WE ARE IN THIS TOGETHER
Bipartisan Solutions to Preserve the American Dream

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Free economies rarely offer equal results or outcomes. Disparities of wealth are inevitable. However, they are only tolerable if the public has confidence that individual freedom can produce economic and social mobility, and that markets can be open to the enterprise of all corners. In the American economy, freedom can only be sustained if the core commitment to equal opportunity is nurtured and sustained. Social stability can only be maintained if the capitalist economy is offering procedural fairness.

—*Franklin Delano Roosevelt*

We come to the public square from two different political backgrounds. Phil was an elected official in a blue-collar Great Lakes city who went to Congress as a Republican. Jeremie leans left and has deep roots in community development. Despite these differences, we come together around the core idea that the shared economic prosperity of the nation depends on the financial well-being of individuals and families and their ability to achieve social mobility.

This idea, which others might simply call the American Dream, is part of our collective identity. It is captured best in the country's founding document, which states that we are all endowed "with certain unalienable rights, that among these are life, liberty and the pursuit of happiness."

This pursuit of happiness presupposes the ability of individuals to have free access to the economy and its rewards.

It is an unfortunate fact that this American Dream has not been equally attainable for all; the complex interplay of race, gender, class and geography creates economic advantage for some, but reinforces long-standing barriers for others. The disparate impact of the Great Recession on communities of color underscores the continued salience of this problem. In addition, social and economic mobility for the working class has become vastly more complicated in a global economy. Yet, we believe that the American Dream — for all of us — is within reach.

Our optimism comes from the recognition that there is more consensus than disagreement on the problems our society faces, namely that opportunity has not been accessible for large segments of our society. As framed above by President Roosevelt, equal opportunity for economic success is a requirement for social stability. We believe that public policy can change the uneven opportunity structure in this country. This essay outlines policy solutions that can gain bipartisan support in Washington and resonate with the American public.

THE FADING AMERICAN DREAM

While the Great Recession destabilized the financial health of millions of U.S. households, we have seen signs of household instability for some time. In particular, stagnant wages stand in the way of economic advancement for many working-class families. Today, the average inflation-adjusted hourly wage of a nongovernmental worker is unchanged since 1979,[1] despite the sustained productivity growth of American business. In short, workers are contributing more to the U.S. economy for less pay. A recent Economic Policy Institute analysis of Bureau of Labor Statistics data found that between 1948 and 1973, hourly wages and productivity were almost aligned, rising 92 percent and 97 percent, respectively. However, between 1973 and 2013, productivity grew a healthy 74 percent while hourly compensation rose a paltry 9 percent.

1 Drew Desiver, "For Most Workers, Real Wages Have Barely Budged for Decades." (Washington, DC: Pew Research Center, October 2014).

Although income helps you get by, assets are what you need to get ahead. Assets, such as savings, investments, a home or small business, allow households to absorb financial shocks, plan for their future, build wealth, and pass that wealth on to future generations. According to CFED's "*Assets & Opportunity Scorecard*," almost one-half of all U.S. households (44 percent) are "liquid asset poor," which means they lack sufficient savings to subsist at the poverty level for three months if they lost their income. This problem is even more severe among women (57 percent), single-parent households (73 percent), and households of color (63 percent) who all experience significantly higher levels of liquid asset poverty. These families do not have a resource base to prepare for emergencies or finance future wealth-building endeavors, such as higher education, a small business, or homeownership. Without assets, families live in a perpetual cycle of "just getting by," where even the notion of building wealth is out of reach.

Although wealth has never been equally distributed in the United States, we are currently experiencing dramatic levels of wealth inequality. According to a Pew analysis of data from the Federal Reserve Board's 2013 Survey of Consumer Finances, the median net worth of the country's wealthiest families was nearly seven times that of middle-income families—the widest wealth gap observed since the Federal Reserve began the triennial survey in 1983.[2] The Great Recession also significantly widened the racial wealth gap. The median net worth of white households is 13 times that of African American households and 10 times that of Hispanic households. This gap is the largest since 1989 for black households and since 2001 for Hispanic households.

To address the triple whammy of income stagnation, liquid asset poverty, and wealth inequality, we must start on common ground. Although the current federal officeholders on both ends of Pennsylvania Avenue display ideological differences, it is clear that there is broad agreement on the need to advance economic mobility. In a recent proposal on expanding opportunity, Republican U.S. Representative Paul Ryan stated that, "Far too many people are stuck on the lower rungs." In his State of the Union address, President Obama asked, "Will we accept an economy where

2 Richard Fry and Rakesh Kochhar, "America's Wealth Gap between Middle-Income and Upper-Income Families Is Widest on Record." (Washington, DC: Pew Research Center, December 2014).

only a few of us do spectacularly well? Or will we commit ourselves to an economy that generates rising incomes and chances for everyone who makes the effort?"

OUR COLLECTIVE FINANCIAL FUTURE DEPENDS ON THE FINANCIAL WELL-BEING OF U.S. HOUSEHOLDS

Today's turbulent marketplace presents an array of structural barriers that cut off access to the critical building blocks of financial well-being. We as a nation must advance public policies that empower families to build wealth and better control their financial lives. Expanding this opportunity will be critical to the financial well-being of U.S. households, and by extension our economy at large.

We must build a twenty-first century policy agenda that supports the capacity of all households to build wealth and financial well-being, and by extension, the economic vitality of the nation (see Jared Bernstein's essay in this book). This policy agenda should be built on a common understanding of the financial building blocks of stable and resilient households:

- **Knowledge, experience, and skills to navigate the economy:** An individual's ability to navigate the economy depends on both personal (e.g., frugality or diligence) and contextual (e.g., neighborhood quality or intergenerational wealth) factors, and often develops early in life. Understanding how to intervene as early as birth is key to influencing future financial opportunity, as Ray Boshara and Elizabeth Odders-White and Charles Kalish show in their essays in this volume.

- **Sustainable and affordable homeownership:** Homeownership has long served as a source of household wealth, community stability, and individual mobility, and is central to a dynamic capitalist economy. Creating pathways to affordable and stable mortgage products is a proven strategy to enhance the wealth of U.S. households.

- **Access to education:** As Sarah Bloom Raskin lays out in her essay in this volume, household finances determine a family's ability to access educational opportunities and, in turn, achieve economic prosperity and mobility. Creating more affordable and accessible pathways to higher education must be a key public policy goal.

- **Liquid Savings:** Households with liquid savings are better positioned to manage unforeseen economic shocks, such as a temporary job loss or medical emergency. Navigating interruptions in income requires building a financial cushion created by liquid savings.

- **Entrepreneurship:** Most new small businesses are financed with personal assets and contribute to dynamism in the national economy and job creation. Expanding capital access and improving the financial health of entrepreneurs are critical paths to economic mobility for many households.

- **Retirement Security:** With major challenges facing public entitlement programs, and the retrenchment of employer-based retirement benefits, personal savings will play a growing and indispensable role in supporting retirees' standard of living. More needs to be done to expand access and use of retirement savings vehicles.

BIPARTISAN SOLUTIONS TO ADVANCE THE FINANCIAL WELL-BEING OF U.S. HOUSEHOLDS

Much of the gridlock in today's political environment has been driven by a lack of political will to rethink and sustain traditional income support programs. However, there has been growing bipartisan interest in asset-based policies that focus on opportunity and mobility by harnessing the capability of American households to build their own economic security and success.

A policy focus that seeks to enhance the economic mobility and wealth-building capacity of U.S. households has several major advantages in the current political environment. First, decades of research have documented that even the poorest Americans can save. Second, this approach is well suited to current public attitudes toward government and its role in individual success. Finally, a faith in the productive capacity of all Americans to contribute to their own success and the broader economy (including students, homeowners, and entrepreneurs) lends this approach broad ideological appeal. Like the Homestead Act and the GI Bill, these policy solutions would empower individuals as societal stakeholders and define a role for government as an arbiter of equal opportunity. Below are five policy ideas that could achieve bipartisan support and lead a twenty-first century social policy agenda.

1. **Provide an opportunity for every child to save and invest in his or her future.** Children's Savings Accounts (CSA) are long-term savings accounts for children that grow over time. Public, private, or philanthropic investments seed the accounts with an initial deposit and augment them with matches and/or other savings incentives. Family, friends, and the children themselves make ongoing contributions to build the savings accounts. CSAs can be provided through 529 college savings plan providers, banks, or credit unions. Research has shown that low-income students with just $500 or less in college savings are three times more likely to enroll in college and four times more likely to graduate.[3] Cities (San Francisco, St. Louis) and states (Nevada, Rhode Island) are paving the way for publicly supported programs that provide every child with an incentivized and earmarked account. The federal government can build on this by passing legislation that would establish universal CSAs for all children born in America.

2. **Support aspiring homebuyers by enhancing their ability to save for a first home.** This objective could be accomplished by expanding support for down-payment savings strategies. One example is Individual Development Accounts (IDA). IDAs have a proven track record of providing working-class families with access to homeownership opportunities. In 1998, Congress created the bipartisan Assets for Independence (AFI) program to help low- and moderate-income families save and invest in higher education, homeownership, or entrepreneurship. Since 1999, AFI programs have served more than 81,000 low-income families nationwide. Expanded investment in savings strategies such as IDAs will provide families the type of support needed to help them realize the dream of homeownership.

3. **Eliminate barriers that provide an explicit disincentive to saving.** Many public benefit programs—including the Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families, and Supplemental Security Income—limit eligibility to those with few or

3 William Elliott, "Small-Dollar Children's Savings Accounts and College Outcomes." CSD working paper no. 13-05 (Center for Social Development, 2013).

no assets. Asset limits in public benefit programs restrict a family's economic mobility by creating barriers to saving for those who need it the most (see Reggie Bicha and Keri Batchelder's essay in this volume). If a family has assets over a certain threshold, the family must "spend-down" long-term savings in order to receive short-term public assistance. Asset limits discourage families from saving for emergencies, education, homeownership, and retirement, and pose serious obstacles for low-income families or individuals trying to become financially self-sufficient. Since 1996, the federal government has given states some flexibility to raise or waive asset tests for these programs. Congress should reconsider asset limits in public benefits programs, thus freeing low-income families to save the necessary dollars to enhance their financial well-being and leave the public benefit rolls.

4 **Create access to financial products that enhance the financial well-being of micro-entrepreneurs.** Congress and federal agencies can better support microbusiness owners by enhancing access to financial products and services, including savings and credit, which are the building blocks of any successful small business. One approach would be to expand access to the recently established *my*RA program by the U.S. Treasury to the 23 million self-employed Americans so they have access to affordable savings accounts.

5 **Increase access to, and participation in, employer-based retirement accounts.** Retirement savings are an important source of income and financial stability for older adults. Employer-based retirement savings—such as 401(k), 403(b), and IRAs—are the main way retired adults augment Social Security benefits. Unfortunately, many households either do not have access to a plan through their employer or are unable to save the money necessary to ensure a comfortable retirement. To support the retirement needs of U.S. households, the federal government could advance policies that require employers to auto-enroll employees into employer-provided retirement savings plans, and improve the existing federal Saver's Credit—which matches the contributions a low-income tax payer makes to an eligible retirement account—by making it more effective in supporting working-class families.

CONCLUSION

We advocate for an America where financially stable and resilient households are a central building block of the economic vitality of the nation. Inclusive economic growth is an essential ingredient for greater economic opportunity, and it is an indispensable requirement for social justice in a capitalist economy. Further, America is at its best when it resists extremes and seeks to extend the promise of opportunity to all of its citizens. Deep-rooted American principles that promote the dignity of work, asset ownership, and the worth of the individual have united divergent social groups without the deep societal divisions or poisonous ideological conflicts common to other nations. We believe that the policies outlined above, while promoting family economic stability, also lend themselves to a more civil political dialogue. We also each believe through our divergent political perspective that this policy agenda can solve the economic challenges facing families, communities, and the nation.

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