

A Springboard to the Ownership Society

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“The test of the morality of a society is what it does for its children.”

– Dietrich Bonhoeffer

This exciting presidential election has engaged more people from all age groups, races, ideologies, regions, and income levels than any other in recent history. The final two major-party presidential candidates have captured the attention of a particularly tuned-in American public. Those interested in children’s issues must capitalize on this historic moment and urge the candidates to commit to sound policies that can help every child reach his or her full potential.

Over the last few years, we have heard significant discussions about creating an ownership society. However, 12.8 million children currently live in poverty in the United States. At the same time, the fact that an increasing number of American families is living paycheck-to-paycheck is creating a major barrier to upward economic mobility, not only for the working parents, but for their children as well.

All children deserve to have an equal opportunity to achieve the American dream, and the next president should enact policies to bring this about. We propose a four part plan:

- **Create Baby Bonds for all American Children.** The United States should invest in its most precious resource by creating birth accounts, or Baby Bonds, for all of the 4 million children born each year. The federal government should make a small deposit in the savings account when a child is born, and again 10 years later. Family members and state governments could also invest in these accounts. At the age of 18, with compound interest, all children would have a modest pool of assets

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to start their adult lives. They could use these funds to pay for higher education, make a down payment on a first home, start a small business, or save for retirement.

- **Build a Renewed Commitment to Financial Literacy.** In return for a federal investment in Baby Bonds, states must commit to implementing an evidence-based, comprehensive financial-literacy curriculum that spans all grade levels. This commitment will give all children the knowledge and tools necessary for a lifetime of financial success.
- **Expand Rewards for Work.** The Earned Income Tax Credit (EITC), a fully refundable credit that supplements the wages of low-income workers, is the key tool for making work pay, and should be expanded so that it provides more relief for working Americans including non-custodial fathers who meet their child support obligations. In addition, we should simplify the tax code by folding the expanded EITC, the Child Credit, and the Child and Dependent Care Credit into a single Family Tax Credit (FTC) that would provide more tax relief for working families.
- **Institute a Universal College Tuition Tax Credit.** In order to make college affordable for every American, the next administration should fold the confusing assortment of tax incentives and provisions into a refundable \$3,000 per year tax credit that will offset the majority of tuition at a public, in-state institution, while at the same time simplifying the tax code.

These four efforts would signal that America cares about the next generation and is truly committed to giving all children the knowledge and opportunity they need to participate in the ownership society.

Create Baby Bonds for All American Children

Because of a growing wealth gap, too many children begin life from behind the starting gate. According to a recent study from the University of Michigan, over the last 20 years, the net worth of the richest 2 percent of American families nearly doubled, while the net worth of the poorest quarter of American families actually declined.¹ Startlingly, half of non-white children and one out of every four white children grows up in a home with no savings and no family resources for investments – a trend that is only getting worse.² In 2005, the national savings rate dipped into the red for the first time since the Great Depression.³

The next administration can narrow this wealth gap by instituting birth accounts – or Baby Bonds – for each of the 4 million children born each year. Modeled after a similar program in the United Kingdom, the United States government would invest \$500 in each child's Baby Bond at birth and again 10 years later.

Families could invest additional funds in the Baby Bond accounts, a limited amount of which would be tax-free. The federal and state governments should also encourage greater family participation through partial-matching programs for low-income families, and by giving them the option to direct annual government benefits into the accounts on a tax-free basis.

These Baby Bonds would remain untouchable until the age of 18, when, thanks to compound interest, each child would have a modest pool of assets with which to start his or her adult life. In order to access the funds, however, each child must graduate from high school and perform a minimum of 100 hours of community service. These requirements would provide an incentive for every child to finish school, and instill in them a sense of responsibility and commitment to their communities.

Once these requirements are met, individuals could use that money to pay for college or technical training, make a down payment on a first home, start a small business, or save for retirement.

This idea isn't new. A bipartisan coalition in Congress has introduced the America Saving for Personal Investment, Retirement and Education (ASPIRE) Act, which would give every child a minimum \$500 contribution at birth. Children from low-income households would get supplemental government contributions and matching funds for amounts saved in the account each year. The ASPIRE Act also requires the secretary of the Treasury to develop and promote financial literacy programs to account holders and their guardians.

At the state level, former State Treasurer Jonathan Miller, a Kentucky Democrat, proposed a similar plan to help children from the Bluegrass State pay for college. These "Cradle to College" accounts would give every child born in Kentucky a college savings fund. Miller, along with Republican Secretary of State Trey Grayson, designed the initiative so that every child would have enough money to cover the costs of community college or technical school. Families could make additional payments to supplement these funds in order to afford a four-year institution. The "Cradle to College" program requires beneficiaries to perform at least one year of military or civilian service before accessing the money.

The potential benefits of these accounts are tremendous. Baby Bonds can put every child on track to a lifetime of wealth accumulation, and provide an opportunity springboard for all children, regardless of their start in life.

Build a Renewed Commitment to Financial Literacy

In addition to giving children the asset boost necessary to achieve the American Dream and join the ownership society, we must also equip them with the financial knowledge necessary for a lifetime of economic success. Part of the bargain for federal investment in Baby Bonds should be a requirement that states develop and implement an evidence-based, comprehensive financial-literacy curriculum that spans all grade levels.

Our increasingly complex economic structures make it more important than ever for individuals to have a foundation of financial understanding so they are ready to make decisions about choosing a credit card, buying a home, investing in their children, and saving for retirement. As financial literacy becomes more vital, it seems that we know less and less about what it takes to make smart money choices.

In the latest biennial survey of financial literacy scores by the JumpStart Coalition, in 2008 high-school seniors correctly answered only 48.3 percent of the questions – a score 4 percent lower than that of seniors who took the same quiz in 2006.⁴ College students fared slightly better, answering 62 percent of the questions correctly, but still showed an unsatisfactory grasp of personal financial knowledge.

Furthermore, Americans realize their ignorance about financial matters and thus, lack confidence in their decision making skills. Only 24 percent of students and 20 percent of parents say kids are very well prepared to make important personal economic decisions.⁵

Chairman of the Federal Reserve Ben Bernanke has noted that “The financial preparedness of our nation’s youth is essential to their well-being and of vital importance to our economic future.”⁶ Yet according to a 2007 survey by the National Council on Economic Education, only seven states require students to take a personal-finance course as a requirement for high-school graduation, and only nine states test student knowledge in personal finance.⁷ In fact, according to a 2007 back-to-school survey from Visa, only 5 percent of adults learned about money management in elementary or high school.⁸

The absence of financial-literacy courses does not stem from a lack of support among American parents and teachers. Approximately 91 percent of Americans support financial education requirements,⁹ and nearly three-quarters of K-12 teachers believe their state should have academic standards for financial-literacy education.¹⁰

Policies that enhance upward mobility and financial stability will ultimately fail if Americans do not have the information and tools to invest and spend money wisely. Therefore, as part of the bargain for federal investment in Baby Bonds, each state must implement a comprehensive financial literacy curriculum in its schools. Our future economic vitality as a country depends on how we prepare today’s children to navigate our complex economy.

Expand Rewards for Work

The first, and most important, step in raising a new generation of responsible citizens begins at home. Children need to witness their parents going to work and living responsibly.

However, in the past decade, many low-income men have not served as good models for their children and communities. Some studies show that only 42 percent of working-age, poor men worked at all in 2005; only 16 percent of this group reported working full time, year round; and a mere 6 percent of poor African-American men worked full time.¹¹

The lack of responsible, breadwinning fathers in low-income neighborhoods weaves a well-documented tangle of poor outcomes. It undermines marriage, leaves single moms strapped for cash, diminishes the supervision of children, and deprives adolescents of positive male role models.

Yet if we are to demand work among all able-bodied adults, policy makers cannot ignore that many jobs today do not pay enough to help families obtain a minimally decent standard of living. For children to truly benefit from the opportunity springboard we propose, it is essential to make work pay for their parents today.

For years, the Earned Income Tax Credit has been the key tool for making work pay. This refundable tax credit supplements the wages of workers in low-paying jobs, providing an enormous incentive to work. Currently, families with two or more children receive a maximum federal EITC benefit of \$4,536, and families with one child receive \$2,747. However, single workers with no children, including fathers without custody, receive far less in EITC benefits – a mere \$412 per year – giving them a much smaller incentive to work than mothers with custody of their children.

If the EITC is to reach its full potential in rewarding work, lifting families out of poverty, and giving children an early example of what it means to live responsibly, then we must expand the credit to childless workers and non-custodial fathers who work full-time and pay their child support.

This particular plan offers a new twist: expanded work supports coupled with tax-code simplification. We propose folding three similar provisions – an expanded EITC, the Child Credit, and the Child and Dependent Care Credit – into a single Family Tax Credit (FTC). This combined credit would not only provide more tax relief for working mothers with dependent children, but it would also triple the amount of benefits for childless workers and non-custodial fathers.

Qualifying families would receive \$1 in a refundable credit for every \$2 earned, with a maximum credit of \$3,500 for families with one child, \$5,200 for families with two children, and \$7,000 for families with three children. The FTC would also provide increased benefits of up to \$1,236 for childless workers and non-custodial dads.¹² Families, including fathers without custody of their children, would have the option to deposit credits into their children's Baby Bond accounts, tax-free.

Children not only need physical care, but they also need positive role models at home who demonstrate daily how to become responsible citizens. Expanding work supports to childless and non-custodial parents will give families more money to help make ends meet. It will also create a greater incentive for low-income adults to participate in the labor market, and ultimately, provide the next generation with positive examples of the dignity and prosperity that come with hard work.

Institute a Universal College Tuition Tax Credit

Earning a college degree is one of the primary predictors of future economic success and social mobility, but this pillar of the American Dream is slipping out of reach for too many because of high costs. If we are going to promise our children a bright future in exchange for their hard work, then we must ensure that every child who wants to attend college has the economic means to do so.

Currently, we cannot fulfill our end of this bargain, and are therefore putting the ownership society out of reach for too many children. A report from the College Board shows that the 2007–08 list price for higher education rose by 6.6 percent and 4.2 percent at public four-year and two-year institutions, respectively. What is more, the increases follow an almost 30-year trend of tuition costs growing faster than inflation.¹³ When you add in the costs of books and other fees, it is no wonder that many students cite costs as the number-one reason for not entering or not continuing their higher education. For example, even with need-based aid, low-income students still have to pay as much as \$3,800 per year in college expenses.¹⁴

Congress has tinkered with the tax code over the years in an effort to help families better afford the costs of college. Unfortunately, these well-intentioned fixes have created a complex and sometimes contradictory tax system. Students looking to the tax code for financial assistance will find a confusing assortment of incentives and provisions.¹⁵

If students work hard and are accepted to college, they should not need a tax manual to help them figure out how to pay for it. It is time to make college aid simpler and more generous by rolling all of the higher education tax credits into one simple refundable \$3,000 College Tax Credit (CTC). This CTC would combine the HOPE Scholarship, the Lifetime Learning Credit, and the deduction for higher education into one more generous higher education benefit.

Students who attend college more than half time would be eligible for the \$3,000 tax credit for each of the first four years. This credit could be used by students attending private and public colleges or universities, graduate school or continuing education programs. Additionally, unlike current higher-education benefits, there would be no limit on the number of students per family who receive the CTC, and since it is a refundable credit, it would not be phased out for higher-income families.

On the campaign trail, Democratic presidential nominee Barack Obama has advocated for a similar plan. His American Opportunity Tax credit is a universal, fully refundable credit that would cover the first \$4,000 of college costs for all Americans.

Regardless of who wins in the fall, the next administration must make college affordability a priority. In today's global market, the vitality of our economy requires a highly educated workforce. We must stop inhibiting students from gaining the qualifications and skills they need to compete. Ensuring that every child has the economic means to attend college will not only make our economy

strong, but will fulfill our end of the bargain to ensure all children have a shot at earning a college degree.

Covering the Costs

When the new president takes the oath of office, he will be facing the largest budget deficit in U.S. history. The 2009 deficit will likely exceed \$562 billion including the total costs of the wars in Iraq and Afghanistan, and could grow even higher depending on the volatile economy and whether Washington considers further economic bailouts of struggling markets.¹⁶ Despite the daunting deficit, however, Senators Barack Obama and John McCain continue to propose ambitious plans to fix the health care system, recharge the struggling economy, and address our energy crisis – none of which will come cheap.

Therefore, if we are going to make children a priority, we need to ensure that we pay for it. We estimate that taken together, these four proposals will cost \$48.75 billion in the first year and \$492.5 billion over the next 10 years.

The investments we propose are not cheap, but they have the potential to produce long-term benefits for individual children and society as a whole. Regardless of the future benefits, we still must pay for these proposals now so that today's children don't foot the bill as adults. If our elected leaders are willing to make difficult choices among competing priorities, then we can afford them.

The Progressive Policy Institute has compiled a list of tax and budget reforms in "Return to Fiscal Responsibility II" that would save the federal government a total of \$1.88 trillion.¹⁹ Policy makers could choose from this set of offsets that would more than pay for our proposals.

With the war in Iraq, a troubled economy, and an energy crisis, the next president will have a full agenda starting on day one. However, we must insist that policies to better the lives of American children remain in the forefront. It will require federal leadership to ensure that all children who work hard have the springboard necessary to become a member of the ownership society.

Proposal	One Year Cost (in billions)	Ten Year Cost (in billions)	Description of Cost
Baby Bonds	\$3.25	\$37.5	The estimated first-year cost for Baby Bonds is \$3.25 billion with a 10-year cost of \$37.5 billion ¹⁷ since annual costs will rise as new participants are eligible for benefits. ¹⁸
Financial Literacy Curriculum	–	–	There would be no federal costs for implementing financial literacy curriculum since this is a state requirement in return for the large federal investment in Baby Bonds.
EITC Expansion	\$28	\$280	We predict that four million additional single, childless or non-custodial, low-income Americans would benefit from the expanded credit. Therefore, this particular piece of the FTC would cost \$3 billion annually. Taken in total, the entire FTC would cost an additional \$28 billion per year over the next decade.
College Tax Credit	\$17.5	\$175	Consolidating the Hope Scholarship, the Lifetime Learning Credit and the higher education deduction into one \$3,000 refundable credit will cost approximately \$175 billion over 10 years.
Total	\$48.75	\$492.5	

¹ University of Michigan (2007, August 9). Wealth Gap Is Increasing, Study Shows. *ScienceDaily*. Retrieved July 13, 2008, <http://www.sciencedaily.com/releases/2007/08/070807171936.htm>.

² “The America Saving For Personal Investment, Retirement, and Education Act: Questions and Answers.” New America Foundation Asset Building Program. http://www.assetbuilding.org/files/archive/Doc_File_1247_1.pdf

³ Crutsinger, Martin. “Personal Savings Rate Drops to a 73-Year Low.” *The Washington Post*. February 1, 2007.

⁴ “Financial Literacy Still Declining among High School Seniors, JumpStart Coalition’s 2008 Survey Shows,” News Release, JumpStart Coalition, April 9, 2008.

- ⁵The Hartford Financial Services Group, Inc., *New Survey by the Hartford Reveals financial Literacy Communication Gap Among College Students and Parents*, February 2007, <http://ir.thehartford.com/releasedetail.cfm?releaseID=237682>.
- ⁶Remarks of Ben Bernanke, chairman of the Board of Governors of the Federal Reserve System, “The Importance of Financial Education and the National JumpStart Coalition Survey,” April 9, 2008.
- ⁷“Survey of the States: Economic and Personal Finance Education in Our Nation’s Schools in 2007,” the National Council on Economic Education, <http://www.ncee.net/about/survey2007/NCEESurvey2007.pdf>.
- ⁸Visa, *Visa Back-To-School Survey Finds That Only 5% of Kids Learn Vital Life Skill of Money Management in Class*, August 2007, <http://www.practicalmoneyskills.com/english/presscenter/releases/081307.php>.
- ⁹Id.
- ¹⁰Networks Financial Institute at Indiana State University, *National K-12 Financial Literacy Qualitative & Quantitative Research*, March/April 2007, <http://www.networksfinancialinstitute.org/sitecollectiondocuments/nationalk12financialliteracystudy.pdf>.
- ¹¹Mead, Lawrence. “Toward a Mandatory Work Policy for Men.” *The Future of Children*, Vol. 17, No. 2, Fall 2007.
- ¹²Campbell, Katie McMinn and Will Marshall. “Making Work Pay: For Men Too.” Progressive Policy Institute. November 2007.
- ¹³“Trends in College Pricing.” College Board. 2007.
- ¹⁴Weinstein, Paul Jr. “Family-Friendly Tax Reform.” Progressive Policy Institute. April 2005.
- ¹⁵Ibid
- ¹⁶Taylor, Andrew, “US 2009 deficit will reach \$482 billion, record driven by sagging economy,” CNBC, July. 28, 2008, <http://www.cnbc.com/id/25886962/for/cnbc/>.
- ¹⁷Cramer, Reid, “The America Saving for Personal Investment, Retirement, and Education Act: Questions and Answers,” October 3, 2007, [http://www.newamerica.net/files/ASPIRE%20Frequently%20Asked%20Questions%20\(PDF,%208pp.\).pdf](http://www.newamerica.net/files/ASPIRE%20Frequently%20Asked%20Questions%20(PDF,%208pp.).pdf)
- ¹⁸We used the estimated cost of the ASPIRE Act to predict the 10-year cost of our Baby Bonds proposal. However, our proposal will be more expensive after this 10-year period as the federal government begins making the second deposit when the first beneficiaries turn 10 years old.
- ¹⁹Weinstein, Jr., Paul and Katie McMinn Campbell, “Return to Fiscal Responsibility II,” April 2007, http://www.ppionline.org/documents/Fiscal_Responsibility_04302007.pdf.