Speech

Toward a Universal and Progressive Asset-Based Domestic Policy

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Thank you. It is a great honor to be here. I am especially pleased to be on this program with Alistair Darling, Secretary of State for Work and Pensions, and Martin Barnes, Director of the Child Poverty Action Group.

As a US citizen, I bring thanks from the American people for the clear and unwavering support of the United Kingdom following the terrorist attacks on the World Trade Center and Pentagon. We all have the sense that the world has changed. But other generations have faced horrors and prevailed. Standing together, we shall again. Your friendship and partnership are deeply valued.

As Prime Minister Blair has said, everything should not stop because of terrorism. Domestic policy also should move forward. I hope my remarks today on asset-based domestic policy will be useful in the Labour Party's deliberations and initiatives.

I am grateful to the Institute for Public Policy Research for organizing and inviting me to participate in this event. As you know, IPPR is the leading UK organization for research and innovation in asset-based policy. Its work is known far beyond the United Kingdom.

British and American Strengths

Many of the great domestic policy thinkers over several centuries, and still today, are British. In the twentieth century, your great policy intellectuals – people like John Maynard Keynes, William Beveridge, and Richard Titmus – defined the meaning and direction of the Welfare State. In the United States, we have a very different tradition. We do not have many great social thinkers. We tend to have social *doers*. Our domestic policy heroes in the twentieth century are people like Jane Addams, Harry Hopkins, and Martin Luther King. America is not a land given to theory, but to application.

For example, asset-based policy for the poor began as a practical idea. It is about ownership and controlling one's life. In fundamental respects these are American themes. However, America may not the first place where asset-based policy becomes *universal and progressive*. These latter themes reflect a social vision that is decidedly more British.

Maintenance and Development

The idea of asset-based policy came from talking with welfare recipients about what was wrong with welfare.[1] They said it was a trap. They said they could not get anywhere. In my view, income maintenance is correctly named – it maintains people in their poverty.

But development requires a different strategy. Development of nations, communities, and families is based on saving and investment. If families do not save for education, homes, businesses, and other productive investments, they are unlikely to do better over the years and across generations.

[1] Conversations with welfare recipients were one of the reasons I decided to write *Assets and the Poor: A New American Welfare Policy*, Armonk, NY and London: ME Sharpe, 1991.

Unfortunately, there are rules in welfare programs, called "asset limits," that discourage saving. If welfare recipients save more than a minimal amount, they lose their benefits. This is part of the "trap" of being on welfare.

Asset-Based Policy Already Exists

At the same time, the middle and upper classes receive substantial government subsidies for asset accumulation. These subsidies operate through the tax system. They are predominantly for retirement pension accounts (tax deferments), home ownership (tax deductions for mortgage interest), and capital gains (tax rates that are lower than on labor income). In the United States, tax benefits to individuals for asset building total over $300 billion per year. This is equivalent to roughly 15% of total federal spending, and far more money than goes to all programs for poor people combined. Asset-based tax benefits are the most rapidly growing part of domestic policy.

This pattern, with variations, is occurring in many other countries, including the United Kingdom. It is a little recognized and rapidly growing policy. We might think of it as a stealth *Investment State*, taking its place alongside the Welfare State.

Unfortunately, the poor are excluded from this new Investment State. In the United States, well over 90 percent of the $300 billion plus in asset-building tax benefits go to households earning over $50,000 per year. The poor receive little or nothing. This is the most regressive domestic policy imaginable.

Toward Asset Building for All

Why not asset-based policy that includes the poor? There are at least three reasons to be more inclusive in the new Investment State. One is humanitarian: let us help the poor do better. A second is social justice: let us distribute the large asset-based benefits to everyone at least equally. And a third is simple practicality: if assets are how households develop, let us enable people to build assets.

There are many possible approaches to asset-based policy for the poor. In the United States, we have begun matched saving called Individual Development accounts (IDAs). Small-scale IDA policies have been enacted at the federal level and in most states. An IDA demonstration with extensive research (1997-2003) is funded by eleven private foundations.[2]

Broad Political Support

At a meeting of a political party, I should mention that asset building has broad public support. The idea resonates across political boundaries. In the United States, both Republicans and

[2] The "American Dream Demonstration" (ADD) is being run by the Corporation for Enterprise Development (CFED) in Washington, DC. Bob Friedman, founder of CFED, conceived ADD and developed the resources to make it possible. The Ford Foundation is the leading funder. Research for ADD is designed and led by the Center for Social Development (CSD) at Washington University in St. Louis. Research reports are available on CSD's website at http://gwbweb.wustl.edu/csd/

Democrats support IDAs. President Clinton was a big supporter, as is President Bush. In the Congress, many conservative lawmakers support IDAs because they are about development rather than maintenance. During a period of intense political partisanship, we have been successful in moving IDA policy forward.[3]

Lessons from IDAs

Research has been important in understanding how IDAs work, and how they might work better. I will cite three main lessons from our research on IDAs:

One, the poor can save. IDA participants in the US are saving an average $25 per month (net of withdrawals) and making deposits in 7 of 12 months. The are saving 67 percent of the amount that is matchable, i.e., they are taking advantage of two-thirds of the financial incentives offered to them.

Notably, controlling for other factors, the very poor save as much as the not so poor, and the very poor save at a higher rate (savings/income). Our research suggests that savings are coming primarily from consumption efficiency, e.g., eating out less often and avoiding unnecessary purchases.

At the outset, it was common for us to hear that IDAs could not work because the poor do not have enough resources to save. Today we have research data indicating that this concern, while understandable, may be overstated. At least some of the poor can save.

Two, asset holding has positive effects. IDA participants report high regard for the program. Many talk about having greater control over their lives and being able to plan for the future.[4]

Three, locally run IDA programs are too costly. IDAs in the United States are today administered from community organizations. The costs of administration are high. If IDAs are eventually to reach millions of people, a large, simple, and efficient policy will have to be put in place. Especially, all account management functions should be in financial institutions, not in community organizations.

The Challenge of Going To Scale

In the United States IDAs are becoming known, the results are encouraging, and the public has a positive impression. The next challenge will be going "to scale" with a large and inclusive policy. There are several possible avenues to do this: expanded IDAs, a Children's Savings

[3] The asset-building policy agenda at the federal level is led by CFED, under the direction of Ray Boshara. At the state level, Karen Edwards of CSD and Carl Rist of CFED lead the policy effort.

[4] More definitive and detailed data on effects of asset holding will come from the experimental site. Our first report based on experimental data will appear in 2002.

Account for all children, and/or making retirement pension accounts more inclusive and progressive.

Tony Blair's Proposals for the United Kingdom

The Labour Party of the United Kingdom is several long steps ahead of policy makers in the United States. Prime Minister Blair has considered the challenge of going to scale and he has proposed a broad asset-based policy: the Child Trust Fund and the Saving Gateway. There is no need in this gathering to give you details of these proposals.[5]

Most encouraging is the vision that has accompanied asset-based proposals in the UK. On announcing the policies on April 26, 2001,[6] Mr. Blair said:

> "We are committed to extending opportunity to all. All our children, especially the most disadvantaged, should have the chance of a proper start in life. . . Making sure children have a real financial springboard, is a vital part of that."

Leadership and Direction

Together, the Child Trust Fund and the Saving Gateway can become the most universal, progressive asset-based policy in any nation. The Labour Party of the United Kingdom is poised to take the idea of asset-based policy to a new level. In doing so, you will be playing a leadership role not only in your own land, but around the world. Other nations will learn from your example. Just as Britain charted the course for the Welfare State of the twentieth century, you may now chart the course for a universal and progressive Investment State of the twenty-first.

As you begin the Child Trust Fund and Saving Gateway, allow me to offer three suggestions:

One, put a universal structure in place. It is more important than the amount of initial funding. Once the structure of a Child Trust Fund and Saving Gateway are in place, deposits are likely to increase over time.[7]

Two, aim for a simple policy. A complex policy will not be sustainable over the long term, and it is not necessary. Community organizations can be creative in supplementing an asset-based

[5] The Labour Party proposals are in *Saving and Assets for All*, HM Treasury, 2001.

[6] "New Proposals to Tackle Child Poverty and Open Opportunities for All," HM Treasury, April 26, 2001.

[7] Fred Goldberg, former Commissioner of the US Internal Revenue Service and a long-time proponent of Children's Savings Accounts, refers to a universal structure as putting the plumbing in place. Once this occurs, Mr. Goldberg believes, both public and private sectors will be creative about getting deposits to flow into accounts.

policy with additional deposits, financial education, staff support, peer support, and other programming.

Three, undertake research. Good information on the emerging asset-based policy will be essential for policy makers in the United Kingdom, and valuable for other countries as well. I hope you will enlist the new Asset-Based Welfare Centre of IPPR[8] and other research organizations to provide sound data and analysis.

Thank you very much for your vision and leadership.

All best wishes.

[8] "The Centre for Asset-based Welfare," Institute for Public Policy Research, 2001.