

Dr. William Elliott III – Nov. 10, 2016

From Crisis to Revolution: The Potential of Children’s Savings Accounts

Thank you all for being here this week. Even more, thank you for your important work in the CSA field. My remarks this morning speak specifically to national CSA policy—an investment toward which many of us have dedicated significant portions of our careers and, more crucially, which would have tremendous implications for our nation, especially children facing the huge obstacles poverty poses. Winning national CSA policy would not make local and state efforts irrelevant but, instead, build on, complement, and be informed by the tremendous foundation your work has laid.

This symposium is focused on CSAs and education. This emphasis on education as the purpose of children’s assets was not inevitable. It raises the question: why focus on education now? While CSAs were originally understood to promote asset accumulation for homeownership, retirement, and capitalizing a business venture, there are important reasons for focusing CSAs on higher education at this particular moment. For one, in a recent Gallup poll, Americans ranked making education more affordable as a top five priority of the U.S. President and Congress in the next year. Framing CSAs as part of the solution to a problem already on the minds of many inserts children’s assets into the political mainstream. In contrast, race relations and equal rights come in at #12 and poverty and homeless at #15. CSAs can work on these concerns as well, but the prospect of national policy change increases if we enter through the education ‘door’. Political elites are responding to Americans’ emphasis on education, prioritizing higher education financing, and student debt in particular as seen in the recent election.

What this suggests is that there is an opportunity, a window to bring CSAs to the forefront of U.S. policy discussion, but likely only if linked to education. Navigating through that window

doesn't require that we fit into the narrow paradigms that outline education policy today. Instead, if designed well, we can seize a chance to create a much needed revolution not only in higher education but in how we fight poverty and inequality in America. In line with this, I'm going to talk for a few minutes today on the need for a revolution in how higher education is financed in the U.S.

In *The Structure of Scientific Revolutions*, Thomas Kuhn discusses how periods of normal science are interrupted by periods of revolutionary science. Kuhn suggests that during periods of normal science researchers identify questions to investigate based on existing knowledge. The insights gained from these analyses are constrained by the limits of the prevailing paradigm. Resulting changes tend to mostly comprise tweaks around the margins, rather than fundamental reconsiderations. Periods of normal science persist until the current paradigm is no longer able to solve a growing number of the problems within the domain, or when external events provoke a clamor for a different vision. This can result in a period of scientific revolution. In these moments, the underlying assumptions of the field are forced to hold up to new questions that only come to light because people have been freed by the crisis to think about problems from a totally different vantage point. Such challenges to the current paradigm, however, are often met with stern resistance. Old ways of seeing become so engrained into the psyche and routines of most people that radical change is almost unfathomable and/or intolerable.

In today's political and economic context, this preoccupation with normal science, the same old ways of viewing the world, is likely exacerbated by the pervasive fear that what might come in the wake of a revolutionary shift could signal a retreat from the provision of educational and economic opportunities for low-income families altogether, particularly given the political impasses that have characterized recent Congresses. When we are busy guarding the status quo,

vigilant against anticipated threats, we are necessarily less able to reach for more distant—even if far more promising—shores. Abandoning a familiar, if unsatisfactory, current reality first requires faith that a better future is possible.

The U.S. financial aid model has been in a period of normal science for far too long. The goal of financial aid has been narrowly framed as only helping young adults pay for college, a low bar that completely ignores its potential to have a positive influence on children's outcomes all along the education trajectory, including early education and academic preparation, college completion, and post-college financial health. This framing also turns a blind eye to financial aid's contributions to baked-in wealth inequality that creates persistent patterns of inequality [Slide 1]. Currently, where you start off in life is largely determinative of whether or not you attend college, complete college, and the return you receive from having graduated from college. Given the persistent nature of inequality, it seems clear that the U.S. higher education system is in need of revolution. Revolutions seldom start, however, without a spark. U.S. policy innovation has been ignited by such sparks in the past.

The GI Bill made higher education and housing possible for millions of veterans. Although the expense may have seemed unthinkable to many in a country recovering from war spending, it not only improved millions of lives, but within eight years of the bill's signing, had returned every dollar invested in education nearly seven-fold in economic output and federal tax revenue, according to a congressional cost-benefit analysis. Returning veterans represented a crisis to the postwar economy, and revolution was necessary. The GI Bill was revolutionary because it helped set the precedent that a timely wealth transfer that aligns with the American belief in rewarding effort and ability can spur economic growth and strengthen the American way of life.

One generation later, that lesson was all but lost, as the student loan business began ratcheting up [Slide 2]. But as murmurs intensify about the failures of higher education to deliver on the American Dream of equitable opportunities for all, a period of scientific revolution appears to be looming again today. The student loan paradigm is in crisis, increasingly exposed as complicit in persistent wealth inequality and contrary to the American Dream of equitable opportunity. Our debt-dependent system discourages low-income loan-averse students from enrolling in college, reduces completion rates among students who make it to college, distorts career choices, delays building homes, businesses, and families, reduces retirement savings, and lowers the return on a degree and overall net worth. When we are presented with evidence that low-income and minority students rely disproportionately on student loans as a way to finance their education while their privileged peers navigate higher education buoyed by their families' assets, we gain insight into how student loans are working to perpetuate wealth gaps started at birth.

In recognition of the true nature, scope, and gravity of the student loan problem, I suggest we must begin to imagine meaningful alternatives, and to insist that our financial aid system perform up to the standards of our American values, which hold that only effort expended and innate ability possessed should determine one's relative outcomes. The United States invests in education—particularly higher education—as the principal path to higher wages and financial security, the royal road to economic mobility. These potential outcomes cannot be realized without a financial aid system that enhances, rather than compromises, education's potency as an equalizer. Our field recognizes that CSAs may be one such intervention. While we must be careful never to claim that CSAs are the only thing that disadvantaged children need to succeed, we know that children's assets are potent tools in the search for equitable paths to ascent. Unlike

student debt, CSAs have the potential to work on multiple dimensions—early education, affordability, completion, and post-college financial health—to improve outcomes and catalyze opportunity [Slide 3].

With regard to early education, an experimental test of CSAs, conducted by CSA field leaders at the Center for Social Development finds infants who were randomly assigned to receive a CSA demonstrated significantly higher social-emotional skills at age four than their counterparts who did not receive a CSA. These effects are strongest among low-income families. They also find that CSAs mitigate about 50% of the negative association between material hardship and social-emotional development, indicating CSAs’ potential to disrupt the effects of poverty on children’s educational outcomes. Importantly, children with improved social and emotional skills display attitudes, behavior, and academic performance that reflects a 11 percentile-point gain in achievement, compared to controls. CSAs may improve children’s social-emotional skills not only by reducing the negative effects of material hardship but by giving parents new hope for their children’s future educational attainment which in turn may change how they interact with them [Slide 4].

With regard to enrollment and graduation, the term “wilt” refers to the sizable number of minority and low-income students who fail to transition to college despite having the desire and ability. A way that CSAs may reduce wilt is by helping students form a *college-saver identity*. Students who form a college saver identity expect to go to college *and* have identified savings as a strategy to pay for it. From this perspective, it’s not enough for a student to have big dreams for her future; she has to have a tangible reason to believe that there’s actually a way to get there. This is what asset empowerment looks like in the life of a young scholar [Slide 5].

However, it is perhaps in the *post-college period* that CSAs rise highest above other forms of financial aid, even today's populist proposals for 'free college'. Unique among financial aid interventions, CSAs may have particular potential to equitably strengthen the return on a degree. Research on the relationship between parental educational supports may be informative. Findings by Emily Rauscher indicate that predicted household income and net worth is higher for adults who received parental financial support for education than those receiving no parental educational support. These findings suggest that helping parents build assets to pay for their child's education is associated with that child having more income and wealth in adulthood. Importantly, for state and local programs, as with other research on the potential of small-dollar accounts, these effects occur with even very modest investments by parents – when parental support exceeded \$600 in the case of income and \$2,200 in the case of net worth.

Moreover, evidence suggests that CSAs may be a gateway not only to greater educational attainment, itself a conduit of economic mobility, but also a more diversified asset portfolio that may result in greater asset accumulation in other forms such as stocks, retirement accounts, and real estate strengthening the return on a college degree [Slide 6]. Contrast this to the strained financial fortunes of indebted recent college graduates, whose compromised financial position may persist well into their careers.

The powerful thing about proposing CSAs as a way of financing college is how CSAs and education complement one another. America invests in education as heavily as it does because its purpose is not only to educate, but to deliver equal opportunity for achieving the American Dream to all of its citizens, a central part of the American welfare system. Many Americans believe—and many American children are told--that if you work hard in school and have the ability, you can level your own playing field. Debt-dependent financial aid undermines this equation, turning this assurance into an empty platitude. In contrast, CSAs augment education's ability to act as a path to

the American Dream for all citizens by strengthening the ability of low-income families to accumulate assets and breaking down existing, persistent patterns of inequality in preparation, enrollment, and completion of college. This means that, when I propose CSAs as a way of financing college, I am not suggesting they are a silver bullet, carrying children to prosperity on their own. That is, there are not two separate interventions being proposed, CSAs on the one hand and education on the other hand. I am talking about them and understand them as a combined CSA-Education intervention. This conceptualization of CSAs within the larger context of education has immediate, pragmatic, significance, in addition to broader political connotations.

However, even the combined intervention of CSAs and education is likely to be insufficient as a national policy because some children start off financially and even racially disadvantaged and, as a growing body of evidence demonstrates, where children start off matters for determining how effective both CSAs and education can be at combating wealth inequality [Slide 7]. We have to reckon with this because, while findings clearly demonstrate that the poor can save, the reality is they can only save small amounts of money. Further, while it is clear that college graduates have more wealth than their counterparts, it is also clear that children who grow up in wealthier families are more likely as young adults to enroll in college, complete college, and to have more wealth as adults—they get more, in other words, from their investment of energy and talent, than those who start out behind. Therefore, I suggest that, in order for CSAs to live up to their full promise as a national financial aid and wealth building strategy, in addition to being combined with education, they must also be combined with a substantial wealth transfer. Again, here I argue specifically that CSAs augment the ability of a wealth transfer to actually fight inequality, both class and race, compared to a transfer of wealth delivered through other channels. This is a wealth transfer augmented by the power of education, in an educational system made

more equitable by being combined with CSAs, CSAs which are more powerful because of the wealth transfer. This is not the educational path of your parents, a mere reshuffling of the financial aid ‘deck’, or just a financial instrument. This is an asset-empowered path for the 21st Century.

Children’s Savings Accounts provide a vehicle for such wealth transfers, in addition to facilitating families’ own savings. I know talk of a wealth transfer can scare people. However, the goal here is not to diminish the role of effort and ability in determining outcomes or to destroy our system of capitalism. I want the America of equal opportunity I was raised to believe in, where assets provide the foundation for success and futures don’t need to be mortgaged. Though often derided as un-American, as formulated here, the idea of a wealth transfer is completely consistent with American history and with our collective narrative of individual effort. It is about equipping all children with tools that complement their own contributions, as ‘American’ as the plow, the automobile, or the iPhone. We are no strangers to wealth transfers; in the 19th Century there was the Homestead Act and in the 20th Century there was the GI Bill. Both required considerable individual effort, yet offered real promise to change the distributional consequences of existing systems—property ownership, on the one hand, and higher education, on the other—in ways that helped to transform power and pathways to prosperity, for generations. In the 21th Century there has yet to be such a wealth transfer, although the need has never been more urgent. It is the ability of CSAs, in addition to helping families save, to positively affect early education, college access, college completion, and post-college financial health that make them an ideal instrument for a wealth transfer.

Moreover, in order to actually reduce wealth inequality, I would argue this wealth transfer needs to be progressive; that is, more of the wealth from this transfer should go to low-income and minority children than to their higher income counterparts. Otherwise, we will end up just

perpetuating the status quo. In order for CSAs to be equity building, they must demand as part of any policy progressivity. This is one of the areas where compromise is unwise. As a field, we may be tempted to make such compromises on the national stage for the sake of getting something, anything that we can call a victory; that is, plumbing with no water. In my view, this would be a mistake. There are legitimate fears by some on the left that, if not properly implemented, CSAs, even with a wealth transfer, might further entrench existing patterns of inequity for decades to come. If we are going to fight for CSAs, we must fight for a version of them that will build equity, not serve as additional fodder for those who seek to blame poor children for their inferior outcomes in education and the economy.

To some, a CSA, education, and wealth transfer intervention might seem impractical, even reckless to propose given our current political climate. But, we cannot be about what the current Congress looks like or what they will give us or what seems politically feasible. We have to commit to winning what will actually deliver on the promise—the promise reflected in our ideals and the promises we make to our children. I often say, as a scholar I can always reinvent myself, but the poor people will be left with the policy I help to bring into place. They will be blamed for their failures if these policies don't work. What I will no longer do is continue to ask poor and minority families to wait on delivering the promise of America to them and their children by proposing something less than what is likely to have a chance at creating equality. African Americans have been asked to wait since the Civil War and emancipation in the 1800s. Since then they have seen Jim Crow, the Civil Rights movement, lynching's, mass incarceration, and now Ferguson and endemic state-sanctioned violence. I for one am tired of waiting and tired of being asked to be civil, when civility means maintaining the current system of inequity that has colored even my own academic career in the University. It is easy to ask those suffering to wait--we will

fund these programs later, but it is harder to wait when you watch your parents' lives pass before you, when your life is passing them by, and when your kids' lives are passing by. Compromise cannot mean doing less than what is needed in order to truly change the opportunities of the poor and minority families today. We cannot pass real change on to the next generation to carry out. Real change requires nothing less than a revolution in how people think about financing higher education and, even more broadly, about how opportunities are structured in America. However, no revolution occurs without sacrifice, without a fight. Declaring a revolution is recognizing that the time is now for change, not tomorrow, and we are willing to pay the price of change. In the end, revolutions are not forged to achieve personal victories but to create meaningful systemic change. Nothing less than a revolution is needed at this time, and we should settle for nothing less than a revolution in how we finance higher education and structure opportunity for all in America.

In conclusion, most of the time people work within existing paradigms. Every once in a while, though, there are a people who will dare to challenge the world as it is and imagine a radically different 'truth'. During the civil rights movement, Dr. Martin Luther King Jr. said,

"I say to you today, my friends, so even though we face the difficulties of today and tomorrow, I still have a dream. It is a dream deeply rooted in the American dream. I have a dream that one day this nation will rise up and live out the true meaning of its creed: "We hold these truths to be self-evident: that all men are created equal."

To move away from a debt dependent financial aid system in favor of an asset empowered financial aid system, we once again need to imagine the possibilities and dare to reach for what seems to many to be impossible.