



# Creating an Opportunity Society

Asset-building strategies can broaden the American promise of ownership. But they can't succeed on the cheap, or by shifting even more risks to the poor.

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**S**Ocial mobility, economic security, and self-reliance are at the heart of the American ideal. These widely shared goals can be the foundation for a new political consensus built around the cultivation of financial and human assets. At least two sources animate this new policy context.

First, globalization is widening economic inequality and insecurity, for the middle class as well as the poor. The national competitiveness of the United States and the economic security of Americans depend on investment in both financial and human capital. Second, there is increasing recognition that family financial assets play a key role in poverty reduction, social mobility, and securing middle-class status. Income helps you get along; assets help you get ahead. Those without the head start of family assets have a much steeper climb out of poverty. Social policy needs to ensure income sufficiency while simultaneously increasing investments in the assets of the poor, so that they can take advantage of opportunities throughout their life course.

Asset inequality in America has been growing rapidly for 20 years. Nearly two in five families today do not have enough financial assets to survive for three months at the government poverty line if a breadwinner loses employment. African Americans own only 7 cents for every dollar of net worth that white Americans own; for Hispanics, the figure is only slightly higher, 9 cents for every dollar. This is the precarious position of millions of American households, especially those that are not only asset-poor but also income-poor.

## HOW AMERICANS BUILT AN OWNERSHIP SOCIETY

Our past provides ample lessons on how groups of people moved ahead and established a foundation of economic security, with government policies promoting what was experienced as self-sufficiency. One element is a steadily growing economy, such as the one America enjoyed for three decades after World War II, when the average standard of living doubled, all groups shared in the expanding pie, and the foundation for today's propertied middle class was established. A second ingredient is the mobilization and success of social movements that helped incorporate many working families, African Americans, ethnic minorities, and women into the economic mainstream. The third—and far less understood—component is how the creation of opportunity structures promotes social mobility.

This long and rich history includes the Homestead Act of

1862 and the land-grant colleges of the 19th century, Federal Housing Administration loans, Social Security, and the GI Bill, as well as the continuous benefits of tax codes that subsidize homeownership, property, and wealth. American's broad middle class accumulates two-thirds of its wealth through homeownership—enabled more by federal actions than private thrift, savings, and investments. The dwindling proportion of Americans who still enjoy secure pension plans and health coverage also benefit from hundreds of billions of dollars in tax preferences.

Singly and collectively, these and other government actions provided millions of families, and previously excluded economic classes, the opportunity to acquire property and build wealth. The reach of these social-investment actions, however, by both intent and omission, has not extended to low- and moderate-income families, and only barely to Hispanics and African Americans.

## ASSETS FOR ALL

America needs a broader set of asset policies, to reach outward and downward. Successful policies that encourage widespread asset building have several things in common: They are targeted to the most disadvantaged; they emphasize the creation of mobility opportunities; and they are framed in language that focuses on playing by the rules and rewards effort and sacrifice. These strategies hark back to successful policies of the past that do not specify particular policies for the “poor” but focus on supporting hardworking families that play by the rules.

Starting with these points of consensus, the question then becomes how we can build a political agenda that broadens and democratizes asset building. We suggest that the political translation requires new ways of talking about and framing policies for mobility and economic security that encourage work, sacrifice, and effort, and that promote the mobility aspirations of all Americans. Not a policy “for” a particular group, this approach melds traditional labor-market and social-service policies with an asset perspective as part of a comprehensive approach that connects the dots.

In principle, a surprisingly broad coalition of liberals and conservatives has rallied around the idea of an “ownership society” based on accumulation of assets. Some programs that enjoy common support include Individual Development Accounts (IDAs), other tax-favored retirement accounts, and

the Earned Income Tax Credit. However, some proposals that invoke the ideal of an asset ownership, such as privatization of social insurance, transfer too much risk and too few assets. Others, such as IDAs, are promising, but have been funded at only token levels. It remains to be seen whether these programs can be taken to a scale that will make a transformative difference, as the GI Bill and the Homestead Act once did.

#### **SUBSIDY FOR THE HAVES**

For generations, tax policies in the United States have helped to provide resources to assist aspiring middle-class and well-to-do Americans in building assets. It is hard to imagine that many Americans would have been able to buy homes, send their children to college, prepare for retirement, and weather unexpected financial storms without these important asset-building subsidies. Today, however, too many of the subsidy dollars are targeted to those who are already rich. For example, in fiscal year 2005, taxpayers financed \$367 billion worth of asset policies for the nonpoor through tax breaks, 45 percent of which accrued to the wealthiest 1 percent. The bottom 60 percent received a paltry 3 percent of these federal benefits.

A true opportunity society would redirect these tax subsidies, and other asset supports, to where they are needed most. In addition to pensions and housing, college aid has become skewed to the haves [see “Closing College Doors,” page A18, by Kati Haycock]. Pell Grants are the main source of college financing for low-income students. In 1979, these grants covered fully 75 percent of the cost of a four-year public-college education; today, they cover only about a third of college costs. About two-thirds of today’s college undergraduates go into debt to finance their futures, and by definition these are the children of nonaffluent families. Over the past decade, debts of graduating seniors have more than doubled, and the average debt is now about \$20,000, with many owing considerably more. Instead of opportunity investments for the common good, higher-education costs are being shifted onto individuals and personal debts. Moreover, students from families that cannot afford college tuition pay the price of lost opportunities.

Pell Grants should again cover three-quarters of college costs. Given how critical a college degree is to middle-class aspirations, as well as American productivity in a global economy, this is precisely the kind of big-ticket item that can frame popular support and an engaged constituency. Current Pell Grant funding would need to be more than doubled to achieve this modest investment opportunity.

The progressive soul of asset policy extends far beyond programs like individual accounts to a broad expansion of opportunities and a closing of the racial wealth gap. These are major

challenges requiring serious resources. If the children of the poor are to attend college, then higher education must be within financial reach, whether through Pell Grants or children’s savings accounts or both. If moderate-income families are to become homeowners, we need to reverse the tilt of tax subsidies and use the proceeds to finance affordable mortgages, expand the coverage of the Community Reinvestment Act, and adequately fund community-development assistance.

By contrast, the purely private version of an opportunity society, despite the language of ownership, would accelerate the shift away from social investments and put burdens mainly on individuals. Risks would be privatized, and citizenship impoverished. Such shifts of costs and risks are already

occurring in health-care and retirement security, and personal safety, even without further deliberate privatization. These shifts increase the strain on family finances, making middle-class success more difficult to attain and harder to sustain.

Democratization of the investment budget offers a very different strategy to help individuals, families, and communities promote entrepreneurship and wealth creation. We already possess adequate resources to pay for big-ticket asset-generating initiatives like universal children’s savings accounts or first-time homeownership assistance.

For example, the estate tax is a levy on the wealthiest 1 percent of Americans. We could restore public support

for the tax by linking its revenues to the very American idea of providing opportunities to new generations of Americans. This appeal is grounded in the shared belief that passing along great advantages and wealth runs against the deep American spirit of fairness, equality, new starts, and opportunity. Equal opportunity and a level playing field for all cannot thrive side by side with great inherited wealth.

The next phase of our social policy must go well beyond patching the social safety net. As the economic risk associated with health care, education, and retirement security is increasingly privatized, we must insist on social policy that does not use already strained private resources to compensate for a withering opportunity structure, but instead creates a set of social investments that serve as a platform for mobility. Only in this way will we truly be a competitive player in the global marketplace and broaden access to the American dream. **TAP**

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## **Government helped create the American middle class, by promoting homeownership, college education, and pensions. Now we must shift asset policies, outward and downward.**