HARNESSING ASSETS TO BUILD An Economic Mobility System: Reimagining the American Welfare System







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FOREWORD

In this year of the 50th anniversary of the War on Poverty, America stands at a crossroads. More Americans than ever question the calculus of the American dream: that effort and ability produce an opportunity for significant economic advancement. Meanwhile, a growing polarization of wealth decimates the middle class in size and in spirit. Underlying this malaise is the declining power of labor to deliver economic rewards: wages no longer rise with productivity, making it harder than ever for Americans to work their way out of poverty.

We posit that work effort can at best only secure a minimal standard of living in the modern economy. Households need assets to advance economically. Working locates an individual on a rung of the economic ladder, but capital (financial and human) is needed to climb to higher rungs. Those locked out of the labor market—whether due to structural, individual, or multiple factors—are even worse off, unable to hope that their dependence on transfers and social insurance will do any more than move them into the ranks of the very nearly poor.

It is hard to imagine a reality significantly different than today's without examining the essential role of institutions in asset accumulation. Evidence suggests that Americans mostly save in accordance with their savings environment, rather than out of a particular, innate, predisposition toward asset building (Schreiner & Sherraden, 2007). In many ways, this should be reassuring, for it suggests that changing our institutions may bring considerable improvements in asset outcomes, without needing to alter how people think about and make financial decisions. Conversely, there is reason to believe that our current bifurcated welfare system—characterized by support for consumption among low-income Americans and support for asset development among wealthier Americans—creates unequal opportunities for achieving financial security and the ability to pursue one's aspirations. Our current system, then, may be not only inadequate as a vehicle for economic mobility for all Americans, but in fact a force that exacerbates inequity.

As described in this report, analyzing the relationships between income and assets, and the social policies that deliver both, may chart a way forward. This report maintains that assets have the potential to increase wealth, income, and educational attainment, so policies that build assets may very well counteract intergenerational poverty if they are combined with strategies to build income and transfers. The policy intervention envisioned here is Economic Mobility Accounts (EMAs). EMAs would provide opportunities for progressive, lifelong, universal, asset-building savings for Americans at specific life stages, as well as create repositories of emergency savings. The specific asset investments to be encouraged would vary, depending on whether the EMA was being delivered to a youth for higher education, to a young adult to support financial independence, or to a middle-aged adult to encourage retirement savings or expenditures on children's education.

Youth EMAs derive from the established body of evidence linking assets and educational outcomes. Building on this asset empowerment within the financial aid system, young adult EMAs would seek to help young Americans grow asset bases even while they discharge debt, by supporting positive balance sheet development and reorienting student aid policies toward building economic mobility. And EMAs for middle-aged adults would continue the trajectory of pro-savings behaviors by augmenting the flawed and inequitable 401(k) system with accounts funded, at least in part, through adequate public transfers. These investments would work in concert to build transformational assets across the lifespan and to encourage low-income Americans to save.

With warm regards,

Willian Stint TT

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EXECUTIVE SUMMARY

INTRODUCTION: FROM A WAR ON POVERTY TO A WAR TO SAVE THE AMERICAN WAY OF LIFE

Harnessing Assets to Build an Economic Mobility System provides new empirical insights that help to explain what so many Americans intuitively grasp, and what U.S. policy debates so studiously ignore: Upward economic mobility and a chance at financial security are slipping beyond the grasp of many households. This report examines the drivers of mobility by distinguishing between standard of living, which is related to consumption and available income, and economic mobility and wellbeing, which require assets in addition to income and fuel multiplier effects. The former is supported by the consumption-based welfare system, including programs such as Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP; formerly food stamps), which is designed to help households exit poverty and consume at a level consistent with a near-poverty level. Upward mobility and wellbeing is advanced by an asset-based welfare system, largely made up of tax credits and deductions that helps more advantaged Americans accumulate assets. By highlighting the significance of assets for achieving economic mobility and true wellbeing, this analysis emphasizes the importance of building policy structures capable of helping households generate assets, not just increase income. The report proposes Economic Mobility Accounts—tax-advantaged savings accounts that help Americans of all income levels save and accrue assets across the life course—as a policy structure that may once again make upward mobility accessible to all Americans.

- Most Americans understand the American dream to mean that effort and ability translate to prosperity.
- However, economic growth for the nation's economy has not translated to increased wages. Thus, a new understanding of the levers that help individuals and households climb up the rungs of the economic ladder is needed.
- Each rung on the economic ladder represents a different standard of living, which equates to the amount of goods and services one can consume. The amount of income a person has indicates on which rung on the ladder he or she sits.
- In contrast, wellbeing is a state in which one has financial stability and the capacity to achieve upward economic mobility. Standard of living is an important part of wellbeing, but insufficient for creating the conditions necessary for people to have the real opportunity to advance economically. Assets are a critical component, because they allow people to consume at a higher class level than their wages alone will allow.
- Assets also afford other advantages, including social and psychological, that make individuals better off—more secure, more in control, and more privileged—than income flows alone.

• Policy mechanisms up to the task of facilitating wellbeing, we propose, must also include asset development, rather than focusing too narrowly on increasing income alone. Assets provide people with the capacity to climb.

CHAPTER 1: EMPHASIZING ASSETS IN THE MODERN ECONOMY

In the modern economy, assets form an important component of personal income, in addition to wages. An implication of this is that employment wages (commonly thought of as the principal source of personal income) may no longer be synonymous with family economic wellbeing, and certainly not with the upward mobility that characterizes the American dream. While these economic realignments have been foretold for decades, the acceleration of these trends and their exacerbation by the Great Recession have spurred calls for a more holistic notion of family economic wellbeing that includes assets.

- Work alone is not enough to sustain a middle class in America. Numerous factors contribute to this condition:
 - *Stagnant wages:* Between 2002 and 2012, wages were stagnant or on the decline for the bottom 70 percent of U.S. families (Mishel & Shierholz, 2013).
 - *Unemployment:* Compounding the problem of low wage growth among college graduates is the fact that there is also weak demand for workers at all levels of education (Mishel, Bivens, Gould, & Shierholz, 2013).
 - *Globalization:* Increased imports from Asia and Latin America have routinely been cited as reasons for why U.S. low-skilled manufacturing wages, in particular, have steadily fallen since the 1970s (Scott, 2012).
 - *Technological innovations:* Economic growth from technological advances does not benefit everyone equally (e.g., Brynjolfsson & McAfee, 2012).
- The challenge confronting U.S. policymakers is building an integrated economic mobility system that provides low-income households with a realistic path to a middle class standard of living.
- Work for low-income individuals is currently supported only sporadically and inadequately by a disjointed system of transfer programs, none of which is designed to deliver real prosperity.
- As a result, only 34 percent of children born into the bottom income quintile rise beyond the second quintile (Bengali and Daly, 2013). Translated into dollars, that means that a child born into poverty in the U.S. has only an approximately 1/3 chance of earning more than about \$38,000 per year as an adult. While not poor, this is far from what most Americans would characterize as securely middle class. A recent survey found Americans place the bar for middle-class status at \$70,000 in household income (Pew Charitable Trust, 2012).

• If personal income consists of labor income, capital income, and transfers, and labor income is shrinking in its value for producing economic mobility, then policies are needed that also allow more families to take advantage of income from capital and transfers. Otherwise, it is difficult to imagine how the American way of life, let alone the aspiration to upward mobility, can survive.

CHAPTER 2: MODERN REALITIES REQUIRE A SHIFT TOWARD AN ECONOMIC MOBILITY SYSTEM

If transfer income is to provide a secure grip on the economic ladder that, then, capital income helps one to ascend, we may need to reframe transfers as part of the overall economic mobility system and an essential augmentation of labor, not as mere subsidies for temporary consumption or meager resources to solve the worst deprivations wrought by our economy.

- The bifurcated welfare system consists of both a consumption-based arm and an asset-based arm.
- Today, lower-income Americans are mostly relegated to the consumption-based welfare system, which helps to satisfy lower-level subsistence needs. Unfortunately, the asset tests built into these programs work at cross-purposes with asset accumulation structures, priming participants to focus on the present and not the future.
- Significantly, while tax subsidy figures suggest a greater investment in the consumption-based welfare system than in asset development, two characteristics that distinguish the two approaches highlight their differential effects.
 - First, because asset-based welfare has the potential for multiplier effects, through the generation of additional income and wealth, it may have a greater impact than the size of the expenditure would suggest.
 - Second, we suggest that the effects of the two arms of the system are not only unequal during individuals' lifetimes, but also have very different consequences for future generations. Low-income families are not allowed to store substantial amounts of money spent on the consumption-based welfare system for use even in the proximate future, and certainly not to pass down to their children, while money spent on the asset-based welfare system is stored, often grows, and is later transmitted to others within the investing class.
- From this perspective, at least some part of the money spent in the asset-based welfare system may accumulate over time in families, growing both in value and in significance. These families pass it along from one year, and one generation, to the next.

Importantly, integrating the two welfare arms into a unified economic mobility system does not equate to a retreat from fighting poverty. Instead, facilitating economic mobility may be thought of as a three-legged stool, with transfers playing a critical role in shielding Americans from some of the ravages of the capital market (security) and providing a floor below which no one's consumption should fall, in a developed economy (subsistence).

CHAPTER 3: ASSETS' POTENTIAL TO PROMOTE HUMAN CAPITAL DEVELOPMENT, GENERATE INCOME AND BUILD FUTURE ASSETS

In addition to helping people build more assets, assets may also be used to acquire additional skills that provide people with a real opportunity to move up the economic ladder. As a stock of wealth capable of generating income, assets may allow people to consume at a higher class level than their wages alone would allow. These and other asset effects discussed in Chapter 1 might help to generate economic mobility. Chapter 3 reviews evidence of the potential of initial asset levels to have a positive effect on human capital development and provides new evidence of the potential of assets to affect future assets and future income.

- Unlike income, assets may work to foster economic mobility both directly, as asset levels may affect the extent to which additional income and assets generate wealth, and indirectly, by facilitating greater educational attainment.
- Evidence reveals that assets beget assets. That is, initial net worth may have an effect independent from income on future net worth, helping to shield investors from the instabilities of economic cycles and explaining much of the differences in future household income.
 - In fact, households at the 75th percentile enjoy over five times the return on asset holdings experienced by households at the 25th percentile.
 - Those at the 25th wealth percentile experience a \$0.35 return for every one dollar increase in net worth compared to \$1.20 for those at the 50th percentile and \$1.81 for those at the 75th percentile.
- Moreover, we find that assets may also beget income. For example, at the onset of the Great Recession, in 2007, we find that for each dollar increase in initial capital income derived from assets (such as income from interest, dividends, and trust), total household income increases by \$1.22 for households at the 25th percentile of capital income, but increases by \$5.26 for those at the 75Th percentile. At the end of the Great Recession in 2011, we find similar disparate increases in total income of \$0.58 and \$1.29, respectively.
- Assets may help make attaining human capital credentials more likely (AEDI, 2013), particularly for low-income students. For instance, research shows that

5 percent of low-income students (household income below \$50,000) with no account, 13 percent who have an account but less than \$1 saved, 25 percent who have school savings of \$1-\$499, and 33 percent of students who have school savings of \$500 or more graduate from college (Elliott, Song, & Nam, 2013).

- In addition to facilitating economic mobility, initial asset levels may also provide stability, including during economic downturns, thus protecting against downward mobility. In this way, wealth holdings may exacerbate inequality following periods of recession, as capital stores rebound more quickly than labor market positions.
- Considerable variations in outcomes within economic classes suggest a need for examination of other factors that contribute to economic wellbeing. Similarly, a smaller percentage of the rate of wealth change is accounted for in the models than in income change, suggesting that wealth accumulation may be a more complex process than income growth.

CHAPTER 4: ECONOMIC MOBILITY ACCOUNTS: GIVING ALL AMERICANS A STAKE IN THE CAPITAL MARKET

This report proposes a system of Economic Mobility Accounts (EMAs) to bring the benefits of asset accumulation to all Americans. These accounts would complement to the existing consumption-based and asset-based arms of the welfare system. That is, they would not replace the need for the Earned Income Tax Credit or SNAP, and we do not imagine that they would sap support for employer-based welfare policies such as Individual Retirement Accounts.

An important indirect benefit of EMAs would be to refocus conversations about mobility and inequality in the United States from whether those working low-wage jobs are poor or not, to whether they are capable of moving up the economic ladder. By changing the benchmarks by which our welfare system is evaluated, we will change its end goal, making economic mobility and security for all the explicit objective of U.S. policy.

- Building on the foundation laid by demonstrations of Individual Development Accounts (IDAs) and Children's Savings Accounts (CSAs), EMAs would extend lifelong, progressive, universal, asset-building opportunities to Americans at all stages of life. These accounts would target asset accumulation and critical expenditures in three periods within individuals' lives: childhood, young adulthood, and middle age.
- Together these EMAs would form the foundation for an Economic Mobility System (EMS) that would work toward changing the conversation from whether or not someone in the wage earner class is poor, manifest in our narrow focus on

poverty rates as a measure of relative prosperity, to whether or not someone in the wage earner class is capable of moving up the economic ladder.

- Economic Mobility Accounts (EMAs) are a tool to bind what had been thought of as the consumption-based and asset-based arms of the welfare system into a single, integrated system by providing wage earners the capacity to accumulate assets. As such, they extend the benefits of asset-based welfare to all Americans through the development of new policy vehicles—lifelong, progressive, universal savings accounts—as well as reforms to initiatives within the asset-based and consumption-based welfare arms.
- *Youth EMAs* would help families save for their children's education and would redistribute resources to place college within financial reach of disadvantaged Americans. Similar to Children's Savings Accounts, Youth EMAs would facilitate economic mobility by helping children and youth accumulate assets and develop a college-going mindset, both of which increase the odds of college attendance and completion, still the best path out of poverty.
- *Young Adult EMAs* would intervene to help Americans build assets, including through homeownership, during the critical period of transition to financial independence, even while they may be discharging significant student debt obligations.
- *Adult EMAs* for middle-age adults would focus on retirement preparation, utilizing transfers to adequately capitalize retirement savings and, it is projected, to build a legacy of intergenerational wealth transmission.
- Ultimately we propose that the United States transform its divergent welfare approaches through a robust redistribution system that encourages asset accumulation for all. However, interim policy steps could leverage existing policies to launch EMAs. As described in this report, Youth EMAs could be financed by integrating a savings component into the Pell Grant program, advancing fully refundable tax credits for higher education, or increased state investments. Young Adult EMAs could be supported by policies such as income-based repayment and delayed repayment, which would ensure that young adults could continue to save even as they discharge student debt.

INTRODUCTION

FROM A WAR ON POVERTY TO A WAR TO SAVE THE AMERICAN WAY OF LIFE

OVERVIEW

Fifty years ago, President Lyndon Baines Johnson declared war on poverty. The program investments and policy changes instituted as part of that campaign have reduced the depth and incidence of deprivation among Americans, but have not stopped the erosion of the American dream. Although most Americans still believe that sincere effort and talent will result in economic prosperity, evidence reveals the increasing divergence between productivity and financial reward. This reality contributes to increasing frustration among the public. This report fills in some of the important details that explain why economic mobility and a solid chance at financial security are slipping beyond the grasp of many American households. The rhetoric about combating poverty continues to focus on job creation and retention, whereas this report distinguishes between one's standard of living, which is defined by the income available for immediate consumption, and economic mobility and well-being, which suggests a store of assets and a sense of security beyond income from employment. By tracing the long-term drivers of the declining wage position of working Americans and highlighting the centrality of assets to upward mobility, this analysis emphasizes the importance of policy structures that help households generate assets, not just increase income. In today's economy, doing this requires the enhancement of transfer and capital income as complements to labor income, as well as increased access to and improved outcomes from postsecondary education, which is still the primary conduit for economic mobility in the U.S. While President Johnson's War on Poverty sought to bring more Americans out of abject poverty, today's battle is to salvage middle-class security as a reasonable, attainable goal for hard-working Americans. Redeeming the American dream requires exposing its flawed calculus and recommitting ourselves to dedicating the resources to create real paths to prosperity.

According to Thomas Shapiro, the American dream "is the promise that those who work equally hard will reap roughly equal rewards" (Shapiro, 2004, p. 87). That is, the American dream proposes that this country is a meritocracy in which effort and ability are the primary determinants of success. Embedded in our collective narrative about prosperity and poverty, are assumptions that opportunities exist for all Americans to ascend the economic ladder, that institutions treat each person roughly equally, and that the role of the individual is to take advantage of opportunities that he or she creates or that present themselves. These beliefs are powerful, having led over time to Americans' preference for policy approaches that heavily emphasize individual responsibility for risk and credit for success, rather than shared investment and collectively shouldered burdens.

Emphasizing the opportunities that exist for every individual to use effort and ability to achieve economic self-sufficiency and even upward mobility shapes not only our individual but also our collective worldview. A corollary to the American dream is an insistence that each generation do better—be healthier, enjoy a higher financial standard of living, and suffer fewer anxieties and disappointments—than the generation before. This belief in continuous forward progress through the unfettered use of effort and ability is rather uniquely American. It is a byproduct of our common dream of equal opportunity and just reward for all those talented and industrious enough to seize their share of the riches this country offers.

However, the vast majority of Americans today find themselves at a crossroads: In today's economy, work productivity is no longer rewarded fairly. Stagnant or declining wages are the "new normal", unemployment rates remain stubbornly high, Americans compete for jobs with lower-paid workers in other countries, the cost of higher education rises far faster than incomes, and technology is quickly replacing the need for labor in formerly middle-class jobs. To many Americans, these forces suggest that the American Dream may no longer apply to them. As a result, 50 years after President Johnson's declaration of a War on Poverty, America finds itself fighting not simply a war on poverty, but a war for the American way of life.

AN ELUSIVE AMERICAN DREAM

The wage-earner class, the majority of Americans for whom wage income is the primary source of financial resources, has increasingly come to terms with the elusiveness of the American dream in the modern economy. According to polling done by the Pew Research Center, only 43 percent of Americans surveyed in 2012 believed that their children would be better off than they are (Taylor, 2012). Yet belief in something as powerful as the American dream dies hard. Older wage earners, in particular, may remain largely unwilling to concede the American dream's irrelevance as a motivator of the industry, creativity, and sacrifice that have contributed significantly to individual and aggregate wealth creation throughout our history. However, even those who still believe in the American dream may be willing to concede that they currently struggle to find prosperity.

President Johnson half a century ago described poverty as living "on the outskirts of hope". In 1964, he said the War on Poverty is, "a struggle to give people a chance...to allow them to develop and use their capacities, as we have been allowed to develop and use ours, so that they can share, as others share, in the promise of the nation." His was a vision of economic mobility, not one of just surviving. By this measure, we arguably have just as great a poverty problem today. While a smaller percentage of American households suffer in abject poverty than in 1964, there is the growing consensus that economic mobility is beyond the reach of far too many Americans. Many Americans are abandoning job searches after months or years of unemployment, millions more labor in jobs that fail to pay enough to finance a secure future, and families see their dreams crushed by crippling debt.

In today's economy, in which most Americans' incomes depend on inadequate jobs or even more inadequate public assistance, we are clearly failing to achieve by President Johnson's yardstick. The Black-White unemployment rate gap remains roughly where it was in 1963 (Austin, 2013). The lowest achieving children from high-income families attend college at roughly the same rate as the highest

achieving children from low-income families (65 percent v. 69 percent; ACSFA, 2010). And only 34 percent of children born into the bottom income quintile rise beyond the second quintile (Bengali and Daly, 2013).

Poor Americans, and increasingly middle class Americans, pay a psychological price for the dissonance they experience between their lives and the American ideal, as does an entire generation coming to terms with the likelihood that they may not, after all, end up more prosperous than their parents (Pew Charitable Trusts, 2012). And we all stand to lose something valuable: the power of the American dream to encourage pursuit of education, entrepreneurial risk taking, and egalitarian beliefs in the developmental potential of every American, no matter his or her starting point. These ideas are part of what spurred the establishment of the nation and should be part of our future. However, before we can address rehabilitating the power of the American dream, we first must honestly look at the realities of our economy.

WHAT DOES THE ECONOMIC LADDER LOOK LIKE?

This report discusses the economic ladder and the constraints that may make it difficult for most Americans to ascend it. These constraints are fundamental crises facing our nation today, and the intent of the findings and analysis in this report is to advance the debate about the economic and social policies and structures that could redeem the promise of the American dream.

For the reader to more easily follow the case made in this report, a few concepts must first be explained. Standard of living and well-being are treated as distinct concepts here. Each step on the economic ladder represents a different standard of living, or level of material goods and services associated with living in a specific socioeconomic class. Although there is obviously some subjectivity in the thresholds used to delineate these levels, for clarity Gilbert's (2008) six social classes are used to label the rungs of the economic mobility ladder:

- (1) The underclass, those who are unemployed, employed part-time, or subsisting on public assistance;
- (2) The working-poor class, those who work full-time in the lowest-paid manual, retail, and service jobs;
- (3) The working class, those who work full-time in low-skill, clerical, or retails sales;
- (4) The middle class, those who are lower level managers, semiprofessional workers, or journeymen;
- (5) The upper middle class, those who work as upper level managers, professionals, or medium-sized business owners; and
- (6) The capitalist class, those who are investors, heirs, or executives.

For brevity, in some cases we use the term "wage-earner class" when referring to the underclass through the middle class and the term "investor class" when referring to the upper-middle class and the capitalist, since this latter group is distinguished in large part by its greater reliance on capital as an income source to supplement labor earnings.

The amount of income a person has indicates on which rung of the ladder a person sits, because income is used for consumption. Given this, when we see an individual or family move from one rung of the ladder to a higher rung, we see a change in personal income and level of consumption. This observed change only in income signifies that economic mobility has occurred; it does not offer an explanation. As the evidence included in this report will make clear, income alone is insufficient to explain the process of economic mobility, particularly in today's context of declining wage power in the wage-earning class.

Further underscoring the significance of the difference between the concepts of standard of living and well-being are the significant gaps between absolute and relative mobility in the U.S. economy. The U.S. displays high absolute mobility, or the likelihood that an individual child will attain a higher standard of living than his/her parents (Bengali and Daly, 2013). Fully 83 percent of those in the lowest income quintile at birth had larger adult incomes than their parents had (Bengali and Daly, 2013). Thus, standards of living seem to increase as the U.S. economy grows and advances. Today's children can expect to be able to purchase more goods and services than their parents, as reflected in the growing ubiquity of items that were luxuries or only ideas just a few generations ago (for example, cellular phones and personal computers). However, this does not mean that the American dream of relative mobility improving one's overall position in society, as compared to peers—is within reach for most poor children.

Whereas standard of living is the amount of goods and services one can consume, well-being is a state where one has the capacity to achieve economic mobility. That is, well-being has more to do with what people *can do* with goods and services, the real opportunity they have to move up the economic ladder, than *how many* goods and services they can consume (see Sen, 1999; Sherraden, 1991). Standard of living is an important part of well-being, but insufficient for creating the conditions necessary for people to have the real opportunity to advance economically.

With regard to the typical citizen, we posit that in order for economic mobility to occur, he/she may need to: (a) obtain the skills required to move into a higher class on the ladder and attain a job that pays at that skill level, which most often requires an accumulation of savings to pay for college or willingness to assume debt; (b) find ways to use some of his/her wages to accumulate assets; or (c) receive transfers that place him/her at a higher level on the economic ladder.

One constraint to mobility is stagnant or declining wages, which means that formerly middle-class jobs may no longer pay middle-class wages, thereby introducing greater risks of downward economic mobility, both within and among generations. Individuals find that their human capital accumulation and productivity no longer secure wages capable of purchasing their expected standard of living. In some cases, such jobs have been eliminated altogether, requiring individuals to compete for a scarcer pool of labor market opportunities or risk dropping out of the middle class entirely, as has happened for millions of Americans over the past decade. For example, research suggests that during the Great Recession the United States lost about 3.5 million middle-class jobs, and since the recession middle-class jobs have been only about two percent of the new jobs created (Condon & Wiseman, 2013).

It is with this in mind that we posit that wages alone are insufficient for generating economic mobility. When members of the underclass, for example, are forced to take a low-wage job classified as workingpoor, there is little reason to believe that these individuals have moved permanently out of poverty either as defined by official statistics or as most Americans understand it colloquially. Similarly, depending on transfer income from means-tested and social insurance programs (including Temporary Assistance for Needy Families [TANF], Supplemental Nutrition Assistance Program [SNAP], Supplemental Security Income [SSI], and the Earned Income Tax Credit [EITC]) can move households out of the underclass, in some circumstances, but these transfers are not designed to help families achieve true prosperity. These limitations make asset accumulation an essential mechanism for creating economic mobility.

Through the asset-based arm of the welfare system, U.S. policy confirms the goal of asset development and provides considerable subsidies to achieve asset development through programs such as the home mortgage interest deduction, preferential treatment of capital gains, and exclusion of employer-provided retirement benefits from taxable liability (Cramer, Black, & King, 2012). However, the distribution heavily favors households that already have wealth (Cramer et al., 2012). Because assets are a stock of wealth capable of generating income, they allow people to consume at a higher class level than their wages alone will allow.

In addition to facilitating consumption, accumulation of assets can be used to acquire additional skills that allow individuals to move up the economic ladder. Public policy explicitly facilitates this leveraging, as when advantaged households convert their housing wealth to educational access for their children, or use their accumulated savings to finance an entrepreneurial venture. Assets likely also create opportunity for economic mobility by empowering people to participate in, negotiate with, influence, control, and hold accountable institutions (World Bank, 2002). Further, assets may provide the conditions for economic stability during income shocks and economic risk taking (Sherraden, 1991), both important preconditions for behaviors that contribute to economic mobility.

Finally, Sherraden (1991) suggests that assets provide people with social, psychological, and political effects. These effects might also assist in creating economic mobility, as they change how people relate to each other and to institutions charged with delivering opportunities for advancement. As described in greater detail later in this report, we propose that policy mechanisms up to the task of facilitating well-being may also need to include asset development, rather than focusing too narrowly on increasing income alone.

Unlike this asset-based arm, the consumption-based transfers that comprise the welfare system not only fail to facilitate asset accumulation, but can explicitly work against it, as described further later in this report. That recognition does not, however, deny the importance of a system that allows people to consume at a level they would not be able to simply by working, particularly given the growing inadequacy of wages for many Americans laboring in essential industries. That is, transfers are valuable contributions to the U.S. policy landscape, but they are both inadequate—in scope and purpose—and inequitable. A unified system of economic mobility opportunities that encourages asset development for all would better serve the American public, particularly those working at low incomes.

CHAPTER 1

EMPHASIZING ASSETS IN THE MODERN ECONOMY

OVERVIEW

In sharp contrast to the myth of a blank economic slate in which an individual's future prosperity aligns with his or her effort and ability, evidence in this study reveals that initial asset levels may significantly affect the power of income to generate additional wealth. These findings have critical implications for U.S. antipoverty and economic mobility policies: If low-income Americans can no longer work their way into the middle class, then wages need to be supplemented by asset holdings and transfers. While all who work for a living are vulnerable to the long-term trends that are eroding the power of wages, those populations hindered by inequitable and inadequate asset accumulation have fared particularly poorly in recent decades. To combat poverty and provide economic mobility within the context of an economy beset by persistent high unemployment and stiff international competition, U.S. households' income should be thought of as a three-legged stool: labor, capital, and transfers, with the latter two complementing labor's declining potency. Only this integrated approach is likely to provide real economic well-being for Americans.

A combination of stagnant or declining wages, the productivity-wage gap, technological innovations, globalization, inflation, the decreasing bargaining power of the worker in a context of high unemployment and low unionization rates has contributed to an economy in which work alone is not enough to sustain a middle class in America. For example, research conducted by the Pew Research Center indicates that in 1971 the middle-income group made up about 61 percent of all Americans, but by 2011 it had shrunk to about 51 percent (Taylor, 2012). Moreover, income among the middleincome group fell by five percent in the decade of the 2000s, while wealth among this group declined by 28 percent. These losses have resulted in 85 percent of middle class adults reporting that it is more difficult now than it was a decade ago to maintain their standard of living (Taylor, 2012). These changes do not simply reflect the recession. The economy expanded in the early 2000s, yet real median household income fell and inequality increased (Mishel, Bernstein & Allegretto, 2006). As Harrison and Bluestone (1988) put it, American families are on a treadmill: they must run faster now in order to maintain the same standard of living they enjoyed in the early 1970s. Noting these trends emphasizes the ubiquity of economic concerns in today's America; it is not only the children and families struggling to claw up from the bottom who have reason to doubt the viability of the American dream, but also those who, having made it to the middle class, confront anxieties and erosion of their quality of life.

Maintaining the middle class is important to maintaining the identity of America and therefore worthy of particular attention. While people may aspire to be rich, they expect to have the opportunity to be middle class. Failure to move from rags to riches does little to imperil one's belief in the fundamental fairness of the U.S. economy. The denial of a fair shot to enter and stay in the middle class, on the other hand, does. Today, despite the trends noted above, U.S. social and economic policy and, indeed, the

political discourse that surrounds them, largely maintain the fiction that economic success is determined solely by work. For example, an amendment to SNAP, commonly known as food stamps, that would have allowed states to impose work requirements derailed progress on the larger farm bill for months (see Greenstein, 2013, for discussion of this amendment), drawing into sharp relief the debate over the extent to which work effort can be expected to deliver Americans from financial need. Debates like this center on the very American idea that inadequate work effort, rather than any environmental constraints or structural economic characteristics, explains the poverty of poor Americans.

The experiences of Americans whose main source of personal income is their wages contradict every day this assumption about the value of work. Results from a Washington Post-Miller Center Poll indicated that 58 percent of Americans say they earn less than they deserve and six in 10 workers worry they will lose their jobs because of the economy (Washington Post-Miller Center, 2013). Even while they cling to the calculus of the American dream in the abstract, they deny the explanatory power of effort and ability in their own lives (Hochschild, 1995). As a result, they may be becoming increasingly conflicted, as suggested by the emergence of the Occupy Wall Street movement and recent fast-food worker strikes.

This chapter maintains that, in the modern economy, wages may not be enough to maintain a middle class; wages must be augmented by assets. Similarly, employment wages may no longer be considered to be a marker for family economic well-being. While these economic realignments have been foretold for decades, as in Sherraden (1991) more than 20 years ago, the acceleration of these trends and their exacerbation by cyclical pressures in the Great Recession have spurred calls for a more complex notion of family economic well-being, one that includes assets.

The remainder of this section provides evidence of the declining power of wages to maintain the middle class, or any class whose members rely primarily on wages to sustain their standards of living. Because the interest here is in long-term trends that create the productivity-wage gap, this section focuses on technological innovation and globalization, while acknowledging that other factors have contributed to this gap.

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 are able to maintain their living standard 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 (see Figure 1). Again, while wage earners fared particularly poorly during the recent recession, the erosion of wage earners' ability to leverage employment for real economic mobility may be understood as a long-term trend demanding significant policy change, not a temporary downturn that will naturally self-correct (Harrison & Bluestone, 1988).



Figure 1. Real Minimum Wage Compared to Minimum Wage Tied to Productivity

Source: Baker, D., & Kimball, W. (2013). The minimum wage and economic growth. Retrieved 2/14/2014, from Center for Economic and Policy Research <u>http://www.cepr.net/index.php/blogs/cepr-blog/the-minimum-wage-and-economic-growth</u>

There has been little attention given to whether or not the growing gap between productivity and wages acts as a disincentive to work. There is, however, some evidence that Americans may be influenced by such realizations. Fifty-six percent of workers believe that it is unlikely they will receive a significant pay raise from their current job, and the same percent believe that they will not be able to find a new job that pays more in the next five years (Washington Post-Miller Center, 2013), even while 68 percent of Americans believe that being rewarded for hard work is very much in line with what they understand the American dream to mean (Washington Post-Miller Center, 2013). The lack of connection between wages and productivity expressed here may be why the same poll finds that 53 percent of Americans in the middle class perceive that they will either remain there or slip backwards in the next few years (Washington Post-Miller Center, 2013). The lack of connection between wages to expend significant effort in pursuit of elusive economic gain. Therefore, what is being suggested is that not just having a job, but being rewarded according to the level of effort and ability a person puts into that job is also important in motivating an individual to work—and to work at a high level, individually and in the macro economy.

WHAT DISCOURAGES WORK?

We posit that the growing gap between productivity and wages may create a disincentive for some workers to work. Social psychologists suggest that gaps between effort and ability and expected outcomes (in this case expected wages) weaken self-efficacy beliefs (Bandura, 1997). Self-efficacy is an individual's belief that he or she can cause a desired outcome to occur through the use of effort and ability (Bandura, 1997). High self-efficacy has been shown to be very important for predicting whether or not a person acts (Bandura, 1997); if one is more certain that a given action will elicit the desired result, that certainty can motivate action with sufficient force to overcome inertia. Thus, the growing gap between productivity and wages may create a disincentive for some workers to work. Evidence of this sense of hopelessness may be reflected in the high numbers of so-called discouraged workers who have stopped looking for work in today's seemingly permanently difficult job market; adding them to the ranks of the 'unemployed' nearly doubles the official U.S. unemployment rate in late 2013 (BLS, 2013). Instead of being motivated to work harder in pursuit of greater economic gain, there may be a growing incentive to attempt to change their wages, either through such means as finding another job, investing in human capital (see Hoover, 2011), or withholding labor (e.g., striking).

Some poverty researchers, politicians, and the media, in contrast, focus on whether or not participating in welfare programs like food stamps (Supplemental Nutrition Assistance Program, or SNAP) provides a work disincentive (Murray, 1984). However, there is little evidence to suggest that participating in welfare programs actually creates a disincentive to work (Burtless, 1986; Danziger, Haveman, & Plotnick, 1981), particularly as the real value of benefits in these means-tested programs has continued to decline, such that even low-paid jobs are comparatively attractive. In fact, Americans place so much value on hard work, in some cases equating it with morality that any job becomes attractive to avoid the social denigration experienced by welfare recipients (Sherman, 2009).

STAGNANT OR DECLINING WAGES

Today, it is hard for wage earners to increase significantly what they earn through work, in part because stagnant or declining wages have become a fixture in the modern economy. Research indicates that, between 2002 and 2012, wages have been stagnant or on the decline for the bottom 70 percent of U.S. families (Mishel & Shierholz, 2013). Although this trend has been somewhat countered by increases in transfers such as SNAP and EITC benefits, understanding the declining real value of workers' wages requires also taking into account the rising costs of basic goods and services, particularly energy and health care, and economic mobility levers like higher education, both of which have increased more dramatically than overall inflation.

Stagnant or declining wages mean that wage earners are unlikely to get ahead working the jobs they are working now. However, it may be difficult for these individuals to find another higher paying job. Research shows that between 1979 and 2010, the share of available "good" jobs (i.e., jobs that pay at least \$18.50 per hour and offer health insurance and a retirement plan) available dropped 2.8 percentage points, leaving only 25 percent of jobs that qualified as "good" jobs. This is despite the workforce, on average, becoming older and more educated, thus indicating a relative mismatch between worker qualifications and available job opportunities, according to Mishel, Bivens, Gould, & Shierholz (2013). Further tightening the screws on many in the wage earner classes, the amount of education required to access these "good" jobs has increased, too. It is worth pointing out, again, that these are not recent developments but, instead, trends that have evolved over the last 30 years.

Those whose income depends more heavily on investments—to whom we refer as the investor class fare much better in today's economy. Despite media attention to the volatility of the investment markets, such instability may be far less consequential over the long term than the insecurity faced by those whose fortunes hinge on the labor market. During the Great Recession, overall incomes dropped by 17.4 percent, with 49 percent of this loss falling on the top 1 percent of the income distribution (Saez, 2012). According to Saez (2012), the high losses among the wealthy were largely because of investments they had in the stock market. They suffered even bigger losses during the recession of 2001, also largely the result of losses they incurred in the stock market (Saez, 2012). However, drops in personal income are anomalies for the top one percent, which has consistently experienced large income gains over the last 30 years, incommensurate with growth in their productivity. Between 1979 and 2007, wages for the top one percent of households grew by 240.5 percent (Mishel, Biven, Gould, & Shierholz, 2013). As a result of this tremendous divergence of economic fortunes, Saez (2012) contends that the concentration of income among the top one percent of earners is not likely to change without drastic changes in the economy or in tax policy. Indeed, because the top one percent's personal incomes tend to rise and drop correspondingly with their capital income, the inequality observed in today's economy may quickly intensify, as it appears capital stocks may recover much more quickly than labor market positions in the current economic structure.

Drops during recessionary periods followed by quick recoveries for the investor class suggest that capital income, or at least some kinds of income, such as dividends from stocks, can be volatile over short periods but more stable over the long term. There is also evidence that may suggest that capital income bounces back much more quickly than wage income. During the 2001 recession the top one percent experienced a 30.8 percent drop in income; but later, between 2002 and 2007, their income increased 61.8 percent increase compared to only a 6.8 percent increase for the bottom 99 percent of households (Saez, 2012). During the Great Recession of 2007-2009, the top one percent once again experienced a loss in income (-36.3 percent) but quickly showed signs of bouncing back; between 2009 and 2010 they experienced an increase in income of 11.6 percent compared to only 0.2 percent for the bottom 99 percent (Saez, 2012). Because of the built-up assets held by the top one percent of earners, they may be in a better position to take risks and weather short-term disruptions in the market (Sherraden, 1991). These behaviors, in turn, give them distinct advantages in capital markets and greater chances of higher earnings over the long term.

UNEMPLOYMENT

Weak demand for workers at all levels of education compound the problem of low wage growth (Mishel, Bivens, Gould, & Shierholz, 2013). Even a rudimentary understanding of the economics of supply and demand reveals the extent to which sustained elevated unemployment rates weakens the bargaining power of current and searching workers. Particularly when political debate continues to equate employment with economic security, Americans' protracted experiences of unemployment may be damaging on multiple levels (von Wachter, 2010). For example, speaking about reluctance to extend Unemployment Insurance benefits for workers facing long-term joblessness, Speaker of the House John Boehner stated, "The one solution that we all know that works is a job," even though nearly one-third of working families falls in or near poverty (Dwyer, 2013). Boehner's pronouncement was echoed by Republican Representative Dave Camp of Michigan: "Actually, the formula for beating poverty is a job" (Fuller, 2014). Statements like these send a clear message to the almost 48 million Americans living in working poor families: your realities are not part of the economic fable we tell ourselves. Furthermore, they leave the more than 10 million Americans grappling with unemployment with few actionable strategies for reaching a higher economic standard of living or gaining a toehold on the ladder of economic mobility.

Although disadvantaged workers, including those with limited education, are particularly vulnerable to the alienating and financially devastating experience of long-term unemployment (Pew Charitable Trusts, 2013), unemployment among holders of college degrees also rose from 2.0 percent to 5.7 percent between 2000 and 2010 (Mishel, Bivens, Gould, & Shierholz, 2013). The unemployment rate is higher among racial

College: An Increasingly Expensive Insurance Policy

Education, uniquely, retains the ability to help low-income children overcome birthright in today's less mobile economy. Thirty percent of children born in the bottom income quintile make it to the top quintile after graduating from college, compared to only five percent of those who do not graduate from college (Bengali and Daly, 2013). However, a growing body of research documents the productivity-wage gap even among college degree holders (Gomme & Rupert, 2004; Mishel, Bivens, Gould, & Shierholz, 2013; Rodriguez & Jayadev, 2010), thereby undermining the argument for pursuing a college degree. Although during the recent recession workers with a college degree fared slightly better than workers with only a high school, they also have experienced declining wage growth over the past several years. For example, between 2000 and 2011 their wages grew a modest 0.2 percent; between 2002 and 2011, they declined by -2.2 percent, and between 2003 and 2011 by -1.9 percent, on average (Mishel, Bivens, Gould, & Shierholz, 2013).

To recognize that a higher education is essentially a prerequisite for entry into the middle class is not to contend, however, that Americans can insulate themselves from the effects of the erosion of the American dream through the attainment of advanced degrees. Instead, to a large extent, a college education may function like an insurance policy—albeit one with a rising premium, where attending college is simultaneously more essential and yet less relatively valuable in today's economy (Chopra, 2013). minorities, compounding the disadvantages of the racial wealth gap, and illustrating the inequities faced by Americans of color in their pursuit of both standard of living and economic well-being. Between 2000 and 2010 the unemployment rate increased for White workers with a college degree from 1.8 percent to 4.9 percent, but for Black college graduates it increased from 2.8 percent to 9.8 percent (Mishel, Bivens, Gould, & Shierholz, 2013). Again, this is not to suggest that a college degree does not confer significant advantages in today's economy (Carnevale, Rose, and Cheah, 2011), but, instead, to underscore the importance of complementing labor income with other sources in order to provide opportunities for real financial well-being, even for those with a college degree.

Alarmingly, today's reality of weak employment demand and significant labor market slack, especially for those in lower wage industries, may be a feature of the U.S. economy into the foreseeable future. Research suggests that the market can no longer by itself create enough jobs to spark an employment recovery (Hout & Cumberworth, 2014). Profits have soared and productivity has increased dramatically, but unemployment numbers have not declined significantly (Hout & Cumberworth, 2014). As described below, this situation—dire in its effects for most Americans who depend on wages as a source of income—stems from long-term restructuring and globalization of the U.S. economy.

GLOBALIZATION

Globalization is an important reason why the current productivity-wage gap may persist. Globalization may be thought of simply as the integration of America into the world economy, resulting in federal, state, and local policies that are less determinant of economic outcomes than at other points in our history. Cheaper labor costs in other countries result in U.S. wages dropping, particularly in certain sectors, including the manufacturing arenas that used to offer relatively stable and prosperous job opportunities even for American workers without higher education. Increased imports from Asia and Latin America have routinely been cited as a reason why U.S. low-skilled manufacturing wages, in particular, have steadily fallen since the 1970s (Scott, 2012). There is considerable evidence that, while U.S. consumers have benefited from lower prices and greater availability of goods, and investors have enjoyed an expanded landscape of capital opportunities, U.S. wage earners on the whole have been adversely affected by the opening of U.S. markets to developing countries. In particular, U.S. workers without a college degree have seen demand for their labor decline as labor-intensive industries have either mechanized or exported operations to lower cost labor markets (or both) (Bivens, 2013). Some movement toward "reshoring" of U.S. manufacturing jobs notwithstanding (see, for example, Rosenfeld, 2014), the pressures squeezing U.S. workers are unlikely to reverse in the near term. However, careful attention to the nature of global economic agreements could help to mitigate the greatest harms to U.S. workers, while still realizing the potential gains—including tremendous power to alleviate poverty from international cooperation (Podesta, 2013).

TECHNOLOGICAL INNOVATIONS

Discussions of the 19th century industrial revolution stress the de-skilling impact of technological change (Kaestle & Vinovskis, 1980; Braverman, 1974; Goldin & Katz, 2008; Accmoglu, 1988), yet Autor, Levy, and Murnane (2003) find that recent technological change is skill biased. That is, recent technologies seem to complement and improve the productivity of skilled workers more than unskilled workers, thereby increasing demand for skilled employees while potentially rendering some less-skilled

workers redundant. Economic growth from technological advances, therefore, does not benefit everyone equally (Brynjolfsson & McAfee, 2012). Technological innovations, particularly in the form of digital devices like computers and robots, are increasingly being substituted for human labor. For example, there are tasks such as depositing and withdrawing money from a bank with an Automated Teller Machine (ATM) instead of a human teller. Brynjolfsson and McAfee (2012) posit that replacement of human labor for performing mundane tasks helps explain why lower income, less-educated workers have seen their wages fall more than more-educated workers in recent years. According to Leontief and Duchin (1986):

A human teller can handle up to 200 transactions a day, works 30 hours a week, get a salary anywhere from \$8,000 to \$20,000 a year plus fringe benefits... In contrast, an automated teller can handle 2,000 transactions a day, works 168 hours per week, costs about \$22,000 a year to run... Between 1983 and 1993, banks [in the United States] eliminated 179,000 human tellers, or 27 percent of their work-force... By the year 2000, upwards of 90 percent of banking customers will use automated teller machines. (p. 84)

At this point in history, predictions about the extent to which technology will replace labor within key industries have, of course, largely come to pass. As we contemplate our increasingly technologically advanced economy and society, these effects are likely to multiply. Analysis suggests that widening of the productivity-wage gap will continue for two reasons: (a) digital devices only continue to get cheaper and will soon be less expensive for many tasks than human labor, and (b) technologies continue to get more powerful and gain more advanced skills and abilities. Digital devices can already drive cars, deliver packages, understand and produce natural human speech, and write clean prose. The future promises still more innovation.

Brynjolfsson and McAffee (2012) state in a New York Times op-ed:

.... we also need to start preparing for a technology-fueled economy that's ever-more productive, but that just might not need a great deal of human labor. Designing a healthy society to go along with such an economy will be the great challenge, and the great opportunity, of the next generation. (p.1)

This is part of the challenge addressed in this report: the need to build an integrated economic mobility system, calibrated to function within the U.S. economy as it actually looks today and will likely look in the future, rather than perpetuating an insistence on the illusion of the economy as we want to believe it works. If labor income—while still important—is losing its value for producing economic mobility, then additional policies are needed that allow more families to take advantage of income from capital and transfers. Otherwise, it is difficult to imagine how the American way of life, let alone the aspiration to upward mobility, will persist.

CHAPTER 2

MODERN REALITIES REQUIRE A SHIFT TOWARD AN ECONOMIC MOBILITY SYSTEM

OVERVIEW

Americans today are largely relegated to one of two divergent arms of our welfare system: poor Americans are supported by a consumption-based system that keeps them out of poverty but prevents asset accumulation and lasting mobility, while wealthier Americans enjoy a set of incentives for asset accumulation. In a context in which labor income alone is inadequate to secure economic mobility, the type of welfare system an individual encounters factors heavily into mobility prospects. If the United States is to make the American dream of upward mobility a realistic aspiration for a majority of Americans, then, it must integrate its bifurcated welfare system into an economic mobility system that helps everyone build assets. This system must be endowed with enough redistributive power to help low-income Americans move securely into the middle class. Such a system would complement labor in order to meet households' consumption needs, while also supporting equitable asset accumulation.

Rather than promoting economic mobility, the consumption-based welfare system today constrains the asset accumulation of millions of low-income Americans. In contrast, many in the investor classes benefit from tax incentives and other non-stigmatizing mechanisms to subsidize their savings and investments. An honest conversation about the role of policy in exacerbating, rather than mitigating economic inequities, must be the start point in moving away from these divergent arms.

For the purposes of this discussion, we define poverty as encompassing far more than just what a household can consume, but also including the inability to save and to achieve upward mobility. This lens for examining poverty brings to the fore the ways in which, today, consumption-based welfare systems send negative messages about saving, reinforcing the very behaviors that make it difficult for households to advance economically. We may even need to consider a three-legged stool of economic mobility supports—transfers to provide security and subsistence, capital to facilitate risk taking and associated advancement, and employment to send signals about the rewards of work. Only leveraging all of these opportunities can provide a foundation for real economic mobility, equitably distributed.

In Chapter 1 we maintain that the modern economy has reduced the ability of work—labor income to serve as the primary means for maintaining a middle class. As discussed, personal income consists of three major components: (a) labor, (b) assets, and (c) transfers. If personal income consists of three components and one of the components, labor income, is diminishing in its capacity to maintain a middle class, then one may conclude that policies are needed that increase the role of the other two components. This does not mean a wholesale retreat from efforts to enhance labor income, particularly where its erosion reflects an unjust and even illogical devaluing of individuals' contributions to U.S. society and economy. We do not suggest that policy efforts to create employment opportunities are not valuable or that people should not work. There is clearly abundant evidence of the financial, social, and psychological benefits of employment, and we believe that the U.S. society and economy would be strengthened through the pursuit of a robust full employment system (Bernstein & Baker, 2003). The creation of jobs with what Shapiro and others have termed "employment capital"-employer-based benefits, job flexibility, and consistent work—seems to be related to wealth promotion, and, all else being equal, increasing the availability of these types of employment opportunities will make Americans comparatively better off (Thomas, et al., 2013). Indeed, while our understanding of the importance of employment does not view work income as a sufficient tool for economic mobility, the other benefits secured through good jobs, particularly non-wage benefits and job security, may be important supports for the risk taking and future planning that, in turn, help to promote economic security (Thomas, Boguslaw, Mann, and Shapiro, 2013). Nonetheless, the evidence suggests that work by itself, particularly in the types of jobs available to many Americans, will likely not be able to maintain a middle class. In addition, if we wish to maintain one of the core values that has made America unique, the ability for the majority of people to sustain hope that they too can improve their lot in life, then we must have the foresight to craft policies that align with the reality of today's economy as well as with the technological advances that will shape the economy of the future.

		1992	2002	2012
Labor Ind	come Wages and salaries	\$2,973.6	\$4,997.3	\$6,880.7
	Other labor income	\$673.7	\$1,113.5	\$1,685.1
	Subtotal	\$3,647.3	\$6,110.8	\$8,565.8
	Percent of Total	(68.2 percent)	(67.4 percent)	(63.9 percent)
Asset Inc	ome Proprietors' income	\$414.9	\$890.3	\$1,202.3
	Rental income	\$84.6	\$218.8	\$462.6
	Interest income	\$722.2	\$911.9	\$992.6
	Dividend income	\$187.6	\$397.7	\$757.0
	Subtotal	\$1,409.3	\$2,418.7	\$3,414.5
	Percent of Total	(26.4 percent)	(26.7 percent)	(25.5 percent)
Transfer	Personal transfer receipts	\$745 8	\$1 282 2	\$2 375 1
meome	Less contributions for social insurance	-\$457 1	-\$755.2	-\$952.9
	Subtotal	\$288.7	\$527.0	\$1.422.2
	Percent of Total	(5.4 percent)	(5.9 percent)	(10.6 percent)
	Total personal income	\$5347.3 (100.0 percent)	\$9,060.1 (100.0 percent)	\$13,407.2 (100.0 percent)

Table 1. Personal Income Sources (in billions of dollars)

Source: "Personal Income." U.S. Bureau of Labor Statistics. 31 Dec. 2013.

Labor income continues to make up the largest share of personal income but its share shrank between 1992 and 2012 from 67.4 percent to 63.9 percent. There is little reason to believe that there will be large increases any time soon (see Table 1). While labor income has shrunk as a share of total personal income, asset income has remained relatively stable and transfer income has been on the rise (see Table 1). However, as is so often the case in our divided society, the aggregate data do not tell the whole story.

For this report, what is most important about personal income is that assets and transfers are important ways that households can generate income outside of wages, as well as establish a foundation for accumulating assets.

Among the top one percent of households, only 39 percent of personal income is derived from labor income (Rosenberg, 2013), and 53 percent 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 come 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 23.8 percent while standard income taxes go all the way up to 39.5 percent (IRS, 2013a).

As explained below, the current bifurcated welfare system already helps create economic mobility, but only for those with adequate access to its offerings. In this way, it may exacerbate inequality by helping some in society build assets, but not others. The next section discusses the bifurcated nature of the American welfare system, revealing the often-invisible workings of the structures that facilitate, in particular, accumulation of the assets that then provide sources of capital income for already advantaged American households.

WELFARE, A BIFURCATED SYSTEM

The American welfare system is bifurcated: a consumption-based arm largely designed for wage earners helps maintain basic standards of living, while an asset-based arm largely designed for investors supports the accumulation of assets. The types of behaviors these arms support, and the economic classes that use each component of the welfare system, differ dramatically. This raises the prospect that, as scholars have long recognized, investments in this bifurcated welfare system may exacerbate rather than mitigate inequality (Devine & Canak, 1986). According to this thinking, integration of the two arms of U.S. welfare policy toward a policy of economic mobility could enhance the efficacy of each approach by aligning their goals and by positioning households to build from a platform of basic security toward asset accumulation. This is not to say that the asset-based arm is inherently or entirely superior to the consumption-based arm, nor that the consumption-based arm does not make real contributions to efforts to improve Americans' lives, rather that essentially denying households in the wage-earner class access to both arms of the welfare system denies them the substantial benefits that accrue to participation in the asset arm, with attendant consequences for limited earning potential beyond labor income.

Indeed, Maslow's (1948) hierarchy of need emphasizes the importance of securing the essentials for one's standard of living as a necessary prerequisite for building toward higher level needs. As described by Xiao and Anderson (1997), Maslow contends that people will attempt to fulfill higher level needs (e.g., by saving for college education) only after lower level needs (e.g., purchasing groceries and paying

utility bills) have been met. From this perspective, needs are categorized into two types: deficit (i.e., lower level) and growth (i.e., higher level) needs. People seek to fulfill their deficit needs first, after which they begin to direct their behavior toward fulfilling growth needs. Building on Maslow's theory, Xiao and Anderson (1997) identify three categories of financial need based on people's tolerance for risk taking (paradoxically, tolerance for risk is largely determined by initial asset holdings; see Sherraden, 1991): survival needs, security needs, and growth needs. Again, as explained in the earlier discussion about the role of institutions in shaping savings behavior, responses to these needs should be understood largely as learned behaviors, rather than innate differences. Regardless of their origins, though, these very different savings activities have differential effects on propensity for improvements in well-being.

The consumption-based welfare system

The consumption-based welfare system attempts to set a floor below which no American should fall. Another role that the consumption-based welfare system (or transfers) fulfills is to establish at which rung on the economic ladder the poor live. Even if it aspired to do so, it was never designed to promote equality, redistribute income, or create the chance for economic mobility among the poor.

Evidence suggests that the consumption-based welfare system has been somewhat successful at reducing the incidence of measured poverty in America (Danziger, Sheldon, Haveman, & Plotnick, 1981; Lampman, 1984). For example, Jusko and Weisshaar (2014) find that in 2012, transfers in the form

DIRE STRAITS FOR THE WORKING CLASS

Some analysts have referred to the working class or near poor as the "missing class" (Neman & Tan Chen, 2008). These individuals often earn too much to qualify for means-tested transfer programs—or may shun such supports due to the stigma they carry—but earn too little to secure economic security. These American households comprise a diverse group united by the commonality of the unlikelihood that they will attain the American dream. Compared to the officially poor, these working class households are more likely to work full-time, year-round, but less likely to receive any help from the government that could either subsidize their consumption or provide a means through which to climb the economic ladder. Instead, the circumstances of their economic lives conspire

to make upward mobility elusive. They live in mostly poor neighborhoods where their real estate investments fail to yield dividends and their schools equip their children with little human capital (Shipler, 2004). Laboring in lowpaying, unstable jobs makes them vulnerable to spending down savings to meet emergency consumption needs. The bleak realities of their jobs often force them to seek retraining, which, given the costs of such programs, further drains their finances (Chideya, 2014). Even their health status is compromised, further straining their budgets and disrupting work (Kim, 1999). The working poor may be the class most failed by both the consumption-based welfare system and by the asset arm, which does not provide meaningful access to savings structures.

of income support provided nearly one-third of what is needed to lift a household out of poverty into the working poor class, up from a fifth in the 1980s and early 1990s. Similarly, the U.S. Census Bureau has calculated that, in the absence of refundable tax credits, the 2013 rate of child poverty would rise to almost 25 percent, from 18 percent (U.S. Census Bureau, 2013). This is evidence of how transfers, considered part of the consumption-based welfare system, can act as a means for economic mobility. Critical, though, is recognition of the improbability that households can move securely into the middle class, rather than just beyond the poverty threshold, based on these transfers. Many who are no longer officially poor have climbed only into the working poor class or working class (i.e., near poor), and therefore the next car breakdown or other unexpected expense can throw them back into poverty. In fact, research shows that about half of those who leave poverty fall back into poverty within four years (Iceland, 2012). Additionally, despite the effectiveness of such transfers to lift many households out of poverty, poverty overall still remains high—in 2012, about 15 percent of the total population and almost 22 percent of children were poor (U.S. Census Bureau, 2012). Indeed, the eligibility criteria and phaseout rates for most means-tested public assistance programs serve to ensure that those who are no longer officially poor quickly lose these transfers (Tax Policy Center, undated).

Reducing the depth and breadth of deprivation among American households is undeniably important, and a robust system to complement wages and provide for survival is a measure of a country's moral character. It is also a required part for creating the conditions necessary for economic mobility to occur among the poor. However, if we were to label the standard of living that the consumption-based model of welfare has established, keeping in mind Maslow's hierarchy of needs (1948), it might be called the survival step, where the poor are given what they need to survive, usually on a short-term basis. As such, we posit that the consumption-based model is not designed to instill the embedded thought processes the poor need to make decisions that have their futures in mind, nor does it provide assistance adequate to capitalize upward mobility.

Perhaps surprisingly, those living on the survival rung of the ladder nonetheless save (Sherraden, 1991), but what they save for may be very different than what people living at higher rungs on the ladder save for. Xiao and Noring (1994) find that low-income consumers are more likely to report saving for daily expenses (what they categorize as survival needs), middle-income consumers are more likely to report saving for emergencies (what they call security needs), and high-income consumers are more likely to report saving for growth, in keeping with the distinction between lower and higher level needs and in reflection of the very real constraints on their daily lives.

Therefore, some poor people might become very adept at overcoming obstacles related to making it through the month or the day without necessarily developing the capacities, financial and otherwise, for overcoming obstacles that will occur in the future. The poor fall into a present-oriented pattern of thinking. By extension, the incentives that govern their financial decisions are distinct from those driving behavior in the asset-based arm of the welfare system.

These effects on the capabilities of low-income individuals and households are not evidence of intentional conspiring to prevent low-income Americans from achieving economic mobility. Indeed, the American welfare state was created with a strong sense of urgency for improving living conditions of the poor. Under President Franklin Roosevelt during the 1930s in reaction to the depredations of the Great

Depression, the architects of the New Deal created a conglomeration of programs cobbled together over several years to form a floor. The floor was built of income-based programs that were designed to allow the poor to consume the minimum amount of goods and services needed for a subsistence lifestyle. Fifty years ago, President Lyndon Johnson expanded the consumption-based welfare system. Although the War on Poverty also included investments in human capital opportunities at both ends of the formal education system designed to help low-income households secure greater well-being, the net effect was skewed more heavily in the direction of subsistence supports. This legacy persists today, in a welfare system for the poor that does not provide a hand up the ladder, but instead merely offers a safety net to stop a fall.

This does not mean that reforms to the consumption-based welfare system could not leverage their potential to facilitate economic mobility. For example, the EITC could be a significant tool, not just for alleviating poverty but also for fostering upward mobility, if several changes were instituted, including: increasing the income level at which benefits phase out: eliminating asset tests in other programs so that saving one's EITC refund would not jeopardize eligibility for other benefits: increasing benefit levels to compensate for stagnating wages: and, very important, changing the public conversation about this policy, which has disproportionately attracted more reprobation than have tax benefits primarily used by high-income earners (Lewis & Beverly, undated). Instead, we argue that enacting such changes would fundamentally reshape the character of the programs that collectively comprise the consumption-based welfare system, moving U.S. policy closer to an integrated economic mobility system, built on a foundation of the components of the asset-based and consumption-based structures of today.

As a safety net, today's consumption-based arm of the welfare system does not facilitate substantial economic mobility. We say *substantial* economic mobility because enabling households in poverty to consume at the level of the working poor may technically constitute upward mobility, but not in the way that most Americans conceive of it. It does not represent the American dream of ascent into the middle class, or a stable financial future.

Asset limits inhibit savings and economic mobility

Today's consumption-based welfare system in some cases acts as a roadblock to climbing the economic mobility ladder. One mechanism for this effect is the requirement of strict means tests for subsistence-based welfare programs, as in TANF, SNAP, and Medicaid. These tests, which are often accompanied by stigmatizing application and eligibility verification procedures, prohibit significant asset accumulation, viewing assets as a source of potential consumption, rather than as fuel for future upward mobility.

These limits are viewed as not only morally appropriate, because aid should be reserved only for the most destitute, but also pragmatic, since poor households are assumed to be unable to save anyway as their disposable income is very limited after meeting subsistence requirements. Indeed, saving is often theorized to be potentially harmful to individuals in poverty, since any money they might take for building assets results in neglecting to purchase the goods and services required to meet vital subsistence needs. In this way, asset limits might be seen as both paternalistic and punitive, establishing very different expectations for how the wage-earner class will accumulate assets compared to what policy assumes, and rewards, for higher earners. Indeed, evidence suggests that low-income asset owners have internalized

these different expectations, spending down their assets instead of using transfer programs to meet consumption needs (Huang, Nam, and Wikoff, 2012).

Research suggests that this belief may reflect misunderstanding about saving and poor households, though. More liberal asset limits encourage greater asset accumulation, while stricter asset limits discourage saving (Nam, Huang, & Sherraden, 2008). Therefore, asset limits can provide a disincentive to save that influences, and may even distort, the savings behavior of low-income participants in the consumption arm of the welfare system (Nam, 2008). Asset limits may also discourage families who own assets but are income poor from taking advantage of much needed income-maintenance programs, such as SNAP, thus potentially imperiling their immediate standard of living. For example, Huang, Nam, and Wikoff (2012) find that owning a home, vehicle or bank account is negatively associated with participation in SNAP even when a household is eligible. In multiple ways, then, low-income families may receive a message that asset accumulation is potentially against their economic best interests.

To the extent to which support from consumption-based programs could potentially ease poor households' income gaps, thus facilitating some saving, strict asset limits may short-circuit asset accumulation by low-income Americans. In contrast, when American welfare policies for the poor have encouraged asset development, as in the case of the Homestead Act and the Servicemen's Readjustment Act (popularly known as the G.I. Bill), we have seen the poor leverage these assets to rise out of poverty and into the middle class.

Work incentives and transfers

As currently implemented, transfer payments in the consumption-based arm of the welfare system are limited in their ability to act as a ladder up to the middle class, though they might be very successful at expanding the number of working poor in the United States. We see this less as a problem with transfers themselves and more as a problem with how they have been conceptualized as part of the consumption-based arm of the welfare system—that is, as a system for providing Americans with assistance for overcoming temporary economic hardship (see e.g., Rank & Hirschl, 2001; 2009), not as a means for creating economic mobility.

Increasingly, these supports have also been conceptualized as a tool for creating behavioral changes among the poor. Primarily, this means instilling in the poor a work ethic they are perceived to lack and encouraging them to remain in low-wage, low-skill employment. Transfers are increasingly attached to work (Jusko & Weisshaar, 2014), a cycle that, obviously, compounds the economic challenges facing the unemployed or those only marginally attached to the labor market, but that also constrains the ability of individuals to escape poor-quality jobs that offer no hope of upward mobility.

EITC is an example of this latter phenomenon. By itself, requiring work for able-bodied adults as a condition of eligibility makes sense to most people. However, transfers, as currently designed for wage earners, require work but often penalize the poor if they make more than what is required to live at a working poor standard of life. For example, EITC recipients who have a job but earn more than \$15,000 annually receive only a few hundred dollars, in contrast to households earning \$5,000-\$10,000 that receive about \$1,000 (Jusko & Weisshaar, 2014). This suggests that the poor have to work, but the

amount of transfers they are receiving is meant to augment their ability to move out of abject poverty and into the working poor, but not to create the capacity for moving into the middle class. This is in stark contrast to transfers in the asset-based arm of the welfare system, which encourage the accumulation of assets and continued upward mobility. It should come as no surprise, then, that the limited approach of the consumption-based model of welfare produces very different outcomes from the asset-based arm.

Since building assets is potentially a key component to moving out of poverty (Pew Charitable Trusts, 2013; Sherraden, 1991), the structure of the consumption-based arm of the welfare system may, in itself, serve to hinder economic mobility among the poor, although these effects are likely not as significant as the inaccessibility and irrelevance of the asset-based welfare system to most wage earners, as discussed in more detail below. In concert, then, the functioning of both arms of the current welfare system serves to exacerbate the economic mobility constraints low-income workers face in the labor market.

The asset-based welfare system

While the arm of the welfare system designed for wage earners provides them with temporary assistance for meeting basic survival needs, a different arm of the welfare system—one with explicit objectives of economic mobility and facilitation of social development through asset accumulation—exists for investors. Today, most of the spending in this category is dedicated to employer-related work subsidies, homeownership, savings and investment incentives, and education and training supports that tend to accrue disproportionately to the highest earners. In recent years, only 28 percent of these expenditures have gone to programs that provide significant benefits to low-income individuals (Carasso, Reynolds, & Steuerle, 2008).

Administered largely through tax deductions, tax credits, and preferential tax rates and conceived as investments in household prosperity, these benefits are not stigmatized like those in the consumptionbased arm of the welfare system. Instead, these transfers are so broadly accepted as to be nearly invisible as "public assistance" (Mettler, 2010). While universally available in theory, the asset-based welfare system is structured and incentivized in ways that result in highly inequitable utilization, with the vast majority of benefits—and, therefore, asset-building outcomes—flowing to higher earners. It is as though a hand is reaching down to help pull the investing class up the ladder. Boshara (2012) states it this way:

... income, race, gender, and the like don't really matter in predicting who saves and builds wealth—institutions do. Yet the institutions households encounter seem to vary by income: The higher your income, the more the institution "behaves" for you to accumulate wealth, such as an employer who defaults you into a retirement savings plan. The lower your income—and the lower your ability to manage financial decisions—the more you have to behave to build wealth, such as resisting the simplicity and convenience of wealthdepleting institutions like payday lenders and check-cashing outlets. (p. 20, emphasis in original)

Unlike income, which is a flow of money usually over a defined period, assets are resources kept through time. In talking about why assets matter, Oliver and Shapiro (2006) state, "the reality for most families is that income supplies the necessities of life; while wealth represents a kind of 'surplus' resource available for improving life chances, providing further opportunities, securing prestige, passing status along to one's

family, and influencing the political process" (p. 32). Therefore, we posit that, for building a foundation for economic mobility, today and for future generations, providing all Americans access to the asset arm of the welfare system might really matter (see chapter three for additional evidence to support this contention).

The many benefits the investing class reaps from the asset-based arm of the welfare system

Research suggests that accumulating assets is not an individual act determined solely by human capital or even social background; it also requires access to the capabilities institutions provide (Sherraden, 1991). The primary way people gain access to institutions is through social policies. Historic examples of institutions that facilitate (and block) access to asset accumulation include the policies of the Federal Housing Administration (FHA) during the 1960s, which changed the rules of the game for buying a home by lowering the amount of down payment from 90 percent of the price of the home to 10 percent, but only for those in neighborhoods (mostly White) deemed prudent risks. Another example is the G.I. Bill, which made mortgages available to World War II veterans with no down payment and provided them with money for college—but only for some veterans.

Thus, policy shapes individual fortunes in ways that then, through the lens of the American dream, become seen as natural. After these particular policy changes occurred, owning a home and going to college became not only part of the investing class's version of the American dream, but the wage earners' as well. A more recent example of how the asset-based welfare system has benefited the investing class is through budget cuts and tax policies (e.g., preferential tax treatment of capital incomes) adopted in the mid-1980s. These policies significantly reduced the incomes of the wage earner class, while greatly boosting the incomes of the investing class. For example, according to the Center for Budget and Policy Priorities (CBPP) (1986), households with incomes below \$10,000 a year bore nearly half of the budget cuts and households with incomes below \$20,000 a year bore 70 percent of the cuts during the mid-1980s. By contrast, households with incomes above \$80,000 endured just one percent of the cuts. Tax policies during the mid-1980s led to similar trends with regard to wealth, significantly reducing the wealth of low- and moderate-income families while greatly boosting the wealth of the most affluent (Wolff, 1993).

So, the asset–based welfare system has helped some families accumulate assets that they would not have been able to accumulate otherwise. It has shaped behaviors in ways that become self-reinforcing, forging identities as "savers" by force of policy incentive. The United States, through its social policies, has a long history of helping some families build wealth and thereby move from one income level to the next (Oliver & Shapiro, 2006; Shapiro, 2004). These investments in economic mobility are sizable, and they warrant additional examination, particularly in light of increasing wealth polarization and emerging evidence revealing the extent to which asset accumulation—or the lack thereof—drives economic disparities.

The budget implications of asset-based welfare

According to Cramer, Black, and King (2012), the 2013 federal budget allocated about \$508 billion to encourage savings and asset building—savings and investment, retirement security, homeownership, postsecondary education, and entrepreneurship—in the form of tax expenditures that largely benefit the investing class. Tax expenditures resemble federal spending in that they provide financial assistance to

individuals and groups for the purpose of reaching policy goals and also contribute to the federal deficit. In contrast, the Congressional Research Service (CRS) reports that about \$708 billion was spent on the consumption-based arm, including programs such as Medicaid, SNAP, SSI, and the EITC (CRS, 2011).

While a greater investment was made in the consumption-based welfare system than in asset development, two characteristics that distinguish the two approaches highlight their differential effects. First, because asset-based welfare has a multiplier effect, through the generation of additional income and wealth, as described later in this report, it has a greater impact than the size of the expenditure would suggest. Second, we suggest that the effects of the two arms of the system are not only unequal during individuals' lifetimes, but also across generations. Low-income families are not allowed to store money spent on the consumption-based welfare system for use even in the proximate future, and certainly not to pass down to their children, while money spent on the asset-based welfare system is stored, often grows, and is later transmitted to future generations of the investing class. From this perspective, at least some part of the money spent in the asset-based welfare system may accumulate over time in families, growing both in value and in significance. They pass it along from one year, and one generation, to the next.

The intergenerational and behavioral effects of wealth

The intergenerational transfer of assets accumulated through government policies has powerful ramifications. The Homestead Act, enacted in 1862, still confers benefits on many of the 1.5 million families that received 160 acres of land through its provisions (Shapiro, 2004; Shanks, 2005). For example, Shanks (2005) estimates that 46 million U.S. adults are descendants of families who received land, or about a quarter of the U.S. population in 2000. The Homestead Act transmitted this intergenerational wealth disproportionately to White Americans, helping to create gross wealth inequalities between White and Black families that persist to this day (Shapiro, 2004; Shanks, 2005) and that help to explain persistent patterns of educational and economic inequality.

The effects of these social policies on individual and household financial well-being are manifest not only in immediate and tangible transfers of benefits, but also through more subtle influences on attitudes and behavior. Mainstream financial institutions help to provide members of the investing class with an embedded thought process that facilitates additional asset accumulation, as well as the ability to think about their lives in terms of the future. Sparking a reexamination of the idea that increasing income is the way to reduce poverty, Michael Sherraden (1991) observes that the middle class "participates in retirement pension systems ... not [as] a matter of making superior choices. Instead, a priori choices are made by social policy, and individuals walk into the pattern that has been established" (p. 127). Therefore, the asset-based arm of the welfare system helps to provide the investing class with the initial assets they need to connect to financial institutions and then provides them with embedded thought processes that facilitate additional asset accumulation toward the future.

Those who are denied access to these policy structures and financial institutions are as a result also separated from the thought processes they engender. Sherraden (1991) suggests that assets have effects that go beyond consumption to include social, psychological, and political effects. More specifically, Sherraden (1991) states that "assets improve economic stability; connect people with a viable, hopeful future; stimulate development of human and other capital; enable people to focus and specialize; provide

a foundation for risk taking; yield personal, social, and political dividends; and enhance the welfare of offspring" (p.148). Subsequent examination of assets' influences on individual and family well-being, in empirical field demonstrations and in reviews of aggregate datasets, have confirmed many of these presumed differences in the effects of participation in the asset-based versus consumption-based arms of the welfare system. It is assets' potential for multiple effects that may make them an engine of economic mobility for middle- and upper-income families, exacerbating the unequal outcomes realized through the consumption- and asset-based welfare models.

Transfers designed as part of the asset-based arm accrue not just to individuals and households, but also to entire institutions. These transfers overwhelmingly affect the most advantaged in the U.S. economy. For example, CBS News (2008) reported that through taxpayer bailouts, banks were able to award top executives nearly \$1.6 billion dollars in salaries, bonuses, and other benefits (the average paid to these executives was \$2.6 million). Moreover, transfers that come out of the asset-based arm of the welfare system have most often been designed to allow people to leverage them to develop future assets. For instance, transfers from the bank bailout often came in the form of asset-building items such as stock options and professional money management or large cash bonuses (CBS News, 2008).

In sum, the investing class is given access to the arm of the welfare system that helps them build the initial assets needed to connect with financial institutions. Once they gain access, the institutions make choices for them about how to build additional assets, resetting the default option such that asset accumulation is more likely than it would be otherwise. Given that the investing class and, at specific times in America's history, the middle class, are given access to the asset arm of the welfare system, it should not be a surprise if these Americans are most likely to experience economic mobility and avoid downward mobility. Indeed, that is the explicit aim of this set of policies. This review of history signals a very American way to extend the asset arm of the welfare system to the wage-earner class: use social policy to change the defaults presented to those in the wage-earner class.

TODAY'S ECONOMY REQUIRES A SHIFT TO AN ECONOMIC MOBILITY SYSTEM FOR ALL

As described in historical examples above, U.S. social policy does not deny a government role in facilitating economic mobility. Indeed, despite substantial rhetoric about economic self-sufficiency and the importance of individual initiative, the story of wealth creation and maintenance in the U.S. is largely one of government intervention—historically and today, through the asset-based arm of the welfare system. The point, then, is not that the U.S. should begin to invest in a "mobility budget" to enhance people's earning capability, savings, and asset accumulation, but rather that the current distribution of these resources is highly unequal (Boshara, 2003) and, therefore, fails to make significant contributions to the reduction of poverty and promotion of economic mobility among the disadvantaged classes. Significantly, to the extent to which savings that could result from extending the economic mobility system to currently marginalized Americans would, for the most part, generate new asset accumulation rather than merely subsidizing savings that would have occurred otherwise, a more equitable asset-based welfare system could be considerably more effective and efficient than current incentives, particularly if these systems are structured so as to induce automatic or passive saving (Chetty, et al., 2013).

A new vision for shared prosperity and mobility

Integrating the two arms of the welfare system would construct a unified economic mobility system with opportunities for Americans at all income levels to build the levels of initial assets that the analysis presented here suggests may be critically important levers of economic mobility. To move beyond a discussion of a bifurcated welfare system to a discussion about an economic mobility system, the nation must rally around a common vision of prosperity and broadly shared upward mobility. There are several critical components to this vision:

- Americans need a more comprehensive and accurate understanding of poverty as encompassing not just what people can consume (i.e., their standard of living) but also their well-being. That is, poverty is also about the real opportunities people have to use goods and services to move up the economic ladder.
- The consumption-based arm of the welfare system is highly stigmatized (Gilens, 1999) and this is unlikely to change without reframing the conversation to encompass the significant public investments—indeed, public subsidies—extended to wealthier individuals, without the accompanying shaming rampant within the consumption-based arm.
- The solutions derived from the consumption-based arm of the welfare system, the asset-based arm, or even higher education are inadequate alone to tackle the challenges of stagnant wages, increased international competition, and structural unemployment facing the U.S. economy today.

America has never been a completely free market economy, so the conversation needs to acknowledge that the question is not whether government should intervene in the market but how and for whom. Tax policy, in particular, has long been used to induce and inhibit particular behaviors, within the accepted scope of government intervention in the marketplace. Specifically in regard to the use of tax policy to incentivize saving and investment, government intervention in order to ensure that we have a middle class is one of the things that has made America great.

Shifting from a bifurcated welfare system that disproportionately benefits the investing class and stigmatizes wage earners to an economic mobility system is not camouflage for a retreat from our collective responsibility to combat poverty and restore opportunity; it is not about privatizing economic supports or shifting all risks to individual households. Instead, U.S. social policy equipped to facilitate economic mobility for all Americans would prioritize stabilizing household finances through unwavering commitment to progressive transfers while investing in opportunities, including what we're calling Economic Mobility Accounts (EMAs), discussed in chapter three. Collectively, these interventions would help to shore up the chasm left by the declining power of labor income, complementing wages with transfers that augment work's rewards and bringing all Americans into the capital markets that represent the only real chance to build a foundation for upward progress for all.
Dismantling asset tests and creating an integrated economic mobility system

Today, transfer income is often at odds with both labor income and capital income. Its stigma keeps those who are employed from participating in public benefit programs at rates commensurate with their eligibility and actual financial need. Government income support programs that do align with labor market participation—most notably, Social Security retirement payments—fail to provide adequately redistributive benefits but, instead, may largely perpetuate some of the same inequities based on gender, race, and class that are found within the labor market itself (Smith, 2003). Strict asset tests and a default set to immediate consumption ensure that participation in means-tested public assistance programs reduces the likelihood that individuals and households can accumulate critical capital, human and financial. Of course, these contradictory effects are not found in the asset arm of the current welfare system that supports the wealth building of more advantaged Americans. For these households, labor income is used to fuel deposits of capital income, which, in turn, as described in this analysis, may increase the productivity of those same labor income flows. For Americans funneled into an increasingly anachronistic, consumption-based welfare arm, though, the cruel reality of the declining value of labor income is compounded by growing assaults on transfers, the accompanying erosion of their value as a core financial support (see, for example, Floyd and Schott, 2013), and the distant allure of a capital market out of reach. If transfer income is to provide a secure grip on the ladder that, capital income helps one to ascend, we may need to reframe transfers as part of the overall economic mobility system and an essential augmentation of labor, not as mere subsidies for temporary consumption or meager resources to salve the worst deprivations wrought by our economy.

At the same time, transfers can play an important stabilizing role, sheltering American households from at least some of the fluctuations that can make the capital market a risky place, especially for those living somewhat at the financial margins. Particularly as low-income households build assets and confidence to maneuver in capital markets, their financial security cannot hinge entirely on returns in inherently unstable investments. Indeed, insecurity is a hallmark of today's economy for many Americans, buffeted by unemployment, volatile markets, and even routine threats of benefit reductions and budget cuts. As investments in economic mobility round out households' income sources with greater reliance on capital and transfer income, these sources can be seen as playing different roles, generating returns and increasing stability, respectively.

If transfer income is to be a valuable complement to capital income for low-income individuals, just as U.S. tax policy facilitates asset accumulation for wealthier households, then the United States needs an economic mobility system that avoids the historic failures of consumption-based welfare, particularly its emphasis on subsidization of immediate consumption and corresponding inhibition of productive saving behaviors. While some relatively modest tweaks would make substantial progress in bridging these two divergent policy arms—beginning with elimination of the asset limits that put means-tested supports at cross-purposes with capital accumulation goals—more total overhauls will be necessary to provide a true foundation of economic security from which households can advance. Transfer income may no longer be conceived as a temporary stopgap measure, but, instead, may need to be a long-term tool for redistributing resources so that the economy can work for more Americans (Thomas, 2012). If we think of the American dream as an ascent up a ladder of progress, then well-conceived, adequate, and integrated transfer payments can move the whole ladder up, establishing a new floor and ensuring that

even those on the lowest rung have enough to live comfortably. But only asset accumulation—financial savings, property ownership, and the development of human capital through advanced education—can equip families to climb. This makes the construction of transfer programs that will not impede upward mobility urgent economic and moral imperatives for U.S. policymakers.

Today, although there are clearly multiple factors at work, we recognize that limits on asset accumulation within means-tested programs themselves suppress savings, such that eliminating asset tests should be considered an essential first step in implementing pro-savings policy interventions. This is a powerful example of the importance of institutions. Wage earners encounter systems that send clear signals that saving money can be harmful to maintaining their standard of living, even while the investing class is told early and often—and at significant cost to the federal Treasury—that they will be rewarded for building asset bases. Policy institutions such as tax deductions for home mortgage interest, 401(k) plans, and state 529 plans open the door to the capital market by using tax incentives as effective transfers, reducing the real cost of investments for those wealthy enough to have tax liabilities. Conversely, for lower-income Americans, most transfer programs serve as disincentives to asset accumulation. Crafting a new and better "stool" of economic security should begin with undoing these disincentives to save. Today, these savings restrictions are found throughout the consumption-based welfare systems. For example, the SNAP still limits participants' savings in several states (Brooks & Wiedrich, 2013). In the TANF program, asset limits in some states are as low as \$1,000 per household (CFED, 2013). For most families in states where asset tests are still in place, liquid assets exceeding these thresholds can result in the denial of an application for assistance or termination of an existing case.

Research examining the effects of assets on educational outcomes reveals the myriad ways in which asset limits block capital accumulation for households engaged in these transfer programs. Consumption-based transfer programs constrain families' economic mobility not only immediately, as they lack the asset stores that evidence suggests could result in greater productivity from their other income flows, but also in future generations, given the importance of higher education in influencing long-term economic mobility and the role of assets in facilitating educational success. These asset constraints may help to explain why participation in means-tested programs reduces the odds that a child will enroll in college (Elliott, 2013a). Additionally, by making it very difficult for families to save for college, asset restrictions funnel students into the student loan market, where their educational aspirations are less supported than when paying for college with savings (Dwyer, McCloud, and Hodson, 2012). This makes it almost impossible for less wealthy young adults to graduate college without debt, sometimes in truly crippling amounts and sometimes just enough to forestall asset development in young adulthood, a delay that compounds disadvantage and can adversely affect asset building and income potential well into adulthood (Elliott and Lewis, 2013). Moreover, participation in programs with asset limits conveys harmful messages to families that saving is counterproductive and putting aside money for the future may imperil their wellbeing today (Sherraden, 1991). Such messages run directly contrary, of course, to our collective narrative about the American dream and the types of actions that are rewarded in our economy.

It need not be this way. Research shows that loosening asset tests around vehicle ownership, for example, increases asset holdings among SNAP recipients (McKernan, Ratcliffe, & Nam, 2007). This suggests that merely increasing asset limits results in asset accumulation (also see Nam, 2008). Encouraged by findings like this, 36 states have eliminated asset limits entirely from SNAP eligibility determinations, and 24 states have eliminated asset limits for family Medicaid (all states will be required to eliminate

asset tests from Medicaid as part of the implementation of the Affordable Care Act). This trend is accelerating. Two states have substantially increased the asset limits in their Medicaid or TANF programs, and 36 states have excluded important categories of assets from these limits in one or both programs (Geiling, 2013). Still, in October 2012, SNAP asset limits in ten states and TANF asset limits in 41 states were low enough to require that a family of three live in official asset poverty in order to qualify for essential income support (Sprague & Black, 2012). The prospect of increasing the asset holdings of low-income households simply by removing the artificial limits that punish them for saving should motivate policymakers who are looking for places to begin to bridge the divergent streams within our welfare system.

There is considerable room to improve this policy landscape. Years of policy demonstrations in the field of asset-building have demonstrated that low-income Americans can and will save when afforded the same access to supportive institutions currently extended to higher earners; yet these efforts have also underscored the very real limitations in the amount that poor households can save, even in the most supportive institutions. For example, research from demonstration programs such as Saving for Education, Entrepreneurship, and Downpayment (SEED) suggests that, on average, families in Child Savings Account (CSA) programs save approximately \$10 per month (Mason, Nam, Clancy, Loke, & Kim, 2009). In the American Dream Demonstration (ADD), which tested Individual Development Accounts (IDAs), the average monthly net deposit was \$25.42, with a range from \$16.37 to \$36.89 (Sherraden, Schreiner, and Beverly, 2003). While this savings activity clearly reflects a commitment to asset accumulation, particularly given families' limited incomes and the often high opportunity costs of diverting money for saving, these balances alone are inadequate to provide households with true ladders to economic mobility. Bolstered by pro-savings policy signals and subsidized through leveraging of adequate transfer income, however, low-income families could expect to save enough within these structures to facilitate meaningful economic mobility.

The past twenty years of experimentation in asset-based welfare policy have underscored the extent to which saving is influenced not by individual characteristics but, instead, by proximity to facilitative institutions. Families' economic well-being can be considered as a three-legged stool, supported by labor income (overwhelmingly significant for all but the wealthiest Americans, but, again, declining in relative importance over the past few decades), transfer income, and capital income. Ideally, of course, these elements complement each other. Advancements in areas such as public employment and living wages can slow the erosion of labor income and give U.S. workers a more adequate income flow with which to finance capital investments. Robust and equitable transfers can augment labor income and, evidence presented here suggests, potentially provide a foundation from which families can save. Critically, it is clear that none of these elements is functioning well today independent of significant, intentional, progressive government intervention. Just as clear, however, is the evidence that there is reason to expect progress if the right policy choices are made. As Chapter 4 will detail, Economic Mobility Accounts may be a policy lever to strengthen the stool supporting American households' finances.

CHAPTER 3

ASSETS' POTENTIAL TO PROMOTE HUMAN CAPITAL DEVELOPMENT, GENERATE INCOME, AND BUILD FUTURE ASSETS

OVERVIEW

Embedded within the narrative of the American dream is an abiding belief in the power of higher education to deliver people-particularly young Americans-to economic prosperity and upward mobility. Although there is far greater evidence of this relationship between human capital development and economic mobility than for other elements of this mythology, much of Americans' rising unease about the erosion of the American dream can be traced to the growing sense that higher education is moving beyond reach. Research has revealed the extent to which assets matter for determining educational and economic outcomes before, during, and following college. As a result of the bifurcated welfare system, though, Americans are largely funneled into either the debt-dependent student loan financing system or, conversely, the mostly tax-administered asset-based financial aid structure. Disparate outcomes from these two approaches serve to reduce the equalizing effects of higher education, instead perpetuating patterns of relative disadvantage and amplifying later inequities. Compounding these results are new findings that reveal the importance of initial asset stores-and net worth-in influencing future net worth. Low-wealth households see less return on each additional dollar of initial assets than households at higher percentiles, effects seemingly magnified by differences in how households fared during the Great Recession. In sum, Americans today confront a reality where their ability to access higher education and its attendant economic mobility opportunities, for themselves and their children, is influenced in large part by their asset bases, which, in turn, independently impact households' future asset accumulation and even earning potential. For those advantaged Americans who form the investor class, this becomes a virtuous cycle, helping to increase future household income to a greater extent than either labor or transfer income, in a model well suited to projected future economic arrangements. For those within the wage earner class, though, whose efforts and ability have failed to secure either strong returns on educational investment or solid asset foundations for future prosperity, the connections between current assets and future assets can feel like a trap.

This report maintains that assets, in addition to helping people build more assets, may also be used to acquire additional skills through investments in human capital that increase opportunities for economic mobility. Moreover, as a stock of wealth capable of generating income, assets may allow people to consume at a higher level than their wages alone would allow. These and other asset effects discussed in Chapter One might help to generate economic mobility. Chapter Three reviews evidence of the potential of initial asset levels to have a positive effect on human capital development and provides new evidence of the potential of assets to affect future assets and income.

THE POTENTIAL OF ASSETS TO INCREASE EDUCATIONAL ATTAINMENT

Investments in facilitating access to higher education are essential components of the U.S. economic mobility budget. Indeed, tax-based incentives for college saving are, today, the biggest federal higher education expense (Consortium for Higher Education Tax Reform, 2013). However, these investments are distributed very inequitably, with incentives for higher education-related asset accumulation largely accruing to already advantaged students who would likely attend college without these policy supports (Long, 2004). For example, according to the College Board, 57 percent of the \$420 million in savings that tax filers received through the tuition and fees deduction in 2011 went to families making \$100,000 or more, while only 12 percent went to taxpayers making less than \$50,000 (cited in Consortium for Higher Education Tax Reform, 2013). Conversely, students in the wage-earner class are often funneled into the student loan market, a higher education parallel of the consumption-based arm of the welfare system, which similarly penalizes savings and fails to deliver positive asset-linked externalities (Elliott & Lewis, 2013). Here, as in other aspects of the bifurcated welfare system, the economic mobility of Americans in the wage earner class is curtailed by their relegation to an inferior, consumption-based arm of what should be an integrated and asset-building approach to economic mobility (for more on assets, debt, and higher education outcomes see, Elliott & Lewis, 2013).

Household saving for college during a student's younger years has demonstrated effects on educational attainment and economic well-being before, during, and after college. The Assets and Education Initiative (AEDI) at the School of Social Welfare at the University of Kansas recently released a comprehensive report on the assets and education field (Elliott, 2013) that documents in greater detail the evidence, from field demonstrations as well as from analyses of secondary datasets, linking asset accumulation with superior educational outcomes.

Before college

By turning college into an important and achievable goal, and giving students and families a clear strategy for overcoming cost barriers, college savings increase the likelihood of college enrollment, according to the AEDI report. For example, 45 percent of students from the wage-earner class (in this study defined as household income below \$50,000) with no savings accounts enroll in college. That compares to 71 percent with at least one dollar of school savings, 65 percent with school savings from \$1 to \$499, and 72 percent of students with school savings of more than \$500 (Elliott, Song, & Nam, 2013). Of course, enrolling in college is not only a question of financial preparedness; evidence suggests that the longer term challenge of ensuring that students are academically equipped to succeed in college might be just as important (Heckman & Masterov, 2007). Here, too, asset possession shows promise, largely through reinforcing a college-bound identity that increases student engagement and builds parents' expectations of higher education, throughout a student's academic career (Elliott, Destin, & Friedline, 2011). Conversely, going through school without assets might actually compromise achievement. Spells of asset poverty prior to age 11, in particular, may have a negative effect on academic achievement scores (Elliott, 2013a).

During college

AEDI's review of the research suggests that in contrast to high-dollar student loans, which show some negative effects on college graduation, college savings improve a student's chances of making it all the

way to graduation. The results are encouraging, though not yet definitive: 5 percent of wage-earner class (below \$50,000) students with no account, 13 percent who have school savings but less than one dollar saved, 25 percent who have school savings from one dollar to \$499, and 33 percent of students who have school savings of \$500 or more graduate from college (Elliott, Song, & Nam, 2013). There are several ways in which this relationship may unfold, all of which warrant additional study. Students who come to college with assets to spend may be less worried about financial considerations and the stress of taking on expensive debt, allowing them to focus on their studies. The psychological effects of asset holding, including increasing students' sense of ownership of their educational experience, may qualitatively shift how they engage in class. The way that assets affect students' expectations of and preparation for college may better position them for success. Perhaps through a combination of these forces, 74 percent of students with college savings are on course to graduate, compared to 41 percent of students with no savings (Elliott & Beverly, 2011). Given the increasing importance of college completion, not just attendance, for securing a chance at economic mobility, asset interventions that can facilitate college persistence to degree attainment may be particularly essential for realizing a return on educational investment. Today, the typical earnings for young men with some college (but no degree) are 21 percent below where they were in 1980, while wages have continued to rise for those with at least a bachelor's degree, although at a slower rate than in periods of greater relative mobility (Demos & Young Invincibles, 2011).

Table 2 illustrates these educational effects. Having less than \$500 saved for college can make a wageearner class student three times more likely to enroll and four times more likely to graduate than if he or she had no college savings (Elliott, Song, & Nam, 2013).

Table 2. Even Small Amounts of Savings Can Lead to Higher College Enrollment and Graduation Rates among Student in the Wage-Earner Class

	Enrollment	Graduation
No College Savings	45%	5%
\$1 to \$499 Saved for College	65%	25%
\$500 or More Saved for College	72%	33%

Note. The wage-earner class consists of earners making less than \$50,000/year, Source. Elliott, Song, and Nam (2013).

After college

Getting through college is not the ultimate aim of higher education, however. If college completion is to be the potent tool for economic mobility that it is imagined to be, it should facilitate meaningful improvements in financial well-being, positioning graduates for greater success in life. Here, too, assets appear to improve the return on investment. By instilling habits of savings, reducing the long-term cost of financing, and connecting young adults to financial institutions, asset holdings, alone among college financing options, show promise for improving graduates' financial status following college completion. In addition to the positive financial effects of reducing dependence on student loans, described below, students who have savings accounts while they are young are more likely to own savings accounts as young adults, to have more diversified asset holdings, and to accumulate higher net worth (Friedline & Elliott, 2013). Specifically, when they have had savings accounts as children, young adults are two times more likely to own savings accounts and four times more likely to own stocks (Friedline & Elliott, 2013). Young adults own almost twice as many types of assets if they had savings accounts as children, versus those who did not (Friedline & Elliott, 2013). These outcomes, of course, are in addition to the spillover effects of improved educational outcomes, which may, in turn, improve employment prospects and lifelong earning potential. And given the connection between initial asset levels and the subsequent ability for income to generate more assets and additional income, young adults who leave college with at least some asset ownership may initiate a trajectory of superior earning and asset accumulation.

THE POTENTIAL FOR ASSETS TO BUILD FUTURE ASSETS

Many Americans assume that wealth is generated by income, and income is generated by hard work and ability, thereby validating the American dream. However, the evidence increasingly suggests that income's power for generating wealth is related to the level of wealth with which one begins. This section examines initial assets as a predictor of future assets, directly challenging the contention that one's starting point matters little in determining ultimate outcomes. The models controlling for household income are conservative estimates of the effects of net worth on future assets, because the household income variable consists of all income, including capital income. Capital income potentially makes up an important part of the effect on future assets, but it contributes to both net worth and household income; its estimated impact is, therefore, muted when we control for it.

Analysis plan

For this analysis we draw on longitudinal data from the Panel Study of Income Dynamics (PSID) (Panel Study of Income Dynamics, 2013). Models are estimated with and without controlling for initial income. In addition to net worth and household income, all regression models also control for household size, region, head's employment status, head's age, head's race, head's gender, head's marital status, receipt of Social Security, and receipt of food stamps (in later years, SNAP). Models are estimated for the following years: 1994, 1999, 2004, 2007, 2009, and 2011, with 1989 as the base year.

Data analysis steps were conducted using Stata (version 13). In the main analysis, quantile regressions are estimated to assess whether the effects of 1989 net worth (i.e., initial assets) and 1989 household income on 2011 net worth vary by percentile level (25th, 50th, and 75th). Quantile regression offered an advantage over ordinary least squares (OLS); it can handle extreme values in data without a major distortion in estimation because it is affected only by the order of the data (Pence, 2006).

In order to examine whether findings vary by percentile level, three separate quantile regressions are estimated using the Stata 13 BSQREG command. BSQREG was chosen because it allowed us to bootstrap the standard errors (it creates a large number of datasets, giving us a range of possible answers from which to estimate standard errors instead of just one data set). The bootstrapping was preferred because it makes no assumptions about the distribution of response (Hao & Naiman, 2007); we performed 500 replications. However, BSQREG does not allow survey weights, so the quantile

regression analysis is not weighted. All regressions were also estimated using QREG, which allowed the use of survey weights but not bootstrapping. To conserve space, we do not report results, but significance and direction of signs for key variables (net worth and income) remained the same with weights. All dollar amounts in this study were adjusted for inflation using 2011 dollars. All quantile regressions estimated in this report were estimated as described here. To learn more about the data used and how the variables were measured see Appendix A.

Results

Table 3 provides information on a series of quantile regressions predicting family net worth using 1989 median net worth to create the percentiles (25th, 50th, and 75th). Regression results indicate that initial net worth has an effect on future net worth, independent from income. That is, after taking into consideration a household's income, initial net worth explains a significant amount of the variability in future net worth. Findings also suggest that initial net worth effects are large and positive. That is, as initial wealth rises, so does future wealth. For approximately half of households the effect of wealth appears to be even larger than the effect of income on future net worth. Interestingly, whether income is controlled for or not, the effect size of wealth does not appear to vary much. The finding that net worth has a positive effect appears to be the case for each percentile (25th, 50th, and 75th).

These findings suggest that helping households build initial levels of assets may help to increase the assets they hold in the future, even among low-wealth families. This is similar to findings on intergenerational transfers of wealth by Wolff and Gittleman (2010), as they found that even a small gift given to the poor can make a big difference as a proportion of their current wealth. Results from this study also suggest that households at the 25th percentile have a smaller return on each dollar of initial assets held, when compared to households at the 50th percentile or the 75th percentile. For example, in 2011, households at the 25th percentile earned an additional 35 cents for each dollar increase in initial net worth after controlling for all other factors, including income. In comparison, households at the 50th percentile earned an additional \$1.20 for every dollar in net worth they had in 1989, and households at the 75th percentile earned an additional \$1.81. In other words, households at the 75th percentile enjoy over five times the return from an additional dollar in net worth experienced by households at the 25th percentile.

These results further indicate that income remains an important predictor of future net worth at all wealth percentiles examined, though wealth is perhaps an even stronger predictor. For the 25th percentile and the 75th percentile at the height of the Great Recession in 2009, the estimate for income's effect is still positive but does not reach significance. However, initial net worth remains a significant predictor of future net worth among all percentiles even during this period. This suggests that assets help families to continue to build wealth or at least mitigate losses during recessions, although this will require further investigation in future studies.

Table 3. Predicting Family Net Worth using 1989 Median Net Worth at the 25th, 50th, and 75th Percentiles (n = 3121)

		<i>P</i> (25)		<i>P</i> (50)		<i>P</i> (75)	
		Coefficient	Bootstrap SE	Coefficient	Bootstrap SE	Coefficient	Bootstrap SE
With 19	989 Net Worth						
2011	Net worth	\$0.47***	0.10	\$1.21***	0.10	\$1.96***	0.20
2009	Net worth	\$0.47***	0.11	\$0.85***	0.23	\$1.87***	0.21
2007	Net worth	\$0.44***	0.12	\$1.24***	0.11	\$1.89***	0.29
2004	Net worth	\$0.66***	0.15	\$1.12***	0.10	\$1.90***	0.11
1999	Net worth	\$0.36***	0.06	\$0.81***	0.08	\$1.52***	0.15
1994	Net worth	\$0.40***	0.09	\$0.68***	0.09	\$1.10***	0.06
With 19	989 Net Worth	and Househol	ld Income				
2011	Net worth	\$0.35**	0.10	\$1.20**	0.12	\$1.81***	0.25
	Household income	\$0.53**	0.16	\$0.60**	0.19	\$1.30*	0.52
2009	Net worth	\$0.45***	0.10	\$0.78***	0.18	\$1.76***	0.43
	Household income	\$0.34	0.21	\$0.82**	0.29	\$0.98	0.99
2007	Net worth	\$0.43**	0.13	\$1.08***	0.15	\$1.72***	0.33
	Household income	\$0.55*	0.23	\$1.29***	0.32	\$2.30***	0.54
2004	Net worth	\$0.61***	0.16	\$1.12***	0.10	\$1.62***	0.09
	Household income	\$0.53**	0.17	\$1.05*	0.42	\$1.81***	0.29
1999	Net worth	\$0.28***	0.07	\$0.64***	0.07	\$1.17***	0.24
	Household income	\$0.49***	0.12	\$1.14***	0.15	1.51***	0.29
1994	Net worth	\$0.39***	0.09	\$0.65***	0.07	\$1.00***	0.06
	Household income	\$0.28***	0.06	\$0.62***	0.14	\$0.84***	0.13

Quantile Regressions

Note. DV = dependent variable. P, percentiles. SE, standard error. Coefficients are marginal effects evaluated at median 1989 net worth: P(25) \$1,814; P(50) \$21,768; and P(75) \$79,853

Controlling for: Net worth, household income, household size, region, head's employment status, head's age, head's race, head's gender, head's marital status, received social security, and received food stamps.

Source: Data are from the PSID (N = 3,230). Sample consists of adults 18-44 in 1989 and 40-66 in 2011. All numbers are rounded.

*p < .05; **p < .01; ***p < .001.

THE LIMITED EFFECT OF ASSETS ON FUTURE INCOME

In this section we examine whether initial asset levels have a positive, significant effect on future income. The analysis plan used to estimate the models in Table 4 mirrors that described in the previous section with the exception that income is the dependent variable.

Findings reveal a small but statistically significant relationship between initial net worth and future income, when not controlling for initial household income (see Table 4). With two exceptions, these effects are positive: as initial net worth increases, so does future household income. One exception is in 1994 among the 25th percentile, though this negative estimate does not rise to statistical significance. The second exception is in 2011 where at the 75th percentile the relationship is significant and negative. At the 75th percentile, each dollar increase in 1989 net worth results in 2011 household income decreasing by 64 cents. This could be due to stock market losses that occurred in 2010 but were reported during the 2011 tax year. For the 25th and 50th percentiles, these effects are small. For example, for each one dollar increase in 1989 net worth, household income increases by two cents in 2011 at the 25th percentile and by three cents at the 50th percentile. However, the effects are larger, though still modest, at the 75th percentile. For instance, at the 75th percentile, for each one dollar increase in 1989 net worth, household income increase in 1989 net worth, 2007 family net worth increases by 15 cents, its peak.

When household income is controlled for, the picture changes: Initial net worth is rarely a significant predictor of income at the 25th and 50th percentiles. It is a significant predictor at the 25th percentile for the year 1994 and at the 50th percentile for the year 2009. In the case of the 25th percentile in 1994, initial net worth is a negative predictor of income. For the 50th percentile in 2009, it is a positive but small predictor. In contrast to households with lower initial net worth, however, when also controlling for 1989 household income, initial net worth remains a positive significant predictor of future income at the 75th percentile in most years.

Based on these results controlling for initial household income, net worth only consistently contributes to later income among households with high initial net worth. This may suggest a threshold relationship between net worth and future household income. In the sections to follow, we will further explore these relationships.

Quantile Regressions								
			P(25)		<i>P</i> (50)		<i>P</i> (75)	
<u>With 1989 N</u>	et Worth							
Year of V Income I (DV)	Variable of nterest(s)	Coefficient	Bootstrap SE	Coefficient	Bootstrap SE	Coefficient	Bootstrap SE	
2011	Net worth	\$0.02**	0.01	\$0.03**	0.01	-\$0.64***	0.01	
2009	Net worth	\$0.04**	0.13	\$0.05*	0.02	\$0.13**	0.04	
2007	Net worth	\$0.02**	0.01	\$0.05*	0.02	\$0.15***	0.04	
2004	Net worth	\$0.03**	0.01	\$0.04***	0.01	\$0.07*	0.04	
1999	Net worth	\$0.03***	0.01	\$0.07***	0.01	\$0.11**	0.04	
1994	Net worth	-\$0.01	0.01	\$0.04**	0.01	\$0.11***	0.02	
<u>With 1989 N</u>	et Worth and H	Iousehold Inco	ome					
Year of Income (DV)	Variable of Interest(s)							
2011	Net worth	-\$0.01	0.01	-\$0.02	0.01	\$0.02	0.01	
	Household income	\$0.34***	0.05	\$0.50***	0.05	\$0.76***	0.08	
2009	Net worth Household income	\$0.01 \$0.31***	0.01 0.04	\$0.03*** \$0.57***	0.01 0.07	\$0.05 \$0.82***	0.04 0.13	
2007	Net worth Household income	\$0.00 \$0.36***	0.01 0.05	\$0.01 \$0.61***	0.01 0.05	\$0.05** \$0.92***	0.02 0.06	
2004	Net worth Household income	-\$0.00 \$0.37***	0.01 0.05	\$0.02 \$0.45***	0.02 0.07	\$0.03* \$0.72***	0.01 0.07	
1999	Net worth Household income	-\$0.00 \$0.36***	0.01 0.04	\$0.03 \$0.57***	0.02 0.06	0.06*** 0.82***	0.01 0.04	
1994	Net worth Household income	-\$0.01*** \$043***	0.00 0.05	\$0.01 \$0.64	0.01 0.05	\$0.02 \$0.76***	0.02 0.04	

Table 4. Predicting Household Income Using 1989 Median Net Worth at the 25th, 50th, and 75th Percentiles (n = 3121)

Note. DV = dependent variable. P, percentiles. SE, standard error. Coefficients are marginal effects evaluated at median 1989 net worth: P(25) \$1,814; P(50) \$21,768; and P(75) \$79,853

Controlling for: Net worth, household income, household size, region, head's employment status, head's age, head's race, head's gender, head's marital status, received social security, and received food stamps.

Source: Data are from the PSID (N = 3,230). Sample consists of adults 18—44 in 1989 and 40–66 in 2011. All numbers are rounded.

p < .05; **p < .01; ***p < .001.

PREDICTING THE RATE OF CHANGE OF INCOME AND NET WORTH

In this section we examine whether initial income and net worth predict the rate of change of income and net worth. Unlike the regression models, growth curve models measure the rate of change in the dependent variable over time. In other words, they measure how quickly or slowly income or net worth grows over time. With this model we can test whether initial levels of income and net worth are predictive of having higher amounts of income and net worth, but not predictive of how fast or slowly income and net worth grow, or vice versa.

Analysis plan

Using Mplus7, a multi-group multivariate non-linear growth model of income and net worth was estimated adjusting for demographic variables (family size, region, age, race, gender, education, and marital status). Income and net worth were measured at 1989, 2003, 2007, and 2011. The model was estimated using a maximum likelihood procedure robust to non-normal and missing data (Yuan & Bentler, 2000) with sampling weights. Participants with missing demographic variables were excluded from the analysis. The pattern of change on income and net worth was non-linear and hence an unspecified growth model was estimated (with 2007 and 2011 time points freely estimated). Time was coded as one unit is equal to 10 years. Growth curve uses the mean, rather than the median, for starting point and rate of change, so it is more sensitive to non-normal data. Therefore, we convert income and net worth using the Inverse Hyperbolic Sign (IHS). We use the IHS conversion instead of the natural log because it allows us to maintain negative net worth values without restricting the sample or distorting standard errors (Pence, 2006). IHS income and net worth were divided by 10,000 for model estimation.

Results for separate regressions

There is a significant difference between the observed and model covariance matrices for a multi-group multivariate growth model of income and net worth without any covariates, $\chi^2(37) = 170.01$, p < .001. However, there was a good fit, CFI = .968, RMSEA = .047. This suggests that accounting for differences across income, age, education, and race groups provides a significant improvement in data fit.

Wage-earner class (below \$50,000)

For the wage-earner class, we find a great deal of variation in the rates and direction of income and net worth change. Across the four time periods, there is a small increase in mean income: 28,448(1989); 67,677(2003); 66,405(2007); and 68,006(2011). In contrast, there is a decrease in mean net worth at the end of the Great Recession; 10,222(1989); 29,152(2003); 29,600(2007); and 25,729(2011). There are significant positive increases in rate of change of income and net worth (B = 1.13, z = 21.19, p <.001, B = 1.47, z = 16.03, p < .001, respectively). Moreover, there is significant individual variability in the rates of change of income and net worth, s2 = .67, z = 9.62, p < .001, s2 = 2.44, z = 4.41, p < .001. Thus, while net worth among wage earners decreased on average during the Great Recession, the pace of change of both income and net worth increased. At the same time, there is a great deal of variation in these rates of change. This suggests that wage earners saw significant changes in their income and net worth over time, but those changes varied considerably. While some of the wage-earner class saw substantial increases in the pace of income and net worth change, others likely saw decreases. These

results fit with media coverage of the Great Recession, which emphasized gaps between those employed in winning and losing industries, as well as disparities among different regions of the country (Hughes & Seneca, 2010). Aside from the recession, these results suggest there is a great deal of within-class variation among wage earners in rate of income and wealth changes. Industry of employment and regional distribution could account for some of this variation, but there could be a variety of other potentially important factors as well.

Investor class (\$50,000 or above)

The same sizable variation appears among higher income individuals, as well. For investors, mean incomes across four time points are \$91,688(1989), \$125,549(2003), \$137,638(2007), and \$126,923(2011). The mean net worth values across four time points are \$35,540(1989), \$58,290(2003), \$59,966(2007), and \$51,930(2011). Thus, even investors experienced a decline with the Great Recession. Investors also experienced significant positive increases in rate of change of income and net worth, B = .26, z = 10.09, p <.001, B = 1.41, z = 22.57, p < .001, respectively. However, the increase in rate of income change was smaller than that for wage earners. There was significant individual variability in the rates of change of income and net worth, s2 = .24, z = 7.25, p < .001, s2 = 3.68, z = 6.37, p < .001. Similar to wage earners, therefore, investors saw significant positive rates of change in both income and net worth and significant variation in those changes. Even among investors, however, there appear to have been both winners and losers during this difficult economic period in the United States.

Results Comparing Groups

There is a significant difference between the observed and model covariance matrices for a multi-group multivariate growth model of income and net worth after adjusting covariates, $\chi^2(109) = 345.38$, p < .001. However, there was a good fit, CFI = .962, RMSEA = .037.

Wage-earner class (below \$50,000)

For the wage-earner class, there is a significant negative prediction of rate of change of income by initial income (income at 1989), but not by initial net worth (see, Appendix B). This suggests that wage earners with higher initial income experienced slower rates of income change. If wage earners face an income ceiling, those who have approached that ceiling may have less to gain with additional years of experience or seniority. Wage earners earning less in 1989, however, may have more to gain and experience faster rates of income change over time. Overall, 46 percent of variability of rate of change of income is explained.

Unlike rates of income change, results suggest wage earners accumulate net worth at a similar rate regardless of initial income. It might be that how quickly net worth levels increase is not associated with income amounts among wage earners. Here, region of the country does appear to matter: wage earners in the north-central region and the south region have a significantly lower rate of change of income than those in the northeast region. Older participants have a significantly lower rate of change of income than younger participants. Wage earners who are white, male, educated and married have a higher rate of change of income than those who are not. Overall, 25 percent of variability of rate of change of net worth is explained.

There is no significant prediction of rate of change of net worth by initial income or initial net worth. This suggests that some factor other than initial income or net worth accounts for rate of wealth change. For example, perhaps wealth change reflects unexpected medical or housing expenses, amount of wealth in one's extended family, timing of parental death, institutional factors or other unobserved factors. Larger families had significantly lower rate of change in net worth than smaller families. Male and educated participants had a significantly higher rate of change of net worth than those female and less educated.

That only 25 percent of variability in wealth change is accounted for, compared to 46 percent of rate of income change, suggests net worth changes may be more arbitrary or, at the very least, represent a more complex process with explanatory factors for which we do not control. Initial income and net worth are predicted by many demographic variables. Overall, 20 percent and 15 percent of initial income and net worth are explained, respectively.

Investor class (\$50,000 or above)

For higher income participants, there is no significant prediction of rate of change of income by initial income or net worth. Income changes, such as raises or promotions, are therefore unrelated to initial income. Contrary to wage earners, therefore, among investors those making relatively less do not experience faster rates of change. Larger families have a significantly higher rate of change of income than smaller families. The high-income participants in the southern region have a significantly lower rate of change of income than those in the northeast region. Older participants had significantly lower rate of change of income than younger participants. White and male have a significantly higher rate of change of income than Black and female. Overall, 35 percent of variability of rate of change of income is explained.

There is a significant positive prediction of rate of change of net worth by initial income. On the other hand, there is a significant negative prediction of rate of change of net worth by initial net worth. Among investors, therefore, those making more in 1989 saw more rapid changes in wealth than those with lower initial incomes. Those making more could save at a more rapid pace, for example, and may have more income and therefore net worth tied up in stock options of their employer. In contrast to the higher rate of change in net worth. Older participants have a significantly lower rate of change of net worth than younger participants. The participants in the west region have a significantly higher rate of change of net worth than blacks, females, and educated respondents have a significantly higher rate of change of net worth than Blacks, females, and the less educated. Overall, 44 percent of variability of rate of change of net worth is explained. Overall, 30 percent and 27 percent of initial income and net worth are explained, respectively.

These findings suggest that, even among the well off, those with higher initial net worth experienced less volatility or slower pace of wealth change during this period including the Great Recession than those with lower initial net worth. It seems that wealth provided greater stability over the period studied. There is a significant difference between wage earners and investors on the parameter estimates, $\chi^2(44) = 284.28$, p <.001. There is a more negative prediction of rate of change of income by initial income in the wage-earner than the investor class (see, Appendix B). While we cannot be sure, this could reflect less

Figure 2. Multivariate Growth Models for the Wage Earner and the Investor Classes

Wage-Earner Class (< \$50,000)



Investor Class (≥ \$50,000)



Note. Controlling for: Net worth, household income, household size, region, head's employment status, head's age, head's race, head's gender, head's marital status, received social security, and received food stamps.

Source: Data are from the PSID (N = 3,230). Sample consists of adults 18—44 in 1989 and 40–66 in 2011. All numbers are rounded.

* p < .05, ** p <.01, *** p <.001.

room to increase income among wage earners than investors, for reasons that likely include the longterm labor market trends described above. Higher income wage earners may experience slower income change than lower income wage earners because they are already earning close to the maximum available. Alternatively, it could reflect that many wage earners are paid by the hour. If higher income wage earners are working the maximum number of hours to begin with, they may be unable to expand income by working more hours. This particular constraint may be especially salient today, as many employers restrict hours offered in order to avoid triggering expectations within the regulations of the Affordable Care Act (see, for example, Trumbull, 2013).

In each of these scenarios, the differences we have uncovered reflect a structural income limit faced by wage earners but not by investors, who rely less on income from wages. Meanwhile, there is a more negative prediction of rate of change of income by initial net worth for the investor than the wage earner. This suggests net worth may play a more stabilizing role in the income of investors than wage earners. However, there is no significant difference in the prediction of rate of change of net worth by initial income and net worth between wage earner and investor classes. There are differences in the prediction of rate of change of income and net worth by a number of demographic variables between wage earner and investor classes as expected (see Appendix B).

Summary

Similar to wage earners, investors saw a significant positive rate of change in both income and net worth and significant variation in those changes. There appear to have been both winners and losers among both wage earners and investors during the Great Recession.

The results also provide some support for the proposition that the wage-earner class' wages are set by the market, and the market places a ceiling on what they can earn doing a specific job. This ceiling means that while experience and seniority, for example, may matter for wage earners at the bottom of the income distribution within a particular field of employment, for those at the top they may cease to matter, at least as far as experiencing faster rates of income change is concerned. Contrary to rate of income change, results suggest wage earners accumulate net worth at a similar rate regardless of initial income. This suggests that even when a household from the wage-earner class is stuck in an occupation that earns less than other occupations within the wage-earner class, they have similar potential for accumulating assets as those who earn more but are also in the wage-earner class.

Among investors, the findings suggest that those with more income in 1989 saw more rapid changes in wealth than those with lower initial incomes. We speculate that while earning more might place a household in the investor class, it does not mean that, for example, they are investing heavily in the stock market, owning a business, or wealthy; it only means that they earn enough to consume at a level that places them in the investor class. Therefore, we suggest that income by itself does not provide economic security in the same way that assets do.

The idea that assets provide more security than income is further supported by the finding that, among investors, those with higher initial net worth saw significantly lower rates of change in net worth. That is, wealth provided greater stability than income for the investing class. This effect for wealth was present in

the wage-earner class. However, the effect was not as strong, suggesting that net worth may play a more stabilizing role in the income of investors than wage earners. This may be related to the types of assets that members of the wage-earner class are likely to hold, such as a home or car. These illiquid assets are more difficult to turn into income and are particularly vulnerable to devaluation in the recent recession. Investors are more likely to have diversified holdings in stocks, dividends, and other income-generating assets (Mishel, Biven, Gould, & Shierholz, 2013).

DO ASSETS AND INCOME FORM A VIRTUOUS CIRCLE?

In this section we conduct simultaneous tests of whether assets predict income or whether income predicts assets. According to Mathieu and Taylor (2006), because the same data can support various models, simultaneously testing competing theories in the same model can provide additional evidence for a specified order (p. 1039). However, it is rare in the social sciences to have the opportunity for a simultaneous test of key competing theories (Yadama & Sherraden, 1996).

Analysis plan

A multi-group cross-lagged panel model of income and net worth was estimated, adjusting for demographic variables (family size, region, age, race, gender, education, and marital status). Income and net worth were measured at 1989, 2003, 2007, and 2011. Family size is used as a time-varying covariate. The model was estimated using a maximum likelihood procedure robust to non-normal missing data (Yuan & Bentler, 2000) with sampling weights. Participants with missing demographic variables were excluded from the analysis. The pattern of change on income and net worth was non-linear and hence an unspecified growth model was estimated (with 2007 and 2011 time points freely estimated). Time was coded as one unit equal to 10 years. IHS income and net worth were divided by 10,000 for model estimation.

Results

There is a significant difference between the observed and model covariance matrices of multi-group cross-lagged panel model by low and high income, $\chi^2(72) = 347.83$, p < .001. However, there was a good fit, CFI = .958, RMSEA = .049.

Wage-earner class results

For the wage-earner class, there is no significant prediction of 2003 net worth by 1989 income (see, Appendix C; Figure 2 in text). There is no significant prediction of 2003 income by 1989 net worth. There is no significant prediction of 2007 net worth by 2003 income. However, there is a significant positive prediction of 2007 income by 2003 net worth. There is no significant prediction of 2011 net worth by 2007 income. However, there is a significant positive prediction of 2011 income by 2007 net worth. Thus, among wage earners, income never significantly predicts net worth in these years, but net worth is associated with higher income in 2007 and 2011.

Investor class results

For the investor class, there is significant positive prediction of 2003 net worth by 1989 income. However, there is no significant prediction of 2003 income by 1989 net worth. There is a significant positive prediction of 2007 net worth by 2003 income. There is a significant positive prediction of 2007 income by 2003 net worth. There is a significant positive prediction of 2011 net worth by 2007 income. However, there is no significant prediction of 2011 income by 2007 net worth.

There is a significant difference in regression coefficients of the cross-lagged panel model between wage-earner and investor classes, $\chi^2(84) = 311.35$, p < .001. There is more positive prediction of 2003 net worth by 1989 income in the investor class than the wage-earner class. There is a significantly more positive prediction of 2003 income by 1989 net worth in the investor class than the wage-earner class. There is significantly more positive prediction of 2007 net worth by 2003 income in the investor class than the wage-earner class than the wage-earner class. There is a significantly more positive prediction of 2007 net worth by 2003 income in the investor class than the wage-earner class. There is a significantly more positive prediction of 2007 net worth by 2003 income by 2003 net worth in the investor class than the wage-earner class.



Figure 3. Multi-Group Cross-Lagged Panel Model by Income after Adjusting for the Covariates

Notes. Controlling for: Net worth, household income, household size, region, head's employment status, head's age, head's race, head's gender, head's marital ved social security, and received food stamps.

Source: Data are from the PSID (N = 3,230). Sample consists of adults 18—44 in 1989 and 40–66 in 2011. All numbers are rounded.

* p < .05, ** p <.01, *** p <.001.

Summary

Findings suggest that in the wage-earner class *net worth predicts income but income does not predict net worth*, contrary to what we think we understand about the relationship between income and assets in the U.S. economy. In the investor class, however, there appears to be evidence of a virtuous circle where income predicts net worth and net worth predicts income, which perhaps reflects the more complementary nature of income streams—labor, capital, and transfer—as well as the better functioning of the asset-based welfare system, as contrasted with the consumption-based arm. Additionally, it is important to note that income appears to be a more consistent predictor of net worth than net worth is of income among the investor class. This might be explained by the types of assets held by the investor class. Because the investor class is more likely to have more of its net worth tied up in income-building assets such as stocks, dividends, and businesses, net worth might actually reduce the power of net worth to predict household income among the investing class when simultaneously controlling for household income.

Overall, there is some evidence to suggest that, for the investor class, income and assets influence each other in a virtuous circle. In the next section, personal income is split out into its three components (labor income, capital income, and transfer income) and examined to see if any or all of the three components are predictive of future income.

LABOR INCOME, CAPITAL INCOME, AND TRANSFERS

In prior models including income, total household income—which includes income from labor (such as, wages and salaries, reports of bonuses, overtime, tips, commissions, additional job income), capital (sum of interest, dividend, rental, and trust income), and transfer income (such as, help from a relative, SSI, TANF, child support, workers compensation payments, or other sources)—is controlled for. Because of the inclusion of capital income, we suggest that this is a more conservative model and is likely to mute some of the effects of net worth on income. Here, we examine the effects of each of the three components of income separately. We use quantile regression to estimate the model (see previous methods sections for details). Because there are fewer years of data containing all three of the components, we use 1993 as the base year for the labor, capital, and transfer income; many of the variables that make up capital income are first available in 1993. Since we wanted to examine the effects of assets on future income and assets among young adults, using all three components of income separately for all of the analysis was less desirable. Head of household labor and capital income are used; spouses' or other household members' labor and capital income are not included. However, transfer income includes both heads' as well as spouses' transfer income because heads'-only transfer income is not available. For more detail on measures see Appendix A.

Findings captured in Table 5 indicate that initial capital income may play an important role in predicting future household income. For example, in 2007, for each one dollar increase in capital income, 2011 household income increases by \$1.22 at the 25th percentile after controlling for all other factors. In 2011, for each one dollar increase in capital income, 2011 household income increases by \$0.58 at the 25th percentile. In fact, capital income has a larger effect size than either labor income or transfer income.

Table 5. Predicting Household Income with Head's Labor Income, Capital Income, and Household Transfer Income (n = 2,703)

		P (25)		P (50)		P (75)	
Year of Income (DV)	Variable of Interests(s)	Coefficient	Bootstrap SE	Coefficient	Bootstrap SE	Coefficient	Bootstrap SE
2011	Labor Income	\$0.35***	0.07	\$0.56***	0.07	\$0.72***	0.09
2009		\$0.35***	0.07	\$0.57***	0.08	\$0.64***	0.11
2007		\$0.46***	0.05	\$0.54***	0.09	\$0.74***	0.10
2011	Capital Income	\$0.58	0.73	\$1.39***	0.22	\$1.29*	0.64
2009		\$1.87***	0.41	\$2.97***	0.51	\$4.17**	1.42
2007		\$1.22*	0.55	\$2.00†	0.99	\$5.26**	1.72
2011	Transfer Income	\$0.55**	0.20	\$0.81**	0.26	\$0.91***	0.25
2009		\$0.43†	0.26	\$0.89***	0.20	\$1.21***	0.41
2007		\$0.93***	0.21	\$1.06***	0.26	\$0.93***	0.20

Quantile Regressions

Note. DV = dependent variable. P, percentiles. SE, standard error. Coefficients are marginal effects evaluated at median 1994 labor income: P(25) \$16,425; P(50) \$37,945; and P(75) \$60,711. Controlling for: Net worth, household income, household size, region, head's employment status, head's age, head's race, head's gender, head's and marital status. *Source:* Data are from the PSID (N = 3,230). Sample consists of adults 18—44 in 1989 and 40–66 in 2011. All numbers are rounded.

† < .10; *p < .05; **p < .01; ***p < .001.

Results indicate that when total household income is separated out into its three parts (labor, capital, and transfer income), initial capital income is generally a positive predictor of total household income at all percentile levels. Further, it has a fairly large effect size (larger than estimates for labor and transfer income). However, capital income is neither as statistically significant nor as consistently statistically significant as labor income. That is, labor is still an important factor in determining household-level financial outcomes. Despite this, findings overall suggest that initial asset stores may significantly affect future income potential, which highlights the need for policies capable of endowing U.S. households with some wealth as a foundation for future earning and saving.

In addition, both labor income and transfer income have a significant positive relationship with total household income. That is, not only is capital income an important factor; labor income and transfer income are also important factors for predicting total household income. Again, it is only in constructing

an integrated system capable of facilitating all of these income approaches that the United States can build an economy equipped to deliver the American dream broadly to Americans.

This analysis is only a starting point for future research on the role of initial asset levels as predictors of future assets and income. More research, using a variety of methods and techniques, is needed to untangle the complex relationships among different types of income. For example, such research could identify whether certain types of capital or transfers are more important than others, or whether the sources and amounts of transfers differ by quantile, racial group, or other characteristics.

LOCKED OUT OF THE VIRTUOUS CYCLE: NOTE ON THE RACIAL WEALTH GAP

If initial assets play an important role in building assets, as the findings in this paper suggest, and if assets are an important mechanism for generating economic mobility, then the historical legacy of the racial wealth gap in the United States cannot be ignored. It is well documented that the racial wealth gap is much larger than the income gap (McKernan, Ratcliffe, Steuerle, & Zhang, 2013; Oliver & Shapiro, 2006). For example, research by the Urban Institute finds that White households' average income for 2010 is twice that of Blacks and Hispanics. In comparison, White households' average wealth for 2010 is six times larger than that of Blacks and Hispanics (McKernan et al., 2013). Similarly, Blacks and Hispanics lost far more wealth during the Great Recession than Whites. Between 2007 and 2010, Hispanic families experienced a 40 percent drop, Blacks experienced a 31 percent drop, while White families experienced only an 11 percent drop in wealth (McKernan, et al., 2013). The intensification of the racial wealth gap provoked by the disparate outcomes during the Great Recession should not lead to the conclusion that it is a recent development, however. The racial wealth gap has a long history in America (Oliver & Shapiro, 2006), more pronounced and pernicious than even the ongoing income chasm between White and Black Americans.

One reason for the persistent pattern of racial wealth inequality in America may be, in part, because of intergenerational transfers of wealth (Shapiro, 2004). Intergenerational transfers of wealth occur when wealth is transferred from parent to child (Carasso et al., 2008). There is an ongoing debate among researchers about whether intergenerational transfers matter for passing class advantages from one generation to the next. This debate centers on the question, "How much wealth is inherited in the United States?" The life cycle hypothesis (LCH) posits that wealth is accumulated during the course of one's life and by the time of death the person will have spent all of his or her wealth (Modigliani & Brumberg, 1954). From this perspective, people accumulate assets to consume goods and to reduce uncertainty during retirement, not to pass down to their children. However, there is little evidence that people actually spend down their wealth as they age; indeed, many families accumulate larger amounts of wealth than they would possibly need for retirement (Thurow, 1975). Some research suggests that as much as 80 percent of wealth comes

from intergenerational transfers (Kotlikoff & Summers, 1981). It is now commonly accepted that families save to pass along class advantages and status from one generation to the next (Sherraden, 1991) and that passed-down assets are important in building wealth (Gale & Potter, 2003; Wolff & Gittleman, 2011). This significant transmission of wealth does not, however, happen automatically. Instead, it is facilitated by government policies. Changes to inheritance tax rules, it has been proposed, would reduce the contribution of inheritances to driving inequality of wealth and, then, income, in the U.S. (Caron & Repetti, 2013).

While intergenerational wealth transmission is likely a significant factor in driving racial wealth disparities, particularly given the evidence about how initial asset stores affect the ability of income to generate additional assets, this study is concerned with intragenerational transfers of wealth. This is because both the consumption-based and the asset-based arms of the welfare system—the divergent strains of support extended, respectively, to low-income and wealthier Americans—are aimed at intragenerational transfers or accumulation of assets over the course of an individual's life. Looking at the phenomenon of intragenerational racial inequality, similar to our aggregate findings, Shapiro, Meschede, and Osoro (2013) suggest that a \$1.00 increase in income later translates to a \$5.00 increase in wealth for Whites, but only a \$0.70 increase for Blacks. However, they also find when Blacks start off with asset levels similar to Whites, they have a return of \$4.03 for each dollar increase in income, significantly closing the gap.

This supports our finding that initial asset levels might play an instrumental role in the power of income to generate assets. In other words, income alone is not enough for building assets. Building assets and moving out of poverty requires an initial level of assets. In a society where there is a large racial wealth gap, these initial asset level effects may serve to multiply racial disparities by further contributing to White families' significant advantage in building wealth. In this way, the wide racial wealth gap may be considered a particularly pernicious example of the failings of the current, divergent, approach to economic and social policy. Because wealth is distributed far more inequitably than income, our collective failure to help households build asset stores may also blunt the efficacy of efforts to increase the incomes of disadvantaged families. Again, the sharp contrasts between the economic fortunes of Black and White families make this case especially clearly and serve as dramatic evidence of the need to change our current approach. Shapiro (2004) suggests, furthermore, that Black and Hispanic households cannot earn themselves out of the racial wealth gap. More broadly, the racial wealth gap is a historical legacy that has multiplier effects in education, future asset accumulation, and income (or earnings), making it almost impossible to overcome even if wages of Blacks and Hispanics are equalized with Whites. This is not to suggest, however, that Whites' significant advantages in the current economy afford them immunity from the erosion of the American dream. Instead, examining the nature and extent of the racial wealth gap simply underscores the degree to which the current bifurcated welfare system is failing significant swaths of the society, while highlighting potential policy reforms to address these disparate outcomes.

CHAPTER 4

ECONOMIC MOBILITY ACCOUNTS: GIVING ALL AMERICANS A STAKE IN THE CAPITAL MARKET

OVERVIEW

We propose a system of Economic Mobility Accounts (EMAs) to deliver the significant advantages of asset-based approaches to social welfare to all Americans. To complement labor earnings, facilitate economic advancement, and position Americans for successful accomplishment of critical wealth accumulation tasks at specific developmental milestones, the United States needs a policy intervention capable of transforming our bifurcated welfare system into a unified economic mobility structure. The policy development proposed here is Economic Mobility Accounts (EMAs), a tool to deliver assets at moments of key life transition. These accounts are conceived as more than just a complement to the existing consumption-based and asset-based arms of the welfare system, although they are designed to compensate for inadequacies in the ability of labor and transfer income, as they currently operate for most American households, to enable asset accumulation. Instead, EMAs are a tangible way to implement a rethinking of the U.S. welfare system, moving from a bifurcated approach that delivers disparate effects to a unified commitment to economic mobility opportunities for all. EMAs-lifelong, integrated, progressively funded savings accounts designed to assist holders in attaining major financial goals in each life stage-would focus antipoverty and economic policymaking on enhancing economic mobility. Although the anticipated improvements in outcomes may take time to root in the lives of households whose economic trajectories would be dramatically altered by this extension of meaningful economic mobility ladders, an immediate outcome of such a policy shift would be a transformation of the conversation about welfare, poverty, and opportunity. We would change the benchmarks by which our welfare system is evaluated, examining not whether someone from the wage-earner class is officially "poor", but rather the extent to which he or she can be considered capable of moving up the economic ladder. We would also leverage the considerable powers of the U.S. government and economic systems toward the end of making economic mobility and security for all the explicit objective of U.S. policy. EMAs will be a tool to bind what had been thought of as the consumption-based and asset-based arms into a single system by providing wage earners the capacity to participate actively in asset-building and by reforming those elements within today's consumption-based and asset-based welfare arms that serve to perpetuate divisions in relative outcomes.

TOWARD AN ECONOMIC MOBILITY SYSTEM

Changing the existing conversation around welfare in America is essential for maintaining the American ideal of equal access to economic mobility. The current welfare system, divided as it is between consumption-based and asset-development arms, redistributes wealth unequally, favoring the investor class, while perpetuating considerable stigma around the programs within the consumption-based arm.

The consumption-based arm of the welfare system, encompassing programs such as TANF, SSI, and SNAP, focuses on providing recipients with enough income to achieve subsistence, not on building the assets that will help them achieve economic mobility. In fact, programs in this arm of the welfare system have means tests that ensure that once households have a modicum of assets, they are no longer eligible for the program. The income threshold for determining eligibility is similarly low, ensuring that most households lose access to these consumption supports soon after they have enough income to be merely, and barely, "not poor". By definition, structure, and objective, then, these programs are not designed to help Americans develop the assets—human or financial--needed to enter the middle class.

To move away from this narrow conception of poor versus not poor and toward a goal of universal economic security and opportunities for mobility, U.S. policy may have to establish an agreed-upon set of indicators for measuring whether someone has the capability to achieve economic mobility. We must understand the mechanisms through which mobility occurs in order to construct policies that open those doors more widely. We believe that the analysis presented here, which explicates the extent to which initial asset levels make subsequent asset accumulation possible, advances this conversation considerably. While we acknowledge that this is only the starting point, we trust that the considerable momentum that surrounds questions of inequality, opportunity, and the American dream will motivate this political heavy lifting.

As a starting point, we suggest that for an individual to have the opportunity to be economically mobile, people need at a minimum the opportunity to: (a) obtain the skills, whether through postsecondary education or employment experience, required to acquire a job that pays at a particular skill level; (b) accumulate assets; and (c) access transfers, as needed. We posit that skill development is required for economic mobility to occur, because to increase income and move up the economic ladder may require new or advanced skills to secure a higher class occupation. Assets are included because they hold the potential to generate income at a higher class level then wages alone may allow, by helping individuals acquire additional skills, allowing risk taking, providing psychological benefits, and empowering people more directly to influence and hold accountable institutions. Finally, we include transfers because, among other things, they help align productivity with wages, mitigate the effects of economic uncertainties, and create a floor below which no one can fall.

The economic mobility system we propose would focus not on supporting each individual's attainment of a specific amount of education, assets, or transfers, but instead on providing the opportunity to acquire enough of each type of resource to achieve economic mobility. This would vary by class: for someone in the underclass, receiving a GED may be enough to find a job in the working poor class, while a working poor individual may need to attain a bachelor's degree to move into the middle class. The economic mobility system, in this framework, is responsible for providing opportunity, not absolute equality. In this formulation, the American dream of universal opportunity for upward mobility is the organizing principle for a reformed, integrated, lifelong, progressive system. In the next section we outline a key vehicle for delivering the "glue" that knits U.S. investments into a functioning economic mobility system for all, Economic Mobility Accounts (EMAs).

INTRODUCING ECONOMIC MOBILITY ACCOUNTS (EMAS)

We envision an EMA structure as part of an effort to transform the highly stigmatized bifurcated welfare system of today into a unified economic mobility system. The main purpose of the consumption arm of the welfare system has been to provide people with a safety net to stop them from freefalling in times of economic stress. Although this system may have been relatively more adequate during periods of low unemployment and rising wages, today Americans need and our nation deserves an economic mobility system with an explicit goal of extending a hand up the economic ladder, recognizing the realities of the modern economy. As such, this Economic Mobility System would consider safety net programs necessary but not sufficient. EMAs would better align and strengthen the now loosely connected set of programs known as welfare. We propose that even in the mixed capitalism in the United States, the most appropriate glue is assets. The question then is, how to get this glue to percolate throughout the system, from the cradle to the grave. This report has demonstrated that assets play a key role in facilitating mobility and securing lasting well-being. The role of assets varies over the life course, and thus EMAs need to align with key transitions: for children, progress toward higher education; for young adults, the step into financial independence; and for adults in prime working years, the preparation for retirement and the creation of a springboard for the next generation. These accounts would also need to include an emergency savings component capable of smoothing consumption as well as purchasing enriching and equalizing opportunities, particularly those that translate into educational advantage for children, without forcing households into unsustainable debt.

The origins of EMAs

The decades-long movement to bring low-income Americans into the capital market through creation of supportive institutions and intentional redistribution of government resources began in 1991, with Michael Sherraden's publication of *Assets and the Poor*. IDAs, the policy innovation Sherraden proposed, quickly captured the imagination of policymakers, philanthropists, and community advocates. IDAs are savings accounts that supplement the savings of low-income individuals with matching funds, often enhancing such matches with initial contributions or financial education. Savings may be used to build assets, such as by purchasing a home or starting a business. IDA experiments with different populations and in different political and economic contexts have proven that low-income Americans can and will save, when presented with incentives and opportunities similar to those which facilitate the saving of wealthier households.

The development of IDAs brought new attention to asset-based approaches to combat poverty and provide families with economic security. IDA impacts have demonstrated the potential of low-income saving, while charting a path towards institutionalization of these asset-building opportunities. These successes have led to significant policy investment in IDAs. The Assets for Independence (AFI) Act, which was passed in 1998 (P.L. 105-285), established a federal grant program for asset-building programs. There are more than 200 AFI-supported IDA programs in all 50 states (U.S. Department of Health and Human Services, 2012).

However, even the best policies have areas for improvement. Policy reforms are needed to bridge the gap between these savings instruments as proposed and as implemented. For example, IDAs were originally conceived to be universal (available to all Amerians), automatically opened at birth, and available for asset development needs across an individual's lifespan. Unfortunately, as implemented, federal programs appropriating resources for IDAs define them as short-term (3-5 years, usually) and targeted only to certain low-income populations for a limited set of uses.

Child Savings Accounts (CSAs), also sometimes called College Savings Accounts or Child Development Accounts (CDAs), are an iteration of IDAs designed specifically to deliver superior educational outcomes for disadvantaged children. In practice, CSAs have largely been understood as a strategy with which to help low-income households afford college, and are intended to increase access, improve educational attainment by building expectations and increasing academic engagement, and build a foundation of economic security by establishing patterns of savings, thereby allowing young adults to graduate college empowered by asset holdings, instead of crippled by debt (Elliott, 2013). While no current savings vehicle exists that fulfills all these criteria, national policy proposals and local demonstrations have advanced the CSA field to the point of real debate about the best delivery mechanisms, catalyzed in large part by rising national alarm about the fate of younger generations and the erosion of the American dream.

Somewhat distinct from IDAs as implemented and radically different from the transfer programs to which most low-income children are currently relegated, effective and equitable CSA policies, we propose, should be progressive, lifelong, universal, and asset building (Cramer and Newville, 2009). As a key component in an economic mobility system, universality is critical. Today's economic mobility investments for high-income households—the mortgage tax deduction, deductions for retirement savings, generous tax policies for capital earnings—enjoy broad support, even incommensurate with their returns, in part because of their theoretically universal availability and, therefore, alignment with our understanding of how the U.S. economy is supposed to work.

Children's Savings Accounts, in various iterations, have real momentum at various levels of government and around the country. While state innovations are advancing asset accumulation for low-income families within state-supported 529 plans, as described below, federal proposals to seed asset accounts for all American children have significant appeal across the political spectrum (see Ornstein, 2014). A particular example that has gained some traction in Congress at various points is the ASPIRE (America Saving for Personal Investment, Retirement, and Education) Act (Newville and Cramer, 2009). ASPIRE incorporates initial seed deposits (contemplated as \$500 for every newborn) and progressive incentives (additional initial contributions, savings matches) that encourage the savings and academic progress of low-income youth (Loke & Sherraden, 2008).

ASPIRE-like accounts starting at birth have the potential to radically redistribute resources to change the life chances of disadvantaged children in the United States. Significantly, such proposals are not terribly expensive, at least when judged by the scale of federal investments in higher education, and certainly not when the \$500 billion in tax expenditures for economic mobility, mostly for wealthy Americans, is considered (Greer and Levin, 2014). It is possible, for example, to fund dedicated accounts for all U.S. children at birth for only \$3.25 billion in the first year (Cramer, 2006). In comparison, the federal cost of student loans (the subsidy provided within Stafford Loans, GradPLUS, and ParentPLUS programs) is expected to be \$36.5 billion in 2013 (Congressional Budget Office, 2012). ASPIRE would require new

appropriations, but these costs pale when considering the significant potential returns. For a complete review of evidence on the potential of CSAs, see the Biannual Report on the Assets and Education Field (Elliott, 2013).

EMAs could build on these ideas and their resonance with policymakers, advocates, and American households. To account for evidence from evaluation of savings demonstrations suggesting that actual savings levels may be considerably lower than these maximum allowances, EMA policy could provide transfers for completion of other asset-building milestones, including academic achievements (regular attendance, completion of college entrance exams, fulfillment of prerequisite courses), that have the potential to translate into human capital development by improving the likelihood of college completion, and participation in financial education programs that build skills needed to succeed in an economic mobility system.

From IDAs and CSAs to EMAs

Building on IDA and CSA models, and inspired by the vision of lifelong accounts as implemented in other contexts, we propose a system of EMAs. EMAs are a system of anti-poverty policy innovations forged from emerging evidence about the relationship between assets, income potential, and economic mobility. They would intervene at critical points in the life course (childhood, adulthood, and older adulthood) of Americans to provide asset stores that, in turn, may increase income's potential to generate additional wealth, acting as true levers of economic mobility. Rather than discrete offerings, they would be woven together in a seamless system of accounts, calibrated to meet individuals' needs at critical moments of asset-building opportunity.

We propose three main goals for EMAs that correspond with major transitions in people's lives: (a) for childhood, a goal of human capital investment; (b) for young adulthood (starting at age 18 or after postsecondary school), financial and property investment; and (c) for adults in their prime earning years, retirement savings and the seeding of a strong financial foundation for future generations, although some supporters prioritize entrepreneurship as well. These goals are interrelated. As individuals build assets for one goal, they are also increasing their capacity to save for another. For example, investments in human capital (e.g., college education) have been shown to be associated with retirement savings. Mishel, Bivens, Gould, & Shierholz (2013) find that households headed by someone with a college or higher degree saw retirement savings to income grow by 141 percent in 2010, compared to 64 percent among households headed by someone with only a high school diploma or GED and 71 percent for those with some college.

We posit that for the EMA system to be effective, it will also need to provide families with accounts designated for preparing for and coping with emergencies (see e.g. Elliott, 2013a; Elliott, Friedline, & Nam, 2013). Economic mobility is clearly not a continuously upward trajectory in the U.S. economy, and having asset stores may prevent economic declines, particularly for those living close to the margins of a given social class. As witnessed during the Great Recession, households with assets, even when earning low incomes, often fare as well or better than even higher earners during financial crises (McKernan, Ratcliffe, & Vinopal, 2009). Certainly, even supported by the strong scaffolding of a robust economic mobility system, hard times will still visit U.S. households. If assets are the primary way that Americans can leap to higher rungs on the economic ladder, then the financial capability to deal with setbacks that could inhibit their upward mobility will be an essential precondition for the development of more productive savings.

While we envision EMAs collectively as a new government product, there are existing policy systems that, in the interim, could be retrofitted to better serve the capital accumulation needs of low-income Americans. It may also be valuable to reexamine some elements of today's asset-building welfare arm that disproportionately benefit the investor class, providing little net value to the overall economy and no benefit to those most in need (see, for example, Burd, et al., 2013, regarding tax subsidies in higher education). Similarly, modifying the tax code, to make existing tax incentives for savings refundable, to offer more tax credits for college education, to build progressive savings matches into 401(k) and 529 savings systems, and to increase financial supports available to low-income aspiring homeowners, would enhance economic mobility. While the federal government, for example, spent \$411 billion just on the four largest tax benefits last year (capital gains, pensions, homeownership and inheritances) (Greer & Levin, 2014), the HYPERLINK "http://www.cbo.gov/publication/43768" \t "_hplink" Congressional Budget Office (2013) reports that the bottom 40 percent of earners received less than three percent of these benefits. In sharp contrast, the top one percent of earners took in more than a third—\$148 billion.

The transformative nature of asset development and assets' potentially unique ability to help individuals and households leap to the next rung on the economic mobility ladder speak to the wisdom of calibrating EMAs to align with key transitions: for children, the progress toward higher education; for young adults, the step into financial independence; and, for adults in prime working years, the preparation for retirement and passing on of assets to the next generation. Here, we outline a vision for EMAs, including how they could be structured and delivered to Americans across the life course.

Youth EMAs

For children, EMAs would have three goals, similar to the CSA approach outlined above: to facilitate educational attainment by helping low-income children to enroll in and complete college; to build human capital in the short and long terms by cultivating academic engagement; and to provide a foundation for economic mobility in young adulthood by reducing dependence on college debt and facilitating habits of saving (Elliott, 2013). Toward these ends, youth EMAs would feature

- automatic and universal account opening at birth;
- substantial government-funded initial deposits;
- progressive matches and incentives for household savings and youth achievement;
- allowable uses for human capital investments prior to high school completion;
- alignment with financial aid transfers in a complementary system; and
- support from adequate public education financing to constrain rising college costs and increase the relative value of the EMA.

Today, wealthy children encounter supportive institutions, facilitative of their educational aspirations, nearly everywhere they turn. Their schools, financial institutions, neighborhoods, and job markets are structured to induce their success. It is difficult to imagine a policy intervention, or set of interventions, capable of replicating these advantages in the lives of poor children, although education is still the primary path to economic mobility and the key lever of the American dream. To the extent to which EMAs could be expected, based on the best available evidence about the role of assets in influencing educational outcomes (Elliott, 2013), to facilitate this educational attainment, they may play an essential part in charting a policy vision designed to reduce inequity and restore the promise of a better future.

Although some details regarding the implementation and financing of an integrated EMA structure can be negotiated as part of the policy development process, there are some clear policy principles that we suggest should guide the design and execution of a new EMA account structure.

First, EMAs will clearly need to include initial deposits, savings matches, and behavioral incentives to supplement the savings of low-income households. This speaks to the need to maintain a robust transfer system to subsidize consumption and make saving possible, even while pivoting to an investment approach to combating poverty and leveraging opportunity (Boteach, et al., 2014).

Second, the United States will need to craft a system of accounts, rather than attempt to cobble together a collection of market-based offerings. We need a savings account *plan* (Clancy, Orszag, & Sherraden, 2004) that allows for expression of public will, inclusion of the whole population, progressive funding features, and a centralized accounting system (Clancy & Sherraden, 2003). Some experts suggest that statesponsored 529 college savings plans (currently overwhelmingly utilized by higher earners) are particularly well suited for this coordination and account-holding function (Clancy & Lassar, 2011). The 529 system has some apparent advantages, including control by a state entity with an interest in facilitating universal account holding; co-location of large- and small-dollar accounts; the ability to leverage and even dictate low account administration fees; budget and infrastructure for intentional outreach to underrepresented populations; alignment with financial aid, tax, and college preparation systems, as well as the consumption-based welfare arm; and the availability of simple investment options. However, to serve as an effective vehicle for lifelong EMAs, most 529 plans would need some modifications: the addition of automatic account opening, tiered account structures, facilitation of small cash deposits, and rollover into other types of asset-building accounts. These considerations suggest that there may also be other vehicles suited to serve as receptacles for EMA investments, with suitability to be evaluated according to the policy imperatives noted above.

Third, initial thinking about the construction of an EMA system would need to explicitly address funding, in order to ensure sustainability and shape public perceptions of this approach. Although pursing direct appropriations from general federal revenues has some appeal, we have also identified three specific and complementary approaches that could yield considerable financial as well as political advantage: incorporation of a savings component into the Pell Grant program, modification of existing tax credits for higher education to make them fully refundable and front-loaded, and state contributions characterized as investments in productivity and competitiveness.

Adding a savings component to Pell Grants

Linking EMAs with Pell Grants would redeploy this critical financial aid program as an early commitment to children's educational and financial futures. Building on Elliott (2013a) and the Rethinking Pell Grants Study Group (2013) recommendations, and beginning for children around age 11 or 12, students' EMAs would receive annual deposits equal to a percentage (perhaps 10-25 percent) of the Pell Grants for which students would be eligible if enrolling in college that year; these deposits would accrue interest until the funds were needed to pay for college enrollment. While the Study Group's proposal recommends instituting a pilot program of these education accounts (Rethinking Pell Grants Study Group, 2013), our assessment is that there is already adequate empirical and theoretical evidence that facilitating asset accumulation will make a difference for low-income children to warrant policy adoption. To preserve the intent of congressionally-appropriated Pell funds, these annual deposits would be allowed for postsecondary education use only, although the EMAs themselves would also be vehicles for basic savings and savings for educational expenses while preparing for college.

Ascertaining the true costs of such a savings program is difficult, particularly given the challenges of also accounting for the real benefits that would accrue to students, institutions, and the aggregate economy. There were approximately 5.2 million Pell Grant recipients ages 24 and younger in 2010-11 (U.S. Department of Education, 2012). If each Pell Grant recipient withdrew a quarter of the total accrued in the account each year, the annual cost would be about \$3.7 billion, if balances accrued at 10 percent of the Pell Grant value. Again, to the extent to which these accounts would be funded by re-commissioning appropriations for Pell Grants, the net cost would be minimal. Even as enhancements to Pell Grants, these annual costs are still dwarfed by federal investment in student loans and poorly targeted nonrefundable tax credits, neither of which offer the same promise of improved educational outcomes and equity.

Modifying higher-education tax credits

As in other areas of social welfare, the U.S. government has increasingly preferred to extend supports through tax expenditures, rather than direct appropriations. In fiscal year 1997, while the federal government awarded about \$8.4 billion in higher education grants and \$31.9 billion in student loans and work-study programs, it provided less than \$2.3 billion in higher education tax subsidies (College Board, 2006; Office of Management and Budget, 1997). This changed dramatically with the passage of the Tax Reform Act of 1997, which created two new tax credits for higher education, allowed the deduction of student loan interest, and established tax-free education savings accounts. By 2012, postsecondary students benefited from almost \$19 billion in federal education tax credits and deductions (College Board, 2012), a subsidy equal to almost half of annual Pell Grant expenditures. Unlike Pell or other need-based assistance, however, these tax subsidies are not well targeted toward those who need the most financial support to succeed in college (Maag, Mundel, Rice, & Rueben, 2007). In fact, research finds that introduction of the tax credits did not increase the probability that eligible individuals would attend college (Long, 2004). Instead, the trend towards tax-based financial aid is exacerbating inequity within higher education, by investing considerably in affordability for those likely to attend college even without any assistance. However, given the inertia within federal policymaking and the dedicated constituencies that have arisen around the perpetuation of tax expenditures, tax-based financial aid is likely part of the financial aid landscape for the foreseeable future. As significant public investments in households' financial ability to build human capital, tax-based aid is a potential tool for addressing the needs of all American students.

The largest of the federal tuition tax benefits is the American Opportunity Tax Credit (AOTC), which Congress created temporarily as part of the American Recovery and Reinvestment Act (ARRA) of 2009 and recently extended through 2017 (IRS, 2013). ARRA increased the maximum credit available to \$2,500 and allowed the credit to be claimed for up to four years of college, including expenses for course-related equipment, books and supplies as well as tuition. ARRA also made the credit partially refundable, allowing low- and moderate-income families to receive a credit of up to \$1,000, or 40 percent of the maximum credit for those with a tax liability, thereby potentially reaching an additional 3.8 million students. Still, the gap between when a household must pay college-related expenses (usually in early fall) and when AOTC benefits are disbursed (with tax filing, in spring), as well as the limited refundability, makes these tax expenditures of limited utility for the lowest income students (Dynarski & Scott-Clayton, 2007). A fully refundable credit would be an improvement, but, to transform these tax benefits into potent tools for higher education financing, the variable of timing may need to be addressed as well. Data suggest that lack of liquidity is a significant obstacle to college financing (Bucks, Kennickell, & Moore, 2006); without the ability to tap asset stores to meet immediate college costs, the promise of a future tax credit—even if fully refundable—is cold comfort.

A future path for the AOTC would be to allow families to claim the AOTC, with automatic deposit of the credit into an EMA, beginning when the child enters the 8th grade. This would provide a universal, progressive platform for dedicating federal revenue for college savings for low-income students (Huelsman, 2010). Further reforming the credit so that the four-year cap is changed to a lifetime maximum would allow this advance earlier in a child's academic career, thus giving families longer to see savings accumulate.

The Saver's Credit is another tax expenditure with positive implications for financial aid. Currently designed to support contributions by low-income families to tax-preferred retirement accounts, the credit could be redesigned for a wider array of savings goals across a number of years (Reimherr, et al., 2013). Making the Saver's Credit refundable, with a match rate up to 50 percent on the first \$500 saved annually, could, if college savings accounts were made eligible for the credit, funnel additional public dollars to support higher education (Huelsman, 2010; Boshara, et al., 2010). This need not be expensive; even the most generous expansions of the Saver's Credit would cost an estimated \$3 billion a year. By comparison, tax breaks for defined contribution retirement plans in 2013 totaled \$76.9 billion (CFED, 2013, April; Congressional Joint Committee on Taxation, 2012). Together, the reforms outlined here could turn tax time into an opportunity to build assets and utilize tax policy as a tool for economic mobility for all, just as it functions in the lives and finances of American investors today.

Increasing state contributions

As of 2013, 15 states provided incentives for qualified low-income families to contribute to their states' 529 college savings plans; there is a trend toward more, and more generous, incentives (CFED, 2013). Some of these policies have been in place long enough for the participating children to near college age, which will provide important insights into the educational effects, and several have demonstrated real potential for significant redistribution of assets. For example, Minnesota, which first started receiving match deposits in 2002, has combined total deposits of \$77.34 million (both the state and participants' contributions); 8,684 Minnesota residents are participating in the matching program (Lassar, Clancy, & McClure, 2011). Since 1997, Louisiana has deposited \$11.91 million in Earning Enhancement match

funds, with an additional \$329.6 million deposited by participants (Lassar, Clancy, & McClure, 2011). States are experimenting with early enrollment incentives: North Dakota, which not only increased the match within its 529 plan, also offers all children a one-time \$100 incentive, as does Rhode Island, within its CollegeBound Baby program. Some states are delivering their state scholarships through 529 deposits (Newville, 2010), in order to leverage the powerful variable of timing in financial aid. Other states, including Virginia and California, have applied this approach to GEAR UP scholarship awards (Newville, 2010). Maine, Utah and Arkansas have revised their state tax forms to allow savers to make 529 deposits directly from projected refunds (Lassar, Clancy, & McClure, 2010). Kansas allows noncustodial parents to discharge their child support arrears to the state with deposits into children's savings accounts (Department for Children and Families, n.d.). Maine has what has been called the "most comprehensive Child Development Account" program in the United States (Clancy & Lassar, 2010, p. 1), providing, with private funding, \$500 deposits for every newborn, default investment selections, and single account structures (Clancy & Lassar, 2010). More state innovation is on the horizon, signaled by statements such as Connecticut Governor Malloy's inclusion of a universal \$100 per child deposit and additional savings match within his proposed budget (Malloy, 2014), and discussion among some of the longest standing 529 match programs of moving to automatic account opening. A few of these initiatives are large enough to provide real equity, as compared to the generous tax incentives utilized by higher earners, but all offer hope of taking college savings initiatives to scale. Furthermore, many of these state efforts have been developed specifically to leverage the potential asset effects for higher education, as when Nevada State Treasurer Kate Marshall launched the College Kick Start Program and cited asset research from the Center for Social Development. Successes in these state efforts are catalyzing a trend toward implementation of promising practices, underscoring states' many options in using asset interventions to improve educational outcomes. To the extent to which other states can be encouraged to follow these leads, devolution of EMA implementation to the states may foster innovation and speed adoption of asset accumulation supports.

Young adult EMAs

The discussion in this section on young families highlights the particular risks faced at critical points of transition during an individual's lifespan, as well as the particular characteristics that make families vulnerable in economic downturns such as the recent recession from 2007 to 2009. Three-fifths or more of families across all income groups reported a decline in wealth between 2007 and 2009 (Bricker, Kennickell, Moore, & Sabelhaus, 2011), and the typical household lost nearly one-fifth of its wealth. Boshara and Emmons (2013) find that average household wealth declined 15% between 2007 and 2010 and has only recovered 45% of these losses. Because wealth is so unevenly distributed, median declines are even more dramatic; during the same time period, median household wealth dropped 39% (Emmons, 2012).

While most Americans felt the effects of the recession, the pain was not distributed equally. Instead, families that were younger, had less than a college education, or were members of a historically disadvantaged minority group lost particularly large proportions of their wealth (Emmons, 2012). Many of these families were vulnerable prior to the recession on a number of levels, being overrepresented in low-wage occupations, hampered by low levels of human capital, hindered by the legacy of unsupportive institutions, and heavily leveraged in various forms of debt (Boshara & Emmons, 2013). Disproportionately headed by young adults, these families are less likely to have non-housing assets with which to cushion the blows to the real estate market (Boshara & Emmons, 2013). Throughout their

lives, the families and their members encounter institutions—labor market, education system, financial services—less than facilitative of their asset accumulation, and the precariousness of their financial situations is especially acute within more adverse economic conditions.

Research is beginning to show that an important way that the education system has been less than supportive of young adults' asset accumulation is through overreliance on student loans as a way to pay for college (Elliott & Lewis, 2013; Hiltonsmith, 2013). For example, findings indicate that in the short term families with college debt have 63% less net worth, 40% less home equity, and 52% less retirement savings than families with no outstanding student debt (Elliott & Lewis, 2013). Over the long term, Hiltonsmith (2013) finds that an average student debt load (\$53,000) for a dual-headed household with bachelors' degrees from four-year universities leads to a lifetime wealth loss of nearly \$208,000. Although human capital is created by student debt, and graduates can leverage this human capital into earnings and wealth accumulation potential, it appears that they still end up far behind their peers without student debt. Moreover, Hiltonsmith (2013) suggests that students who graduate with average student debt are forced to invest significantly less in retirement savings, or to delay purchasing other wealth-building items like a home, during the early part of their working lives. Given the relationship between initial asset levels and subsequent economic mobility, as illustrated in the findings in this report, these early losses may account for much of the wealth inequality seen later in life.

As with asset inequality, Hiltonsmith (2013) finds that although households with college graduates and student debt have higher earnings immediately after leaving college, by the time the graduates reach their 40s their income falls behind that of households with college graduates and no student debt. Currently the research is only speculative, but this study suggests that this disparity may occur because indebted students are not able to build assets soon after graduating from college at the same levels as students with no student debt. Then, because assets can be converted back into income (e.g., rent from real estate, dividends from stocks, or interest from bonds) in the future, as they age these indebted students have less income available.

Parents and their offspring alike expect that with young adulthood and postsecondary education it will be possible to break the link between parental resources and their children's financial success (Hout & Diprete, 2006), but research is beginning to show that college debt may impede this potential. As the evidence presented in this report and previous studies suggests, these initial levels of assets in young adulthood maybe important predictors of assets and income inequality later in life. Therefore, finding ways to ensure that young adults are able to maintain asset levels received or built in childhood and to continue to build assets as young adults may be critical to strengthening the return on college and reducing inequality in America.

However, in a future in which, facilitated by EMAs, we may envision cost no longer being a barrier to higher education, we can expect improved educational outcomes that better position graduates for labor market success. Freed from the inequitable effects of high student loan debt that erode the relative value of their college degrees, low-income American youth can realize greater return on their educational investments and begin adulthood with healthier balance sheets.

The policy intervention we imagine to help fill this gap is, again, EMA system. EMAs could be recalibrated, as children enter young adulthood. to meet emerging needs. While youth EMAs would be

designed to meet the goal of human capital investment, as described above, EMAs for young adults would facilitate their initial forays into independent asset accumulation, including homeownership, car purchase, and first retirement investments. These EMAs would be independent of a specific employment contract, to reflect the reality of frequent job mobility and fluid employment relationships expected to characterize the working lives of many of today's young adults. They would function much as the financial support of wealthy families does for advantaged American youth, as a foundation for asset accumulation in pursuit of greater mobility. As in youth EMAs, these accounts would be publicly facilitated and progressively financed, with transfers delivered through refundable tax incentives, direct redistribution, and/or creative application of concepts such as asset diversion within income-based loan repayment programs.

Though they would need to undergo revision in order to be up to the challenges presented in today's climate of seriously constrained economic mobility, IDAs provide lessons for how to design young adult EMAs. Young adult EMAs would look, in some ways, similar to youth EMAs, featuring initial deposits, savings matches, designated primary asset purposes, and incentives for achievement of specific developmental milestones based on calendar and/or achievement (for example, specific ages or completion of financial education related to a specific asset purchase). In keeping with the aim to calibrate EMAs to individuals' unique asset needs at different points in their lives, young adult EMAs would be targeted at different asset purchases, particularly homeownership and vehicle purchase, that can facilitate upward mobility. They would also have a very different time span than either youth EMAs (which would be opened at birth and accumulate assets for at least 18 years) or older adult EMAs, since many individuals save for retirement for decades, as well (adult EMAs are discussed in more detail in the next section).

To help young adults achieve the appropriate financial milestones for this part of their life, deposits via progressive public investments would be made into young adult EMAs at a particular point, perhaps age 25, when strategically timed, intentional, and equitable allocation of public investments would be important for asset accumulation. A key aspect is that young adults would not necessarily be starting from scratch in their pursuit of an asset foundation. At least some money left over from a youth EMA could be rolled over into this young adult account, as an incentive for judicious spending while in college or to support those who do not attend college before age 25. Equipped with not only a base of savings but also an essential connection to the financial mainstream and to institutions capable of facilitating additional savings, young adults would thus be positioned to move more confidently into financial independence, even though the initial post-college years may be among the leanest in their financial adulthoods (Weissmann, 2013).

In this policy vision, youth EMAs, as described above, would reengineer for low-income Americans the financial calculus associated with obtaining a college degree, in a way that would more closely parallel how advantaged households use student loans—that is, as a complement to capital stores. Later, young adult EMAs would provide a vehicle for subsequent asset investments, relevant to the developmental needs of newly independent young adults. Because young adults' asset accumulation will likely always happen within the context of some indebtedness, particularly while an economic mobility system is constructed, policy needs to be flexible and robust enough to build balances from both the asset and debt sides.

Adult EMAs

For middle-aged adults preparing for their own retirement, capital development is not solely, or even primarily, about economic mobility, but also about economic security, and the need to build a foundation

from which to finance smooth consumption after leaving the labor force, particularly in the increasingly common context of significant individual assumption of the financial risks of retirement (Hacker, 2011). Although there are many mechanisms that could facilitate redistribution on a scale adequate to provide true economic security for aging adults, there is an obvious need for such transfers, given the rather disturbingly low savings rates of many Americans in the 401(k) system and the highly unequal distribution of assets held in these accounts (Morrissey and Sabadish, 2013). Though recent policy innovations and proposals such as President Obama's announcement of the MyRA account recognize the need for products that can facilitate asset building independent of employer supports through traditional pensions or even matched savings, today's approach to encouraging retirement savings fails to deliver desired outcomes measured by adequacy or equity. For example, while roughly 70 percent of workers who earn \$50,000 or more participate in an employer-retirement plan, only one-quarter of workers who earn between \$15,000 and \$19,999 participate, and only one in 15 of those earning less than \$5000 (EBRI, 2010). Indeed, the fortunes of working-age Americans contemplating retirement today expose, perhaps more clearly than at any other developmental stage, the failings of the current economic mobility structure, which is riddled with gaps and largely rides on the backs of households pushed to shoulder, increasingly without the support of pensions and other, traditional legs of the retirement "stool", more responsibility for their own financial futures.

Ensuring that transfer income serves to subsidize asset accumulation will be an essential component in an effort to secure the living standards of future retirees. For the economic mobility system to fulfill the American dream, American adults must be able to achieve not only upward economic mobility during their working lives, but also a period of some leisure, although retirement as conceived today may be an unsustainable luxury in the decades and generations to come (The Economist, 2009). This savings foundation would be provided, within an economic mobility system, through three principal sources: rollovers from savings accumulated in youth and young adult EMAs; public deposits made at a specific point in Americans' lives (perhaps at age 45 or 50, allowing time for assets to build in advance of retirement age); and matches and incentives for additional savings and accomplishment of specific developmental tasks, perhaps including completion of financial education or participation in an employerbased retirement savings structure.

EMAs for older adults would not seek to replace Social Security with private accounts, but instead would complement expanded Social Security benefits with universal, progressively-funded accounts that build on a lifetime of successful experience with asset building in EMAs. Again, this funding could come from refundable, advance tax credits; direct entitlements; public matches for saving; or other sources. What is essential is that adult EMAs would not simply extend what most contend has been a largely failed experiment in retirement security, the wholesale shift to 401(k) plans (Ghilarducci, 2013). Instead, adult EMAs would create meaningful incentives and pro-savings defaults that would work to help the majority of Americans who are not aggressively saving for retirement to build a store of assets.

EMAs in later life would also have significant intergenerational asset effects, making it likely that at least some Americans would save enough in their accounts to have some assets to transmit to future generations. It is certainly possible to imagine an economic mobility system where a parent's or grandparent's EMA seeded the youth EMA of younger relatives, in the same virtuous cycle that has helped to guarantee prosperity and privilege among U.S. economic elites for generations.

Enrichment and emergency savings accounts

Although assets' greatest power is their ability to facilitate upward mobility, as described at length in this report, they also play an important role in delivering economic security to individuals who can count on stores of savings to smooth consumption and sustain them during periods of relative deprivation, such as sustained experiences of unemployment. This function is not only important as a precondition for asset building (individuals are better equipped to save for asset purchases when they have experience saving, as well as the confidence that comes from relying on a savings cushion), but it also pertains to the role of assets in securing economic well-being, particularly as individuals use assets to maintain a standard of living, at least temporarily, when labor earnings no longer can. For these purposes, the EMA system we outline here would include not just the youth, young adult, and older adult EMAs, but also accounts capable of serving as receptacles for emergency or enrichment savings, calibrated to individuals' particular developmental needs.

Enrichment and Emergency EMAs would connect individuals to the experience of saving and to the institutions that facilitate wealth creation. They would enhance equity by enabling individuals—particularly children—to purchase human capital advantages beyond the formal education system, in much the same way that wealthy parents use their assets to secure comparative advantage for their children (Mauldin, Mimura, and Lino, 2001). They would protect against downward economic mobility by reducing households' need to dip into precious asset stores to meet immediate consumption needs (Boguslaw, et al., 2013). And they would improve the quality of individuals' lives by ensuring that a temporary job loss, unexpected medical crisis, or unanticipated major expense need not derail household savings, necessitate assumption of significant debt, or provoke significant anxiety (Nam, Huang, and Sherraden, 2008). These levels of comfort and overall well-being cannot be purchased through wage income alone but, instead, are among the major benefits of the higher rungs on the ladder of the American economy.

Economic Mobility Accounts' role in policy debates and future research needs

The proposal for EMAs advanced in this chapter is meant to spark conversation, illustrate the importance of initial assets on economic mobility, elevate the subject to a policy discussion, and generate additional research. We do not intend to lay out a policy agenda or presume to provide the last word on the role of initial assets in predicting future assets and income. We look forward to continuing the conversation with others, including our colleagues in the asset-development field, committed to using policy to build ladders of economic mobility for U.S. households.

Some ideas need further development. With regard to the Economic Mobility System discussed in this chapter, for example, more work is needed regarding connecting the different accounts to each other as well as to the existing, bifurcated welfare systems. We must determine from which platform(s) EMAs would be most effective, and what the sum total of the different public investments in these accounts would need to be over a lifetime. The role for markets in this system of accounts must be better articulated; for example, Cramer (2009) proposes that the public sector have significant account management functions assigned to it, similar to the one that currently operates the Thrift Savings Plan (TSP) and 529 college savings plans, while the federal government would set the rules which govern the accounts. Conducting additional research and ironing out these important program details will require a collective effort moving forward, one in which we look forward to participating.
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APPENDIX A

DATA AND MEASURES

DATA

This study used the Panel Study of Income Dynamics (PSID). The PSID collected data on employment, income, and assets. The PSID is a nationally representative longitudinal survey that began in 1968 with more than 18,000 individuals living in 5,000 U.S. families. By 2009, the sample had grown to about 8,690 families and 24,385 individuals through the formation of new families by children or other sample members of the original 5,000 families.

The sample in this study was restricted to Black and White heads of household, given the small numbers of other racial groups in the PSID. We examined 2011 net worth with a longitudinal sample (following the same households) at these years and age brackets: 1989 (18–44) and 2011 (40–66). The final sample consisted of 3,230 households.

MEASURES

This section provides information on how each variable used is measured.

Dependent variables.

We include two dependent variables, net worth and family income.

Net worth. In the PSID net worth is a continuous variable calculating family net worth by summing separate values for a business, checking or savings, real estate, stocks, and other assets and subtracting out credit card and other debt. It is inflated to 2011 price levels using the Consumer Price Index (CPI).

Family income. In the PSID family income is a continuous variable summing total household income from the previous tax year, including all taxable income, transfer income, and Social Security income for anyone in the family. Income is inflated to 2011 price levels using the Consumer Price Index (CPI).

Control Variables.

We include 12 controls from 1989: family net worth, family income, family size, region, head's employment status, age, race, education level, marital status, social security insurance, and food stamps. Only those variables that need additional explanation are discussed below. The growth curve model only controls for family size, region, age, race, gender, education, and marital status were used (see note on Figure 3). Some variables were dropped from the growth curve analysis to achieve model fit. Further, capital income, transfer income, and labor income are only used in the final median regression model (see Appendix B).

Net worth. Initial net worth in 1989 is measured in the same way as 2011 net worth.

Household income. Initial household income in 1989 is measured in the same way as 2011 family income described above.

Labor income. Head's labor income is a continuous variable consisting of wages and salaries, any separate reports of bonuses, overtime, tips, commissions, professional practice or trade, market gardening, miscellaneous labor income, and extra job income.

Capital income. Head's capital income is the sum of the following continuous variables: interest, dividends, rental, and trust income.

Transfer income. Head's and wife's transfer income is a continuous variable and consists of such things as help from a relative, SSI, TANF, child support, workers compensation payments, or other sources.

Region. This variable captures where a child's family lived at the time of the interview during 2003. The North East, North Central, South, and West regions of the country were included. North East consists of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont. North Central includes Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. South includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, Washington DC, and West Virginia. West consists of Arizona, California, Colorado, Idaho, Montana, Nevada, and New Mexico, Oregon, Utah, Washington, Wyoming. The West region serves as the reference group for this study.

Head's employment status. In the PSID, head of households are asked whether they are working now, looking for work, retired, keeping house, a student, or given the option to specify another category. Head's employment level is then collapsed into a dichotomous variable – employed now or not employed now— which leads to some imprecision.

Head's education level. In the PSID, head's education level was a continuous variable (1 to 16) with each number representing a year of completed schooling. Head's education level is collapsed into a categorical variable: those with a high school degree or less, those with some college, and those with a four-year degree or more.

APPENDIX B

REGRESSION COEFFICIENT OF MULTI-GROUP MULTIVARIATE GROWTH MODEL

		Wage	Earner Clas	ss (< \$50,0	000)	Inves	stor Cla	ss (>= \$50	0,000)		
DV	IV	В	β	р	\mathbb{R}^2	В	β	р	\mathbb{R}^2	\mathcal{X}^2	р
Rate c	f change Incom	ne			0.457				0.353		
	Initial income	-0.53	-0.53	< 0.001		0.19	0.22	0.424		18.80	< 0.001
	Initial networth	0.03	0.05	0.477		-0.04	-0.20	0.193		11.94	0.001
	Family size	-0.03	-0.05	0.225		0.07	0.20	< 0.001		15.03	< 0.001
	Region										
	(1 vs 0)	-0.25	-0.15	0.004		-0.10	-0.09	0.074		3.22	0.073
	(2 vs 0)	-0.21	-0.13	0.019		-0.16	-0.14	0.006		0.62	0.431
	(3 vs 0)	0.00	0.00	0.973		0.11	0.09	0.099		0.26	0.607
	Age	-0.02	-0.17	< 0.001		-0.03	-0.29	< 0.001		7.08	0.008
	Race	0.14	0.07	0.042		0.37	0.18	< 0.001		3.42	0.065
	Sex	0.32	0.16	0.001		0.54	0.30	< 0.001		11.09	0.001
	Education	0.18	0.33	< 0.001		0.06	0.17	0.072		0.16	0.691
	Marital status	0.23	0.13	0.012		-0.04	-0.03	0.523		1.08	0.298
Rate c	f changeNet wo	orth			0.250				0.443		
	INTINC	-0.44	-0.22	0.317		0.99	0.32	0.008		2.95	0.086
	INTNW	0.05	0.05	0.934		-0.45	-0.64	< 0.001		1.44	0.230
	Family size	-0.20	-0.18	0.007		0.00	0.00	0.988		2.50	0.114
	Region										
	(1 vs 0)	0.24	0.07	0.388		0.06	0.01	0.705		0.75	0.387
	(2 vs 0)	0.19	0.06	0.506		-0.16	-0.04	0.372		1.77	0.183
	(3 vs 0)	0.39	0.08	0.340		0.49	0.11	0.004		2.66	0.103
	Age	0.01	0.02	0.845		-0.06	-0.19	< 0.001		15.41	< 0.001
	Race	0.24	0.06	0.331		0.76	0.10	0.002		2.91	0.088
	Sex	0.74	0.19	0.045		0.91	0.14	0.001		0.27	0.607
	Education	0.28	0.27	< 0.001		0.16	0.12	0.009		0.02	0.877
	Marital status	0.29	0.08	0.333		0.39	0.06	0.140		9.10	0.003
Initial	income				0.204				0.301		
	Family size	0.05	0.10	0.015		-0.05	-0.11	0.014		15.43	< 0.001
	Region										
	(1 vs 0)	-0.23	-0.13	0.021		-0.17	-0.13	0.010		1.19	0.276
	(2 vs 0)	-0.05	-0.03	0.648		-0.17	-0.13	0.009		0.09	0.768
	(

(2 m 0)	0.11	0.05	0 2 2 0		0.10	014	0.006		0.00	0 2 4 2
(3 VS 0)	-0.11	-0.03	0.328		-0.19	-0.14	0.000		0.90	0.343
Age	0.03	0.19	< 0.001		0.03	0.32	< 0.001		1.14	0.285
Race	0.24	0.13	0.004		0.04	0.02	0.599		6.10	0.014
Sex	0.36	0.18	< 0.001		0.11	0.05	0.212		13.89	< 0.001
Education	0.04	0.08	0.029		0.15	0.35	0.000		11.75	0.001
Marital status	0.35	0.20	< 0.001		0.14	0.07	0.027		20.43	< 0.001
Initial net worth				0.148				0.266		
Family size	0.11	0.12	0.048		-0.08	-0.04	0.286		0.72	0.397
Region										
(1 vs 0)	-0.47	-0.16	0.037		-0.97	-0.17	< 0.001		0.73	0.394
(2 vs 0)	-0.36	-0.13	0.115		-1.17	-0.19	< 0.001		7.40	0.007
(3 vs 0)	-0.47	-0.12	0.087		-0.60	-0.10	0.017		3.80	0.051
Age	0.05	0.22	< 0.001		0.21	0.45	< 0.001		8.71	0.003
Race	0.42	0.13	0.015		0.95	0.09	< 0.001		9.15	0.002
Sex	0.71	0.21	0.001		0.46	0.05	0.152		4.59	0.032
Education	0.07	0.08	0.200		0.15	0.08	0.025		1.73	0.189
Marital status	-0.09	-0.03	0.669		0.93	0.11	0.003		26.43	< 0.001

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REGRESSION COEFFICIENTS FOR MULTI-GROUP CROSS-LAGGED PANEL AFTER ADJUSTING FOR COVARIATES

Wage Earner Class (<\$50,000)

Investor Class (>=\$50,000)

DV IV	В	β	Z	b	\mathbb{R}^2	В	β	z	b	\mathbb{R}^2	\mathcal{X}^2	d
Net worth 2003 Net worth 1989 Income 1989	0.42-0.17	0.28 -0.05	6.99 -0.92	<0.001 0.359	0.243	0.33 0.77	0.33 0.20	7.40 5.28	<0.001 <0.001	0.332	0.62 9.70	0.433 0.002
Tncome 2003					0 309					66C U		
Net worth 1989	0.02	0.02	09.0	0.551	200	0.02	0.04	0.89	0.375		3.58	0.059
Income 1989	0.25	0.14	3.37	0.001		0.55	0.32	7.69	<0.001		7.63	0.006
Net worth 2007	L				0.656					0.687		
Net worth 2003 Income 2003	0.78 0.14	$0.74 \\ 0.06$	22.40 1.84	<0.001 0.065		$0.74 \\ 0.32$	$0.71 \\ 0.13$	19.84 4.40	<0.001 <0.001 <0.001		0.27 4.84	0.605 0.028
Income 2007					0.544					0.540		
Net worth 2003 Income 2003	0.07 0.48	$0.16 \\ 0.49$	4.32 12.10	<0.001 <0.001 <0.001		$0.12 \\ 0.51$	0.25 0.46	8.17 10.39	<0.001 <0.001		10.71 1.75	0.001 0.186
					ļ							
Net worth 2011 Net worth 2007	0.73	0.65	17.23	<0.001	0.475	0.73	0.63	17.43	<0.001	0.522	2.01	0.156
Income 2007	0.04	0.02	0.35	0.729		0.30	0.12	4.09	<0.001		3.54	0.060
Income 2011					0.618					0.599		
Net worth 2007	0.05	0.10	2.88	0.004		0.00	-0.01	-0.32	0.749		3.25	0.072
Income 2007	0.65	0.61	17.42	<0.001		0.67	0.67	19.68	<0.001		0.11	0.744
					_					-		





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