter sort of risk that has dramatically increased in recent years. This shift did not happen because of inevitable technological changes. It was a deliberate political choice, reflecting the political dominance of believers in a laissez-fare economy.

The United States is revered in the international arena not only for being a melting pot where immigrants from scores of nations live together productively, but also for its significant middle class. Our country, however, was not born with a middle class. In its earliest decades the U.S. resembled the portrait of many European nations: a small, wealthy class of aristocrats and merchants, and the rest of society, whether farmers or landless workers, all scraping to get by.

It was government policy in the early years of our history that turned a land of largely poor people into the middle class nation of today. Despite the lingering image of strong-willed, hard-working, self-made men, America's comfortable middle class was made possible by concerted government policies. The rich history of public social investments – government policies that bestow benefits upon us, monetary and otherwise – has helped and still helps us build the assets needed to achieve economic comfort: education, an adequate income, homeownership, health care, personal savings, and retirement accounts. Each of these assets is enabled and supported by federal tax expenditures that make our lives more successful and secure. Their history is rich and continuous:

Jeffersonian Land Tenure	*The Wagner Act/NLRB*
The Homestead Acts	*Social Security*
Land Grant System	*The G.I. Bill*
Freedmen's Bureau	*College Grants and Loans*
Farm Credit Administration	*Individual Retirement Accounts*
Federal Housing Administration (FHA)	*Home Mortgage Deduction*

These programs represent a long and significant history of social investment policies on the part of the federal government. Today such investments, largely through tax subsidies, amount to an estimated $1 trillion annually, and nearly double that if we include Social Security and Medicare. Federal policy made America a middle class nation by making it possible for citizens to become land owners and home owners, enabling them to get a college education, insuring higher wages often indexed to inflation, making it possible to save personal nest eggs for unforeseen events, and providing security in retirement and old age.

This is the rich history of the American ownership society. Because of this legacy of significant and continuing government investments, we now are substantially an ownership society. However, at least one-third of Americans are left out of the ownership society entirely—without homes that they own, without adequate private pensions, sufficient income, or enough time to tend to both work and family. And the middle third of American's are increasingly insecure. So it makes great sense to broaden the benefits of ownership. The great question is: what is the best way?

At bottom, there are two contending narratives about how to pave the road to broader ownership. In one narrative, which has the benefit of reflecting what actually happened, the ownership of assets that serve to expand the middle class has been broadened by public policies. Some of these policies cushioned avoidable risks like the cost of illness and the risk of poverty in old age (so that people had the basic security to incur more entrepreneurial kinds of risks.) Other policies used subsidies to make it less expensive and more attractive to accumulate housing, education, and retirement savings, using Social Security as a backstop. These policies used government's traditional tools – taxation, social investment, and regulation.

In the new narrative being put forth by libertarian conservatives, the historic role of social insurance is being transformed into a liability. Its insurance and security aspects are ignored, and its rate of return is invidiously compared with riskier investments and found wanting. The growing risks now threatening ordinary Americans are seen not as an obstacle but as a tonic. The effect of income and employment insecurity on the ability of the working poor to acquire the habit of savings and join the middle class is conveniently ignored. Much of the failure of the poor to save more is attributed instead to defects of character. Somehow, the character of the poor must have declined during the Great Depression and mysteriously improved during the postwar boom.

There is also a sly politics to the effort to diminish social investment and to throw Americans mainly back on their own resources and ingenuity. The idea is that everyone should think like an investor rather than a citizen. Political conservatives who oppose social investment are hoping that individual Americans who currently benefit from policies like Social Security will reach an ideological tipping point in their own thinking. If sufficient doubt can be cast on whether social insurance benefits like Social Security are truly dependable, the insecurity will be psychologically internalized, thus reinforcing an ethos of "everyone for himself."

No other social investment made by our nation has had the widespread and positive impact that Social Security has had. In terms of providing a standard of economic security for households throughout the nation and across the age span, this federal program stands above all others. Social Security came into existence in a terrifying world. At the time of its enactment under President Franklin Delano Roosevelt in 1935, the nation's families remained victims of the Great Depression. But while the impact of the economy worsened the life of almost everyone, the truth is that most households had lived an unnecessarily hard existence for decades. Even before the Depression the death of a breadwinner meant almost certain destitution and often the actual dissolution of families, whose children required the care of neighbors and orphanages. An accident on the job, let alone long-term disability, usually terminated household income and began a marginal family existence within the netherworld of flop houses and soup kitchens. But while disability and death impacted only a fraction of working families, the lack of income in old age was the shared fear of everyone. When the job ended and the weekly paycheck stopped most households entered the ethereal world of economic deprivation. The suffering was widespread and common, but it was borne silently and privately… within the confines of each destitute family.

The passage of Social Security changed this picture from black and white to living color. Social Security created a floor of well-being for millions of households. It now provides widowed mothers with the means to hold together their families and it enables disabled workers to endure their circumstances and often provides them the means to be re-trained.

But the most dramatic impact of Social Security was that it gave rise to the shared possibility of retirement. The prospect of having at least a few comfortable years of enjoyment at the end of a life of hard work was novel and transforming. No longer the province of the rich alone, retirement transformed the lives of the elderly from almost certain destitution by providing a very modest but dependable standard of living. Once the nation's most impoverished population group, the elderly moved from having a poverty rate of 35.2% in 1959, to 10.2% in 1993.

Perhaps contrary to popular opinion, Social Security's magic is not that it is an investment program but that it is an *insurance* system. Were it an investment program most people would never get the benefits now provided by Social Security because few workers pay in as much as they ultimately will receive. It is the principal way that society shares risks to protect each of us against the unforeseen events of disability, premature death, insufficient savings, stingy or bankrupt pension plans, and living to an old age with no financial means. This protection is a guaranteed *asset,* and it has transformed the nation, perhaps beyond our capacity to appreciate its impact. Unlike company pensions and personal investment accounts, Social Security is dependable (guaranteed) and universal (all participants are protected throughout the various stages of life).

Supporters of privatizing Social Security divert the spotlight from its social insurance aspects by treating it as if it were merely another form of retirement account, and comparing rates of return. But there is no retirement account that offers a totally portable pension that is guaranteed against inflation for as long as one lives, and that includes disability and life-insurance benefits as well. Attempting to purchase such a product on the open market would be prohibitively expensive compared to the cost of Social Security. This is what makes it a social insurance program, and not just a retirement account.

We need social insurance rather than private accounts as the basic tier of protection, because none of us knows what will happen later in life – who will die prematurely leaving a young family; who will live to an old age after financial reverses and outlive private resources; and who will suffer a disabling accident or health condition. This is the genius of social insurance, and the reason why it is a necessary complement to private savings and private insurance. We even hear privatizers argue that people who die say, at 50, have “wasted” their payroll taxes, since they did not live long enough to collect Social Security retirement checks. Leaving aside the life insurance (survivorship) benefits that then go to the spouse and dependent children, the assertion that payroll taxes were wasted is a bit like arguing that someone who stays well has wasted health insurance premiums.

It is this system of social insurance, the only true safety net that all of us can enjoy, that President Bush now wishes to change by diverting a significant portion of payroll contributions to private accounts. Converting all or even part of Social Security insurance into a private pension plan would shred this safety net and undermine the protections that Americans have enjoyed for seven seamless decades. This is because Social Security supports all of us when the unexpected happens. Private accounts help only the individual and operate at the risk of the stock market and other uncertainties.

Keeping Social Security intact is the only way to insure that this valuable asset will be there to guarantee the same protections for our grandchildren that it did for our grandparents.

As we have noted, government has long supported property accumulation and homeownership among the white middle class. But African-Americans were conspicuously excluded from virtually all of these avenues to acquire assets and claim a middle class stake. This historical legacy of race is not limited to just our past, however, as persistent institutional discrimination in vital areas like homeownership continue to widen racial inequality. In fact, earned achievements in schools, on the job, and in paychecks are now being reversed through a widening racial wealth gap.

The disadvantaged status of contemporary African Americans cannot be divorced from the historical processes that under-gird racial inequality. The past has a living effect on the present. Wealth is the best indicator of this sedimentation of racial inequality. Wealth is one indicator of material disparity that captures the historical legacy of low wages, personal and organizational discrimination, and institutionalized racism. The low level of wealth accumulation evidence by current generation of black Americans best represents the position of blacks in American society.

Structural disadvantages have been layered one upon the other to produce black disadvantage. Whites who were able to benefit from property-and-asset-building polices like The Homestead Acts or the Federal Housing Act of 1934, for example, acquired property and homes that became the primary means of wealth accumulation. The same processes excluded African-Americans.

The typical black household makes 59 cents earned by the typical white household. This income comparison is the most widely used indicator of current racial and ethnic material inequality. However, changing the lens of analysis to wealth dramatically shifts the perspective. In 1999, the net worth (all assets minus all liabilities) of typical white families is $81,000 compared to $8,000 for black families. This baseline racial wealth gap shows that black families possess only 10 cents for every dollar of wealth held by white families.

The classic economic and political argument is that racial inequality in significant areas like family wealth reflects huge disparities in education, occupation, and income. Once these disparities are alleviated, supposedly racial inequality will be diminished greatly. But even if we compare middle class families with comparable incomes and educational attainments, we find a dramatic wealth gap. Middle class black families with similar incomes to whites own only 26 cents of wealth for every dollar owned by whites. It is the historical legacy of racial exclusion from wealth accumulation opportunities that explains why blacks with equal accomplishments in income, jobs, and degrees possess only about a quarter of the wealth of their white counterparts.

The black middle class that emerged between the mid-1960s and early 1980s is a success story written in the accomplishments of education, occupation, and earnings. An asset perspective, however, shows that the white middle class stands for the most part on the two legs of good earnings and substantial financial assets while the black middle class stand for the most part on the earnings leg alone. Middle class status is thus more precarious for blacks than it is for white; blacks are more susceptible to falling from middle-class grace, less capable of cushioning hard times, and less able to retool careers or change directions. Furthermore, they also are far less able to pass along their hard-earned successes to their children.

Closing the racial wealth gap needs to be at the forefront of the civil rights agenda moving into the twenty-first century. Asset-development policies that on their face are race-neutral will have a disproportionate benefit for blacks and Hispanics because these groups are so asset-poor.

Women, likewise, have far less fewer assets on average than men. Married couples are the most financially secure, with the highest net worth. In contrast, never-married females are the most economically vulnerable, with the lowest median net worth of all families. Wealth affects children's cognitive development through its effect on material resources such as physical home environment, school quality, and intellectual stimulations. Family wealth also helps reduce economic pressure on parents. These factors in turn affect mother's psychological well-being and parenting practices that correlate significantly with young children's learning ability. Given that some women will choose not to marry, and that the rate of divorce is unlikely to decline dramatically, ownership policies that narrow the wealth gap between men and women and facilitate wealth-accumulation by women in their own right will be good women, children, and America as a whole.

To a significant degree America already is an ownership society. So the real issue before the nation today is not how to build an ownership society but how to secure and expand the one we have. But President Bush is now proposing a very different approach to ownership from the one we have followed to achieve the security that so many now share.

The President would have each of us strike out on our own to try to gain what we need in the face of life's risks. But this is not how America built its middle class. People should work hard, play by the rules, accept responsibility and avail themselves of opportunity. In turn, government's role is to help insure that people get a fair opportunity to better themselves, and to protect members of society against unwarranted risk.

It is precisely this extensive role that government plays in opening the doors to a true ownership society that is now in jeopardy by proposed policies of the Bush Administration.

Instead of using our history, tradition and the successful policy framework that has created -- and now can expand -- ownership for households across the nation, policy ideas are being advanced to reduce governmental responsibility for insuring meaningful opportunity. Instead, the nation would go back toward the days when the social contract did not exist, and people were at the mercy of corporate forces and the unpredictable ups and downs of the economy. You want your child to go to school? Here's a voucher… go buy the education you can find. You want to keep your health insurance? Forget group plans, here's another deduction… go buy your own health care. Unexpectedly lost your job? You should have saved more for a rainy day because unemployment insurance has been cut. Your elderly mother has become an invalid? Nurse her in your own home because extended care facilities are only for the rich. Working full-time but don't bring home enough to eat after you pay the rent? Go get a second job, because the minimum wage won't be increased. This version of “ownership” leaves people on their own. It also privatizes the notion of citizenship at the cost of a sense of community and mutual support.

Aside from insuring meaningful opportunities to acquire the assets to become owners, the other way that governmental policy has built the middle class is through social insurance. Through such insurance government protects us by allocating the risks of disastrous consequences across large numbers of people. Any of our families could be wiped out financially by the long-term unemployment or disability of a breadwinner, let alone the death of a parent. But because such events are relatively rare compared to the number of people at risk, we can insure that each of us has a measure of needed protection by all chipping in. This insurance gives each of us the comfort of knowing that we have some protection against the shared possibility of being dealt any of life's worst hands.

The privatized ownership society proposed by President Bush is that of the frontier days when each person rose or fell individually and at the virtual whim of the marketplace. If smallpox hit, tough it out. If you had no job, try the poorhouse. If your family was hungry, water down the soup. Too old to work and have no family, beg. The vision that could reintroduce us to such levels of risk clearly is not a real ownership society. It is a risk society, one in which a few win big at the cost of the security and happiness of us all. The very concept reeks of the incredible inequalities and risks of the Robber Baron era.

The other version of an ownership society, the one with which we are familiar, is that of social investment. In this version we all pitch in to protect one another against life's vagaries, and to promote meaningful opportunities for each of us through policies and programs that enable us to build the assets we need for security. Hard work and personal betterment are still required, but government policies go toward making opportunity meaningful and fair, and federal programs provide *guaranteed* protections in the face of tragedy or at the dawn of old age. It is only this latter version of the ownership society that has the capacity to offer a fair opportunity to all. Its core principles have been built and put in place over many decades, and in a concentrated manner, since the time of the New Deal. The years to come will provide America with the opportunity to expand the ownership society to everyone, so that all households can grow the assets that they will need for social mobility and economic security.

The President has done an immense service by placing the ideal of an ownership society on the national agenda. But his policy proposals contradict his ideals. Even a cursory look at America's actual history, let alone the increasing risks of its families today, makes clear that a true ownership society requires more social investment in our families and children, not less.

Thank you very much.