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Caguas: A world leader in asset building

Last week, Mayor William Miranda Marín presented a voucher for opening a bank account to the mother of a newborn child in Caguas. This was the first installment of a city-wide program whereby the parents of all children born after July 1, 2007 to bona fide residents of Caguas will receive a \$250 voucher that can be used to open a children savings account at a financial institution. Once the account is opened it functions as a traditional savings account with one significant difference: access to the funds deposited in the account and all the interest thereon will be restricted until the child reaches the age of 18. At that time he/she can access the funds only to finance a university or vocational education or to open a small business. With this initiative, Caguas becomes the first city in the world to establish a universal children savings account program.

The Caguas children savings account program marks a major milestone for asset building policies in Puerto Rico. The central premise of the asset-building paradigm is that poverty is overcome by saving, investing and accumulating assets rather than through spending and consumption. No one has been able to leave poverty behind by spending a meager monthly allowance. Asset building, therefore, is significantly different from traditional social policies implemented by governments to address poverty, which seek to maintain a basic level of income and consumption. These traditional policies, however, only provide enough resources to cover the most basic of needs. They do not create opportunities for social mobility, address the root causes of poverty; in many cases, they penalize work, savings and investment and can promote an unhealthy dependence on government handouts.

Asset building, on the other hand, changes the way people think and interact in the world. Says Professor Michael Sherraden, "With assets people begin to think in the long-term and pursue long-term goals. In other words, while incomes feed people's stomachs, assets change their heads." Asset-building policies seek to enable persons with limited financial resources to accumulate and preserve long-term, productive assets — savings, investments, a home, post-secondary education and training, a small business and a nest-egg for retire-



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ment. This approach to social welfare, which complements income support policies, focuses on building capacities for social and economic development more than on maintaining a certain level of consumption. Capacity building aims to increase individual and household resources, knowledge and abilities to participate more effectively in the formal economy.

Assets, in addition to providing a reserve for emergency situations, also yield significant positive welfare effects that income alone does not provide. For example, research in the United States has found that home ownership generates positive neighborhood effects by increasing levels of property maintenance; decreasing residential mobility; increasing residents' social and civic involvement, and enhancing property values. Assets also have positive effects on families. Financial and property assets have been found to have positive effects on marriage and marital stability (lower divorce rates), family health and economic security. In addition, assets appear to have significant effects on children. Several studies demonstrate a strong positive correlation between household assets and educational attainment and between household assets and measures of overall well being of children.

The failure to expand asset-building policies for the poor is particularly ironic, given their success in helping the upper socioeconomic classes to build assets. Currently the Puerto Rico tax code encourages asset building by the wealthy by: (i) providing a mortgage interest deduction for homeowners, (ii) taxing certain dividends and capital gains at special lower rates, (iii) exempting certain kinds of income from taxation

(for example, interest paid to holders of Puerto Rico bonds), and (iv) providing special tax treatment for special saving vehicles such as IRAs and 401(k) accounts. Therefore, we encourage asset building by the relatively wealthy, who need government's help the least, but not by the poor, who need government's help the most. Why shouldn't we do the same for all Puerto Rican families?

Finally, the Caguas children savings accounts are important because they could help to reduce inequality in the structure of social opportunities or what some sociologists call "life chances." This type of inequality has been explained by Stanford professor James Fishkin in the following terms: "If we can predict with a high degree of accuracy where individuals will end up in the competition for preferred positions in society merely by knowing their race, sex, or family background, then the conditions under which their talents and motivations have developed must be grossly unequal." In a society with relative equality of opportunity, a person should not be able to enter a hospital ward full of healthy newborn babies, and on the basis of class, race, sex, or other arbitrary native characteristics predict the eventual positions in society of those children. By this standard Puerto Rican society is appallingly unequal.

Asset-building policies help in breaking this cycle in which inequality of outcomes in one generation becomes inequality of opportunity in the next. And they do so by respecting individual freedom in the context of equal opportunity and responsibility for all. This last point is particularly important in a democratic society, as it is impossible to guarantee the equality of results without violating the core democratic principle of equal treatment under the law. To produce the same end result for different people, it is necessary to treat them differently. The best we can do is to give each individual a chance at having the same objective opportunities for social advancement. The Caguas children's program is a small but exceedingly meaningful step in that direction.

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