

## BUILDING A REAL “OWNERSHIP SOCIETY”

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## Building a Real “Ownership Society”

President Bush has proposed several initiatives to create an “ownership society.” The premise that we want to be a nation of owners is attractive and deeply rooted in the American psyche. Ordinary people want the financial security, opportunity, and liberty that come with owning assets. A home owner 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. Throughout American history, foreign observers have commented on the connection between the democratic self-confidence of Americans and the comparatively large proportion who owned homes, farms, or businesses, as well as the relatively high degree of education of the common American.

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 that resonates with all Americans. In that address, the president went on to advocate a society in which “more people will own their health plans, and have the confidence of owning a piece of their retirement.” 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. Programs like Social Security and

Medicare, unemployment compensation, and the G.I. Bill have been public outlays central to broadening the security of a property-owning middle class.

In many respects, the Bush administration is promoting a program that turns away from well-established, successful policy strategies of broadening ownership and intensifies the shifting of risk to individuals. Most of us do not 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 ensured. Nor do we want to “own our own retirement,” if that means the guaranteed part of America’s pension system, Social Security, is raided.

Since the very early Republic, expanded ownership in the United States has been built on deliberate national strategies to broaden private wealth and to promote a middle-class standard of living. From Jefferson and then Lincoln, FDR, right down to the Clinton years, an ownership society has been promoted by federal policies and outlays—the land tenure system favoring yeoman farmers, the land grant colleges and agricultural extension system, Social Security, federally guaranteed and assisted mortgages, and tax favoritism and federal regulation for private pensions and health insurance, as well as Medicare and Medicaid and college aid. Security for individual owners, especially those of moderate income, also has depended on government regulations—to keep pensions from being looted, investment accounts from being fleeced; to require accurate accounting and fair credit practices; to mandate fair labor standards and minimum wages. We need to build on these policies, so that more Americans of modest means can look forward to the security of ownership.

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 (such as health insurance and 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 a national debate. We can all agree on the goal, but we need a full debate about the means.

## THE SHIFTING OF RISK

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 also have been secured by government investment and regulation. Without these diverse government activities, ordinary families would be extremely vulnerable to risks beyond their control. With them, America preserves the dynamism of a market system, protects innocent individuals from avoidable economic calamities, and helps them to become and remain secure owners. But when ordinary people are overwhelmed with financial risks, the hurdle of ownership is raised higher.

*“The wrong sort of ownership society may actually make Americans less secure and less independent.”*

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 deregulation, shifting norms

of fairness and shifting power imbalances, and the erosion of norms of comity and reciprocity between employer and employee. Some workers are energized by this new insecurity; a great many find it devastating and randomly cruel. 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 regulations, 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 stable, health insurance has become more precarious. 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. A recent Harvard University study showed that the single biggest reason for personal bankruptcies is now medical bills, and a large fraction of those who declared bankruptcy for medical reasons reported that they had health insurance that failed to cover their bills. The insurance approach promoted by the Bush administration—individual policies with very high deductibles—further increases insecurity. When it comes to health care, individuals and families are more secure owners when they are part of broad insurance pools operated, underwritten, or guaranteed by government.

**PENSION INSECURITY.** Since the 1980s, large corporations have been shifting the form of pension coverage they offer 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. Whereas participation in a traditional plan is automatic, participation in a 401(k) is optional. Whereas traditional plans are regulated and guaranteed by the

Employee Retirement Income Security Act (ERISA), participants in a 401(k) can lose everything, particularly if they are coerced or cajoled into investing heavily in their companies. The recent Brookings Institution study, *Coming Up Short*, by Alicia Munnell and Annika Sundén is a devastating indictment of 401(k)-style retirement. It shows that the typical 401(k) plan has assets sufficient for only a few years of retirement, and that individuals make systematic mistakes in investing their 401(k) assets. The president hopes to convert the most secure defined benefit pension program of all—Social Security—to a defined contribution plan, in which one's retirement security would be more subject to the vagaries of investment decisions and the fluctuations of financial markets.

*HOUSING INSECURITY.* Since the 1930s, the federal government, through the Federal Housing Administration (FHA), the Federal National Mortgage Association (FNMA), the Home Owners Loan Corporation, and the Federal Home Loan Bank system, as well as tax favoritism for mortgage interest, has worked to expand home ownership. This also has been stimulated by regulatory policies such as the Community Reinvestment Act. In recent years, thanks to very low interest rates, the percentage of Americans who are home owners has reached a new peak. But broadened home ownership is at risk today. With the virtual shutdown of federal subsidies for rental housing, renters are paying record proportions of their incomes for housing, making it hard to accumulate the savings to make the jump from renter to owner. The federal government, which once subsidized affordable home ownership as well as rental apartments, is no longer subsidizing either except at minuscule levels or through tax write-offs that disproportionately favor more affluent home owners. The immense federal deficits are putting upward pressure on interest rates, which is pricing mortgages beyond the reach of more Americans. Static incomes have led Americans to go heavily into debt, often via adjustable-rate home equity loans. As interest rates rise, so do defaults and foreclosures.

*EDUCATION INSECURITY.* Education is a critical personal asset. But today, the cost of postsecondary 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. Obviously, it is hard for young people to become owners when they are weighed down by college debts, and even harder if they cannot acquire a degree at all.

*INCOME INSECURITY.* 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, education, health care, and child care 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 Earned Income Tax Credit (EITC) in exchange for providing the cash a few weeks early. Few are able to save much if anything (the bottom 40 percent of the income distribution has negative net worth—they owe more than they own). People in this situation need assets; they need to become owners. But absent major changes in public policy that are dramatically different from those being proposed under the banner of the ownership society, few are likely to accumulate significant assets because of inadequate and unreliable income and the rising burden of debt.

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 increased dramatically 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-faire economy. Some economists believe that a market economy works better when free of all social constraints. This view is highly debatable. But if this is indeed an era in which individuals need to change jobs and upgrade skills many times during the course of their working lives, and mothers as well as fathers are in the paid labor force, we should be providing more social cushions against risk beyond the individual’s control, not fewer.

## HOW ASSET POLICIES MADE THE MIDDLE CLASS

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 the breadth of its middle class. Our country, however, was not born with a middle class. In its earliest decades, the makeup of the United States was similar to that 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. For the vast majority of Americans, the risks of life—jobs, income, education, health care, personal security—were privatized rather than shared. Tough luck was just that: tough. Whether one experienced pain or “lucked out,” guarding against the vicissitudes of life rested mainly on the individual or family.

*“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.”*

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. To be sure, some policies worked better than others and some lasted while others are now history, but the one

thing that remains is that all of us who consider ourselves to be middle class are where we are now because government policy created or enabled our success. Our job is to work hard and to take advantage of the opportunities afforded for success, and government's job is to try to ensure equal opportunity and to employ policies and programs to help us reach success. Indeed, this relationship has come to be called the "social contract."

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, home ownership, 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, extending back from the time of Jefferson up to the G.I. Bill, and continuing today with the protections of Social Security and Medicare.

*JEFFERSONIAN LAND TENURE.* In the late 1700s, Thomas Jefferson argued that the vast frontier to the west would be of little value to the nation until it was settled and began generating taxes. But he also was prescient enough to realize that the strength of the fledgling democracy depended not on a few large landowners, who could gobble up more and more land shares for themselves, but on millions of small owners who would claim and develop homesteads and democratize the nation in the process. "Our small land holders," Jefferson noted, "are the most precious part of the state." He, along with John Adams and Ben Franklin, wished to avoid the great concentrations of wealth that existed in Europe as a result of aristocratic land transfers from generation to generation. Indeed, Jefferson and others vehemently and successfully pushed for land-use policies that maximized broad ownership as a way to avoid concentrations of wealth through land inheritance. Jefferson's land tenure laws also prohibited speculators from buying up large tracts of frontier lands. The tension between economic freedom and democracy was not to be settled by Jefferson alone, but was to define the national balancing act that was to continue for more than a hundred years.

*THE HOMESTEAD ACTS.* Making public land available to households continued to be national policy well into the 1800s, particularly since more attention had been devoted to land grants for railroads than yeoman small farmers. Recession, unemployment, and poor wages spawned social movements to grant more opportunity to urbanized masses, reflected in the rallying cry, "the right to labor and the right to soil." In 1862, Congress passed the first of two Homestead Acts designed to facilitate the settlement of the western territories. The act gave 160 acres of public land to heads of families or individuals over the age of twenty-one who met certain conditions. Immigrants were included in the land policy if they intended to become citizens; all recipients had only to live on their land and improve it in order to get it for free. In effect, for 124 years, the original act transferred millions of acres of land to more than 2 million homesteaders, facilitating a great westward expansion.

*LAND GRANT SYSTEM.* In the same year that it first passed the Homestead Act, Congress also enacted the Morrill Act that established the "land grant colleges" that now exist in every state. Passage of the act transferred federal lands to each state to create a public institution to teach agriculture and carry out agricultural research as well as to teach classical studies and practical skills to landed masses. The land grant system was born of the recognition that homesteading farm families needed access to higher education as well as scholarly knowledge about how to till the land and raise productive crops. The congressional provision of land to build colleges met the need for agricultural and technical educations and was a public investment in the households that tilled the nation's soil. Senator Justin Smith Morrill referred to the land grant system he sponsored as providing knowledge and skills "where a much larger number of people need wider educational advantages and impatiently await their possession."

*FREEDMEN'S BUREAU.* Just three years later (1865), and as a result of the Civil War, Congress created the Bureau of Refugees, Freedmen, and Abandoned Mines within the War Department to address the needs of landless, penniless former slaves. The bureau was empowered to distribute 850,000 acres of land to "freed men." As local freedmen aid "societies" developed in response to obvious need, Congress turned its attention to

the incipient problem by establishing the bureau within the War Department. Congress's goal was to link the needs of freed slaves with the availability of land, thereby economically enfranchising million of landless new citizens. President Andrew Johnson, however, undermined this plan by pardoning Confederate soldiers and giving them the land. In the end, the bureau focused instead on helping freedmen gain employment, food, and medical care and went out of business in 1872.

**FARM CREDIT ADMINISTRATION (FCA).** The FCA, which currently has \$94.3 billion in loans to U.S. farmers and ranchers, was created in 1933 by the executive order of President Roosevelt. It is responsible for the safety of the nation's extensive farm credit system by regulating and overseeing banks, associations, and other entities that impinge on the well-being of farm families and agricultural businesses. The FCA also oversees weaknesses that could have an adverse impact on businesses and individual consumers and mandates corrective steps.

**FEDERAL HOUSING ADMINISTRATION (FHA).** The long-term, self-amortizing mortgage was made possible by the federal government, which created a secondary mortgage market as well as federally insured and, later, subsidized mortgages. Thanks to these policies, home ownership rates in the United States today approach 70 percent. The FHA, established in 1934, is today part of the Department of Housing and Urban Development, the federal agency responsible for national policy and programs to protect individual home owners as well as to oversee the nation's housing needs. Over the years, FHA has provided a route to home ownership for millions of low- and moderate-income households by making loans to first-time buyers who might not qualify for credit through conventional mortgage companies. While FHA loans typically are at market rates, they usually require much lower down payments, often as little as 3 percent of the mortgage. The agency generally does not provide the mortgage, but it insures the mortgages made by private lenders such as banks and mortgage companies so that lack of capital does not prevent families from being able to become home owners.

**THE WAGNER ACT.** By passing the Wagner Act of 1935, Congress established the National Labor Relations Board (NLRB) to protect the right

of workers to unionize. The act establishing the NLRB represented a sea change in labor history by freeing workers to bargain collectively to redress grievances pertaining to wages and working conditions, and to protect them from discriminatory and retaliatory business practices. Serving as a broker between labor and management, the NLRB has protected the right of workers not only to organize but also to vote in fair elections to decide their leadership. Perhaps more than any other single factor, the Wagner Act has elevated the wages of hourly workers and helped to maintain them on a par with the annual increase in the standard of living.

**SOCIAL SECURITY.** Of all governmental policy investments, the signing of the Social Security law by Franklin D. Roosevelt in 1935 is far and away the most far-reaching in its impact. Virtually overnight, millions of American families and individuals had a modicum of security, in old age as well as in the face of the disability or death of a breadwinner. Congress passed Social Security not as a public pension plan but as a system of national insurance in which all workers pay into the system to protect against the shared risks of old age, disability, and death. By spreading risks and benefits across working households, the system ensures that covered beneficiaries have substantial protection no matter the differences in their degrees of misfortune. Millions and millions of American households today are covered by the retirement provisions of Social Security alone, with typical benefits in the range of \$1,500–2,000 monthly.

*“Congress passed Social Security not as a public pension plan but as a system of national insurance in which all workers pay into the system to protect against the shared risks of old age, disability, and death.”*

**THE G.I. BILL.** What Social Security did in terms of breadth, the G.I. Bill (Servicemen’s Readjustment Act of 1944) matched in terms of

focused impact by transforming a generation of American soldiers into home owners, many with college degrees. This last major piece of New Deal legislation democratized the American dream by paying for the college education of millions of veterans (at the college of their choice, along with stipends for books and living expenses), giving cash benefits until returning servicemen got jobs, providing free health care, and subsidizing low-interest home mortgages so renters could become owners. The federal government's investment of billions of dollars so G.I.s could accumulate assets (income, education, health care, and homes) commanded strong support from groups ranging from the chambers of commerce to the American Legion. This social investment continues today for current members of the armed services and their families.

**COLLEGE EDUCATION GRANTS AND LOANS.** Through programs like Pell grants and Stafford loans, the federal government later put a college education within the reach of a vastly larger number of Americans. By establishing long-term subsidized loans below market rates, federal policy has made higher education available to millions of men and women who otherwise would not be able to pay their tuitions, fees, and board. While varied in their benefits, these government-subsidized loans typically are set at low fixed or variable rates, charge no interest while the recipient is in school, and allow flexible repayment schedules depending on a variety of circumstances, including deferments for up to five years. Today, the majority of men and women attending college are eligible for one or more of the government loan programs that are making the dream of a college education a reality and, in so doing, producing a better-educated and more competitive national workforce.

**SUBSIDIZED INDIVIDUAL RETIREMENT ACCOUNTS (IRAs).** For a number of years, federal policy has made available government-subsidized savings accounts to augment the retirement nest eggs of individuals and families. In recent years, these mechanisms have expanded to include savings for other purposes such as the college education of younger members of

a household (education IRAs). Employer-sponsored retirement plans like the 401(k) not only permit employer contributions but also provide federal subsidies by permitting pretax investments as well as tax-deferred growth. Traditional IRAs and the more recent Roth IRAs differ in the form of their federal subsidies (pretax versus after-tax), but they, along with the 401(k) accounts, provide multiple tax-advantaged federal subsidies to enable individuals and households to boost their retirement savings in order to enjoy greater personal economic security and independence. Over the past two decades, however, these individual accounts have only modestly increased the fraction of Americans with pension savings because of inadequate regulatory protections and the dwindling share of corporations that still offer traditional defined benefit plans.

*HOME MORTGAGE DEDUCTION.* Government policy subsidizes home owners in the acquisition and maintenance of their homes through tax deductions on the amount of mortgage interest paid each year. A home owner, for example, who pays \$1,200 monthly in interest (as opposed to payments on principal) receives a federal tax break by deducting the total interest payment of \$14,400 annually from his total taxable income. In this instance, the federal tax subsidy he receives, depending on income for the year, could give him an extra \$5,000 in after-tax income. So vital is the promotion of home ownership to the nation's well-being that federal policy subsidizes mortgage interest up to \$1 million annually for taxpaying units, including application of the subsidy for second home mortgages. It is estimated that more than 90 percent of all home owners in the nation have received these annual government benefits, which increase their after-tax incomes to make it easier to own and maintain homes. However, the form of this tax subsidy can be criticized as rewarding the most affluent and doing little to extend home ownership downward. Households earning more than \$100,000 annually received 44 percent of the home mortgage interest subsidies in 1994. Many have proposed replacing the mortgage deduction with a tax credit that would do relatively more for low- and middle-income home owners and aspiring ones.

The programs identified above, along with still others, represent a long and significant history of social investment policies on the part of the federal government. Today, such investments, largely (perhaps too 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, ensuring 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. Government helped to create true opportunity and provided meaningful investments in the lives of people. And people, in turn, were responsible for working hard and acting responsibly to take advantage of the opportunities provided them. This relationship between government and people, the social contract, has made us a nation of owners. We own assets, the things that make us more self-sufficient and therefore more secure. We own educations that both enlighten and provide wherewithal through changing circumstances. We own stable incomes. We own health coverage. We own retirement accounts and pension plans. And we own Social Security, a shared insurance that protects us in old age, poor health, or the death of a breadwinner. While much remains to be done to extend these investments and opportunities to all members of our society, there can be no question that these federal asset policies have transformed the face of America. They provide our people substantially more opportunity and significantly greater economic security. 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 Americans are increasingly insecure. So it makes great sense to broaden the benefits of ownership. The great question is: what is the best way?

## THE NEW POLITICS OF OWNERSHIP

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 saving 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.”*

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.” Polls suggest that the more skeptical younger voters become about the solvency of the present Social Security system, the more they are inclined to support partial privatization as, at least, half a loaf.

Oddly, the basket of policies now being marketed under the ownership society label is a blend of the grandiose and the puny. At one extreme, advocates of Social Security privatization want the government to take on another \$1–2 trillion of debt in order to reduce the guaranteed Social Security benefit by something like half. This would be the price of giving younger Americans individual accounts (whose average value at retirement is unlikely to compensate for the loss of the guaranteed benefit under the existing Social Security system). At the other extreme, the new initiatives to promote home ownership are minuscule, and the proposed small increase in Pell grants does not begin to make up for rising tuition costs and cuts in federal aid to states that many states are making up by raising tuition and fees at public universities and community colleges.

In this context, the recent history of Individual Development Accounts (IDAs) is instructive. The idea, first proposed by Michael Sherraden in 1991, was to use government matching grants to help the poor acquire the habit of saving in service of the accumulation of other assets. These partly restricted, subsidized savings accounts, in turn, could be used for a variety of purposes, including the acquisition of housing, education, entrepreneurship, and ultimately to supplement retirement savings. If successful, the program would help the poor acquire both the habits and assets of the middle class. The approach also was advertised as having broad political appeal. Liberals liked it because it tangibly helped the poor and also helped them to escape a cycle of dependence. Conservatives liked it because here was a case where a public subsidy promoted self-reliance.

In 1998, a bipartisan coalition of sponsors persuaded Congress to enact a pilot program of savings incentives for the poor. The program funded

Individual Development Account subsidies of \$125 million over five years. By contrast, Sherraden proposed first-year funding of \$28 billion, which equals about \$44 billion in current dollars. This token level of funding of IDAs has not prevented the growth of a large cottage industry of advocates and academics promoting increased funding and additional small programs to help the poor accumulate savings. But because of the administration's larger fiscal priorities, even enthusiastic advocates have been forced to settle for relative crumbs. The most recent appropriation bill keeps IDA funding at \$25 million a year and funds other microenterprise initiatives in the \$15–30 million range, and these may yet be sacrificed to President Bush's need to cut domestic spending to finance his long-term tax cuts.

The risk of tokenism in social policy is threefold. Token outlays fail to promote social transformation, they engender cynicism on the part of working families about whether government is serious (and thus worthwhile), and they fail to cement a necessary political coalition of the poor and the middle class. Past asset accumulation programs—such as the G.I. Bill, FHA loans, college aid, and Social Security—spent money at a scale sufficient to be truly transformative. They helped millions of Americans join the middle class. They fired the collective imagination. They demonstrated what government can achieve. IDAs, meanwhile, are stuck at token levels. The focus on IDAs, taken to an extreme, conveniently takes the spotlight off other labor-market realities that are devastating to the hopes of working households to accumulate significant assets: the stagnation of wages, the failure to fund adequately education and training, and the assault on unions. Instead, the individual is thrown back on his or her own resources, with only token investments from government available to help a few tens of thousands of people. The G.I. Bill and broad programs of college aid also had a coalitional benefit, since they signaled benefits both for the poor and the middle class. Very narrow social investments have a history of being the first to be sacrificed when budgets hit stormy weather.

Meanwhile, the individual account panacea marches on, into realms where it does not belong. Individual accounts are being offered as the stalking horse to weaken Social Security. They also are the core of the current

conservative plan to use tax subsidies to remove the security and efficiency of broad health insurance pools and replace them with individual, high-deductible health policies. This approach is less cost-effective, shifts more risks to individuals, and shortchanges the single most critical medical outlay—public health. It makes no sense as an insurance strategy and is mainly a tax-subsidized gift to the private insurance industry.

## SOCIAL SECURITY THE PROGRAM THAT MADE RETIREMENT POSSIBLE

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 flophouses 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 to be retrained.

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 percent in 1959 to 10.2 percent 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. A low-income worker, once in retirement, can count on Social Security to replace an estimated 35 percent to 40 percent of his average preretirement earnings. A high-income worker, who is not so dependent on Social Security, receives a lower "replacement ratio" of around 25 percent to 35 percent. Moreover, a simple investment program would not protect households in the face of disability and the death of a breadwinner. Social Security does. As a system of national insurance, 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—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 fifty 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.

Social Security is in a class by itself in terms of its transformational impact on the security of hundreds of millions of Americans. It is a classic example of how the security of “ownership” does not always require individual assets and sometimes explicitly requires social assets. 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.

Proposals to privatize part of Social Security are based on the contention that the system is “in crisis.” But the nonpartisan Congressional Budget Office (CBO) says this is not the case. While occasional program

**TABLE 1. SOCIAL SECURITY VS. PRIVATE ACCOUNTS**

BENEFITS PROVIDED	SOCIAL SECURITY	PRIVATE ACCOUNTS
Government protected?	Yes	No
Insurance that distributes risks across society?	Yes	No
Benefits guaranteed when needed?	Yes	No
Amount of benefits guaranteed?	Yes	No
Guaranteed growth over time, with indexed increases?	Yes	No
Guaranteed payout to all participants?	Yes	No
Guaranteed disability benefits to household?	Yes	No
Guaranteed death benefits to spouse and children?	Yes	No
Guaranteed retirement benefits?	Yes	No
Retirement benefits guaranteed despite length of life?	Yes	No

adjustments by Congress are needed, Social Security's projected imbalance over the next seventy-five years is only 0.4 percent of GDP. Simply restoring the tax code that was on the books before the Bush tax cuts for the top 1 percent of earners (all millionaires who do not rely on Social Security checks) will make Social Security fully solvent for generations to come.

In addition to not being needed to save the system, privatization would end the dependability and safety of Social Security as insurance. Taking money out of the system and putting it in private accounts unravels the fabric of support that currently protects us all. Women and families would be particularly hard hit by the likely reduction in survivorship benefits. The CBO estimates that partial privatization would lead to much lower retirement benefits—perhaps eventual cuts in retirement income of 50 percent or more, whether or not one elects to divert payroll taxes to open a private account. Moreover, the CBO estimates that total benefits for future retirees (both reduced Social Security benefits and individual private accounts together) would mean less protection and

lower income than if Social Security is kept as the national insurance program it has been for nearly seventy years.

In terms of building real assets, insurance actuaries (experts in estimating program benefits) report that Social Security alone provides a young family with the equivalent of a life insurance policy worth more than \$400,000. And the disabilities protections of Social Security represent another \$350,000 in disability insurance. While many of us will not have to draw on these disability and death benefits, they are there if they are needed. They provide us with greater comfort about the future by guaranteeing an income in the event of the disability or premature death of a breadwinner. Today, more than 5 million children whose families have been hit with disability and death receive income from Social Security insurance. And three-quarters of a million adults, many disabled since childhood, receive these insurance benefits. Private accounts do not guarantee such protection. Only Social Security does.

Social Security also guarantees a retirement income to program contributors once they reach old age. The average annual benefit for a median wage earner born in the 1990s and retiring at age sixty-five under the current program structure will be \$23,300. For some workers the amount could be nearly \$30,000, but either amount serves as a rock-solid guarantee against destitution. While it is hoped that each of us will build up private pension savings to augment Social Security during our working lives, Social Security is there regardless of whether we earn enough to save, save wisely or poorly, or whether the stock market goes up or down. Keeping Social Security intact is the only way to ensure that this valuable asset will be there to guarantee the same protections for our grandchildren that it did for our grandparents.

In addition to Social Security, America has at least two tiers of supplemental retirement savings, thanks to public policy. Like employer-provided health insurance, pensions were given an unintended boost by World War II. During the war, fringe benefits were exempted from government wage and price controls. Pension outlays also generated a deduction against the corporate income tax, which had very high rates during the war and early postwar era. Large companies began offering pension benefits, first to attract workers during the wartime period of labor shortage, and then to retain loyal workers during the postwar era of the stable, paternalistic corporation.

Subsequently, beginning in the 1960s, several waves of new federal legislation created additional tax-favored incentives, both individual and corporate, for supplemental individual accounts such as IRAs, Keoghs, and 401(k)s. Despite the proliferation of retirement vehicles, the percentage of workers covered by some form of private pension has hardly changed in twenty-five years. Rather, the form of retirement accounts has shifted, from traditional corporate pension plans whose payouts are guaranteed both by the corporate plan and by federal regulation (ERISA) to plans where more of the burden is placed on the worker to contribute, and all of the risk of market fluctuation of inadequate assets is shifted to the retiree. Today's workers, as future retirees, are bearing far more risk than their parents did a generation ago.

## THE RACIAL WEALTH GAP

Government has long supported property accumulation and home ownership among the white middle class. 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 home ownership continue to widen racial inequality. In fact, earned achievements in schools, on the job, and in paychecks are being undermined by a widening racial wealth gap.

The disadvantaged status of contemporary African Americans cannot be divorced from the historical processes that undergird 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 by the current generation of African Americans best represents the position of blacks in American society.

Structural disadvantages have been layered one upon the other to produce a systematic disadvantage for blacks. 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 their primary means of wealth accumulation. The same road to financial success was not available to African Americans.

The typical black household makes 59 cents for every dollar 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 was \$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. Even though both white and black families increased their net worth between 1988 and 1999, the black–white gap actually grew by \$16,000 (in 1999 dollars). During this period, both typical white and black families improved financially, but inequality between such families grew.

*“Middle-class black families with similar incomes to white families own only 26 cents of wealth for every dollar owned by whites.”*

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 examine middle-class families

with comparable incomes and educational attainments, we find a dramatic wealth gap. Middle-class black families with similar incomes to white families own only 26 cents of wealth for every dollar owned by whites. Defining middle class by occupation changes the ratio to 22 cents on the dollar. And using a college education as a hallmark of middle-class status moves the wealth ratio to 27 cents on the dollar. 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. As this history suggests, accumulated wealth gives a head start to future generations.

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 stands for the most part on the earnings leg alone. Middle-class status is thus more precarious for blacks than it is for whites: 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 are far less able to pass along their hard-earned successes to their children.

## IMMIGRANTS AND OTHER DISADVANTAGED GROUPS

A 2004 report from the Pew Hispanic Center provides new information on family wealth and offers a sobering assessment of the precarious and fragile status of middle-class families, including whites, but most particularly Hispanics and African Americans. In the years prior to the 2001 recession, white, Hispanic, and African American families were generating wealth through savings, investment, and home ownership. More families were acquiring assets, and family portfolios were growing. In this context of wealth accumulation, however, the wealth gap between minority and white families was widening. The recession and recovery brought wealth growth to an abrupt halt for millions of American families. During the recession and jobless recovery, Hispanic and African American families lost more than one-quarter of their wealth while the wealth of white families grew slowly. In 2002, a typical Hispanic family owned 11 cents of wealth for every dollar owned by a typical white family, and African American families owned only 7 cents.

Net wealth losses illustrate how Hispanic and African American families, and low- to middle-income families in general, have shouldered

the burden of tightening economic times in the Bush administration. The wealth data also show that the current combination of recession and recovery has tightened the financial vise on millions of American families. More than one in four Hispanic and African American families are asset poor, having no liquid financial assets, compared to just 6 percent of whites. Families with small or moderate amounts of wealth drew down their meager stockpile of savings to use as private safety nets. In addition to making tough choices like giving up health insurance or spacing out medical appointments and refilling prescriptions, this is the real story of how families are adapting to the recession, jobless recovery, stagnating wages, outsourcing, and dwindling federal commitment to important safety nets like unemployment benefits and the minimum wage, which is not keeping pace with inflation.

This is not simply a story about counting money because families think about using wealth first as a private safety net and then as a means to enable mobility into middle-class status, home ownership, business development, or a more secure retirement. The recent recession and recovery—along with public policies—are a real step backward for the self-reliance and independence of Hispanics, African Americans, and other low- to middle-income families. In addition, they are a double blow against equality and family well-being in America. Family wealth is crucial to opportunities and success in a way that allows families to launch their own social mobility in a self-reliant and independent manner.

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. America is today experiencing a third great wave of immigration. While other immigrant groups do not suffer the historic burden of slavery and segregation, they do suffer a substantial wealth gap with native-born Americans. Almost by definition, the vast majority of immigrants come to America seeking economic opportunities. Some immigrants do make it on their own. But if we want a smooth path to America's expansion as a broadly middle-class society, with new Americans integrated into the American mainstream, asset policies can help pave the way.

Women, likewise, have far 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.

All of these disparities have profound effects on future generations. Wealth affects children's cognitive development through its effect on material resources such as physical home environment, school quality, and intellectual stimulation. Family wealth also helps reduce economic pressure on parents. These factors in turn affect a mother's or father'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 for women, children, and America as a whole.

## A REAL OWNERSHIP SOCIETY

To a significant degree, America already is a society of owners. For many decades, our nation has had a strong middle class with a notable degree of financial security, and no recent president can fairly claim to have originated the idea of an ownership society. So the real issue before the nation today is not how to build a society of owners, but how to secure and expand the one we have. The shared goal is to provide all of the nation's households with access to the things embodied in the American dream of ownership: opportunity, personal development, and economic security. 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.”*

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.

In the American social policy tradition, “ownership” has meant that individuals and families are provided meaningful avenues to acquire the assets people commonly need to achieve a measure of economic security. In an earlier era, this mix of assets included access to land to build a cabin and to farm. In subsequent years, assets came to include access to education and work-related training, a job, and fair remuneration for one’s labor. And since the time of the New Deal, the ownership of assets has included the protection of workers and families against the shared risks of ill health and unemployment, as well as access to pensions and retirement accounts to promote economic security in life’s later years. This ownership tradition includes the three broad categories of assets depicted in the table opposite.

When President Bush expresses his desire to promote an ownership society, he presumably would agree with the desirability of people owning these assets. He wants people to work and families to benefit from the income of at least one employed breadwinner. He is in favor of public education, college education, and skills programs. And he wants households to own homes, save money, and build retirement security. So President Bush presumably shares the long-standing policy goal that already makes America an ownership society for many. But he now proposes that the nation follow a very different path to a very different kind of ownership than the one that has served us so well in the past.

**RISKS AND OPPORTUNITIES: SHARED OR PRIVATIZED?** 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. What is left of social insurance would be truncated into programs for the very poor. But this is not how America built its middle class. The ownership that millions of families now enjoy was created through a social contract that embodies the respective responsibilities of people and our government. People should work hard, play by

**TABLE 2. THE ASSETS WE NEED TO BE "OWNERS"**

HUMAN CAPITAL	INCOME RELATED	FINANCIAL
<ul style="list-style-type: none"> <li>◆ Free public education</li> <li>◆ Access to college or technical training</li> <li>◆ Ongoing education, retraining, and skills programs</li> <li>◆ Security against costs of illness (insurance)</li> </ul>	<ul style="list-style-type: none"> <li>◆ Access to employment</li> <li>◆ Adequate remuneration</li> <li>◆ Opportunity to advance</li> <li>◆ Unemployment insurance protection</li> <li>◆ Right of collective bargaining</li> </ul>	<ul style="list-style-type: none"> <li>◆ Home ownership</li> <li>◆ Savings accounts</li> <li>◆ Employer-based pensions</li> <li>◆ Individual retirement accounts</li> <li>◆ Social Security (death, disability, and retirement protection)</li> <li>◆ Regulatory protections</li> </ul>

the rules, accept responsibility, and avail themselves of opportunity. In turn, government’s role is to help ensure that people get a fair opportunity to better themselves and to protect members of society against unwarranted risk. President Bush now proposes to alter both of these traditional governmental responsibilities by creating even greater risks to each of us as individuals.

*OPENING OWNERSHIP OPPORTUNITIES FOR EVERYONE.* As a people, our shared belief in fairness and meaningful opportunity is manifest in the importance that we assign to governmental policies that ensure meaningful opportunity for all, protect us from unfair disadvantage, and provide accessible avenues to build personal assets. Standing alone against large economic forces, most of us would be relatively helpless. The West was conquered not by stereotypic cowboy tough guys who went it alone, but by hard-working farm families given access to land by government policy and, therefore, the chance to become self-reliant through homesteading. Soldiers returning from World War II did not become educated and housed by their own efforts alone, but by a G.I. Bill that gave them a free college education and mortgage subsidies to help them purchase homes they otherwise could not have acquired. The ownership door today is opened to still others by government policies that provide public education, subsidized college loans,

access to affordable health care through group plans regulated by government, safe savings accounts backed by federal deposit insurance guarantees and bank inspections, and tax-subsidized home mortgage deductions and pretax retirement accounts.

It is precisely this extensive role that government plays in opening the doors to a true ownership society that is now in jeopardy from the 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 ensuring meaningful opportunity. Under these new policies, 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 do not bring home enough to eat after you pay the rent? Go get a second job because the minimum wage will not 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.

The president's dramatically different version of an ownership society embodies a fundamentally different vision of the role of government. Throughout our history, we have increasingly used federal policy as a tool to ensure equal opportunity for all, to protect us from unfair market forces, and to create programs that enable us to work hard and get ahead—not just to make ends meet but also to build the assets that bring us independence and economic security. We now are being told that something is wrong with this successful equation, that it needs to be reduced instead of expanded. Households and families should take more

responsibility; government should do less. People have had it too easy; they need to do more for themselves. The proper role of government is to stay small and to let market forces perform their magic. And within this increasingly privatized system, people should strike out to fend for themselves.

*SOCIAL INSURANCE TO PROTECT US AGAINST UNACCEPTABLE RISKS.* Aside from ensuring 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, let alone the death, of a breadwinner. But because such events are relatively rare compared to the number of people at risk, we can guarantee 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.

*“Throughout our history, we have increasingly used federal policy as a tool to ensure equal opportunity for all. . . . We now are being told that something is wrong with this successful equation.”*

## THE RIGHT BLEND OF PRIVATE AND SOCIAL

The privatized ownership society proposed by President Bush reduces social insurance, exposes each of us to greater personal risk, and removes the certainties of protection against life's worst outcomes. This ownership vision is that of the frontier days when each person rose or fell individually

and at the virtual whim of the marketplace. If smallpox strikes, tough it out. If you have no job, keep looking. If your family is hungry, try grass soup. If you are 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 that has built the great American middle class, 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 serve to help make 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. While there are a variety of ways to expand ownership in our nation, we now examine several exemplary ideas. Each example illustrates one of the three types of assets we all need: personal, income related, and financial.

## BUILDING OWNERSHIP FOR TODAY AND THE FUTURE

*SUPPORT FOR CHILD DEVELOPMENT.* Acquiring the capacity to enjoy secure ownership starts young. It starts at birth, and even prior to birth, with good prenatal care. The entire premise of an ownership society is to use public resources less as a "safety net" that subsidizes unfortunate individuals who have become dependent than to use social outlays to invest

in self-reliance. It is not a contradiction to appreciate that self-reliance depends on prior investment, otherwise we would not invest in schools but leave it to fortune to see which children get educated. Just as America began tax-supported investments in the 1630s to educate children in common schools, we need to invest in younger children today, so that a healthy start is not a function of the social class of one's parents. An ownership society requires high-quality early childhood education and child care options that have a child development orientation.

***BUILDING AN EDUCATED WORKFORCE.***

A true ownership society would give everyone the chance to get as high on the educational ladder as his or her talents allows. In a world of shifting institutions, one's own skills are the ultimate form of security. For two generations after World War II,

college was available and affordable. Community colleges and paraprofessional opportunities also enabled Americans without a four-year degree to enter professions that paid decent wages. As part of our ownership society, we need to make postsecondary education affordable again and to increase dramatically lifelong learning and training opportunities. Individual Development Accounts can help, but they need to be funded adequately and linked to an array of other labor market policies whose objective is to create career ladders to high-quality jobs. As we can see from the financial downward mobility of even physicians and computer programmers, not to mention bank clerks, well-paying employment is more than a human capital problem.

*“The entire premise of an ownership society is . . . to use social outlays to invest in self-reliance.”*

***CHILDREN'S SAVINGS ACCOUNTS.*** Nearly everyone knows the value of saving money for emergencies, buying a home or automobile, purchasing a college education, and building a retirement nest egg. But despite our best intentions, American households do not do a good job of saving. Indeed, more than half of families are in constant debt and have no savings at all. Not having savings accounts places individuals and families in economic jeopardy and also adversely affects the U.S. economy.

In the past year or two, both Republicans and Democrats on Capitol Hill have discussed a novel policy idea to enable families to build savings accounts for their children's future. The idea, already in practice in England, would be that each of the 4 million babies born in our country each year would receive a "baby bond," a government-subsidized savings account that would start at \$10,000 and grow to several tens of thousands of dollars. The government's annual contribution might be progressively linked to family income on a sliding scale. In order to ensure that this investment in our youth worked well and served national purposes, federal policy would specify when and how the accrued growth of this initial investment could be used. It might be established, for example, that none of the funds invested could be withdrawn until the student either enters college or reaches the age of twenty-one. (An exception might be allowed for specified events such as serious medical emergencies.) Alternatively, federal policy might permit a certain proportion of the accrued funds to be used for college or to start a business or provide the down payment on a home, but require that a fixed portion of the account be held until later years, even retirement.

The social investment that baby bonds represent could be significant both in boosting the nation's overall savings rate and also for individual families in terms of the education and eventual retirement security of children born today and in the future. At \$10,000 each for the 4 million babies born each year, the annual investment would come to \$40 billion. Congress would have several avenues from which to support this investment, but one would be to link directly the estate tax on the nation's wealthiest households to baby bonds—the principle being "using wealth to create wealth." Currently, President Bush is proposing to eliminate the estate tax altogether, even on billionaire families. Interestingly, a number of such families ranging from Bill Gates's to George Soros's are arguing that they should pay estate taxes because neither they nor anyone else is "self-made." We all get support from others and from government policies (free schools, tax breaks, loans, subsidized mortgages, health insurance) to become what we become, so people lucky enough to achieve great wealth owe something back to society. If the estate tax, which only applies to multimillionaire households, were maintained rather than

repealed, it would generate more than enough to cover the proposed \$40 billion investment for such accounts.

*HARD WORK, FAIR PAY.* We are an industrious nation, committed to the notion that we all should pitch in to earn our keep. People should work hard and be good at what they do. At the same time, they should have the opportunity to advance in terms of their skills and their economic value. But above all, the fruit of every person's labor and the reward for playing by the rules ought to be a paycheck that lets each of our households meet its basic needs. People should not work full-time and see their families go hungry because their incomes are too little. Parents should not work two jobs but fall further in debt because child care is too costly.

Yet there are millions of working families in our nation who play by the rules but still go hungry, lose their homes, and live in poverty because their paychecks are too stingy. These circumstances are largely linked to the fact that the federal minimum wage is only \$5.15 an hour. It also is not indexed to inflation and has not been increased in years. As a consequence, not just one but both parents in a household can be working full-time and still find their families living in conditions of poverty. Their incomes are not only low, but their jobs frequently come without any of the benefits many of us expect, such as health insurance and sick leave, let alone retirement accounts. Their meager weekly paychecks are reduced further by the fact that they need to pay for child care, transportation, and out-of-pocket health costs. As a result, their families frequently experience hunger and other adverse conditions that we do not believe anyone should face if they play by the rules. Moreover, because the minimum wage is so low, it sets an artificially low overall wage base so that many other households have incomes only slightly above minimum wage but hardly do any better in terms of coping.

By increasing the minimum wage, our nation not only can correct this patent unfairness but also provide millions of working families with the income foundation to better themselves. Fair pay for hard work is not only something we believe in as a society but also is the most basic

building block for obtaining the other assets we need to achieve greater independence and security as individuals and families. But increasing the minimum wage will not be sufficient unless it also is indexed to inflation. Over the past several decades, the purchasing power of the minimum wage has fallen by as much as 40 percent because it does not keep up

*“Simply by restoring the estate tax on the top 1 percent of Americans . . . we could finance both baby bonds and universal savings accounts.”*

with the cost of living. Many other programs such as Social Security are indexed to inflation. Even private employers typically index their pay raises so employee incomes rise with inflation. But the households that often work the hardest and at the lowest wages allowed by law see the power of their earnings erode year after year simply because Congress has not linked the minimum wage to

the true cost of living and has not backed its value by indexing it to inflation. By taking these two steps, our nation can ensure that working families are rewarded for their hard work with an income base that helps them build the other assets they need for independence.

**SUPPLEMENTAL ACCOUNTS AS UNIVERSAL, PORTABLE PENSIONS.** A second approach to building financial assets is to enact universal individual accounts as supplements to Social Security. These have been proposed both by President Clinton and President Bush. The difference is that the Bush approach would fund the accounts by diverting part of the payroll tax revenue stream pledged to Social Security. The alternative, which would keep Social Security intact, would be add-on accounts. Government would make a basic contribution, which could be matched by individuals on a sliding scale. Funds could be withdrawn at retirement and perhaps used to finance first-time home ownership as well. This universal savings account would function as a universal, portable pension, something especially needed for the roughly half of American workers who have no pensions. Simply by restoring the estate tax on the top 1 percent of Americans, or reverting to the pre-Bush tax code on the top 1 percent, we could finance both baby bonds and universal savings accounts. By restoring the

pre-Bush tax system on the top 2 percent, we could finance most of the other ownership-broadening measures proposed herein.

## CONCLUSION

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—not less.



## About the Authors

Each of the authors is on the faculty of the Heller School for Social Policy and Management at Brandeis University and works at its Institute on Assets and Social Policy. J. Larry Brown directs the Institute and holds the position of distinguished scientist; Robert Kuttner, coeditor of the *American Prospect*, is a visiting scholar; and Thomas M. Shapiro is the Pokross Professor of Law and Social Policy.

