"Assets Policy in Perspective"

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Thank you, Mike, CNE and the Puerto Rico Bankers Association. I'm honored to be here.

My remarks will focus on asset building more generally, and federal assets policy in particular.

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Why assets? Let me offer three reasons:

1. *Assets change heads, the way people think and behave. And, interestingly, it turns out that the presence of the asset appears to matter more than the value of the asset.*

- There is research on so called "asset effects" – what are the psychological, social and behavioral effects of holding assets?

Many thanks to Michael Sherraden and his colleagues at CSD for leading and summarizing this research. (See http://gwbweb.wustl.edu/csd/ for more information.) What Sherraden posited back in 1991 about the effects of assets has, basically, been proven true.

- Holding assets at age 23 associated with later positive outcomes: better labor market experience, marriages, health, health behaviors, political interest.
- Wealth positively associated with cognitive development, physical health, and socio-emotional behavior, even among very income-poor families.
- Single mothers' assets are positively associated with children's educational attainment.
- Because of IDAs, people are more likely to work or stay employed, work more hours, make educational plans for self and children, feel more economically secure, feel confident about the future, and feel in control in life.
- IDAs create a greater future orientation – see more clearly and better visualize a future than before the IDA, and IDAs create a goal and purpose, and provide a way to reach goals. Will low-income people save for their future? Without an IDA: 8% will, with an IDA, 56% will.

2. *Assets also change family finances, the way families escape poverty and achieve economic independence.*

- Sherraden – No one has ever spent their way out of poverty. They do so through saving and investing.
- To paraphrase myself: Without income you don't get by; without assets, you don't get ahead.

3. *Broad-based asset ownership holds the potential to change national economies.* America's anemic saving rate, and thus it productivity, could be greatly increased if we could increase net national savings, and the best way to do that is to target incentives to those not saving now.

This, by the way, is the exact opposite of what we're doing today – the less you need help saving, the more Washington gives you; the more you need help saving, the less Washington gives you. What do we get? Wasted public subsidies, and massive amounts of "asset shifting" from one preferred tax vehicle to another.

In sum, what do you get with assets: better citizens, better family finances (and fewer people depending on the state), and possibly better performing economies. Therefore, as we think about what are the public investments that will yield the greatest return, the case for assets is compelling.

And we have some history to bolster this claim: the GI Bill, which gave returning WWII veterans opportunities to buy homes and go to college, returned to the U.S. $7 for every one invested.

We have a choice: Widely *shared* prosperity – wealth created by the upper half of society is shared with the lower half (classic redistribution), and praying for those rising tides that supposedly lift all boats. *Or* we can have widely *created* prosperity, where everyone is a producer, owner, stakeholder, where the boats are able and motivated to lift themselves.

It's hard to imagine that these broad returns to nations and individuals wouldn't be beneficial to businesses and financial institutions as well.

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This assets "lens" also gives us a novel perspective some of our federal policies, past and present. Four policies (see my 2001 *Building Assets* report, published by CFED, for more details):

- <u>Asset Development</u> – There are $300 billion a year in federal tax incentives. A great policy, very popular. But also very regressive: over 90% of benefits go to households earning more than $50,000 a year – basically, the upper-half of the population.
- <u>Asset Denial</u> – low-income persons face asset denial because the tax breaks above are largely meaningless, because of no or weaker attachments to the workforce, and because of "asset limits" in public assistance programs.
- <u>Asset Discrimination</u> – The Black/White income is ratio 1:1.5, while the Black/White wealth ratio is 1:10. This is pretty poor progress – only 10%! – since the abolition of slavery.
- <u>Asset Deprivation</u> – This largely applies to Native Americans, who were deprived of their assets, or who may have them, but don't control them.

Wealth inequality: Bottom 40 less owns than 1% of the nation's wealth, bottom 60 owns less than 5%, while the top 20% owns 83%. But why should anyone be surprised at these numbers, given these four distinct asset policies?

Key point: If asset development a good policy, and a popular one, why not asset development policy for all? Inclusion is the key.

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So, what's inclusion mean? What are the policies, tools?

IDAs – that's where we started in the mid-1990s, because we had to. No products out there aimed at helping the poor save.

History of IDAs can be viewed in 3 phases:

(1) Debut (1991-1996) IDAs allowed in TANF, states could raise TANF asset limits; most did

(2) Demonstration (1997-1999). Privately-funded "ADD" demonstration and the publicly funded "Assets for Independence" demonstration.

(3) Scale (beginning in 1999). President Clinton's "Universal Savings Accounts" and the Santorum-Lieberman "Savings for Working Families Act." None enacted.

IDA Status:
- At least 300 IDA programs in U.S., supporting at least 20,000 accounts
- $200 million in public funding thus far – $160 million federal, $40 million state. Federal funding is rising, state declining.

IDAs and asset building is moving forward not just in U.S., but around the world – Canada, UK, Taiwan, Australia, Uganda. and in many other countries.

OECD, USAID, WEF has each embraced asset building, and is moving it forward with their audiences.

Three lessons thus far:

- The poor can save and build assets. Two major reports have shown this: *Savings Performance in IDAs*, by CSD in 2002, and *Evaluation of ADD*, by Abt Associates, in 2004. Note that income and saving level are not correlated – institutional view of saving confirmed (401(k) example)
- More than one savings policy is preferable – poor have many reasons to save, not just long-term asset accumulation.
- Build off existing systems and products – small changes to existing systems and products could yield large results.

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The success of IDAs has opened up some very exciting policy frontiers, and these are now the components of our policy agenda:

- 4th / 5th generation of IDAs – leaner, more efficient
- Linking tax refunds to savings products – Jennifer Tescher a pioneer here, too
- Revising other asset limits, beyond TANF
- Access to financial services – Michael and Jennifer pioneering work

- Potential of so called "529" state college savings plans – perhaps Puerto Rico will have this to work with some day
- Universal 401(K)s – Gene Sperling

Accounts at birth: The Aspire Act (see www.AspireAct.org or www.KidsAccounts.org)

- Introduced in July 2004 – Senators Santorum and Corzine, and Reps. Ford, Petri, Kennedy, English. Can't be more bi-partisan.
- Automatic $500 at birth for every child, once a SS number issued
- Low-income kids – extra $500 at birth, and opportunity to earn matching deposits, 1-1, up to $500 per year for voluntary contributions to the accounts – from any source (corporations, foundations, Bob Friedman).
- No access to account prior to 18. At 18, may be used for PSE, first home, and retirement.
- Financial education tie-in in K-12
- Modest but steady contributions ($250), typical low-income kid: $21,000 at age 18

Senator Jon Corzine, D-NJ, former chair of Goldman-Sachs: "In a capitalist society, you need more capitalists."

Phil English, R-PA: "We propose at a stroke to redefine the investor class, and that is very exciting."

What really motivated all six members was getting kids to take financial education and their financial futures seriously. What better way to do that, they said, that starting the process at birth, with a real account, one that each and every American owns and manages.

I commend Sergio and others at CNE for their pioneering work on PR Stakeholders Accounts – a nice blend of what's out there but tailored for PR.

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How will these ideas move forward? What's the context, debate? Don't really know. "Ownership Society," retirement savings, tax policy, Social Security Reform?

We do know this: battle for billions will be fierce, especially in this era of deficits and wars. Important as they are, it's going to take more than "demonstration projects" no matter how successful, to move billions of dollars aimed at the poor. In the wars of ideas, facts and data often lose. Power, ideology, and determination win. It will interesting to see what we, the assets field, will be willing to give up to get what we want.

Not clear if asset building would do better under a Democratic or Republican Administration. Given its bi-partisan support, the Aspire Act has a good chance of being a part of the debate, not matter who is in power.

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Let me offer some broad observations and recommendations:

1. ***Poor can save and build assets --- take this question off the table.*** There's no need to send the canary into the mine again. In fact – and I realize this may sound heretical and controversial – but I don't think the best way forward at this time is to place most of your bets on IDAs. Look what's on your books already – what products, what tax breaks, what points of access, what institutions – and see what small changes you can make to those to achieve your goals. Use all of the insights of IDAs, but not necessarily the IDA itself. The ASPIRE Act, which would create an account at birth, authorizes a very slightly modified Roth IRA, allowing it to be in the name of kids.

2. ***You get what you measure.*** We have framed the problem in terms of income, therefore we have solved the problem in terms of income. If we redefine poverty in terms of assets – and there's a lot of good work to build on here – we will begin to solve the problem in terms of assets.

3. ***Continue to strengthen the successful programs already on the books*** for homeownership, college, business development, and retirement. Preserving and expanding Pell Grants, for example, should be an integral part of our agenda while we're doing the more innovative, sexy stuff with accounts. Take a broad view of asset building.

4. ***Public sector is critical; asset building can't be done at scale without it.*** Public sector is not likely to act without the private and non-profit sectors leading the way, just as CNE, Banco Popular, Doral Bank and others already are. That doesn't mean there isn't a role for the non-profit and private sector if the public sector acts. Quite the opposite. Public sector needs to deliver (1) a lean, scalable product, (2) some subsidies and (3) a regulatory framework – in short, the infrastructure. But the private sectors need to implement, enforce, profit from, and expand participation. So, as you move forward on various fronts, always keep the policy relevance or policy impact in mind. Perhaps your election in November will yield high-level political leadership interested in moving forward an assets agenda.

5. ***Think not just within generations, but across generations.*** What's great about assets – unlike income – is that it can be passed to future generations. One-quarter of all adults in the U.S. have a legacy of asset ownership that is traceable to the Homestead Act. It took my family, poor but hard-working immigrants from Lebanon, 3-4 generations before there were enough resources in our family for college to be the norm, not the exception. Today, about half of all wealth comes from inheritances. In short, think about "bequeathable" public assistance, instead of assistance that dies with the beneficiary. Cradle-to-grave, life-long asset accumulation, that carries forward into future generations.

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Finally, I have a few specific recommendations:

I don't feel comfortable giving you too many specific recommendations, given my very limited experience and time here. You will figure that out. Perhaps the continental U.S.'s experience will be helpful.

CNE – Mike, Deepak, Sergio – they are not just the best minds in PR, but among the best in the assets field. Work with these guys, trust them.

Challenge – there are many, of course – but how to do asset building amidst alarmingly PR's high rates of poverty, financial exclusion, and unemployment? Naturally, I think many of Hernando DeSoto's and Stuart Rutherford's insights apply here – that the poor already have assets that need to be converted into to capital, that the poor already have been saving and building assets, but it was never really called that. Perhaps there's more there to start with than what may seem apparent.

1. I can't begin to match Mike and Jennifer's excellent recommendations on ***financial access, savings and asset-building***, so I'll wholeheartedly endorse them.

2. ***Great promise in the refundable tax credit CNE is advocating.*** It would allow the poor to meet some immediate asset needs, as well as begin saving for long-term assets such as homes and education.

3. ***Continue to nurture and strengthen IDAs,*** but, as I mentioned, I think you're route to scale lies in existing products. Perhaps do a product and policy review to see which ones could be most easily tweaked or amended to reach low-income persons. Again, use all of the *insights* of IDAs, but not necessarily the IDA. Get your bankers, regulators, policy experts, potential accountholders in a room a figure it out. IRAs? Roth IRAs? The key policy design challenge is this: Where do we put the public subsidy, and what does the product look like? Product centered, program supported.

4. ***Puerto Rico Stakeholder Accounts.*** Again, I commend CNE, for their pioneering work in this area. Phase in the infrastructure over time, with each generation of kids. Perhaps we'll get lucky with the ASPIRE Act, which I understand from Sergio and Deepak all PR kids would participate in. If that happens, there's no reason PR couldn't enhance those accounts with their own deposits tied to finishing school, community and national service and academic accomplishment. Great that CNE and others are part of SEED – you'll glean some good lessons.

5. ***If you can't do accounts with deposits, just do accounts.*** Fred Goldberg, a former IRS Commission, says asset building is mostly about plumbing, getting the infrastructure in place. He's right. You know, if PR only spent money getting that infrastructure in place, that would be a huge contribution. Perhaps contract with Doral and Banco Popular and CitiGroup to spend a few years doing nothing but creating accounts for everyone, maybe give them tax credits for doing so. Perhaps you've heard that Philadelphia is providing free wi-fi, or wireless internet access, for the whole city. The assets equivalent of that is "accounts."

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This region has more than seen its share of perfect storms, tropical storms that become hurricanes, sometimes severely altering the physical landscape.

Perfect "political" storm? What's the convergence of technological, social, historical, political and economic forces that make large-scale change possible. Don't know when that's coming, but congratulations for laying the groundwork for that, so that when it does happen, PR will be ready.

Thank you.

Please see www.AssetBuilding.org for the latest and most comprehensive information in the field