

June 2007

Some Thoughts About New and Old Asset-Promotion Policies

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The author gratefully acknowledges the Anne E. Casey Foundation for supporting Urban Institute research in this area and for advice from colleagues on the Urban Institute's Opportunity and Ownership project. They are in no way responsible for any of the arguments in this paper.

Since the 1991 publication of Michael Sherraden's book *Assets and the Poor*, social-policy researchers and leaders across the political spectrum have been looking beyond the traditional income-support approaches for helping low-income families. In February 2005, Republican and Democratic members of Congress established the bipartisan Savings and Ownership Caucuses, partly to advance policies to build savings and assets for all Americans, especially low-income Americans. Research and policy-analysis programs have developed at the New America Foundation, the Aspen Institute, the Corporation for Enterprise Development, the Center for Social Development at the Washington University in St. Louis, Missouri, and the Urban Institute. The central idea behind the new thinking is that the accumulation and ownership of assets are critical to move those at low economic status into the middle class. Assets bring a sense of ownership, independence, and security that go well beyond the benefits of monthly incomes.

For political conservatives, an asset-building approach is appealing because it emphasizes the build-up and ownership of private property. The conservative term for the approach, the "Ownership Society," implies the extension of the capitalist ideal throughout society. By making everyone into owners of capital, one can turn into allies those groups that might otherwise have viewed capital income as "unearned" and might have provided only limited support for property rights. Assets are said to bring a sense of independence and economic freedom that might persuade new asset owners to become more favorable toward free-market policies. Some conservatives support "asset building" for altruistic reasons as well. Having built up assets themselves, many conservatives want to help those with low economic status see the benefits property ownership can bring to

their lives. Still another rationale is that when people at the low end of the economic spectrum accumulate assets, they are in a better position to deal with contingencies and income disruptions instead of turning to the government for transfers.

To political liberals, asset building represents the widening of opportunity to those mired at the bottom. If asset holding does not spread across the entire distribution of economic status, economic mobility may become increasingly difficult. The U.S. may become an aristocratic society, in which some families pass on assets to their children, leaving those whose parents have few assets far behind and with little chance to enter the middle class. In any event, eliminating income poverty is too narrow a goal for those trying to build a more egalitarian society. Income-based policies are said to simply maintain people at just above basic levels. Asset policies aim at long-term development and a chance to reach the American dream of homeownership and middle-class life. Amartya Sen (1993; 1999) favors a redefinition of poverty toward a “capabilities” approach. For Sen, asset holding can be a part of the new strategy, by moving programs beyond providing economic security and toward maximizing capabilities.

Other considerations are behavioral, including the notion that building up assets can give low-income individuals hope for the future, stability for their children, a longer time horizon, and a greater stake in political participation. More pragmatically, some liberals see a limit to political support for income-conditioned benefits and believe that asset initiatives offer a new way to attract broad support for helping those with low economic status. Framing the debate in terms of assets opens up the discussion to cover a whole range of government incentives, often called tax expenditures, for savings and asset building that benefit the middle and upper class (Steuerle 2005). Laws that will

obtain a modest share of these tax expenditures for low-income families might have a better chance of enactment than those that will expand income-tested benefits through such programs as Food Stamps, Temporary Assistance for Needy Families, or housing benefits.

The coalescence of political support around asset building has led to the development of many proposed policies, some of which have become law. Among them are Individual Development Accounts (IDAs), child accounts, government-subsidized individual pension accounts inside or outside Social Security, and subsidized lending for microenterprises. Yet, despite a plethora of proposals for helping people build assets, policy researchers have provided little methodological guidance about how best to view and evaluate these policies. This paper is an initial attempt to move in this direction, drawing on methods for assessing income-tested and social insurance programs and on analyses of public policies dealing with savings, investments, and risks.

The next section considers policies to promote ownership among low- to moderate-income families as one end of a continuum that begins with income-tested welfare-like programs, extends to social insurance, and moves toward explicit ownership. It elaborates on this theme using two examples. The third section examines whether and in what ways the traditional criteria of incentives, progressivity, and equity apply to an assessment of asset-building policies. It discusses IDAs and a new proposal for asset accounts for newborns. Fourth, I discuss some existing programs from an asset-ownership framework and raise issues indicating a major difference between ownership and control. The fifth section offers another example of how to design an asset policy to

deal with the potential social dislocations arising from gentrification. The conclusion offers some brief, general remarks.

Income Support, Social Insurance, and Asset-Based Policies

Think back to the 2005 debate over proposals by President George W. Bush and his appointed Social Security Commission to use personal retirement accounts as part of the Old Age Insurance reforms. Some aspects of the debate were pragmatic, such as the potential administrative costs lost in such a system and the ability of ordinary people to manage their retirement savings. Another part was ideological. Critics decried personal accounts as destroying the legacy of Franklin Delano Roosevelt's New Deal and of eliminating a critical safety net for the elderly. An alternative way of viewing the issue is as part of an evolving social policy toward less reliance on income support and transfers within social programs and more toward self-insurance and asset ownership, especially among moderate- and low-income families.

One aspect of this evolution was envisaged directly by President Roosevelt and other founders of the New Deal. When Mr. Roosevelt proposed and the U.S. Congress passed the Social Security Act of 1935, the federal government created not only social security and unemployment insurance, but also three federal-state welfare programs: one for children, one for the elderly, and one for the disabled. At the time, the welfare programs received little attention and were to help the needy temporarily. The Act's designers thought that these welfare-oriented programs would wither away with the maturing of social insurance programs. Many concerned about the development of the welfare state disliked pure welfare programs for their potential to lead to dependency; they favored social insurance programs because they were contributory and broad-based,

helping ordinary families protect themselves against economic contingencies beyond their control.

From today's perspective, one can view social benefit policies as operating along a continuum that begins on one side with income-tested welfare-like programs, extends to social insurance, and then ends with explicit ownership. Income-tested programs are most explicitly progressive with respect to current income and deal with current needs. In so doing, they provide benefits based on a negative: people's inability to support themselves or their families. Such programs are sometimes viewed as providing a kind of charity, which is one reason they typically impose the most stigma. Because income-tested benefits must be phased out as income increases and often require people to dump their assets to qualify for benefits, they discourage work, saving, and marriage. Further, income-tested programs typically impose work, saving, and marital disincentives. Often, people must dispose of any assets they have accumulated to qualify for benefits. For these reasons, a high share of eligible low-income families do not claim income-tested benefits and others feel uncomfortable about participating.

Social insurance programs, like Unemployment Insurance and Social Security, provide benefits based on the risks people experience, but also based on them having contributed to the program's funding. People are more likely to view social insurance benefits as an earned right than is the case with income-tested benefits. Certainly, they are more likely to participate in social insurance programs and to receive benefits with less stigma. At the same time, these programs are not automatically progressive with respect to current income, as are income-tested programs. In addition, they are subject to

rules that redistribute income haphazardly and to congressional changes in policy. They provide a type of implicit right, but not a full property right.

Ownership programs move all the way to explicit property rights, rights that cannot be abrogated by a legislative process. They more clearly link benefits to contributions than do social insurance programs. In an *ex ante* sense, benefits from ownership programs are fully earned by the participants, just as are insurance benefits paid to compensate homeowners for a fire that damages their house. They involve no discomfort about participation, since people feel the benefits are mainly (or totally) a return on their contributions. However, government-subsidized ownership programs usually carry some restrictions and thus still differ from one's own savings.

An example based on alternative ways of dealing with unemployment can illustrate the notion of a continuum. The menu of programs to deal with this problem could include (1) an income-tested unemployment assistance program; (2) a contributory unemployment insurance program; and (3) an unemployment insurance account, as proposed separately by Feldstein and Altman (1998) and by Stiglitz and Yun (2002). Unemployment assistance would provide benefits only on the basis of need—applicants would have to experience unemployment and have no income and possibly no or little assets. Such a program typically imposes the most work and savings disincentives, is viewed entirely as a transfer, and is often unpopular with taxpayers and beneficiaries.

In contrast, unemployment insurance offers a socially oriented, contributory approach that is more appealing in terms of reduced stigma and does not require people to dispose of their assets. But, the cost is less progressivity in terms of current income; for example, the U.S. unemployment insurance program excludes those with little or no work

record and those who had to quit their jobs and cannot find another. Work disincentives remain during the eligibility period, but work incentives are potentially enhanced when no benefits are available because building up a work record leads to eligibility for unemployment compensation in the future. Often, the rules are arbitrary and there is no assurance that those contributing to the fund will be able to reap the benefits at a time of need.

Unemployment insurance accounts would involve forced saving into a special account to be redeemed only for the contingency of unemployment or at retirement. If individuals became unemployed before building up enough of a fund, the government would loan them the resources. The government would forgive the loans if people retired with a negative balance. Except for those who know they will have negative balances, this approach would provide individuals with an asset, a property right to their account, and thus would greatly reduce work disincentives, would eliminate any stigma, and would probably lessen the arbitrariness of the rules that often limit access to benefits. When people are using their own unemployment insurance savings to finance their unemployment, political leaders and the public will do less to restrict access. While those who expect to have negative balances face many of the same disincentive effects as under the current system, Feldstein and Altman (1998) estimate that only 5 percent of workers will end up with negative balances and thus 95 percent will end up with some assets when they reach 65 but, more importantly, will be sensitive to the costs of financing their unemployment. Moreover, these estimates assume no behavioral response. If the program's improved incentive features were to reduce unemployment, they could generate increases in national income and tax revenues.

Providing income security to the elderly is another example of how various policies operate along a continuum. In this case, the income-tested program is Supplemental Security Income (SSI), the social insurance program is Old Age Insurance (OAI), and the ownership program is personal retirement accounts, either within Social Security or mandated and subsidized in the form of private, employer-sponsored pensions.

Framing social policy as operating along the continuum from welfare or income-tested benefits to subsidized insurance to self-reliance, one can as easily attract broad support for asset-oriented approaches as against income-tested approaches. However, some will react negatively to any shift away from an income-tested approach, both because of concerns about providing the long-term poor with a safety net and because of concerns about progressivity. For many, any shift away from the income-tested end of the spectrum will raise a series of questions: Can new policies combine these advantages of ownership programs with the progressivity that assures sufficient help for low- and moderate-income families? How can the progressivity of asset-based programs at least match social insurance programs? How should progressivity and equity issues be viewed in the context of asset-related programs? We consider some aspects of these questions.

Criteria for Judging Asset-Building Programs

Public-finance principles emphasize horizontal equity (treating equals as equals), vertical equity (treating unequals unequally by recognizing different abilities to pay taxes), and avoiding economic distortions or disincentives. In general, income is the primary criteria used to designate which individuals are equal for tax and transfer purposes and which are unequal. It is recognized that tradeoffs generally arise between progressivity and equity

on the one hand and incentives and economic distortions on the other. Higher marginal tax rates distort choices but can increase progressivity. But, sometimes, equity and incentives can go together. Since the size of the economic distortions rise with the square of the tax rate, it is more efficient to raise revenues with low marginal tax rates and a broad tax base than with high rates and a narrow base. The broad base strategy is also more horizontally equitable, since it treats all forms of income equally for tax purposes.

Application to IDAs

How do these and other principles apply to asset-oriented programs? Consider one popular ownership-related social program, Individual Development Accounts (IDAs). The program helps low-income families and encourages them to save by matching savings that can only be used for specified investments in education, homeownership, and small business (Mills et al. 2004). It also provides financial education.

From the perspective of public-finance principles, there are some important concerns about IDAs. First, the program has a potential equity problem, resulting from what analysts of income-transfer programs call a “notch,” or a sudden dropoff in potential benefits with an additional dollar of income. A typical program is limited to families with incomes below 150 percent of the poverty line. Because benefits do not tail off gradually, moving from 145 to 155 percent of the poverty level entails disincentive and equity problems. Programs that provide significant asset subsidies are particularly subject to this problem because the size of the asset incentives are rarely linked to the size of the income differentials.

Second, the benefits are likely to accrue to the best-off families because they are most likely to save. Even if all families save the same amount, the best off will receive as

much as the lowest-income households. These factors lead to a less progressive outcome than might be achieved.

However, the two reasons are not equally unattractive. That those who save more will be more rewarded is central to the program's goals of encouraging savings and investment. This is not unlike the compromises with progressivity under the earned income tax credit. Because of its effort to stimulate work within the low-income population, those who earn more receive more, up to some threshold. The second reason for low progressivity, where the lowest-income people have the same matching rate as others, might be changed more easily by tailoring the matching rate to incomes or to a broader measure of long-term need.

A third problem might move a universal IDA program from one that encourages low-income people to save to one that shifts savings from one family to another in order to maximize government subsidies. Consider the IDA program in Tulsa, Oklahoma, in which program funds matched savings at the withdrawal time. The matching rate was 2:1 for housing purchases and 1:1 for other approved purchases (including postsecondary education, retirement savings, home repair, and starting or expanding a microenterprise), up to \$750 per year in deposits. Thus, used for relevant purposes, the IDA provides free money to individuals who make deposits. The intention is to stimulate people to save and to help them purchase assets. However, IDAs in a sense provide an opening by which friends or others linked to eligible individuals could loan them the money to make the relevant deposits in return for extracting some of the government subsidies. Of course, since most of the uses involve illiquid assets, such trading might be difficult. But, though

such transfers are unlikely to arise in a demonstration context, they might well take place where the IDA turned into a universal program.

Given these and other concerns, what should be the criteria for receiving benefits? Should it be income, assets, some combination of the two, or something else? Asset-related programs aim to build up the stock of resources available to low-income, low-wealth families. Income often varies a great deal over the years. As a result, transfers of assets on the basis of current income could end up helping those with high-income variability and high permanent income, even though the primary target is helping those with low long-term or permanent income. One way to solve this problem is to retrieve funds from recipients of grants who end up with high permanent income, through such mechanisms as income-contingent repayment schedules.

KIDS Savings Accounts

One example of a generally well-structured set of benefits is the proposed ASPIRE bill, which would use general revenues to place a grant \$500 into a special KIDS account on behalf of every newborn child. This is a one-time demogrant, an equal payment to a particular demographic group. Birth is the only criterion. In a sense, this is not much of a capital grant, but rather seed money that individuals can use to stimulate savings and asset accumulation on behalf of children. The funds are inaccessible before the child reaches 18 and then individuals can withdraw the money, but only for approved purposes, such as retirement, postsecondary education, and first-time home purchases. Although the initial grant is universal, the program is still progressive on an income basis because the \$500 represents a higher percentage of income for low-income people than for high-income people and because the incomes of taxpayers are substantially higher than the

incomes of recipients. However, since earnings on the grant and additional contributions (limited to \$1,000 to 2,000 per year) will accrue tax free, high-income families will benefit more from the forgone interest payments than families with low marginal tax rates.¹ The savings would be allocated to investments depending on the parents' choices among a set of options available to federal retirees under the Thrift Savings Plans.

Under ASPIRE, the federal government would make one-time supplemental grants to the KIDS account of up to \$1,000 as well as matching grants of up to \$1,000, but both the supplemental grant and the matching payment are income-tested above one-half of median income. The phase-out rate rate is a modest 2.5 to 5 percent. The timing of the supplemental grant is unclear. Middle-income families might qualify with a single year below one-half the median income, since the grants are one-time amounts.

Presumably, families would like to obtain the supplemental grant as soon as feasible to build up interest. Up to median income, the matching grants will vary with contributions, which in turn may rise with income. Beyond median income, the maximum dollar subject to a match will decline, but the matching rate will continue to be one government dollar for each private dollar. Still, for families at or below two-thirds of the median income, actual match dollars may be higher for those with more income because such families may save more under the account.

Relative to many transfer programs, this legislation is reasonably well structured. Participation is easy, universal and not stigmatized, yet the overall redistribution is initially quite progressive. Participants have access to sound investment vehicles. The restrictions on the uses of the accounts protect individuals from the part of themselves that might squander their savings for an unworthy purpose. Given one's taxable income,

¹ The provisions vary somewhat between the House and Senate versions of the bill.

it is clear how many dollars can be matched with federal contributions. Although the progressivity may fall when matched amounts are taken into account and when we recognize that some of the subsidies will go to families with temporarily low incomes, the program does provide genuine incentives for low-income families to save. Moreover, none of the matched amounts would go to a family with income above the median in a particular year.

Still, even this fairly well-structured plan illustrates the tensions that arise in trying to promote assets and savings for low-income families. Within the bottom half, benefits will rise with savings and thus possibly with income. The benefits of the tax subsidy component will also likely rise with income. Uses of the funds are highly restricted, but two potential uses are postsecondary education and first-time homeownership, two of the most important investments people can make with their savings. ASPIRE purposely tries to shift low-income families toward less current consumption, more savings and asset accumulation, and specific types of investments on behalf of their children.

While the goal is to help families build up assets, there is no effort to target the government subsidies to those with relatively low assets. In fact, this program, as with most other asset-building proposals, provides most of their benefits as an ongoing flow linked to income, not as a one-time stock. The initial stock component of ASPIRE goes to every member of the demographic group, thereby avoiding the issue of whether a one-time subsidy should or should not be related to a current income flow.

Like other saving incentive vehicles, it is far from clear whether ASPIRE or other plans will raise the amount of savings or simply draw savings directed from one source to

one treated more favorably by the government. Such a shift is likely at middle and high income levels, but even in these instances, ASPIRE may increase some gifts from parents to children. The size of the impact on aggregate savings of low- and lower-middle-income families is uncertain. Given the low asset holdings of most eligible families and constraints on borrowing, even a modest impact on savings could involve a sizable net increase in asset ownership for their children. One point of concern is that it may be an awkward time in the child's life cycle for parents to save significant amounts. This is a time when they are likely to face very high expenses relative to their incomes, including major capital expenditures. Thus, even though the funds will be illiquid, some young families will be tempted to add to their borrowing in order to earn the matching funds.

The individual nature of the subsidized accounts will enhance the feeling of ownership on the part of parents and children. They will be able to follow how fast their individual accounts are growing. However, the restrictions on the uses of the accounts will limit their ability to respond flexibly to immediate income shortfalls. Further, the funds will be inaccessible to the parents at least for 18 years and thus will require families to plan far into the future. Perhaps, the recognition of long-term benefits for their children will outweigh these short-term limitations.

Finally, the most positive impacts of ASPIRE grants might be to stimulate financial education and to demystify banks and other financial instruments. Evidence from behavioral economics suggests that knowledge and rationality are often not enough to generate action. Linking a payment for children with the requirement to have a bank account may cause "unbanked" families to open accounts. Equally important, the program may coordinate with banks to provide unbanked families with a simple way to

start an account. The scale of the program might make such arrangements possible and potentially profitable. Ideally, some basic education on financial literacy might take place in this context as well.

Existing Programs as Asset-Building Initiatives

The movement to take account of families' assets and liabilities as well as their current incomes is a healthy one. So, too, is the effort to consider the psychological and social consequences of asset holding and the importance of assets for dealing with short-run contingencies and for smoothing consumption over the life cycle. Yet, while new approaches are of interest, we should not lose sight that existing major outlays for low- and lower-middle-income families can be viewed from asset-development and investment-allocation perspectives.

The case of Social Security is most straightforward. Each year, individuals accrue additional promised benefits in Old Age, Survivors, Disability, and Health Insurance in return for their payroll taxes and those of their employer (the incidence of these taxes are likely borne by the workers). These accrued retirement and dependents' benefits constitute part of the individual's implicit net worth. So, too, is the accrued value of Disability Insurance and future Medicare benefits. In the case of retiree benefits, the subsidy to assets takes place year by year in the form of additional accruals. The specific amount accrued is complicated by the possibility of several contingencies, such as future earnings (as with other defined benefit pensions), and also the presence of a spouse at retirement and the spouse's work record. Like many government-linked assets, Social Security benefits are restricted in use and thus the ownership dimension of future retiree and health benefits—especially the ability of owners to decide how to use their funds—is

largely missing. Still, it is a major public policy that can be viewed as subsidizing (and mandating) the buildup of necessary assets (financial claims by the individual on the government) so that resources are available at a vulnerable time in the life cycle.

The value of implicit assets in Old Age Insurance is highly relevant to concerns about low-income individuals' low savings and limited pension coverage. Because of the progressivity and spousal benefits built into the OAI benefit formula, replacement rates for relatively low-income individuals and couples are moderate, or even high in many cases. Individuals who always earned half the median level of earnings and retired in 2005 would receive a replacement rate of over 60 percent.² This may be a low absolute amount to live on, but a relatively high replacement rate on past real earnings. Low-earning couples, each of whom earned half the median, would have a similar replacement rate. My point is not that these benefits are large. In fact, I favor encouraging additional savings and pension coverage. Nonetheless, one must take account of social security retirement assets in judging how likely people are to invest in additional savings and private pensions.

Childhood is another potentially vulnerable time in the life cycle, especially for those from low- and lower-middle income families. The government resources spent on children, mostly through education and training, can be viewed in part as subsidizing their human capital development. Subsidies to these human capital assets—at about \$9,000 per year for at least 12 years—are likely to far outweigh other subsidies to asset development. As in the case of the KIDS account, equal (or near-equal) elementary- and secondary-schooling allotments to all children (at least within an area) is a highly progressive action, both because the payments are a much higher percentage of income

² I am grateful to Adam Carasso and Eugene Steuerle for supplying me with these calculations.

for low-income than high-income families and because the taxes used to finance the outlays rise with income as well. However, the return on education investments may vary substantially and possibly rise with income.

Public funding of colleges and universities, along with student grant and loan programs, also represents subsidies to ownership of human capital. But, for higher education, the distributional impact of subsidies is unclear. When comparing students who have different incomes but attend the same colleges, the subsidy system is clearly progressive. The direct subsidies to public colleges provide per capita benefits that are a higher proportion of income among low-income families than among high-income families and the financing of these benefits is typically progressive or proportional. However, the likelihood of attending college, especially a high-cost college, rises with family income, thereby offsetting some or perhaps all of the progressivity embedded in public subsidies. Higher education grants and government-subsidized loans are more strongly directed toward low-income families, but these require income tests and benefit-reduction rates with added income.

The value of these assets depends partly on the actions individuals take to maximize the returns on these assets. Schools also play a major part in influencing the investment process and the potential returns on the investments by governments and individuals. Thinking about schooling in asset terms encourages analyses of many dimensions of assets, including risk, diversification, and option values.

The evidence from the human capital literature suggests these investments are worthwhile, achieving returns that match those in financial assets. Although the returns to each child vary substantially and the risk is high that any particular child will experience

a low rate of return, the average return from the government's point of view is much less variable.

Given that retirement and schooling expenditures represent large—perhaps the largest—subsidies to the assets of low-income individuals, it is perhaps not surprising that calls for individual ownership of these assets are becoming more common. The assets are illiquid and highly restricted concerning when and how they can be used. The owners have only modest control over the returns to the assets. This may be a good thing, but it does not foster the sense of ownership that other asset-related programs try to promote.

Would the nature of these and comparable government programs change if individuals viewed them as assets or asset-development opportunities? Viewed in these ways, questions about many social policies can be reframed: What is the cumulative investment government makes on behalf of individuals for particular purposes? What are the implied assets accumulated through both government subsidies and individual savings? What restrictions on the uses of these assets are appropriate? Would giving individuals more “ownership” or control over the use or allocation of the asset make sense? Could the development of new methods of asset allocation make individual ownership decisions sensible? In savings for retirement, financial institutions are developing instruments that allow individuals to choose from a menu of combinations, to yield an assured replacement rate together with some share of upside potential. In the case of assets allocated to education, improved measures of the average (and the variation in) value generated by schools might be necessary before allowing more choice in the allocation of assets to one investment or another.

Nontraditional Assets: The Case of Rental Housing

Bringing modern financial economics to bear on social policies can help them become more inventive. One example relates to rental housing and the possibility that low-income renters might face sharp rent increases or be displaced by gentrification. Common strategies such as rent control and large increases in housing subsidies create serious problems. Efforts to prevent gentrification for fear of hurting low-income residents are likely to fail but, if they succeed, the result may be to leave depressed neighborhoods to urban blight. In a separate note, Signe-Mary McKernan and I (2007) proposed the creation of a new asset, a financial option to rent at a given price. This asset would insure existing renters against the risk of sharp rent increases while giving them a stake in neighborhood improvements.

For this paper, I only outline the basics of the plan. Protection for low-income renters might take two forms: (1) tradable options on a neighborhood-specific rental-price index, or (2) insurance against rent increases in the neighborhood. A public-private partnership could create the contracts (specifying term lengths, strike prices, how owners could exercise their options, and the method of determining rent indices) and establish the trading rules consistent with other exchanges. Anyone, including renters and property owners, would be able to buy or sell a tradable option to rent for a specified number of years at some specified price, which might rise annually by the cost of living or some other amount. Speculators or investors would be welcome on both sides of the market to increase liquidity and to reduce bid-ask spreads. For low-income renters, the purchase of an option could be subsidized by the city or another government entity. If rents in the area rise, then the renter would see the price of the option increase; if rents stay the same,

the price of the option will fall in value. When gentrification leads to sizable rent increases, renters would be able to use the increased value of their options to remain in their current units, using their option gains to offset rent increases; alternatively, they could move to other, low-rent locations and apply the cash earned on their options for other expenses.

It is unclear what the costs would be for these options. Possibly, the costs could be kept low because property owners want to hedge and are willing to buy insurance against reductions in neighborhood rents and property prices. In this case, insurance companies could serve mainly as an intermediary. The options traders or those obtaining insurance would thus be on both sides of the market, thereby keeping the costs low.

The feasibility of this use of asset-oriented policies is yet to be tested. However, it provides another example of the potential role of assets in preventing social problems.

Concluding Remarks

Shifting the paradigm from helping low- and lower-middle-income families through income-based programs to promoting much more asset building among the poor is a promising development. The issues raised in this new approach are complex and relate to existing as well as future programs. On one hand, the asset-based approach offers a way of giving individuals and families more control over their lives, more confidence in their own ability to deal with contingencies, and more incentives to protect their investments. At the same time, while restrictions on the use of funds from current and future asset-linked policies may be appropriate, they could limit the value of the assets to families, including the psychological benefits from making decisions that enhance their economic and social well-being.

Income-tested and social insurance models continue to serve important purposes and should not be lightly replaced by asset-linked programs. However, moving gradually and carefully to a world in which low-income and middle-income families accumulate sufficient assets and make sensible investments is worth trying. If such an effort is successful and reduces the need for traditional social benefit programs, even FDR would probably not be displeased.

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