EXECUTIVE SUMMARY

INTRODUCTION: FROM A WAR ON POVERTY TO A WAR TO SAVE THE AMERICAN WAY OF LIFE

Harnessing Assets to Build an Economic Mobility System provides new empirical insights that help to explain what so many Americans intuitively grasp, and what U.S. policy debates so studiously ignore: Upward economic mobility and a chance at financial security are slipping beyond the grasp of many households. This report examines the drivers of mobility by distinguishing between standard of living, which is related to consumption and available income, and economic mobility and wellbeing, which require assets in addition to income and fuel multiplier effects. The former is supported by the consumption-based welfare system, including programs such as Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP; formerly food stamps), which is designed to help households exit poverty and consume at a level consistent with a near-poverty level. Upward mobility and wellbeing is advanced by an asset-based welfare system, largely made up of tax credits and deductions that helps more advantaged Americans accumulate assets. By highlighting the significance of assets for achieving economic mobility and true wellbeing, this analysis emphasizes the importance of building policy structures capable of helping households generate assets, not just increase income. The report proposes Economic Mobility Accounts—tax-advantaged savings accounts that help Americans of all income levels save and accrue assets across the life course—as a policy structure that may once again make upward mobility accessible to all Americans.

Key Points

- Most Americans understand the American dream to mean that effort and ability translate to prosperity.
- However, economic growth for the nation's economy has not translated to increased wages. Thus, a new understanding of the levers that help individuals and households climb up the rungs of the economic ladder is needed.
- Each rung on the economic ladder represents a different standard of living, which equates to the amount of goods and services one can consume. The amount of income a person has indicates on which rung on the ladder he or she sits.
- In contrast, wellbeing is a state in which one has financial stability and the capacity to achieve upward economic mobility. Standard of living is an important part of wellbeing, but insufficient for creating the conditions necessary for people to have the real opportunity to advance economically. Assets are a critical component, because they allow people to consume at a higher class level than their wages alone will allow.
- Assets also afford other advantages, including social and psychological, that make individuals better off—more secure, more in control, and more privileged—than income flows alone.
- Policy mechanisms up to the task of facilitating wellbeing, we propose, must also include asset development, rather than focusing too narrowly on increasing income alone. Assets provide people with the capacity to climb.

CHAPTER 1: EMPHASIZING ASSETS IN THE MODERN ECONOMY

In the modern economy, assets form an important component of personal income, in addition to wages. An implication of this is that employment wages (commonly thought of as the principal source of personal income) may no longer be synonymous with family economic wellbeing, and certainly not with the upward mobility that characterizes the American dream. While these economic realignments have been foretold for decades, the acceleration of these trends and their exacerbation by the Great Recession have spurred calls for a more holistic notion of family economic wellbeing that includes assets.

Key Points

- Work alone is not enough to sustain a middle class in America. Numerous factors contribute to this condition:
  - Stagnant wages: Between 2002 and 2012, wages were stagnant or on the decline for the bottom 70 percent of U.S. families (Mishel & Shierholz, 2013).
  - Unemployment: Compounding the problem of low wage growth among college graduates is the fact that there is also weak demand for workers at all levels of education (Mishel, Bivens, Gould, & Shierholz, 2013).
  - Globalization: Increased imports from Asia and Latin America have routinely been cited as reasons for why U.S. low-skilled manufacturing wages, in particular, have steadily fallen since the 1970s (Scott, 2012).
  - Technological innovations: Economic growth from technological advances does not benefit everyone equally (e.g., Brynjolfsson & McAfee, 2012).
- The challenge confronting U.S. policymakers is building an integrated economic mobility system that provides low-income households with a realistic path to a middle class standard of living.
- Work for low-income individuals is currently supported only sporadically and inadequately by a disjointed system of transfer programs, none of which is designed to deliver real prosperity.
- As a result, only 34 percent of children born into the bottom income quintile rise beyond the second quintile (Bengali and Daly, 2013). Translated into dollars, that means that a child born into poverty in the U.S. has only an approximately 1/3 chance of earning more than about $38,000 per year as an adult. While not poor, this is far from what most Americans would characterize as securely middle class. A recent survey found Americans place the bar for middle-class status at $70,000 in household income (Pew Charitable Trust, 2012).
• If personal income consists of labor income, capital income, and transfers, and labor income is shrinking in its value for producing economic mobility, then policies are needed that also allow more families to take advantage of income from capital and transfers. Otherwise, it is difficult to imagine how the American way of life, let alone the aspiration to upward mobility, can survive.

CHAPTER 2: MODERN REALITIES REQUIRE A SHIFT TOWARD AN ECONOMIC MOBILITY SYSTEM

If transfer income is to provide a secure grip on the economic ladder that, then, capital income helps one to ascend, we may need to reframe transfers as part of the overall economic mobility system and an essential augmentation of labor, not as mere subsidies for temporary consumption or meager resources to solve the worst deprivations wrought by our economy.

Key Points
• The bifurcated welfare system consists of both a consumption-based arm and an asset-based arm.
• Today, lower-income Americans are mostly relegated to the consumption-based welfare system, which helps to satisfy lower-level subsistence needs. Unfortunately, the asset tests built into these programs work at cross-purposes with asset accumulation structures, priming participants to focus on the present and not the future.
• Significantly, while tax subsidy figures suggest a greater investment in the consumption-based welfare system than in asset development, two characteristics that distinguish the two approaches highlight their differential effects.
  • First, because asset-based welfare has the potential for multiplier effects, through the generation of additional income and wealth, it may have a greater impact than the size of the expenditure would suggest.
  • Second, we suggest that the effects of the two arms of the system are not only unequal during individuals’ lifetimes, but also have very different consequences for future generations. Low-income families are not allowed to store substantial amounts of money spent on the consumption-based welfare system for use even in the proximate future, and certainly not to pass down to their children, while money spent on the asset-based welfare system is stored, often grows, and is later transmitted to others within the investing class.
• From this perspective, at least some part of the money spent in the asset-based welfare system may accumulate over time in families, growing both in value and in significance. These families pass it along from one year, and one generation, to the next.

• Importantly, integrating the two welfare arms into a unified economic mobility system does not equate to a retreat from fighting poverty. Instead, facilitating economic mobility may be thought of as a three-legged stool, with transfers playing a critical role in shielding Americans from some of the ravages of the capital market (security) and providing a floor below which no one’s consumption should fall, in a developed economy (subsistence).

CHAPTER 3: ASSETS’ POTENTIAL TO PROMOTE HUMAN CAPITAL DEVELOPMENT, GENERATE INCOME AND BUILD FUTURE ASSETS

In addition to helping people build more assets, assets may also be used to acquire additional skills that provide people with a real opportunity to move up the economic ladder. As a stock of wealth capable of generating income, assets may allow people to consume at a higher class level than their wages alone would allow. These and other asset effects discussed in Chapter 1 might help to generate economic mobility. Chapter 3 reviews evidence of the potential of initial asset levels to have a positive effect on human capital development and provides new evidence of the potential of assets to affect future assets and future income.

Key Points
• Unlike income, assets may work to foster economic mobility both directly, as asset levels may affect the extent to which additional income and assets generate wealth, and indirectly, by facilitating greater educational attainment.
• Evidence reveals that assets beget assets. That is, initial net worth may have an effect independent from income on future net worth, helping to shield investors from the instabilities of economic cycles and explaining much of the differences in future household income.
  • In fact, households at the 75th percentile enjoy over five times the return on asset holdings experienced by households at the 25th percentile.
  • Those at the 25th wealth percentile experience a $0.35 return for every one dollar increase in net worth compared to $1.20 for those at the 50th percentile and $1.81 for those at the 75th percentile.
• Moreover, we find that assets may also beget income. For example, at the onset of the Great Recession, in 2007, we find that for each dollar increase in initial capital income derived from assets (such as income from interest, dividends, and trust), total household income increases by $1.22 for households at the 25th percentile of capital income, but increases by $5.26 for those at the 75th percentile. At the end of the Great Recession in 2011, we find similar disparate increases in total income of $0.58 and $1.29, respectively.
• Assets may help make attaining human capital credentials more likely (AEDI, 2013), particularly for low-income students. For instance, research shows that
poverty rates as a measure of relative prosperity, to whether or not someone in the wage earner class is capable of moving up the economic ladder.

- Economic Mobility Accounts (EMAs) are a tool to bind what had been thought of as the consumption-based and asset-based arms of the welfare system into a single, integrated system by providing wage earners the capacity to accumulate assets. As such, they extend the benefits of asset-based welfare to all Americans through the development of new policy vehicles—lifelong, progressive, universal savings accounts—as well as reforms to initiatives within the asset-based and consumption-based welfare arms.

- Youth EMAs would help families save for their children’s education and would redistribute resources to place college within financial reach of disadvantaged Americans. Similar to Children’s Savings Accounts, Youth EMAs would facilitate economic mobility by helping children and youth accumulate assets and develop a college-going mindset, both of which increase the odds of college attendance and completion, still the best path out of poverty.

- Young Adult EMAs would intervene to help Americans build assets, including through homeownership, during the critical period of transition to financial independence, even while they may be discharging significant student debt obligations.

- Adult EMAs for middle-age adults would focus on retirement preparation, utilizing transfers to adequately capitalize retirement savings and, it is projected, to build a legacy of intergenerational wealth transmission.

- Ultimately we propose that the United States transform its divergent welfare approaches through a robust redistribution system that encourages asset accumulation for all. However, interim policy steps could leverage existing policies to launch EMAs. As described in this report, Youth EMAs could be financed by integrating a savings component into the Pell Grant program, advancing fully refundable tax credits for higher education, or increased state investments. Young Adult EMAs could be supported by policies such as income-based repayment and delayed repayment, which would ensure that young adults could continue to save even as they discharge student debt.

Chapter 4: Economic Mobility Accounts: Giving All Americans a Stake in the Capital Market

This report proposes a system of Economic Mobility Accounts (EMAs) to bring the benefits of asset accumulation to all Americans. These accounts would complement to the existing consumption-based and asset-based arms of the welfare system. That is, they would not replace the need for the Earned Income Tax Credit or SNAP, and we do not imagine that they would sap support for employer-based welfare policies such as Individual Retirement Accounts.

An important indirect benefit of EMAs would be to refocus conversations about mobility and inequality in the United States from whether those working low-wage jobs are poor or not, to whether they are capable of moving up the economic ladder. By changing the benchmarks by which our welfare system is evaluated, we will change its end goal, making economic mobility and security for all the explicit objective of U.S. policy.

Key Points

- Building on the foundation laid by demonstrations of Individual Development Accounts (IDAs) and Children’s Savings Accounts (CSAs), EMAs would extend lifelong, progressive, universal, asset-building opportunities to Americans at all stages of life. These accounts would target asset accumulation and critical expenditures in three periods within individuals’ lives: childhood, young adulthood, and middle age.

- Together these EMAs would form the foundation for an Economic Mobility System (EMS) that would work toward changing the conversation from whether or not someone in the wage earner class is poor, manifest in our narrow focus on poverty rates as a measure of relative prosperity, to whether or not someone in the wage earner class is capable of moving up the economic ladder.
Reimagining the American Welfare System

The current bifurcated welfare system—characterized by support for consumption among low-income Americans and support for asset development among wealthier Americans—creates unequal opportunities for achieving financial security and reaching the American Dream. A better solution? The creation of an Economic Mobility System for all.

The New Normal: A Job Alone is No Longer Enough to Move People into the Middle Class

- Productivity-Wage Gap
- Global Competition
- Technology—Lost Middle-Class Jobs
- Rising Higher Education Costs

Initial Assets May Exacerbate Wealth & Income Inequality: The Affluent Benefit More, Even During a Recession

- Return for Every $1 Increase in 1989 Net Worth, as of 2011
  - 25th: $-1.20
  - 50th: $1.22
  - 75th: $1.81

- Return for Every $1 Increase in 1993 Capital Income, 2007 vs. 2011
  - 2007: $8.29
  - 2011: $8.526

Returns for Households with Low Initial Assets See Less Return on Their Assets than Households with Higher Initial Assets.

Leading to a Growing Economic Inequality, Intensified by America’s Two Welfare Systems

<table>
<thead>
<tr>
<th>Asset-Based Welfare System</th>
<th>Consumption-Based Welfare System</th>
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<td>Who: Upper-Middle Class and High-Income</td>
<td>Low-Income and Middle Class</td>
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<td>Welfare Programs: 401ks, IRAs, Mortgage Deductions, Tax Breaks</td>
<td>Food Stamps, TANF, EITC, LIHEAP</td>
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Goals:
- Survival Needs
  - Present-Oriented
  - Daily Expenses, Work to Move Out of Poverty
- Growth Needs
  - Future-Oriented
  - Asset Accumulation, Work To Do Better Than Parents

Results:
- Near Poverty
  - Asset Barriers: Broken Ladder to American Dream
- Economic Well-Being
  - Building Upon Initial Asset Level: American Dream in Reach

Economic Mobility Accounts (EMAs): Part of Creating an Economic Mobility System for All

An Economic Mobility System Includes Income from Three Sources:

- Youth EMAs: Money & Mindset for College
- Young Adult EMAs: Encouraging Initial Savings, Asset Accumulation
- Adult EMAs: Retirement Security, Wealth to Pass On
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