Rethinking Poverty

Income, Assets,
and the Catholic Social Justice Tradition

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University of Notre Dame Press
Notre Dame, Indiana

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Introduction

Economic inequality in the United States has reached its highest level since the beginning of the New Deal, leading a number of scholars and commentators to describe the first decade of the twenty-first century as a “new gilded age.” In such an age it is especially appropriate to re-think public policy approaches to poverty, policies that have focused almost exclusively on addressing the income and consumption needs of the poor while neglecting the role that savings and asset building can play in helping the poor to become nonpoor. This focus on income and consumption alone has much to do with the way in which we define poverty, which is almost always exclusively in terms of insufficient income. This definition is evident in policies of the political left that attempt to bolster income, like minimum wage laws, and in cash and non-cash income supports, such as food stamps, housing subsidies, earned income tax credits, and private charity. Although those on the political right balk at current levels of government income assistance, expressing concern that such programs create dependencies while devaluing hard work and personal responsibility, they would readily agree with their left-wing rivals that the surest way out of poverty is through increasing income. Poverty as insufficient income is the only way most of us have been trained to conceptualize and to remedy the problem. By contrast, this book rests on the idea that poverty must be conceived more broadly in terms of both insufficient income and deficient assets. A robust, effective, and morally adequate response to poverty must go beyond traditional income-enhancement.
strategies to include complementary efforts aimed at enabling asset development in the poor.

My analysis is interdisciplinary in scope, drawing upon writings from religious, philosophical, and social scientific perspectives. I make use of a significant body of Catholic social teachings that address the problems of poverty. This literature promotes several fundamental principles, virtues, and values I use to underwrite an asset-development approach to reducing poverty. Many Catholic authors also delineate a complex social, political, and cultural definition of poverty that goes beyond simple income calculations, requiring detailed analyses of conditions and structures from different disciplinary and societal perspectives. Given this focus on the conditions and structures of poverty, there has been surprisingly little attention paid by Catholic ethicists to the actual impact on the poor of public policies stimulating ownership. A central purpose of this book is to redress this shortcoming, expanding the application of Catholic social justice principles and values to the issue of asset ownership for low-income individuals and households. This critical and constructive use of Catholic social thought is strengthened and complemented by bringing it into conversation with the “capabilities approach” of the philosopher Martha Nussbaum and a growing body of socioeconomic literature and policy analysis aimed explicitly at enabling the poor to acquire and develop assets.

My hope is that this effort to bring these various bodies of work into mutually critical conversation will be helpful to sociologists, economists, political scientists, and policymakers already involved in debates about asset development for the poor, as well as to Catholic social ethicists, for whom this research is largely unknown. In addition, it will be useful to churches and other faith-based programs in their outreach efforts to the poor. The cross-disciplinary conversation of this project also models a much more ambitious goal: to bridge divides between entrenched patterns of public debate and discourse, particularly between those on the political and religious left and right, and to provide common ground where both sides can work together to alleviate poverty.

The first chapter of the book, “Why Asset Building for the Poor?” adumbrates an argument made by the book as a whole, namely, that asset-based approaches to poverty reduction are compatible with religious and non-religious reflection on just economic relationships. It introduces the rationale and benefits of an asset-based approach to poverty.
alleviation while providing a critical review and analysis of income-based efforts to reduce poverty. The goal of this chapter is threefold: first, to demonstrate the often overlooked qualitative differences between income and wealth, highlighting the distinctive contribution that each makes to the well-being of persons; second, to stress that the pathway out of poverty is not through income and consumption alone, but through savings and investment as well; and third, to illustrate the degree to which the accumulation of financial and other assets is facilitated by institutional structures and public subsidies for the nonpoor and to urge that similar supports should be made available to the poor. If similar subsidies were provided to the poor, public policies would be more equitable and efforts to reduce poverty more effective.

The second chapter, “Assets, the Poor, and Catholic Social Teaching,” reviews papal social encyclicals from Leo XIII’s *Rerum Novarum* to John Paul II’s *Centesimus Annus*, as well as the U.S. Catholic bishops’ pastoral letter on the economy, *Economic Justice for All*. The chapter traces the position of Catholic social teaching on the meaning and purpose of ownership and places ownership in relation to central concepts addressed by the tradition including wealth, property, human dignity, and the social nature of the person. This analysis shows that Catholic social teaching shares a great deal with the perspective and approach of social scientists currently working on asset-development strategies for the poor, in particular, recognition of the social nature of the human person and the impact of social and economic structures on individual well-being. The final part of the chapter suggests ways in which the Church’s social teaching can contribute to policy discussions regarding asset development for the poor while also articulating what Catholic social teaching can learn from those currently working in the field of asset building.

The third chapter, “Assets and Human Capabilities,” draws from the work of the philosopher Martha Nussbaum who argues that current measures of economic analysis rest upon impoverished notions of human well-being and shallow understandings of the moral meaning of income and wealth. Nussbaum’s “capabilities approach” stresses that the evaluation of the well-being of a given society must move beyond traditional economic analysis—which tends to associate the idea of consumption with well-being, while also conflating aggregate economic activity with the well-being of particular individuals—toward a consideration of how well that society is promoting the development of human...
capabilities. Nussbaum’s normative evaluation of modern economic arrangements has much in common with Catholic social thought in that both agree that wealth and income are not ends in themselves but are good only insofar as they promote human flourishing and that meaningful work is integral to leading a full human life. Nussbaum’s elaboration of what constitutes human flourishing has certain affinities with the Catholic tradition that are due, in part, to their shared appropriation of an Aristotelian heritage. As in the case of Catholic social thought, the capabilities approach has much in common with the thinking of those working in the asset-development field, particularly their understanding of asset building for the poor as integral to the development and exercise of human capabilities.

The fourth chapter, “Asset Discrimination,” assesses the differential impact of asset-based policies on two sectors of the population in the United States: white and black Americans. It reviews the social scientific literature and demonstrates that the discrepancies between black and white standards of living cannot be understood without an appreciation of the degree to which blacks have been denied access to benefits that promote and materially reward asset accumulation. I examine the history and long-term impact of such public policies as the Homestead Act, the Social Security Act, the G.I. Bill, and federal home loan programs. This chapter shows that differences in wealth between white and black Americans have been exacerbated by public policies that supported and subsidized asset building for whites while denying the same to blacks. Put more positively, it demonstrates that public policies do matter and must be inclusive rather than exclusive.

The final chapter, “Toward Inclusive Ownership,” examines policy recommendations and programs proposed and implemented by those working in the asset-development field. These recommendations and programs aim to include all Americans in asset-building initiatives. In particular, the chapter looks closely at savings vehicles for the poor known as “individual development accounts” (IDAs) and similar domestic and international initiatives whose purpose is to stimulate asset accumulation for the poor. The chapter then considers criticisms of the asset-building approach to poverty. It argues that Catholic social teaching and the human capabilities approach can help address these criticisms by providing a moral vision to guide the development of asset-building programs and policies in ways that are truly just.
The vision that underlies this proposal [asset building for the poor] is that insofar as possible, each individual should be encouraged to develop to his or her greatest potential, not only as a matter of humanistic values, but as a matter of long term economic competitiveness of the nation, social cohesion, and vitality of our democratic political institutions.

—Michael Sherraden, Assets and the Poor

In the early 1930s, the psychologist Norman Maier conducted a series of experiments to develop deeper insight into the human reasoning process and, in particular, into the process of problem solving. One of these experiments was carried out in a large room which contained many objects such as poles, ringstands, clamps, pliers, extension cords, tables and chairs. Two cords were hung from the ceiling, and were of such length that they reached the floor. One hung near a wall, the other from the center of the room. The subject was told, “Your problem is to tie the ends of those two strings together.” He soon learned that if he held either cord in his hand he could not reach the other. He was then told that he could use or do anything he wished.¹

All the subjects (University of Chicago faculty, graduate and undergraduate students, both women and men) were able to figure out how to
join the two ends of the ropes together using one of several objects in the room. However, only a few people thought to bridge the distance between the two cords by swinging the rope back and forth like a pendulum. For those not able to figure out this more “original” method, Maier provided a subtle hint. Walking around the room, he passed “the cord which hung at the center of the room [putting] it in slight motion a few times.” For many subjects, this assistance quickly led to the use of the pendulum approach to solve the problem.²

Maier recounts the subjects’ own explanations of how they fastened upon the idea of using the pendulum approach to solve the problem with which they were tasked. “Nearly all of the subjects were surprised when asked to tell about their experience of getting the idea of a pendulum and said that they did not think that they could explain it.” When pressed they said such things as:

“It just dawned on me”; “It was the only thing left”; “Perhaps a course in physics suggested it to me”; “I tried to think of a way to get the cord over here, and the only way was to make it swing over.” A professor of Psychology reported as follows: “Having exhausted everything else, the next thing was to swing it. I thought of the situation of swinging across a river. I had imagery of monkeys swinging from trees. This imagery appeared simultaneously with the solution. The idea appeared complete.”³

The reports of the subjects who came up with the pendulum approach only after receiving the hint are “in every respect similar to those” who came up with this approach without receiving the hint. Maier speculates that the subjects did not give any credit to the one who had helped them solve the problem because the subjects did not consciously experience the assistance provided to them by the experimenter. This could have been due to the subtle integration of the assistance into the overall scene. It seems plausible as well that the cultural context in which the experiment took place could have influenced this lack of awareness. In the United States, great rhetorical emphasis is given to the notion of “rugged individualism,” an emphasis that obscures the myriad ways lives are sustained by something other than sheer personal effort. Conversely, this same rhetoric tends to stigmatize the need for outside help. For these reasons, even when assistance is provided, it may not be consciously experienced as such.
The subjects in Maier’s experiment are illustrative of a dynamic at play on a much wider scale among Americans who have accumulated financial and real assets. Many nonpoor Americans are unaware of the substantial level of institutional and material support that has helped them to save and accumulate assets. This lack of awareness, in turn, leads them to exaggerate their own role in asset accumulation. Of those who hold and accumulate assets, very few realize that they are the beneficiaries of a vast institutional and social network that facilitates and rewards them in ways that contribute significantly to their financial well-being. Just as the assistance that Maier provided to his subjects was so subtle and well integrated into the surroundings as to be outside of their conscious awareness, the systemic assistance provided to help the nonpoor accumulate assets is often so seamlessly integrated into their lives that it is not perceived as such.

Such lack of awareness would not be nearly so problematic if it did not have the potential to influence the judgments many make about the poor and the reasons for their poverty. If people are unaware of the public and private support that contributes to their own ability to save and accumulate assets or, alternatively, if they believe that asset accumulation and asset building are solely the products of their own initiative, sound reasoning, and judgment, they will be far more likely to locate the responsibility for asset poverty with those who are poor. Conversely, raising awareness about the degree to which public and private institutions facilitate savings and asset accumulation for the nonpoor may help to generate support for analogous types of assistance for those who are now poor.

**THE INCOME PARADIGM**

Most people would agree with Stuart Rutherford’s assertion that “a popular and useful definition of a poor person is someone who does not have much money.” The development of social policy within modern nation-states, however, requires a more precise definition of poverty, such as a monetary threshold that distinguishes the poor and nonpoor. A more exacting definition of poverty has tended to focus on two primary concepts: consumption and income. Since income as such has no inherent value, economists have looked to the purpose or end of income to generate a more precise understanding of what it means to be poor or
nonpoor. In identifying the “end” or “goal” of money, economists necessarily make a judgment of moral value, even though they frequently understand themselves to be engaged in a value-free enterprise. Charles Clark has suggested that for neoclassical economics, the long-standing dominant model within the discipline, the “ultimate good or value in the economy” is “consumption.” Thus “human well-being is to be assessed by the availability of disposable income or according to goods consumed; it is measured by the levels of utility achieved in the consumption of commodities.” Just as well-being or welfare is defined in relation to consumption, so too is poverty. In keeping with the neoclassical perspective, Oxford’s Dictionary of Economics defines poverty as the “inability to afford an adequate level of consumption.” The so-called “poverty line” marks the point where one has “just enough [income] to avoid inadequate consumption.”

From the dominant perspective of neoclassical economics, then, well-being and poverty are intimately linked to income and consumption: the consumption level enabled by one’s income determines whether or not one is impoverished. As Michael Sherraden, a leading academic expert on asset-building policy, states:

Almost entirely, poverty and welfare in Western welfare states have been defined in terms of income. It has been assumed that if households have a certain amount of income, they will consume at a level equivalent to that income, and this consumption is by definition welfare (well-being) of the household. This is consistent with the definition of welfare as it is used in welfare economics, and, indeed, the entire edifice of the welfare state rests uneasily on this narrow intellectual footing.

The link between economic poverty, income, and consumption is so pervasive that it is difficult to conceptualize poverty in any other terms. Reflecting this widely accepted perspective (and, no doubt, reinforcing it as well), the federal government defines the official poverty line for individuals and families according to income level, determined by a formula that relies on estimated minimum consumption needs of individuals or families. Established in the mid-1960s the official poverty line was based on a 1955 U.S. Department of Agriculture survey of food consumption which estimated that the average American family of four spent one-third
of its after-tax income on food. In defining the poverty line, the lowest priced diet considered adequate (the “Economy Food Plan,” later termed the “Thrifty Food Plan”) was multiplied by three, and subsequently adjusted for inflation and differing family sizes.\textsuperscript{10}

Since poverty is understood as having too little income “to afford an adequate level of consumption,” the goal of governmental antipoverty policies has been dominated by efforts to raise the income or purchasing power of the poor. The aim of these policies is to provide just enough financial assistance to allow the poor to consume at a level that raises them out of poverty. The centrality of income and consumption is visible not only in those initiatives generally associated with the term “welfare,” but just as often in efforts to “reform” the welfare system. The last significant public debate about “welfare” in the United States illustrates this emphasis.

THE WELFARE REFORM DEBATE OF 1996: AN INCOME-PARADIGM DEBATE

The 1996 welfare reform bill known as the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) brought an end to the federal government’s guarantee of financial assistance to the poor. Debates about PRWORA, both before and after the bill’s passage, highlighted areas of sharp disagreement between the political left (or liberals) and right (or conservatives) on how best to deal with poverty in this country. Conservatives criticized the magnitude of governmental expenditures for the poor and questioned whether current welfare policy struck the right balance between “the dual goals of providing a cash safety net for families with children and requiring families to work or look for work.”\textsuperscript{11} Emphasis on the latter goal (requiring families to work), they argued, would benefit both taxpayers and welfare recipients. In their view, Aid to Families with Dependent Children (AFDC) and other government programs that provided support for the poor had the effect of encouraging childbearing, discouraging marriage, and rewarding those who would not join (or rejoin) the labor market. From this perspective, poverty would be reduced only when public policies stopped encouraging dependency upon government by those living in poverty and, instead, encouraged habits of personal responsibility and industry.
Time-limited benefits and paid work are the keys to achieving these goals and, therefore, the key to reducing poverty. Given the proper motivation, the poor will do what other nonpoor citizens routinely did—enter into the free market, work hard, and take advantage of the many opportunities the market provides.\(^{12}\)

The data thus far, while still inconclusive, suggest that PRWORA has been more successful at reducing the welfare rolls than it has been at raising household income above the poverty threshold. The passage of PRWORA is correlated with dramatic reductions in welfare caseloads, but the cause and meaning of these reductions is the subject of considerable debate. Among other things, the fact that PRWORA became law during an economic boom has made it difficult to discern whether PRWORA or the robust economy led to a drop in the welfare rolls. For those who left welfare, the economic benefits have not yet lived up to conservatives’ expectations. Studies looking at employment patterns of those who have left welfare found that “between one half and three-fourths of parents are employed shortly after leaving the welfare rolls . . . and that as many as 87 percent have been employed at some point” after leaving welfare. However, these same studies show that average reported annual earnings from this employment ranged from “as low as $8,000 to as high as $15,144, leaving many families below the poverty line.”\(^{13}\) The primary reason for the low earnings is stagnant low wages “despite years of work.” When earnings do rise, it is primarily because of an increase in work hours rather than wages.\(^{14}\) As one might expect, these low-wage jobs do not typically include “paid vacations, sick leave, or employer sponsored health insurance.”\(^{15}\) Whatever the virtues of being gainfully employed, work in and of itself does not guarantee a poverty-free life.

The results to date of PRWORA, while not wholly in keeping with the dire predictions of those on the political left, are largely consistent with liberal expectations. Many liberals who opposed PRWORA did not disagree with conservatives that employment should be a key ingredient in the war on poverty. Nor did they disagree with the judgments of conservatives that the welfare system contained many features that have a negative impact on the poor. David Ellwood, for example, acknowledges that the welfare system has undermined work motivation and family stability while contributing to the marginalization of the poor from the rest of society.\(^{16}\) The opposition to PRWORA by the political left was
rooted in the belief that a retreat from federally guaranteed means-tested income transfers would erode some of the most important resources for mitigating the effects on the poor of indifferent, rapidly changing, and sometimes hostile social, political, and economic forces. While recognizing the positive value of work, the political left argued that the dire situation of those in poverty demands government interventions. The suggested interventions typically included a variety of means-tested cash and non-cash income supports and raising the minimum wage.17

A great deal of evidence can be adduced in favor of the liberal approach to support for the poor. Government income transfers do, in fact, significantly raise the effective income of the poor, thus easing their burden and substantially increasing the number of persons living above the official poverty line. While the passage of PRWORA did reduce government transfers, for those unable to make up the difference through paid work, the result was a significant drop in their standard of living. For example, “between 1995 and 1997 the poorest single mothers experienced a significant decline in their average disposable incomes, largely owing to sizable decreases [in support] from means-tested programs.”18 Similarly, a 1998 study looked at the effects of government transfers on income levels of the poor and found that if “government benefits are included in income… 6.4 percent of [U.S.] families had annual incomes below $10,000 in 1998. When government benefits are ignored, the fraction with an annual income below $10,000 more than doubles, rising to 14 percent of all families.”19 Clearly, government transfers do significantly increase the levels of disposable income of many poor Americans, thereby reducing some of the hardship associated with poverty.

At the same time, the evidence compiled over a substantial number of years suggests that while income transfers are effective in addressing the symptoms of poverty, they appear to be less effective in altering the underlying causes that lead to poverty. One piece of evidence supporting this claim is the persistent pre-transfer rate of poverty (i.e., the rate of poverty when government transfers are not included). Michael Sherraden has shown that while “official poverty declined from 17.3 percent of the U.S. population in 1965 to 14.4 percent in 1984, pretransfer poverty did not decline—it was 21.3 percent in 1965 and 22.9 percent in 1984.” While income transfers have eased the burden of poverty, “they have not helped reduce the underlying level of poverty.”20
Although the political left and right have different approaches to the problem of poverty, they share the belief at the center of almost all public policy approaches to this problem: that poverty is best understood as a state of deficient income. The reason deficient income is impoverishing is that it limits the ability of a person or family to “secure a minimal level of consumption.” The focus on income is not unique to liberals or conservatives, it is a belief shared by many, both within and outside public policy circles. When poverty is defined in this way, the prescriptions for overcoming poverty are focused almost entirely on securing a level of consumption at or above the poverty line. Thus, whether it be through means-tested income transfers such as food stamps or rental subsidies, increases in the minimum wage, the earned income tax credit, or even restrictions on benefits to overcome alleged resistance to entrance into the workplace, the goal is almost always related to increasing the income and consumption levels of those who are poor.

The exclusive focus on income in public policy approaches to reducing poverty needs to be challenged. The issue is not whether income is important; it clearly is. Rather, the issue is whether income by itself is sufficient to give the poor the necessary financial resources to lift them out of poverty. Income-based policies need to be augmented by policies that help the poor to accumulate assets.

THE ASSET PARADIGM

Over the past two decades, a relatively new public policy approach to poverty known as “asset building for the poor” has been the subject of increasingly vigorous debate among social scientists, policy advocates, and politicians. Those working to develop policies that help the poor accumulate assets raise important questions about the adequacy of current definitions of human poverty and human well-being and the policies that flow from these definitions.

Contrary to the notion that poverty and economic well-being ought to be understood solely in terms of income and consumption, advocates of an asset-building approach to poverty argue that income and consumption do not exhaust the meaning of economic poverty. Moreover, they argue that restricting the definition along these lines undermines the effectiveness of anti-poverty initiatives—until such initiatives
incorporate some notion of asset building, long-term efforts to alleviate poverty cannot succeed. Economic well-being includes not only adequate income flow and the consumption of goods and services necessary for daily living, but also saving and accumulation of assets, or wealth. Thus, Sherraden argues:

While income and consumption are obviously important, it is also true that most people cannot spend their way out of poverty. Most people who leave poverty—or to use another vocabulary, most people who develop economically—do so because they save and invest in themselves, in their children, in property, in securities, or in enterprise to improve their circumstances. This being the case, it occurred to me that another way of thinking about the concept of welfare is required, not to replace the income-based definition, but to complement it. This new concept of well-being would focus on asset accumulation.

Sherraden makes it clear in this passage that asset-based approaches are not intended to replace income-based approaches, but rather, to complement them. Income-based strategies to deal with poverty help serve the important function of addressing the immediate needs of those who are poor, and it is important not to misread asset-building policies as representing a replacement for income-based strategies.

To speak of asset building as a “paradigm” is to suggest that the asset-building approach marks a substantial shift in the goals and purpose of public policy for the poor. Most income-based approaches to poverty reduction were (and are) viewed as stopgap measures to help people through a financial crisis brought on by loss of work, unexpected illness, the death of a wage earner, and so on. But poverty remains a persistent problem in the United States (and elsewhere) and one reason for this (although surely not the only reason) is that those living in poverty have not been able to build a secure financial foundation that would help keep them out of poverty. This goal of developing a more permanent and enduring remedy to poverty, backed by a coherent strategy for achieving this goal, distinguishes asset-building approaches from other policy initiatives over the last thirty or forty years.

To see more clearly why asset building for the poor should be integral to efforts aimed at reducing poverty, consider the financial statement of
any business. This statement typically includes a summary of revenues and expenses, on the one hand, and assets and liabilities, on the other. Subtracting expenses from revenues gives the total income for that year. Subtracting liabilities from assets yields the total worth of the company’s assets (or liabilities). The presence of these two primary categories—income and assets—in the financial statement of any business is not accidental. It denotes the existence of two types of financial resources, both necessary to the well-being of the business, and both addressing different financial needs of the business.

Now consider two businesses, both occupying the same market sector, each with just enough revenues to cover expenses (i.e., income is essentially zero). One of these businesses, Company A, has substantial total assets while the other, Company B, has essentially no assets at all. Now imagine some possible scenarios: a deep and lasting recession; the onset of new technology requiring substantial expenditures for employee training if the business is to keep up with its competitors; the opportunity to purchase the building that houses the business during a time of unprecedented low interest rates; the chance to expand the business by purchasing another company engaged in a complementary enterprise.

In each case, Company A is in a much better position than Company B to deal with the challenges and opportunities presented. The added flexibility provided by Company A’s assets would likely enable it to survive in a recession, drawing down its assets when necessary to cover day-to-day expenses. It would also be able to maintain, perhaps even enhance, its competitive position by providing additional training to its employees or through the purchase of a complementary business. Another potential benefit for Company A is the ability to add substantially to its asset base while taking advantage of low interest rates and doing away with non-productive rental payments.

The benefits to Company A go beyond these basic financial advantages, however. One or more of these actions would likely have a positive impact on the attitudes and work performance of the employees, inasmuch as the increased opportunities of the company also provide increased opportunities for the employees. This, in turn, may lead to a more pleasant work environment than would otherwise be the case. Taken together, the opportunities afforded to Company A because of its asset holdings and the positive impact these actions can have on its
employees do more than simply keep Company A “afloat.” They have the potential to enhance both its income and its assets, placing it on an even better financial foundation.

By contrast, Company B will likely find itself struggling for its very survival during a recession. It may need to lay off a substantial number of employees, thereby depriving itself of one of its most significant non-financial assets—its trained workforce. Undoubtedly these layoffs would depress the morale and enthusiasm of the remaining employees, sapping their motivation to work at Company B. Alternatively, Company B might seek to borrow funds to cover its short-term expenses until the recession passes. Its lack of financial assets, however, will give most loan managers pause. The bank may still decide to fund the loan but, because of the risks involved, the loans will be made at much higher rates than would be available to Company A. Higher interest payments and longer terms will further endanger the day-to-day operations. Business opportunities of the kind that Company A was able to exploit will not be a likely possibility for Company B. At the very least, Company B would be rightfully hesitant to pursue options such as purchasing another company or making a significant capital purchase, since these would only add to its debt burden. More likely, Company B would not even think of doing such things as it would be consumed with the difficulties of simply making ends meet. Going forward, even if day-to-day operating expenses can be met, the condition of Company B is precarious unless and until it can accumulate enough assets to provide some measure of financial security.

By analogy, the above example can serve to illustrate why income alone is not a sufficient strategy for helping the poor to move out of poverty. Assets are not simply a luxury for households but are absolutely essential if they are going to achieve any kind of financial stability. Under normal circumstances, households will use income to secure consumable goods and services, much like businesses use cash flow to cover day-to-day expenses. Like our hypothetical Company A, households with assets will generally be in a better position to deal with unexpected difficulties than households that lack assets. Just as a business with significant assets can withstand economic downturns, so too a household with assets is better positioned to deal with unforeseen or unavoidable events that temporarily curtail or stop income flow—a recession, for example, or a serious illness, the loss of a spouse, or a
seriously ill child. At the same time, households with assets will enjoy access to those things that consumption income cannot generally provide, such as a down payment for a home, capital to begin a business, or access to higher education.

The failure to appreciate the very different roles that income and assets play in the household is one reason why public policy has maintained a focus on income. But as this simple exercise shows, income and assets are deployed for very different purposes. Melvin Oliver and Thomas Shapiro underscore the distinction between income and assets (to which they refer as wealth):

Wealth is a special form of money not used to purchase milk and shoes and other life necessities. More often it is used to create opportunities, secure a desired stature and standard of living, or pass class status on to one’s children. In this sense the command over resources that wealth entails is more encompassing than is income or education and closer in meaning and theoretical significance to our traditional notions of economic well-being and access to life’s chances. 

Oliver and Shapiro’s observation regarding the qualitatively distinct goods secured by assets versus income alone is confirmed by studies documenting the distinctive psychosocial effects of the benefits associated with assets on individuals and families who hold them. After an extensive review of published research examining the effect of asset ownership on neighborhoods, families, and children, Edward Scanlon and Deborah Page-Adams concluded that there was growing evidence that assets “are associated with economic household stability; decrease economic strain on households; are associated with educational attainment; decrease marital dissolution; decrease the risk of intergenerational poverty transmission; increase health and satisfaction among adults; decrease residential mobility; increase property maintenance; [and] increase local civic involvement.” Michael Sherraden has also looked at the psychosocial effects of assets and suggested that, in addition to the effects noted by Scanlon and Page-Adams, assets create long-term thinking and planning, provide a foundation for taking risk, increase personal efficacy and sense of well-being, lead to greater development of human capital, increase social status and social connectedness, and enhance the well-being and life chances of offspring.
By contrast, households that do not have any substantial assets will face greater and more frequent difficulties and obstacles than those with assets. Like Company B in the example above, households without assets will be far less able to deal with unexpected interruptions in income flow: recessions will hit these households harder; family deaths or illnesses will be much more likely to cause serious economic distress. The lack of a financial cushion helps to explain why welfare recipients move in and out of the welfare system, usually staying on the welfare rolls for relatively brief periods. Loss of income, in the absence of asset ownership, can be disastrous, leaving those who are poor with no other recourse but governmental or other charitable aid to make up for income shortfalls. Even when things are going as they should, the stress and strain of making ends meet will take its toll. Moreover, the demands and pressures of meeting day-to-day expenses and of trying to forestall economic disaster will often crowd out considerations of future possibilities.

In her powerful memoir *Unafraid of the Dark*, Rosemary Bray vividly describes the anxiety, tension, and energy-sapping existence that the poor face on a daily basis:

One of the truths that seem to elude most welfare reformers is the pervasive sense of fear and tension that accompanies that monthly [welfare] check. I learned to decipher that look of tension in my mother’s eyes: it’s the fear of knowing that the best you can do is to give a little something to everyone you owe. Not enough to pay them, sometimes not enough to placate them, but just enough to remind them—and you—that you can never really catch up. . . . There is no money to plan ahead, to shop cheaply, to prepare for an emergency. There is no ability to set aside a bit for the future; the present occupies all the attention of anyone on welfare. Our contingency fund was the streets and alleys, where we searched for bottles we could turn in for the deposits. . . . Sometimes the fear is a matter of timing. Late mail, a bureaucratic mix-up, and a carefully planned method of survival lies in tatters. One month, in the dead of winter, the check was late and every bill in the house was due; some were overdue. When the gas man came to turn off the gas, my mother went outside to meet him, but for once her considerable charm failed her. . . . I can only imagine what went through my mother’s
mind as the man left. Surrounded by four hungry children under the age of seven, living in an apartment without cooking gas. . . .

The negative effects of being asset poor fall especially hard on those who are income poor. With no serious possibility of accumulating assets and with few good options by which to raise their income, it is not irrational to become discouraged about future possibilities. Whatever the virtues of income strategies for reducing poverty, they simply do not adequately address the difficulties and precariousness that the poor experience because of their lack of assets. Nor do these strategies create a realistic foundation from which the poor might gain a permanent foothold outside of poverty. For this to happen, an asset-development strategy is needed.

THE ROLE OF CURRENT POLICY: EXACERBATING WEALTH INEQUALITY

The United States already has in place a variety of initiatives that, taken together, constitute a vigorous and broad-based asset-building policy. The problem is that the beneficiaries of these policies are almost exclusively the nonpoor. Indeed, the current asset-based initiatives are so focused on the nonpoor that it would be accurate to characterize them as a “preferential option for the nonpoor.” These policies are biased toward the nonpoor primarily because they deliver subsidies aimed at facilitating savings, ownership, and asset accumulation through the income tax code.

The majority of these asset-building policies give tax deductions for certain types of asset-building endeavors. These deductions are technically referred to as tax expenditures, defined as “revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.” More colloquially tax expenditures are often referred to as tax “loopholes.” From a budgetary standpoint, tax expenditures and direct expenditures such as Social Security payments, student financial assistance, unemployment compensation, Medicare, and Medicaid are functionally the same: both cost the government money. A dramatic illustration of how much
these expenditures cost the government in lost revenues can be seen by projecting how much lower tax rates would be if tax expenditures were eliminated. According to one calculation, eliminating tax expenditures would “finance a 44 percent across the board reduction of income tax rates (with no AMT [alternative minimum tax]). That would constitute a cut in the top marginal income tax rate from 35 percent to less than 20 percent with no revenue loss.”

Both from the perspective of the federal budget and from the perspective of their beneficiaries, policies that subsidize asset building through the tax code are not revenue neutral. The beneficiaries of these policies are provided with significant financial rewards via preferential tax treatment of their asset holdings and the federal government incurs substantial losses of revenue as a result of these same policies. How substantial are these losses of revenue? According to one study, non-business “individual income tax expenditures reduced 2007 federal income tax revenues by as much as $761 billion.” This number exceeds the amount of money included in the Troubled Asset Relief Program (TARP) legislation recently passed by Congress, is greater than the 2008 federal budget deficit ($638 billion), is more than the total amount of U.S. defense spending in fiscal year 2008 ($599 billion), is greater than 2008 non-defense discretionary spending ($521 billion), and is roughly fourteen times the size of 2006 direct expenditures of governmental programs that most persons associate with “welfare.” From almost any perspective, tax expenditures represent “a massive commitment of fiscal resources.” The magnitude of these expenditures leads Christopher Howard to suggest that “the IRS, rather than Health and Human Services, is arguably the most comprehensive social welfare agency in the United States.”

Nearly all tax expenditures are directed to the nonpoor. Those whose income is $50,000 or more receive approximately 90 percent of the benefit of tax expenditures on home mortgage interest and state and local taxes on income and property, marking these expenditures as the most regressive tax policy in the federal budget. Specific examples of tax expenditures underscore the regressive nature of the asset subsidies provided by the federal government: in 1998, 54 percent of the $47 billion federal expenditure for mortgage interest deductions went to homeowners with annual incomes over $100,000 and 91 percent went to homeowners with incomes over $50,000. Similarly, in 1999, 67 percent
of the federal tax expenditure for retirement benefits went to households earning more than $100,000, with 93 percent of the benefits going to those making over $50,000 per year.43

Since 1999, the data shows that the regressive nature of the distribution of these benefits has continued unabated. Thus, for example, a 2007 report commissioned by the Federal Reserve Bank (using 2005 data) noted that 45 percent of the benefit of the three largest asset-building policies—preferential treatment of capital gains, mortgage interest deductions, and property tax deductions—go to families whose average annual income exceeds $1 million. By contrast, the lowest 60 percent of households received about 3 percent of the benefits.44 In terms of the dollar value of the benefit received, “the poorest fifth of Americans get, on average, $3 in benefits from these policies, while the wealthiest one percent enjoy, on average, $57,573. Households with incomes of $1 million or more receive an average benefit of $169,150.” Lillian Woo and David Buchholz add:

By any measure, [the distribution of] these benefits are skewed. Households that earn less than $17,000 receive, on average, $3 in benefits. Perhaps more startling is that households with incomes below $80,000 receive average benefits of less than $1,000 from these policies. At low levels of income, benefits from tax-based asset incentives are small. Increased income brings increases in benefits, though the amount of benefits may not induce a change in asset-building behavior. For example, a family that earns between $30,000 and $35,000 has an average asset subsidy of $74. The pattern of benefits resembles an exponential function with small changes at low income levels growing faster and faster as income continues to rise.45

See figure 1 for a graph of the average asset-building subsidies by income. Given this data, it is hard not to agree with Michael Sherraden’s conclusion that “public policies for asset building are making the comfortable more comfortable, the rich richer, and leaving the poor as they are.”46

Another feature of tax expenditures is that they are asset based, “that is, these . . . benefits directly help people accumulate financial and real assets.”47 The largest tax subsidies that encourage asset accumulation are in the areas of preferential treatment of gains from investments, retirement accounts, and home ownership.48 The housing tax expendi-
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Ture provides an especially striking example of how these public policies focus on consumption alone for the poor while enabling asset accumulation for the nonpoor. Whereas the nonpoor receive substantial housing subsidies directed at helping them to become homeowners, the vast majority of the housing subsidies directed to the poor enable them to secure rental housing. Moreover, as Howard points out, the sheer size of the housing tax subsidy for the nonpoor—twice the size of “all traditional housing programs, including Section 8 and rental vouchers and public housing . . . undercuts the prevailing image of ‘subsidized housing’ as housing for the poor.”

Howard’s point brings to mind a remark made by Michael Harrington that, in the United States, we have “socialism for the rich and free enterprise for the poor.”

Tax expenditures share important characteristics with a type of direct expenditure sometimes referred to as “spending entitlements.” Perhaps most well known of these spending entitlements are Social Security and Medicare. Howard Shuman provides a colorful illustration of the budgetary similarities between tax expenditures and spending entitlements.

Figure 1. Average Asset-Building Subsidy

![Average Asset-Building Subsidy](source)


Tax expenditures and spending entitlements are a common breed. They are like the animals in Noah’s Ark which marched aboard side
by side. Both are automatic and paid out by law and formula. Neither is regularly reviewed. Both are uncontrollable without a change in law. Once legislated, they create powerful interest groups that are dependent on their benefits, deeply entrenched and difficult, if not impossible, to oppose. Tax expenditures and spending entitlements are entered on opposite sides of the budget ledger. While they may not be of the same gender they are of the same species.\textsuperscript{51}

Finally, the high level of participation among those who can take advantage of these asset-savings vehicles is directly related to their ease of access and the incentives that they provide. This observation challenges the long-dominant model of saving put forward by neoclassical economists. According to this model, a person’s saving habits can be explained in terms of preferences for current or future consumption. Michael Sherraden and Sondra Beverly argue, however, that this widely accepted explanation of savings behavior is inadequate because it fails to take account of the social and institutional context of savings behavior. To fully appreciate why and how people save, one must recognize that savings behavior, like any human behavior, is profoundly influenced and shaped by social and institutional forces. When one examines the context within which saving takes place, it is apparent that there are great differences in the social and institutional settings within which the nonpoor and the poor make decisions about saving.\textsuperscript{52}

One of the important differences between the context in which the nonpoor and poor save has already been noticed: the federal government provides the former with significant incentives to save in the form of tax subsidies while there are no such equivalent subsidies available to the poor. But there are other significant differences between the contexts of the nonpoor and poor that influence savings behavior. While the nonpoor have easy access to institutions that facilitate saving, “low-income households frequently have very limited access to these institutions.” For example, members of low-income households are “less likely to be in employment situations that offer retirement plans.” If they live in low-income neighborhoods, especially low-income minority neighborhoods, they will have less access to local bank branches than members of nonpoor households. In addition, it is “likely that financial sophistication varies by socioeconomic status” implying differential access to financial information and education.\textsuperscript{53} Low-income households will also be far
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less likely to have access to savings incentives: they receive far less benefit from tax deductions for mortgage interest; they generally receive lower rates of return for housing investments; and they rarely have access to employer-matched pension programs. In terms of institutional facilitation of saving, the poor generally cannot save through payroll deductions, mortgage-financed home purchases, and other mechanisms to which the nonpoor have relatively easy access.54

In other words, the argument of neoclassical economists that the nonpoor accumulate assets only because they delay present consumption—an argument that contains an unstated but thinly veiled accusation that those who lack assets are simply spendthrifts—ignores the substantial and pervasive social and institutional supports that are in place to help the nonpoor save. As an example, Sherraden notes that the nonpoor “participate in retirement pension systems because it is easy and attractive to do so. This is not a matter of making superior choices. Instead, a priori choices are made by social policy, and individuals walk into the pattern that has been established.”55

To illustrate: my employer requires me to contribute to one of a number of 401(k) savings plans that have been set up for me by the university. The university then matches these savings and makes an additional contribution over and above the match. The tax liability for my and the university’s contribution is deferred until I withdraw the money. In the meantime, I do not pay taxes on any of the earnings this money generates until I withdraw it. All of this happens automatically, before I receive my paycheck—frugality and wise spending never even enter into the picture in determining what gets saved. Equally important, my employer provides access to a myriad of financial investment options administered by private-sector investment firms. These firms provide, among other things, personal financial advice, including investment advice, access to investment funds of several different varieties, and retirement planning. Again, all of this is facilitated through my employer. Obviously, not all middle- or upper-class persons are provided with matched savings accounts or access to investment services through their employer, but they are far more likely to be provided with these things than those working jobs at lower incomes.

A priori social policies also shape the choices available to the poor, but these policies generally do not have the effect of facilitating saving, let alone providing incentives to do so. Indeed, the main federal social
welfare institution to which the poor have access actually discourages saving: means-tested welfare benefits set asset limits above which benefits are denied. The idea that the poor are unable to accumulate assets either because they do not make enough money to do so or because of profligate spending habits derives in part from the widely held view that “individuals save as autonomous actors in an unstructured socioeconomic world.”56 This is decidedly not the case. An important question is whether the poor could save if public policies not only refrained from discouraging saving but also provided incentives and institutional support similar to those routinely available to the nonpoor. That question will be taken up in detail in chapter five.