POST CONFERENCE REPORT

INTRODUCTION

FINANCIAL INDEPENDENCE

Using Wealth and Income Policies to Forge a New Social Contract:

Giving People Something to Live For

Introduction

Description: This individual section of the report provides a basic framework for suggesting that income and asset policies must be pursued together to truly solve poverty. It also provides a framework for understanding poverty as a financial capability problem. In doing so, it contends that poverty is not only about today but also the kinds of futures families, and their children can achieve. Produce financially capable people requires that policy provides access to financial institutions, economic resources in the form of income and assets, and financial literacy training.

Full Report

Introduction *By William Elliott*

Wrong Target: Lessons from the Child Tax Credit and Moving Children Above a Poverty Line

The primary goal of income policies in the U.S. has been to move children out of poverty, which means moving them just above the federal poverty line. For example, as part of the American Rescue Plan (ARP), in 2021, the Child Tax Credit (CTC) was made fully refundable, allowing children of parents with low or no earnings each year who previously received only a partial credit or none, to fully benefit from the changes (Center on Budget and Policy Priorities, 2022). More specifically, it was expanded from $2,000 to $3,600 per child for children under the age of 6 and $3,000 for children between the ages of 6 and 17. So, for a family of four in 2021, their annual income rose by $7,200 if their children were under the age of 6 and by $6,000 if their children were between the ages of 6 and 17. The CTC has been commonly attributed to having reduced the child poverty rate by 46%, from 9.7% in 2020 down to 5.2% in 2021 (Burns, Fox, & Wilson, 2022).[1]

However, in 2022, after the expanded CTC expired, the number of children living in families with incomes below the poverty line rose to 12.4% (Shrider & Creamer, 2023). This suggests that many of the children and their families who were lifted out of poverty because of the CTC remained economically fragile and most likely shifted from living in poverty to living in near poverty. Living in a near-poverty situation is sometimes defined as having annual incomes between 100% and 125% of the federal poverty line (Hokayem & Heggeness, 2014). Others define it as having an annual income below 200% of the federal poverty line (e.g., Aull, 2016). For example, a family of four, using the federal poverty line in 2021, would be classified as living in poverty if they had an annual income of $26,500. The CTC would have lifted families of four with children under the age of 6 who were living at the poverty line to about 127% of the federal poverty line ($33,700 annually), which can be characterized as living in near poverty. The expanded CTC during 2021 would not have moved a family out of near poverty (200% of the poverty line or higher) unless they had an annual income of about $53,000 or more. Therefore, in as much as people have considered the CTC to be a success, it seems fair to suggest they set the target at giving families income to consume just enough to make it through a day and not enough to have something to live for. By making the target just enough, many families were left economically fragile. Moreover, it is worth noting that even families of four making around $53,000 per year because of receiving CTC payments could still be considered economically fragile. The average family of four living in America in 2021 had a median income of $70,784 (Semega & Kollar, 2022), about $17,784 or 25% more per year than a family of four with an annual income of $53,000.

In support of the fact that the near poor are economically fragile, researchers find that they often shift in and out of poverty from year to year (Rank & Hirschl, 2015) and even within the same calendar year (Morduch & Siwiki, 2017). This might be due to income and expense shocks. Income and expense shocks can arise when unexpected drops in income occur, policy changes (e.g., change to the CTC) occur, or unforeseen expenses arise. Research indicates that these shocks are becoming increasingly common (e.g., Gosselin & Zimmerman, 2008). In as much as income approaches to poverty can move families and children above the poverty line, without combining these policies with wealth-building policies, income policies may simply leave families and children economically fragile.

The Often-Forgotten Role of Wealth in Poverty Discussions

Ending poverty is not only about moving families out of poverty but positioning them so that they are not vulnerable to falling back into poverty. Helping to keep families from falling back into poverty is a clear area where wealth has a role. Meyer, Han, and Sullivan (2024) point out that consumption as a measure of poverty or economic well-being allows researchers to reveal the role that wealth or even access to credit plays in ending poverty. It also captures when families are uncertain about future income streams or expenses that might come up by measuring reductions in consumption/spending. However, the consumption conceptualiza-

[1] This is using the Supplemental Poverty Measure which considers resources and expenses not included in the official poverty measure as well as geographic variation. Using the official poverty measure, child poverty declined from 16% to 15.3% (Burns, Fox, & Wilson, 2022).

tion of poverty, like the income conceptualization of poverty, still rests on a financial needs approach to poverty. That is the idea that policies that make up the social welfare system should be designed to provide a safety net that allows families to consume just enough to make it through the day.

Building on a consumption framework of poverty, a less discussed phenomenon that occurred in 2021 not only because of the CTC but even more so because of the Economic Impact Payments (EIPs) and Unemployment Insurance (UI) payments was the rise in savings among those living near the poverty line (Meyer et al., 2024). Increased savings in 2021 helped smooth out consumption in 2022 for these families (Meyer et al., 2024). This is important to understand the role that wealth can play in poverty discussions. While poverty rose in 2022 because families living near the poverty line were more likely to have savings to fall back on, their consumption did not decrease even though saving in 2022 did. The drop in savings suggests that families were using it, along with access to credit, to smooth out the income shock they experienced due to the change in CTC, EIPs, and UI payments in 2022. The authors conclude, "... savings plays a particularly important role during periods when government transfer benefits are changing substantially" (p. 8). It is worth noting that researchers found that savings that accumulated during the pandemic (2020–2021) are now gone (Abdelrahman, Oliveira & Shapiro, 2024). The role of savings in smoothing out income loss has implications for how combining assets with income policies can make low-income families more financially secure and capable of pursing their future possible functionings.

The Income/Asset Connection

The connection between income policies and particularly the rise in savings among low-income families discussed in Meyer et al. (2024) is further supported by research from Guaranteed Income (GI) programs. GI programs provide families with a recurring amount of cash, typically monthly, with no conditions attached (Castro, 2024). Ross, Elliott, Smith, Quick, Brugger, Davis, and Hamilton (2024) used data from the *In Her Hands* GI experiment to test whether receiving a guaranteed income impacted saving for emergencies. As part of the experiment, in addition to the control group, participants were randomly assigned to either a group that received $850 per month over 24 months or a group that received $4,300 in the first month and $700 in the remaining 23 months. The average annual income of participants in the experiment was $12,591. They find payment recipients (i.e., treatment groups) are about twice as likely to report having emergency savings. Further, they find that they are about 60% more likely to save for their child's education, a topic discussed in the next section. Berger-Gonzalez, Thompson, Castro, West, and Cross (2024) present similar evidence from four (LA, BIG: LEAP; Paterson, NJ; Cambridge, MA; & Columbia, SC) publicly available experiments conducted by the Center for Guaranteed Income Researcher (CGIR). They find that receiving guaranteed income payments is significantly related to low-income families having more than $500 in savings and being more likely to report that they could afford a $400 emergency expense.

In the current social welfare system, research suggests that the income/asset connection is even more important for the lowest-income families when it comes to building wealth. For example, Elliott, Rauscher, and Nam (2018) found evidence that initial assets, even among low-income children, were predictive of the amount of assets they would have later in life. However, in the case of the lowest percentile, income is a stronger predictor of later wealth than initial net worth. This suggests that, in the current social welfare system, income plays an outsized role in the ability of families with the lowest income to build wealth. The increased importance of income for building wealth among low-income families is likely because they start with so little wealth. They have also been mostly excluded from accessing institutions designed to help build wealth. Policymakers' approach to wealth building among low-income families has principally been to increase their income through direct payments or employment. Imbedded in this approach to building wealth among these families is the idea that the primary way low-income families should build wealth is by saving from the income they earn through work (i.e., work more, spend less, or go without). Given that their incomes are low, after they meet their basic needs, they are left with little income for wealth-building purposes (i.e., to invest in their futures). Further, by policy design (e.g., means testing), low-income families also have little wealth to store in financial institutions. In turn, even when given access, financial institutions produce less wealth for them than they do for their wealthier counterparts (Elliott, 2024a).

How Can Income Policies be Designed to Produce the Most Wealth?

Research suggests that the wealth-building power of income is boosted when families have wealth to start with. For example, Shapiro, Meschede, & Osoro (2013) found that a $1 increase in income translates to a $5 increase in wealth for White families but only a 70-cent increase for Black families. However, when Black families start with similar levels of assets, they have a return of $4.03. This suggests that initial family wealth plays an essential role in a family's ability to turn income into new wealth. It is important also to highlight that the kinds of institutions low-income families have access to also matter for how much wealth they can build by saving (see Elliott, 2024b).

While income policies can help low-income families build wealth, they are likely to have a much bigger impact if combined with policies that provide low-income families with a basic level of wealth to start. The American Opportunity Accounts Act of 2024, or the Baby Bonds proposal now before Congress, is an example of a policy that seeks to provide low-income families with initial assets. The Act aims to establish a federally funded account for every child to promote economic opportunity and address the racial-wealth gap. This legislation provides a $1,000 seed savings account at birth, with additional deposits annually up to $2,000 based on family income and allows access to funds for purposes such as homeownership or education at age 18.

Furthermore, a large dollar CSA program, such as proposed in the 401Kids Savings Account Act, also now before Congress, might provide even more help to low-income families than Baby Bonds. This legislation provides children's families with annual gross incomes below $75,000 ($150,000 if married) $500 per year until the child reaches age 18. Families eligible for the Earned Income Tax Credit (EITC) would receive an additional $250 per year. The Act not only provides children with initial wealth but also an institutional structure that can maximize investments put into their accounts while allowing for multiple streams of assets (e.g., from employers, government, philanthropy, foundations, communities, etc.) to flow into a child's account in addition to government funding (see, Elliott, 2024a, b; Sherraden, Clancy, Huang, Shanks, & Elliott, 2024).

Income From Work is Still Income: Note on Employment Policies

It should not be lost in this discussion that the primary purpose of policies that promote employment programs is to provide low-income families with a way to earn income through work. In contrast, wealthy families' income is largely derived from capital/wealth. Among the top 1% of households, only 39% of personal income is derived from labor income (Rosenberg, 2013), and 53% of their income is capital income (e.g., business profits, dividends, net capital gains, taxable interest, and tax-exempt interest). Having most of their personal income derive from long-term investments also means these households receive a discount on their taxes because long-term capital gains tax rates top out at about 20%, while standard income taxes go up to about 40% (Dzombak, 2017). In other words, employment policies are an income strategy mainly for the poor. As much as employment is an income program, it seems reasonable to conclude that it would also be more helpful for building wealth among low-income families when combined with policies that help them build wealth.

Employment Not Enough for Many: The Productivity-Wage Gap

Productivity is the amount of goods and services workers produce per hour worked. Productivity is popularly believed to be the basis for how people can maintain their living standards or a mechanism that helps people move up or down the economic ladder. Indeed, from 1948 to 1973, wages and productivity grew in concert (Mishel, 2012). However, during the last three decades, there has been a decoupling of these forces. From 1979 to 2024, productivity has grown 2.7 times as much as pay (Economic Policy Institute, 2024). The Economic Policy Institute concludes that the whole productivity-wage gap is due to a rise in inequality in the total share of income going to families who own capital (i.e., wealth) as opposed to wage earners/laborers.

The productivity-wage gap seems to strengthen the argument for unconditional cash transfers becoming a normal part of the U.S. social welfare system. In addition, it heightens the need to provide low-income, low-wage families with policies that help them build wealth because they can no longer solely rely on working as a means of moving up the economic ladder.

Income policies should be understood as part of the solution but inadequate on their own for ending poverty. At a minimum, wealth is needed to smooth out income and expense shocks that can lead to families falling back into poverty (Bufe, Roll, Kondratjeva, Skees, & Grinstein-Weiss, 2022). Therefore, it is suggested here that combining income and wealth-building policies provides the most promising strategy for ending poverty. While income can be used to move families above the poverty line, wealth is needed to keep families from falling back into poverty. When families have both income and assets, they become increasingly financially capable, a topic that will be discussed later. That is, families with wealth can withstand typical income and expense shocks that make families without wealth dependent on government transfers to keep from falling into poverty or needing to greatly reduce their consumption. However, as discussed in the next section, wealth not only helps smooth out financial shocks but also helps families build wealth that can be used to move them up the economic ladder. For example, Pew Charitable Trust (2013) found that wealth was strongly related to moving up the economic ladder. Their findings show that Americans who move from the bottom of the income ladder had six times higher median liquid savings, eight times higher median wealth, and 21 times higher median home equity than those who remained at the bottom.

The Power of Dreams

In talking about the New Deal in 1936, President Franklin Roosevelt said: "Liberty requires opportunity to make a living decent according to the standard of the time, a living that gives man not only enough to live by, but something to live for" (Roosevelt & Rosenman, 1938). Without this opportunity, he continued, "life was no longer free; liberty no longer real; men could no longer follow the pursuit of happiness." The idea that social welfare policy should have as its goal, giving families and their children the institutional and economic resources required to pursue their own happiness, aligns with the notion of there being an American Dream attainable by all. Having something to live for is about having grounds for imagining a better future for yourself and your children.

It might be said that the capacity to dream is the best incentive/motivator for people to work, not only to work but to work with the goal of making a better tomorrow for themselves and their employers. The current social contract over-emphasizes the power of mandating work (e.g., work requirements for welfare benefits) over providing conditions to make the Dream a reality as an incentive to work. While work mandates can increase the number of people who are employed, it does not result in people necessarily working to change their position in life; work is not seen as a path to climbing the economic ladder. It might incentivize employers to do less for their employees because they know they will have a steady stream of low-wage workers. That is another flaw to the current system of mandating work; it removes the incentive for employers to help provide the conditions for financial independence. Work mandates can even remove the incentive for the government to supplement low-wage workers to ensure they have the conditions needed to be financially independent. At least they might see it in the short term as easier and cheaper to have a group of people locked into low-wage jobs with little to no opportunity to advance. This ignores what it does in the long run to the belief in the Dream that was America.

Simply put, for those who have had kids, you know you can mandate that they do their homework or go to practice. However, you have seen that it is only when it becomes their dream that they put forward the level of effort that will allow them to reach their full potential. Dreams are a much better producer of effort, the kind of effort that is much more likely to lead to people reaching their full development. It is when people reach their full development that innovation and advancement in society occurs. A new social contract must emphasize the power of dreams, not just any dreams but tangible dreams that rest on the conditions that allow people to become financially independent.

Understanding Poverty as a Problem of Lost Futures

On the one hand, income can be seen as mostly empowering people to shape the present by giving them the resources they need to make choices that influence their present. This is not to say that income does not influence the future. However, income is defined as the flow of resources in a household available for consumption (Sherraden, 1991). As such, by definition, income and income policies are almost exclusively concerned with the present—how much money do families have to buy goods today?

On the other hand, wealth primarily empowers people to shape their futures by giving them the resources they need to buy goods in the future (i.e., gives them a stake in the future). At the very least, wealth gives families the confidence they will be able to make purchases in the future. In either case, having wealth makes the future more tangible. As such, wealth-building policies can be categorized as policies that are designed to provide families with the opportunity for a better tomorrow; they give people something to live for. Maybe this can most easily be seen in how the Homestead Act, an asset-building policy, gave families power over not only their futures but their children's and their children's futures (Williams-Shanks, 2005). The policy or institutional structure allowed families to claim up to 160 acres of land as their own. The Homestead Act was not as effective as it could have been because it was not connected to an income policy that would give families the money, they needed to have a choice on whether to go and claim the land or not. About 1.5 million families were given 246 million acres because of the Homestead Act. This translated into an estimated 46 million U.S. adults in the early 2000s being descendants of families who received land as part of the Homestead Act (Williams-Shanks, 2005). The land served as an initial asset transferred by the government to these families. This asset was used to produce additional assets for these families. In doing so, it gave some settlers and immigrants tangible grounds for believing that America could provide them with the opportunity for a better tomorrow and the chance to pursue their dreams despite the hardships that came with living in the challenging conditions of the West at that time.

Important to the theme of this report, it is worth reiterating that many poor families lacked the income needed to travel to claim the land from the Homestead Act. So, because the policy gave everyone access, not everyone had the same opportunity to access the land. Families also needed money to build a farm and to purchase things like tools, seeds, and livestock (i.e., initial assets) to have the land produce for them. As a result, the Homestead Act did not end up being a solution for ending poverty. In fact, it increased income and wealth inequality (William-Shanks, 2005). Very few laborers and farmers were able to claim the land (National Archives, 2022). What we learn from this piece of American history is that income and assets, while distinct when it comes to fighting poverty, work better when implemented together.

Today, policymakers typically think solving poverty requires passing income policies first, particularly for low-income families. This is understandable, even if it is shortsighted. Once you see a child hungry or homeless, it feels almost immoral to talk about their futures and, even worse, to take money away from them that could be used to meet today's needs. In the case of the wealthy, the present is taken care of, so policymakers who focus on their futures feel right. However, having policies designed to help the wealthy maximize their wealth-building potential better positions them to stay ahead in the future. This is a reason why, in America, there's so little economic mobility (i.e., up or down) (Manduca, 2021). The current social welfare system does not position low-income families and children to be successful in the future because of its income-first focus when it comes to people experiencing poverty.

Emergency Savings Policies Do Not Open Up the Future to Low-Income Families

Typically, researchers and policymakers almost exclusively talk about emergency savings when discussing the role and types of assets required to keep families from falling into poverty (i.e., smooth out income and expense shocks). One reason the discussion of poverty and assets focuses on emergency savings is that asset poverty is defined as families not having sufficient wealth to cover three months of living expenses without income (Wolff, 2017). This definition of asset poverty is limited to the amount of emergency savings families have and aligns with a financial needs approach to poverty. Recent survey research shows that one in four U.S. adults said they had no emergency savings, and two in three Americans would be worried about having enough savings to cover one month's living expenses (Gillespie, 2024). Another analysis suggests that about 37% of Americans would have to borrow or sell something to cover an unexpected $400 expense (Federal Reserve Board, 2023).

In this brief, it is suggested that the role that wealth plays in poverty discussions should include but also extend beyond emergency savings. It should be extended to include whether families have long-term assets to invest in their and their children's capital (e.g., human capital—to include education, training, and well-being—as well as their financial and social capital) or, more simply, their growth and development. This is a developmental approach to asset poverty instead of the typical financial needs approach. A developmental approach better aligns with the idea of giving people something to live for. The idea that poverty discussions should include assets for developmental purposes is not new. This is something Sherraden (1991) introduced in his seminal book *Assets and the Poor.* He also introduced the idea of what he would call, Child Development Accounts (CDAs), here called Children's Saving Accounts (CSAs). CSAs are wealth-building instruments, most commonly designed to help pay for higher education expenses but they can be designed to include other asset purchases like buying a home, starting a business, or retirement. They have specifically designed features such as incentives and explicit structures to encourage asset building among low-income children and their families.

Wealth Makes Hope Tangible

Unwittingly, however, economic security conversations have drastically under-estimated the importance of hope for individuals and society. Hope empowers people to push beyond their immediate circumstances. Not just any kind of hope, but tangible hope like the settlers had when they were given land as part of the Homestead Act. Wealth makes hope feel tangible because it provides grounds for believing that the future you imagine is possible. It also shortens the distance between the present and the future by giving families a financial stake in the future. Another way to say this is it allows them to purchase a piece of the future today. Can you imagine the stories the homesteaders told each other as they sat around a fire on their new land? Similarly, when parents have assets set aside for their child to attend college, they can talk to their child about what college they will one day attend in a way that seems to matter differently now. When families have money set aside for college, they start to understand college as attainable. Further, it makes sense to begin to prepare to go now, even though it will be many years before the child is old enough. In this way, assets (i.e., ownership) give hope the quality of being tangible and not merely wishful.

Within the CSA field, a growing body of evidence confirms the importance of long-term assets for improving children's and their family's short-term and long-term outcomes (for a review, see Elliott, 2024c). For example, findings show that children who have a CSA are more likely to enroll in college than children who do not (Elliott, Sorensen, & O'Brien, 2024). Moreover, CSAs provide a financial structure that can be used not only to leverage investments by individuals and families but also by communities, employers, local, state, and federal governments, philanthropists, foundations, and others as a way of building additional assets (Elliott, 2023). More recently, CSA programs such as Saint Paul, Minnesota's *CollegeBound Boost* experiment have also begun to test how the CSA infrastructure can be used to connect income and asset strategies.

Poverty is a Financial Capability Problem

The only way to solve poverty is to rethink what it means to be poor and, thus, what it will take to solve poverty. Currently, we think about poverty from a financial needs' lens: Do families have enough income to be able to consume enough to survive the day? This definition of poverty results in policies that target getting families above the "poverty line" but ignore positioning people to pursue better futures (i.e., pursuit of happiness). Poverty is not only about today but also the kinds of futures families, and their children can achieve. In this sense, poverty is a financial capability problem, not a consumption problem. And thus, the target for which policy should aim is to make people financially capable, not unpoor. This is very much in line with the idea of America, and it is articulated in its Declaration of Independence when it expresses that all humans are born with the inalienable right to pursue happiness. But even more, the Declaration of Independence specifies that this American government was created to protect this right. From this, it could be said that it is the duty of this government to create a social welfare system that strives to make its citizens financially capable of pursuing their better futures. Helping its people to do so would ensure that it would also become the best version of itself as a country.

According to Margaret Sherraden (2013), financial capability consists of both one's ability to act (i.e., financial literacy, which consists of one's financial knowledge and skills) and the opportunity to act (i.e., financial inclusion). This conceptualization of financial capability builds on institutional theory (Beverly & Sherraden, 1999) and focuses on families' decision-making (for a more in-depth discussion, see Elliott & Zheng, 2023). It posits that access to institutions is the primary way that people build wealth. From this perspective, when it comes to inclusion, the target of policy and its success is determined by whether everyone (i.e., universal) has access to financial institutions such as a bank or investment account structure for building wealth. However, this conceptualization of financial capability, while informative, is limited because it does not account for the role that income and wealth play in whether a person is financially capable.

In short, to produce financially capable people, policy must provide access to financial institutions, economic resources in the form of income and assets, and financial literacy training. More specifically, the government must give people inclusion into a financial institution that augments their ability to build wealth, such as a Children's Savings Account, provide them with income such as Guaranteed Income or a Child Tax Credit so that they can function individually, provide them with wealth such as from a Baby Bonds proposal so that the financial institution can function for them, and provide them with financial literacy to give them the ability to act. These different policy mechanisms are discussed more in the policy recommendation section of this report.

Financially capable people can achieve possible future functions (e.g., those related to being an asset producer or capitalist, college goer, business owner, construction worker, or doctor). Regarding the "end poverty" discussion, maybe the most important future possible self is becoming an asset producer. However, as stated here, to become a person capable of producing new assets requires institutions, economic resources, and financial literacy. From this perspective, it can be seen why policies focusing only on income as a solution for solving poverty have failed and will fail to end poverty. It should also be clear why trickle-down policies that make the wealthy more financially capable, and the economy grow fail to end poverty. In short, this is because increased opportunities because of a larger economy do not mean low-income families automatically become more financially capable of taking advantage of the available opportunities. The same can be said of policies that only provide access to institutions or those that only provide families with assets. Ending poverty requires policies that help low-income families to become more financially capable.

Conclusion

Ending poverty is not only about moving families out of poverty in the U.S. but also about making sure they can pursue a better future. A person can be poor in America even though they have enough food to make it through the day if their environment does not provide them with the opportunity to pursue a better future. This is captured in the idea of the American Dream, that everyone should have the chance to use their effort and ability to determine where they fall on the economic ladder. If this opportunity does not exist, they are poor in a most harmful way, in a way that threatens the idea of America and what they and it can become.

Assets are our financial link to the future. Given the high level of wealth inequality in America (Pew Research Center, 2020) and the lack of economic mobility (Manduca, 2021), it is not surprising that 80% of Americans think that the future will be worse for their kids than it is today. This is up from only 40% about 20 years ago (Pollard, 2023). America is built on the idea that people can make a better future; when this idea comes into question, the idea of America comes into question by its people. This is important because dreams are what make innovation possible. When we diminish people's ability to dream, we weaken their ability to innovate, grow, and develop.

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