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Asset-Based Social Policies – A "New Idea" Whose Time Has Come?

The Policy Research Initiative of the federal government organized an extremely interesting and well-attended conference on "Asset-Based Social Policies" on December 8-9. There is quite a buzz around this broad theme in Canadian social policy circles these days, and some community-level experimentation is currently under way with the support of Human Resources Development Canada.

Asset-based policies are seen as "new," very much in the Blairite 'New Labour' and Clintonite 'New Democrat' sense of the word. Proponents tend to view this approach as a logical continuation of welfare policies based on "hand-ups rather than hand-outs," and a focus on "responsibilities" to balance rights. "New" asset policies are often contrasted to "old" policies of income transfers which promote "dependency" rather than self-reliance.

The conference featured speakers drawn from the ranks of both proponents and more agnostic experts and policy-makers from the US, the UK and Canada. The audience included many – from all levels of government, social development and community-based organizations – who came to learn what the buzz was all about.

I came as an ill-informed skeptic, and left as a better-informed skeptic. At the end of the day, many of us were not very impressed about the specific policies being promoted under the label of asset-based policies. However, the discussion at the conference did underscore the importance of assets as a route of escape from poverty, and opened up some extremely important issues for social policy.

As of now, "asset-based social policies" mainly comprise a number of experiments to promote asset accumulation through savings or endowments for poor families, including both welfare recipients and the working poor. In the US, and now in Canada under the sponsorship of SEDI (Social and Enterprise Development Innovations), there are experiments to 'top up' the savings of poor families (usually in the form of a generous match of $1 or $2 for every dollar saved). In Canada and the US, the savings are generally restricted to particular uses – such as education and training, or home repair and purchase – while the Savings Gateway scheme in the UK has no such restriction. Experiments differ in terms of the extent of associated 'interventions' with recipients, such as financial counselling.

Currently being implemented in the UK is a new, more general, policy of Child Trust Funds. The Funds will be a modest cash endowment at birth of about $1,000 for every child – more for poorer families – which can be drawn on by the child at 18 when the trust fund has grown. This scheme will be implemented from 2005, and many details such as administration costs and possible interactions with other social programs are still being worked out. There will be no restrictions on the use of the funds when the child reaches age 18.

Proponents of these schemes make a number of excellent (though not terribly new) points. Assets, particularly financial assets, are hugely important in terms of giving people some control over their lives and future; the ability to take risks (such as investing in training, housing and small businesses); the ability to make significant purchases which can lead to new opportunities (such as purchase of a car or tools to access jobs); and the ability to withstand interruptions of income or deal with sudden financial emergencies such as urgent home repairs.

As we know in Canada from the recent Statistics Canada survey of assets and liabilities, those who are poor in terms of income also tend to have almost no financial assets, and live in extremely financially precarious circumstances. Lack of assets means lack of independence, especially for the welfare poor. Wealth at any given age is much more unequally distributed than income, and this gives rise to huge gaps in well-being among adults and in opportunities for their children. A highly unequal distribution of wealth contradicts the liberal ideal of genuine equality of opportunity, since the financial circumstances of parents have large impacts upon the life-chances of children.

Finally, government policies – mostly tax-based measures – actively support and promote asset accumulation for the middle class (e.g., RRSPs, RESPs and Canada Educational Savings Grants) and the wealthy (i.e., low rates of tax on dividends and capital gains compared to taxes on wages). If we take asset accumulation seriously as a goal of policy, it can be reasonably asked why the poor are excluded. Many proponents even take the logical step of supporting direct redistribution of assets via programs funded from the taxation of large inheritances.

In short, those who draw attention to the need for asset redistribution are flagging some very serious issues of social justice and even pointing to the need for much more radical policies than the status quo of basic income support for low-income families.

Proponents also put forward some more questionable arguments. In particular, there are underlying hints of a Victorian-era ethos of 'promoting thrift among the shiftless poor.' Many argue that savings bonus schemes are good, not just because they give the poor assets, but also because they promote 'future thinking' and better financial habits. These schemes can implicitly separate the 'deserving' from the 'undeserving' poor by rewarding only those who are prepared to save and 'invest in the future.' Much of this is very objectionable for those of us who see poverty as a structural trap rather than as the product of individual pathologies.

In fairness, one must make a distinction between the views of community agencies who administer savings schemes and the political realities of 'new' welfare schemes within which they are funded. And progressive community organizations at the conference saw a lot of merit in the financial literacy training and financial counselling which are often attached to savings schemes, even if some thought that there is no compelling reason why financial advice and counselling has to be attached to savings schemes.

Generally speaking, even proponents conceded that there is no strong evidence from the experiments to date that the benefits of the savings schemes go much beyond those one would expect from a cash transfer.

Regarding asset-based experiments, particularly savings bonus schemes, skeptics raise some excellent questions:

Why force the poor to save?

The poor need income and resources in the here and now. It is perverse to reward savings out of very low incomes which can come at the cost of meeting basic consumption needs such as food, decent shelter and medical care. (This is why the takeup rate for experimental schemes seems to be very low, and the resources which are accumulated are quite modest.) If we want (as we should) to give assets to the poor, why force them to save?

In this context, it is worth noting that transfers of fairly large sums to low-income families in one lump sum as opposed to monthly disbursements can have very significant positive effects. For example, the annual Earned Income Tax Credit in the US seems to be spent in a different way than monthly income supplements, since it can be and is used to finance large purchases, including home downpayments and purchase of a car. There may be, then, a strong case for asset transfers to supplement income transfers.

Why not invest in public programs, supports, and services?

Obviously asset-based schemes come at the cost of alternative public expenditures which could increase the 'capital' or longer-term resources of low-income persons and families. More direct measures would include early childhood education programs, targeted training programs, and subsidized access to higher education to increase the 'human capital' of low-income persons and households; direct subsidies to affordable social housing; and community and employment supports for persons with disabilities.

From the point of view of the efficient spending of public funds, rates of return on many public programs are probably much higher than financial rates of return. The UK Child Trust Funds seem a particularly questionable way to increase the stated goal of equality of opportunity when compared to alternatives such as expanded early childhood education programs, or subsidized tuition fees for post-secondary education. While individual and social returns to investment in education cannot be precisely determined, there is a lot of evidence that they are much higher than a long-term real financial rate of return of, say, 3 percent.

As well, increased assets in the hands of individuals will not necessarily increase the supply of the things proponents hope low-income persons and households will buy as their savings vehicles mature, be it housing, skills training or higher education. The underlying assumption that it is better to have individuals purchase what they want from the market is also questionable for at least some investments, most notably skills training to gain access to better jobs, given the poor quality of much short-term private training.

Some of these efficient public finance arguments are most relevant if we think about moving from small, community-based schemes to national programs, and from short-term to long-term savings vehicles.

Is individual saving an efficient way to accumulate assets?

As suggested by the well-known example of RRSPs compared to public pension plans such as the CPP/QPP, the overhead costs of individual savings vehicles can be very expensive. UK financial institutions will likely charge 1-2 percent per year to administer Child Trust Funds.

Experience has also shown that rates of return on individual savings vehicles are volatile over short periods, and subject to long swings as well. Real rates of return can vary a great deal between different periods of time, and market circumstances when savings funds mature can be very different. This means that different cohorts of children, as well as individuals, will gain very unequal benefits from the same initial endowment in child trust funds, simply due to the vicissitudes of financial markets and interest rates. These concerns obviously apply much more to longer-term savings vehicles such as child trust funds, and the "lifetime individual accounts" which some see as a possible new vehicle for social policy.

Why not fix current problems first?

It was noted by several people at the conference that it is horribly perverse to promote asset accumulation among the poor when current social assistance programs actively work against this goal. In almost all provinces, a requirement for receipt of social assistance is that all financial assets above a very low threshold should be exhausted, including savings for retirement and for the education of children. Criticism of these rules has been widespread among anti-poverty organizations and many social policy experts for years.

At a minimum, asset schemes have to be protected against clawbacks from welfare incomes, which has proved to be an administrative challenge. Most importantly, the 'new' focus on the importance of assets for escaping poverty and securing equality of opportunity for children should lead us to scrap perverse and punitive provincial welfare rules which force the welfare poor to liquidate almost all of their financial assets as a condition for the receipt of benefits.

Where should we go from here?

We can expect some growing experimentation in Canada with asset schemes – perhaps in the form of a child trust fund to accompany child benefits, and probably in the form of increased support for experimental individual savings/development accounts for poor families. We can probably learn from such experiments, but it would be preferable to take away the 'forced' saving element. It is also critically important not to divert significant resources from programs which provide subsidies to opportunities for early childhood education, training, higher education, home upgrading and ownership which directly increase the assets of low-income persons and families. Generally speaking, programs are more effective and efficient because of more effective targeting, lower overhead costs and the need to increase supply as opposed to just demand.

Finally, however, we should draw on the genuine insights of the asset-based approach in the broader process of income security reform.

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