CONFERENCE BRIEF

Together We Are Stronger

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Day 2, 1:00 – 1:20

This Perspective presents remarks delivered by Dr. William Elliott in an address given during the conference, “Using Wealth and Income Policies to Forge a New Social Contract: Giving People Something to Live For,” on September 16, 2024. The event was organized by the Center on Assets, Education, & Inclusion, Center for Social Development, Center for Guaranteed Income Research, and Poverty Solutions. Funders were Annie E. Casey Foundation, Charles Stewart Mott Foundation, McKnight Foundation, and the University of Michigan’s School of Social Work.

Merging CSAs and Baby Bonds, a Potentially More Impactful Strategy

At the present time, two children's wealth-building proposals are before the Congress: the 401 Kids Savings Account Act and the American Opportunity Accounts Act or Baby Bonds proposal. In a recent report, I discussed the similar origins and content of these policy proposals (Elliott, 2022, Oct.). However, it is important to emphasize that just because they share a similar origin story, this does not mean each does not offer something unique and important. The Baby Bonds movement, which is larger than any one person, is based on moral outrage over racial inequality in America and its negative impacts on the ability of Black children to survive and thrive, equitably, with white children who are advantaged by unjust financial, labor, education, and other institutions. It also has brought attention to the importance of securing a substantial federal investment for interventions to narrow the racial wealth gap. In contrast, the CSA movement, which is also bigger than any one person, has been focused on building evidence for why access to institutions and assets matter for low-income children. CSA architects have also focused on which are the right institutional principles and mechanisms for delivering assets to children at scale. Finally, CSA programs have been administered and replicated across the country. At the end of 2023, there were close to six million children with a CSA account in 39 states (Prosperity Now, 2024). According to the Center for Social Development, there are seven states that now have a statewide program – California, Illinois, Maine, Nebraska, Nevada, Pennsylvania, and Rhode Island (Sherraden & Clancy, 2021).

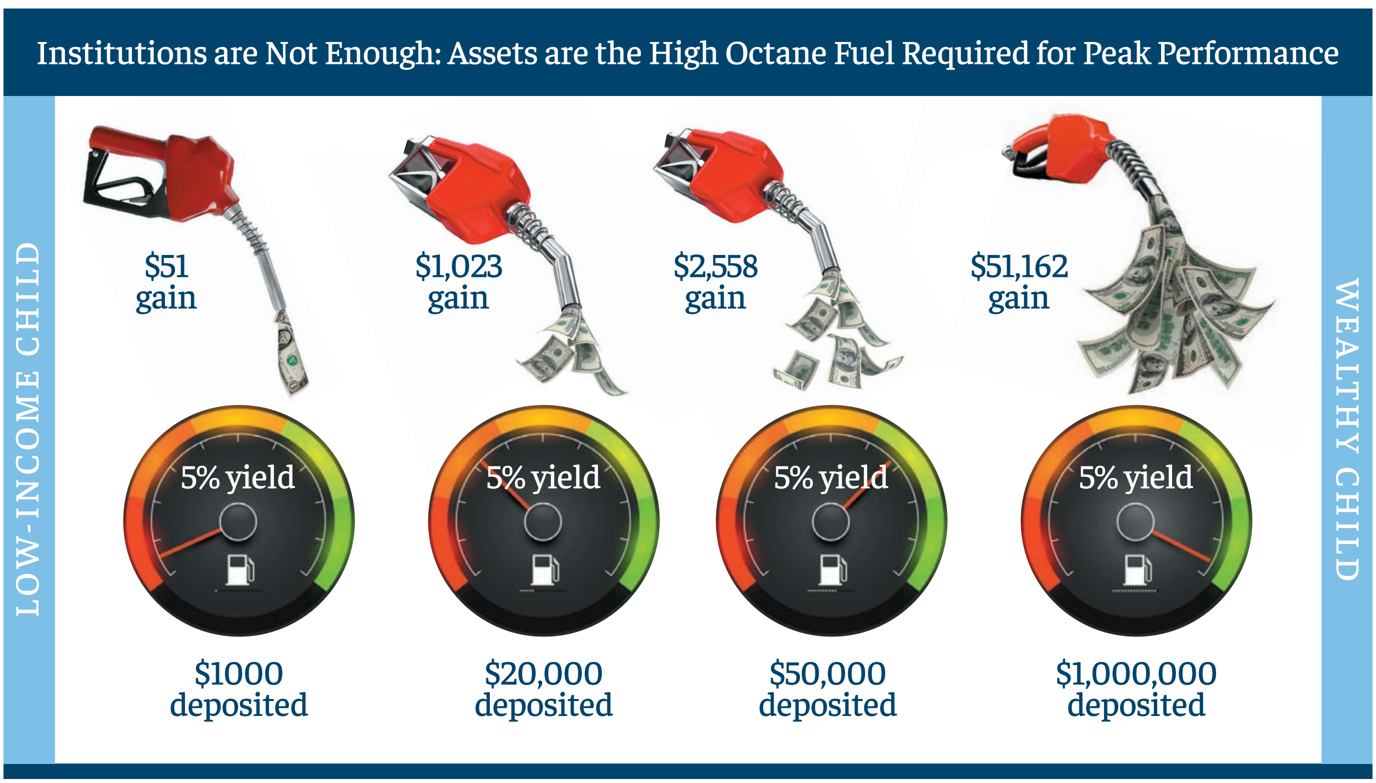
I bring attention to the shared origins of both movements here as a way of suggesting that there is a pathway to come together. It appears to me that much of what distinguishes the CSA and Baby Bonds movements would make the other a more effective strategy if they were combined. I also have to say, I am not here to litigate whether the Baby Bonds movement is distinct from the original intent of CSAs; we will leave that to the historians. The distinction I draw is between what Baby Bonds aspire to be and what CSAs are in their current form. My concern, which I am sure is the concern of most of you, is how do we create a policy proposal that would be most helpful to the poor and a movement strong enough to turn proposals into law in a moment when it might seem impossible. If the focus is on what would be best for the poor, and not what is best for a movement, and if we can make the case that these proposals would be more effective together than apart, we owe it to the poor to have this discussion.

Institutions are Not Enough: Assets are the High Octane Fuel Required for Peak Performance

If the goal is to build wealth among low-income households so they can invest in their own development, asset-building policies must include government deposits. And if children's assets are to improve not only their chances but the prospects for future generations, that will require reducing the racial wealth gap; that goal is more ambitious and widespread than individual families' actions can realize. Simply put, these goals require government spending. From this perspective, in a capitalist economy financial institutions run on assets. Institutions' performance is determined in significant part by the amount of fuel they need to optimally run.

A simple example is how earning occurs in a high-yield savings account. Let's say a person puts $1,000—a lot of money for a low-income person— in a high-yield savings account with a monthly Annual Percentage Yield (APY) of 5%. If they deposited nothing else that year, they would earn only about $51. However, if they had $20,000, the account would produce $1,023 for them; if they had $50,000, it would produce $2,558, and in if they had $1,000,000 to put into the account, the account would produce $51,162 for them, above and beyond any effort they expended on their own. Or we could say the institution transfers over $51,000 more to the wealthy child than it does to the low-income child.

From this simple example, four things become clear. First, financial structures like high-yield savings accounts—and even more dramatically, investment accounts – produce wealth on behalf of individuals above and beyond their own individual effort and ability. Implication: if not everyone has access to these institutions, the story that America is a meritocracy is nothing more than a lie. Second, the amount of assets children have to put into a financial institution plays a key role in how much they can benefit from it. Implication: institutional access alone will not create equity. Third, small initial deposits limit the return people can receive from financial institutions. Implication: when the wealth gap is large like it is in America, leveling the playing field through early children's assets requires large initial or ongoing deposits. Fourth, for financial institutions to be truly effective at reducing wealth inequality, it's necessary to not only increase the capacity of low-income children, but also put some limits on the advantages accruing to high-income families. This suggests a need to cap deposits by higher-income groups, but not low-income families. In sum, these conclusions underscore that a financial institution like CSAs, which are designed for the poor, is needed. Further, to reach their full potential, CSAs need to be paired with a Baby Bonds type of investment. The opposite is also true; for the kind of investment a policy like Baby Bonds calls for to have the impact sought, it needs to be delivered using the CSA infrastructure. And, finally, to realize CSAs' institutional superpower, to facilitate multiple streams of assets flowing into a child's account, CSA policy must be designed so that the poor benefit more from this superpower than the wealthy – that is, CSA policy must place a cap on the amount that can be deposited annually into wealthy children's accounts.



Free College, Asset Building for Children?

The CSA infrastructure can also be used to deliver free college proposals.[1] Free college and Baby Bonds are alike in that they both set aside a sum of money for children's growth and development that can be accessed at around age 18. A significant difference between the two is that the Baby Bonds model allows children to grow up knowing they have the money; it is an early award program. In contrast, free college is a promise of money conditional on being eligible to attend some form of postsecondary education. It might seem foreign to think of free college proposals as a type of asset building policy because education and wealth building have often been thought of as separate movements on different policy tracks but who contend for the same piece of the economic pie. Indeed, what is the purpose of higher education to most college age students today but a transaction for credentials that equip them for attaining income (McMurtrie, 2024). What CSAs provide is a well-structured policy framework capable of delivering all different kinds of assets to children, to include free college, as well as lasting wealth that can translate college attainment to real economic mobility. A rather conservative example of how this might work comes from The College Board (2013). They recommended supplementing the Pell Grant program by opening savings accounts for children as early as age 11 or 12 who would likely be eligible for Pell once they reached college age and making annual deposits of 5% to 10% of the amount of the Pell Grant award for which they would be eligible. As such, CSA programs provide an institutional structure for converting traditional financial aid into an early award, thereby delivering both the asset effects that increase educational attainment and the assets required for a college degree to result in real return.

Government Funding is not Enough Either

Certainly, if the only goal of Baby Bonds is to act as some sort of reparation to families of color, how it is delivered or the form it takes may not matter. But if the goal is positioning children to become producers of wealth themselves, then Baby Bonds are unlikely to be sufficient. This reminds me of when economists used to think the problem low-income children face regarding college is that they simply don't have enough money to pay for college costs. And so, policy makers paid little attention to where the money came from or what it might be doing to children's ability to become wealth producers. In this analysis, loans were not much different than other forms of financial aid. Decades later, it has become clear that, not only do children need money to pay for college, but it also matters where they get the money. For example, using the credit arm of financial institutions to deliver money for college has led to children being exposed to debt collections, negative credit ratings, and much more. We might have to learn again that yes, money is needed, but how that money is delivered to them does matter.

One thing that makes CSAs a particularly good platform for delivering wealth-building policies is that they provide more than the money to pay for college; they also produce an array of psychological and emotional effects-- not only for children but also their parents. For example, experimental data show CSAs improve parental educational expectations for their children (Kim, Sherraden, Huang, & Clancy, 2015) and social emotional development among young children (Huang, Sherraden, Kim, and Clancy, 2014), reduce punitive parenting practices (Huang, Nam, Sherraden, & Clancy, 2019), and reduce maternal depression (Huang, Sherraden, & Purnell, 2014). They even mitigate up to 50% of the negative effects of material hardship on young children's social emotional development (Huang, Kim, & Sherraden, 2016), even though families cannot spend any of the CSA funds to meet immediate needs. In support of this, research also shows that access to a CSA reduces material hardship by improving financial management (Huang, Nam, Sherraden, & Clancy, 2016). These effects are almost always strongest among

[2] For more information on Promise Programs and free college proposals go to https://www.freecollegenow.org/promise_programs.

low-income children and their families.

Further, CSAs provide an institutional structure that allows for third-party contributions from family members, employers, philanthropists, communities, and other entities, as well as government contributions. I have referred to this as their ability to facilitate the flow of multiple streams of assets into a child's account. In this way CSAs may expand the notion of wealth building for the poor from being exclusively a government responsibility to a community responsibility. As such, it might be argued that they can expand the wealth building potential of free college and Baby Bonds proposals.

In addition to their wealth building function, as community accounts, CSAs also provide an infrastructure that can carry social capital to children. New York City's CSA program KIDs Rise is a leading example of harnessing the power of the CSA platform to deliver multiple streams of assets while bringing communities together (Glickstein & Elliott, 2023). NYC has demonstrated that the CSA platform can serve as an organizing tool within and across communities, to enhance connectivity among residents and local institutions, build robust partnership and collaboration between organizations with complementary missions, and direct resources towards people living in communities outside their own neighborhoods. Something not yet measured but may be as important is the fact that scholarships placed in a CSA, organized by the community, can also serve as a crucial reminder to children and their parents that other parents and the broader community are behind them.

This is why I have concluded that CSAs are the best way to deliver a large federal wealth building investment to children. The CSA platform does not replace scholarships or other philanthropy, for example, or even Baby Bonds, but they do provide a different way to deliver these investments that can enhance the impact they can have, particularly among the poor and their communities. CSAs are not a silver bullet. They should not be seen as a replacement for what is already being done, because there is clear evidence that low-income children and families need more opportunities. Instead, CSAs can augment what Head Start does, what schools do, and what federal investment in children's wealth building can do.

How about Income's Role in Wealth Building for Children?

It seems clear that income plays a vital role in combating the symptoms associated with poverty such as hunger, homelessness, and ill health. You only must take one look at a child who is hungry to say to yourself that more income supports are needed. And so, here I focus on income's role in building wealth. It is hard to get around the fact that low-income families and their children have little money left over after they pay for their basic needs, making the decision to save much more costly for them than it is for their higher-income counterparts. Some would argue this is reason to suggest that saving puts low-income families in a difficult bind, forced to choose between meeting their needs today or their kids' needs for tomorrow. Unconditional cash transfers create another path of widened possibilities and greater capacity.

Research indicates that families will often attempt to save for higher-level needs only after they have saved enough to meet lower-level needs (e.g., Elliott, Jones-Layman, O'Brien, & Dombro, 2024; Xiao & Anderson, 1997). This is helpful for understanding how combining income interventions with CSAs or other asset building policies may create an environment more conducive to low-income families being able to choose to save. Another way to think of this is that increasing income reduces the cost and, potentially the stress, related to saving for growth and security—mitigating the strain of the tradeoffs low-income families experience between spending on their immediate survival versus building assets for future security or growth. Therefore, I suggest that combining income and asset policies might lead to the best results for the poor.

Testing an Institutional Change Intervention for Improving Children's Financial Independence

However, to date, no research exists that I know of that attempts to test if using the CSA infrastructure to deliver a guaranteed income with targeted regular deposits improves children's financial independence. However, other research offers important insights that can inform policy inspired by this potential. Most prominently, the city of Saint Paul, Minnesota is not only rigorously testing the power of CSAs to provide an infrastructure that allows multiple streams of assets to flow into a child's account but also how this same infrastructure can be used to connect income strategies with asset strategies, in an experimental study they call CollegeBound Boost. This program builds on their existing citywide CSA program, CollegeBound, by adding a guaranteed income component and ongoing targeted deposits (as outlined in 401Kids and in Baby Bonds proposals). Some early findings from this project, which will be discussed later in this conference, suggest when income strategies like a guaranted income are administered in conjunction with a CSA, they might even further strengthen people's perception of the future beyond what CSAs already do on their own.

Conclusion: How might this intervention work?

As illustrated in the SEED OK experiment, the CSA infrastructure itself builds wealth. Remember the simple example of the high yield savings account. But the amount of additional wealth financial institutions can build for children depends on the amount of assets put into their accounts or deposited on their behalf. In the *CollegeBound Boost* intervention, the quarterly deposits provided in Boost serve the purpose of increasing the wealth children have in their accounts. Further maximizing the wealth building potential of children and their families requires them to have enough extra income so that saving becomes less costly to them. Of course, this is where the guaranteed income comes in. However, it is not yet clear that the $500 per month amount is enough to reduce the cost associated with saving for low-income families. Further, for third parties to maximize their potential for building wealth on behalf of a child, they need a financial institution that allows them to be able to get money directly to children in need, wherever they are, so that it can follow a child through their development. While this is not an aspect of the intervention that has been emphasized by the city, the CSA provides the opportunity for this type of wealth building to occur. Specifically, *CollegeBound Boost* incorporates automatic enrollment into the CSA program, unconditional cash transfers, and direct quarterly deposits to create an institution that alters families' outcomes. This has implications for how policy can be designed.

I will end by saying, remember we are stronger together.

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