From New Deal to New Opportunity

by J. Larry Brown and Larry W. Beeferman

America's ambivalent electorate seems to reflect the paradoxes of our times: hunger amidst prosperity, a monumental and growing wealth gap, and record-high employment while millions of workers struggle to make ends meet. Yet no unifying policy framework commands broad support, and no strategy exists to convey a new vision in popular terms. In the mid-1990s, the progressive community was so tethered to the status quo of admittedly flawed income-support policies that it lost to those who proposed to "end welfare as we know it." While that marketing slogan was less a new policy framework than a cleverly manipulated disemboweling of a central element of the New Deal, it underscores today's dramatic policy void. But this void is also an opportunity for a compelling new vision.

We believe that the concept of asset development is the most promising new idea on the social policy landscape and the most viable unifying framework for the future. It has already gained significant support across ideological lines. On the progressive side, *The American Prospect* has published articles by Bruce Ackerman and Anne Alstott ["$80,000 and a Dream," July 17, 2000] and Jonathan Rowe ["Every Baby a Trust Fund Baby," January 1-15, 2001] offering elements of this idea. Robert B. Reich has advocated for the bottom half: "Give them, literally, a share in America. Spread capitalism by spreading capital." In the political center, former Senator Bob Kerrey touts asset development policy as the vehicle to address the growing wealth chasm. And a conservative Republican--Senator Rick Santorum of Pennsylvania, who laments that the "growing disparity between the rich and the poor [is] one of the critical social dilemmas today"--co-sponsored asset development proposals in the last Congress.

To some extent, this common rhetoric papers over real policy differences, but it also offers a rare commonality that spans the political spectrum. The uniform goal is social mobility and poverty reduction by the broadening of human capital and financial wealth. Asset development combines the liberal objective of poverty reduction with the conservative dream of individual wealth building to achieve the shared goal of economic opportunity. And it uses a collective institution--government--on behalf of individual self-sufficiency. Ford Foundation Vice President of Asset Building Melvin L. Oliver--who co-wrote Black Wealth, White Wealth with Thomas M. Shapiro, an influential exponent of asset development--notes that the concept "centers on the proposition that families can escape poverty and achieve social mobility through savings and investment" (in contrast to spending and consumption).

The launch of asset development as a modern-day policy framework came with Michael Sherraden's 1991 book Assets and the Poor: A New American Welfare Policy. Sherraden argued that many who are poor can save meaningful amounts--a proposition for which there is emerging evidence--and that government should support that endeavor. No one, Sherraden observed, grows wealthy through consumption. For the poor to become stakeholders requires opportunities for savings and investment. Having savings, a retirement account, owning a home, he contends, "changes people's heads" by enabling them to envision an alternative future for which they can plan.

Asset development is rooted in widely shared promises. At its core is the belief that all households need the same essentials to achieve economic well-being: a minimally adequate income and the means for achieving it; education, training, and skills; and savings and investments with which to maintain a home, start a business, meet life crises, and sustain retirement. Domestic policy that invests in these common needs can greatly reduce poverty and promote economic mobility, as decades of governmental investment in the middle class have shown.

But these avenues to economic security largely have been closed to the poor. Economic circumstances, now reinforced by recent changes in public policy, compel the poor to "work first" in jobs that are seldom ladders of opportunity. Today's poor also encounter other formidable structural barriers: a more complex, shifting economy, in which workers must navigate multiple relationships with diverse employers; increased demands on individuals to shift skills over a working lifetime; the need to foster relationships of care and support within families and across generations; and the challenge everyone faces: supporting a longer lifespan.

For many American households, this set of realities means uncertain employment, as well as wages that hover at a subsistence level. It often means a future with no prospect of significant social mobility--a pathway of low-wage, low-skill, and low benefit jobs with no opportunity to gain the skills and supports needed to move up. For many it means not having the financial assets to survive the loss of a few months' pay during a family crisis, or to purchase and maintain a car that enables them to work. It means not having the financial nest egg needed to gain the economic security and the sense of place and community that owning a home represents, or to enjoy the extra measure of security that home ownership offers in old age. And for many Americans of color, the legacy of discriminatory barriers further reduces opportunity.

Meanwhile, those of us who enjoy a more comfortable life are beneficiaries of government policies that helped our parents and us to accumulate assets. For their respective eras, the Homestead Act of 1862 and the GI Bill (the Servicemen's Readjustment Act of 1944), for example, were the means to create a larger, more secure middle class. Today, tax-favored retirement accounts help families build for the future, and mortgage-interest deductions subsidize acquisition of the largest tangible asset available to most, a home. Similar subsidies sustain a system of college education and workplace training that has helped the middle class move up the economic ladder. So broad and commonplace are these governmental investments that many Americans view them as an entitlement if not as a natural right. A truly progressive approach would extend such asset-building opportunities to all Americans.

An Asset Policy Framework

Assets are resources and capacities that enable individuals to achieve social mobility and economic security. A policy framework that promotes assets can be the occasion to transform how we think about old problems and to create a new language of economic opportunity. In addition to individual assets, of course, society relies on collective assets: air, rail, and road transportation; common systems that build social capital such as public schools; and even shared assets found in nature and preserved for future generations by thoughtful public policy.

Three distinct elements comprise individual assets: income, financial resources, and human capital. Why should income be considered as an asset? Because without it there's no way to subsist and eventually accumulate wealth. Harvard University Professor Amartya Sen's concept of "capabilities" underscores the reality that at some level adequacy and opportunity merge: Many households will have no meaningful chance to develop other types of assets unless they first have an adequate income. Employment-based income is the principal tool with which the majority of households ultimately attain economic well-being.

Current public policy acknowledges this, via minimum wage and unemployment compensation laws, as well as employer-provided, tax-subsidized health care benefits. Government policy also promotes income by protecting workers' rights to organize and bargain collectively. Despite recent assaults on the welfare state, government still transfers significant income to the poor via Medicaid, housing assistance, food stamps, the Earned Income Tax Credit (EITC), and benefits under the Temporary Assistance for Needy Families (TANF) program. But we make a mistake if we let social policy stop with income adequacy.

Human capital--the knowledge and skills to achieve gainful employment and job mobility--is another key to a virtuous cycle of increasing opportunity. Human capital establishes the base for continued acquisition of knowledge and skills and further movement up the economic ladder. Indeed, a number of researchers muster strong evidence to suggest that programs designed to build individual skills and capacity (education, job training, counseling, and placement services) are critical links to economic well-being and increased self-sufficiency. In addition, financial assets such as savings and checking accounts, investments such as stocks and bonds, and equity in a home are critical means to economic security. They provide a buffer in the face of life crises, enable new life ventures, produce a stream of investment income, and sustain retirement.

The language of asset building opens up new and perhaps less contentious ways to think about domestic policy. It embodies the values of work and individual responsibility while moving beyond short-term income security alone. Moreover, it offers a bridge between those who are committed primarily to investing in people and their capacities and those whose chief concerns are to increase productivity and economic growth.

Consider the old issue of income security. The welfare state has traditionally offered buffers to cushion disruptions in work-related income. In that spirit, we could (1) broaden the EITC and better integrate it with the existing tax and income transfer structure; (2) raise and index the minimum wage; (3) modernize the unemployment compensation system to reflect the impact of the new economy and the changed relationship between family life and work on the kind, duration, and stability of jobs; (4) strengthen social, job retention, and career advancement supports necessary to attain sustainable employment for those whose connection with the workforce is tenuous; and (5) enhance the ability of labor organizations to collaborate in work-related asset policies.

Beyond these variations on traditional policies, financial assets such as savings and investments could augment income and provide security in the face of inevitable job changes, career shifts, and life crises, as well as support new beginnings. Policies to enhance financial assets could include individual development accounts (IDAs): dedicated savings accounts containing deposits made by low-income account holders and matched by private or public sources. Individuals could tap their IDAs to pay for training to increase their skills or to start a new business. Other initiatives could enable wealth building and saving by low-income households for retirement (outside of and in addition to Social Security) and possibly for some pre-retirement purposes. For example, former President Bill Clinton's 1999 proposal for universal savings accounts and former Vice-President Al Gore's more recent Retirement Savings Plus proposal would create tax-favored savings accounts with refundable federal tax credits to match individual contributions made by low-income individuals.

Other ways to build financial success are based on the existing system of private pensions and related benefits. Some are modest in scope and would, for example, make it easier for small businesses to offer pension plans and to foster greater participation in them by low-income workers. More-far-reaching proposals not only would bring part-time and temporary workers into the savings scheme but would make benefits portable and limit administrative costs by establishing standardized investment vehicles. Successful programs along these lines already operate in both the private sector (TIAA-CREF, the pension plan for workers in higher education) and the public sector (the Civil Service Retirement System for federal workers).

The idea of providing a financial "stake" to every citizen at the start of adulthood through savings accounts set up in childhood has been taken up in several quarters. Professors Bruce Ackerman and Anne Alstott's proposal [cited above] for an $80,000 "stake" for all young adults at age 18 is but one among several offered by scholars. At the federal level, KidSave, a plan offered by former Senator Bob Kerrey of Nebraska and co-sponsored by three of his Democratic colleagues--former Senator Daniel Patrick Moynihan of New York and Senators John Breaux of Louisiana and Joseph Lieberman of Connecticut--proposed to establish an account for every child at birth and contribute $1,000 at that time plus $500 during each of the child's first five years of life. A similar proposal to establish a child retirement account was offered by Republican Representative Amo Houghton of New York. It is politically significant that these proposals cross party and ideological lines.

Augmenting both income and financial assets, human capital policies facilitate access to resources that enhance job-related education, training, and self-employment. These include Individual Learning Accounts or Lifelong Learning Accounts (involving matched contributions by workers and employers or third parties) and the Individual Training Accounts established under the federal Workforce Investment Act (involving vouchers for workers to purchase education and training services).

A democratization of the home-mortgage-interest tax deduction, perhaps by extending it in the form of a refundable tax credit, could enable many low-income families to build equity in a home. The Family Self-Sufficiency Program of the Department of Housing and Urban Development (HUD) links employment mobility to the chance to accumulate financial assets in escrow accounts; these savings may be used to make the transition from publicly supported housing to home ownership, as well as for other asset-building purposes. And a recently broadened HUD program allows low-income families to use so-called Section 8 rent vouchers for mortgage payments.

The Promise and the Pitfalls

Asset-building social policy resonates with dominant American values among diverse political constituencies and interests. The approach is spiritually identical to the great asset-creating programs of the past--the Homestead Act, the GI Bill, Federal Housing Administration and college loans--for which both parties proudly share credit. It taps such widely held values as opportunity, fairness, and the related belief that all people should have a decent chance to achieve self-fulfillment and well-being. A further shared value is that of initiative: the sense that each of us has strengths and abilities, however different, and that we have an obligation to make a concerted effort on behalf of ourselves, our families, and society. This, in turn, connects to the values of self-reliance, the goal of maximizing personal responsibility, and independence.

These values are mirrored by so-called outcome or reward values, which reflect the view that people who work hard and play by the rules--those who embody the values stated above--should be rewarded for their efforts and do not deserve to fall below a general floor of well-being. Historically, the rules have honored only contributions at the workplace, but there now is greater appreciation that the contribution made by caretakers of the young, the infirm, and the aged must be highly valued as well. Despite the rollback of the welfare state, there remains strong residual concern for the well-being of those who suffer by reason of bad luck or ill fortune or limited capacity. Moreover, great disparities in income and, especially, wealth (and the power that often flows from it) are a source of unease--because disparities in one generation may lead to denial of opportunity in the next, thus sowing the seeds of social division and conflict. At the extremes of inequality, these disparities result in undue suffering by the disadvantaged and serve to undermine political life in a democracy. Although our nation manifests a tolerance for variation and even disparity, we share the notion that all players should "win" even if some win more than others.

Asset-based policies address all of these broadly shared values.

The dynamic relationship between opportunity and reward values is critical to economic security and mobility. Opportunity is seized by means of initiative, enterprise, and risk taking. But these attributes come into play mainly when the likely outcomes reasonably exceed mere subsistence. If an individual's starting point is at or below subsistence and the risks that come with new opportunity may mean falling yet further, the attempt may not be made.

An approach based on these values has the capacity to unite otherwise disparate policy tracks: welfare policies for those at the margins--the extremely poor and hungry--and investment policies for the broad mass of individuals who share a vision of themselves as part of the middle class. The concept of asset development has the potential to overcome this long-standing dichotomy by treating poverty and hunger as symptoms of the worst failure to realize our shared values, but within a framework in which the goals of such policy apply to all American households.

Much work remains to be done to ensure inclusiveness and progressive change. Asset-based-policy proponents must devise methodologies that provide for portability and flexibility in response to individuals' more fluid relationship with the workplace. New programs or systems that grow out of such policies must fulfill the promise of universal access. Their funding mechanisms must be sustainable in the long term. And we must be open-minded about the respective roles of federal and state government, the private sector, and civic institutions in executing these policies. As asset policy becomes more central to public discourse, ideological fault lines will be exposed. Among the concerns likely to be manifest from the left, for example, is that asset building alone--no matter how noble promoting assets among low-income households may seem--does not fully address the power relationships that simultaneously stem from and reflect inequality. Another apprehension is that asset policy may help to alleviate poverty for some but might not be a sound poverty remedy in general. Asset-building policies could become too individualistic, at the expense of collective or structural remedies. And liberals may fear that financial-asset policies will be used as an excuse to sacrifice traditional income-oriented ones as well as those that enhance human capital.

Corresponding concerns on the right will most likely pertain to issues of power, control, and so-called market-based rewards. Conservatives may resist asset-based policies as just a more subtle form of governmental redistribution of capital aimed at social engineering, especially if the goal is not just to level the playing field but to ensure that final outcomes are equal. Moreover, if asset-based programs become widespread, substantial accumulations of new money will be in play and struggles may result over these pools of capital: how, where, and for whose benefit are they to be invested and managed.

The specific policy contexts in which fault lines will be exposed will no doubt vary proposal by proposal. Disagreement may arise over whether the "stake" in stakeholder accounts for children should be granted universally or targeted on the basis of household need. Debate also might occur over whether Individual Learning Accounts and similar mechanisms can be sufficient in the absence of labor-market reform.

Experts already express different opinions about the potential of IDAs. Some see them as a key vehicle for creating financial assets among low-income households, especially when matched by public or private sources. Others see their promise as marginal at best, whether because of the perceived low savings capacity of people who must use current income to live or because IDAs arguably can do little to rectify structural problems such as shabby career ladders. Still others doubt that public support for and acceptance of IDAs will ever be wide enough to make them an effective tool for elevating poor families nationwide (although it should be remembered that similar doubts once existed about the EITC). But even if IDAs themselves ultimately prove insufficient, they still may serve as an important stepping-stone in bringing poor households into the realm of asset development.

These examples aside, the lines will be most sharply drawn over the balance between individual and collective methods for building and funding assets. The recent presidential campaign debate over Social Security typified this divide. George W. Bush sought to fund individual accounts by diverting existing payroll tax revenues from the current social insurance program, while Al Gore proposed to seed the accounts from other sources, such as general revenues. Similar conflicts over funding may arise with respect to asset-building proposals, including whether financial support should be derived from tax deductions and credits or from refundable tax credits. Clearly, such differences are important, and resolving them may pose serious challenges. Yet a consensus on the basic importance of asset-development policy may serve as the bridge to do so.

An American Prospect

The concept of asset development provides a historic opportunity to promote a domestic policy framework that effectively addresses poverty and inequality while commanding broad and sustained public support. It is commensurate with progressive values, but frames them in a way that taps the universal American values of opportunity, fairness, self-reliance, and reward. Reformers on the left need to debate seriously how to maximize the opportunity to build such a new policy framework without succumbing to a less-than-progressive agenda. But there's a danger greater than failing to avert co-optation by interests unconcerned about poverty and real opportunity: failing to offer a new vision at all--which is largely what the progressive community did during the 1996 debate over welfare reform.

We believe that asset-based policy is the brush with which to paint a new and compelling social vision. The approach is both inclusive (the poor are part of the opportunity structure) and universal (the common factors that everyone needs to attain economic well-being form its core). Asset development as a national policy therefore has the potential to minimize divisions associated with race and class. It is equitable, for it provides similar opportunities to all households. And because of its appeal to shared values, it offers the promise of truly momentous reform--a landmark change with the potential impact and staying power of the New Deal.

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