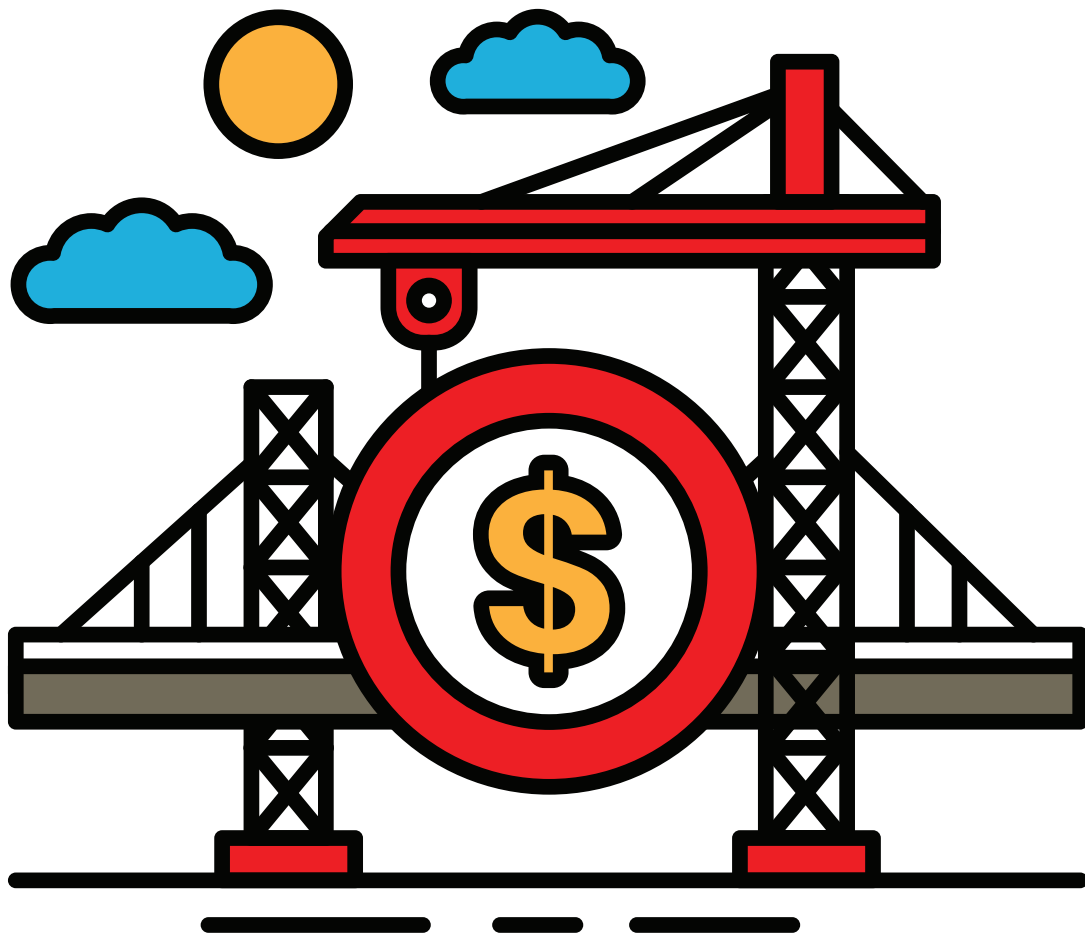


Ensuring Financial Happiness through an Integrated Social Welfare System

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SUMMARY

This policy paper, authored by William Elliott, Ph.D. from the University of Michigan, the current American social welfare system, shaped by 40 years of incremental policies and often conflicting narratives, has largely succeeded in providing a “survival standard of living” but has fallen short in ensuring all citizens have the **real opportunity to pursue their financial happiness** and achieve economic mobility. This policy brief proposes an integrated and cohesive social welfare policy built around **five key proposals**: Child Development Accounts (CDAs), Guaranteed Income, Free College, Baby Bonds, and national financial literacy training in schools. This planned system aims to establish a financial infrastructure that empowers individuals from birth through adulthood, fostering institutional financial capability and aligning with America’s foundational promise of providing the freedom to pursue happiness.

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Lessons from 40 Years of Social Welfare Policy in America

Over the past four decades, American social welfare policy has been marked by a focus on work requirements, reducing eligibility for benefits, and, particularly from Republican administrations, reducing the size of government agencies. This era began with the Reagan administration (1981-1989), which saw a pronounced increase in inequality and a shift away from guaranteed income proposals favored by previous administrations like Nixon and Carter. Reagan's policies focused on increasing work requirements and used powerful narratives, such as the "welfare queen," to define a moral philosophy that racialized the social welfare conversation and shifted the problem from poverty to the welfare system itself. His administration also championed "trickle-down economics" through significant tax cuts for the wealthy, believing this would stimulate economic growth. During his term, the poverty rate averaged 13.9%, and the federal deficit increased significantly.

Democrat Bill Clinton's presidency (1993-2001) marked a significant shift with the passage of the Personal Responsibility and Work Opportunity Act of 1996 (PRWORA), which replaced Aid to Families with Dependent Children (AFDC) with Temporary Assistance for Needy Families (TANF). This legislation heightened the focus on work requirements, limited lifetime benefits, and shifted power to the states, placing outsized responsibility on individuals for their poverty. Clinton's narrative emphasized breaking the cycle of dependency and promoting work, aligning closely with Republican messaging. During his term, the poverty

rate averaged 13.1%, and notably, the federal government achieved a surplus by the end of his presidency.

Republican George W. Bush's administration (2001-2009) continued to prioritize work and family values, further reducing the federal government's role in public assistance, exemplified by the Faith-Based and Community Initiative (FBCI). Tax policies, such as the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) and the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA), reduced marginal income tax rates and benefited wealthy families through increased estate tax exemptions and lower capital gains taxes. The poverty rate averaged 12.7% during his term, and the federal surplus turned into a significant deficit due to factors including the Great Recession and wars.

Democrat Barack Obama's presidency (2009-2017) largely responded to the Great Recession, expanding unemployment and food stamp benefits (SNAP), and investing in education, job training, housing, and healthcare. His administration also heavily relied on tax policy, restoring top income tax rates to Clinton-era levels for high-income households while making most Bush-era tax cuts permanent for lower and middle incomes. The American Recovery and Reinvestment Act (ARRA) expanded tax credits like EITC and CTC. His signature social welfare policy was the Patient Protection and Affordable Care Act (ACA). The poverty rate averaged 14.1% during his term, and the federal deficit decreased by 53%.

Republican Donald Trump's first term (2017-2021) focused on reducing welfare dependence, expanding work requirements, and limiting access for undocumented immigrants, using narrative to frame policy. The Tax Cuts and Jobs Act (TCJA) of 2017 significantly lowered corporate and individual income tax rates and nearly doubled the standard deduction, reflecting a "trickle-down" approach to job creation. However, in response to the COVID-19 pandemic, the CARES Act provided direct payments, expanded unemployment benefits, and supported businesses. The poverty rate reached an all-time low of 10.5% in 2019 but rose to 11.6% by 2021 due to the pandemic, and the federal deficit increased by 317%.

Democrat Joe Biden's administration (2021-2025) focused on strengthening the social safety net and addressing income inequality in response to the COVID-19 pandemic. The American Rescue Plan (ARP) provided direct payments, expanded unemployment benefits, and temporarily expanded the Child Tax Credit. The Infrastructure Investment and Jobs Act (IIJA) allocated significant spending for infrastructure. Biden continued the narrative that the rich should pay their fair share. The poverty rate decreased to 11.1% by 2023, and the federal deficit decreased by 32%.

The current Republican Donald Trump administration (2025-present) has enacted the "One Big Beautiful Bill Act," which makes substantial cuts to social welfare programs like Medicaid and SNAP, adding work requirements for able-bodied individuals on Medicaid without children. It extends most individual tax cuts from the TCJA and makes the higher estate tax exemption permanent. This administration has also systematically attempted to drastically reduce the size of the U.S. government. The Congressional Budget Office estimates this bill will add \$3.4 trillion to the national deficit over the next decade.

In summary, a key focus of social welfare policy over the last 40 years, adopted by both parties, has been on identifying the "undeserving" and reducing benefit recipients through work requirements. However, in times of crisis, both parties have resorted to policies like direct payments and expanded benefits, which more closely resemble proposals for institutional financial capability. **Narrative has played a central role in shaping these policies**, often by "othering" groups (the poor or the rich) to appeal to emotions rather than promote understanding or unity. Despite these efforts, the average poverty rate has remained within a narrow range (10.5% to 15.2%), and economic mobility has generally declined, indicating the current system provides a floor but has hit a ceiling in reducing poverty or fostering financial happiness.

A Financial Capability Framework for Social Welfare Reform

A new approach is needed, grounded in the financial capability framework, which posits that financial capability encompasses both **internal (individual knowledge and skills) and institutional capabilities (government’s role in financial inclusion, income, and wealth generation)**. The government’s responsibility is to provide the conditions

for all citizens to pursue financial happiness, making it a meritocratic environment where individual effort determines outcomes. This framework proposes combining five existing policy proposals to form a planned and cohesive social welfare system that ensures every child has the real opportunity to pursue their financial happiness.

A Set of Policy Tools for Government to Empower People to Become Financially Capable

Child Development Accounts (CDAs)

CDAs are proposed as the central financial institution of this reformed social welfare system. They are **wealth-building vehicles, often starting at birth**, intended to be lifelong accounts for multiple purposes, such as college, homeownership, starting a business, or retirement. CDAs can serve as “scaffolding” for linking and administering other proposed policies, facilitating wealth accumulation from various sources (government, families, third parties).

CDAs connect individuals to America’s financial infrastructure, helping manage risk, providing insurance (like FDIC), and pooling savings to provide access to professional investment management for low-income families. They are a critical tool for reducing wealth inequality in a capitalist system and can facilitate the flow of multiple streams of assets into an individual’s account. The lack of such a central financial institution has led to a bifurcated system with separate, less effective institutions for low-income families.

Key principles for effective, scalable CDAs include:

Eligibility for all

Universal inclusion for a stake in the system.

Automatic initial deposit

Jump-starts wealth accumulation.

Start young

Maximizes wealth-building potential.

Centralized savings plan

Facilitates implementation and reduces costs.

Automatic enrollment

Eliminates barriers, ensuring nearly 100% participation, as demonstrated by Maine’s My Alford Grant program after switching from opt-in to opt-out.

Targeted additional deposits

Those with greater need receive more.

Investment growth & Simplified investment options

Augment wealth-building and ease decision-making.



A Critical Look at “Trump Accounts”

While the recently passed “One Big Beautiful Bill Act” includes provisions for “Trump Accounts” that some might associate with CDAs or Baby Bonds, their current design has significant shortcomings that would likely exacerbate inequality.

- They **do not automatically open accounts for all children**, meaning they will likely become another inequality-producing institution, benefiting wealthier children who are more likely to reach the annual cap.

- The **\$5,000 annual deposit cap** could lead to unprecedented wealth inequality if only the wealthy can meet it.
- They **must be held at private financial institutions**, which could erode investment gains for low-wealth families. In contrast, effective CDA and Baby Bond proposals suggest progressive annual deposits based on income and wealth thresholds, ensuring greater benefits for those most in need.

Free College

Free college proposals are seen as a **significant wealth transfer at age 18**, akin to the GI Bill, incentivizing postsecondary education or national service. This proposal strategically unites education and social welfare efforts, which currently fall under separate federal budget areas despite similar purposes. Integrating free college with a CDA infrastructure allows the promised funds to be made tangible

as an early award placed directly into the child’s CDA, augmenting educational outcomes and providing real financial confidence, rather than just a conditional promise. The average cost of a four-year public in-state college, around \$45,040, is comparable to amounts proposed in Baby Bonds, highlighting their shared characteristic as significant wealth transfers.

Baby Bonds

Baby Bonds are proposed as another crucial **wealth transfer at around age 25**, designed specifically to reduce wealth inequality and help young adults successfully launch into adulthood. This age is significant because wealth inequality is at its lowest, potentially requiring less wealth to reduce the gap. The concept was popularized by Hamilton and Darity Jr., building on Michael Sherraden’s work on CDAs. It is

suggested that a federal wealth transfer of **approximately \$14,000 at age 25 be placed into an individual’s CDA**, potentially extending payment schedules like Senator Cory Booker’s proposal, which suggests progressive annual deposits for children until age 18. CDAs are well-suited to deliver Baby Bonds as they can accommodate multi-purpose, larger deposits.

Cash Transfers (Guaranteed Income)

Income is fundamental for financial capability, ensuring basic needs are met and sparking wealth creation. A single, **progressive federal Guaranteed Income (GI) program** is proposed to replace the current fragmented system of cash transfers (e.g., CTC, TANF, EITC).

- Unlike Universal Basic Income (UBI), GI would be **progressive**, meaning low-income households receive more, effectively reducing relative poverty and income inequality.
- This aligns with the concept of diminishing marginal utility, where additional income has a greater impact

on those with less, profoundly changing their living standard.

- The current cash transfer programs are designed for “survival” and often come with work, immigration, and family structure requirements, reinforcing a philosophy that defines and limits who is “deserving”.
- A single, progressive GI program delivered through the CDA infrastructure would increase efficiency, simplify navigation for recipients, and provide the necessary “spark” for wealth building beyond mere consumption.

Financial Literacy Training

National financial literacy training should be **mandated in high school curricula and extended to postsecondary education**, playing a vital role in developing children’s internal financial capability. Currently, access to personal finance courses is limited, especially in low-income or predominately Black and Brown schools.

Integrating financial literacy with CDAs provides a tangible, experiential learning environment where students can apply concepts of saving, investing, interest, and money management to their own real accounts, significantly boosting engagement and retention of financial knowledge.

Conclusion

The American social welfare system lacks a cohesive policy structure that extends across the entire life course. By combining Child Development Accounts, Guaranteed Income, Free College, Baby Bonds, and national financial literacy training, a comprehensive and planned system can be created. **CDAs, serving as a central financial institution and scaffolding**, can effectively deliver and integrate the other proposals, reducing barriers, minimizing bureaucracy, and enhancing the power of

funds for wealth building. This integrated approach moves beyond merely providing a safety net to actively cultivating financial happiness and economic mobility for all citizens, fulfilling America’s foundational promise and fostering a true meritocracy where effort and ability, not starting point, determine outcomes. A fundamental shift in the social welfare narrative will be essential to realize these reforms.