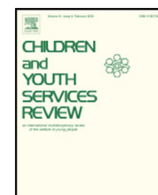
Children and Youth Services Review 36 (2014) 15–21

Contents lists available at ScienceDirect

Children and Youth Services Review

journal homepage: www.elsevier.com/locate/childyouth



Policies to promote economic stability, asset building, and child development

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ARTICLE INFO

Article history:
Received 27 December 2012
Received in revised form 22 September 2013
Accepted 16 October 2013
Available online 25 October 2013

Keywords:
Assets
CDAs
Income shocks
Asset shocks
Asset poverty
Asset policy

ABSTRACT

This paper makes the case that the pattern low-income families walk into is a present time-oriented or consumption-based welfare system, with attendant incentives and disincentives; in contrast, the pattern higher-income families walk into is future-oriented or asset-based. These two divergent systems do not deliver equitable educational outcomes for children. To ensure that higher education can play an equalizing role in the U.S. economy, the nation needs a better welfare system for the poor, one that builds on the asset-accumulation structures that serve the needs of advantaged families. This new institutional approach would undo the current system of educational advantages for higher-income children over low-income children and, in turn, redress educational inequalities in America. In order to create a level playing field welfare policies are needed that enable low-income families to accumulate assets. In this paper we discuss policies that might help low-income families accumulate assets, including modifications to existing income supports, as well as the development of complementary asset-based institutions.

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1. Introduction

Today, U.S. households encounter two divergent welfare systems. Low-income families primarily interface with a consumption-oriented welfare system that discourages asset accumulation. This discouragement works explicitly, through asset limits in means-tested programs, and implicitly, by sending the message that income flows, rather than accumulation of wealth, are key to combating poverty. In sharp contrast, the asset accumulation of higher-income families is facilitated through tax incentives for savings, homeownership promotion, and other institutional structures (Boshara, 2003). These different channels result in dramatically different outcomes, including for children. Savings has a range of well-documented benefits for children's development and educational outcomes (Adams, Nam, Williams Shanks, Hicks, & Robinson, 2010; Elliott, Destin, & Friedline, 2011). Even small amounts of savings may promote families' economic stability (Elliott, 2013a, b; Gray, Clancy, Sherraden, Wagner, & Miller-Cribbs, 2012), reduce the risk of food insecurity and other threats to development (Adams et al., 2010), and lay the foundation for college attendance and economic mobility (Elliott, Destin, & Friedline, 2011).

However, the current social safety net for low-income households largely prioritizes short-term, income-based programs without sufficiently aligning these efforts with asset development initiatives that have the potential to increase families' lifelong financial security (Sherraden, 1991). Furthermore, current policies that promote longer-term asset accumulation, such as tax expenditures linked to homeownership and retirement security, are most readably accessible by families with higher incomes.

Consequently, we suggest that a bifurcated welfare system comprised of income-based programs for poor families and asset-based programs for higher-income families may provide higher-income children with an educational advantage over low-income children (Elliott, 2013b). Ultimately, these resulting educational advantages may exacerbate inequalities in America, closing off the most powerful ladder for economic mobility in today's economy: higher education (Urahn et al., 2012). In this paper, we build on Elliott and colleagues' analysis of economic stability and children's human capital development (Elliott, 2013b; Elliott, Nam, & Friedline, 2013) and make suggestions for modifying related policies and programs accordingly. These studies build on Michael Sherraden's early work in *Assets and the Poor* (1991). It provides further evidence of a need to level the playing field with policies that mitigate the potentially negative effects of asset poverty, which, in turn, may undermine children's educational attainment. Understanding this connection between asset poverty and educational outcomes is critical to laying a policy foundation for asset-based welfare, since evidence has shown that education is one of the key paths to economic mobility in America (Haskins, 2008; Hertz, 2006). This makes poverty not just

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http://dx.doi.org/10.1016/j.childyouth.2013.10.012

an immediate economic concern, but also a threat to long-term human capital development. Therefore, to the extent to which educational achievement is compromised by economic insecurity, the education path cannot be said to provide poor children with the same opportunity for economic mobility that it is does for higher-income children (Haskins, 2008; Hertz 2006). This raises questions about what can be done to restore education as the 'great equalizer' in our society and exposes the intersections between welfare and education policy.

Two key findings suggest that there is a need to replace the bifurcated welfare system with a dual-pronged welfare system consisting of both consumption-based and asset-based programs. First, results generally indicate that children living in poorer families that disproportionately rely on consumption-based welfare programs like SNAP (Supplemental Nutrition Assistance Program, formerly known as Food Stamps) and are asset poor have less-favorable educational outcomes than children living in higher-income families who are more likely to be asset sufficient (Elliott, 2013b). Second, results consistently indicate that income is a protective factor against economic instability (McKernan, Ratcliffe, & Vinopal, 2009). It is interesting to note, and surprising to the authors, that generally speaking income and asset shocks appear to have very little direct impact on children's educational outcomes (Elliott, 2013b). Instead, in regards to human capital development (including academic achievement and attainment), economic instability per se appears to matter less than asset poverty does (Elliott, 2013b). This apparent inconsistency is reconciled through an understanding of how income and assets are differently leveraged by individuals and families for consumption and capital development, respectively, and how households can effectively use asset stores to smooth out temporary reductions in income. Here, minor income shocks are defined as a drop in income of 25%, while a 50% decline in income would be considered a major income shock. Previous research has shown that income shocks are related to food insecurity and economic hardship (McKernan et al., 2009), so nothing here should be construed as suggesting that income-based policies can or should be ignored. Certainly, if children's basic needs are not met, policies that focus on human capital investments are likely to be less fruitful (e.g., Maslow, 1954). However, asset poverty, defined as inadequate assets to maintain a family above the poverty line for a period of three months (Haveman & Wolfe, 2004), suggests longer-term economic deprivation and, importantly, often places households within the realm of means-tested income maintenance programs.

While remedying the persistent and corrosive asset poverty in which many low-income children struggle to survive warrants particular policy attention, there is evidence to suggest that if basic needs are not met, families are more likely to save to meet these needs or save for the purpose of smoothing out income shocks rather than for human capital development (e.g., Xiao & Noring, 1994), which could blunt the effects of policies designed to improve child well-being through asset accumulation. Therefore, similar to Sherraden (1991), we suggest that a combined approach of income and asset-based policies is needed. An approach to poverty alleviation that focuses on both income and asset-based policies recognizes that if we are ever to truly eliminate poverty we have to do more than provide the poor with the power to purchase enough goods to meet minimum subsistence needs; we must also provide them the opportunity to invest in the development of human capital, especially for their children. A fundamental tenet of the American Dream is that parents should be able to see progress both in their own lives and in the lives of the next generation. Educational attainment plays a key role in whether or not children have a real opportunity for economic mobility (Haskins, 2008). With these principles in mind, we present specific asset-based policy interventions that could support low-income families and enable their children's development and educational access.

These policy changes include those which would ameliorate the consumption-oriented welfare system's bias against asset accumulation by low-income families, as well as those which would develop complementary asset structures to profoundly alter the financial trajectory of disadvantaged Americans. While these policy recommendations, separately or in the aggregate, are not intended to suggest that there is not a need for direct subsidization of human capital — in the form of investments in early childhood education and improvements to the K–12 system, for example — it is the contention of the authors that promoting asset accumulation may be a particularly valuable enterprise for improving child outcomes, and one that could, in turn, improve the ability of children to benefit from other educational opportunities. The theory and evidence regarding precisely how assets affect children's educational expectations and, in turn, how those expectations drive academic engagement and, ultimately outcomes is still evolving. However, the outsized effects of even small amounts of savings on educational outcomes suggests that these psychological, attitudinal, and behavioral effects largely explain this relationship (regarding educational outcomes and small-dollar accounts, see Elliott, 2013a; regarding assets and identity-based motivation theory, see Elliott & Sherraden, 2013). Even at levels entirely inadequate to finance human capital development directly, assets affect educational outcomes. For example, research finds that a low- and moderate-income child who has school savings of $500 or more is about five times more likely to graduate from college than a low- or moderate-income child with no savings account, even though these small-dollar accounts could not even pay for books at most institutions (Elliott, 2013a). Instead, assets, particularly those explicitly designated for college, seem to signal to children that higher education is a likely part of their future, potentially triggering greater academic involvement and superior achievement (AEDI, 2013; Zhan & Sherraden, 2011), important components of educational success regardless of the quality of the overall educational context. Therefore, the following recommendations do not comprise an exhaustive list of the policy changes that could positively impact the lives of American children; however, there is emerging evidence from field research and theoretical applications to suggest that they could bridge the gaps in asset-based and consumption-oriented welfare approaches and, in the process, level the playing field for those currently disadvantaged.

Finally, these paths through which to complement income supports with asset approaches should be considered just that—complements—and not replacements for critical investments in the increasingly threatened safety net. While there is evidence that assets work in ways different than income flows (Elliott, 2013b) to influence children's well-being, there is no question that, as stated above, meeting individuals' basic needs is an essential precondition for facilitating longer-term capital development. Converging the asset-based and consumption-focused welfare systems for wealthier and low-income Americans should be understood as an effort to increase equity, not an attempt to replace core supports with empty promises to let poor people 'save their own money'. The asset-based welfare system works for advantaged Americans because it facilitates their efforts, reinforcing the idea that institutions are designed to support individuals' progress (Sherraden, 1991). Equitably including lower-income families in similar structures is about bringing to disadvantaged children these same opportunities.

2. Eliminate asset limits in public assistance programs

The current consumption-based welfare model fails to recognize that living at the poverty line is not enough for human capital development to take place, absent opportunities for asset accumulation. So, while higher-income households enjoy sizeable savings incentives through preferential tax treatment of 529s (state-sponsored college savings programs), retirement accounts (such as 401(k)s and IRAs), and traditional home mortgages, low-income households face what functionally amounts to a steep marginal tax on their savings, where additional dollars in savings cost them dearly in public assistance benefits. The Supplemental Nutrition Assistance Program (SNAP/food stamps) offers an example of how consumption-based welfare can work at cross purposes to long-term human capital development. SNAP is

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