

# **Wealth Creation and Rural America**

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As the American economy becomes more global, the source of its economic health and security changes. In the frontier era, rural areas in the United States were the source of health and security, promising economic growth, new opportunities, and an abundance of jobs. As the economy changed and cities grew, other sources of economic stability emerged, leaving rural communities behind. Today, rural areas suffer from a decrease in job creation, outmigration of young and skilled workers, and a decrease in the demand for many rural products (Henderson, 2002; Pezzini, 2000). As a result, rural areas are in need of sustainable development to help improve their local industries and compete in the new global market. Current discussions emphasize the lack of economic assets in rural communities as not only a symptom but also as a cause of poverty and suggest that it might be valuable to include wealth creation (asset building) as an approach to reducing poverty (Dorward, Anderson, Clark, Keane & Moguel, 2001; Curley & Grinstein-Weiss, forthcoming).<sup>1</sup>

## **I. Poverty, Assets, and Development**

### **Income Support: Necessary but Not Sufficient for Development**

Discussions of poverty and development have centered on measures of income, where income is considered a proxy for consumption. This general approach has characterized research on poverty in the advanced economies during most of the past century, and has markedly influenced public policy. Income support policy occurs primarily through social insurance, but also through universal grants and means-tested assistance (“welfare”), with different policy mixtures in different countries, and at different times. Today in the United States, income support for the non-poor is primarily in the form of social insurance, and for the poor is primarily in the form of “welfare.”

The idea of income support to individuals and families, in cash or in kind, has been an almost singular idea of welfare states, making up 80 to 90 percent of social expenditures in economically advanced nations, where social expenditures typically comprise more than 50 percent of all public spending. Thus, income support may represent, in a fiscal sense, 40 percent or more of modern states. By any standard, this is a stunning impact for a single idea. Remarkably, this idea has been largely taken for granted.

Income support is designed to maintain individuals and families when they do not have income from the labor market or self-employment. In this there have been notable successes. Especially among the U.S. elderly, post-transfer income poverty has been dramatically reduced.

But income support policies have not worked very well from a development perspective. By and large income policies have not over time reduced pre-transfer poverty,

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<sup>1</sup> This paper borrows in part from Sherraden (2002, 2003), Sherraden & Morris (forthcoming), Grinstein-Weiss et al. (2001), and Curley & Grinstein-Weiss (forthcoming).

i.e., they have not enabled poor households to develop. Some time ago I observed that income maintenance is aptly named -- it maintains people in their poverty. This is desirable and necessary, but it is not sufficient. Public policy and community programs should seek to develop individuals and families to their fullest potential. This is desirable for individuals and families, and for the society and economy as a whole.

### **Toward Capacity Building**

The past two decades have witnessed increasing attention to alternatives to income support as a singular strategy. Overall, these alternatives can be characterized as moving beyond the idea of consumption-as-well-being, toward what Sen (1985, 1993, 1999) identifies as increasing functionings or capabilities. In large measure, this thinking comes out of research and policy in less developed nations, where widespread income support policy is not affordable. For the most part, “poverty” scholarship in the richer nations and “development” scholarship in the poorer nations have been distinct fields of inquiry. The subject matter is basically the same, but the policies, programs, measures, and research methods are mostly different. With Sen’s reformulations, it could be that the boundaries between these fields of inquiry will not be as distinct in the future as they have been in the past.

In the language of social intervention, increasing capabilities as an approach to well-being focuses on building capacities for social and economic development more than on maintaining a certain level of consumption. Capacity building aims to increase individual and household resources, connections, knowledge, and abilities to function more effectively, to solve problems, and to increase well-being along multiple dimensions. The emphasis is on long-term development more than on maintenance of a current standard of living. The aim is to find interventions that provide a foundation for future growth and eventually yield multiple positive outcomes.

Thus, capacity building should not be considered a replacement or alternative to income support as a policy strategy. The two are complementary. Current income and consumption obviously matter, and so do long-term growth and development. The challenges for academics and policy-makers are to specify the meaning of different approaches, gather empirical evidence, and make policy decisions that include an appropriate balance between short-term support and the long-term development.

A major form of capacity building is development of human capital. There is little doubt that human capital is typically the single most important form of capital for individuals, households, business enterprises, and nations. Gary Becker has estimated that human capital may represent 75 percent of total wealth. Moreover, with the transition from the industrial era to the information era, human capital will play an ever-greater role. If it is 75 percent of all wealth today, it will be 80 percent tomorrow. As Schultz (1959) suggested more than four decades ago, human capital should probably be the primary theme of social policy and programs. Beginning about mid twentieth century, economists began pointing to the importance of human capital, but since that time only a few measures of human capital, other than years of education, have been created. One innovative

approach is by Haveman & Berkshadker (1997), who offer a measure of net earnings capacity.

Others have focused on social capital, with key work by Coleman (1988) and Putman (1995). Social capital refers to interpersonal relationships and the resources they provide. This is a widely appealing idea, and there is a beginning body of empirical work, but a well-specified theory of social capital is not yet developed. Quite likely there will have to be greater specification of what social capital is, what causes it, and what its effects are (i.e., a theory or theories) before good measures of social capital at the individual or household level can be created, hypotheses tested, and policy applications designed and implemented.

Taking a different tack, Sherraden (1988, 1991) suggests tangible and financial assets as a strategy for development. He offers general propositions on likely welfare effects of asset holding, such as increased orientation toward the future, increased self-efficacy, increased civic participation, and improved welfare of offspring. These propositions are well short of an integrated theory or theories, but they suggest research agendas in which hypotheses can be specified and tested. The practical rationale behind this thinking was that the non-poor seem to benefit from asset building policies, to which the poor, for the most part, do not have access.

Asset accounts as a policy instrument can, of course, be used for other forms of asset building, especially human capital. For example, one of the main purposes of proposals for children or youth accounts is to help finance education and training. In contrast to most economically developed nations, the United States has never enacted a monthly children's allowance, but a child savings account for education may have greater political potential (Curley & Sherraden, 2000).

### **The Meaning of Income and Assets**

Income is the money that people take in, and mostly spend for short-term consumption needs. Assets are the resources that people hold for long-term security and development. While income and assets, or wealth, are strongly related, they are different concepts with different meanings. Income refers to the flow of resources in the household over time (i.e., salaries, wages, government transfer). Families use income to provide the household with daily necessities such as shelter, food, and clothing. The concept of income is usually associated with the consumption of goods and services and the standard of living.

In contrast, wealth is a stock. Wealth refers to the total amount of an individual's accumulated assets at a given time. Wealth is measured as the net value of assets minus liabilities at a given time. "Wealth is what families own, a storehouse of resources... not usually used to purchase milk and shoes or other life necessities. More often it is used to create opportunities, secure a desired stature and standard of living, or pass advantages and class status along to one's children" (Shapiro, 2001, p.12).

## **The Trend Toward Asset Accounts**

The world has changed considerably since income-based policies were initiated. To be sure, people still require income security when they are not employed, but income alone is no longer enough. The labor market of the information age requires that people have resources to invest in themselves throughout their lifetimes. In effect, people may require greater control in making their own “social policy” decisions across the life span. With less stable employment, workers will need to carry fully portable benefits with them in and out of the labor market, from employer to employer, even across national boundaries. “Retirement” is likely to be redefined, no longer such a rigid period of the life course, and Americans will want greater flexibility in how they live in their older years (Morrow-Howell et al., 2001). Also, policy should promote wealth accumulation across generations, so that more children begin life in households with at least some financial resources (Oliver & Shapiro, 1995). Asset accounts are better suited for these conditions.

In part for these reasons, a shift to asset-based policy is underway. Around the world it is uncommon to encounter a new or expanding policy of social insurance or social assistance, but common to find a new or expanding policy of asset accounts. For a long time, provident funds, with their very mixed record, were the major examples of social security based on individual accounts (Dixon, 1989). Today, the relatively successful provident funds of Singapore and Malaysia (Asher, 1991; Sherraden et al., 1995; Vasoo and Lee, 2001) have been joined by systems of individual accounts in much of Latin America (the most well-known example is Chile; e.g., see Borzutsky, 1997). Australia has created a system of Superannuation to largely replace its means tested retirement policy (Rosenman, 1997). Less remarked upon but perhaps most noteworthy is the rapid rise of individual accounts as “add on” policies in Western Europe and the United States. For the most part these policies are not considered part of social policy systems. Nonetheless asset-based policies are becoming for many people in Western societies the most important form of social policy. This is true even in the traditional welfare states of Sweden and the United Kingdom.

In the United States, this shift can be seen in the introduction and growth of 401(k)s, 403(b)s, IRAs, Roth IRAs, the Federal Thrift Savings Plan, Educational Savings Accounts, Medical Savings Accounts, Individual Training Accounts, State College Savings Plans (529 Plans), and proposed individual accounts in Social Security. Some of these are public and some are called “private,” but it is important to note that the “private” plans are defined by public laws and regulations, and receive substantial subsidies through reduced tax obligations, which the Congressional Budget Office calls “tax expenditures.” In an accounting sense, tax expenditures are not different from direct expenditures, only a different way of distributing public benefits. Looking at the purpose of existing asset accounts, primarily for retirement security, it would be appropriate to call these welfare transfers to the non-poor elderly. Of course, this is not what we say. Most people with a 401(k) want to believe they have been prudent in saving for their retirement in a private-sector account.

All of the above asset account policies have been introduced in the United States since 1970, and different uses are emerging. At present, asset accumulations in 529 Plans for education are expanding rapidly. Overall, asset accounts, for various purposes, are a creative and expanding area of social policy, in contrast to new forms of direct social expenditures, which are practically non-existent. In brief, direct social expenditures are under political attack, while tax expenditures for social benefits enjoy widespread, bipartisan political support. In this atmosphere, it seems likely that the shift to asset-based policy will continue.

### **Asset-Based Policy is Regressive**

Unfortunately, asset-based policies, as they have appeared to date, are less inclusive and more regressive than income-based policies. There are major questions of both coverage and adequacy. For example, see the critiques of Singapore by Asher (1991), of Chile by Borzutsky (1997), and of Australia by Rosenman (1997). Looking around the world, no country to date has instituted a substantial asset-based policy that is universal and progressive.<sup>2</sup> Asset-based policies have greatly favored the rich and middle class over the poor.

The reasons are twofold: first, the poor typically do not participate in the asset-based policies that currently exist, e.g., most of the poor do not have jobs that offer 401(k)s, and second, asset-based policies operate primarily through tax expenditures that benefit the poor little or not at all, because the poor have little or no tax obligation (Sherraden, 1991; Howard, 1997; Seidman, 2001). The tax policies could theoretically be “refundable,” meaning that those with no tax obligation could get a payment from the government (a form of negative income tax), but the Congress is very reluctant to enact refundable tax credits (the only major exception is the Earned Income Tax Credit). All

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<sup>2</sup> The Blair government in the United Kingdom announced in April 2003 that it would proceed with a universal, progression Child Trust Fund, an account for every newborn in the United Kingdom, with greater public deposits for children in the bottom third of the household income distribution (see below). The policy is to go into effect in 2005, for all children born from 2002.

asset-based policies that we are aware of do not have refundable tax credits, and nearly all of the public benefits go the non-poor. Tax expenditures to individuals for asset accounts, home ownership, and financial or business investments total more than \$300 billion per year.<sup>3</sup> (To assess the scope of this, \$300 billion is roughly equivalent to 25 percent of all direct federal social expenditures, including Social Security, Medicare, and all other programs; and \$300 billion is much more than we spend on all programs combined that are targeted to the poor, including Medicaid, Food Stamps, Temporary Assistance to Needy Families, rent subsidies, and others.) Well over 90 percent of this \$300 billion goes to households that earn over \$50,000 per year. For example, in 1999 two-thirds of tax benefits for pensions in the United States accrued to the top 20 percent of households, while only 2.1 percent went to the bottom 40 percent (Orszag & Greenstein, forthcoming).

This point may bear repeating: public policies for asset building are making the comfortable more comfortable, the rich richer, and leaving the poor as they are. We emphasize this point because the common perception of social policy in the United States is that resources are redistributed downwards from the rich to the poor by the federal government. This is to some extent true for direct expenditures, but it is decidedly not true for tax expenditures. There is a large and somewhat “hidden” asset-based policy in the United States (Sherraden, 1991; Howard, 1997; Seidman, 2001). Many people accumulate assets, and do so in a manner that cannot accurately be described as “saving.” Rather, for most American households, most assets accumulate in structured systems, defined, regulated, and subsidized by public policy.

Most Americans with retirement accounts, home equity, and financial and business investments seem to be little aware that they receive subsidies for these assets.<sup>4</sup> If the nature, scope, and effects of existing asset-based policies were better understood, perhaps the general public would support greater inclusion of the poor.

### **Well-Being Based on Assets**

The idea of the potential and benefits of asset accumulation as anti-poverty policy was developed in *Assets and the Poor* (Sherraden, 1991). This book suggests that “people think and behave differently when they are accumulating assets, and the world responds to them differently as well. More specifically, assets improve economic stability; connect people with a viable, hopeful future; stimulate development of human and other capital; enable people to focus and specialize; provide a foundation for risk taking; yield personal, social, and political dividends; and enhance the welfare of offspring” (p. 148).

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<sup>3</sup> State governments provide additional tax benefits.

<sup>4</sup> Not recognizing tax expenditures as benefits can be viewed in at least two ways. Possibly recipients are unaware or do not make the connection. Or it could be that people view tax benefits not as “benefits” but instead as less confiscation of their income by the government. This latter perspective hinges on whether the existing structure of taxation (before tax breaks) is viewed as legitimate or not. Some people do not think so. We suspect that, for most people, not recognizing tax breaks as benefits is some combination of hazy awareness and underlying resentment of taxation.

By and large, empirical research supports the viewpoint that asset holding may have positive effects in addition to deferred consumption (Scanlon & Page-Adams, 2001, provide a review). These effects may include increased well-being, life satisfaction, self-efficacy, more positive expectations toward the future, reduced depression and alcohol use, and increased educational attainment (Page-Adams & Sherraden, 1996; Page-Adams & Vosler, 1996; Rohe & Stegman, 1994). In the family, asset holding seems to have an effect on marital stability, family well-being, and economic security (Scanlon & Page-Adams, 2001). Moreover, parental assets consistently have been found to be related to positive educational outcomes in children (Green & White, 1997; Hill & Duncan, 1987), as well as better health (Joshi & Macran, 1991).

Looking at some research examples, Yadama & Sherraden (1996), using the Panel Study of Income Dynamics and using simultaneous equation modeling, find that asset holding leads to positive attitudes and behaviors (prudence, efficacy, horizons, and connectedness) at later point in time. Also, positive attitudes and behaviors lead to asset holding, suggesting a virtuous circle of development (Sherraden, 1991). In another study using the National Survey of Families and Households, Zhan & Sherraden (2003) find that, controlling for many other factors, asset holding among single mothers leads to more positive educational outcomes for children. In this study, asset holding was associated with greater expectations for children's educational performance, which in turn was associated with higher educational achievement. These results suggest that assets may lead to cognitive changes (e.g., looking ahead, expecting more), which in turn influence behavioral outcomes. Also of note in this study, when assets are included in the analysis, income is no longer a predictor of educational achievement. This finding suggests that studies of effects of inequality and hardship may be underspecified when assets are not included in the analysis. In other words, it may be that assets -- more than income -- has positive effects on well-being.

### **Assets Effects on the Community**

Most research on effects of assets on the community looks at homeownership (Scanlon & Page-Adams, 2001). Results from these studies consistently indicate that homeownership is associated with a wide range of variables indicating good citizenship and investment in the community. Individuals who are homeowners are more likely to participate in volunteer work, be involved in local government, be more aware about their political leaders, become a member of non-professional organizations in the community, and maintain their properties at a higher standard (DiPasquale & Glaeser, 1999; Rohe & Stewart, 1996). In addition, cities and counties with higher rates of homeownership are characterized by lower levels of government spending. In these areas, a larger share of the government budget is used for education and improvement of highways (DiPasquale & Glaeser, 1999). Additional support for benefits of homeownership might be seen in government-supported homeownership programs, which are justified with the arguments that these programs benefit the society as well as the individual (Rohe & Stewart, 1996).

Scanlon and Page-Adams (2001), in a review of research on the effects of asset holding, present four major themes in summarizing effects of homeownership on the community. The first effect is property value. Many economic studies indicate that homeownership is a good investment for households in the United States. The second effect is decreasing residential mobility. Home ownership is a major predictor of residential stability. When compared with renters, homeowners tend to stay longer in one location. Residential stability is important because it is associated with positive psychosocial functioning, particularly among youth, and with educational achievement. Third, homeowners are more likely to invest in property maintenance, such as painting their houses, repairing roofs and replacing broken or worn out fixtures. Fourth, homeownership is associated with increased social and civic involvement at the local level.

DiPasquale & Glaeser (1998) suggest that homeownership may increase positive community behaviors for two reasons. First, being a homeowner may provide incentives for the individual to improve his or her immediate community. Second, homeownership may lead to longer residence and better property condition, because residents are less likely to move frequently. Others suggest that homeowners have a greater financial stake in their community and, as a result, they have higher incentives to protect property values through investment in their neighborhood, school, and local governance to generate positive future returns for their family (Aaronson, 2000; Saunders, 1990; Sherraden, 1991).

## **II. Asset-Building as a Policy Direction**

### **Academic Inquiry and Policy Discussion**

Until recently, there has been relatively little academic attention to asset building policies for the poor. Nonetheless, some social science researchers have been focusing on asset distributions in the United States, especially Wolff (e.g., 1995, 2001), who deserves a great deal of credit for keeping wealth issues in the public eye. Oliver & Shapiro (1995) and Conley (1998) have very effectively opened the discussion of assets and race. Shapiro and Wolff (2001) bring together a number of studies on a range of topics related to assets and well-being.

Turning to financial services, Caskey (1994) pioneered the study of second tier financial services, such as pawnshops and check cashing outlets. The book has brought attention to the prevalence and operations of these businesses as well as the financial needs and practices of the customers. In another important book, Stegman (1999) recognizes that electronic banking will one day provide unprecedented opportunities to make saving instruments available to the poor.

With the shift to asset-based policy, the biggest challenge will be inclusion (Sherraden 1991, 2001a). Hecl (1995) observes the welfare state of the twentieth century and concludes: "If there has been a direction to our century's struggle, it seems to have been mainly a question of expanding presumptions of inclusiveness." Unfortunately, at the beginning of the twenty-first century, the presumption of inclusiveness appears to be in

retreat. As new asset-based policy regimes grow in many countries, the poor are being left behind and the prospects for inclusion do not appear to be promising.

Nonetheless, we can be somewhat encouraged that thoughtful proposals for inclusion in asset building policy and programs are becoming more common. For example, as one of eight strategies for policy action in the twenty-first century, Steuerle, Gramlich, Heclo, and Nightengale list a proposal to “increase everyone’s chances to build financial security” by “creating opportunities to accumulate assets for financial security, especially among those facing the greatest disadvantages. In this way society can give everyone a greater stake in the future and the common good. . . .We should look to the twenty-first century as a time to move beyond simple redistributive policy toward ‘cumulative’ policy” (1998, 7-8).

The idea of inclusion in asset accumulation is now on the table. This represents a marked change since the discussion began about fifteen years ago. However, the next steps are more or less uncharted. There are critical and unanswered questions regarding the thinking behind asset-based policy, evidence of the effectiveness and efficiency of this approach, and feasibility of a large-scale extension of asset accumulation programs to low-income, low-wealth households.

### **The United States: Inclusive Asset-Based Policy Discussions**

As indicated above, the focus on asset-based policies for the poor is not to seek targeted policies for the poor, but to lay the groundwork for inclusion of the poor in large-scale policies.<sup>5</sup> In this regard, there has been some degree of progress.

During the 2000 presidential campaign, George W. Bush proposed \$1 billion in tax credits to financial institutions that match savings of the poor in IDAs. His proposal was similar to a bill under consideration in the Congress known as the Savings for Working Families Act.<sup>6</sup> During the campaign, Governor Bush (2000) said:

. . . If a low-income person is able to save up to three hundred dollars, we will encourage banks, with a federal tax credit, to match that amount. The money can then be withdrawn tax free to pay for education, to help start a business or buy a home.

. . . The great promise of our time is to fight poverty by building the wealth of the poor. A home to anchor their family. A bank account to create confidence. And, I believe, a personal Social Security account, which would give millions of low income Americans, not just a check, but an asset to own, a stake in our prosperity.

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<sup>5</sup> Sherraden’s (1991) original proposal for IDAs was for a universal, progressive policy beginning at birth.

<sup>6</sup> The Savings for Working Families Act (SWFA) was initiated by Michael Stegman of the University of North Carolina, working with the office of Senator Joseph Lieberman. The Corporation for Enterprise Development (CFED) has led in the progress of SWFA on Capitol Hill.

After taking office, President Bush has continued to support the Savings for Working Families Act during 2001, 2002, and 2003. At this writing it has not been enacted. There is general and bipartisan support in the House and Senate, and from the White House, but the Chairman of the House Ways and Means Committee, who sits in a key policy position, has been opposed.<sup>7</sup>

Following a campaign promise, President Bush created the Commission to Strengthen Social Security, whose members all favored some version of individual accounts, and the President charged them to produce a plan that included individual accounts (U.S. Commission to Strengthen Social Security, 2001). The Commission reported in December 2001 with three options for allowing workers to establish individual investment accounts. They also acknowledged that the proposals would have to be accompanied by benefit cuts or tax increases if the retirement system is to avert a financial crisis.

Under the first option, workers could invest up to 2.0 percentage points of the 6.2 percent payroll tax on earnings up to \$80,400, with retirement benefit reductions. Otherwise, there would be no change in the current system of benefits. Under the second option, workers could invest up to 4.0 percentage points, up to a maximum of \$1,000 per year, with retirement benefit reductions. Under the third option, workers could contribute up to 1.0 percent of their earnings beyond their current payroll taxes, which would be matched by 2.5 percentage points of their payroll taxes, to a maximum of \$1,000. The second and third options would also guarantee a minimum benefit package to low-income workers and widows/widowers, with 30 or more years in the system, at 120 percent of the poverty line (U.S. Commission to Strengthen Social Security, 2001).<sup>8</sup>

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<sup>7</sup> Passing legislation in the US Congress is of course a daunting task. There are a thousand ways for legislation to fail. In the long run, this is probably desirable; fewer bad laws are enacted; the Founding Fathers knew what they were doing. But in the short run, policy-making is unbelievably challenging.

<sup>8</sup> The Center for Social Development (CSD) at Washington University provided data to the Commission from IDA research on savings by the poor and urged progressivity (Sherraden 2001c). Some Commission members asked questions about where the money would come from to subsidize deposits for the poor, and they seemed reluctant to propose taking it out of general revenues. Subsequent email correspondence with Commission staff suggested that they were interested in some degree of progressivity. The final report cites data from CSD's research on IDAs and in the Commission's proposals is an element of progressivity, though it is very limited: The third option allows low income workers to get greater matching deposits as a percentage of their income because the \$1,000 maximum applies to all workers, regardless of income. Although far from satisfactory, this small progressive element in deposits and matches may represent an important policy principle. However, a more universal and progressive element in the proposals is the minimum benefit guarantee in options two and three. The minimum benefit guarantee is excellent, though we would also like to see greater subsidy in asset accumulation *up front*. Under the current proposals, a two-tier system might result wherein the well-off accumulate assets, and the poor get a minimum benefit guarantee, i.e., asset building for the non-poor and means tested income transfers to the poor. As Rosenman (1997) observes regarding the Australian system, this would be far from ideal. A better policy would be for everyone to accumulate assets that are sufficient for their social protection needs, promote household development, and make intergenerational transfers of assets more likely.

In the current political climate, which includes a return of federal budget deficits and a focus on fighting terrorism at home and abroad, the Commission's proposals have not attracted much attention. Any proposal that calls for reducing benefits or raising payroll taxes is unlikely to be embraced by Members of Congress. Thus, the proposals from the Commission were political non-starters before they arrived. Nonetheless, the issue of individual accounts related to the US Social Security system is unlikely to go away. It has popular appeal, particularly among the young, and it will probably return to the political agenda. At some point in future discussions, it may become important that in 2001 the Commission of a Republican President recommended at least some elements of progressivity in individual accounts in relation to Social Security.

### **The United Kingdom: "Saving and Assets for All"**

A serious discussion of asset-based policy began in the United Kingdom in 2000 (Kelly & Lissauer, 2000; Nissan & LeGrand, 2000; Institute for Public Policy Research, 2001). In a major policy development in April 2001, Prime Minister Tony Blair proposed a Child Trust Fund for all children in the United Kingdom, with progressive funding. He also proposed a demonstration of a Saving Gateway, matched saving for the poor.<sup>9</sup> Blair (2001) said, "As a Government, we are committed to extending power, wealth, and opportunity to the many, not just the few." He offered a vision of inclusion:

I believe we have already made important strides in extending opportunity for all – through improving skills and work, through improving living standards and through improving the quality of public services.

But now we want to add a fourth element: more people getting the benefit of assets and savings, so that we help spread prosperity and opportunity to every family and community.

Because now too many young children are still excluded from the chance to go to university, to own their own home, to have financial security or a career, I want to see all children grown up knowing that they have a financial stake in society. I want to see all children have the opportunity of a real financial springboard to a better education, a better job, a better home – a better life. I want to see every child make the most of themselves.<sup>10</sup>

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<sup>9</sup> The Institute for Public Policy Research (IPPR) has led asset-based policy work in the UK (e.g., Kelly and Lissauer, 2000; IPPR, 2001). In June 2000 Sherraden was respondent to a speech on asset-based policy in London by David Blunkett, then Secretary of State for Education and Employment. IPPR and CSD co-hosted an international conference on asset-based welfare in London in January 2001. In October 2001 Sherraden joined Alis tair Darling, Secretary of State for Work and Pensions, for speeches on "Wealth and Welfare" at the annual meeting of the Labour Party, and consulted with Treasury Minister Ruth Kelly on design of the policies. All of this was organized by IPPR.

<sup>10</sup> It is perhaps noteworthy, that the words of Bush and Blair quoted in this paper sound much the same. Were it not for contextual references, it would be difficult to determine which leader made which statement. What does this say about the political ideology of asset building? It may suggest that asset building does not fit neatly into the traditional right and left political categories.

The Child Trust Fund would be based on the principle of progressive universalism, wherein “every baby would receive an endowment, but those in families on lower incomes would receive a larger lump sum. The original proposal was for every child in the United Kingdom would receive at birth a deposit into an account of 300 to 500 pounds (approximately \$430 to \$720). In addition, three additional deposits, ranging from 50 to 100 pounds, would be made as the child grows up. Additional contributions could be made by parents, relatives, or friends. A limited number of investment options would be available, including money market, bond, and equity funds (HM Treasury, 2001a). By the time the child reaches 18 years of age, the Child Trust Fund could be in the range of 5,000 to 7,000 pounds (\$7,200 to \$10,080).<sup>11</sup>

In April 2003, Prime Minister Blair announced that he would go forward with the Child Trust Fund.<sup>12</sup> Beginning in 2005, and retroactive to September of 2002, each newborn child will be given an account. The initial deposit amount from government is now set at 250 pounds, with an additional 250 pounds for children in the bottom third of the income distribution. Future deposits from government are planned, but not yet specified (H.M. Treasury, 2003).

The Blair plan “is also concerned with ensuring that current and future generations of adults are encouraged to save for themselves.” The second program is a Saving Gateway, “which would build on the universality of both Individual Savings Accounts (ISA) and a Child Trust Fund,” and would add progressive features, including matching funds. The Saving Gateway is much like IDAs in the United States; it targets lower-income households, who have lower levels of savings, and is intended to help “develop a saving habit.” The government makes a 1:1 matching deposit for every pound saved up to a fixed limit. Financial education, information, and advice are part of the program. The Saving Gateway is available to individuals for a limited time. The account is invested for a minimum of three years, and then either cashed or transferred to existing savings instruments such as an ISA, a retirement pension, or the Child Trust Fund of a child of their choice (H.M. Treasury, 2001a, 2001b).<sup>13</sup> Currently, Saving Gateway is in operation at several sites in the United Kingdom in a pilot phase. The plan is to roll it out across the country in the future.

If fully implemented as planned, the U.K. policy would possibly be the largest progressive, universal asset building policy of any country in the world. It would signal a new direction in policy that, over time, might expand. As David Blunkett (2000), when he

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<sup>11</sup> Nissan and Le Grand (2000) were influential in the Child Trust Fund proposal.

<sup>12</sup> In September 2002 Prime Minister Blair organized a seminar at 10 Downing on the Child Trust Fund proposal. The session was chaired by Home Minister David Blunkett. Fred Goldberg, Bob Friedman, and Michael Sherraden from the United States participated. A dinner with Chancellor of the Exchequer Gordon Brown followed the seminar. Sherraden (2002) provided the opening remarks after dinner, relying significantly on findings from research on IDAs. Later, aides to Blair cited this dinner as crucial in the decision to go ahead with the Child Trust Fund, because Brown made the funding decision.

<sup>13</sup> The Saving Gateway is much like IDAs, and it is to be implemented in only a few places as a demonstration, much like the American Dream Demonstration.

was Secretary of State for Education and Employment, observed: “We are on the cusp of a different way of looking at the welfare state – one which focuses on capital and assets.” Noteworthy is the progressive funding in these universal proposals, wherein the poor receive more. Also important is the life-long accumulation that is embodied in the UK proposals, rather than one large lump sum at birth or at the age of 18 or 21. Instead of equal lump sum deposits, the UK proposal for progressive funding and long-term asset accumulation with deposits at birth and throughout the growing up years may be preferable. In the United States, this has been suggested by Sherraden (1991), and Lindsey (1994) has proposed a Child Social Security Account, wherein assets would build over time by government and private contributions.

### **III. Wealth Creation and Rural America**

Asset-building in rural areas of the United States is not a new idea. Government policies dating back to the late 1700s, when the United States gained much of its territory, deal with the distribution of land to the nation’s citizens; the Homestead Act of 1862 was a major piece of these policies. Providing they did not bear arms against the United States, any citizen over the age of 21, head of a household, or a military veteran was entitled to 160 acres of unappropriated land (Dick, 1970). The only requirements were that an interested party had to file an application at the appropriate land office, guarantee the land was for personal use, and begin making improvements on it within six months. After five years, if these conditions were met, an applicant could take final possession of the land at a minimum cost. If these conditions were not met, or the applicant vacated the property before the five years, the land reverted back to the government. The Homestead Act officially came to an end in 1934 when President Roosevelt withdrew all remaining land from public domain (Dick, 1970).

Throughout its duration, the Homestead Act gave 1.5 million households parcels of land totaling 246 million acres. According to estimates calculated by Williams, as many as 92 million ancestors of Homesteaders could have benefited from the asset effects of the initial investments (Williams, forthcoming). By using national resources to provide property to citizens at minimal cost, the government allowed those who were willing to go West and work the land to build assets that could be passed on to future generations. Homesteading also aided the government in expanding the western frontier by encouraging population and economic growth in the new territory. As a result of this policy initiative, rural settlement of the United States expanded and rural communities began to grow and prosper.

#### **Rural Communities Today**

Since that time, rural communities have experienced great changes. As the economic base shifted from agriculture to manufacturing, cities grew and many people moved from farms to cities in order to be closer to better jobs and other opportunities not offered by farm communities. As time went on, other changes occurred causing rural areas to weaken. Because of resource depletion and the high cost of extraction, mines began to close down. Technological changes brought in new machinery and new crop varieties that

allowed fewer farmers to feed more people. Globalization introduced greater competition for rural areas that supported businesses such as textile and steel mills. Yet another economic shift from manufacturing to service increased the number of businesses in cities, but decreased the number of businesses in rural communities where the customer base was not as strong (Freshwater, 2000).

Because population in rural areas is less dense, infrastructure is not as developed, leaving rural residents with fewer resources and higher costs for services such as health care, social services, licensed day care providers, and transportation. Eighty percent of rural areas lack public transportation, compared to two percent of urban areas.

Today, some rural communities are struggling to stay alive. Employment opportunities are declining. Young people are migrating out to gain better access to educational facilities and leisure activities and to look for better employment possibilities. As younger community members move out, they leave behind many of the older population who were displaced by the changing economy. Furthermore, retirees migrating to some rural areas are creating a new demographic composition. Older citizens need a variety of public services that their communities cannot afford to maintain (Pezzini, 2000). In spite of these difficulties, however, many of these rural communities do have certain strengths that could be and have been used to make improvements that benefit everyone. The availability of more land at cheaper prices entices manufacturing and service industries to relocate to these areas bringing jobs and other businesses. Because of transportation improvements, more urban dwellers are looking at rural areas as safer, more natural environments in which to live, and some rural areas are capitalizing on tourism (Pezzini, 2000).

### **Poverty in Rural America**

In 2001 rural poverty rates were higher than urban poverty rates, 14.2 percent compared to 11.1 percent (U.S. Bureau of the Census, 2001). For racial composition, although there were more poor African Americans in urban areas (26 percent) compared to rural areas (19 percent), the poverty rate for rural African Americans (31 percent) was higher than urban African Americans (21 percent). White poverty rates were 9 percent in urban areas, and 12 percent in rural areas (United States Census Bureau, 2001). Recent years have witnessed a rapid growth of Hispanic populations in rural areas, often with high rates of poverty (George, 2003).

Urban and rural poverty have different characteristics. The urban poor rely on public assistance more than rural poor. The urban poor are more likely to be educated, but less likely to be employed compared to rural poor, who have a higher percentage of working poor (Brown & Hirschl, 1995). Unemployment in urban areas is more a matter of skills versus job availability (Lakes, 1996), whereas in rural areas it is more due to weak demand for labor, coupled with low wages (Besser, 1996). Rural mothers are more likely to be employed than urban mothers, but the jobs tend to be low-paying or part time (McKernan, Lerman, Pindus, & Valente, 2000).

## **Strengths and Vulnerabilities of Rural Areas**

Based on research on Individual Development Accounts in rural areas (Grinstein-Weiss et al., 2001; Curley & Grinstein-Weiss, forthcoming), we identify the following strengths:

**Trust.** Trust is an important theme among IDA participants regardless of program location. Rural IDA programs feel that they have an advantage over urban sites because in smaller communities, most people are familiar with the organization and are often acquainted with the employees, enabling participants to be more comfortable and more trusting of the program.

**Community-building.** Values of community-building may be stronger in rural areas. Economic education classes and other gatherings in IDA programs may provide a platform where community-building can occur.

At the same time, rural IDA programs in rural areas may be at a disadvantage in at least three respects:

**Accessibility and convenience.** Urban areas are better able to recruit participants because the population is not as scattered as in rural areas and information about the programs spread from person to person much quicker.

**Transaction costs.** Great distances and lack of resources create higher costs for doing almost everything in rural areas. Transaction costs are costs to participants in time and money associated with particular actions. Higher transaction costs occur in travel to economic education classes or other IDA program meetings, making IDA deposits.

**Infrastructure and resources.** Because of lack of strong economic infrastructure, rural areas tend to have fewer resources available to provide program operational support, program staff, financial services, partner services, and matching funds.

## **Some Suggestions on Wealth Creation in Rural America**

In closing, we offer brief practical suggestions or guidelines based on the above analysis:

**Think beyond survival, toward development.** Income support policies are absolutely necessary and should be vigorously supported, but they are not enough. If rural families and communities are to thrive, they must develop. Development requires more than consumption at a certain level. It requires capacity building. Wealth creation is one way to build capacity.

**Take advantage of current opportunities for wealth creation.** Existing public policies and community initiatives for wealth creation should be vigorously explored. These include a wide range of homeownership and home improvement policies, the Family Self

Sufficiency program in public housing, supports for small farmers and niche agricultural production, and IDAs.

**Envision and work toward major new public policies.** These include public policies for wealth creation that are targeted toward rural areas, such as the New Homestead Act.

**Don't wait for government to do it all.** Public policy supports wealth creation throughout U.S. society, and it will also be essential to support wealth creation in rural America. But government cannot and should not do everything. The best strategies usually involve creative public-private partnerships.

**Reduce transaction costs.** Rural communities can concentrate on reduction of transaction costs (time and money spent in getting things done) in all forms of asset-building. Some public policies may not work well in rural areas unless transaction costs can be reduced. These challenges are sometimes formidable, but with information age technology, reduction of transaction costs becomes more feasible with each passing year.

**Build on local, unique resources.** In every rural community there are unique resources. To take a striking example, in some American Indian reservations, there are now large revenues from gaming. These resources are often given to tribal members in the form of dividend checks. The checks are typically spent rather than saved. This resource flow could in part be diverted toward asset accounts for long-term accumulation. While most rural communities are not so fortunate to have large cash flows, each has unique features that can be a basis for asset development.

**Connect with existing institutions.** Rural communities have access to strong organizational resources, such as 4H and Future Farmers of America for young people, whose values and practices are entirely consistent with asset building. Partnerships with existing institutions will be a key to success.

**Create new institutions for wealth creation.** Savings programs can be started in schools, in churches. Group initiatives to repair and upgrade homes can tap social capital in the community, resulting in greater wealth of households. At the community level, community foundations are an excellent long-term strategy for both wealth accumulation and engaging citizens in the future of the community.

**Stay with it for the long term.** Wealth creation is a long-term process. It does not happen overnight, but rather is a step-by-step endeavor. The most important thing is to begin. Asset accumulation and its effects occur over years, and across generations.

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