

# For Every Child, a Stake in America

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Prime Minister Tony Blair of Britain came to Washington last week to bolster President Bush against his critics on Iraq. Let's hope the two leaders found a moment to discuss domestic policy as well -- particularly Mr. Blair's effort to give every child a stake in Britain's economic future.

Each British baby born after last Sept. 1 will receive a trust fund worth at least \$400, and up to \$800 for the poorest one-third of children. The government will make smaller supplementary payments when the child turns 5, 11 and 16 years old -- and relatives or friends can contribute limited amounts tax-free over the years. Add to this the magic of compound interest, and the account could be worth \$7,000 when it matures on the child's 18th birthday. In large part, the idea is to help the 16 million Britons -- out of 60 million -- who have no savings or equity at all to join the middle class.

Mr. Blair's initiative is the latest example of a concept that political scientists call "stakeholding." In postwar Japan, land was redistributed to millions of farmers, laying the foundation for the country's economic renaissance. Singapore has achieved one of the highest rates of savings and home ownership in the world largely because of laws requiring workers to put a portion of their earnings (and making employers contribute a matching amount) into a trust called the Central Provident Fund. And in the United States, a quarter of adults today can trace their family legacy of asset ownership to the Homestead Act that, beginning under Abraham Lincoln, awarded land in the American West to those pioneers with the courage to settle it.

Why not, then, some version of stakeholding here in the United States, a Homestead Act for the 21st century? This country could certainly use it. The poorest 60 percent of Americans collectively owns less than 5 percent of the nation's wealth; one-quarter of white children and half of nonwhite children grow up in households with no resources at all for investment.

A United States version of baby bonds would have the political advantage of not being based on the politics of resentment -- soaking the rich to help the poor is an idea most Americans reject -- but on the politics of opportunity; that is, creating a larger middle class. In fact, members of Congress from both parties have in recent years proposed versions of retirement savings accounts for all children.

Here's how such a system might work in the United States. Each of the four million babies born every year would receive a deposit in an American stakeholder account. Initial deposits could range from, say, \$1,000 to \$6,000. Yes, it would be difficult to free up this money in a time of deficits, but as a long-term investment it would be money well spent.

Unlike Mr. Blair's baby bonds, which can be spent on anything after the recipient reaches age 18, Bush baby bonds would be restricted to higher education or technical training, a small business or a first home, or they could be put aside for retirement.

While all Americans would participate, it would be of the greatest benefit to those born in low-income families, who have the greatest need for lifetime asset accumulation. It doesn't take an army of economists to know that society as a whole reaps huge rewards when we have more owners, savers, taxpayers and entrepreneurs -- and fewer people depending on the state, their communities and others for their livelihood and well-being.

Over the next decade, the United States may well spend \$100 billion or more to give the Iraqi people, for the first time, a real stake in their society -- without doubt a worthy investment. But as our attention inevitably shifts back to domestic economic security, we should consider a new level of stakeholding in America as well.

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# Poverty Is More Than a Matter of Income

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Last week, in an annual autumn ritual, the Census Bureau released its latest statistics on poverty and income. After falling for four consecutive years, the poverty rate rose to 11.7 percent in 2001. But this figure, whether rising or declining, tells only part of the story about poverty in America: It measures only income. For a more complete picture -- and a more disheartening one -- it is necessary to measure the assets of the poor as well.

Between 1983 and 1998, the last year for which a comparison can be made, income poverty declined about 16 percent, while asset poverty rose 14 percent. Today, fully one-quarter of the United States population is asset-poor. This means that, if they had to live only on their net worth -- savings, home equity and other assets -- they could survive at the poverty level for three months. Take away home equity, or just consider liquid assets, and the poverty rate jumps to nearly 40 percent.

When families don't have enough income, they can't buy enough food, shelter, clothing and other necessities. With 33 million Americans now classified as officially "poor," income poverty is a huge problem. But at least twice as many families don't have enough assets -- and so they lose their economic security and their ability to plan, dream and pass on opportunities to future generations. Lack of income means you don't get by; lack of assets means you don't get ahead.

Clearly, both income and assets are important measures of well-being. But when the government frames the problem in terms of income, the solutions are framed in terms of income. Hence, reports of rising poverty are usually met with calls for greater income and food assistance, higher rental subsidies and increases in the Earned Income Tax Credit and minimum wage. The need for the poor to save and build assets is hardly discussed.

In fact, it turns out that the federal government has two policies. For the nonpoor, there is over \$300 billion a year in tax breaks or incentives for individuals for asset development: tax deductions for home mortgages, favorable treatment for contributions to retirement plans or college-savings plans, myriad benefits for small business ownership and stock investment. Over 90 percent of these benefits go to families earning more than \$50,000 a year. Combine these inaccessible income tax breaks with strict asset limits in public-assistance programs, and the poor face asset denial.

It's not that the government doesn't spend on the poor. It's that it spends very differently on the poor. They are grudgingly provided barely enough income and food to get by, while better-off Americans receive generous subsidies to build assets to get ahead.

This disparity in asset accumulation shows up in data on wealth inequality -- which, not surprisingly, dwarfs income inequality and reaches well into the middle class. The top 20 percent of households earn about 56 percent of the nation's income -- but command 83 percent of our wealth. The bottom 60 percent, the majority of the country, earns 23 percent of the nation's income -- but owns less than 5 percent of the wealth. And the bottom 40 percent earns 10 percent of national income but owns less than 1 percent of the wealth. Despite the greater magnitude of wealth inequality, however, income inequality -- like income poverty -- receives far more public attention.

To be sure, there have been some efforts to rethink the poverty line, including a comprehensive study by the National Academy of Sciences, some of whose recommendations are now included in annual census reports. And some advocates for the poor have proposed the use of a self-sufficiency standard to better capture the needs of the poor.

Most helpful, however, would be a set of policies to help the asset-poor, not just the income-poor. We know such policies can work. In a nationwide demonstration project, in which savings are matched on a 2-for-1 basis, the poorest of the poor -- those at 50 percent of the poverty line or below -- are saving more than 3 percent of their income. We can help the poor accumulate more assets with matching deposits and refundable tax credits for savings that lead to homeownership, higher education, business development, investment and retirement. To combat pervasive child poverty and enable asset accumulation throughout life, we could establish a savings account at birth for every person in America.

If we continue to combat poverty primarily in terms of income, we do not merely mislead ourselves with a false sense of progress or an insufficient sense of urgency. We also deny the poor benefits and strategies for improving their lives that we have long offered to millions of other Americans.