WHEN TRADITIONAL ASSET BUILDING IS NOT ENOUGH

A Comment on "Enabling Families to Weather Emergencies and Develop"

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McKernan and Ratcliffe's paper highlights the need to change budget priorities and focus more on helping low-income families gain assets. The authors' engaging analysis is particularly important for policymakers as well as policy analysts, contributing to what we know about asset building among the low income, consequences of the problem, and potential policy solutions. Their cost-benefits analysis is particularly effective because often policy development and implementation-enforcement are a compromise between budget priorities and values, without rigorous evaluation. This is a thoughtful, practical proposal of how to extend traditional asset policies to low-income households.

While ambitious along traditional lines, McKernan and Ratcliffe's policy agenda proposes minimal moral imperatives but some pragmatic policies that have a chance of being supported in this political climate (though would still be considered by some to be too proactive and interventionist). Research and practice suggest that this is not enough to pull low-income households out of debt and into asset stability. By focusing on increasing savings levels and vehicle ownership among low-income families, McKernan and Ratcliffe do not sufficiently address the consumption needs and constraints, and savings limitations on low-income people. They also do not disaggregate their policy analyses or prescriptions by race or gender. The low income are not a homogeneous group, though most face similar constraints. McKernan and Ratcliffe's policy menu, therefore, is missing additional strategies, such as collective ownership, to remedy such challenges as income and savings constraints, institutional racism, and racial and gender discrimination.

Some Considerations about the Savings Strategy

On the face of it, saving and maintaining a positive credit rating are good strategies for anyone. No matter how supportive the savings products or how large the matches or long the tax deferral, however, it is unrealistic to expect people to take food out of their children's mouths in order to start a savings account. Conventional wisdom assumes that low-income people do not save enough because they waste money and make the wrong consumption decisions. This ignores the reality that savings rates are not very different across classes and black-white savings rates are the same when income is controlled. In addition, the rising costs of basic necessities and stagnating wages and income transfers (FRAC 2008) render saving a serious challenge. Recent analyses such as Gorbachev (2007) reveal that consumption costs for housing, food, and utilities are disproportionately higher for those with the lowest incomes and have been increasing.

To help low-income people build assets, one strategy is to first increase their disposable income by reducing the costs of necessities such as housing, energy, and food. This could be done through public subsidies or consumer cooperatives (energy and utility cooperatives, co-op grocery stores and pharmacies, cooperative farms, and housing cooperatives). Increasing household income is another way to increase disposable income, through, for example, living wages or a guaranteed family income. While some jurisdictions such as Baltimore, Maryland, have passed living wage ordinances, raising income is a difficult policy around which to form consensus. In sum, connections between income generation and cost-saving strategies and the ability to save and invest should not be ignored.

Portfolio Span

One weakness in the McKernan and Ratcliffe proposals is the lack of attention to portfolio composition and span in the process of wealth accumulation. Research on the composition of wealth portfolios finds that the wealth of the richest in the United States is diverse and its span wide. The wealthy are rich more because of business equity, the net worth of their stocks and bonds, and real estate equity than because of the equity in their own home. "Families who hold more complex portfolios tend to be wealthier than other families" (Chiteji, Gouskova, and Stafford 2006, 201). The median white family holds four elements in its wealth portfolio compared with two elements in the median black family's portfolio (200). We also know that low-income whites have more assets and higher levels of homeownership (as well as more inheritance) than people of color (Leigh 2006). While women do not do as well as men, the span of their portfolio is better than for African Americans (Chiteji et al. 2006, table 8.2). On the other hand, never-married women have the fewest assets and most family responsibilities, with African American women owning the least assets (Chang 2006). These statistics are not broken down by income, but the trend is obvious. Policies need to be tailored by race and gender, not just by class, particularly because the causes and consequences of asset poverty differ by race and gender.

An understanding of portfolio span is particularly important for wealth accumulation—growth, not just stability of assets. While realistically we care first about helping low-income people acquire an asset, if our ultimate aim is wealth accumulation and the elimination of asset poverty, a savings account or two will not be enough. We also need strategies to help low-income families, families of color, and women own (or at least benefit from) a variety of assets.[1]

McKernan and Ratcliffe do a good job discussing the tension between short- and long-term asset goals, but they do not explain well enough the need to divide savings between liquid assets that tend to be short term and can be used for emergencies, and illiquid assets that provide long-term stability and can be collateral for a loan. The asset/savings goal is to put the family in a position to take care of itself in an emergency and acquire an investment (house, business, etc.). Then the family only has to borrow as a last resort or when it will create more investment income and assets for the family.

Think Community

It is difficult to imagine a complex wealth portfolio of low-income families. How can they manage such a feat with no disposable income, precarious economic condition, and susceptibility to economic and health shocks that reduce their income and savings further? While one strategy is to promote policies that facilitate the provision of a comprehensive social safety net, another approach is to examine the collective assets of a community and think about structures and mechanisms where pooled resources give people some economic stability, relative independence, and asset ownership, as well as the ability to help one another. Joint ownership is a stepping stone to individual/household wealth and an end in itself.

The most traditional collective asset is the credit union. Community development financial institutions (CDFIs) and credit unions (CUs) are regulated financial institutions with track records of serving the underserved and low-income communities. As opposed to payday lenders, check cashing companies, and big banks, CUs, for example, provide quality financial services and products at an affordable price, and they are user friendly, community owned, and democratically governed. CUs and CDFIs also recirculate dollars—their savings and loans come from the community and are used in the community where they originate. Lower fees also mean more disposable income and ability to save for members. McKernan and Ratcliffe use credit unions as examples of financial institutions that provide small loans with savings but do not emphasize their importance as a major alternative financial services agency for low-income people, and as engines of asset building for low-income households. CUs and CDFIs are forms of community wealth and community-based mechanisms for asset building that public policies could support and expand.

Members of a community can also own land, housing, and enterprises jointly and run businesses together with democratic structures. Cooperative housing reduces the costs of home ownership and maintenance. For low-income people, limited equity housing cooperatives and market-rate housing cooperatives serve the same purposes as condominiums but keep the housing affordable and combine small amounts of pooled resources with grants and loans. In this period of mortgage and housing crisis, with housing values down and interest rates declining, this could be the right time to institute responsible policies that increase low-income homeownership through co-op housing and use of credit unions as the mortgage lender.

Worker-owned businesses, particularly worker cooperatives, which use employees' pooled equity combined with loans (and sometimes grants for start-up), allow workers to own and often manage their own business, participate in democratic governance (one member one vote) and decide about work rules, business practices, and surplus distribution (profit sharing). These are also effective ways to provide low-income people with equity, for a small amount of investment (payable in installments) and reduced risk.

The cooperative-joint ownership strategy extends to all kinds of assets including car and stock ownership. Gordon Nembhard (2002, 2004) provides examples. More policies and strategies to support cooperative institutions and joint ownership would help low-income families accumulate wealth through realistic, meaningful, and sustainable practices.

Note

[1] For more about the variety of assets see Leigh (2006), and about the benefits of a complex portfolio see Chiteji and colleagues (2006).

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