

A New Approach to Poverty Reduction: Helping the Poor to Save

JAMES P. BAILEY, PH.D.

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Abstract

This essay examines asset development for the poor as an approach to reducing poverty. Because there has been very little discussion of this approach by Christian ethicists, my primary purpose is to introduce and defend the rationale for developing assets for the poor. I begin with a discussion of conservative and liberal approaches to poverty reduction, arguing that the favored policies of both are founded upon the belief that poverty is best understood as a state of consumption deprivation brought on by deficient levels of income. I suggest that the focus on consumption and income, while obviously important in light of the material deprivations of the poor, is not in itself a sufficient response to the needs of the poor. This leads to a discussion of past and present public policies that have stimulated asset development. A characteristic feature of many of these policies is that they have provided both material and institutional support for asset development, but only for the nonpoor. If public policies have helped the nonpoor to save, why should we not develop policies that help the poor do the same? Some suggested approaches to developing assets for the poor are then reviewed. Finally, I briefly

discuss points of convergence between Catholic social thought and asset-development approaches to poverty reduction.

Introduction: The Asset Paradigm

In this essay, I discuss an increasingly significant and active area of public policy research, namely, the building-up of assets for the poor. In this research, asset-building approaches to poverty alleviation are generally understood to be an essential complement to the income-enhancement approaches which have dominated such policies. While the focus on income is understandable in light of the material needs of the poor, it is becoming increasingly evident that income without assets is not a recipe for financial security. The lack of asset-building policies for the poor contrasts sharply with policies aimed at the nonpoor. The latter receive significant subsidies that materially contribute to, and help to facilitate, asset accumulation.

While many are skeptical about the ability of poor people to save, recent research has shown that when they are provided with institutional support and incentives not unlike those that the nonpoor receive, those who

are poor can also substantially increase their savings. Moreover, enabling the poor to accumulate assets appears to have important psycho-social effects that go beyond purely economic considerations.

The asset paradigm is consistent with certain elements of an important strand of Christian social ethics: Catholic social teaching. Like those working in the asset development field, Catholic social thought recognizes economic well-being as a communal responsibility and that members of the community are morally obligated to work toward a fairer, more just, and more inclusive community. Economic activity is one way people participate in, and benefit from, the community; barriers to participation in the economy are to be challenged. Income-based approaches to poverty reduction help address the injustice of economic arrangements, but they need to be complemented by asset-development policies that help give the poor greater access to the economy and greater control over their lives. I will suggest that the combination of income and asset-based approaches to the problem of poverty are more consistent with the insights offered by Christian ethics than income-based approaches alone.

I begin my argument by looking at the two approaches to poverty reduction, which I call "liberal" and "conservative", that dominated public discussion in the run-up to the landmark 1996 welfare reform bill. We will see that neither the conservative nor the liberal approach has been very successful in significantly reducing the underlying rates of poverty. I suggest that one reason for this is their shared understanding of poverty as a deficiency of *income* and, consequently, the formulation of anti-poverty policies that neglect the role that assets could play in moving persons out of poverty.

The Income Paradigm: Traditional Approaches to Poverty Reduction

The 1996 welfare reform bill known as the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), brought an end to the federal government's guarantee of financial assistance to the poor. Debates about PRWORA, both before and after the bill's passage, highlighted areas of sharp disagreement between the political left (or liberals) and right (or conservatives) on how best to deal with the issue of poverty in this country. Questioning the magnitude of governmental expenditures to the poor and whether current welfare policy struck the right balance between "the dual goals of providing a cash safety net for families with children and requiring families to work or look for work," conservatives argued that both the taxpayer and welfare recipients

would benefit from an approach that emphasized the latter goal.¹ In their view, poverty would be reduced only when public policies discouraged those living in poverty from becoming dependent on government support and encouraged habits of personal responsibility and industry. Time-limited benefits and paid work were the keys to achieving these goals and, therefore, the key to reducing poverty. Given the proper motivation, the poor would do what other nonpoor citizens routinely did—enter into the free market, work hard, and take advantage of the many opportunities the market provides.²

While it is still too early to gauge the long-term effects of PRWORA, the data thus far suggest that it has been more successful at reducing the welfare rolls than it has been at raising household income above the poverty threshold. The passage of PRWORA is correlated with dramatic reductions in welfare case-loads, but the cause and meaning of these reductions is the subject of considerable dispute. Among other things, the fact that PRWORA became law during an economic boom has made it difficult to discern whether PRWORA or the robust economy led to a drop in the welfare rolls. For those who left welfare, the economic benefits have not yet lived up to conservatives' expectations. Studies looking at employment patterns of those who have left welfare found that "between one half and three-fourths of parents are employed shortly after leaving the welfare rolls. . . and that as many as 87 percent have been employed at some point" after leaving welfare.

However, these same studies show that average reported annual earnings from this employment ranged from "as low as \$8,000 to as high as \$15,144, leaving many families below the poverty line."³ The primary reason for the low earnings is low stagnant wages "despite years of work."⁴ When earnings do increase, it is primarily because the parents work more hours, rather than the result of a wage increase.⁵ As one might expect, these low-wage jobs do not typically include "paid vacations, sick leave, or employer sponsored health insurance."⁶ Thus, it seems clear that whatever the virtues of being gainfully employed, work in and of itself does not guarantee a poverty-free life.

The results to date of PRWORA, while not wholly in keeping with the dire predictions of those on the political left, are largely consistent with liberal expectations. Many on the left who opposed PRWORA did not disagree with conservatives that employment should be a key ingredient in the war on poverty. Nor did they disagree with the judgments of conservatives that the welfare system contained within it many features that have a negative impact on the poor. David Ellwood, for example, acknowledges that the welfare system has undermined work motivation and family stability while contributing to the marginalization of the poor from the rest of society.⁷ The opposition to PRWORA by the political left was rooted in the belief that a retreat from federally guaranteed meanstested income transfers would erode some of the most important resources for the poor to

mitigate the effects of indifferent, rapidly changing, and sometimes hostile social, political, and economic forces. While recognizing the positive value of work, the political left argued that the dire situation of those in poverty demands that the government intervene. The suggested interventions typically included a variety of means-tested cash and non-cash income supports together with raising the minimum wage.⁸

There is a great deal of evidence that can be adduced in favor of the liberal approach to support for the poor. Government income transfers do, in fact, significantly raise the effective income of the poor, thus easing the burden of the poor and substantially increasing the numbers of persons living above the official poverty line. Indeed, the passage of PRWORA did reduce government transfers, and for those unable to make up the difference in work, the result was a significant drop in their standard of living. For example, "between 1995 and 1997 the poorest single mothers experienced a significant decline in their average disposable incomes, largely owing to sizeable decreases [in support] from means-tested programs. . . ."⁹ Similarly, a 1998 study looked at the effects of government transfers on income levels of the poor and found that if "government benefits are included in income. . . 6.4 percent of [U.S.] families had annual incomes below \$10,000 in 1998. When government benefits are ignored, the fraction with an annual income below \$10,000 more than doubles, rising to 14 percent of all families."¹⁰ Clearly, government transfers do significantly increase

the levels of disposable income of many poor Americans, thereby reducing some of the hardship associated with poverty.

At the same time, the evidence compiled over a substantial number of years suggests that while income transfers are effective in addressing the *symptoms* of poverty, they appear to be less effective in altering the *underlying causes* that lead to poverty. One piece of evidence that supports this claim is the persistent *pre-transfer* rate of poverty (i.e., the rate of poverty when government transfers are not included). Michael Sherraden has shown that while "official poverty declined from 17.3 percent of the U.S. population in 1965 to 14.4 percent in 1984, pretransfer poverty did not decline—it was 21.3 percent in 1965 and 22.9 percent in 1984." Thus, it appears that while income transfers have eased the burden of the poor, "they have not helped reduce the underlying level of poverty."¹¹

It is clear that the political left and right have different approaches to the problem of poverty, yet they share a belief at the center of almost all public policy approaches to this issue: that poverty is best understood as a state of deficient *income*. The reason deficient income is impoverishing is that it limits the ability of a person or family to "secure a minimal level of consumption."¹² The focus on income is not unique to liberals or conservatives; it is a belief shared by many, both within and outside of public policy circles. As Sherraden states: "Almost entirely, poverty and welfare in Western welfare states have been defined in terms

of income. It has been assumed that if households have a certain amount of income, they will consume at a level equivalent to that income, and this consumption is by definition welfare (well-being) of the household. This is consistent with the definition of welfare as it is used in welfare economics, and, indeed the entire edifice of the welfare state rests uneasily on this narrow intellectual footing."¹³

Not surprisingly, when poverty is defined in this way, the prescriptions for overcoming poverty are focused almost entirely on securing a level of consumption, through income or other means, at or above the poverty line. If nothing else, the debate between liberals and conservatives underscores this point. While they may have differences about how best to raise the income of the poor, there is little doubt that they share the belief that higher levels of income are the key to reducing poverty. However, while "income and consumption are obviously important, it is also true that most people who leave poverty - or to use another vocabulary, most people who develop economically-do so because they save and invest in themselves, in their children, in property, in securities, or in enterprise to improve their circumstances."¹⁴ In short, for "the vast majority of households, the pathway out of poverty is not through income and consumption but through saving and accumulation. Stated simply, not many people manage to spend their way out of poverty."¹⁵

It is exactly the focus on income in our public policy approaches to reducing poverty

that I intend to challenge. The issue is not whether income is important; it clearly is. Rather, the issue is whether income by itself is *sufficient* to give the poor the financial resources necessary to become nonpoor. In the sections that follow, I will make the case for the inclusion of an asset-building strategy for the poor, indicating why assets are so essential, how current policies enable asset development for everyone *but* the poor, and ways that similar policies might enable the poor to accumulate assets as well.

Why Assets?

To understand why asset building for the poor should be integral to efforts aimed at reducing poverty, consider the financial statement of any business. This statement typically includes a summary of revenues and expenses, on the one hand, and assets and liabilities, on the other. Subtracting expenses from revenues gives the total income for that year. Subtracting liabilities from assets yields the total worth of the company's assets (or liabilities). The presence of these two primary categories – income *and* assets – in the financial statement of any business is not accidental. It denotes the existence of two types of financial resources, both *necessary* to the well-being of the business, and both addressing *different* financial needs of the business.

Now consider two businesses, both occupying the same market sector, each with just enough revenues to cover expenses (i.e., income is essentially zero).

However, one of these businesses, call it company A, has substantial total assets while the other company, B, has essentially no assets at all. Now imagine some possible scenarios: a deep and lasting recession; the onset of new technology requiring substantial expenditures for employee training if the business is to keep up with its competitors; the opportunity to purchase the building that houses the business during a time of unprecedented low interest rates; the chance to expand the business by purchasing another company engaged in a complementary enterprise.

In each case, it is clear that company A is in a much better position than company B to deal with the challenges and opportunities presented. The added flexibility provided by Company A's assets would likely enable it to survive in a recession, drawing down its assets when necessary to cover day-to-day expenses. It would also be able to maintain, perhaps enhance, its competitive position by providing additional training to its employees or through the purchase of the complementary business. Another potential benefit for company A is the ability to add substantially to its asset base while taking advantage of low interest rates and doing away with non-productive rental payments. It is also likely that one or more of these actions would have a positive impact on the attitudes and work performance of the employees of company A, inasmuch as the increased opportunities of the company also provide increased opportunities for the employees. This, in turn, may lead to a more pleasant work environment than would

otherwise be the case. Finally, many of these changes may not only keep company A "afloat" but also may actually enhance both its income and its assets.

By contrast, company B will likely find itself struggling for its very survival during a recession. It may need to lay off a substantial number of employees, thereby depriving itself of one of its most significant non-financial assets—its trained work-force. Undoubtedly these lay offs would depress the morale and enthusiasm of the remaining employees, sapping their motivation to work at company B. Alternatively, company B might seek to borrow funds to cover its short term expenses until the recession passes. Its lack of financial assets, however, will give most loan managers pause. The bank may still decide to fund the loan but, because of the risks involved, the loans will be made at much higher rates than would be available to company A. Higher interest payments and longer terms will further endanger the day-to-day operations of company B. Further business opportunities of the kind that company A was able to exploit, will likely not be a possibility for company B. At the very least, company B would be rightfully hesitant to pursue options such as purchasing another company or making a significant capital purchase, since these would only add to the debt burden of the company. More likely, company B would not even think of doing such things as it would be consumed with the difficulties of simply making ends meet. Going forward, even if day-to-day operating expenses can be met, the condition of

company B is precarious unless and until it can accumulate enough assets to provide some measure of financial security.

By analogy, the above example can serve to illustrate why income alone is not a sufficient strategy for helping the poor to move out of poverty. Assets are not simply a luxury for households but are absolutely essential if they are going to achieve any kind of financial stability. Under normal circumstances, households will use income to secure consumable goods and services, much like businesses use cash flow to cover day to day expenses. Like our hypothetical company A, households with assets will generally be in a better position to deal with unexpected difficulties than households that lack assets. Just as a business with significant assets can withstand economic downturns, so too a household with assets is better positioned to deal with unforeseen or unavoidable events that temporarily curtail or stop income flow—an economic downturn, for example, or a serious illness, the loss of a spouse, or a seriously ill child.

At the same time, households with assets will enjoy access to those things which consumption income cannot generally provide, such as a down payment for a home, capital to begin a business, or access to higher education. The failure to appreciate the very different roles that income and wealth play in the household is one reason why public policy has maintained a focus on income. But as this simple exercise shows, income and wealth are deployed for very different purposes. Melvin Oliver and Thomas

Shapiro underscore the distinction between income and wealth this way: "Wealth is a special form of money not used to purchase milk and shoes and other life necessities. More often it is used to create opportunities, secure a desired stature and standard of living, or pass class status on to one's children. In this sense the command over resources that wealth entails is more encompassing than is income or education and closer in meaning and theoretical significance to our traditional notions of economic well-being and access to life's chances."¹⁶

Studies of the psycho-social effects of assets have helped to confirm the distinctive benefits that assets provide. After an extensive review of published research examining the effect of asset ownership on neighborhoods, families, and children, Edward Scanlon and Deborah Page-Adams concluded that there was growing evidence that assets "are associated with economic household stability; decrease economic strain on households; are associated with educational attainment; decrease marital dissolution; decrease the risk of intergenerational poverty transmission; increase health and satisfaction among adults; decrease residential mobility; increase property maintenance; [and] increase local civic involvement."¹⁷ Michael Sherraden has also looked at the psycho-social effects of assets and has suggested that, in addition to the effects noted by Scanlon and Page-Adams, assets create long-term thinking and planning; provide a foundation for taking risk; increase personal efficacy and

sense of well-being; lead to greater development of human capital; increase social status and social connectedness; and enhance the well-being and life chances of offspring.¹⁸

By contrast, households that do not have any substantial assets will face greater and more frequent difficulties and obstacles than those with assets. Like the example of company B above, households without assets will be far more vulnerable to economic downturns and far less able to deal with unexpected interruptions in income flow: recessions will hit these households harder; family deaths or illnesses will be much more likely to cause serious economic distress; and even when things are going as they should, the stress and strain of making ends meet will take its toll. The benefits of assets identified by Scanlon and Page-Adams are more likely to elude households without such assets. Moreover, the demands and pressures of meeting day-to-day expenses and of trying to forestall economic disaster will often crowd out considerations of future possibilities.

In her powerful memoir *Unafraid of the Dark*, Rosemary Bray vividly describes the anxiety, tension, and energy-sapping existence that the poor face on a daily basis:

One of the truths that seem to elude most welfare reformers is the pervasive sense of fear and tension that accompanies that monthly [welfare] check. I learned to decipher that look of tension in my mother's eyes: it's the fear of knowing that the best you can do is to give a little something to everyone you owe.

Not enough to pay them, sometimes not enough to placate them, but just enough to remind them-and you-that you can never really catch up. . . .

There is no money to plan ahead, to shop cheaply, to prepare for an emergency. There is no ability to set aside a bit for the future; the present occupies all the attention of anyone on welfare. Our contingency fund was the streets and alleys, where we searched for bottles we could turn in for the deposits. . . .

Sometimes the fear is a matter of timing. Late mail, a bureaucratic mix-up, and a carefully planned method of survival lies in tatters. One month, in the dead of winter, the check was late and every bill in the house was due; some were overdue. When the gas man came to turn off the gas, my mother went outside to meet him, but for once her considerable charm failed her. . . . I can only imagine what went through my mother's mind as the man left. Surrounded by four hungry children under the age of seven, living in an apartment without cooking gas....²⁰

The negative effects of being asset-poor fall especially hard on those who are income-poor. With no serious possibility of accumulating assets, and with few good options by which to raise their income, it is not irrational to become discouraged about future possibilities. Whatever the virtues of income strategies for reducing poverty, they simply do not adequately address the difficulties and precariousness that the poor experience because of

their lack of assets. Nor do these strategies create a realistic foundation from which the poor might gain a permanent foothold outside of poverty. For this to happen, an asset-development strategy is needed.

Asset Development in U.S. History

While asset development for the poor is a new idea, asset development per se is not. The earliest significant asset-development policy in the United States was the Homestead Act of 1862. This act stipulated that "anyone who is head of a household, a military veteran, or over 21 years of age was entitled to 160 acres of unappropriated land as long as they had not borne arms against the United States Government."²¹ Trina Williams reports that because of the Homestead Act, "3 million people applied for homesteads and almost 1.5 million households were given title to 246 million acres of land. This represents a remarkable transfer of wealth and assets. The acreage is close to the land area of Texas and California combined."²² Even more significant is the continuing effect of this asset transfer on subsequent generations. Williams estimates that "a quarter of the adult population potentially has a legacy of property ownership and assets in their background that can be directly linked" to the Homestead Act.²³ This intergenerational transfer of land acquired through the Homestead Act illustrates one significant difference between income and

assets: whereas income is generally tied to a particular individual, assets can be passed on from generation to generation.

Two other historically significant federal asset-building policies deserve comment.²⁴ The first is the G.I. Bill, officially known as the Servicemen's Readjustment Act of 1944. The original G.I. Bill offered veterans \$500 per year for college tuition and other related educational costs, as well as a stipend based on the number of months enrolled in the service. Additional benefits included mortgage subsidies, enabling veterans to purchase homes.²⁵ It has been estimated that "one fifth of all single-family homes built in the 20 years following World War II were financed with help from the G.I. Bill's loan guarantee program, symbolizing the emergence of a new middle class."²⁶ Cost-benefit analysis of the G.I. Bill conducted by the Congressional Research Service has shown that the \$70 billion investment more than paid for itself. For "every dollar invested in the G.I. Bill, the country recoups between \$5 and \$12.50-the result of increased taxes paid by veterans who have achieved higher incomes made possible by a college education."²⁷

During the 1940s and 1950s, home mortgages became much more affordable, the result of a third historically significant asset-development policy. Prior to this, lenders "typically required a large down payment equal to 40 to 50 percent of the home's assessed value and extended loans from three to five years (and occasionally up to ten years)."²⁸ A series of federal initiatives, notably the

Federal Housing Authority's (FHA) and the Veteran Housing Affairs' (VHA) loan programs, made it possible both to dramatically lower the size of the required down payment and to extend the terms of the loan to thirty years. This helped to facilitate home ownership for millions of Americans which, in turn, provided them with both inexpensive housing and a sound investment. Ray Boshara offers the example of the Levittown housing development on Long Island, a development made possible largely through inexpensive FHA and VHA loan programs. "Homes purchased there 50 years ago for a few thousand dollars are now worth, on average, about \$300,000."²⁹

Asset Discrimination

While public policies have helped to facilitate asset accumulation for many Americans, access to the benefits these policies provided has often been limited on the basis of race. Just after the end of the Civil War, it appeared that things might be otherwise. The original Homestead Act, and especially the Southern Homestead Act of 1866, signaled the federal government's intention to distribute land to freed slaves. The latter act limited purchases to relatively small parcels of land (80 and 160 acres) while explicitly prohibiting purchases by "speculators or those with mining and timber interests."³⁰ By limiting the power of the wealthy to accumulate large tracts of land, the policy-makers sought to make it possible for those without property, including

freed slaves, to acquire it. However, hostility to this and other Reconstruction programs led to a repeal of the Southern Homestead Act in 1876. The result was that less than 5,500 blacks were granted homesteads under the Southern Homestead Act.³¹

The Homestead Act is not the only asset-development policy that has discriminated against blacks and other minorities. For example, the FHA "was legally sanctioned to segregate Whites and Blacks" until the Supreme Court prohibited it in 1949.³² The effect of that segregation policy was to place white Americans in homes and neighborhoods that produced substantial returns on their housing investment, while relegating black Americans to substandard homes and neighborhoods with much lower rates of housing appreciation. In the Levittown housing development mentioned earlier, restrictive covenants in place until 1960 "resulted in not one Black resident among the town's 82,000 residents. The huge appreciation in home equity in that development was thus not possible for African Americans, who were instead channeled and confined to central cities, where properties lost value."³³ Oliver and Shapiro argue that the stubborn persistence of discrimination in the housing market—practices such as red-lining, racial biases in the loan approval process, and artificially inflated interest rates in loans granted to minorities—has "cost the current generation of blacks about \$82 billion" and, left unchecked, will cost the next generation of African Americans \$93 billion.³⁴

Needless to say, these policies and practices have had significant effects on the distribution of asset holdings. As Dalton Conley has shown, "in 1994, the median White family held assets worth more than seven times those of the median non-White family. Even when we compare White and minority at the same income level, Whites enjoy a huge advantage in wealth. For instance, at the lower end of the income spectrum (less than \$15,000 per year), the median African American family has no assets, while the equivalent White family holds \$10,000 worth of equity. At upper income levels (greater than \$75,000 per year), White families have a median net worth of \$308,000, almost three times the figure of upper-income African American families (\$114,600)."³⁵ A consideration of the asset holdings of African Americans as a whole yields the following disturbing statistic: at the time of the Emancipation Proclamation, African Americans owned just 0.5 percent of the total wealth in this country. By 1990, 135 years after the abolition of slavery, the wealth of black Americans had risen to a meager 1 percent of total wealth.³⁶

If there is a silver lining in all of these numbers, it is that the massive wealth gap in this country is due in large measure to public policy. Those who have accumulated wealth have done so with significant institutional support put in place by public policy. Those who have not accumulated wealth have been shut out from these institutional supports *as a matter of public policy*. Thus, Oliver and Shapiro write that "the same social system that fos-

ters the accumulation of private wealth for many whites denies it to blacks, thus forging an intimate connection between white wealth accumulation and black poverty."³⁷ What is hopeful about this bleak situation is the fact that public policy does have effects on wealth accumulation. It follows that adjustments to those policies may reap big rewards for those who have thus far been excluded. Significantly, current asset denial has officially shifted away from denials based on race. This is not to say that race-based asset denial mechanisms do not exist, but they are no longer the official position of federal policies that drive asset accumulation. These policies are now largely rooted in class (which clearly has racial implications), and it is to these current policies that I now turn.

Asset Development Today: Focusing on the Nonpoor

The federal government continues to enable many individuals to accumulate assets, albeit in a less visible manner than under earlier initiatives. However, the particular way the federal government encourages and subsidizes asset-building today—through the federal tax code—has the unfortunate effect of excluding low-income persons from these subsidies. So, while the poor receive almost no public subsidies to help them accumulate assets, the nonpoor are the beneficiaries of substantial assistance targeted specifically at asset accumulation. Given that the majority of U.S. households accumulate most of their savings

in accounts or assets that are subsidized by the government, there is little doubt that these subsidies have dramatically influenced both the savings behavior of the nonpoor and the magnitude of their asset holdings.³⁸

Asset-building policies today generally work by giving tax deductions for certain types of asset-building endeavors. These deductions are technically referred to as tax expenditures (and more colloquially referred to as "loopholes"). Properly understood, tax expenditures are losses of revenue the government incurs by providing "tax deductions, tax credits, preferential tax rates, tax deferrals, or outright exclusion from taxation."³⁹ From a budgetary standpoint, tax expenditures and direct expenditures⁴⁰ are functionally the same: both cost the government money.⁴¹ Both the nonpoor and the poor benefit from direct expenditures, although the nonpoor are by far the largest beneficiaries of direct expenditures.⁴²

Several features of tax expenditures deserve comment. Most notably, these expenditures are not minor items in the federal budget. In 1995, tax expenditures to individuals totaled almost \$440 billion. To put that figure in perspective, it is nearly 50 percent of the size of direct expenditures (\$896 billion in 1995), approximately twice as large as all corporate federal income taxes, larger than the entire defense budget, larger than the combined total of all means-tested social programs, and, finally, significantly larger than the national deficit in that year.⁴³ From almost any perspective, tax expenditures represent "a massive commitment of

fiscal resources."⁴⁴ The magnitude of these expenditures leads Christopher Howard to suggest that "the IRS, rather than Health and Human Services, [is arguably] the most comprehensive social welfare agency in the United States."⁴⁵

Second, as I indicated earlier, nearly all tax expenditures are directed to the nonpoor, with those whose income is \$50,000 or more receiving approximately 90 percent of the benefits from tax expenditures in 1995.⁴⁶ In other words, in 1995 the United States government subsidized those with incomes of \$50,000 or more to the tune of \$395 billion, marking these expenditures as the most regressive tax policy in the federal budget.⁴⁷ Specific examples of tax expenditures underscore the regressive nature of the asset subsidies provided by the federal government: in 1998, 54 percent of the \$47 billion federal expenditure for mortgage interest deductions went to homeowners with annual incomes over \$100,000 and 91 percent went to homeowners with incomes over \$50,000. Similarly, in 1999, 67 percent of the federal tax expenditure for retirement benefits went to households earning more than \$100,000, with 93 percent of the benefits going to those making over \$50,000 per year.⁴⁸

Third, "most tax expenditures are asset based; that is, these...benefits *directly help people accumulate financial and real assets.*"⁴⁹ The majority of these subsidies are for: homeownership, in the form of mortgage interest deduction, exclusion of capital gains on home sales (\$75.2 billion); retirement savings, in the form of pension con-

tributions, individual retirement accounts, Keogh plans, and so on (\$123.6 billion); and preferential tax treatment on gains from investments (\$89.7 billion).⁵⁰ Thus, as a matter of policy the federal government offers substantial incentives to the nonpoor, in the form of tax subsidies, when they accumulate assets while offering little or no incentives (subsidies) to the poor to do the same.

The housing tax expenditure provides an especially striking example of how our public policies focus on consumption alone for the poor, while enabling asset accumulation for the nonpoor. While the nonpoor receive substantial housing subsidies directed at helping them to become *homeowners*, the vast majority of the housing subsidies directed to the poor enable them to secure *rental* housing. Moreover, as Howard points out, the sheer size of the housing tax subsidy for the nonpoor—twice the size of "all traditional housing programs, including Section 8 and rental vouchers and public housing . . . undercuts the prevailing image of 'subsidized housing' as housing for the poor."⁵¹

Finally, the high level of participation among those who can take advantage of these asset-savings vehicles is directly related to their ease of access and the incentives that they provide. This observation challenges the long-dominant model of saving put forward by neoclassical economists. According to this model, a person's saving habits can be explained in terms of preferences for current or future consumption. Michael Sherraden and Sondra Beverly

argue, however, that this widely accepted explanation of savings behavior is inadequate because it fails to take account of the social and institutional context of savings behavior. To fully appreciate why and how people save, one must recognize that savings behavior, like any human behavior, is profoundly influenced and shaped by social and institutional forces. When one examines the social and institutional context within which saving takes place, it is apparent that there are great differences in the social and institutional contexts within which the nonpoor and the poor make decisions about savings.⁵²

As we have seen, one of the important differences between the context in which the nonpoor and poor save is that the federal government provides the former with significant incentives to save in the form of tax subsidies while there are no such equivalent subsidies available to the poor. But there are other significant differences between the contexts of the nonpoor and poor that influence savings behavior. While the nonpoor have easy access to institutions that facilitate saving, "low-income households frequently have very limited access to these institutions." For example, members of low income households are "less likely to be in employment situations that offer retirement plans."⁵³ If they live in low-income neighborhoods, especially low-income minority neighborhoods, they will have less access to local bank branches than members of nonpoor households. In addition, it is "likely that financial sophistication varies by socio-economic

status" implying differential access to financial information and education.⁵⁴ Low-income households will also be far less likely to have access to savings incentives: they receive far less benefit from tax deductions for mortgage interest, they generally receive lower rates of return for housing investments, and they rarely have access to employer matched pension programs. Finally, in terms of institutional facilitation of saving, the poor generally cannot save through payroll deductions, mortgage-financed home purchases, and other mechanisms to which the nonpoor have relatively easy access.⁵⁵

In other words, the argument of neoconservative economists that the nonpoor accumulate assets only because they delay present consumption, an argument that contains an unstated but thinly veiled accusation that those who lack assets are simply spendthrifts, ignores the substantial and pervasive social and institutional supports that are in place to help the nonpoor save. As Sherraden says, the nonpoor "participate in [for example] retirement pension systems because it is easy and attractive to do so. This is not a matter of making superior choices. Instead, a priori choices are made by social policy, and individuals walk into the pattern that has been established."⁵⁶

To illustrate, let me provide a personal example. I include this example precisely because it is not atypical for those of us working in "good" jobs—that is, for those in the middle and upper classes. My employer *requires* me to contribute to one of a number

of savings plans that have been set up for me by the university. The university then matches these savings and makes an additional contribution over and above the match. The tax liability for my and the university's contribution is deferred until I withdraw the money. In the meantime, I do not pay taxes on any of the earnings this money generates until I withdraw it. All of this happens automatically, *before* I receive my pay check—frugality and wise spending never even enter into the picture in determining what gets saved.

It should be noted that a priori social policies have also shaped the choices available to the poor, but these policies have generally not had the effect of facilitating saving, let alone providing incentives to do so. Indeed, the main federal social welfare institution to which the poor have had access actually *discouraged* saving: means-tested welfare benefits set asset limits above which benefits were denied. The idea that the poor are unable to accumulate assets either because they don't make enough money to do so, or because of profligate spending habits, derives in part from the widely-held view that "individuals save as autonomous actors in an unstructured socioeconomic world."⁵⁷ Surely it will not be easy for the poor to save, just as it is not always easy for the nonpoor to save. But judgments about whether and how much they can save need to take into account the complete lack of institutional saving mechanisms available to them.

Asset Development for the Poor

Subsidized asset-development accounts—e.g., 401(k)s, 403(b)s, IRAs, Roth IRAs, educational savings accounts, medical savings accounts, individual training accounts, and proposed individual accounts in Social Security—are today "the most rapidly growing form of domestic policy."⁵⁸ Yet, as we have seen, current federal policies which help to stimulate the use of these accounts are extremely regressive, with the vast majority of the benefits accruing to those making \$50,000 or more a year. At the same time, as previously noted, policies aimed at reducing poverty are focused almost entirely on income, on the assumption that "income transfers will support a certain level of consumption."⁵⁹ While it is important to raise the income levels of the poor, this approach to poverty reduction is not enough.

If subsidies help to structure, stimulate and materially contribute to savings for the nonpoor, it is important to ask if they could not also do the same for the poor. This was the question Michael Sherraden began asking sometime in the late 1980s. One of the fruits of Sherraden's questioning was a highly innovative proposal for helping the poor save, something he called the individual development account or IDA. Described in print for the first time in 1989, the idea became a reality in the 1990s.⁶⁰ Sherraden's idea was a matched savings account designed specifically to enable those persons living on low incomes to save

enough for a down payment on a home, to pay for post-secondary education, or to secure start-up capital for a small business.⁶¹

Like the individual retirement account or IRA, individual development accounts are set up in financial institutions by the owner of the account. And just as IRAs are subsidized by the government through tax expenditures, IDAs are subsidized either through the government (in the form of direct expenditures) or by non-profit organizations. When an IDA account holder deposits money into the account, that money is matched according to a predetermined formula. As noted above, IDAs also have restrictions on how they can be used. In pilot programs that are being conducted, IDA account holders are provided with financial education on a range of issues, including personal financial planning and credit and debt management.

There are today as many as 300 community IDA programs; in addition, several national IDA programs have been established, and as many as twenty-five states have included provisions for IDAs in their welfare reform bills.⁶² At the federal level, "IDAs have been incorporated in the TANF program;⁶³ welfare-to-work funding following the 1996 welfare reform; a refugee resettlement program; the Bank Enterprise Awards program at the U.S. Treasury Department; and the Community Reinvestment Act."⁶⁴

It is still too early to know with certainty whether and what kind of effect IDAs are having on those who use them. However, results from the first systematic study of these effects, the

American Dream Demonstration (ADD), are encouraging.⁶⁵ The data collected thus far support the hypothesis that the poor can and do save, and that IDAs have a positive effect in stimulating saving for some of the poor. Here are some of the results of the ADD study: The average amount of time that participants held an IDA was 24.5 months.⁶⁶ Approximately 32 percent of ADD participants had made matched withdrawals as of December 31, 2001. The average value of the matched withdrawal was \$878, and the average value of matched withdrawals plus matches per participant was \$2,586.⁶⁷

While the magnitude of the accumulated savings is not very large, particularly when considered from the perspective of the nonpoor, one needs to keep in mind several things. First, these data represent what was saved for just over two years. Presumably longer time periods would yield significantly higher savings balances. Second, the "data on matched withdrawals. . . suggest that participants do use IDAs to purchase assets expected to have high returns and that mark key steps in the life course."⁶⁸ For example, the largest portion of the matched withdrawals were used for the following: home purchases (28 percent), to start businesses (23 percent), for post-secondary education (21 percent), and for home repair (18 percent). Finally, "participants in qualitative components of the evaluation of ADD say that their asset accumulations have changed their outlooks for the better. Thus, what matters is not only the amount but also the existence of accumulation."⁶⁹

While the data collected from the ADD study do look promising, it is important to keep in mind that the significance of the proposed policy lies not with the particular mechanism for asset development it proposes (IDAs). Rather, what is significant about the IDA proposal is the *underlying change in public policy it represents*; namely, that income alone is not a sufficient mechanism for the alleviation of poverty. IDAs are, then, the embodiment of a *paradigm shift* in how poverty is understood and, in light of this understanding, how the problem of poverty should be addressed. Going forward, it will be difficult to speak about approaches to poverty reduction without incorporating some means to facilitate asset accumulation in the poor. This may be accomplished through IDAs, or through some other policy mechanism, but it will likely not be possible to return to the idea that income support alone is sufficient.⁷⁰

Asset Development and Catholic Social Teaching

Space does not allow for a full exploration of the connection between asset development for the poor and Catholic social teaching. What follows, then, are some initial reflections on the potential convergence between these two perspectives. In recognizing that economic well-being depends on social institutions, that the poor have been excluded or marginalized from such institutions, and that assets have effects that are not simply about money, the current asset-development research

sounds themes that have reverberated through the social teachings of the Roman Catholic Church. Pope Leo XIII, for example, echoes the distinction made earlier in this essay between consumption and wealth when he writes that a person "must have not only things which perish in the using, but also those which, though used, remain for use in the future [*viz.*, property]."⁷¹ He, like those writing about assets today, also notes that an important feature of property (unlike income) is that it can be passed to one's offspring. Finally, the pope suggests that property ownership is the key to closing the gap between those who are wealthy and those who are poor: "If working people can be encouraged to look forward to obtaining a share in the land, the result will be that the gulf between the vast wealth and deep poverty will be bridged over."⁷³

Taking another example, the U.S. Catholic Bishops' pastoral letter on the economy, *Economic Justice for All*, stresses the same themes with respect to the importance of property ownership for the poor and of ownership of property in general.⁷⁴ But the bishops show a more sophisticated awareness of the institutional relationships that enhance the economic well-being of some while denying it to others.⁷⁵ Here, too, there are parallels between current asset development thinking and Catholic social teaching. However, despite this awareness of the institutional barriers to ownership, the bishops, along with much of Catholic social teaching, still assume a neo-classical model of saving. This leads them, along

with many others, to overlook the powerful social determinants of saving and how these might be used to enable the poor to save. It also contributes to a truncated notion of the meaning of economic participation, which the bishops associate primarily with employment. However, to be a participant in today's economy, one must have more than a job. One must have access to all of those financial institutions and mechanisms that facilitate ownership. Those who do not have access to, and the freedom to participate in, these dimensions of our economic life cannot be said to be "included" in society, even if they have gainful employment. But there appears to be no reason for the church to object to the asset approach I have outlined. To the contrary, asset development for the poor appears to be a way of advancing the overall objective of Catholic social teaching: a more just society, particularly for the poor.

Conclusion: Asset Development and Inclusiveness

The trajectory of social policy and social conditions in Western democracies during the twentieth century was generally in the direction of political and social equality: women's suffrage, civil rights, gender equality, and gay rights all ges-

tured toward a more complete inclusion and participation of society's members. The inclusion of all persons in the benefits and rewards of the *economic* life of the country has lagged behind these developments. Today, there is reason to believe that, for many, long-term economic conditions are deteriorating. Recent data on income and wealth inequality continues to show a widening gap between the rich and the poor. And while income inequality remains disturbingly high, wealth inequality far exceeds it: "The top 20 percent of households earn about 56 percent of the nation's income - but command 83 percent of our wealth. The bottom 60 percent, the majority of the country, earns 23 percent of the nation's income - but owns less than 5 percent of the wealth. And the bottom 40 percent earns 10 percent of national income but owns less than 1 percent of the wealth."⁷⁶ Unless social policy begins to incorporate asset building for the poor, there is good reason to believe that these inequalities will only worsen. If the trend toward inclusiveness is going to continue, those without assets will need to be given the means and mechanisms to enable them to fully participate in the economic life of the community.

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End Notes:

- 1 Ladonna A. Pavetti, "Welfare Policy in Transition: Redefining the Social Contract for Poor Citizen Families with Children and for Immigrants," in *Understanding Poverty*, eds. Sheldon H. Danziger and Robert H. Haveman (New York: Russell Sage Foundation and Cambridge, Mass: Harvard University Press, 2001), 230.
- 2 For more fully developed arguments of this perspective, see, among others, Lawrence Mead, *The New Politics of Poverty* (New York: Basic Books, 1992); Lawrence Mead, ed., *The New Paternalism: Supervisory Approaches to Poverty* (Washington, D.C.: Brookings Institution Press, 1997); Charles Murray, *Losing Ground: American Social Policy 1950-1980* (New York: Basic Books, 1984); and George Gilder, *Wealth and Poverty* (New York: Basic Books, 1981).
- 3 Pavetti, "Welfare Policy in Transition," 269.
- 4 *Ibid.*, 273.
- 5 *Ibid.* Pavetti reports that the former recipients of welfare "typically work more than thirty hours during the weeks they are employed."
- 6 *Ibid.*, 269.
- 7 David T. Ellwood, *Poor Support: Poverty in the American Family* (New York: Basic Books, 1988), 18-25. Contrary to the beliefs of many conservatives, however, Ellwood contends that the welfare system had only limited effects on the family.
- 8 See, for example, Mary Jo Bane and David T. Ellwood, *Welfare Realities: From Rhetoric to Reform* (Cambridge, Mass: Harvard University Press, 1994), and Mary E. Hobgood, "Poor Women, Work and the Catholic Bishops: Discerning Myth from Reality in Welfare Reform," in Elizabeth Bounds, Pamela Brubaker, and Mary Hobgood, eds., *Welfare Policy: Feminist Critiques*, (Cleveland, Ohio: Pilgrim Press, 1999), 175-200.
- 9 Pavetti, "Welfare Policy in Transition," 269.
- 10 Gary Burtless and Timothy M. Smeeding, "The Level, Trend, and Composition of Poverty," in Danziger and Haveman, eds., *Understanding Poverty*, 37.
- 11 Michael Sherraden, *Assets and the Poor: A New American Welfare Policy* (New York: M.E. Sharpe, Inc., 1991), 3.
- 12 Robert Haveman and Edward Wolff, "Who Are the Asset Poor? Levels, Trends and Composition, 1983-1998" (paper presented at the Inclusion in Asset Building: Research and Policy Symposium, Center for Social Development, Washington University, St. Louis, Mo., September 21-23, 2000), 2. The federal poverty rate is, in fact, determined according to this standard: individuals or families with a level of income below that which would allow them to purchase the goods necessary for a minimally decent existence are classified as poor.
- 13 Michael Sherraden, "From Research to Policy: Lessons From Individual Development Accounts," *Journal of Consumer Affairs* 34, no. 2 (2000): 162, emphasis in original.
- 14 *Ibid.*
- 15 Michael Sherraden, "Assets and the Poor: Implications for Individual Accounts and Social Security" (invited testimony to the President's Commission on Social Security, Washington, D.C., October 18, 2002), 2.
- 16 Melvin L. Oliver and Thomas M. Shapiro, *Black Wealth, White Wealth: A New Perspective on Racial Inequality* (New York: Routledge, 1992), 2.
- 17 Edward Scanlon and Deborah Page-Adams, "Effects of Asset Holding of Neighborhoods, Families, and Children: A Review of the Research," in *Building Assets: A Report on the Asset-Development and IDA Field*, ed. Ray Boshara (Washington, D.C: Corporation for Enterprise Development, 2001), 25-50.
- 18 Sherraden, *Assets and the Poor*, 147-167.
- 19 The lack of a financial cushion helps to explain why welfare recipients move in and out of the welfare system, usually staying on the welfare roles for relatively brief periods. Loss of income, in the absence of asset ownership, can be disastrous, leaving those who are poor with no other recourse but governmental or other charitable aid to make up for income shortfalls.
- 20 Rosemary L. Bray, *Unafraid of the Dark: A Memoir* (New York: Random House, 1998), 13-15.
- 21 Trina Williams, "The Homestead Act: A Major Asset-Building Policy in American History" (paper presented at the Inclusion in Asset Building: Research and Policy Symposium, Center for Social Development, Washington University, St. Louis MO, September 21-23, 2000), 3.
- 22 *Ibid.*, 7-8.
- 23 *Ibid.*, 10.
- 24 Ray Boshara, "The Rationale for Assets, Asset-Building Policies, and IDAs for the Poor," in *Building Assets: A Report on the Asset-Development and IDA Field*, ed. Ray Boshara (Washington, DC: Corporation for Enterprise Development, 2001), 16.
- 25 *Ibid.*
- 26 *Ibid.*
- 27 *Ibid.* Of course, local municipalities have also benefited from the increase in property tax revenues that has accompanied the appreciation of the homes owned by veterans.
- 28 Christopher Howard, *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States* (Princeton: Princeton University Press, 1997), 96.
- 29 Boshara, "The Rationale for Assets," 16.
- 30 Williams, "The Homestead Act," 9.
- 31 Williams, "The Homestead Act," 10.
- 32 Boshara, "The Rationale for Assets," 19.
- 33 *Ibid.*
- 34 Oliver and Shapiro, 151.
- 35 Dalton Conley, *Being Black, Living in the Red: Race, Wealth, and Social Policy in America* (Berkeley: University of California Press, 1999), 1.
- 36 *Ibid.*, 25.

End Notes continued:

- 37 Oliver and Shapiro, *Black Wealth, White Wealth*, 5.
 38 Sherraden, *Assets and the Poor*, 295.
 39 Howard, *The Hidden Welfare State*, 3.
 40 Examples of direct expenditures include Social Security payments, student financial assistance, unemployment compensation, Medicare, and Medicaid.
 41 Sherraden, *Assets and the Poor*, 55.
 42 Laurence S. Seidman, "Assets and the Tax Code," in *Assets for the Poor: The Benefits of Spreading Asset Ownership*, eds. Thomas M. Shapiro and Edward N. Wolff (New York: Russell Sage Foundation, 2001), 333.
 43 Michael Sherraden, "Asset-Building Policy and Programs for the Poor," in Shapiro and Wolf, eds., *Assets for the Poor*, 303; and Howard, *The Hidden Welfare State*, 27.
 44 Howard, *The Hidden Welfare State*, 27.
 45 *Ibid.*, 30.
 46 Seidman, "Assets and the Tax Code," 335.
 47 By comparison, government spending on Aid to Families with Dependent Children (AFDC) totaled approximately \$23.5 billion in fiscal year 1996. See <http://aspe.hhs.gov/98gb/apenk.htm> (downloaded January 2, 2003).
 48 Boshara, "The Rationale for Assets," 17.
 49 Sherraden, *Assets and the Poor*, 68, emphasis original.
 50 Sherraden, "Asset-Building Policy and Programs for the Poor," 303. Sherraden uses numbers from fiscal year 2000.
 51 Howard, *The Hidden Welfare State*, 28.
 52 Sondra G. Beverly and Michael Sherraden, "Institutional Determinants of Saving: Implications for Low-Income Households and Public Policy," *Journal of Socio-Economics* 28, no. 4 (1999): 457-473.
 53 *Ibid.*, 466.
 54 *Ibid.*
 55 *Ibid.*
 56 Sherraden, *Assets and the Poor*, 127.
 57 Sherraden, *Assets and the Poor*, 124.
 58 Sherraden, "Assets and the Poor: Implications for Individual Accounts and Social Security," 2.
 59 *Ibid.*
 60 Michael Sherraden, "Individual Development Accounts," *The Entrepreneurial Economy Review* 8, no. 5 (1989): 1-22.
 61 Sherraden further developed the idea for IDAs in *Assets and the Poor* (1991). Since then, he and others have continued to refine the idea.
 62 Sherraden, "From Research to Policy," 167.
 63 TANF (Temporary Assistance for Needy Families) participants could participate in IDA programs and the amount saved in the IDA was exempt from all federal means-tested programs. States could match the savings of IDA participants using TANF funds. Thus, TANF became "the first federal antipoverty policy in which asset building was no longer discouraged and, in fact, could be supported through federal funds." Sherraden, "Asset-Building Policy and Programs for the Poor," 307.
 64 Tammy Draut, David Callahan, and Corinna Hawkes, *Crossing Divides: New Common Ground on Poverty and Economic Security* (New York: Demos, 2002), 25-26. Under the auspices of the 1998 *Assets for Independence Act*, Congress provides \$125 million in federal funding for IDA "demonstrations." The goal is to assess the conditions under which IDAs are effective.
 65 See Mark Schreiner, Margaret Clancy, and Michael Sherraden, "Final Report: Saving Performance in the American Dream Demonstration: A National Demonstration of Individual Development Accounts" (Center for Social Development, Washington University in St. Louis, Mo., 2002).
 66 Participants signed up at different times and therefore not all participants held IDAs for the same length of time. Since this is an ongoing study, the 24.5 month figure should not be read as a maximum participation time. It is simply an indication of how long people had been participating at the time the data was collected.
 67 Schreiner, Clancy and Sherraden, "Final Report: Saving Performance in the American Dream Demonstration," iv.
 68 *Ibid.*, 49.
 69 *Ibid.*
 70 Indeed, other policy proposals aimed at helping the poor to save are already being put forward. One proposal calls for the institution of "children's savings accounts" (CSAs) and recommends federal deposits into savings accounts for children from birth until age eighteen. Like IDAs, the proposed CSA would restrict the use of the funds to non-disposable goods like education, home ownership, and starting a business. Many economically advanced countries already have children's allowances consisting in monthly payments from the government to families with children. The difference between a children's allowance and a CSA, however, is that the former is essentially income support while the latter is an asset initiative. Western European countries spend about 1.8 percent of GDP on children's allowances. A similar commitment to CSAs by the United States government would amount to \$2,000 per year for every young person from birth to age eighteen. See Sherraden, "From Research to Policy: Lessons from Individual Development Accounts," 168-170.
 71 Leo XIII, *Rerum Novarum*, no. 5.
 72 *Ibid.*, no. 10.
 73 *Ibid.*, no. 35.
 74 U.S. Catholic Bishops, *Economic Justice for All*, no. 92 and no. 57. "Basic justice calls for more than providing help to the poor and other members of society. It recognizes the priority of policies and programs that support family life and enhance participation through employment and widespread ownership of property." "For these reasons ownership should be made possible for a broad sector of our population."
 75 *Ibid.*, no. 76.
 76 Ray Boshara, "Poverty is More Than a Matter of Income," *New York Times*, 29 September 2002, 4.13.