New Ideas

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To: Eric Liu, Domestic Policy Council
Fr: Dalton Conley, Yale University
Re: Asset Policy

Asset policy represents the third way to lift the boats of disadvantaged Americans.

Americans are listening to and worrying about their net worths more than ever, as evidenced by record levels of individual involvement in the stock market. However, despite the recent robust economy, inequality in net-worth has grown, even while income inequality has been reduced. At the same time, U.S. savings rates have hit new lows. Both these issues point to the importance of a broad, asset-based social policy.

Social policy has generally missed half the story when it comes to the economic resources of American families. We have focused on incomes at the expense of ignoring wealth (a.k.a., assets or net-worth). When one understands family economic resources to be more than just income, a new image of the American socio-economic landscape emerges with respect to opportunity, with respect to race relations, with respect to long-term economic security. Some policy efforts have been made here and there as of late to consider assets, but these have been scattered and small-scale for the most part (such as IDAs, micro-enterprise, etc.). By contrast, here **I am advocating that a broad based, "asset policy" form the centerpiece of the last year of the Clinton administration, forming linkages across the domains of education, health, housing, economic development and race policy.** Asset policy enjoys the political advantage of being very progressive while co-opting the themes of savings, thrift and self-reliance so often given lip service my Republican lawmakers. Further, recent challenges to race-based policy also point to an opportunity for asset policy as a means to "heal America's racial divide."

- **Affirmative Asset Policy**: "Equity inequity" is the single largest race gap in America today. African Americans own approximately one-tenth the wealth of whites, and this gap has grown since the civil rights triumphs of the 1960s. While this gap itself should be attacked in the many of the ways I outline below, it also presents a unique opportunity to pursue racially progressive policy in a number of other areas while remaining ostensibly color blind.

  For instance, a number of states have recently had their affirmative action policies thrown out by the courts. In response, several are developing class-based policies for university admissions, hiring, etc. However, they are measuring class in the traditional way, by income, which may exacerbate the problem of racial inequality. However, given the unequal distribution of wealth by race, if class-based affirmative action were based on a combined wealth-income measure, then it would de facto aid minorities disproportionately.

  This type of affirmative action would blunt the criticism that it is based on group rights, that it aids the minorities who need it least, and that it is stigmatizing, since net worth is a lot less obvious than skin color. It might run into opposition from traditional minority constituencies, but if presented as the only way to save affirmative action such resistance could be overcome. This would make good on Clinton's promise to "mend, not end" affirmative action and could be done through executive orders and requirements that are pegged to Federal education and research funding. One thing to think about when designing this, or any asset based, criterion is the potential for individuals to game the system. Families may shift assets to appear more asset poor than they really are. An alternative would entail using neighborhood averages as proxies for family asset levels; of course, this option has its own drawbacks. Perhaps a combination of individual and census track measures would work best.

• **Social Insurance**: This initiative would entail the Federal government providing funds or other impetus for states or public-private partnerships to underwrite insurance against any drop in real estate values in communities that is a result of a changing racial composition of a neighborhood. By insuring against value changes, such a policy has the potential of ending the vicious cycle of "white flight" and "tipping." That is, most white residents who move out of a neighborhood that begins to integrate do so for fear that others will leave as well, that a rash of selling will occur, thereby depressing real estate values. This, of course, becomes a self-fulfilling prophecy since everyone wants to sell before everyone else does. With insurance in place against such price runs, the primary incentive for selling is eliminated.

Ideally, as was the case in Oaklawn, Illinois, this insurance will never need to be cashed in. This will help foster integrated communities and preserve housing equity among minority residents who bear the brunt of such selling sprees. The Federal government can foster such policy through block grants or by underwriting the insurance itself. The problem that might be associated with such a policy is in the realm of public relations: Minorities may resent the perception that they need to be "insured against." Also, developing a statistical model for housing prices that factors out the effects of race from other forces presents a challenge, though a tractable one, in my estimation.

• **Home Ownership:** In addition to trying to foster integrated communities, the government can do much to promote home ownership in America's inner cities. First, a massive initiative to provide low-interest, government backed loans to urban homebuyers would do much to aid the conditions of impoverished urban communities. This policy could be modeled after the FHA and VA programs that, in the wake of World War II, created a whole new class of suburban homeowners. An additional, more controversial plan would entail selling public housing to its residents for a nominal fee. This, of course, has the drawback of taking units out of HUD's stock.

Higher rates of home ownership translate to cleaner neighborhoods, less crime and more civic participation in general. The analogy I like to use is that when you own your home, you think twice about pouring glop down the drain, as compared to when you rent. Ownership gives Americans a stake in the future of their house and their local area. Home ownership creates economic allegiances in local communities since one's housing values are determined not just by the condition of one's own home, but by the state of one's neighbors' house, and as the general conditions of the area including school quality, crime rates, environmental conditions an so on.

• **Child Development Accounts:** Individual Development Accounts (IDAs), the current demonstration project to foster savings among low-income, low-wealth families has several problems. First of all, it is much too small in scope, an experiment rather than a social policy. Second, it is focussed on adults, for whom the public is much less likely to have sympathy than children. Third, in most of the experimental sites, the withdrawal rules are much too lax. Fourth, it requires poor families to put away much of the money themselves.

I suggest a complementary program called Child Development Accounts (CDAs). This program gives each child, when born, a small asset sum (perhaps $4,000). This fund, however, would not be fungible by the child's guardians. It would only be accessible by the child him/herself when s/he reached the age of majority. The state of Nebraska has put such a policy on the table and should be examined as a potential model (its initial endowment figure is $2,000). Parents could add to this sum, tax-free, up to a limit (as is the case with the Uniform Gift to Minors Act), but once they put the money in, they would not be able to take it out. If made universal, such a program might be politically more feasible since it would appeal to middle class parents saving for their children's college tuition.

If this sort of redistributive measure is too politically unfeasible in today's climate of public opinion, another option would scrap the initial birthright endowment of the fund and require families to put in money themselves, tax free. This could be made both universal (and thus politically popular) and progressive by accompanying it with a matching fund that is calculated along the lines of the same subsidy rate as the Earned Income Tax Credit or the IDA model. It could be called the Saved Income Tax Credit (SITC). The Earned Income Tax Credit is currently the most effective means we have of lifting working families out of poverty, but of course focuses on family incomes, neglecting their asset status. The EITC as it currently stands could be combined with a savings matching plan in the form of a refundable tax credit to give low-income working families an additional financial advantage if they put their EITC money straight into a CDA or IDA.

• **TANF**: In order to make welfare truly temporary asset restrictions should be slackened and savings should be allowed. Such changes can be made without congressional approval. Many states have already raised their asset caps but should be pushed farther. Further, during the time period in which recipients would receive TANF, they should be allowed to save money. Only if combined with savings will work truly be a way out of welfare. Only by allowing welfare recipients to save themselves out of dependency will we make welfare a hand up and not a hand out. The Food Stamp program has even stricter asset tests (a $2,000 limit). The USDA could be instructed, without Congressional action, to raise these limits substantially.

• **Means Testing:** If we altered the poverty line to not be focussed solely on income, but on family wealth level as well, social policy would target the "truly disadvantaged" more effectively. For example, if we defined poverty not just by income, but with the additional criterion that a family could not own more than, say, an equal amount in net-worth in order to be considered poor, we could raise the poverty line and reach more of the working, "near-poor" population that is currently the forgotten group in American social policy. For instance, in 1998, the poverty line for a family of two adults and two children was approximately $17,000 in annual income. If added a poverty qualification criterion that the family could not have a net worth in excess of that same income line either, we may be able to, in a cost-neutral fashion, raise these limits to $25,000 (which better accords with most public opinion data of where the poverty line should be).

Such a change would have enormous implications for how money is divided up among the states since many programs currently base their funding on the numbers of families living in poverty, by state. Since many means-tested programs are pegged to the poverty line in some way at the individual level as well, this would have an enormous impact on expanding eligibility for Medicaid, Foodstamps, TANF, and so on. The drawback of this policy is political; anytime one fiddles with the way states are allocated money, it is a huge nightmare of entrenched interests fighting the novel approach.

However, short of such a massive change, there are ways to change individual eligibility requirements for Federal programs through agency regulations, adding an asset component to the calculation of need. This may initially appear to stand in contrast to the argument I have been making about relaxing asset restrictions for TANF and Food Stamp eligibility, but in the end is not, since the asset tests for those programs are much tighter than I would be suggesting here. There are also many other Federal programs that are means tested and which can have an asset component, ranging from school lunches to Section 8 housing vouchers to some agricultural subsidies.

To: Eric Liu, Domestic Policy Council
Fr: Dalton Conley, Yale University
Re: First Lady's Philanthropy Conference

The main focus of the philanthropy conference should be asset building in disadvantaged communities. Assets can be defined broadly to include areas ranging from health to home ownership to business equity.

The innovative mechanism to achieve these ends is by "indirect support." Indirect support entails donors using their resources to leverage or underwrite loans and insurance, as opposed to the traditional model of direct giving. This approach often involves partnerships between traditional business interests and the foundation and volunteer sector. By thinking of assistance more broadly than direct grant making, the resources of foundations or individual donors can be spread a lot farther.

Perhaps the best example of this is the partnership between the Ford Foundation, Self Help, a North Carolina based nonprofit community development organization, and Fannie Mae, the nations largest source of home mortgage funds. Ford provided $50 million to Self Help in order to underwrite mortgages to low wealth individuals who would normally not have qualified for a home loan. By spending its money in this indirect fashion, Ford is able to provide $2 billion dollars in loans to 35,000 families.

I think that this type of partnership is the model for the future of large-scale philanthropy. Of course, programs for home loans should be expanded, but there are also a number of other innovative ways in which philanthropic donations can be used to have maximum impact in both social and economic realms.

- **Small Business Development:** Foundations can provide the capital reserves for small business loans to economically distressed communities. This entails the same idea as the home ownership strategy, leveraging a smaller amount of donor money to give a lot of micro enterprise loans that would not have otherwise qualified. Foundations can also provide the seed money to underwrite informal capital pools, mimicking those in some immigrant communities.

- **Health insurance**: Donors can use funds to underwrite insurance for underprivileged communities. With foundation support, more low income working families who are not currently eligible for Medicaid may be able to purchase health insurance through foundation sponsored health insurance purchasing cooperatives (HIPCs).

- **Social insurance**: Perhaps the most innovative idea would help foster integrated communities. This is insurance against a drop in real estate values that is due to a changing racial composition of a neighborhood. By insuring against value changes, this insurance short circuits the vicious cycle of "white flight" and "tipping." That is, most white residents who move out of a neighborhood that begins to integrate do so for fear that others will leave as well, that a rash of selling will occur, thereby depressing real estate values. This, of course, becomes a self-fulfilling prophesy since everyone wants to sell before everyone else does. With insurance in place against such price runs, the primary incentive for selling is eliminated. Ideally, as was the case in Oaklawn IL., this insurance will never need to be cashed in. This will help foster integrated communities and preserve housing equity among minority residents who bear the brunt of such selling sprees.

- **Home Ownership:** Donors underwriting mortgage insurance would allow economically disadvantaged families to put down less money when buying a home.

Programs such as these represent an effort to provide the "fishing pole" as opposed to the "fish," as the old adage goes, the "third way" approach to philanthropy in the realm of economic development.