

Foreword

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This book edited by Thomas N. Shapiro and Edward N. Wolff is the second volume in a new series funded by the Ford Foundation and published by the Russell Sage Foundation. The series provocatively explores the strengths and policy relevance of the asset-building approach to poverty alleviation; at the same time, it points to areas in which the shortcomings of the approach may require further work. In this preface, I would like to introduce the concepts embodied in the asset-building approach and describe how it is being incorporated into the grant-making of the Ford Foundation.

In 1996 the Ford Foundation entered an era of new leadership. Susan Berresford succeeded Franklin Thomas as the foundation's president, and I became the vice president of a newly expanded program to advance the foundation's goal of reducing poverty and injustice. I was given the task of uniting within a single program all of the foundation's work on urban and rural poverty, sexual and reproductive health, and program-related investments. After long consultation and much discussion with the foundation's staff in New York and in our thirteen international offices, we decided to organize our efforts around the theme of asset-building. Reflecting on the work in which we had been engaged worldwide, we felt strongly that the most successful work—and the work most needed—is that which empowers the poor to acquire key human, social, financial, and natural resource assets. So empowered, the poor are better able, in turn, to reduce and prevent injustice.

The focus of the Ford Foundation Asset Building and Community Development Program is a departure from the conventional wisdom in several ways, both within the foundation and in the broader development community. Antipoverty policy in the United States and in international development programs worldwide has tended to emphasize efforts to increase income to some predetermined minimum level as the "magic bullet" that will solve poverty problems. But that approach builds on the common misconception that poverty is simply a matter of low income or low levels of consumption. Several critiques of this approach to poverty alleviation have pointed out that its emphasis on income ignores key causes of inequity, overlooks the consequences of low asset accumulation, and fails to address long-term stability and security for individuals, families, and communities.

The Nobel laureate Amartya Sen foreshadowed this approach in his 1985 Henripman Lectures in Economics (Sen 1999), and he discussed it again in his 1999 volume *Development as Freedom*. For him, poverty is a function not of low income but, among other things, of “capability deprivation,” where capability refers to the whole range of civil and financial abilities or entitlements as well as to human development. Michael Sherraden appears to have reached similar conclusions quite independently in his pathbreaking 1991 work *Assets and the Poor*. Thomas Shapiro and I provided further support for the importance of the concepts of asset-building for urban poverty alleviation in the United States in our volume *Black Wealth/White Wealth* (Oliver and Shapiro 1995). And more recently, Anthony Bebbington developed an application of the approach to rural areas in his essay *Capitals and Capabilities* (1999).

An “asset” in this paradigm is a special kind of resource that an individual, organization, or entire community can use to reduce or prevent poverty and injustice. An asset is usually a “stock” that can be drawn upon, built upon, or developed, as well as a resource that can be shared or transferred across generations. Because in all societies assets are unevenly distributed, their distribution is highly related to both public policy decisions and cultural traditions and forces. These policies and traditions have affected the ways in which society structures ownership of assets and investment in assets. These structures have often affected women and members of racial and ethnic minorities in particular by excluding them from asset-building activities. As the poor gain access to assets, they are more likely to take control of important aspects of their lives, to plan for their future and deal with economic uncertainty, to support their children’s educational achievements, and to work to ensure that the lives of the next generations are better than their own.

Over the last four years the staff of the Ford Foundation’s Assets Program have been reexamining its grant-making initiatives and asking hard-hitting questions about how they fit within an asset-building strategy. This evaluation has required considerable analysis of the essential attributes of assets, the strategies needed to build them, and the methodology that will help us assess progress in asset accumulation. We have tried to see how we can best support asset-building organizations and bring an assets perspective to the various fields of work we support in what are primarily nonprofit and governmental organizations.

As our colleagues among practitioners and policymakers have witnessed our struggle to develop the asset-building approach, they have become very enthusiastic about it. This approach, they note, avoids the traditional focus on the “deficits” or “deficiencies” of the poor and disempowered and does not treat them as impassive subjects of external forces who are incapable of affecting their own future. It recognizes that injustice is as much a determinant of poverty as the vagaries of individual and community histories. The assets approach builds instead on the innate ability of all human beings to develop their skills and on the near-universal desire to create a better life for oneself and one’s progeny. We have also found that some researchers are interested in advancing work on specific interventions to build assets. We therefore thought that the paradigm and the practice could be ad-

vanced further by a broad and deliberate examination of asset-building concepts and strategies across a range of disciplines.

Bernard Wasow of the Assets Program's Community and Resource Development Unit developed a series of conferences whose papers would be published as edited volumes exploring these themes. He sought to bring together researchers who are concerned with various types of asset development, even those who may not have been accustomed to calling it such. He invited them to explore:

- The state of current knowledge about the links between poverty and the various kinds of assets that might affect it;
- The policy implications of an asset-building approach, particularly with respect to improving support for poor people and communities;
- Further related research questions that will assist practitioners and policy-makers in developing more effective strategies to alleviate poverty and reduce injustice.

The first conference led to the first volume in this series, edited by Sheldon Danziger and Jane Waldfogel; their book *Securing the Future: Investing in Children from Birth to College* was published by Russell Sage in 2000. The second national conference on asset-building strategies was organized by Thomas Shapiro and Edward Wolff and focused on financial assets and poverty alleviation. Two more conferences have been organized: one on social capital and the reduction of poverty, coordinated by Mark Warren, and another on building natural capital assets as a mechanism for alleviating poverty and increasing environmental justice, put together by James Boyce.

Each of these four conferences brought together some of the nation's best and most provocative academic thinkers and leading practitioners from both the public and private sectors for what proved to be highly animated discussions of the topics at hand. Each of the conferences provided foundation staff with important new insights into the links between asset-building and the foundation's goals. We believe that these insights, as well as the new research themes identified, are now reflected in the work that we support. We hope that the volumes in this series will also stimulate the development of other approaches to alleviating poverty and injustice among many other scholars, practitioners, and institutions worldwide.

This series represents one of many ways in which we at the Ford Foundation are engaging our academic and practitioner colleagues and encouraging discussion of the concepts that guide our grant-making in the Assets Program. We congratulate Tom Shapiro and Ed Wolff for the excellent volume they have produced, and we welcome further commentary on these themes.

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Introduction

Thomas M. Shapiro and Edward N. Wolff

At the close of the twentieth century the drive for economic equality and opportunity in the United States appeared stalled. Family incomes flattened out during the last quarter of the century, bucking the historic trend in rising standards of living and expectation of the American Dream. Indeed, politicians and scholars engaged in discussion about the implications of the coming of age of first generation of Americans who will not do better than their parents. For some, however, the last few decades have produced remarkable increases in standard of living and dizzying wealth portfolios. This rising inequality amid stagnating living standards has occurred within a changing social and political environment. Policies regarding the labor market, income, and taxation that in the past played a major role in providing opportunities, distributing a fairer share of the national wealth through wages, and providing for those outside the traditional labor market were no longer in political favor, as is evident from the current more regressive tax structure for American families and the end of welfare, as we knew it. The social welfare state has ended, exhausted and with no new directions looming on the horizon.

During the last quarter of the century, the structure for a far more quiet or “hidden” welfare state had emerged. A wide range of publicly subsidized assets accounts was built into the most enduring policy structure, the tax code. These include programs like individual retirement accounts (IRAs), Roth IRAs, 401(k)s, medical savings accounts, educational savings accounts, and state-managed college savings plans. Many of these assets accounts are expanding rapidly. Taken together, these programs have resulted in a major new form of social policy; and the trend is likely to grow. In addition, in what may prove to be very effective public policy, the home mortgage interest deduction subsidizes home ownership for millions of American families. Programs like these help to maintain, protect, and even increase assets for those who have already accumulated wealth. Families with few or no assets, however, are left further behind.

Against this backdrop, the availability of data on household assets offers intriguing possibilities for advancing our conceptual understanding of how families improve themselves in America, how they plan for and launch social mobility, and what resources they use to leverage a better life. Theorists have considered wealth

resources essential, but the lack of wealth data on groups other than the very rich has foreclosed any empirical or analytical examination of the role wealth plays in the lives of families; by default and lack of vision, the potential levers that asset-based social policy might offer have been similarly foreclosed.

The first comprehensive field survey of family assets and liabilities became available in the early 1960s with the Federal Reserve Board's Survey of the Financial Characteristics of Consumers (SFCC). By the mid-1980s three major surveys on household wealth were under way: the Federal Reserve Board's Survey of Consumer Finances (SCF), starting in 1983; the U.S. Bureau of the Census's Survey of Income and Program Participation (SIPP), beginning in 1984; and the Survey Research Center's Panel Study of Income Dynamics (PSID), also commencing in 1984. (All three data sources are used in the present volume.) By the mid-1990s the area of wealth studies had produced some fresh and paradigm-challenging social analyses, and a number of bold new policy ideas were beginning to get serious attention. In their search for new avenues by which to end the blight of poverty, several foundations began to explore and support asset-based approaches.

Within this context, the Ford Foundation proposed a conference to take stock of the emerging area of wealth studies and the potential for a new policy direction in asset building. This volume grew out of a conference that explored the research, analysis, theory, and action undertaken to increase household wealth among poor families. This set of papers probes theoretical concerns about assets, evaluates recent scholarship regarding the distribution of assets and their importance in the lives of American families, reviews policy developments and efforts already under way, and identifies programs and policies required to promote asset accumulation, especially among the disadvantaged.

This volume challenges the current thinking regarding poverty and policies to reduce it. At the same time, it proposes a major shift in the way we think about families and how they attempt to make a better life. The traditional assumption that governs our thinking in these areas is that income and labor markets constitute virtually the entire poverty story. The shift in direction entails a serious exploration of dynamics not wholly circumscribed by income or jobs—the basic economic fault line that wealth reveals, the way families acquire financial assets, the role that assets play in raising living standards and creating opportunities, and the potential of asset-based social policy. This is not to say that income, jobs, and labor markets should be disregarded. Rather, both sets of dynamics are critically important, and the future task will be to determine the analytic connection between them and the best policy mix.

STRUCTURE OF THE VOLUME

The papers are organized into three sections. Part I provides an overview of asset ownership in the United States and establishes the foundation for an examination of assets. The first selection, "The Importance of Assets," by Thomas Shapiro, shows that wealth has been a neglected dimension of social science's concern with the eco-

conomic and social status of Americans in general and racial minorities in particular. We have, as a group, been much more comfortable in describing and analyzing occupational, educational, and income distributions than in examining the economic bedrock of a capitalist society, private property. The growing concentration of wealth at the top, and the growing racial wealth gap, have become important public policy issues that undergird many political debates but unfortunately not many policy discussions. Shapiro maintains that an examination of wealth, in conjunction with labor market indicators, offers an indispensable contribution to our current understanding of racial stratification. Thus, a wealth perspective provides a fresh way of looking at racial inequality and the “playing field.”

The second paper, “Recent Trends in Wealth Ownership,” by Edward Wolff, reveals the buried fault line of wealth. Using data from the Survey of Consumer Finances, he finds that wealth inequality continues to rise in the United States. Between 1983 and 1998, 53 percent of the total growth in net worth accrued to the top 1 percent and 91 percent to the top 20 percent. By 1998, the wealthiest 10 percent of households held about 90 percent of financial assets and about three-quarters of real estate investments. Moreover, while the richest grew even wealthier, median net worth (in constant dollars), after growing by 7 percent from 1983 to 1989, had increased by only another 4 percent by 1998. Indeed, the average wealth of the poorest 40 percent fell by 76 percent between 1983 and 1998, and by 1998 was only eleven hundred dollars. Wolff’s analysis reveals important aspects of the current middle-class anxiety in the United States.

The next essay, “Access to Wealth Among Older Workers in the 1990s and How It Is Distributed: Data from the Health and Retirement Study,” by Richard Burkhauser and Robert Weathers, focuses on assets for persons between the ages of fifty and sixty-two in 1992 and changes in their wealth holdings between 1992 and 1996. By examining this age group, the authors highlight issues of sensitivity, access, and household size in wealth analyses. They note that studies of wealth distribution that ignore housing wealth, social security wealth, and pension wealth exclude two-thirds of the wealth of the nation and hence exaggerate wealth inequality for this age group. They find that social security wealth is the most evenly distributed asset component in this age cohort and is the single most important asset in all but the top three deciles. Burkhauser and Weathers show little variation in the importance people place on leaving inheritances. However, only the wealthiest households expect to deliver a sizable bequest to their children.

Part I closes with “The Role of Intergenerational Transfers in Spreading Asset Ownership,” by Mark Wilhelm. Using the PSID over the period 1984 to 1989, Wilhelm estimates that about one-half of wealth comes from intergenerational transfers. However, despite the large share of wealth traceable to intergenerational transfers, most people who hold wealth, including those in the top quintile, get a fairly small portion of that wealth from inheritance. Intriguingly, Wilhelm also shows that low-income people receive wealth transfers almost as often as others, although the dollar amounts are considerably lower. These transfers typically are cash gifts. One of the core policy discussions centers on the way asset-poor families will use assets. Wilhelm reports that these intergenerational transfers to low-income persons cat-

alyze positive effects, like home ownership and debt reduction, smooth out consumption, and allow self-employment.

Part II provides a foundation of facts about asset accumulation, or lack thereof, among the poor. If assets are such great stuff, as the papers in part I suggest, then, one has to ask, why don't more people save? The first paper in part II, "Asset Accumulation Among Low-Income Households," by Stacie Carney and William Gale, documents a series of findings on asset accumulation among poor households. Using the SIPP, they find that 20 percent of American households and 45 percent of black households do not have basic transactions accounts, and discretionary asset holdings other than housing are minuscule for the bottom quarter to half of the population. Furthermore, Gale and Carney reveal, a large proportion of American households have very low assets: more than half of all households possess less than five thousand dollars in financial assets. Poor families, then, are outside the mainstream banking system and have accumulated few, if any, financial assets.

In the second paper in part II, "More than Money: The Role of Assets in the Survival Strategies and Material Well-being of the Poor," Kathryn Edin shows the multitude of ways in which assets, or the lack of assets, make a difference in the lives of the poor. Edin interviewed low-income single mothers and noncustodial fathers, groups whose income is both inadequate and unstable. Tangible assets like tools, washers and dryers, and cars are important resources in the job market and for self-employment, whether in the formal or the informal sector of the economy. Because of restricted access to conventional sources of credit, the income poor must often pay in cash for the items they acquire or rely on usurious sources of credit. Edin notes that unfortunately welfare rules have traditionally prohibited mothers receiving benefits from having or accumulating assets such as monetary savings, stocks, or many other forms of property. She concludes her presentation with a number of public policy suggestions aimed at assisting low-income individuals and families in accumulating assets to enable them to leave poverty behind.

The next essay, "Housing as a Means of Asset Accumulation: A Good Strategy for the Poor?" by Nancy Denton, addresses the American Dream of homeownership as it applies to the poor. She focuses on the financial value of home ownership and the ways in which it leads to other social goods, like better schools and public services and more effective social networks. She notes that housing is not only a form of investment, offering the possibility of appreciation of values, but also a component of lifestyle, providing direct amenities to the owner and serving as a vehicle for intergenerational transfers. Denton counsels caution, however, pointing out that the rise in housing values from the 1950s to the 1970s that produced spectacular equity is not likely to occur again for the current generation of young home owners. Home ownership typically results in lower equity in black communities than in white communities, and home ownership in black communities typically does not provide access to richer educational environments or better public services.

The papers in part III focus on the conditions under which poorer families have accumulated assets and current social policies that provide structures and incentives for these families to build assets, concluding with an examination of how the tax code might be utilized to promote asset-building policies. The first selection,

Mark Stern's "The Un(credit)worthy Poor: Historical Perspectives on Policies to Expand Assets and Credit," explores the historical conditions that have promoted policies to expand assets and credit. The paper traces efforts by the poor to accumulate assets from the late nineteenth century to the present. Stern investigates the importance of informal social relations—economic, community, and political—in improving the lives of poor families. He next notes the difficulty that any social policy has in overcoming the disconnection between informal social relations and mainstream institutions and the particular challenges this poses for asset building. Stern adds to the conversation the importance of the availability of credit and the parameters of creditworthiness. He argues that traditional definitions of uncreditworthiness have become the new standard for exclusion, particularly for women, African Americans, and other disadvantaged minorities.

The next essay, by Michael Sherraden, "Asset-Building Policy and Programs for the Poor," focuses on the emergence of asset building as a community development and policy innovation. Sherraden not only describes major initiatives in current asset-building policies but also explores some of the important underlying policy and theoretical issues. He focuses particularly on the use of individual development accounts (IDAs). Using data from the most important national demonstration project in the field on IDAs, he contributes a fresh analysis of the saving behavior of low-income individuals under different sets of structured incentives. Significantly, Sherraden demonstrates that poor people can and do save.

The final paper in part III is Laurence Seidman's contribution, "Assets and the Tax Code." Seidman documents the way middle- and high-income families use the tax code to gain asset accumulation subsidies. Generally, low-income families have not benefited from this hidden welfare state because they cannot play in the world of tax exclusions, deductions, capital gains tax rates, or nonrefundable credits. The main exception is the earned income tax credit (EITC), which provides a refundable tax credit to poor families. However, the tax credit is based only on labor earnings. Seidman proposes changes that would allow low-income families to use the tax code to promote asset accumulation. In this chapter, he proposes a new design for an individual development account (IDA) tax credit to encourage savings for the future.

The volume concludes with the insights of four "rapporteurs," John Sibley Butler, Dalton Conley, Robert Haveman, and Seymour Spilerman. This group read all the papers, attended the conference sessions, and participated in the discussions. Here, they present their individual responses on different important themes. Butler focuses on the benefits and risks of entrepreneurship and self-employment among the poor. He emphasizes the importance of models, arguing that the results differ depending upon which model is used. Conley moves the discussion to issues of inequality, noting that wealth is both what people strive for and a mechanism through which inequalities are passed on to the next generation. If inequality is to be understood more fully, he argues, the link between the labor market and wealth traditions needs to be acknowledged. Robert Haveman concentrates his insights on public policy implications. He emphasizes the demonstrated need of asset accumulation for poor families, noting the shockingly large percentage of working-age families with no financial assets, the extreme racial gap in wealth, and the falling net worth of average families.

The obstacles to increasing the assets of the poor are huge and well documented in many of the papers in this volume. Haveman proposes several policy changes and notes some areas that need to be addressed in future policy and research. The last word comes from Seymour Spilerman, who underscores the theme that present social and political programs work counter to the goal of asset accumulation for the poor. Extended networks, he also suggests, put more demands on poor people's assets, which poses a dilemma for asset-building policy. Illustrating the ways in which some ethnic groups have pooled resources to lift themselves out of poverty, Spilerman raises salient issues about the relationship between informal reciprocal obligations and structured and restrictive asset-building models.

THE PUBLIC POLICY MESSAGE

Asset building for low-income families is a bold and powerful idea. The common ground of the papers presented here is that the possession of assets (or the lack of assets) matters greatly: they provide an economic cushion and enable people to make investments in their future and thereby in their present psychological orientation. In short, assets provide a stake that income alone cannot provide. Asset accumulation among low-income families will also begin to address the most egregious ravages of the wealth gap and bring more people into the financial mainstream. Current public policy offers substantial, highly regressive subsidies for wealth and property accumulation for relatively well-off individuals. In contrast, poverty policy has ignored asset building for resource-poor families. The challenge is to present a clear message with broad and popular appeal, to design policies that reach low-asset families willing to work and save.

As many of the contributions in this volume point out, and as was clearly evident in the conference discussions, there is an extensive scholarly conceptual, research, design, and evaluation agenda on the accumulation of assets among the poor. At this point, it might be useful to call attention to some of the most prominent issues raised in the discussion of these papers. First, many policy makers continue to doubt, even in the face of empirical evidence, that the poor can save at all—a concern that confronts traditional economics. Sherraden provides fresh data demonstrating that the poor do in fact save and analyzes the structures that encourage savings. Seidman clearly advocates rewarding savings efforts among the poor. Edin and Stern suggest that credit be loosened so that the poor can borrow more easily and at lower costs. Should public policy encourage asset accumulation or make credit and borrowing easier? Although they disagree on whether to place the emphasis on the savings or credit side to expand assets, the scholars presented here reorient the discussion toward the critical question of how poor people manage to save.

This conceptual debate leads to a political dilemma. The sharpest discussions at this conference, and at subsequent conferences, pitted the promotion of new asset-building policies against the protection and strengthening of existing safety-net programs for the poor. This question brings the conversation back to the connection between income and labor market policies to encourage asset building and the

need to find the appropriate policy mix. For example, raiding individual asset-building accounts to pay medical bills because of cuts in Medicaid benefits does not promote a brighter future; it only shifts the financial burden.

The blossoming literature on the effects of assets is promising; however, there is much work to be done in this area before the full range of social, community, and civic results of asset holding can be evaluated. Beneficial outcomes at neighborhood, household, and individual levels are being documented. Home ownership, for example, is positively correlated with rising property values, educational attainment and achievement, decreased school dropout rates, increased civic involvement, and residential stability. Research in other areas such as marital stability, family health, children's well-being, and domestic violence is encouraging; academic studies in these areas need to catch up with the policy developments.

Analyzing wealth is much less tidy than examining income. Several of these papers empirically analyze wealth, and they draw from different databases and sometimes use different wealth measures. Issues of measurement, though very important, might mask the larger conceptual question of what should be considered an asset. The research reports vary in their treatment of future social security payments, private pension funds, 401(k)s, vehicles, and even homes. Some are considered fungible and others are not. Some of these assets allow people to build a better life and future; others may be more important as safety cushions later in life. Indeed, in one policy implication, discussions over whether an automobile purchase is a legitimate use for subsidized asset accounts are always heated, with as yet no clear resolution.

In the public policy arena, events are occurring so rapidly that practice and policy developments are driving the research. In early 2000, we can take stock of remarkable and rapid developments: the 1998 Assets for Independence Act authorized \$125 million for individual development accounts. In other legislation, states can now use IDAs as part of welfare reform plans and welfare-to-work programs. The Savings for Working Families Act was introduced in early 2000, proposing about \$5 billion in tax credits to financial institutions and private sector investors to set up, match, and support asset-building accounts for low-income persons. A Children's Savings Account Initiative is about to be launched. In the last two State of the Union addresses, major asset-building programs were announced. In at least thirty-four states, either IDAs have been authorized or such legislation is pending. This brief review highlights only some of the major current and pending legislation, which we suspect will be dated by the time the next federal budget is submitted.

The number of pieces of legislation can be misleading because they serve only a small fraction of families with few or no assets. Many of these programs serve as demonstrations to test conceptual, design, practical, and political issues. Even if they are deemed effective and find public support, taking them to scale will engage another host of issues.

By bringing together a first-rate group of scholars and practitioners, we hope this volume will stimulate further interest in and provide further impetus to the emerging field of wealth studies and to asset-development policy. Furthermore, we hope this volume will deepen and broaden this interest and will guide teaching and research in asset-based policy. The conference was held in December 1998 at New York University.