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A Homestead Act for the Twenty-First Century
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The United States owes much of its status as the first mass middle-class society to enlightened social policy designed to broaden asset ownership. To this day, a quarter of all adult Americans enjoy a legacy of asset ownership traceable to the Homestead Act of 1862, which awarded 60 acres of land in the American West to families who lived on the land for five years. Likewise, the GI Bill, the Federal Housing Administration, and mortgage deduction policies paved the way for one of the highest home-ownership rates in the world.

But America's middle class has begun to atrophy. Poverty has grown over each of the last four years, and real wages are falling. Meanwhile, income inequality has reached an all-time high, and asset inequality is even more acute. Hurricane Katrina laid bare those stark realities.

The most promising way to revitalize America's middle class is to update old traditions. In the nineteenth century, the U.S. sought to broaden the ownership of land; in the twentieth, the ownership of homes. In this new century, the target should be the ownership of financial assets. The logic for such a course follows from the economic dynamics that are widening the gap between today's haves and have-nots.

The historic correlation between economic growth and wage growth has broken down, largely because returns on human and financial capital are outpacing those on labor. As growth and productivity increase while real wages decline, it is not hard to understand why those who depend solely on wages fall behind, while those who benefit from returns on financial assets get ahead. The best way to break this cycle is to help far more Americans accumulate a sizable ownership stake in the most productive sectors of society.

Imagine if every newborn in America were to receive $6,000 at birth as a down payment on a productive life. With the magic of compound interest, that sum could grow to $20,000 or more by the time the child reaches 18. This young adult could then apply his or her nest egg toward various investments, such as college tuition, a down payment on a first home, seed money for a legitimate business, or retirement savings. Given the number of children born in America each year, the annual cost of such a program would be about $24 billion—roughly what the government squanders on farm subsidies. The benefits, however, would be immeasurable.

Endowing the next generation with resources to invest in its own human capital and financial future would create not only a much broader middle class but also a more self-sufficient, skilled, and entrepreneurial workforce. Gradually, the U.S. would witness the birth of a mass investor class, with ever more citizens deriving their income from returns on financial holdings as well as from wages. There would be less need for a generous welfare state, and the interests of workers and business would be better aligned.

A Homestead Act for the twenty-first century could also offer inner-city kids a new social contract:if they play by the rules and graduate from high school, then a pot of money will allow them to invest in their own futures. Paired with financial-literacy education in schools, such a policy could help turn a culture of poverty and dependency into one of hope and opportunity.

Those who doubt the political viability of such an idea should think again. Britain recently enacted its own version of accounts at birth and has already funded 2 million of them. In the United States, this is one of the few social policy innovations gaining bipartisan support in a deeply divided Congress. Last year, an odd-bedfellows alliance led by Senators Santorum, Corzine, Schumer, and DeMint introduced the ASPIRE Act, calling for deposits of $500 for every newborn, with an additional $500 for babies from low-income families. The policy's biggest advocate may turn out to be President Bush, who wants to make bipartisan headway on his ownership society agenda now that his Social Security plans have stalled.

Let us hope that historians looking back on twenty-first-century America will see the reemergence of a vibrant middle class. If they do, they will likely credit bold policies that enabled ever more citizens to enjoy the benefits of capital ownership.