WEALTH AND WELL-BEING
OWNERSHIP AND OPPORTUNITY

NEW DIRECTIONS IN SOCIAL POLICY FOR CANADA

EDITED BY JENNIFER ROBSON & PETER NARES WITH A PREFACE BY KEITH BANTING

WEALTH AND WELL-BEING / OWNERSHIP AND OPPORTUNITY:

NEW DIRECTIONS IN SOCIAL POLICY FOR CANADA

Edited by Jennifer Robson and Peter Nares

SEDI

With a preface by Keith Banting

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Published in 2006 in Canada by
Social And Enterprise Development Innovations (SEDI)
1110 Finch Avenue West, Suite 406
North York, ON
M3J 2T2
Tel: 416-665-2828

ISBN: 0-9731534-1-5
Additional copies may be ordered on-line at www.sedi.org

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Acknowledgements

SEDI has never before attempted so ambitious a publication as this book. What began as a modest project to stimulate interest in asset-building evolved into the first major Canadian book on asset-based policy. SEDI has been grateful for the support we have received from several sources to make this project possible.

First we'd like to acknowledge the contributions of the authors in this volume. They are among the most esteemed and thoughtful in their fields and we sincerely value the time and effort they have given to this project. We firmly believe that their writings have a major and lasting impact on the dialogue surrounding asset-based policy in Canada and abroad.

SEDI must also acknowledge the support we received from our patient translators at Amero Communications and our copy-editing support from Kathryn Verhulst. We'd also like to thank Ken Battle, Peter Hicks, Michael Sherraden and Steve Pomeroy for reviewing and commenting on earlier drafts of the chapters. We are also grateful for the excellent guidance we received from members of our Policy Advisory Group – Liz Mulholland, Ken Battle, Keith Banting, Gavin Kelly, Janice Elliot, Hugh Mackenzie, Susan Pigott, Anne Lamont, John Stapleton, Naresh Singh and Frank Weldon.

This publication would not have been possible without financial support from Human Resources and Skills Development Canada and the Translation Assistance Program of Canadian Heritage.

Preface

Albert Einstein is reputed to have once observed that "everything has changed except our ideas." His lament undoubtedly captures the slow pace of change in our ideas, and the way in which our intellectual frameworks can fall behind a rapidly changing world. Yet every now and then, new ideas do penetrate our collective debates, reframing the way we think about social problems and opening up new choices. The proposition that asset-building policies can be an important part of an anti-poverty strategy is such an idea.

This book illuminates the nature and potential of this new approach to poverty in the Canadian context. The chapters that follow examine the broad issues in diverse ways, and are essential reading for anyone interested in the social policy in this country.

Asset-building policies are hardly new. Indeed, they are as old as the country itself. Canadian governments have repeatedly introduced measures to enhance the assets of citizens, as have governments in other contemporary democracies. However, asset-building has too often favoured the affluent, reinforcing rather than mitigating the stunningly unequal distribution of wealth in this country. The key insight that animates this book is that asset-building programs represent an instrument that can be turned to progressive ends as well.

Interest in asset-building among the poor has been growing slowly in a number of countries, especially the United Kingdom, the United States and Canada. The interest has undoubtedly reflected a broader shift in emphasis from income transfers to investment approaches to welfare, and advocacy of a "social investment state" by authors on the political left and right. A variety of pilot projects have been launched, including the Savings Gateway in the UK, *learn$ave* in Canada and the American Dream Demonstration in the US. However, the idea is also edging into the fringes of social policy itself, as evidenced by the adoption of the Child Trust Funds in the UK, the Canada Learning Bond, and changes in the Canada Education Savings Grant.

For all the apparent momentum, however, asset-building as an anti-poverty instrument is still a fledgling idea. Although championed by enthusiastic supporters, it has yet to become part of conventional wisdom in social policy circles. Indeed, the idea is still greeted with skepticism in some quarters, and advocates need to respond to important questions before asset-building can settle into the mainstream of our collective debates about poverty.

For example, what is the answer to those who argue that the poor really need help to consume in the present rather than save for the future? Surely, skeptics insist, the most pressing needs facing the poor are palpably immediate. They need an adequate income now, decent housing now, adequate clothing now,

and nourishing diets now. Surely, the priorities for investing in poor children should be the promotion of healthy pregnancies, the provision of decent child care and learning opportunities early in life, and real support at each step up the educational ladder. With such an imposing list of immediate needs, why should we ask the poor to save for the future? With so many worthy demands on the public purse, why should we invest scarce redistributive dollars in efforts to encourage them to do so?

Worse, some skeptics sense a darker side to the growing interest in asset-building instruments. One fear is that they will displace strong income-support programs. Another fear is that the enthusiasm for assets is part of a larger effort to shift social programs towards individual accounts, a precursor to the eventual privatization of social security and the erosion of the redistributive potential of the welfare state, to the long-term detriment of the poor.

The chapters in this book provide important responses to such reservations, advancing a range of compelling rationales for asset-building policies as part of a comprehensive anti-poverty strategy. Some of the contributors emphasize the imbalanced nature of current asset-building policies, which represent some of the most regressive policy instruments known to man and woman. Helping the poor build assets is a means of redressing this balance, injecting a stronger element of equity into an expansive and expanding area of public policy.

Other contributors see asset-building policies as increasing the autonomy of poor people, increasing their resilience in the face of adverse events, reducing a depressing dependence on welfare agencies, and giving them a modicum of the choice and flexibility more affluent Canadians take for granted. For these advocates, asset-building policies put power in the hands of the poor, enhancing their independence and their choices. They are, in effect, instruments of human dignity.

For still other contributors, the promise of asset-building approaches is to be found in their behavioral effects. The possession of assets, these champions emphasize, can change the hopes and dreams of the poor. In a much-quoted phrase, Sherraden argues that "while income feeds peoples' stomachs, assets change their minds." Asset-building policies extend peoples' time horizon, and are associated with a wide range of positive developmental outcomes, such as greater educational attainment by children from poor families. In effect, advocates argue, asset-building policies unlock aspiration, helping people to see pathways to greater economic independence through strategic life choices.

Cumulatively, the contributions to this book develop a compelling case. The debate now is less about the intrinsic value of the asset-based approach, and more about its appropriate role in the panoply of social programs. What are

the strengths and limitations of asset-building programs? How can they complement more traditional income transfers and social services? How can we resolve the points of tension, of which the asset-stripping effect of social assistance is simply the most obvious? In short, what works? Only when we have answers to these questions will we be able to assess the larger potential of asset-building programs. Are asset-building policies simply a minor addition to our social-policy tool-kit? Or do they represent part of a much wider historical shift, a harbinger of a different future for social policy?

SEDI is to be congratulated for helping to inject an important new idea into our debates. The people at SEDI are disciplined champions of asset-based approaches, committed to rigorous experimentation to assess what works. But SEDI and the contributors to this book are also providing a broader intellectual leadership by helping to frame the larger debate about the role of assets in social policy. The book puts the experiments and the data in a larger context, illuminating the potential of asset-building in the lives of the poor. It is a compelling agenda.

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The Politics of Aspiration: Creating Inclusive Asset-Building Policies in the U.S.

Ray Boshara, New America Foundation
Dr. Reid Cramer, New America Foundation
Dr. Michael Sherraden, Center of Social Development

Ray Boshara is Director of the Asset-Building Program at the New America Foundation in Washington, D.C., Reid Cramer is Research Director of the Asset-Building Program at the New America Foundation in Washington, D.C., and Michael Sherraden is the Director of the Center for Social Development and the Benjamin E. Youngdahl Professor of Social Development at Washington University in St. Louis.

Note: This paper incorporates some previously published work, such as Boshara (2003), Federal Policy and Asset-Building, Social Development Issues 25(1&2), 130-141; Boshara, Cramer, and Parrish (2005), Policy Options for Achieving an Ownership Society for All Americans. Washington, D.C.: New America Foundation, Cramer (2004), Net Worth at Birth. Washington, D.C.: New America Foundation; and Sherraden (2005), Inclusion in Asset-Building, testimony before Subcommittee on Social Security and Family Policy, Senate Committee on Finance, April 28, 2005.

The idea that low-income persons should be assisted in building assets has made remarkable progress in policy discussions within the United States during the last decade. While anti-poverty efforts have traditionally focused on providing cash and cash-like support to facilitate consumption, policymakers have increasingly considered the implementation of alternative strategies that encourage savings and asset development as a means of promoting economic security.

The concept of asset-building has made in-roads in influencing policy efforts for several reasons. First, policymakers have easily grasped both the distinction between income and assets, and the importance of assets. Second, the idea debuted and evolved at a time when the country and its policymakers were highly receptive to new ways to address poverty and transform the traditional welfare programs. Third, research findings increasingly demonstrated that poor people could save, which overcame the principal doubt as to whether asset-building

could work.[1] Today, while the "income paradigm" still dominates anti-poverty policy and analysis, the "assets paradigm" has made its mark and is now seriously considered in policymaking circles at all levels. In fact, President Bush's call to foster an "Ownership Society," where all Americans are given the opportunity to save and build wealth, is a rhetorical rephrasing of a core objective of the asset-building field.

Judging from his proposals to date, President Bush's version of the ownership society means encouraging more Americans to save in tax-benefited accounts designed for retirement, college, health care expenses, and homeownership. Americans who do this, the President believes, will be better able to exercise more personal responsibility and control their economic futures. Although the goals of promoting ownership should not displace social insurance and other programs aimed at struggling but aspiring Americans, the claim that families benefit from being able to build up assets is compelling. The underlying assumption that ownership creates stakeholders and expanding opportunities for people to accumulate productive assets has broad social and economic benefits.

While we shouldn't penalize those who've done well — in fact, we should continue to reward hard work, creativity and initiative — there's little for our nation to gain by further concentrating on wealth. And there is an enormous amount to be gained by broadening it. Wealth begets wealth; the real dilemma is figuring out how to create it in the first place. To do so, we must identify a set of policy proposals that can assist the millions of Americans who are without significant asset holdings to begin the process of savings and asset-building.

I. Public Policy, Wealth and Assets

Many Americans have already experienced the benefits of building assets. By almost any standard, the United States has been particularly successful at generating wealth, and it is important to recognize that public policy has repeatedly been deployed to support asset-building and wealth creation activities. In this sense, asset-based policy is not new.

Historic initiatives, such as the Homestead Act of 1862, The GI Bill of 1944, and the creation of the Federal Housing Administration (FHA) in 1934, have expanded the ownership of capital and provided access to key elements of wealth creation, producing tangible results. By providing land to those that would go west, stake a claim, and work it for five years, the Homestead Act provided an opportunity to build wealth by developing property. Of the million and a half people that successfully took the government up on its offer, passing this wealth and property on to the next generation proved to be one of the

[1] Schreiner et al., 2001.

Act's most enduring legacies.[2] The GI Bill offered veterans grants to pay for training and higher education, loans for setting up new businesses, and mortgages to purchase homes. Through this law, some $14.5 billion was spent by the federal government between 1944 and 1956 benefiting almost 8 million veterans and transforming the system of higher education.[3] A congressional report has estimated that the GI Bill generated returns of up to seven dollars for every dollar invested, an impressive performance by any benchmark.[4] The FHA was created to help many Americans purchase a home. Through its mortgage insurance and other financing products, FHA has played a role in the country's rising homeownership rate.

The role of public policy in encouraging asset-building continues to this day; it is a hallmark of the prevailing policy framework that identifies wealth creation as a central policy objective. Today, many of the policy levers currently used to achieve these ends are promoted through the tax code, often through tax-preferred account systems. Tax expenditure programs, in the form of tax deductions, tax credits, preferential tax rates, tax deferrals, or income exclusions, are used to subsidize a broad range of asset-building activities. As calculated by the government, the value of these asset-building tax expenditure programs exceeds $365 billion on an annual basis, and thus deserves scrutiny.[5]

While some tax expenditure programs may subsidize worthy activities and generate sizeable social and economic returns, they are not accessible to a large number of citizens that would benefit from them the most. Many lower-income households do not have large enough tax liabilities to take advantage of these tax breaks. All told, the federal government offers over $156 billion a year in support of homeownership and over $117 billion to subsidize retirement savings, but not surprisingly, 90 per cent of these benefits go to households with incomes above $50,000 a year.[6]

Furthermore, the costs of these asset-based policies continue to grow rapidly, reinforcing a pronounced shift in social policy. In the United States, almost all individual account policies have been implemented since 1974, and there are more variations of these all the time. Indeed, countries around the world are increasingly turning to individual asset accounts to achieve social policy objectives.[7] This is especially true in retirement policy. It is rare to see a new retirement policy based on principles of social insurance, and common to see a new retirement policy based on principles of defined contribution in the

[2] Williams (2003) estimates that up to one-quarter of the adults in the U.S. potentially has ancestors that can trace their legacy of asset ownership to the Homestead Act.
[3] Skocpol (1996) cites the statistics that only 9 out of 100 young people attended college in 1939, but the rate doubled by 1947.
[4] Subcommittee on Education and Health of the Joint Economic Committee (1988).
[5] Cramer et al., 2005.
[6] U.S. Congress Joint Committee on Taxation (2003). Estimate of Federal Tax Expenditures for Fiscal Years 2004-2008.
[7] OECD (2003); World Economic Forum (2003); USAID (2004).

form of individual accounts. It is quite possible that asset accounts will become a primary social policy instrument during the 21st Century.

II. Exclusionary Policies

Unfortunately, federal policy has historically discouraged asset-building among households with fewer resources. For a number of reasons the poor do not have the same opportunities and subsidies for asset accumulation. Foremost, families with fewer resources are less likely to own homes, have investments, or have retirement accounts, where most asset-based policies are targeted. More fundamentally, their limited tax liability removes any incentive that holding these assets may provide. Not only has the structure of tax expenditure programs denied benefits to poorer households but also anti-poverty policy efforts have been, and remain, focused on facilitating income maintenance and short-term consumption. In this spirit, many federal programs impose asset limits as an element of means-testing program eligibility. The unintended consequence of this approach is that it creates a disincentive to engage in the types of activities that can help a family move up and out of poverty, namely savings and asset-building.[8]

Consequently, the benefits of ownership, which have made a difference for many families, have not been experienced by all. Millions of people live in households with few or no assets. One-quarter of white children and half of non-white children grow up in households without any significant levels of savings or resources available for investment.[9] This represents an important dimension to the problem of inequality, which is usually discussed in terms of income. According to the most recent Survey of Consumer Finances, the top 10 per cent of U.S. households ranked by income earn 44 per cent of the nation's income but own 57 per cent of total family net worth.[10] In contrast, the bottom 60 per cent earn 22 per cent of the nation's income and own less than 17 per cent of the nation's wealth.[11] Clearly, wealth inequality is more severe than income inequality.

The pattern of wealth distribution is instructive because it reflects inequalities that have formed over generations. More pressing from a policy perspective is the plight of those families that are asset poor, possessing insufficient resources to sustain a household through an extended period of economic disruption.[12] Research on asset poverty has focused on developing measures of economic vulnerability that can provide an accounting of households without a stock of resources to survive a loss of income.[13] Haveman and Wolff have estimated that the number of asset poor households with

[8] Powers (1998); Ziliak (1999).
[9] Shapiro (2002).
[10] Aizcorbe, Kennickell, and Moore. (2003).
[11] Aizcorbe, Kennickell, and Moore. (2003).
[12] Oliver and Shapiro (1997) first proposed a definition for asset poverty in their 1997 book, Black Wealth/White Wealth. They defined "resource deficient" households as those without enough net financial worth reserves to survive three months at the poverty line.
[13] Haveman and Wolff (2000) have built upon this approach and used existing data sources to estimate a series of asset poverty measures.

precarious resource shortages greatly exceeds the official poverty rate, and they conclude that this disparity has grown over time. In 1998, one out of eight Americans were officially classified as poor, 34.3 million people or 12.7 per cent of households, but the ranks of the asset poor included one of every four, 69.1 million people or 25.5 per cent of households.[14] And that disparity has grown. Between 1983 and 1998, income poverty declined about 16 per cent, while asset poverty rose 14 per cent.[15]

In effect, the United States and many other countries have a dual policy, consisting of asset-building subsidies for the non-poor, and asset-building disincentives for the poor. This dual policy is both unfair and counterproductive. If asset-building is how individuals, families, and communities develop, then a sensible public policy would promote asset-building for all, because this would have the greatest payoff in social and economic development.

III. Asset-Building Policy for the Poor

Income (as a proxy for consumption) has been the standard measure of poverty in social policy. To be sure, income and consumption are essential, but they do not improve long-term conditions. Development of families and communities (that is, reaching potential) occurs through asset accumulation and investment.[16] The dearth of asset-building opportunities available for the poor combined with saving disincentives created much of the impetus for *Assets and the Poor* (1991).[17] In this book Sherraden introduced the idea of creating Individual Development Accounts (IDAs), matched savings accounts, in order to help households with fewer resources build up savings to be used to eventually make asset purchases.

Since asset-building and IDAs were first proposed, there has been modest but remarkable progress in the policy arena. IDAs were able to make the transition from an academic idea to a policy vehicle after several prominent, national foundations teamed with community-based organizations to model the proposal. Once demonstration projects produced evidence that the poor would contribute to IDAs, federal policymakers expanded IDAs in two ways. First, in 1998, Congress passed the Assets for Independence Act, which authorized a five-year, $125 million IDA demonstration project, of which nearly $120 million has been appropriated. Second, in 1999, the federal Office of Refugee Resettlement established an IDA program for refugees, which has thus far disbursed $66 million in grants. Additional legislation that would further expand IDAs is now pending in Congress.[18] In the last congressional session, the Senate passed a bill modeled on a proposal by President Bush to significantly expand the number of IDAs available. This proposal would provide eligible account holders with a dollar-for-dollar match of up to

[14] Haveman and Wolff (2000).
[15] Haveman and Wolff (2000).
[16] Sherraden (1991).
[17] Sherraden (1991).
[18] Cramer et al., (2005).

$500 of savings each year by offering a tax credit to the financial institutions which provided the match. The IDA tax credit has yet to become law but remains under consideration by policymakers across the political spectrum.

Today, there are well over 300 IDA programs spread across the nation that support at least 15,000 accountholders; the largest source of funding for IDAs is federal grants, followed by financial institutions and private foundations.[19]

While there have been many lessons learned and a rich collection of research studies has emerged from the IDA field to date, two primary conclusions are worth highlighting that should be used to inform future policy efforts.

The first is that saving and asset accumulation are shaped by institutions, not merely individual preferences. Research on IDAs has identified an array of institutional factors that may affect saving and asset accumulation. These include (1) access, (2) expectations, (3) information, (4) incentives, (5) facilitation, (6) restrictions, and (7) security.[20] These constructs appear to be useful in explaining saving outcomes, and they have direct relevance for policy. For example, IDA research has shown that, controlling for many other factors, the monthly saving target (expectation) is associated with a 40-to-50-cent increase in average saving for every dollar the target is increased—a large effect. Also, financial education, (information) up to about 10 hours, is associated with increased saving performance, but after 10 hours there appears to be no effect. Because financial education is expensive, this is important to know. Further, it was observed that increasing the saving match (incentive) and providing for direct deposit (facilitation) keeps people saving in the IDA program; however, among the "savers" it does not increase amounts saved.[21]

The second conclusion is that assets have multiple positive effects, not merely deferred consumption. The value of assets is based not only on the economic security they provide but also in how they enable people to think about the future, make productive investments, and exert a stake in the broader society. These are often things that income alone cannot provide. To take one example, it may be that homeownership creates not just financial equity in housing, but also more stable and committed citizens. Looking at the impact of wealth on child developmental outcomes, Williams (2003) finds that, controlling for many other factors, parental wealth is positively associated with cognitive development, physical health, and socio-emotional behavior of children. This supports the

[19] Boshara (2005).

[20] Beverly and Sherraden (1999); Sherraden, et al. (2003); Sherraden and Barr (2005).

[21] Schreiner et al. (2002); Schreiner and Sherraden (2005). These findings on IDAs are based on account monitoring research in the "American Dream Demonstration" (ADD). ADD was implemented by the Corporation for Enterprise Development (now CFED). ADD research at CSD was funded by the Ford, Charles Stewart Mott, F.B. Heron, and MetLife Foundations. Duflo et. al (2005) offers additional support for the importance of incentives derived from an experiment carried out by H&R Block where tax filers in predominately low- and middle-income neighborhoods saved a higher rates when offered a match to their IRA contributions.

proposition of assets leading to better well-being of offspring—in this case, above and beyond economic well-being. She also finds that wealth seems to be a better predictor of well-being as children grow older, while income is a better predictor when they are younger. This last finding may suggest that "asset effects" are a long-term phenomenon, perhaps not easily measured in the short term.

In a study of assets, expectations, and educational performance, Zhan and Sherraden (2003) find that the assets of low-income, single mothers are positively associated with children's educational attainment. These results occur in part through expectations of the mother – assets are associated with higher educational expectations, which are, in turn, associated with higher educational attainment. This study supports a cognitive theory of "asset effects", wherein assets may change thinking, which in turn may change behavioral outcomes.

In a review of the literature on the effect of asset holdings, Scanlon and Page-Adams found that much of the research focused on the impacts of homeownership, but a number of other studies focused on assets in the form of savings, net worth, or small business ownership.[22] Despite the variety of asset measures used in this literature, they concluded that, together, financial and property assets appear to have positive effects on economic security, household stability, physical health, educational attainment, and civic involvement.[23] This conclusion has also been supported by work in the United Kingdom which examined that effect of assets on life chances and found a "persistent effect of assets on a number of outcomes, which were impervious to a wide range of controls," and "the assets effect was sustained, with employment, psychological health, belief in the political system and values, all appearing to be enhanced by assets."[24] Thus, the body of evidence that links asset holding with positive outcomes is significant, growing, and has been shown to work for both the poor and non-poor alike, providing a solid rationale for inclusive asset-based policy.

IV. Building an Inclusive Account System

The goal of building an ownership society to us appears clear: maximize the number of families capable of building assets and securing their future. Current public policy provides us many tools, but it is imperative that these tools be employed with three overriding principles in mind. First, policies should create opportunity by broadening access to benefits; second, all Americans should be able to participate; and third, benefits should be commensurate and not skewed towards those who already own a lot. Given the distribution of current resources today, the starting point of our nation's savings and ownership policies has to be the majority of Americans who are asset-poor.

[22] Scanlon and Page-Adams (2001).
[23] Scanlon and Page-Adams (2001).
[24] Bynner and Despotidou (2001).

This means that it is paramount to promote asset-based policy that focuses on *inclusion*. Developing more inclusive asset-building policies is a prerequisite in offering each American the opportunity to increase their security. We expect that an inclusive system will be universal, progressive, life-long, and commensurate. Universality ensures that the structures are in place to reach everyone; progressivity offers greater subsidies for families with less to help equalize access to benefits; asset-based policy must be flexible enough to work across the life course, from birth to death; and benefits will need to be commensurate to achieve adequate levels of asset accumulation to make it meaningful. Facilitating the creation of this type of policy system, one that serves as a platform for lifelong savings and asset-building, is a major policy challenge, especially for households with fewer resources, but we believe that the capacity to construct just such a system is available to the public sector.

From a technical standpoint, information technology already allows for the account management to occur. The Social Security system and the Thrift Savings Plan are considered by many experts to be well-run operations that reflect the potential for government to fill a number of central functions in an account system, including the management of account balances and securing investments. The development of information age financial services will continue to be a key to the development of an inclusive asset-based policy system by increasing feasibility and reducing risks. Yet it is not too far fetched to envision a day when everyone will own an account, with instantaneous and secure investment options, in any of the financial markets in the world. This technical capacity, although impressive, will not replace the need for political leadership. We believe that the creation of an inclusive asset-based policy will require visionary, political guidance, raising asset-building to the level of a long-term national project. This project would be, in the most basic sense, the creation of a universal system of accounts, and an infrastructure to promote asset accumulation.

Naturally, any policies that build significant wealth for millions of Americans could cost billions of dollars — and it would be money well spent. The Homestead Act and the GI Bill, both rightly cited by the President at his inauguration as great ownership society programs, generated huge financial returns and remain the foundation of our middle class. The profusion of individual accounts over the last three decades that represent the shift toward asset-based policy has carried a big price tag, but the distribution of benefits from these accounts, as delivered through the tax code, has been considerably more regressive than the proceeding social insurance and means-tested transfer programs developed after the New Deal.

It is very possible that the central component of an inclusive policy structure is an account-based system that is simple, widely available, and portable. Sherraden (1997) has observed that domestic policy goals are increasingly achieved through individual asset accounts instead of large, nation-bound, categorical programs. It is possible that one day all the existing individual asset account structures — IRAs, 401(k)s, and IDAs — are likely to merge into one system. Anticipating that, and recognizing that most of these accounts are currently delivered through the tax system, which excludes the majority of low-income

persons, it is important to think now about how this evolving system can include families with fewer resources and provide them with equivalent incentives (through matches and refundable tax credits) to participate.

In contrast to traditional income supports, the level of investments in these accounts is not substitute for social protection. Rather they are intended to promote social and economic development at the household level, at the same time as they advance fiscal stability, savings, and investment at the macroeconomic level. Looking to the future, we believe asset accounts are ideally suited to the 21st Century economy because of their greater individual control, choice, and portability, even across national boundaries.

V. Children's Savings Accounts

One of the most promising ways to achieve a universal, progressive asset-building system over time would be to provide each generation of children a restricted, start-in-life asset account at birth, an idea first proposed by Michael Sherraden and, separately, by former IRS Commissioner Fred Goldberg.[25] This "accounts-at-birth" approach represents a social investment in every child at the same time as it gives the child a stake in broader society. Each child will grow up knowing they will have a modest pool of resources at their disposal to help them succeed. These accounts would establish a universal platform and infrastructure to facilitate future savings and lifelong asset accumulation. Beyond the individual benefits, investing in children could have large multiplier effects, especially when it is linked to increasing social engagement and expanding opportunity. In the long run, building wealth through children's savings accounts and other means has the potential to help break the vicious cycle of intergenerational poverty.

Children's accounts can also be a means of ensuring retirement security because they will offer a way of building assets that can be strategically employed in times of need or productively invested to generate future returns. The nature of assets is that they work as building blocks over a lifetime, serving as bridges connecting different stages of the life cycle — just as investing in one's human capital by going to college generates opportunities to increase income or buying a home serves as a forced savings plan that can be tapped at retirement. The path of security does not start at retirement but must be treaded throughout life.

Different versions of children's savings accounts have been proposed by Members of Congress; most, however, are not progressive and are focused on building only retirement assets (most notably former Senator Bob Kerrey's "KidSave" proposal, which recently has received renewed attention). A great model for the U.S. is the newly established Child Trust Fund in the U.K. Also, the recently launched, privately-funded SEED Initiative, funded by the Ford Foundation and Charles Stewart Mott Foundation, among others, is designed

[25] See Cramer (2004) for details.

to model, test and inform how a universal children's savings account policy might be structured in the U.S. It is already providing valuable insights on policy design.[26]

The recent introduction of the America Saving for Personal Investment, Retirement, and Education Act (ASPIRE Act) by a strong bi-partisan coalition of legislators in both the House and the Senate offers a blueprint of what a universal accounts-at-birth system might look like. Sponsored in the Senate by Senators Rick Santorum (R-PA) Jon Corzine (D-NJ), Charles Schumer (D-NY), and Jim DeMint (R-SC) and in the House by Representatives Harold Ford, Jr. (D-TN), Patrick Kennedy (D-RI), and Phil English (R-PA), the ASPIRE Act would provide every child with an account at birth — called a KIDS Account — that would be endowed with $500. The account would be supported with progressive, targeted savings incentives until age 18, at which point it could be used for going to college, buying a home, or building up a nest-egg for retirement.[27]

One of its novel features is that accountholders in eligible families will be given the opportunity to earn additional matching funds for amounts saved in the account. The Senate bill provides a dollar-for-dollar match of the first $500 contributed and the House bill provides a dollar-for-dollar match for the first $1,000 contributed. Access to account funds will be restricted until the accountholder reaches the age of 18, and parents or legal guardians would control investment decisions until that time. The bill will establish a national fund within the U.S. Treasury, similar in structure to the Thrift Savings Plan, which would provide a life-long savings platform and would be responsible for administering the accounts, holding all deposits, and managing investments.

The policy rationale supporting the children's savings accounts proposal is to provide a foundation for a broad account-based asset-building system. Governed by a uniform set of rules and administrative structures that would serve as the "plumbing" to support a national system of accounts, and ensure universally accessibility for each and every child, these accounts will help integrate the currently disparate account-based vehicles at the same time as they guarantee everybody is included in the system.

Beyond the political appeal of children, the potential of children's savings accounts as a long-term pathway to inclusive asset-building is significant for a number of reasons. First, the very nature of asset-building is long-term, so investing when children are born provides the most time for assets to grow, and the dynamics of accumulation will provide their own lessons. Second, the experience of asset holding may be transformative; it is likely that having an account from birth will create positive psychological and behavioral effects for both parents and children. Beyond the potential economic effects, children's accounts could serve as a means of providing financial education, a skill set which will be in need of augmentation if the ownership of equities and investments is to become further

[26] SEED is a demonstration and research partnership that includes CFED, Center for Social Development, CFED, Institute for Financial Security at the Aspen Institute, the New America Foundation, and the University of Kansas School of Social Welfare.

[27] The bill numbers are S. 868 and H.R. 1767. For more information, see www.AspireAct.org.

democratized. Third, saving for education and homeownership, in addition to retirement, can be productive investments that generate increased security and wealth. Furthermore, implementing children's savings accounts is consistent with contemporary approaches to social policy that are increasingly employing account-based support mechanism geared toward asset accumulation.

Of course, a children's savings account system is not ultimately about children. After several generations of children born with an account, everyone would have an account throughout life. Thinking about this in terms of institutions and behavioral economics, there is much current research about getting the "defaults" right, that is, putting people in a saving plan that is appropriate for where they are in the life cycle, unless they make a choice *not* to participate and decide to "opt-out." We might think of a universal children's savings account system as the ultimate "default" — every child born would automatically get a birth certificate and an asset-building account.

VI. Public Sector Role

The United States has a well-developed financial services sector that is as efficient, transparent, and secure as any in the world. These markets are a huge national and global resource. In any savings policy, it is preferable to use private markets for investments. This said, however, there is a necessary role for the public sector in an inclusive savings policy. Although sometimes called "private", or "privatized" asset-building in the form of defined contribution, individual accounts are in fact defined and regulated by government, often with large public subsidies. In this fundamental way, they are *public* accounts that are governed by public policies.

Thus, there is a critical, central role for the public sector. Large-scale, inclusive asset-building cannot occur through private corporations or non-profit organizations; government action will be required to establish the institutional framework that brings everyone into the system, keeps costs low, provide legal protections and regulation, and allocate resources fairly. It seems logical that the public sector will be called upon to support a financial infrastructure that can take deposits and hold accounts as well as oversee the investment risk for the pool of account resources. The Bush Administration has done just that in their proposals to create personal Social Security accounts.

Furthermore, the Bush Administration has promoted the expansion of an account-based approach with a set of far-reaching savings proposals. In its fiscal year 2004 budget, the Bush Administration first proposed creating three new tax-preferred accounts, to be called Lifetime Savings Accounts (LSAs), Retirement Savings Accounts (RSAs), and Employer Savings Accounts (ERSAs).[28] These accounts are designed to substantially expand opportunities for tax-sheltered savings and consolidate rules for tax-advantaged saving.

[28] See Burman, Gale, and Orszag (2003) for an in-depth analysis of the Bush Administrations proposal to create LSAs, RSAs, and ERSAs.

Every individual could set up a LSA and a RSA; contributions to each account would not be tax-deductible and would be capped at $5,000. Because these accounts would have no limits on household income and substantially higher contribution limits than current Individual Retirement Accounts (IRAs), the Administration's proposal would provide a disproportionate share of benefits for higher income households, particularly those with incomes above existing limits on IRAs.

Noting the substantial tax sheltering opportunities created by the new accounts, some analysts have questioned whether the proposals would even raise the private saving rate because the transfer of existing taxable assets into LSAs would reduce taxes but not increase private saving.[29] The opportunity to shelter income is a less valuable incentive to lower income households even though they still would benefit from savings incentives. These proposals would be strengthened if they were revised to offer substantial matching deposits to the asset-poor. Still, one of the most notable features of the Bush proposal is the attempt to unify many of the diverse tax-preferred accounts into a more simplified account-based system. This represents an important trend that any proposal for asset-building savings accounts should consider.

If saving and asset-building are to be inclusive, the policy must be in the form of a *savings plan*, such as a 401(k) or 403(b) plan, the Federal Thrift Savings Plan, or a College Savings (529) plan. Such plans are, in fact, how most Americans are able to save. Savings plans have important features that lend themselves to *inclusion*. These features include centralized and efficient accounting, outreach and education, a limited number of low-cost investment options, low initial and on-going deposit requirements, automatic deposits, and opportunities to establish other practices and "defaults" that increase saving performance. Recognizing the importance of a plan structure, President Bush, when discussing individual accounts and Social Security in his 2005 State of the Union Address, endorsed such an approach. Leaving aside the merits of his proposal, we think he was wise to call for a savings plan, characterized by a few simple investment options, very low costs, incentives for those with low-incomes, and basic protections that are possible only within a plan structure.

The Administration's rhetorical calls to create an ownership society will create an ongoing opportunity to focus on policy proposals that help families, and particularly lower-income families, build savings and assets. Alternative proposals, such as the ASPIRE Act, may receive consideration in these debates as they offer a means of facilitating large-scale savings activity through a system of private, portable, and flexible accounts. Regardless of one's view of Social Security reform proposal, it appears that these ideas could be supported by a broad range of policymakers.

[29] Burman, Gale, and Orszag (2003).

Conclusion

The obstacles in building a universal account-based system are significant, but they certainly can be addressed through the process of program design and implementation. Constructing a system of accounts that is workable and effective is achievable; the greater hurdle is gaining sufficient political support to shepherd the proposal through the legislative process. This may ultimately depend on policymakers accepting the premise that inclusive asset building policies are a means to promote social and economic development. These policy goals should be distinguished from other anti-poverty objectives because, at the core, asset-based policy is intended to enable individuals to exert greater control over their lives and expand their capacity to take advantage of the diverse opportunities offered by American society. Any large-scale asset-based policy effort should complement, rather than replace, existing policies that provide social insurance.

The most important contribution to date is that saving and asset accumulation by the poor, which was seldom discussed 15 years ago, is today a mainstream idea in the United States, and political support is bipartisan. Both Republicans and Democrats now freely use the language of "asset-building," "asset-based policy," "stakeholding," and "ownership."

If properly designed as an inclusive and low-cost savings plan, an inclusive asset-based policy would be a large-scale public good – all citizens could benefit. The policy could drive asset accumulation in households, spur economic development, and create more engaged citizens for many decades into the future. This is not farfetched. A transition to asset-based policy is already occurring and will likely continue. The major challenge is to have the vision and commitment to include everyone, and the policy wisdom to use a savings plan structure to do so.

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Challenges for Asset-Building in the UK

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Abstract

After fast progress, a second wave of asset-building policies is needed in the UK. This next wave must be more active, by first putting to work the policy tools that have been recently introduced and, in a wider sense, by extending its boundaries to a broader range of people and assets. The second wave must also be built upon a deeper consensus.

Asset-building policy in the UK is nothing if not fast-moving. In a few short years, Child Trust Funds have been pushed from the dusty pages of political philosophy, to the comment pages of the *Financial Times*, and to the highest levels of government. Every child born since September 2002 will now be eligible for their own account, topped up at birth and age seven with a government endowment of £250 ($590 CAD[1]), or £500 ($1,185 CAD) for the poorest 40 per cent. Every child will soon be able to learn from the investments and growth in their own account; every parent will have an easy way to save for their child; and every 18 year old will start adulthood with a modest level of capital.

In addition to the Child Trust Fund, the Savings Gateway pilots gave government matches of 1:1 for the savings of the poor. Participants could save up to £25 per month, to a maximum of £375 ($890 CAD) over 18 months, with no restrictions on how the asset was used at maturity. Preliminary findings indicate that the "right" people were recruited for these pilots – compared to the eligible population participants were poorer, more socially disadvantaged (more likely, for example, to be single mothers or unemployed), and less financially engaged (a quarter did not have a current account).

On another front, the pilots and the Trust Fund have been complemented with a series of initiatives on financial inclusion, led by the Treasury. Basic Bank Accounts are now offered by all major high-street banks, and this has allowed government welfare payments to be paid directly into accounts to promote financial inclusion.

In spite of all the activity, however, it appears that laurels quickly wither and it has become increasingly clear that achieving ownership for all in Britain requires a new wave of asset-building policies – a second push to extend the benefits of asset ownership to new sections of the population, and in new ways.

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[1] Exchange rates correct at 1/3/05

The rest of this chapter lays out the three main challenges that asset-building in Britain must now overcome. As section one explains, the first challenge for the next wave of policies is to be *more active*. New tools have been introduced, but tools are useless if they are not used. Child Trust Funds must be built upon, the Savings Gateway must be rolled out, and Basic Bank Accounts must be available and attractive to all who need them. The asset-building agenda next needs to be *wider*. Section two suggests the need to extend the agenda's boundaries to a wider range of people, and to a wider range of assets, especially housing. Doing so will require us to develop policies that are more focused and more flexible. Finally, the consensus around the need for asset-building must be *deeper*. Although the support for Child Trust Funds was broad, encompassing both government and the main opposition party, asset-building more generally has only shallow roots in policy thinking. Section three outlines the two most important constituencies: a section of the left that believes asset-based welfare could undermine European welfare states; and purist micro-economists, who must be convinced that it is not an inefficient distortion, but rather fully justifiable within conventional frameworks.

I. Use the Tools: CTFs, Savings Gateway and Financial Capability

Recent policy innovations – Child Trust Funds, Savings Gateway, Basic Bank Accounts – have the potential to make a very positive difference to people's lives. To make sure that this potential is realized, the challenges now lie in making sure these new policy tools can be best used.

Child Trust Funds

Child Trust Funds (CTFs) have been the most eye-catching initiative in the asset-building field. Vouchers were sent out for the first time at the start of 2005, and accounts could be opened when the new tax year started in April. At that time 75 institutions in the financial services industry, including some of the largest banks, were signed up to run the accounts, giving parents real choice in how they invest the money,

The drive to ensure that accounts deliver their full potential starts the moment the voucher lands on the doormat. CTFs could be a tool for engaging parents in mainstream financial markets (whether cash investments or equities), and could demonstrate the benefits and practicalities of asset ownership. A clue as to whether or not this is happening will be provided by the number of vouchers that remain uncashed after one year – parents can, if they wish, wait until the Inland Revenue chooses an account for them at the child's first birthday, but it would be a worrying sign that the hoped-for engagement is not happening.

Having engaged parents in the process of opening accounts, the next opportunity is to see that extra deposits are made over the following 18 years. For CTFs to be truly successful, they should kick-start, rather than replace, the parents' savings habit. To help make this attractive, up to £1,200 can be deposited each year, and no tax is charged on any interest earned on the account. This has led some people to worry that only better-off parents will save into CTFs, and the accounts might therefore *contribute* to inequality. In

general, such fears are misplaced, as large balances amongst richer families will, in part, just be highlighting existing patterns of saving. Wealthier parents already save for their children, and these savings will simply be redirected into CTFs. The crucial point, though, is that the benefits of CTFs will be concentrated at the lower end – £1000 makes a far greater difference when you have nothing than when you already have substantial capital, and research suggests that the educative benefits of asset ownership come mainly from your first slice of wealth[2].

Encouraging most parents to save at least some of the time should remain a goal. Early ideas to match parental deposits were ruled out, on the grounds that the cost would be high, and the risk of distorted incentives would be considerable. For many adults, parenthood is when they experience their most severe poverty[3], and artificial incentives to save could be to the detriment of both the parent and the child. Furthermore, matching or government deposits would have to be very large (and expensive) to fully counterbalance the effects of parental savings amongst the wealthy. If richer parents save just £2 per week extra, for example, then the government endowment at age seven would have to be £1460 ($3,460 CAD) to ensure full equality at age eighteen.

If matching is impossible, gentler encouragements are not. Government advice to parents has tried to steer a careful line. On the one hand it has given advice to save saying, "even small amounts saved regularly can grow into something substantial"; however, on the other hand it has recognized that saving is sometimes inappropriate:

> …think about the money you need for other things before deciding how much to save in the account. And remember that any money in your child's CTF account is locked away and can only be touched by your child when they reach 18. [4]

Annual statements on the child's birthday, government top-ups at age seven, and some of the advertising can all be seen as attempts to "jog" parents' memories, providing prompts to save that do not distort incentives. Education in schools will also be important for ensuring the accounts are not forgotten, but with two years to go before the first children enrol at school, there has been no sign of serious thought about what form this education might take.

Beyond the Savings Gateway

Just as with CTFs, we must also pro-actively pursue the opportunities that recent policies have thrown up if we are to get their full benefit in regards to adult savings. The first round of Savings Gateway pilots showed that matched savings for the poor could work. While only 15 per cent saved on a regular basis before joining the pilot, deposits were made in 74 per cent of months and two thirds of participants said they intended to continue saving afterwards. Before they joined, 46 per cent did not have a savings account, and one

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[2] Bynner, John and Paxton, Will: *The Asset-Effect.* London: Institute for Public Policy Research (2001)
[3] Evans, Martin, and Eyre, Gill: *The opportunities of a lifetime: Model lifetime analysis of current British social policy.* Bristol: Policy Press. (2004)
[4] Inland Revenue: *Child Trust Fund: What will yours grow into?* CTF6. London: TSO (2005)

quarter did not have a current account; by taking part in the pilots, however, all participants ended with a savings account.

After the first pilot had finished, the government announced in December 2004 that a new, larger round of pilots would take place. Given the tight fiscal climate at the time, this may have been the most that campaigners could have hoped for, and the announcement was generally unexpected. The second round is certainly a step forward – rather than the 1,500 participants in the first round, the second round will involve up to 20,000 people. This second round is also a step closer to a national roll-out, as it is focusing on specific variables and using a method of delivery that could be more easily expanded.

Having said this, it should be noted that current activities are considered "progress" only in so far as they take us towards an eventual goal of a savings policy that works for the poor. Achieving this goal remains as pressing as ever, but three key questions about the Savings Gateway remain unanswered:

Is saving maintained after the program ends? That people save more when their savings are topped up is, after all, unsurprising. The real question is whether the program succeeds in kick-starting a habit that continues even after the program has finished. The second pilots may not help here, as they cover the same geographical areas and could, in this case, do more harm than good, as they cover the same area as the first and will contaminate the data.

How far can the match rate be reduced without making the program ineffective? By varying the match rates (down to 20p for each £1 in some pilot areas), the second round of pilots should help to answer this question.

Even with a lower match rate, is a national version of the Savings Gateway affordable? Other existing programs would have to be cut, or new sources of revenue introduced. Neither is politically attractive, not least because the government spent some effort on introducing and promoting the most obvious candidate to be sacrificed, the tax-exempt Individual Savings Accounts.

The quality of the evidence on these questions will be crucial in deciding the shape of future savings policy for lower-income individuals.

Financial Exclusion

As Michael Sherraden made clear in his book, *Assets and the Poor* [5], some of the largest obstacles to asset-building amongst the poor can be institutional and structural, including: barriers to getting a bank account, no local bank, or poor access to other financial services. Under the umbrella of "financial exclusion" these problems have enjoyed the attention of a dedicated "Policy Action Team", a "Financial Inclusion Task Force", and a "Financial Inclusion Fund". The first, a Treasury-commissioned panel of academics, policy advisers and industry representatives, recommended a broad strategy in 1999 to broaden

[5] Sherraden, Michael: *Assets and the Poor.* New York: M.E. Sharpe. (1991)

access to financial services. This included alternative delivery channels for financial services, better access to financial education, and more support for credit unions. [6]

The task force and fund are more recent, both being set up in December 2004. One of their goals is to monitor and promote access to bank accounts, especially since one in twelve households in the UK currently lacks access to a bank account of any kind. [7] After pressure from the government, all major retail banks have now introduced "basic bank accounts" – new no-frills accounts without overdraft facilities, cheque books, or debit cards. As the accounts are designed to minimize the risk of unauthorized overdrafts, credit checks should be able to be loosened.

Basic bank accounts provide a clear case of when a new policy has the potential to be transformative; however, they will not live up to expectations unless the pressure is maintained. Practitioners on the ground report bank staff pressuring people to open full accounts, rather than basic ones; mistimed standing orders can still result in fines of £40 – a large hit to the weekly budget of somebody living in poverty, whose gross weekly income would be only £187 for 37 hours on the minimum wage. More needs to be done to ensure that the accounts are attractive to, and used by, those who need them.

Another aim of the task force and fund is to improve money advice as part of a broader challenge to improve financial capability. *Beyond Bank Accounts,* an IPPR report published in 2003, stressed the importance of starting early and, in so far as they educate, Child Trust Funds will certainly be doing that. Later in life, there is a need to get money advice to people who need it and who, in general, are unlikely to attend classes or seek advice from voluntary organisations. [8] The first pilots of the Saving Gateway, for example, included various attempts to partner the savings scheme with non-compulsory classes in financial literacy, but like similar programs in America, found that recruitment had to be extremely pro-active to be successful. This could mean providing money advice on sites where potential clients will be present and receptive, such as in the Sure Start centres for parents of young children. The government is also using part of the Financial Inclusion Fund to improve the capacity of voluntary organizations to provide free money advice.

II. Widening the Debate: Homeownership and "Hard-Working Families"

As well as building on current progress, asset-based welfare in the UK must extend its reach. The relationship between assets and community ownership, trends in wealth inequality, and active citizenship are all important issues. Pensions and consumer debt both have economic and political resonance at present. But the two issues that underlie much of the thinking on assets, and put others in the shade, are debates around assets for the second quintile of households – families in work without a tradition of state benefits – and access to homeownership.

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[6] HM Treasury: Access to Financial Services: The Report of PAT 14. London: TSO. (1999)
[7] HM Treasury: *Promoting Financial Exclusion.* London: TSO. (2004)
[8] Regan, Sue and Paxton, Will: *Beyond Bank Accounts*. London: Institute for Public Policy Research. (2003)

Help for "Hard-Working Families"

Who should asset-building policies target? The second Savings Gateway pilots departed from the first pilots by extending eligibility up the income scale. Instead of being restricted to those with household income of less than £11,000 per year ($26,000 CAD), or £15,000 ($36,000 CAD) for people with disabilities or children, the second wave is for people with individual earnings of less than £25,000 ($59,000 CAD). In addition, at the same time that the second pilot was announced, the Treasury also launched a consultation on extending the maximum annual contribution to Individual Savings Accounts, which are tax-favoured vehicles that are used disproportionately by higher earners. [9]

Extending support to higher earners poses a fundamental challenge to the purpose of asset-based welfare. Should policy focus on those with no assets and institutional barriers to saving? Or should government also involve itself in encouraging asset ownership by modest income earners? In the UK this group is sometimes referred to as "hard-working families", and although the term is never clearly defined, it is frequently used. In fact, it was the theme of the 2004 Labour Party Conference, and a television broadcast that accompanied it; it also appeared in the title of the 2005 Budget, and as a regular staple in press releases. In fact, the appeal to this group can be seen as consistent with several anti-poverty policies of the Labour government. Child Tax Credits, for example, are available to families on a gross income up to £50,000 ($115, 790 CAD).

As wealthier individuals become eligible for support-building assets, however, the justification becomes less clear. The institutional barriers to savings are lower or absent, and capital markets are likely to function better for wealthier individuals who have more collateral, more predictable incomes, and better credit records. The task for higher earners is therefore less about removing barriers and market failures, and more about promoting a savings culture and overcoming under-planning – however, as desirable and possible as this may be, it requires a different set of policy instruments. Instead of government matching, the problem may in some cases be better addressed with subtler policy instruments, such as default rules, requiring an "opt out" rather than an "opt in", or pre-committing to save. [10]

Homeownership

One asset that is particularly relevant to middle income earners rather than the poorest is housing, and it is a subject that often feels like a British obsession. Every change in prices, every prediction of a boom, a crash or a levelling off, is shouted from the headlines in national papers. This is perhaps unsurprising, given that house-price inflation and an expansion of owner-occupation, partly from the subsidised sale of social housing to tenants, have delivered enormous windfalls to many, and shut others out of the market entirely. House prices more than doubled in the five years to 2004 (HBOS), and between

[9] Paxton, Will: *Tax Efficient Saving: the Effectiveness of ISAs*. London: Institute for Public Policy Research. (2003)

[10] Sunstein, Cass R., and Thaler, Richard H.: *Libertarian Paternalism is not an oxymoron.* AEI-Brookings Joint Center for Regulatory Studies, working paper 03-2. (2003)

1971 and 2002 *real* house price inflation was 3.3 per cent, compared to a European average of 1.8 per cent. [11] As a result, housing wealth, as a percentage of total wealth, almost doubled moving from 22 per cent in 1971 to 42 per cent in 2002. It is now the single greatest repository of wealth held by individuals in the United Kingdom. [12]

The benefits for many have been huge, but the problems are now becoming more evident. The growth was greatest for areas that were the richest and most expensive to start with, so much so that for the average value of a property in Kensington, London, you could now buy 24 properties in Levan, Fife. By 2002 England and Wales had 22 times the housing wealth of Scotland, and only ten times the people. [13]

As well as contributing to inequality between regions, the increase in house prices has also contributed to inequalities between homeowners and tenants, and has made it harder for first-time buyers to get a foot on the ladder. The house price to income ratio and indexes of affordability have reached historically high levels (National Statistics), in turn making access to homeownership more dependent on the wealth of one's parents, and in particular whether they bought their own home, bought it early enough to catch the boom, and bought it in one of the high-growth areas such as London or the South East. As a result, the size of deposits as a proportion of house prices has increased, and more comes from parents. [14]

These trends pose a threat to regional migration, exacerbate unequal access to homeownership and restrict the broader benefits that housing wealth can bring. Housing is clearly an emotive issue with voters, demonstrated by the fact that all three major parties produced policies to improve access to homeownership in the run up to the 2005 general election. The question, however, is once again whether or not spreading wealth and independence from the few to the many should be seen as part of the traditional asset-building agenda, or whether the focus for that should be on those with no assets at all, and those who will never be in a position to buy a house of their own.

The question is one of priorities and emphasis, rather than absolutes. A forthcoming publication from IPPR will argue that there is a strong case for widening access to homeownership, based on failures in capital markets and some of the societal benefits of homeownership. [15] But support must be carefully targeted, rather than becoming a vote-grubbing sop. Homeownership may not be a priority for the very poor, but support for housing wealth can still be more or less progressive, and extreme care must be taken to ensure that policies are targeted at those who need help most. Tax relief for mortgage interest payments (known as MIRAS), for example, was expensive, regressive, and unjustified. Extending asset-based welfare must mean avoiding the mistakes of the past.

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[11] Barker: Review of Housing Supply: Securing our future housing needs. Final Report: Table A.1. London: TSO. (2004)
[12] Ibid.
[13] Thomas, Bethan and Dorling, Danny: Know your place: Housing wealth and inequality in Great Britain 1980-2003 and beyond. London: Shelter (2004)
[14] Barker: Review of Housing Supply: Securing our future housing needs. Interim Report – analysis. London: TSO. (2003)
[15] Maxwell, Dominic: *Housing Across the Lifeycle.* London: Institute for Public Policy Research (forthcoming 2006).

III. Deepening the Consensus

The final challenge for asset-based welfare in the UK is to ensure that the agenda is secure, and will outlast a change of government or political climate. For example, consensus around Child Trust Funds was, in one sense, exceptionally broad. Both main parties voted for it in Parliament, and the policy was launched and championed by the Prime Minister, Chancellor and Secretary of State for Education together. The financial services industry also welcomed it, as did many anti-poverty campaigners. But agreement was also shallow and some of the more important arguments about financial education and behavioural benefits are only now trickling through, and the Conservative party, despite voting for it, derided the timing of implementation as a pre-election gimmick.

So although many senior politicians are converts, two more constituencies must be recruited if asset-building is to become an enduring influence on British policy-making: social policy academics on the left, some of whom view asset-based welfare with deep suspicion; and purist microeconomic analysis, which at present has not integrated some of the behavioural benefits.

Reassuring the Left

Asset-based welfare comes partly from liberal egalitarians such as Tom Paine[16], who advocated in 1797 for a fund "to pay to every person, when arrived at the age of twenty-one years, the sum of fifteen pounds sterling, to enable him or her to begin the world!" It has also been advocated from another strand of political thought that emphasizes the individual and plays down the role of the state. Fears have been expressed by some on the left that asset-based welfare is a cuckoo in the nest: although suited to North America, where welfare states are less developed, it does not belong in Britain. And worse, when mature, it could displace the native welfare state and undermine traditional left-wing models of mutualism and co-ownership, being used to justify the abandonment of vulnerable groups. For those further left, who are uncomfortable with the notion of rearing a generation of ruthless capitalists, the suspicions were confirmed by government posters. Playing on images of babies in adult roles with the tag line "What Will Yours Grow Into?", one poster, pasted nine feet tall around the country, featured a baby as a stock market trader with its face distorted in a frenzy lust for profit.

It is certainly true that asset-based welfare seems to appeal most to the United States, Britain, Australia and Canada, and has less resonance with the rest of Europe. Using the typology of Gosta Esping-Andersen[17], the countries that adopt asset-based welfare seem to be more "liberal", leaving individuals to provide for most of their welfare and the state giving only residual services; and countries that have not adopted it are closer to the "social democratic" model where the state plays a more dominant role in welfare services

[16] Paine, Tom: *Agrarian Justice.* (1791)
[17] Esping-Anderson, Gosta: *The Three Worlds of Welfare Capitalism.* Oxford: Polity Press. (1990)

see Gamble and Prabakhar[18]). Whether Britain, which is more of a hybrid of these typologies than most, has a need for extending asset-based welfare has been disputed.

If asset-based welfare is to become a fully-accepted part of the welfare landscape in Britain, these fears must be laid to rest. Asset-based welfare does have an additional role in countries such as America, where the state provides fewer healthcare and unemployment benefits, for example. But that does not mean that it has no role in Britain, as the arguments put forward for the Child Trust Fund demonstrate.[19] [20]

The crux is to show that asset-based welfare will not displace conventional support. Helping individuals to build assets will not be a precursor to privatisation of welfare, along the lines proposed by President Bush, but must instead be an addition to existing levels of support. As shown by Glennester and McKnight[21], there are strong arguments against rolling up existing welfare systems into asset accounts: centralized support is needed because risks, such as unemployment or long-term incapacity, are often beyond the individual to manage. Some people would receive a trivial sum compared to their needs, and others would have a large surplus. Furthermore, the timing of needs, weighted towards old age, presents problems of moral hazard and myopia if support is given in a lump sum in youth. With excellent reasons why asset-based welfare can not displace conventional support, advocates must be forceful in delineating its limits.

Convincing the Economists

"Is asset-based welfare well fair?" asked a paper by the highly-respected Institute of Fiscal Studies. The answer, perhaps unsurprising given their title, was "no." The authors argued that the multiple aims of recent policies would be better tackled separately, that the benefits did not exceed the opportunity cost, and that support for asset-building lacks theoretical foundations. [22] It is possible to disagree with many of their arguments, but if the field is to become fully embedded then it must be reconciled with purist microeconomics. We must find a way to express ideas that allow us to analyze them within this conventional framework – if it can be integrated, it can be more influential.

Part of the answer lies in unpacking what has become known as the "asset effect", as it is here that the benefits may most clearly be seen to exceed the opportunity cost. In a much-quoted line by Sherraden, it has been said that "while income feeds peoples' stomachs, assets change their minds". [23] But why? How? And how much? Building on the work of John Bynner[24], the empirical questions have been re-examined in new research by IPPR

[18] Gamble, Andrew and Prabhaka, Rajiv: "Attitudes of young people towards capital grants" In White and Paxton (editors) *A citizen's stake: the future of universal asset policies.* Bristol: Policy Press. (2005)
[19] Kelly, Gavin and Lissauer, Rachel 2000: *Ownership for All.* London: IPPR.
[20] HM Treasury: Saving and Assets for All, The Modernisation of Britain's Tax and Benefit System no. 8. London: TSO. (2001)
[21] Glennester, Howard and McKnight, Abigail: "A capital start: but how far do we go?". In White and Paxton (editors) *A citizen's stake: the future of universal asset policies*. Bristol: Policy Press. (2005)
[22] Emmerson, Carl and Wakefield, Matthew: *The Saving Gateway and the Child Trust Fund: Is asset-based welfare 'well fair'?*). Institute for Fiscal Studies Commentary 85. (2001)
[23] Sherraden, Michael: *Assets and the Poor.* New York: M.E. Sharpe (1991)
[24] Bynner, John and Paxton, Will: *The Asset-Effect.* London: Institute for Public Policy Research. (2001)

and the London School of Economics. More sensitive analysis of the National Child Development Survey, which tracked 12,000 individuals born in 1958, will be combined with qualitative work to see how attitudes were shaped by asset ownership. This will significantly add to our understanding of how and why assets might be of benefit.

The next phase, though, must be to formalize the thinking. In some areas, very little extra theory is required. Attitudes to risk, for example, are well-researched, and the idea that levels of risk aversion might depend on wealth holdings would strike most economists as unsurprising. The extra step here is to show how higher risk aversion (because of lower asset ownership) could be a consistent and long-term drag on achievement. The same can be said for levels of planning, as time-discounting is in most models closely tied to risk aversion.

In other areas the challenge will be greater. Modelling attitudes of stakeholding, or feelings of responsibility and control, within the context of assets and rational choice will bring a new precision to our understanding, but combining the insights of different fields will not be easy.

Conclusion

The asset-based policy tools that have been introduced in recent years should be welcomed as bold and progressive. The Child Trust Fund and the Savings Gateway, as commitments to reduce financial exclusion, and the introduction of basic bank accounts have all been steps in the right direction. But the test of their impact will be whether the government, individuals, and the private sector can take advantage of the opportunities that the new policies create.

Extending the agenda of asset-building in new directions, to slightly higher earners and to housing, should in general be welcomed. But methods may have to become more closely justified and targeted, and more sensitive to individual variation.

To make all this secure, proponents of asset-based welfare need to win over the key constituencies of left-of-centre sceptics (such as some academics in social policy) and purist microeconomists. Asset-based welfare has much to offer, so persuading both should be possible – as long as we learn to express the ideas in the right language and with the right accompanying arguments. Asset-based welfare must not be seen as a potential replacement of existing welfare support; and it must be more thoroughly modelled to make it analyzable within existing economic thinking.

Assets, Ownership and a New (and Very Canadian) Approach

Jennifer Robson, Social and Enterprise Development Innovations

Abstract

Each of us knows intuitively that assets matter. We know that we are better off with some savings in the bank for retirement or just put safely aside for a rainy day and we know that our children are better off if they have a nest egg to help them pursue a post-secondary education or any of the other markers of the transition to adulthood. On the other hand, we also know that we all have lumpy costs in our lives, costs that are greater than what we can muster out of income flows alone and we know intuitively that this in no-way diminishes the critical importance of earning an adequate income or of maintaining public commitment to public goods like education and health care. In fact, if we each gave it some thought, it would also probably become clear that public policy in Canada has a large hand in shaping the types of assets that Canadians hold as well as who holds them. When we delve a little deeper what becomes even clearer is that asset-based policy is very much a historical and present day component of Canada's social policy infrastructure. The question that remains, however, is how do we make asset-based policy better so that all Canadians have a fair and equal opportunity to develop and maintain the productive assets that make their own and their families' lives better?

This paper is intended to give the reader a brief summary of the origins and philosophy behind asset-building as well as to provide an examination of the current state of the asset-building field in Canada. If asset-based policy is the short-hand for describing all the various publicly-funded incentives afforded certain groups of Canadians for accumulating certain kinds of assets, then asset-building is the approach intended to broaden the inclusiveness and accessibility of sustainable, affordable opportunities to build assets and ownership for all Canadians. This paper is divided into three parts: the first section briefly discusses the state of asset-based policy in Canada and the gross imbalance in ownership and asset-holding in this country; the second section discusses the origins of the asset-building field in Canada; and the third and final section summarizes the current status of the field in Canada and attempts to draw some early conclusions for future discussion and debate.

I. Asset-Based Policy in Canada

As Tom Axworthy has noted in this volume, Canada has, from our very earliest days as a colony and a country, adopted policies intended to increase individual ownership over productive assets. Typically these measures have aimed at increasing ownership over real estate assets, but other assets (such as higher education) have been included too. Broadly speaking, it might be helpful to group productive assets into the following categories: human capital (such as education and employment skills or even healthcare); physical capital (including housing, transportation, business or other goods); social capital (social networks and connectedness); and financial capital (including retirement or other savings).

According to at least one recent review[1], public policy is not particularly adept at directly generating social capital – instead social capital can be seen as a longer-term effect of a policy and an outcome that policymakers should bear in mind when designing policy. For that reason the remainder of this paper will not discuss social capital as an asset-goal for asset-based or asset-building policy. However, increased social capital may in fact be an important secondary outcome of asset-based policy as those with assets appear to enjoy greater social influence and engagement in their community. [2]

In Canada we have been blessed with certain public goods and services that directly transfer human, physical, and financial capital to citizens. We enjoy, for example a universal and public system of healthcare as well as primary through secondary education. Canada also has in place a quasi-universal system of seniors' benefits that guarantees a minimum income to all seniors who meet the residence test and includes a public pension plan that acts in many respects as a mandatory retirement savings plan for Canadian workers. These and other public goods and services have helped to ensure a basic level of well-being for Canadians and have generated economic and social returns for the country as a whole. These collective forms of capital also provide a critical platform from which individual ownership of productive assets becomes, at least in theory, more readily accessible to Canadians. Having said this, however, they cannot, on their own, guarantee that all Canadians have equal and fair access to the various forms of capital that are so critical to well-being over the life course. The challenge for policy-makers, therefore, is not how to reduce access to only those assets that are affordable to government, but rather how to raise the bar so that public policy serves as a tool to support equitable opportunities to build and maintain productive individual assets for all Canadians.

By best estimates, Canada currently spends approximately $22 billion annually[3], at the federal level alone, to directly support individual asset accumulation and maintenance outside public insurance (such as Employment Insurance), pensions, or loans (such as the

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[1] Catherine Demers and Sylvain Côté (2004) "Social Capital for Public Policy in Canada", presentation to Policy Research Initiative Conference, December 2004, Ottawa.

[2] For a good review, see Edward Scanlon and Deborah Page-Adams "Effects of asset holding on neighbourhoods, families, and children" in Ray Boshara, ed. (2001) *Building Assets: A report on the asset-development and IDA field*, Corporation for Enterprise Development.

[3] Compiled from Department of Finance (2004) "Tax Expenditures and Evaluations 2004"; Canada Mortgage and Housing Corporation (2004) *Canadian Housing Statistics 2003*; Human Resources and Skills Development Canada (2004) "Departmental Performance Report for the Period Ending March 31, 2005"; Department of Finance (2004) Budget 2004.

Canada Student Loans Program). This figure represents a major transfer of wealth in the form of lump sum payments and, more frequently, in the form of tax expenditures (either foregone taxes, deductions or various forms of credits). In fact, of the $22 billion total, $20.9 billion comes in the form of personal income tax expenditures including capital gains exemptions, Goods and Services Tax rebates on eligible new homes, and deductions for Registered Retirement Savings Plan (RRSP) and Registered Pension Plan contributions. The overwhelming majority of the benefits of these expenditures go to middle and upper income Canadians. This is for two reasons: first, they reward the forms of assets that middle and upper income earners are more likely than lower income earners to hold; and, second, income tax expenditures (with the exception of refundable tax credits), by definition, offer greater benefit to tax payers with higher taxable income. In fact the federal government has in recent years made note that income tax changes have significantly increased the number of low-income earners who pay no net income tax at all. Of the $22 billion total, only $600 million is expressly targeted to lower income earners through income-tested programs that deliver grants (such as the needs-tested portion of the Millennium Scholarships, the Canada Study Grants program, and the newly created Canada Learning Bond), matched savings incentives (such as the recent changes to the Canada Education Savings Grant), and assistance to maintain assets (such as the forgivable assistance under the Homeowner Residential Rehabilitation Assistance Program).

So why should this imbalance in current public policy matter? It matters for at least two reasons: first, there is a gross and persistent disparity in ownership and asset-holding in Canada that rivals even the well-established income gap; and, second, governments across Canada have increasingly shown signs that they are moving towards more individualized, often account-based methods, for delivering public programs. Tough questions should be asked about how the benefits (and risks) of these are going to be shared among all Canadians. Tough questions should also be asked about how to assist disadvantaged groups, including Aboriginal Canadians, recent newcomers, and persons with disabilities.

II. Asset-Holding in Canada

What do we know about the state of asset-holding in Canada? It's well known that the national savings rate in Canada has been declining for years. But this may not be the best measure to use since alone it doesn't take into account increases in the value of existing assets and doesn't enable segmentation to find out who is having the most difficulty in building assets. The 2001 Statistics Canada Survey of Financial Security provides some clues. For example, it found that the median net worth of Canadian families is $81,000 and would actually set a fairly high benchmark if used as a proxy for a Low-Income Measure-type indicator of low asset-holding. But the survey also found wealth, and particularly financial wealth, is extremely concentrated in this country – the poorer half of Canadians own only 6 per cent of personal financial wealth and the wealthiest 10 per cent of Canadians own more than half of all personal wealth. The survey also found some overlap between the risk of being income-poor and being asset-poor, although the relationships are not perfect. Net worth generally increases with age, education and

income, but there are startling jumps. For example, according to the survey, families with after tax incomes of $10,000 would, if their incomes increase 7.5 times to $75,000 see their net worth increase 300 fold. This strongly suggests that there are lumpy costs associated with getting a foothold in asset accumulation and that public policy may have a role to play.

The argument in favour of a role for policy is further reinforced when looking at the types of assets Canadians hold. Housing is the most significant single asset held by Canadians (at 38 per cent of all personal wealth) and RRSPs are the largest single financial asset held by Canadians (at 12 per cent of all personal wealth). Taken together, these two assets, both supported through federal public policies, account for half of all forms of wealth in Canada. As Steve Kerstetter has noted[4], based on his own analysis of the same survey data, "the tax policies of the federal government and some provincial governments have conferred huge financial benefits on the very wealthiest people, the one group capable of fending for themselves" (p.60).

Just as it has been helpful to have some measure of low-income in Canada that can galvanize public opinion and focus public policy on income support and redistribution, so too would it be helpful to have some (relative or absolute) measure of low asset-holding in Canada. This presents a significant methodological and political challenge since there is no such agreed-upon measure. But some options can be found in the existing data. The Statistics Canada survey data found that the poorest 10 per cent of Canadians have more debts than all their assets combined leaving them with a negative net worth. René Morissette[5] has, for example, proposed a measure of "financial vulnerability" defined as being both in low-income and having insufficient financial assets to liquidate and raise the total income above the Low Income Cut-Off. Using this measure, about one in 10 Canadians are financially vulnerable. Another possible measure could be the widely-used financial adage that we should all have at least three months current living expenses in liquid financial assets. Kerstetter found that the poorest 20 per cent of Canadians have less than half that and could only replace five weeks of lost income out of their savings. What is really needed are some tools that can capture the various effects of asset-holding (outside simply replacing lost income), over the life course and with sensitivity to both the type of asset and the value.

Work on this so-called asset-effect is underway in both the United Kingdom and the United States but clearly much more thinking, discussion, and research needs to take place in Canada before we can have a comprehensive picture of asset-holding in this country. Having said his, however, we already know enough about the problem with current asset-based policy to begin to find solutions. In any case, policy makers have never before waited until all possible data was in before taking action on other policy challenges. There is much to be learned from applied research, from community-based practice and from well-conceived policy innovation with strong evaluation. Asset-building

[4] Kerstetter, Steve (2002) "Rags and Riches: Wealth inequality in Canada", Canadian Centre for Policy Alternatives, Ottawa.

[5] Morissette, René (2003) "On the Edge: Financially Vulnerable Families", *Canadian Social Trends, 67*, p.13-17.

– asset-based policy's progressive cousin -- is already underway in Canada, at the national, regional and local levels.

III. Asset-Building in Canada

In 1997, SEDI (Social and Enterprise Development Innovations) first imported the concept of asset-building to Canada from its American colleagues at the Center for Social Development and the Corporation for Enterprise Development, but current asset-building policy and practice in Canada also owes a debt to the United Kingdom. Canada is somewhere in-between these two countries – both in terms of the type and shape of our overall social policy, as well as in the current state of our asset-building field. In the U.S., and as described by Sherraden, Boshara and Cramer in this volume, asset-building started and advanced rapidly as a field of practice, characterized by a plethora of local Individual Development Accounts (IDAs). Policy and research in the U.S. continue to advance and in more recent years have become important sources of support for maintaining the IDA field of practice. In the United Kingdom, the picture is nearly the opposite – a growth in policy making and research with a less well-developed field of practice. As described by Maxwell in this volume, UK policy-makers have boldly introduced progressive universal programs. In fact, the UK government has even stated that assets are now a pillar of its social welfare policy model. In a 2005 speech, Deputy Prime Minister David Miliband stated that the government is "working hard to place the issue of ownership for the disadvantaged at the heart of the policy debate".[6]

Here in Canada, we are uniquely placed to keep the fields of asset-building practice and policy in step, enabling a virtuous cycle of innovation where policy is informed by what works on the ground and where on-the-ground practice is supported by an enabling policy environment. The earliest asset-building programs in Canada were developed by community based agencies in Kitchener, Winnipeg, and Calgary who all learned of the U.S. practice of IDAs from SEDI's early consultation and advocacy work. Programs in each of these communities adopted the IDA and financial skills training model to suit local needs. For example, a program in Kitchener retooled the model as Opportunity Development Accounts to help low-income residents in a local housing project save for and acquire personal computers that could become resources for students and job-seekers. In Calgary and Winnipeg, local community development agencies have been running IDA programs for the past several years and now find that these programs are over-subscribed by low-income applicants. In each of these, and up to a dozen in other communities, some 20 to 100 low-income Canadians are participating in matched savings programs to save for home purchase, renovation, small business development, adult education or training and supports (such as tools, books or materials) to employability work experience or education. Programs have generally offered a three to one match rate on savings with funding from a range of public and private sources cobbled together by sponsoring agencies. Financial capability or financial literacy training is also heavily emphasized in these programs and many agencies have developed their own training materials and programs that are now offered even outside IDA programs.

[6] Miliband, David (2005) "Social mobility ultimate test" press release, March 3, 2005. Cabinet Office, Government of the United Kingdom.

Results from these programs show that low-income participants do make deposits into IDAs, do use their IDA funds for designated asset purchases, and do self-report that the program has made it possible for them to improve their lives over the long-term. For policy-makers and researchers, these programs offer compelling but perhaps not convincing evidence for the impact of asset-building interventions.

Other evidence is being generated by Canada's first national asset-building demonstration project, *learn*$ave, a project to test IDAs for lifelong learning funded exclusively by the federal department of Human Resources and Social Development Canada. *learn*$ave was launched in 2000 in ten communities, including Canada's largest urban centres as well as smaller rural communities. In total 4,827 low income Canadians enrolled in the project and, with the exception of a control group receiving no project interventions, were offered an IDA through a host non-profit community agency. IDA accounts were held at mainstream financial institutions, primarily RBC Royal Bank, but also including the Caisse d'Économie Desjardins and Assiniboine Credit Union. Most participants were also offered 15 hours of group financial literacy training. The IDA enabled participants to save for lifelong learning and earn matching credits worth an average of $3 for every $1 invested in learning through higher education, skills training, supports for learning (such as books, tools, computers, etc.) or, for a more limited number of participants, microenterprise development. Through the project, a participant could accumulate up to $6,000 in savings for adult learning. The project is being evaluated through both experimental and non-experimental research designs and the early results have been released by SEDI's research partner, the Social Research and Demonstration Corporation (SRDC)[7]. Their research has so far found that, compared to the general eligible population, *learn*$ave was particularly attractive to recent immigrants, the working poor, and persons with higher levels of previous education. This is possibly as a result of the project's somewhat limited asset goals. Based on interim data, participants are saving an average of $60 per month and total participant savings are now over $3 million.[8] Beginning in 2003, participants began withdrawing or "cashing-out" their IDA savings for the designated purposes. As Kingwell, et al note, the matched withdrawals process is cumbersome but necessary to prevent misuse of the funds within a relatively limited research project. Kingwell and colleagues also note that, like project recruitment, the pace at which the matched withdrawals have taken place is somewhat slower than first anticipated, a challenge shared by many IDA projects. The *learn*$ave project is continuing to generate data and research conclusions about its impact on overall wealth and human capital investment by participants is not yet possible. But, as the largest project of its kind in the world, its symbolic impact is clear – Canada is now on the worldwide asset-building map and is adding to the evidence in the US and the UK that low-income persons can and do save and build assets when they have access to the right supports and incentives to do so.

Outside of *learn*$ave, SEDI has also launched a multi-site pilot of Independent Living Accounts (ILAs), matched savings accounts that enable low-income residents in transitional

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[7] Kingwell, Paul, Michael Dowie, Barbara Holler, and Carole Vincent, with David Gyarmati and Hongmei Cao (2005) *Design and Implementation of a Program to Help the Poor Save: The learn$ave Project*, Social Research and Demonstration Corporation, Ottawa.
[8] SEDI (2006) data from the *learn*$ave Management Information System.

housing to move into independent rental accommodation. Homeownership is not a reasonable immediate asset goal for all low-income persons and there is a need for housing solutions that include affordable rental options. In this case, the asset-building model is adapted to a shorter-term purpose: saving for first and last-months' rental deposits and associated costs of moving such as utilities deposits and hook-up fees. These lumpy costs may appear nominal but, for low-income persons, they often represent a major expense that cannot be paid out of regular income alone. The ILA project offers matching savings at $3 or $2 for every dollar saved over six to 18 months as well as up to 16 hours of financial literacy training for homeless residents in transitional housing shelters. The project research is expected to be completed and published in 2006.

Perhaps the most significant development in the Canadian asset-building field to date has been the introduction of the national Canada Learning Bond (CLB), Alberta Centennial Education Savings (ACES) Plan, and changes to the national Canada Education Savings Grant (CESG). Both the CLB and ACES offer lump-sum payments into the Registered Education Savings Plans of Canadian children. In the case of the CLB, the annual payments are specifically targeted to children of low-income families. In the case of the ACES program, payments are universal and top-ups are made to all students at critical points in their education. Changes have also been made to the CESG to make it more progressive by accelerating the rate at which RESP savings are matched for low and modest income families. The CLB also includes a legislated community-based outreach program so that low-income parents will have the information and skills they need to use the CLB and make decisions for their children's education. These initiatives put in place a foundation that can be built upon as resources permit and as evaluation data support. But more importantly, these initiatives mark one of the only times in Canadian public policy where the capacity of low-income Canadians to build assets has been acknowledged and where progressive asset-building has been at the core of the principles behind the policy decision.

IV. Ideas for Future Discussion and Debate

There are essentially three options open to policy-makers in designing and implementing asset-building policy and programs: addressing existing barriers to asset accumulation or retention for those with few resources; tweaking existing asset-based programs more inclusive by integrating asset-building elements; or introducing new policy and program models.

In addressing barriers, the priority for action should be provincial asset limits in social assistance. Limits on the amount of assets that may be held by applicants for and recipients of social assistance income support have decreased in nearly all provinces both in terms of the absolute dollar value but also in terms of the relative value where they have not been adjusted to reflect inflation.[9] There are several options worth considering in relation to these asset limits. The first would be to raise the limits to adjust them at least for inflation or to some level considered to be an acceptable minimum. The latter would

[9] MISWAA (2005) Background document prepared for the Modernizing Income Security for Working-Age Adults, Toronto City Summit Alliance and St. Christopher House, Toronto.

require a significant effort at consensus-building in an area on which, as discussed earlier in this chapter, there is little consensus and little data to inform a dialogue. That is not to suggest, however, that the effort at consensus and generating evidence is not worthwhile. Another option would be to re-examine the types of assets that are included in the asset test and to remove those that are considered to be productive and complementary to the aims of building self-sufficiency and reducing welfare dependence. Some progress has been made, for example through recent changes to regulations in Ontario and BC to exempt registered education savings of assistance recipients or their dependent children. In a similar vein, a third option would be to create savings vehicles and associated exemptions that actually encourage social assistance to build productive assets that might help speed or sustain their exit from welfare dependence. Provinces including British Columbia, Manitoba, and Nova Scotia have already acted to exempt recognized asset-building initiatives such as the IDAs described above but options exist as well to create a new, flexible registered account such as the model proposed by John Stapleton and St. Christopher House in Toronto.

It would be beyond the scope or space restrictions of this paper to enter into a detailed list of recommendations for adjusting existing asset-based programs or introducing new asset-building models. Instead, I will briefly mention examples of each. The recent adjustments to make the Canada Education Savings Grant more progressive are an important precedent but the federal government could go further to boost the accelerated matching rates or to increase the ceiling on which these rates would be paid for lower and modest income families so that the net effect is to direct a greater share of the dollar value of the program into the hands of these families. Changes to the rules regarding RRSPs could and should also be examined. To the degree that RRSPs are already becoming multi-purpose accounts for saving over the lifecourse, the menu of tax-free allowable withdrawal purposes could be expanded to include options such as micro-enterprise capitalization or employment-related investments (like employment tools) that might enable more modest-income persons to address lumpy costs in reaching self-sufficiency and economic security. At the same time, claw-back rules in seniors' benefits that penalize low-income earners for saving in RRSPs need to be re-examined. New approaches like matched savings accounts for affordable housing and homeownership should also be piloted so that any new asset-building initiatives introduced by policy-makers can be informed by the field of practice and a body of research. Finally, the foundation on which all this rests is in ensuring that all Canadians have the skills, information, and confidence to manage their financial affairs, including the asset-based and asset-building opportunities to which they have access. The social contract between citizens and the welfare state has already changed -- citizens need to be adequately equipped with financial capability if they are going to be included and protected in this new arrangement.

Canada has a record of wealth development and progressive social policy from which to draw. We have a willingness to learn from international examples coupled with a desire for made-in-Canada solutions to Canadian challenges. The risks of asset-based social policy are not negligible but the opportunities are also great. The bigger risks to the cohesion, productivity and prosperity of all our citizens would come from doing nothing at all.

Getting a Stake: The History of Asset-Based Social Policy in Canada

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"I think you was better sell your house and get a little of the parish and come to Canada whilst you have a chance…whilst if you was to come hither with your family, anyone would be glad to take two of them and keep them as their own children of age, and then give them 100 acres of land and stock berides…Here you have no rent to pay, no roommates, and scarcely any taxes. No gave-keepers or lords over you…we are as much respected here as any of our neighbours, and so would you if you like."
Philip Annett to an English friend in early 1850's.

Introduction

"All roads lead to property," according to C.B. Macpherson.[1] Macpherson was not pleased by the 20th Century's concentration on what he called "possessive individualism," but he acknowledged that "the question whether the actual relations of a possessive market society can be abandoned or transcended, without abandoning liberal political institutes, bristles with difficulties."[2] The intersection of property, economic justice and democracy, which so preoccupied the noted Canadian theorist in the 1960s and 1970s, has returned to the center stage of public policy with major debates occurring in Britain over "stakeholder capitalism;"[3] in the United States over "the ownership society;"[4] and in the Third World over "the mystery of capital"[5] in development policy. These debates have, so far, largely passed Canada by and this is surprising because government support for private asset formation and distribution has been a mainstay of Canadian social, economic and democratic policy since the 18th Century. If history is prologue, we are due for a renewed look at the utility of asset formation in social welfare.

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[1] In *Property*, Toronto: University of Toronto Press, 1978, C.B. Macpherson has brought together extracts from John Locke to Charles Reich to illustrate his central point that "property has always been a central concern of political theory and of none more so than liberal theory." p 199.

[2] C.B. Macpherson, *The Political Theory of Possessive Individualism*, Oxford: Oxford University Press, 1962, p 225.

[3] See Will Hutton, *The State We're In*, London: Jonathan Cape, 1995, pp. 298-318.

[4] President George W. Bush has proposed the privatization of social security under the rubric of this goal of an "ownership society," see www.usatoday.com, Bill Lawrence, *Some ask who belongs in 'ownership society'*, USA Today, March 21, 2005.

[5] Hernando de Soto, *The Mystery of Capital*, New York: Basic Books, 2000.

Three main historical phases are described below: First, in the 18th and 19th centuries the colonial regime and the new Dominion of Canada distributed land, the main source of wealth, to millions of immigrants, thereby creating the Canada we know today. Second, during World War II the Veterans Charter was a major social innovation promoting homeownership and access to education to the thousands of men and women who had fought in the war. From this seed the Canadian welfare state grew. Third, although not nearly as dramatic as the Dominion Lands Act of 1872 or the Veterans' Charter of 1946, in 1957 the Registered Retirement Savings Plan and the Registered Education Savings Plan in 1974, followed by a variety of housing initiatives in the 1970's, put in place incentives to encourage savings. After this, however, nothing was done for a generation, until the Canada Learning Bond was introduced in 2004. As the past has shown, history moves in cycles and, as such, the work of Social and Enterprise Development Innovations (SEDI) has brought new attention to an historic idea.[6]

I. The Genesis of an Idea

The potential of an asset-based approach in democratic governance, social welfare, or economic policy is great because it draws on themes that resonate both with liberal and conservative philosophical traditions. In the 17th and 18th centuries, liberals like John Locke and Thomas Jefferson promoted the right of individual citizens to own property as essential to the whole idea of liberty, and in North America the extensive diffusion of property was the key to expanding the democratic franchise. Conservatives, too, have traditionally been partial to property rights and, in response to the welfare state, which placed a premium on the state providing income, a conservative like Margaret Thatcher in the 1970s made a property-owning democracy central to her platform. The pendulum then swung again in the 1990s when a progressive Tony Blair made a "stakeholder society" a key part of his Third Way as a means to reduce a culture of dependency. Will Hutton writes that the unifying idea is inclusion and that the aim of a stake-holding society "will be to build a free, moral, socially cohesive society based on universal membership, social inclusion and arranged around the market economy."[7]

Holding assets creates a stake, and stake-holding in turn, develops attachment to community. For Aristotle, property is a means to attaining the "good life" and St. Thomas Aquinas justified it in accordance with natural law.[8] But, it was John Locke who was the first to make the case for property "as a natural right of the individual, prior to governments and overriding them."[9] Locke famously asserted that protection of property was the essential purpose of government: "The great and chief end therefore, of men uniting into commonwealth, and putting themselves under government, is the preservation of their property."[10] Locke's definition of "property" was a broad one and included life,

[6] Social and Enterprise Development Innovations (SEDI), a Canadian not-for-profit institution has championed the asset formation approach. See, for example, "Financial Capability and Poverty discussion paper", July, 2004.
[7] Will Hutton, *The Stake Holder Society*, Cambridge: Polity Press, 1999, p 88.
[8] Macpherson, *Property*, p 9.
[9] *Ibid* p 14.
[10] John Locke, *Two Treatises of Government*, Cambridge: Cambridge University Press, 1960, p 395.

liberty, and estate. By making, for the first time, the case for an individual right of unlimited appropriation, Locke enormously influenced the Whig Revolution in Britain and through the intellectual influence of Whig philosophy, the American Revolution as well. Macpherson concludes "his justification of property was thus in effect written into, or at least was implied in, the constitutions of the first great modern capitalist nationstates."[11] Like Locke, the American Founding Fathers saw property not so much as a way to aggrandize wealth, but as a source of personal independence, no small thing as the main source of the legitimacy of the Republic. Like Locke, the Founders also had a broad definition of property: not only tangible possessions, but also skills and education. In fact, it was the aim of wide-spread property ownership among American farmers that was at the core of Thomas Jefferson's politics and vision for the Republic.

By the late 20th Century, the tradition bequeathed by the inventors of liberalism with their emphasis on individual rights, including the right to property, became appropriated by conservatism in general, and by one conservative in particular, Margaret Thatcher. Mrs. Thatcher made a "property-owning democracy and wider home-ownership"[12] the core of her political vision.

The Conservative thesis about Britain's postwar consensus was that "we are over-governed, over-spent, over-taxed, over-borrowed, and over-manned."[13] Mrs. Thatcher offered instead a vision of widespread private ownership, advocating a first-time grant to homeowners and the right of tenants to buy council houses. "Spreading the ownership of property more widely," she said, "is central to this Government's philosophy. It is central because where property is widely owned, freedom flourishes."[14] More than a million council flats or public housing units were sold to their tenants. In terms of assets, one analyst concludes "council house sales have also represented the most significant act of privatization carried out in the period."[15] Homeownership in general increased from 54 per cent in 1979 to 67 per cent in 1988. In homeownership there truly was a Thatcher revolution.

So popular was this Thatcher revolution that Tony Blair appropriated, just as Mrs. Thatcher had adopted, the tradition of Locke and Jefferson. While Mrs. Thatcher was making expanded asset-ownership one of her great accomplishments, liberals had continued to advocate the concept, though not with the same fervor as expansion of the welfare state. John Kenneth Galbraith, in *The New Industrial State*, advocated a broadening of the corporate agenda to include aesthetic goals, education, and other ends apart from the production of goods and income, while making a penetrating critique of share-ownership and how little it contributed to corporate governance.[16] A little later, in *The Share Economy* Martin Weitzman advocated massive profit sharing as a means to conquer

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[11] Macpherson, *Property*, p 13.
[12] Margaret Thatcher, *The Path to Power*, New York: Harper Collins, 1995, p. 243.
[13] Sir Keith Joseph, the intellectual guru of Mrs. Thatcher, quoted in Peter Jenkins, *Mrs. Thatcher's Revolution*, Cambridge: Harvard University Press, 1988, p.62.
[14] Speech to the National House building Council, December 12, 1984.
[15] Alan Murie, "Housing and the Environment" in The Thatcher Effect, edited by Denis Kavanagh and Anthony Seldon, Oxford: Oxford University Press, 1989, p.219.
[16] John Kenneth Galbraith, *The New Industrial State*, Boston: Hought on Milflin Co., 1967, pp. 72-85.

stagflation.[17] Share or profit ownership allows workers to capture a portion of the surplus value that they create.

But it was Tony Blair's Third Way in the mid-1990's which moved beyond Thatcher's property-owning democracy to advance "an asset-owning democracy," expanding the ownership principle to education. Like Thatcher (indeed, like Aristotle), Third Way proponents believe that ownership induces people to act responsibly. Alan Milburn, Labour's chief 2005 election strategist, told an audience that "giving more people an economic stake in society can be a new weapon in Labour's arsenal as we seek to tackle property and unlock aspiration."[18] Homeowners, he said, are more active in local politics and neighbourhood organizations. Yet, by providing assets to the poor in addition to transferring income, New Labour is challenging the orthodoxy of the welfare state that the Labour party itself largely created.

II. Shoveling Out Paupers

Hernando de Soto's, *The Mystery of Capital*, has a wonderful chapter on "The Missing Lessons of U.S. History" in which the Peruvian economist examines the United States 150 years ago when it, too, was a Third World country: "although my colleagues and I have trouble relating to $11,000 on the Dow Jones, we feel quite at home among the squatters in Thomas Jefferson's *Virginia* or the log cabin settlements of Daniel Boone's *Kentucky*."[19] On asset-distribution, Canadian history is just as distinctive as that of the Great Republic. There have been three distinct phases of a national "stakeholder" policy (though called that by no one), and, by far, the most important was the first – the distribution of public lands in the 19th Century. That policy settled Ontario and the Prairies and in so doing, created the Canadian middle class. Land policy was the reason that George Woodcock could call the 19th Century "the century that made us" and no policy was more important than that of the distribution of public lands.

Two generations before the famous 1862 Homestead Act of the United States, the British North America colonies, especially in Upper Canada, had instituted a policy of free land grants on a massive scale. If not remembered today, it is likely because this was an executive policy of the British Governors, rather than a legislative act of the various colonial assemblies. History often requires a demarcation point – the Homestead Act of 1862 or the Dominion Lands Act of 1872 – and the lands policy of Upper Canada does not have one, but, in substance, it was the major economic and social policy of the colony.

When the new state of Canada came to develop its own land policy for the Prairies it had a useful comparison in the Homestead Act, but just as important was the example of Upper Canada/Canada West. By 1867, Ontario had been transformed through large

[17] Martin Weitzman, *The Share Economy*, Cambridge, Massachusetts: Harvard University Press, 1984.
[18] Quoted in "Milburn Under Fire for Home Ownership Pledge," *Guardian*, November 10, 2004. (http://society.guardian.co.uk)
[19] De Soto, *Mystery of Capital*, p. 107.

scale immigration from its meager beginnings in 1783; free public land, more than anything else, was the lever that drove this process. The government of Canada then took what had worked in Ontario and applied it to the Prairies. Though no one used these terms at the time, the multi-cultural, pluralistic, middle-class society of Canada we know today was formed through the transfer of public assets to the 19th Century "paupers"[20] of the world. These "paupers," in turn, became the great, diverse Canadian middle class of today.

So important was land policy to British North America that it took up an entire chapter in the famous report of Lord Durham. Written after the rebellion of 1837 and published in 1839, Durham discussed:

> …an operation of Government, which has a paramount influence over the happiness of individuals, and the progress of society towards wealth and greatness. I am speaking of the disposal, by the Government, of the lands of the new country. In old countries no such matter ever occupies public attention; in new colonies, planted on a fertile and extensive territory, this is the object of the deepest moment to all, and the first business of the Government.[21]

Durham went on to describe, at length, the administration land policy since 1791 and the results of that policy (3,200,000 acres granted to United Empire Loyalists and their children, 730,000 acres to Militia men, 450,000 acres to discharged soldiers, etc.)[31] He made a strong critique of many aspects of the policy such as allocating a proportion of lands to the Clergy Reserves in support of the Church of England and concluded "that the disposal of public lands in a new country has more influence on the prosperity of the people than any other branch of Government."[22]

The 1791 Constitutional Act creating Upper Canada implemented a land policy that reserved one-seventh of all lands for the Crown and one-seventh for the Church of England Clergy, a move opposed by Charles James Fox, the Whig leader in Britain. Governor Simcoe hoped to create a Canadian aristocracy through the granting of huge estates, and though this never occurred, Simcoe's 1791 land policy in general was followed until the 1820s. Surveyors marked off townships, 10 miles square, and formed 200 acre lots. Petitioners for land promised they would improve it and officials could charge fees for registration, etc. Officials often received land in lieu of salary and large grants were made to members of the executive council and to legislators. By 1824, 8,000,000 acres of land had been granted to private individuals and the Clergy and Crown Reserves had reserved another three million.[23] The 1820s saw a change in policy: the colonial administration officially began a policy of selling Crown land for modest fees rather than free grants, though the children of the original United Empire Loyalists were assiduous in continuing to demand their free grants. More significantly, in 1826, the one-

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[20] Edward Wake field was opposed to the free land policy of Upper Canada which he described as "shoveling out paupers" to the colonies. Quoted in Gerald M. Craig, *Upper Canada: The Formative Years 1784-1841*, Toronto: McClelland and Stewart Ltd., 1963, p. 141.

[21] Lord Durham's Report, edited by Gerald M. Craig, Toronto: McClelland and Stewart Ltd., 1963, p. 110.

[22] *Ibid*. p. 121

[23] Craig, *Upper Canada*, p. 131

seventh of land reserved to the Crown was sold outright for $344,000 to the Canada Company of British investors. This bounty included one million acres of the Huron Trust in western Ontario.

The Canada Company and the Clergy Reserves became major issues in the radical cause led by William Lyon Mackenzie. In 1824, in *The Colonial Advocate*, he lamented that many settlers could not get title to their land because they could not pay the ten dollars in fees for registration. In November 1837, a few days before he led his followers in rebellion, Mackenzie issued a proclamation that promised "to root out the unlawful Canada Company, and give free deeds to all settlers who live on their land – to give free gifts of the Clergy Reserves…so that the yeomanry may feel independent, and be able to improve the country instead of sending the fruit of their labour to foreign lands."[24]

As Durham wrote in his famous report, land policy was the most important thing the colonial administration did. It was a security policy, designed to build up a ruling class among the decidedly anti-American descendents of the United Empire Loyalists and War of 1812 veterans. It was also an economic policy because, as Durham realized, Upper Canada was in competition with Ohio to attract immigrants. Here the policy was decidedly successful: from 10,000 loyalists in the 1790s, Upper Canada grew to 95,000 in 1814 and 952,000 by 1851.[25] Free land, of course, was not the only cause of this. In the 1820's, Upper Canada also invested heavily in public works. It was also a social policy, freely acknowledged. Governor Simcoe had hoped to build-up a landed gentry but instead his free land policy turned out to be the incentive needed to encourage emigrants from the poorest parts of society. The Poor Law of Britain devolved the responsibility for welfare upon local authorities and many enthusiastically encouraged emigration to Upper Canada to reduce their rolls. Some, like Edward Wakefield, complained about "shoveling out paupers" to the colonies[26] but this was not an easy feat as they came in the hundreds of thousands. As Mackenzie trumpeted in the *Colonial Advocate*, many farmers were so poor they could not even afford to pay a registration fee, but like Peru or Bolivia today, they simply became squatters on the land. Historian Gerald Craig notes, "to a very considerable extent, Upper Canada was settled by squatters and it was never practical to evict very many of them."[27]

Land was Upper Canada's greatest resource because it enabled social mobility in the colony, something almost totally absent in Britain. The land in Britain was already owned: it was next to impossible for a tenant, certainly for an Irish non-owner, to change status. But in Upper Canada, as George Woodcock writes, "the former labourer was no longer dependent on the gentleman who owned the land. With land came independence and with independence came dignity – at least for those who succeeded in hacking a farm out of the wilderness."[28] Since citizens only needed property with 40 shillings to vote, extensive land ownership also made for an extensive franchise, and this, too, was another means of power for the poor.

[24] Quoted in Woodcock, *The Century that Made Us*, p. 63.
[25] James H. Marsh and Daniel Francis, *New Beginnings: A Social History of Canada*, Toronto: McClelland and Stewart, 1981, p. 160.
[26] Craig, *Upper Canada*, p. 141.
[27] Craig, *Upper Canada*, p. 141.
[28] Woodcock, The Century that Made Us, p. 35.

Upper Canada in the early 19th Century is almost a textbook case for the virtues of asset-transfer. With all the disputes over the Clergy Reserves, the Canada Company, and speculators, the main wealth producing asset of the time – land – still became widely distributed. This, in turn, produced the personal virtues that Locke ascribed to ownership – independence, responsibility, and mobility. More widespread ownership made the Canada of the mid-19th Century very different from the Britain that spawned it.

Reflecting on the Canada that he had emigrated to, Thomas D'Arcy McGee, one of the fathers of Confederation, told the Canadian Legislative Assembly: "Here, we have none of those popular legends and stories which in other countries have exercised a powerful share in the government; here, every man is the son of his own works."[29] McGee and his fellow Fathers of Confederation then transferred the homestead policy of Upper Canada to the Canadian west. There the changes wrought by it were just as great, for land brought hundreds of thousands of central European peasants to the Prairies, adding a Third Force to the old Anglo-French stock.

III. The Golden Prairie Age

Lewis Thomas, a distinguished historian of the west writes that "from 1870 to 1930 the administration of public lands was the most important and far-reaching activity the federal government was engaged in during this period with the sole exception of the prosecution of the First World War"[30] The Dominion Lands Policy repeated the Upper Canada lands policy but on an even greater scale and to an even greater effect. Beyond the substance of the policy itself, the new federal government administrated the policy from 1870 to 1930 before returning natural resources to the provinces in 1930. The Department of the Interior developed one of the largest central and field staffs of the new government's public agencies and under Minister Clifford Sifton it truly changed the face of Canada. For students of government the study of Dominion Lands Policy is not only interesting for the substance of how best to transfer assets but it is an example of a national policy, nationally administered, in a domain traditionally and constitutionally in the jurisdiction of the provinces.

For two centuries the Hudson Bay Company had combined the profit from the fur trade with responsibility of the government for territory five times the size of the original Dominion of Canada. Fear of the United States and the necessity for settlement, however, demanded a new arrangement. With land finally running out in Ontario, the Clear Grits took up western settlement as a cause, and western expansion became a purpose of Confederation. The Hudson Bay Company countered with an offer to create a Crown colony in Rupert's Land with half the land continuing to belong to the company. In 1868, the Company accepted 300,000 pounds and one-twentieth of the land in exchange for transferring the title of Rupert's Land to the new Dominion of Canada. In 1870, the deed

[29] *Ibid*. p. 26
[30] Introduction in Chester Martin, *Dominion Lands Policy*, Toronto: McClelland and Stewart Ltd., 1973, p. 10. Written in 1937, just a few years after public lands had been transferred to the provinces in 1930, Martin's work is the basic text on Dominion Lands policy.

was done. Rupert's Land would connect Ontario with British Columbia, which had agreed to enter Confederation in 1871. Canada would become whole. Free homesteads, as in Upper Canada, was the other cardinal policy. "Parliament pledged its faith to the world," reads an Order of Council of 1885, "that a large portion of these lands should be set apart for free homestead to all coming settlers, and another portion to be held in trust for the education of their children."[31] W.L. Morton, the dean of western Canadian historians called this "one of the greatest transfers of territory and sovereignty in history."[32]

The Dominion Lands Act, which was passed in 1872, made provisions for homestead entries of a quarter section of 160 acres with a registration fee of ten dollars and a residence requirement of five years, later reduced to three years.[33] Like the land policy of Upper Canada, the Dominion Land Act was inclusive – anyone willing to move west and stake a claim was eligible for public land. The public grant gave everyone a start.

Injustices, however, were also plentiful. In Upper Canada, huge land grants were made to friends of the Family Compact, loyalists, the Church of England, and crown reserves were sold for a song to the Canada Company. The failure to negotiate seriously with the Métis was one of Sir John A. Macdonald's greatest mistakes. But, as in Upper Canada, there was enough land for everyone. Enough to give huge grants to the CPR, as to the Canada Company, but with millions still left for homesteaders. The numbers are huge: by 1928, the Dominion had disposed of all but 12 per cent of the land of the Prairies. Free homesteads were by far the largest single category, accounting for more than 56,381,000 acres in Manitoba, Saskatchewan and Alberta. The population of the west grew from 73,288 in 1871 to 1,328,000 by 1911. By 1921, there were two million in the Prairies, a quarter of Canada's population, of which 800,000 had been born abroad. What was significant was not only the number that came but also who came. At age 35 Clifford Sifton of Manitoba, "the young Napoleon of the west" according to Pierre Berton[34], became Minister of the Interior in 1896 and in that racially charged time, he made a critical decision: the obvious place to get immigrants was from the politically repressed peasants of central and Eastern Europe. The land brought three million people to the west from every part of the globe and gradually, if perhaps too slowly, Canada accommodated for this social earthquake.

On the impact of the Dominion Lands Act of 1872, Chester Martin should have the last word. His famous 1937 study was completed only a few years after the Dominion finally restored natural resources and public lands to the three Prairie Provinces. "With the transfer of Rupert's Land to the Dominion in 1870, however, the free homestead became a new creature. An Empire of Dominion lands had to be made good against the most spectacular technique of rapid settlement in modern history."[35] The free homestead remains inseparably associated with the golden age of prairie development.

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[31] Martin, opcit, p. 12.
[32] W.L. Morton, *Manitoba: A History*, Toronto: University of Toronto Press, 1957, p. 117.
[33] Martin, op cit, p. 228.
[34] Pierre Berton, *The Promised Land: Settlers in the West 1896-1914*, Toronto: McClelland and Stewart, 1984, p. 9.
[35] Martin, op cit, p. 237.

IV. The Veterans Charter

In the 19th Century social security as we know it barely existed. In Upper Canada, legislation passed in 1792 that introduced the main body of English civil law into the new colony, "pointedly excluded a poor law."[36] Private charities and the church had to fill the need. Though not specifically a social security policy, I argue above that the massive asset distribution of public lands to "the paupers of the world" was the policy with the most beneficial social impact. By the mid-twentieth century, social security or social welfare policies geared to income had begun to make their appearance – in 1927 the federal government began to support means-tested old age pensions, and in 1944 the Federal government introduced family allowances. But asset distribution policies still played a large, even equal, part. At the same time as the wartime King government began to introduce the modern welfare state, it also embarked on another huge asset distribution program to a million returning veterans. The scale of the Veterans program was not only breathtaking – 10 per cent of the Canadian population – but it also broke new ground by moving beyond land to include vocational training and university education as assets worthy of investment. Most importantly, it switched the focus of activity from the farms to the city. A home in the suburbs became what the homestead land had formerly been, the single most important asset of the emerging middle class.

In 2004, a reference paper called "The Origins and Evolution of Veterans Benefits in Canada 1914-2004" was prepared by the Veterans Offices Canada – Canadian Forces Advisory Council as part of the preparation of the government for an extension of Veterans benefits (also called the Veterans Charter it was passed in May 2005 by the House of Commons and the Senate).[37] Its thesis is that "Veterans benefits have been a building-block of the Canadian welfare state."[38]

The King government did not want to repeat the mistakes of World War I when returning veterans were badly treated, resulting in many becoming radicalized in the process.[39] The size of the task was enormous. With a population of 11.5 million in 1941, nearly 1.1 million Canadians, 10 per cent of the total population, enlisted. Approximately one-half of the male population of military age was in uniform at some point in the war and a third had served overseas. The Veterans Charter was not a "universal" program in that it was only available to those who had served, but these numbers were so large that, in the immediate post-war era, it was likely the single largest government activity – similar to the public land distribution of the 19th Century. By 1951, the estimated cost of rehabilitating World War II veterans was nearly $1.5 billion; however, this was at a time when the total annual outlays of the Government of Canada was only $3.7 billion.[40]

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[36] Denis Guest, *The Emergence of Social Security in Canada*, Vancouver: British Columbia Press, 1997, p. 14.
[37] Veterans Office Canada – Canadian Forces Advisory Council, "The origins and Evolution of Veterans Benefits in Canada 1914-2004," Ottawa: March, 2004.
[38] *Ibid*. p. 4.
[39] Desmond Morton, "The Canadian Veterans From the Great War," in *The Veterans Charter*, pp. 15-31.
[40] Veterans Office Canada – Canadian Forces Advisory Council, "Evaluation of Veterans Benefits," p. 15.

The Veterans Affairs program, of course, included disability pensions, veterans' hospitals, and other benefits that had nothing to do with asset distribution, but what is striking about the program is the clear intent of the government to give temporary assistance to get veterans back into domestic life rather than a welfare benefit. In *Back to Civil Life*, an April 1946 publication outlining the Charter, Veterans' Affairs Minister Ian Mackenzie said, "the object of Canada's plan for the rehabilitation of her Armed Forces is that every man or woman discharged from the Forces shall be in a position to earn a living."[41] In defending his paper, Mackenzie used a rationale familiar to anyone in our time – the state would undertake heavy short-term costs to avoid long-term dependency. Investment in higher education was critical, not only because of the benefit it would give to individual veterans, but because of its "broad implications" for the future development of Canada.[42]

The intent of the program may have been conservative – self-reliance rather than state dependency – but the means were truly innovative. The Veterans Charter contained a basket of programs, but two in particular stand out in housing and education. Prior to World War II, Canada was not a well-housed nation. During the Depression, house construction had suffered a disastrous decline and it was a sector that had not yet recovered as Canada entered the war. The Curtis Report on Housing and Community Planning in 1944 identified that a third of the population experienced serious deficiencies in housing.[43] At the start of World War II it was estimated that one million Canadians lived in residences with less than one room per person.[44] By the end of the war, veterans wanted two things above all else: a job and a house. Happily for the government the two desires were in sync as money allotted for housing construction would, in turn, stimulate construction and jobs. Social and economic needs converged and the result was a massive housing program. Wartime Housing, a Crown corporation, built 46,000 Victory homes for low and moderate income veterans and renovated thousands more, the country's first investment in social housing. Eventually incorporated into Central Mortgage and Housing, the new federal housing agency, the thrust of the Wartime Housing program was continued with the Veterans' Rental Housing Program which aimed at building 10,000 houses per year. The Veterans Land Act of 1942, offered up to $6,000 for the purchase of land for full-time or hobby farms, plus loans at 3.5 percent interest, amortized over 20 years. Begun as a farm purchase program, through the efforts of veterans' organizations, the Veterans' Land Act was transformed into a more general land and housing scheme. There was a "build-your-own house program" and land was purchased for subdivisions. By 1950, more than 51,000 applicants involving a projected outlay of $250,000,000 had been approved.[45]

Supply issues were addressed through Wartime Housing Inc. and the Veterans Land Act. Housing demand was fueled through the National Housing Act of 1944 and the direct payment of gratuities and re-establishment credits. According to the duration and location of service, every veteran was entitled to a cash gratuity. In addition to the gratuity,

[41] "Back to Civil Life" is represented in appendix two of *The Veterans Charter*, pp. 246-290.
[42] Quoted in Peter Neary, "Canadian Universities and Veterans of World War II," in *The Veterans Charter*, p. 116.
[43] Guest, Emergence of Social Security, p. 120.
[44] Doug Owran, "Canadian Domesticity in the Post-War Era," in *The Veterans Charter*, p. 211.
[45] Veterans Office Canada – Canadian Forces Advisory Council, "The Origins and Evaluation of Veterans Benefits," p. 13.

veterans could choose to receive a further re-establishment credit or specialized assistance for vocational training or education. Veterans were also given a $100 voucher for clothing as a support to education or employment. On average, cash payments were $700, and for those who chose the re-establishment credit in lieu of job training, the figure climbed to $1,400. As Jeff Keshen writes, "at a time when the average industrial wage was well under $40 a week, this was a substantial sum."[46] On the basis of this cash grant, veterans could purchase a home and most did. Under the new National Housing Act, a property costing $4,000 (common for the time) could be purchased for 10 per cent down. CMHC gave a below cost mortgage of five per cent on a 25 year term. Thus, monthly payments for a $4,000 house amounted to only twenty-two dollars.

With up front cash grants for veterans large enough for down-payment and mortgages available for modest interest over long periods, the stage was set for Canada's post war housing boom. Today's baby boom generation was largely raised in Canadian suburbs. They had an opportunity denied to their parents – to live in low density single family dwellings. They did so because the social and economic plans of the wartime King Government had helped veterans acquire homes as assets, just as immigrants had once been helped to acquire farms.

The great post-war suburban housing boom changed the physical face of Canada and the great post-war higher education boom changed our intellectual contours just as radically. The G1 Bill of 1944, like the Homestead Land Act of 1862, is a landmark of American public policy. But just as public land distribution in Canada moved in tandem with (if not before) the American case so too with Veterans' higher education. In October 1941, PC7633, the "Post-Discharge Reestablishment Order," later enshrined in the Veterans Rehabilitation Act of 1945, promised financial support for Veterans desiring vocational training or higher education. The Minister of Veterans Affairs could pay the tuition fees of a veteran to attend university and pay a living allowance ($60 a month for a single veteran, $80 a month for married veterans). In 1939, a university education was still attainable only for the elite and there were only 35,000 undergraduates in total. In 1942, only about 24 veterans were enrolled in university. By 1947, however, there were as many veterans in higher education – 35,000 – as the total undergraduates enrolled prior to the war. In 1947, for example, 49 per cent of the students at the University of Toronto were veterans. As late as 1950, veterans still accounted for 21 per cent of all Canadian university students. Canadian universities in turn benefited from large increases in government transfers to meet with the increased demand.

Through the Department of Labour, vocational training was also offered through schools that stayed open nights and weekends to meet the demand. By March 1951, over 80,000 veterans had benefited from vocational training in addition to the thousands who entered university.[47] Veterans Affairs Minister Ian Mackenzie called the Veterans Charter an "investment" in Canada's future: "Like ripples from a stone, which cover the whole

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[46] Jeff Keshan, "Getting it Right the Second Time Around," in *The Veterans Charter*, p. 72.
[47] Veterans Office Canada – Canadian Forces Advisory Council, "The Origins of Veterans Benefits," p. 13.

pond," the Minister proclaimed, the dissemination of skills and assets would lead to jobs, avoid another depression, and build an infrastructure for the future.[48]

Today, we debate how best to make adequate housing affordable, the King Government simply built Victory homes. We wonder how to help young families enter the housing market, the King Government offer hundreds of thousands of veterans large cash grants sufficient for a down payment and provided low mortgages over long periods. We wonder how to provide vocational training, the King government's counseling services placed 95 per cent of the veterans who needed their services within 15 months, and of those who took vocational courses, 60 per cent were employed in the position for which they had trained.[49] We worry about tuition fees and accessibility in post-secondary education, the King government simply paid the tuition fees of veterans, provided a living allowance besides, and sweetened it all with a supplementary grant for the core costs of the institution. Sometimes, there are simple solutions, just not easy ones. There are also times that government can work. And even more amazingly, sometimes this can be achieved with little controversy.

The Veterans Charter shows the potential of asset distribution: bold activist government action that appeals to liberals, in favour of conservative goals of self improvement. As Peter Neary concludes, "the history of the Veterans Charter is also a reminder that, far from subverting self-reliance and property holding, state intervention has at times been crucial for their cultivation."[50]

V. The Wave of Subsides

The land policy of the 19th Century and the Veterans Charter of the mid-20th Century are distinguished by three primary characteristics: the first is the necessity for individual obligation through a financial contribution or a commitment to caretaking of the asset; the second is the sheer scale of the programs – millions of immigrants in the first case, 10 per cent of the total Canadian population entitled to the Veterans Charter; and the third is the impact on the poor. Though social security analysts are right in observing that a social mission was only one of the program goals, and probably less important than security or economic considerations, these policies all resulted in large gains among previously disadvantaged groups. The policies also supported significant social mobility. Canada's historical policies of asset distribution were not explicitly aimed at the poor, but they resulted in the lifting of millions from poverty.

These characteristics are almost totally absent from the limited efforts at asset distribution after 1950. From being the centre piece of Canadian economic and social policy, asset distribution fell off the policy map as Canada constructed, instead, one of the world's

[48] *Ibid*. p 13.
[49] Keshan, pp. 72-73.
[50] Neary, "Introduction," in *The Veterans Charter*, pp. 11-12. Walter S. Woods in *Rehabilitation: A Combined Operation*, Ottawa: Queen's Press, 1953, had a chapter on land settlement and the problems in Veterans Affairs from shifting from the settlement of veterans on farm units to entering the field of multiple house construction and subdivision development, pp. 137-179.

most complete welfare states with the emphasis on income transfer rather than asset development. When Canada launched a major incentive for asset formation such as the Registered Retirement Savings Plan for private pensions in 1957, there was no provision for added incentives to bring the poor into the picture. As a result, it has become a benefit almost exclusively for the upper-middle class. When the federal government returned to housing incentive programs in the 1970s, such as the Assisted Home Ownership Program (AHOP) the scope was limited and the program was terminated before it had much of an impact. Only in 2004 did the federal government gingerly return to the asset-formation-distribution formula with the Canada Learning Bond for education, but again the incentives are weak and the program has received little attention. Unlike the US or UK where asset ownership has been a priority and supported on both sides of the political spectrum, Canada has so far lagged behind on the opportunity for a stakeholder society. Retirement and education savings are discussed in greater detail in the next sections of this paper.[51]

VI. The Registered Retirement Savings Plan

In 1951, an amendment was passed to the BNA Act giving the federal government jurisdiction to create a universal old age pension program (rather than supporting means-tested provincial pension plans). In 1957, the federal government also introduced Hospital Insurance. In the 1960s, the Pearson Government completed the edifice of the Canadian Welfare State with the Canadian Pension Plan, Medicare, the Canada Assistance Plan, and the Guaranteed Income Supplement.[52]

On March 14, 1957, Finance Minister Walter Harris presented the last budget of the St. Laurent Government. It contained a little noticed section that grew in time to become one of the pillars of Canada's financial industry and a major inducement for saving, especially for the already wealthy. Harris announced an innovation on "tax postponement on income set aside for retirement." In one of the great understatements of budget speech-making, Harris opined, "it is probable that certain groups such as the professions may wish to arrange to manage the fund being built by contributions of their members. This privilege will be of general application."[53]

Since 1957, the Registered Retirement Savings Plan, which allows contributions up to a proscribed limit to be deductible from income for tax purposes, has seen the limits increase from $2,500 in 1957 to $18,000 for 2006, with the limits scheduled to rise to $23,000 in 2010 after which it will be indexed to wage growth.

The Caledon Institute of Social Policy, in its commentary on the 2005 budget, makes the obvious point that only high-earning Canadians benefit from the maximum RRSP

[51] For a discussion of the AHOP program see Moscovitch and Germain in this volume.
[52] Three useful works on the history of Canadian social policy are, Dennis Guest, *The Emergence of Social Security in Canada*, Vancouver: University of British Columbia Press, 1997, P.E. Bryden, *Planners and Politicians: Liberal Politics and Social Policy 1957-1968*, Montreal: McGill-Queen's University Press, 1997 and Kenneth Bryden, *Old Age Pensions and Policy-Making in Canada*, Montreal: McGill-Queen's University Press, 1974.
[53] Hon. Walter Harris, *Budget Speech*, House of Commons, Thursday, March 14, 1957.

deductions. In the 2005 tax year, only tax payers earning over $90,000 can claim the maximum deduction. Higher income Canadians begin with more savings to invest in RRSPs and they receive more of a proportional benefit as their taxes are reduced. In 2002, the most recent year for data, only two per cent of taxpayers with incomes under $10,000 and 10 per cent for those under $20,000 contributed to RRSPs, while 69 per cent of taxpayers with incomes over $80,000 contributed. In 2005, the net cost of tax assistance for RRSP contributions, taxes deferred for the deduction of contributions plus the non-taxation of investment income is estimated to be $8.6 billion.[54]

The 2005 budget defended the increases in RRSP limits by arguing that "private savings play a key role in the economy…savings support investment…savings allow Canadians to finance their retirement." There is no question that the tax advantages from investing in RRSPs are considerable and Canada's financial industry depends heavily on individual Canadians taking advantage of this tax break. Nearly six million tax filers in Canada reported contributions to an RRSP in 2003, with an average contribution of $4,600. One half of Canadians' total savings are in RRSPs, with $340 billion invested. But as previously outlined, poor or moderate income Canadians only participate by a fraction of their potential numbers and by a fraction of the legal contribution limit. Worse still, they face penalties, should they manage to participate, through steep clawbacks to other retirement income sources namely the Guaranteed Income Supplement.

Financial literacy is a precondition for taking advantage of the RRSP. One must understand the tax implications choose among a host of competing plans, etc. Therefore, if the RRSP is to be "generally available," as Walter Harris hoped in 1957, special efforts must be made to ensure that low-income Canadians at least know of the potential advantages. This is not a small problem. Beyond financial literacy, creating an additional set of savings initiatives for the moderate or low-income Canadians would be necessary before one could argue that RRSPs contribute to social security. RRSPs have the scale of previous asset formation policies but as presently designed they do not meet equity goals.

VII. Education Savings

On October 15, 1973, in the supplementary budget papers, the Minster of Finance John Turner announced the government's intention to amend the Income Tax Act to provide tax-deferred treatment of income earned in registered scholarship trust plans (now designated as registered education savings plans (RESPs)), for the 1972 and subsequent years. In keeping with this announcement, in 1974, the Income Tax Act was amended to introduce registration requirements for registered scholarship trust plans and to provide a deferral against eligible withdrawals from RESP savings. A private plan, the Canadian Scholarship Trust, had been operating since 1960. Unlike RRSPs however, contributions invested in Registered Education Savings would not be deductible against personal income tax, but income earned on deposits would not be included for tax purposes. Over the next 25 years the annual limit on contributions was raised from $1,500 and the lifetime contribution limit was increased from $31,000 to $42,000. The federal government's

[54] Ken Battle, Sherri Torjman, Michael Mendelson and Steve Pomeroy, *The Vote on Veto Budget: An Analysis of the 2005 Federal Budget*, Caledon Institute of Social Policy, March, 2005.

main contribution to higher education was annual transfers to the provinces and the Student Loan Program. The Education Savings Plan, until recently, was always a minor contribution; from 1972 through to the end of 1997, for example, there was only $2.5 billion net accumulation in RESPs, compared to $340 billion in RRSPs.[55]

In 1998, the plan was significantly improved with the Canadian Education Savings Grant (CESG) which provided a 20 per cent match on contributions to RESPs. In 1998 alone, with the introduction of the CESG the amount invested in RESPs rose from $2.5 billion to $4 billion. By 2004, the total asset value of RESP savings had climbed to $13 billion and $2 billion in CESG grants had been paid to two million Canadian children. Currently nearly two million children, zero to 17 years of age, have benefited from the CESG. The federal government provides $365 million annually in CESG grants.

In 2004, the Government of Canada introduced a special incentive for low-income savers – the type of special incentive that many have called for in increasing low-income contributions to RRSPs and homeownership savings. The government provides income support for low-income families through the Canada Child Tax Benefit, including the national child benefit supplement. Over 3.5 million families benefit from the Child Tax Credit. To kick start education savings for low-income families, the 2004 budget introduced a Canadian Learning Bond, worth up to $2,000 in savings by age 16 for children in families entitled to the NCB supplement. Starting in 2004, an initial $500 Learning Bond will be provided at birth for children in families entitled to the NCB supplement. The CESG will also be increased on the first $500 of savings of annual contributions to an RESP for the child of a family with income up to $35,000. The enhanced CESG will be available to over 4.5 million children.

The Learning Bond and the RESP program have its critics. The Canadian Association of University Teachers makes the same criticism about RESPs as is made about RRSPs: households earning more than $80,000 a year are three times more likely to have RESPs than families earning less than $30,000. The Library of Parliament, in a study of Bill C-5, The Canadian Education Savings Act, also quoted figures that while 70 per cent of households with incomes more than $40,000 knew of the CESG grant, only 35 per cent of households with incomes less than $15,000 invested in them.[56]

[55] See the February 1999 Budget for information on the history of the RESP.
[56] Library of Parliament Legislative Summaries, Bill C-5: The Canada Education Savings Act.

Conclusion

The critique of the Canadian Association of University Teachers of the Learning Bond is typical of an emerging debate between those who favour redistributive income transfer and those who want to complement the welfare state with savings incentives and asset transfers. Monica Townson, in a paper on "A New Social Architecture for Canada" for the Canadian Centre Policy Alternatives, also warns about lifetime accounts and other asset-based social policies. Townson warns about asset-based social policies replacing income support strategies, not supplementing them. This, of course, is exactly President Bush's proposal to privatize American social security. Townson warns, "that's why progressive people should be especially vigilant about the direction some of these proposals are taking. We could be facing privatization on a massive scale."[57]

Robert Kuttner a well-known American liberal, however, believes the best way to counter Bush is to have a progressive ownership policy. He advocates for a strategy on ownership that fits well with the Canadian tradition outlined in this paper. Quoting President Bush that "ownership brings security and dignity and independence," Kuttner agrees that "this is an assertion that few Americans would dispute and one that we should welcome."[58] Kuttner traces American asset-distribution back to Jefferson, the Homestead Acts, and the G1 Bill and makes the point that:

> All these contributed to wealth broadening: all were redistributive, because in their absence most of their beneficiaries would have gone without. The paradox is that every one of these investments used public outlays to foster self-reliance.[59]

Likewise in Canada, where, in the 19th and mid-20th centuries, Canadian wealth was broadened by distributing land, helping with homeownership and providing education. The best way to prevent class warfare around re-distributive income transfers is to supplement them with asset distribution policies that promote stability and opportunity. Such policies will do well in themselves by fostering well-being and development. These policies can also broaden the progressive coalition by bringing into it those attracted to the conservative merits of individual self-reliance and independence. Canada has a tradition of activist government that helped the disadvantaged to become a middle-class society. Ownership is too important a concept and too basic to human nature for progressives to ignore its power. The catch words of "opportunity" and "security" are as relevant for our time as they were for our forebears.

[57] Monica Townson, "A New Social Architecture for Canada," Canadian Centre for Policy Alternatives, September 2004.
[58] Robert Kuttner, "Ownership and Government," in *The American Prospect*, May 2005, p. 44.
[59] *Ibid*. p. 44.

Asset-building Approaches and the Search for a New Social Policy Architecture in Canada

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Abstract

Many social policy experts are asking whether some fundamental renovations need to be made to our approach to welfare policy in order to meet new-century challenges. This chapter explores some of these "new century" challenges, reflects on the capacity of our current architecture to address them, and examines the potential of asset-building approaches to effect welfare re-design.

The author gratefully acknowledges the assistance of Margaret Eckenfelder, Siobhan Harty, Judith Maxwell, and Andrew Whitaker who reviewed earlier drafts of this chapter.

Introduction

Canada's social policy architecture, like the demographic group it was built to serve, is showing its age. The legacy of the post-war social welfare state for Canadians has been remarkable and its achievements are, justifiably, a source of pride for many; but times have changed. While the architecture of the post-war welfare state has done its best to keep pace, many social policy experts are now asking whether the existing architecture has the capacity to adapt further to meet the needs of Canadians in a new century, or whether some fundamental renovations are in order. This chapter explores some of these stresses and strains, reflects on the capacity of our current architecture to address them, and explores the promise of some new approaches, notably asset-building, for welfare re-design in Canada.

The chapter has four parts. Part I provides a brief review of the major ideas and assumptions underpinning our post-war welfare programs. Part II explores key dimensions of six "new century" stresses and probes whether our current social policy architecture will be able to engage these stresses effectively. Part III considers how the asset-building approach might help in addressing the new century stresses. The concluding section reflects on how some of the key ideas underlying an asset-based approach could, more generally, change our thinking on welfare policy.

I. Canada's Post-War Social Policy Architecture: Social Rights and the Entitlement State

Much has been written on Canada's post-war social welfare state and the key ideas and objectives that underpin it (see Policy Options, Fall 2004. See also Banting, Battle, Jenson, Boychuk). The basic design of the welfare state can be traced to the Marsh Report of 1943 which provided recommendations to the Government of Canada on social policies and programs for the post-war reconstruction economy (Marsh Report, 1943). In his report, Leonard Marsh proposed a system of income security that was radically different from what existed previously. In fact, Dennis Guest suggests that Marsh literally proposed to "sweep away" the 19th century notion of social welfare (Maioni, p. 21), by suggesting that poverty would be eradicated with a four-pronged strategy for government expenditure, which featured: insurance systems to protect income between employment; public assistance for those facing long-term unemployment; family allowance to assist families with the costs of raising children; and pensions for old age, permanent disability, and widows and orphans.

Two premises underlie this vision: first, that poverty was about not having enough income to meet life's basic necessities, and second, while jobs were the best insurance against poverty, citizens had a right to expect government to provide an adequate safety net of last resort. As Antonia Maioni observed, "Marsh believed that government should be responsible for constructing a postwar social order in which the responsibility of physical security would give way to an essential role in the provision of social security." (Maioni, 2004, p. 21).

Importantly, however, this social security came predominantly in the form of income support designed to meet the immediate needs of the unemployed. As Jane Jenson has noted:

> Canada never went as far as those European countries that were building generous welfare states to cushion citizens from many of the effects of market society. Canadians chose to define several key social rights of citizenship as safety nets, rather than seeking to promote greater equality of condition or actively structure labour markets. (Jenson, January 2004, p. 4)

As we shall see later in this chapter, conceiving social rights primarily in terms of passive, last-resort income support continued to dominate thinking on poverty eradication for decades. Canada was a relative late-comer to the idea of the social investment state, which took hold earlier in Europe, where poverty eradication programs were a more robust blend of developing people's future potential as well as meeting their immediate needs.

As to the content of our post-war programs, it should come as no surprise that this was heavily influenced by the social and economic realities of post-war Canada; in fact, post-war income support programs were designed to address the realities of their time. Three realities of the typical household were especially relevant. First, there was a booming economy where, with the help of re-integration programs for veterans, a bounty of jobs

matched the available skill set. Second, one full-time income was sufficient to raise a family. And third, mothers were available to provide full-time care-giving responsibilities in the home. (See Jenson, January 2004, p.5 for a chart on leading social indicators that informed the post-war welfare programs.)

Not surprisingly, as the big social indicators began to change, the policies and programs of the post-war period came under enormous stress and bigger holes began to emerge in the basic mesh of the safety net.

This is not to suggest that there have been no changes in our post-war welfare state programs. However, in a recent work for the research series on Canada's social architecture by the Canadian Policy Research Networks (Jenson, 2004), Gerard Boychuk looked for shifts in, what he calls, "the policy logics of our major social programs." Analyzing reforms over a sixty year period from the perspective of four basic logics (universalism, social insurance, social inclusion, and social cohesion), he found evidence of significant adaptation and shift, but concludes that "these shifts have not fundamentally displaced the basic logic of existing programs or the broader cast of the social architecture." (Boychuk, vii).

Overall, while programs and policies have been reformed in response to new realities and new priorities, many now wonder whether 60 years of what Ken Battle has called the "relentless incrementalism" of reform (Battle, 2001) may have run its course. If so, it may well be time to re-visit at least some of the basic premises of the post-war policies.

II. New Challenges for Social Welfare in Canada

As noted above, the post-war architecture for social security was designed to address the key issues of the reconstruction full-employment economy. The two key building blocks of that architecture were a commitment to provide a safety net from destitution, and support for the many thousands of new families with children. Sixty years later, the question is does this architecture equip us to meet the key challenges we are likely to face in the future?

Before answering this question it is first necessary to examine what the future challenges may be. Although several experts (Jenson, (September 2004), Battle and Torjman (2002), Courchene (2001), "New Century:New Risks (2004), Hicks (2002)) have constructed their own separate lists of key future challenges, there is great comparability in the core. My own list includes six key challenges which are reviewed briefly below.

1. Childhood Development

There is resounding agreement on the need to continue investing in the critical early years of child development. The federal-provincial-territorial (F/P/T) agreement in 1998 on a National Child Benefit (NCB) in 1998 was a major breakthrough in social policy thinking. Guaranteeing that income support for children would be unaffected as parents moved from welfare to low-paid work, the NCB aimed to remove a significant financial

disincentive for many welfare parents to join the paid work force. Fast on the heels of the NCB agreement came another F/P/T initiative on Early Childhood Development (ECD). In contrast to the NCB's focus on income support in the here and now, the ECD program focused on investments that could improve the child's future, arguably bringing us closer to the European tradition of social investment. In this way, it too was a major breakthrough for social security spending in Canada.

Having said this, the ECD agreement promotes what may be termed "immediate consumption" social services – services that achieve results in a relatively immediate, early-childhood, time frame. The four areas for expenditure identified in the agreement all operate in this context: promoting healthy pregnancy, birth, and infancy; improving parenting and family supports; strengthening early childhood development, learning, and care; and strengthening community supports. This is also reflected in the ECD-funded programs that have the pre-school focus of getting children off to the best start in life and ready to learn as they enter the public school education system (Government of Canada Reports, 2003-04, February, 2005).

The ECD Agreement has a laudatory and important objective which I do not wish to detract from. My point is simply that our current array of major federal/ provincial/ territorial instruments (the NCB and ECD) biases us toward combating child poverty and creating opportunity through the logic of consumption policies rather than through logics of longer-term investment. In this regard, as we shall discuss later in this chapter, the recent changes to the Canada Education Savings Grants and the introduction of the Canada Learning Bond (which aim to build financial assets in the early years for later, rather than for immediate, consumption) may provide the next generation of breakthrough thinking on what additional measures are needed to get children off to the best start in life.

2. Low-Paid Work

Leading policy experts increasingly recognize low-paid work as the Achilles heel of our social security system for working-age adults. (See, Jackson and Robinson (2000), Battle and Torjman (2001), Jenson (September, 2004), Saunders (2005).) It is evident that the basic premise of the post-war welfare state – namely, that full-time employment is the best ticket out of poverty – rings hollow for many workers who are stuck in low-wage jobs.

One in six of full-time workers in Canada are in low-wage work that pays less than ten dollars an hour – two-thirds are women and one-third are the sole income earners in the family (Saunders, 2005). Furthermore, a high proportion of low-paid workers seem stuck there. Ron Saunders of the Canadian Policy Research Networks recently noted that the share of low-wage jobs (i.e. those earning less than ten dollars per hour in real 2001 dollars) has not fallen since 1982 (Saunders, 2005) and, on an individual basis, 47 per cent of those in low paid work in 1996 failed to move up by 2001 (Saunders, 2004). In addition, despite higher rates of employment, poor people are getting poorer as the gap between a minimum-wage salary and the LICO widens and the purchasing power of the minimum wage falls (Jenson, September, 2004; Battle, 2003). All of this adds up to a problem for a welfare system that declares success when a person leaves welfare for work.

While this may be a successful way to save money in the welfare program, it is surely not a sufficient policy for moving individuals out of poverty.

To address this issue two qualifications are in order: first, studies suggest that moving from welfare to work – even low-paid work – *is* an effective anti-poverty strategy for many welfare recipients (Hatfield, 2004); and second, many low-paid workers are not poor in the context of overall family income (Hicks, 2004; Saunders, 2005). That said, for the many that *are* stuck in low-paid work and for those who are the primary family breadwinner, our current array of programs is not proving an effective response.

3. Care Giving: Balancing Work and Family

One of the inevitable consequences of women's increased participation in the paid labour force has been the dramatic shift in the provision of care at home – care for young children, disabled family members, and aging parents.

The participation rate of women in the labour force has risen dramatically from 20.7 per cent in 1941 to 62.1 per cent in 2004 (Jane Jenson, January 2004, and Statistics Canada, CANSIM table 282-0002). Nearly two-thirds of married women with children under the age of six are in the labour force and seven out of every ten couples with children have both parents working (Vanier Institute of the Family, 2004). At the same time, institutional care for the disabled is less available and long wait lists persist for spaces in child care centres.

All of these factors increase the demands on family members to provide care directly and public policy is trying to respond to the demand. The list of recent care-related initiatives at the federal level is impressive and includes: a new F/P/T child care initiative that aims to increase parent's access to quality, universal, accessible child care geared to early childhood development; the extension of parental leave to one full year; the introduction of compassionate care leave provisions under the EI program; and increases in tax benefits to families providing care to a disabled family member. The provinces are also key players in this field, each with its own array of supports and services. Taken together, however, these multiple initiatives lack the coherence that a single policy framework could provide, and, as a result, major weaknesses in access and the adequacy of support remain.

4. Persistent Poverty in At-Risk Groups

Policy analysts have long known that "one-size-fits-all" approaches to tackling poverty do not benefit all citizens equally. Michael Hatfield's path-breaking research in the 1990s provided a new perspective on poverty in Canada (Hatfield, 2001). Using Statistics Canada data, Hatfield looked for patterns of persistent poverty which he defined as occurring when family income persists at levels below the LICO for at least five consecutive years (Hatfield, 2001, 2004). In his research he identified five groups most at-risk of becoming, and staying, stuck in this mould: Aboriginal Canadians living off reserves, persons with work-limiting disabilities, single parents, recently arrived immigrants, and unattached adults in their pre-retirement years (age 45-64). The analysis supported a

shift away from universal income support programs to ones specifically targeting the underlying causes of poverty for each of the five groups – for example, child-care services for single mothers, language training and settlement supports for immigrants, and social development and community programs for Aboriginal Canadians.

The tendency of post-war programs to base interventions on the "typical" household was also giving way to programs targeting sub-groups facing specific barriers in their efforts to leave poverty (See Williams, 2004; PRI, 2004). Still, budgetary spending on these targeted programs is minuscule compared to income support programs, and, more importantly, is declining as a total percentage of social spending.

5. *Work and Retirement*

The challenges in this area of work and retirement arise from the confluence of three or four major developments that are changing our understanding of aging, retirement, and productivity. The combination of an aging but healthy generation of baby-boomers, a declining birth rate, and a trend toward a shrinking number of years in the workforce threaten to bring the ratio of producers to consumers down to levels below what is needed to sustain our quality of life (See Hicks, 2002). This confluence of factors has led many social policy experts to focus on options to extend individuals' attachment to the productive labour force – whether through legislating increases in the age of retirement, changing the incentives and attractiveness of delaying retirement, or promoting volunteering in productive ventures among retired people.

Other ideas move the focus beyond seniors and contemplate schemes to re-distribute work and leisure over the life course (Hicks, 2004) – a measure that could accommodate late entry of highly credentialed young people, with periods of leave in mid-career for care-giving or other personal objectives, with extending years of labour force attachment for older workers. However, these strategies represent a real departure from the assumptions of retirement that underlay the post-war work and pensions systems and, as reformers are discovering, cannot be easily achieved within the existing architecture.

6. *Skills and Learning for the Knowledge-Based Economy*

A sixth pressure on social policy in Canada arises from the challenge of matching human capital with the skills needed for competitiveness in a global knowledge economy. Canadian governments have been aware of this challenge for some time.

It is estimated that 70 per cent of all new jobs created in Canada require some form of post-secondary education (Knowledge Matters, p. 2). In some respects, Canada is well positioned to meet this need as we have the highest percentage of population continuing from secondary to post-secondary studies in the world (Knowledge Matters, p. 3). However, our post-secondary participation rates are stagnating while other countries' rates continue to increase. No consensus exists on all of the reasons why this is the case, but questions of cost and access loom large in most analyses.

A second dimension of the human capital challenge relates to the need for re-skilling over an individual's working years. Increasingly, the skill set that launches a career is proving inadequate for sustaining it or, as is becoming increasingly common, for changing it. The traditional model, based on the life-cycle notion that one acquires a life time stock of knowledge and skills during the years spent in school and draws down on this capital over the work years, is proving to be an inadequate formula for meeting the needs of the knowledge economy. What is needed is a more continuous process for building up and drawing down a store of skills and training, or policies, for life-long learning.

These two challenges – ensuring access to post-secondary studies to gain the basic qualifications for work in the knowledge-based economy, and providing opportunities and supports for life-long learning – are proving hard to achieve in the current approach to learning in Canada.

III. Asset-Based Approaches and the New Challenges

If old ideas and approaches seem to be leaving us floundering, fortunately new approaches are emerging. Four developments illustrate the point and seem particularly noteworthy in this regard: the Policy Research Initiative's pioneering work to promote a "life-course" approach (PRI, 2004); CPRN and Jane Jenson offering new thinking on the need to focus on the responsibility mix of the key actors who contribute to individuals' well-being: governments, markets, communities and families (Jenson, 2004); Tom Courchene providing a new paradigm for human capital development inspired by his concern for Canada's economic competitiveness in the face of the global information revolution (Courchene, 2001); and SEDI, who is promoting asset-based approaches (Self-Sufficiency Conference, Coquitlam, 2004). Our focus is on one of these approaches – asset-building – and how it might be helpful in addressing the next generation of social policy issues in Canada.

The essence of the asset-building approach is to support individuals in accumulating assets during one period of their lives that can be used to smooth transitions or overcome barriers that arise during their lifetime. Most initiatives focus on building financial assets such as personal savings, but increasingly, they also include social and psychological assets such as a strong sense of membership in a community support network or a sense of personal self-confidence and resilience (Williams, 2003).

Three premises of asset-based approaches are especially relevant for understanding how this approach differs from our post-war social policy architecture. These premises are: investment, individual choice, and the mix of responsibilities. Asset-based approaches emphasize investment and future needs rather than consumption to meet immediate needs, which is the objective of our major welfare and income assistance programs. And, in contrast to programs such as EI and CPP where participation is compulsory, participation in asset-based approaches is typically voluntary – individuals decide whether and to what extent they will participate, often setting their own goals both in terms of how many assets they need and the purposes to which they will be put. In this sense, they involve considerably more individual choice than is evident in our current social policy

architecture. Finally, asset-building approaches imply a smaller role for governments than we are accustomed to in our social programs. Government's role is to enable and support personal savings, sometimes involving publicly funded financial incentives through matching grants or tax-benefits, but there is considerably more responsibility on the individual and potentially on the private and community sectors to have ownership stakes in how the assets are accumulated and used.

Although we are seeing more asset-based approaches emerging in social policies around the world, there is still much that needs to be learned about how and when to use them to best effect. In Canada, valuable evaluation work on these approaches is underway by the Social Research and Demonstration Corporation (in partnership with SEDI) which will help identify appropriate – and inappropriate – use of the instrument (SDRC, 2005). Even as this important evaluation work proceeds, however, it is important that we broaden our thinking about possible approaches to addressing social programs and imagine where alternative approaches could lead us. In that spirit, the next section of this chapter aims to stimulate thinking on the contribution that an asset-based approach could make to each of the six areas of "future challenge", introduced in the previous section. Next, we summarize thematically how such applications could represent a new pillar in our social architecture thinking.

1. *Childhood Development*

As Michael Sherraden has written, "asset holding may make the most sense in the case of children" (Sherraden, 2003, p. 3) and practitioners in the UK and Canada appear to agree. Both countries have recently added significant new asset-building programs to their strategies for children. The reasons for focusing on young children seems obvious – asset-building takes time, and it follows that it is best begun early. Moreover, at least in Canada, the new savings benefit could build on elements of the existing program already in place to provide income benefits for children. That said, the addition of asset-based approaches to the Children's Agenda in Canada is a significant development in our thinking on early childhood development programs in at least two important respects: first, the focus on "investment" contrasts sharply with the consumption-oriented National Child Benefit and existing thrust in the Early Childhood Development programs; and second, although it begins as a universal benefit (i.e. all newborns are entitled to the same first instalment by government), this principle quickly shifts the choice to parents as they decide whether and how quickly to build the asset over time.

2. *Low-Paid Work*

Asset-based approaches seem to hold significant potential for addressing issues facing low-paid workers; however, they also have a number of potential pitfalls. On the positive side, evidence suggests that lump-sum financial benefits for low-paid workers (e.g. providing the US Earned Income Supplement as a once-annual lump-sum payment) enables low-income workers to jump-start asset acquisition in critical areas like homeownership, transportation, and education savings (Jackson, 2004).

The *learn*$ave demonstration project in Canada and the US experience with Individual Development Accounts (IDAs) suggests that low-income workers who participate in these initiatives are often pleasantly surprised by their ability to save. However, sceptics raise a number of important concerns. Some oppose the horizontal shift in responsibility for adequate income from employers and governments to the individual, and others oppose the vertical inequities that result since low-income workers are clearly likely to be smaller savers than higher-income workers.

Asset-building approaches may provide an interesting opportunity to address another concern that has been raised with respect to low-paid workers. Recent data cautions us against assuming that low-wage workers are poor or are looking for higher paying jobs. Some are second-income earners in middle or higher income families who may be opting for part-time or casual work; others are students who, although they work for low wages today, have higher income prospects over their lifetime. There are some, however, that are stuck in low wages and are poor (see Saunders, 2005). An asset-based approach could be useful in sorting out this issue. For example, a voluntary asset-building scheme for low-wage workers could limit the uses of assets in such a way that non-poor low wage worker would self-select out of the scheme.

3. Work vs. Retirement

Through Registered Retirement Savings Plans, Registered Retirement Plans and Registered Pension Programs, asset-based approaches already occupy an important place in the retirement income system in Canada. These programs have been calculated to account for approximately one-third of the total retirement assets of Canadians (Shillington, 2003, p. 2). A question to reflect on, however, is what role these assets could play in addressing the policy challenge of the future – namely, how to keep older workers *in* work, as opposed to helping them to retire from it. We know that many older workers would continue working if it were possible to do some things differently. Grant Schellenberg and Cynthia Silver found that 30 per cent of recent retirees would have continued to do paid work if they could have reduced their work schedules without affecting their pension benefits, and that 28 per cent would have continued if part-time work had been an option (Schellenberg and Silver, 2004, p. 3). Registered Retirement Savings Plans (RRSP) already function in a way to support this option; for example, an individual can move from full-time to part-time work and make up the difference in salary by drawing down their RRSP savings. Promoting this option could enable a larger number of older workers to make the choice to stay in the labour force as part-time or self-employed workers. It would also mitigate one of the design limitations of the current RRSP system which, as Richard Shillington has pointed out, is a negative incentive for low-income earners who are simply displacing an entitlement to public pensions with privately accumulated savings (*Shillington, 2003)*.

4. Persistent Poverty in At-Risk Groups

As suggested earlier in this chapter, the adult poverty challenge in Canada increasingly focuses on five specific groups: single parents, Aboriginal Canadians, new immigrants, people with work-related disabilities, and unattached individuals between the ages of 45 and 64. The question here is whether and how asset-based approaches could be used to break the cycle of persistent poverty which traps individuals in these groups.

There is widespread agreement among experts that income and social service supports remain critically important to assisting people in poverty to meet immediate consumption needs. Many of the cautions outlined above, in relation to asset-based approaches for low-paid workers, also apply in the case of groups in persistent poverty – most notably, whether it is realistic to think that poor people can save enough to make a difference in meeting their asset needs. Instead, it should invite us to reflect on the public policy implications for governments in two ways: first, by ensuring that traditional income benefits are adequate to fully meet consumption needs of the poor so that there are resources left over for saving, and second, to design government contributions to asset-building programs so that low-income participants get proportionately more benefits than higher income participants. Recent changes in programs such as the Canada Education Savings Grant are moving in this direction by providing a higher government matching rate for low-income participants. (*Budget 2004 introduced this change to take effect in 2005.)*

Asset-based approaches can be designed with the flexibility that enables participants to use their savings to address the specific barriers to participation that they may be facing. Ensuring this flexibility is especially important if these approaches are to be used to address the needs of the at-risk groups which face barriers quite specific to their circumstance. For example, single parents need help with child care; individuals with work-related disabilities need assistive technologies, and new immigrants have a wide array of settlement-related needs. This is also the conclusion reached in a recent work by Jennifer Robson-Haddow and Sam Ladner which examines various ways in which culturally appropriate and flexible asset-based approaches could more quickly narrow the wealth gap between new immigrants and the rest of the population in relation to recently arrived immigrants (*Robson-Haddow and Ladner, 2005)*.

It should be noted that, in many instances, the missing asset among the persistently poor is not just money, nor even something that money can easily buy. Other deficits include: financial literacy or knowing how to manage savings, lower rates of personal self-esteem and confidence in one's ability to join the mainstream, and the sense of being an outsider in the community. While asset-building approaches focus primarily on the accumulation of financial assets, some researchers are advocating broader approaches that could address these non-financial barriers as well (Williams, 2003).

5. Skills and Training for the Knowledge-Based Economy

Asset-building approaches already exist to support education savings in Canada through tax-benefited Registered Education Savings Plans, the more recent Canada Education Savings Grant program, and the still-nascent Canada Learning Bond. As the Canada

Learning Bond initiative indicates, these programs can and have been tailored to provide additional benefits and incentives to low-income families. Savings in these programs can be used to help meet costs associated with full-time post-secondary studies. Clearly, when 70 per cent of new jobs are expected to require a minimum post-secondary study, these savings programs are an important element of our national strategy for competitiveness in a knowledge-based economy (Knowledge Matters, p.3). But the knowledge-based economy requires more from a skills and learning agenda (see Tom Courchene's analysis of this is A State of Minds, Toward a Human Capita Future for Canadians, for an excellent discussion of the kind of human capital strategy Canada will need for success in the globalized knowledge economy (2001)). We need to transform our approach to post-secondary learning.

To succeed in the knowledge-based economy, we need to make life-long learning informal as well as formal, in the workplace as well as on the campus, non-credit as well as for credit -- all things that the current savings programs do not adequately promote. Asset-based approaches, designed with appropriate flexibility to support a broader range of learning, might be an important tool in prompting this transformation in our skills and learning system. Importantly asset-building approaches in education that put power in the hands of the learner to choose new learning venues might help breakdown the stranglehold that formal learning institutions currently have on the learning agenda.

6. Care Giving

What might asset-building contribute to the care giving agenda? Several possibilities are worth exploring. As noted earlier in this chapter, the Marshian post-war welfare state was based on a separation of the public and private spheres. As Jane Jenson noted, post-war employers assumed that their workers would check their family lives at the door and do their work, unencumbered by whatever was going on at home (*Jenson, January 2004, p. 5)*. This assumption is no longer the case as employers and governments have increasingly come to understand the importance of balancing work and family. Employers now understand how important this balance can be to productivity, employee health, and employee retention. If this is the case, then it would seem natural and appropriate to think of care giving responsibilities as being as valid as other parts of any employee's personal development plan. At present, however, government-funded asset-based programs such as the Registered Education Savings Plan and the Canada Education Savings Plan do not embrace this logic; instead, they implicitly treat human capital development (i.e. using savings for skills and training) as a more appropriate use of government-assisted personal savings than social capital development (i.e. including care giving and work-family balance). Broadening the eligible uses of savings accumulated under existing asset-based programs, and making these more progressive and accessible, to be used to take time off for care giving could be a relatively easy change to make.

An alternative approach, also in the asset-building tradition, might involve both employers and employees. For example, employees could build up assets in the form of leave entitlements as part of their benefits package, perhaps building on the provision of leave for "family-related responsibilities" currently found in many employment packages. This could be expanded considerably to provide extended periods of leave for care giving.

Conclusion

We have seen how an asset-based approach could be tagged on to existing social programs to have important consequences. Indeed, asset-based approaches are already built into our policy responses in areas such as education, retirement, and homeownership. We have identified more places where an asset-based approach could be incorporated into our current thinking. We have also identified some applications of asset-based approaches that would be bigger departures from current thinking and could cause us to revisit some of the basic assumptions underlying our approach to social well-being. In this concluding section, we reflect on three of the "big" ideas of asset-based thinking that could significantly re-orient our approaches to poverty.

One opportunity for transformative thinking in our approach to poverty comes with the shift in focus from consumption programs to investment programs. Michael Sherraden has suggested that asset-based approaches can move us "from the social welfare state to the social investment state" (*Sherraden, 2003)*, shifting the focus of social spending from social protection to economic growth. They promote social well-being through improved economic well-being. This, in itself, is not new. The post-war welfare state understood that most well-being came from paid employment. But the asset approach differs – it focuses on enabling people not to get jobs, per se, but to improve their capability to be productive. In this sense, it is similar to the 1970s and 1980s transformation in labour market policies brought on by the shift in focus to active measures. Asset-building may well be the "active measures" equivalent for welfare policy that training and skills investments were for labour market policy in the 1970s and 1980s. Michael Sherraden suggests something similar when he writes:

> Social policy appears likely to move beyond consumption support, aiming for greater social and economic development of households, communities, and the society and economy as a whole. An active social policy that promotes engagement is better suited to the post-industrial economy.
> (*Sherraden, 2003, p. 1)*

A second opportunity for transformative thinking about social programs comes from marrying the focus on point-in-time income support with a key principle embedded in asset-based thinking, namely, assisting individuals to mitigate their risk of poverty by accumulating assets at particular times in their lives to be used at other times. This stock-and-flow view of well-being is entirely consistent with some of the innovative thinking on life-course analysis that is being developed in Canada (*PRI, August, 2004 and Hicks, 2002, section 4.4.)* It contrasts sharply with the life-stage and point-in-time focus found in much of our post-war thinking about poverty. It also opens the door for poverty strategies that are tailored to individual circumstances of poverty. In asset-based approaches, individuals make investment choices based on their own particular needs. The market responds by tailoring programs to individuals, not the other way around. This contrasts with the predominant thrust that is evident in many of today's "big box" programs, where responsiveness to individual needs is often sacrificed to the goal of simply getting people off the public programs of EI or welfare.

A third important change that asset-based approaches bring to welfare thinking is the shift in responsibility and empowerment to the individual. To be sure, there is significant controversy over such a shift. Critics are right to warn that asset-based approaches can too easily be a convenient way for governments to cut safety net programs and to "privatize" poverty by implying that the poor have the resources to make their own choices between consumption and investment (see Jackson, 2004). For this reason, we must insist, as even the most ardent promoters of asset-building approaches do, that asset-based approaches to poverty be a complement to and not a replacement for basic income support programs. We must also insist that asset-based approaches to fight poverty come only if we know that the poor have a meaningful capacity to save. This means that we must first fix the problem of inadequate basic welfare benefits. Too often these programs lock people into poverty by first stripping them of their assets, and then putting them on income assistance programs that are inadequate to meet even the basic needs of food, shelter, and well-being. By contrast, an adult poverty strategy that combines measures to promote asset development with income assistance reforms that provide an adequate basic benefit could be the transformative approach that would enable the poor to finally leave poverty behind.

This discussion has identified some of the potential benefits of incorporating more asset-building logics into our social policy thinking. Much work is needed to better understand whether and how these potentials can be translated into reality in a Canadian context. As this work proceeds, we should also explore linkages between asset-building and some of the other transformative analytical frameworks gaining support in Canada that were noted earlier in the chapter. For example, we should explore synergies between asset-building approaches and life-course analysis, both of which emphasize a stock-and-flow approach to building up, storing, and drawing down resources over a lifetime. We should also explore synergies between asset-building and the CPRN well-being diamond, especially from the perspective of re-balancing the roles and responsibilities for social well-being between governments, markets, communities, and families.

Leonard Marsh's legacy teaches us that big and sometimes disparate ideas, brought together into a single blueprint and given the room to grow and adapt to changing social conditions, can and have made a big difference for the well-being of Canadians. It's an inspiring lesson that we would all do well to heed.

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Achieving Financial Empowerment for Individuals and Communities: The Social Economy as Part of the Equation

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Abstract

Social economy initiatives favour collective action towards a goal of public interest, often linked to local development or job placement. At the same time, asset-building programs offer individuals the financial support they need in order to complete infrastructure projects. In both cases, these approaches take into account the involvement of citizens and redefine the role of the State. In this text, the authors present possibilities for the mutual reinforcement of these two socio-economic development strategies.

Introduction

The fight against poverty in post-industrialized countries poses many challenges. The problems of low-income individuals and families can be numerous and cumulative, and include such issues as: limited education, poorer health, lower access to adequate housing, non-existent or non-secure employment, and social isolation. In addition, there is also the other, slightly lesser-known fact of poverty existing among employed persons.[1] It is due to this new, more complex and segmented context that more innovative and specific solutions are necessary.

Although the traditional redistribution approach, which is based on income security programs, is necessary, it is also limited in its capacity to break the cycles of poverty. This is why many researchers believe that social policy innovation consists of "activating" or "stimulating" the amounts allocated to welfare within a context of social development and investment (Esping-Andersen et al., 2002; Jensen and Saint-Martin, 2004; Midgley, 2003). The challenge, therefore, is to develop programs that are both flexible and adaptable to individual needs, and for which the impact can justify the investment.

The authors believe that experimenting with programs that encourage individuals to build their financial capital (for example, through business start-up or retirement) or to obtain infrastructure assets (such as a house or a computer) is

[1] In 2001, there were 653,000 low-income workers in Canada, among 1.5 million people living in low-income, of which over a third were children. (Fleury and Fortin, 2004)

part of this innovative category. This approach, better known as asset-building policy, is catching on around the world (OECD, 2003), particularly in countries such as the United States, the United Kingdom, Canada, and New Zealand (Sherraden, 1992, 1994; Sherraden et al., 2004; Robson-Haddow, 2002; Skilling, 2004). Throughout the various countries, these programs take many different shapes. In some cases, they involve payment of restricted sums, as with the Canada Learning Bond or the Child Trust Fund created in Great-Britain by the Labour government. In other cases, notably IDAs (Individual Development Accounts), the programs involve a financial commitment from individuals, as contributions from personal savings are required. In such programs, pilot projects that are currently underway include the payment of a weekly or monthly grant added to the amount saved by the participant for a particular savings goal. Training in financial management and skills, as well as individual case management, generally accompany this financial incentive. It should be noted here that, initially, these IDA programs were often launched by NGOs with philanthropic funding and that governments only later took-up the idea (OECD, 2003).

Although we believe that programs which include a personal contribution to savings are better suited to low-income workers who have time to accumulate savings, some of the projects involving recipients of income security were very successful. Due to the preliminary findings of these programs, it is clear that the addition of asset-building to the social policy toolbox is immediately attractive as it calls for individual accountability as well as empowerment in both a medium and long term perspectives. Furthermore, the asset-building approach allows individuals to think towards the future, to plan, and to dream.

Having said this, personal involvement and research into the social economy forces us to raise questions about the development and implementation processes of such programs, particularly in regards to the involvement of civil society stakeholders and to community support. As such, it is our intention that this paper demonstrates the potential of social economy stakeholders to contribute to the implementation of financial asset development projects, while also demonstrating the importance of not disassociating the financial empowerment of individuals and of communities within a progressive social vision.

For the purposes of this paper, we have chosen to concentrate on IDAs within asset-building programs as this model encourages individuals to get involved and, thereby best meets our set objective of empowerment. First, we will define the social economy and provide a brief description of this sector in Quebec. It is important to note here that our analysis is mainly concentrated in Quebec since the province's social economy sector has had sustained development and is acknowledged to be an essential part of its economic and social development. In Quebec, the common values of the social economy unite the community movement with non-profit and cooperative collective enterprises. The inclusion in the social economy of collective organizations that commercialize products or services on the market is a factor unique to the Quebec model, and clearly

distinguishes it from the voluntary sector, which is closer to the North American tradition (Salamon and Anheier, 1996). Second, we will study two areas of social economy intervention where possible links between individual asset-building programs and community development can be demonstrated, namely cooperative housing and collective enterprises of community-based services. With the help of these two concrete examples we attempt to illustrate the ways in which the social economy can strengthen the implementation of asset-building programs. We will also suggest partnership programs that could be useful in the development of public policies.

I. Definition of the Social Economy and a Description of this Sector in Quebec

In Quebec, a social economy tradition exists which dates back to the 19th Century when cooperatives and membership organizations were developed in order to cater to needs not being met by the private sector. This "third sector", which was founded on an association of individuals with values of solidarity, has experienced renewed growth over the last 15 years and today includes a variety of practices that stem from civil society. In Quebec, the partial institutionalization of the sector and excellent public support has strengthened the development of this social economy.

In order to provide a better understanding of what we are discussing, we believe it important to include a definition of the social economy that was agreed upon during the 1996 Economic and Employment Summit in Quebec that brought together representatives from government, the business world, unions, and the community movement. This definition, which takes into account legal statutes and values, was largely inspired by the definition adopted in Belgium (Defourny and Monzon Campos, 1992).

TABLE 1 - Definition of Social Economy

As a whole, the area of social economy groups together all activities and organizations that stem from the collective entrepreneurship that functions according to the following principles and operational rules:

- The mission of social economy organizations is to provide services to its members and the community without being solely profit-oriented;
- Management is independent of government;
- According to its statutes, workers and users use a democratic process for decision-making;
- People and work have priority over capital in the allocation of its surpluses and revenues;
- Activities are based on the values of participation, empowerment, and individual and collective responsibility.

Chantier de l'économie sociale, 2001.

In Quebec, the sector as a whole, including community organizations and social economy businesses, whether they have the legal form of a non-profit organization, a cooperative, or a member-based organization, represents over 160,000 jobs in 8,000 organizations and generates seven per cent of GDP (Larose, Vaillancourt, Shields and Kearney, 2005). In 2004, 3,000 cooperatives in Quebec had seven million members and generated 19.2 billion dollars in assets. The cooperative sector alone saw its revenues climb by 40 per cent in the period between1999 to 2003, increasing from 12.9 to 18.1 billion dollars (Turcotte, 2005). Incidentally, the Desjardins Group, the largest non-governmental employer in Quebec, with over 37,000 jobs, is a cooperative institution. This significant presence of the social economy in the socio-economic fabric of Quebec is unique in North America and the "Quebec model" is closer to that of some Western European countries. As a comparison, by the end of the 1990s, the social economy sector was generating between six and seven per cent of jobs in Europe, according to the International Centre of Research and Information on Public and Cooperative Economy (CIRIEC, 1999).

Social economy initiatives are present in many fields, including: child care centres, domestic help, the environment, the food industry, media, tourism, housing, culture, socio-economic integration, agriculture, training, funeral services, and financial services. Furthermore, the sector is becoming better structured and represented in part due to many different sectoral groups and associations united around the *Chantier de l'économie sociale*. These community-based initiatives aim to promote sustainable social and economic development for the widest possible benefit, and thereby rely upon the participation and accountability of those involved.

By accepting economic development as an essential part of social advancement and inclusion of individuals, stakeholders of the social economy tend to use more varied developmental tools than those from the philanthropic voluntary sector. The integration of economic activity of a commercial nature, in support of social development activities, fosters community empowerment. Collaboration between these two social economy categories is very desirable and the positive impact of this type of collaboration is demonstrated by numerous examples of empowerment by citizens in the regions.

The authors are of the opinion that the social economy, with its existing structure, values, and tools, as well as its capacity to integrate complementary logic, can significantly contribute to policies aimed at increasing access to individual assets. Already from an ideological point of view, a perspective that takes a collective approach (in comparison with a vision based on the individual) allows us to set out propositions where social economy and asset-building programs mutually support one another. This potential for mutual support is what we will study in the following section by using examples in the areas of housing and community-based small and micro enterprise start-ups.

II. Prospective Interaction in Two Fields: Housing and Business Start-Ups

Before discussing the specific cases of housing and small business start-ups, we would like to first set out certain key elements that will allow us to identify the characteristics of the

social economy and asset-building approaches, as well as to initiate a discussion on the conditions for reciprocal reinforcement.

TABLE 2 - Characteristics of the two approaches

Social Economy	Asset-Building Programs (IDAs)
Existing structure/network/representation	Investments targeted to populations in need of support
Active presence of civil society	Financial involvement by individual (motivation)
Democratic management	Government contribution
Integration of various logics	Case management and financial training

The first overlap between the social economy sector and asset-building programs involves the community roots of the various projects. The American Dream Demonstration (ADD), the first large scale IDA program tested in the United States, called on the services of community development organizations for the implementation of projects both for participant selection as well as for financial training (Schreiner, Clancy and Sherraden, 2002). This is also the case in *learn*$ave, a Canadian experiment that was launched in ten communities with the help of local organizations (Kingwell et al., 2004). The importance of having a direct link with the target groups to be supported is paramount. The existing structure of the social economy in Quebec, including the community movement, would ensure a solid base for future programs in the province. On the one hand, organizations are present in all regions and, on the other, the sector benefits from an association between the *Chantier de l'économie sociale*, the *Conseil de la coopération du Québec*, and sectoral and geographic groups. In contrast, it might be important for the stakeholders of the social economy to start acquiring greater expertise in the use of financial information and in the capacity to train program participants, evaluate impacts, and follow up on them. The involvement of the Desjardins Group in a joint "social economy/asset-building" operation could prove quite helpful in this regard.

That being said, the involvement of social economy organizations should not be limited to the service delivery of programs. Instead, the presence of community representatives should, according to the democratic management model, allow for intervention at the program development stage as well as the ability to shape programs based on local needs.

Another characteristic particular to social economy organizations is their ability to function by integrating different logics of a seemingly contradictory nature. For example, a social mission, be it employment development, environmental protection, cultural promotion, or service delivery, can motivate the establishment of a competitive market business that may receive one-time or on-going State support, is managed democratically and redistributes its profits, where applicable, to its members. Cooperative housing and small community-based business start-ups serve to illustrate this fact.

Among asset-building programs, and more specifically IDAs, we find other types of innovative characteristics. First of all, they are distinguished by a targeted investment

approach that appeals to the personal motivation of participants. This trigger, which can be quite powerful, merits our attention. In fact, if we criticize asset-building programs for neglecting the possibilities of collective development, we must also criticize certain promoters of the social economy for draining individuals' normal aspirations of achieving a better financial situation for themselves and their children, including the purchase of a home and the establishment of a pension or education fund.

Other important strengths of asset-building programs include individual financial training and privileged access to a financial institution. In many cases, the skills and increased confidence acquired in the process could not have been obtained any other way.

Finally, if pilots continue to demonstrate the effectiveness of the concept, and if they are carried out in a more in-depth manner, new government investment in economic development for the most disadvantaged could also fuel the development of the social economy in Quebec. However, it will first be necessary to establish certain links between the two approaches.

Now we examine two possible examples of where mutual support can be developed in greater detail – housing and small business start-up.

1. Cooperative Housing

One of the major avenues of asset-building programs is supporting homeownership. In Canada, SEDI (Social and Enterprise Development Innovations) carried out an extensive study entitled *Home$ave* in 2002, which explored the concept of a national IDA project focused on homeownership. This analysis showed interest among potential candidates and support among many social development stakeholders (SEDI, 2003).

In the United States, the *American Dream Demonstration*, launched in 1997, and stretching over four years, was able to recruit 2,500 participants. Of this number, 57 per cent planned to spend their accumulated assets on the purchase of a home, compared to 18 per cent who intended to start a small business and 15 per cent who wanted to go back to school or pay for their childrens' education (De Kerorguen, 2002).

It is well-known that homeownership represents an important symbolic value of independence and success while also providing a stable environment to low-income families. However, the purchase of a single-family home can also be risky and even counter-productive in some cases. In fact, according to an American study (Baker, 2005), when the length of possession is less than four years, the expenses related to the purchase are not amortized. Furthermore, resale of a property purchased during a housing "bubble" could have a dramatic financial effect on those with modest incomes.

These cautions, which are important to consider when involved in projects supporting homeownerships, lead us to reflect upon alternate models that may be more appropriate in some cases and for some client groups. In the housing field, many types of support and resources can coexist in order for users to make the choices that are best suited to their situations. This being said, in the context of our discussion we find it interesting to examine

the possibilities for pairing asset-building programs and cooperative housing development. Here we suggest that the cooperative housing model offers a solution equivalent to that of asset-building in terms of access to adequate housing, security of tenure, and ownership of personal living space while also reducing certain costs and focusing on values of cooperative support and management.[2] This option can also prove more appropriate for single individuals, single-parent families, and the elderly – groups that are overrepresented in the lower end of the income distribution scale. However, this being said, unlike asset-building, individuals and families living in cooperative housing do not build financial equity since the units are for "continuous possession" and cannot be resold.

We have often asked ourselves whether it would be possible to imagine new avenues to homeownership for low-income workers by updating the cooperative model. This line of questioning leads us to propose a model that would encourage low-income workers to save their money with an end goal of purchasing a unit in a cooperative housing project. Our hypothesis is formed with the intention of responding to the goal of individual financial empowerment goal while at the same time subscribing to the hybrid logic of the social economy (Laville, 1994). The points we raise here are intended to stimulate discussion regarding the link between asset-building programs in the housing field and social economy practices. The responses and comments of stakeholders in the housing, social economy, and community finance sectors should be solicited to confirm the value of pursuing this hypothesis. We also believe that a survey of potential participants should be done following this first draft in order to maintain the spirit of community development and empowerment. This approach was adopted by SEDI in research on the *Home*$ave project and showed enthusiastic receptivity among prospective clients (SEDI, 2003).

The authors of this paper propose a homeownership program based on an updated cooperative model that would allow low-income families and women who are the heads of single-family households to become true owners of a unit in a cooperative. The capital needed for the downpayment would come from individual savings, plus a government grant for a determined period of up to five years. In doing so, a weekly $10 contribution could generate $2,600 per year, if the grant matches the savings at a rate of four to one. Up to this point, this system of matched savings has formed the typical IDA program. From this foundation, we suggest adding elements belonging to the social economy such as the creation of local public/private/community/ philanthropic/academic partnerships around these cooperative housing projects.

As well as responding to specific local development needs, this collaboration would allow for he enlistment of different social players as well as for the distribution of roles and responsibilities to complete this project, including: the transfer of old buildings by municipalities and other public authorities, mortgage loan guarantees, shared purchases of furniture or appliances, financial training, and the allocation of human resources. Moreover, a participatory structure could be created at the implementation stage by way

[2] In Quebec, there are 23,000 cooperative housing units and 27,000 non-profit housing organizations, or 1.4 per cent and 1.6 per cent of the total rental housing stock, respectively. (Ducharme, Lalonde and Vaillancourt, 2003)

of a board of directors with representation from participants, workers, and funders, in order to encourage networking, support, mutual cooperation, and the collective management of the real estate property.

As with other asset-building programs, financial training and case management would be offered to participants by a community organization in collaboration with a local financial institution.

TABLE 3 - Illustration of the Cost and Financing of a Cooperative Housing Unit

Housing Costs	$100,000
Participant Savings	$2,600
Savings Grant	$10,400
Capital Funding	$13,000
Mortgage	$87,000
Loan Repayment	$546 per month or $6,552 per year[3]

This proposal aims to demonstrate how, with savings of $2,600 matched by a public investment of four times that amount and with the support of partners from various fields, youth or families with modest incomes could own real estate. In fact, the mortgage loan repayment amount remains quite reasonable, so long as the standard that housing costs should not exceed 30 per cent of disposable income remains the same.

The proposed program would encourage financial security and the welfare of children while also ensuring a financial cushion for retirement. The contribution of participants, as a group, to the development of the project, within the universe of the social economy, strengthens the viability of the project. This pooling also allows for savings on certain purchases and services (notary fees, moving costs, purchases, etc.) and, what's more, the contributions of the community partners as a whole give the project a solid financial and social base. Evaluation of progress in meeting goals, in collaboration with researchers, would enable the implementation to be adjusted as required.

The homeownership program we are proposing is based on a social investment approach that may seem long (five years), but it has been demonstrated that learning to save over a longer period of time encourages the development of a life-long habit. Savings behaviour also has a significant positive impact on the children's future ability to save (Sherradan, Williams, Moore McBride and Ssewamala, 2004).

We realize that responsibly saving $10 per week over five years can require a significant effort on the part of the individuals participating in this program; however, during the *learn*$ave demonstration, it was shown that participants saved, on average, a total of $54 per month. Certain detractors might say that requiring such an effort is unreasonable.

[3] 5 year 5.8% closed mortgage over 25 years. The repayment does not include property taxes.

However, we must consider that the sums acquired through the grant, combined with the encouragement of program peers, are important factors in staying motivated and overcoming hurdles that would have otherwise been impossible.

Finally, the implementation of cooperative housing projects and national networking of projects are compatible with the development of the Third Sector. The program we are proposing aims to increase the assets of individuals while also encouraging community growth. Empowerment objectives can be applied at both the individual and the community level. The next step would be to consult with the key stakeholders in this proposed project – the target population and the players of the social economy – in order to get their opinions on the matter. One good way to obtain the opinions of homebuyers would be to conduct surveys in the 15 designated "Vibrant Communities" across Canada, including the Saint-Michel neighbourhood in Montreal.[4] Pilot projects could then be implemented in these communities since an active partnership between the public and private sectors, and the social economy and philanthropic sectors already exists.

2. Collective Enterprises of Community-Based Services

We have already indicated that many participants in asset-building programs south of the border (18 per cent in the American Dream Demonstration) planned to use their savings and matched funds to start small businesses. This was an option that was also possible through the *learn$ave* project in Canada where the 3,600 participants had the choice of using their accumulated assets to pursue post-secondary education, get further training, or start their own businesses.

In many cases, dreams of financial independence consist of modest self-employment projects such as housekeeping, hair salons, and landscaping. Many women might try this route in the hopes of balancing their work and family responsibilities by controlling the use of their time. Unfortunately, experience shows that, for lack of skills and a good network of contacts, some new entrepreneurs work longer hours for a lower salary and less security (Schreiner, 2004). This evidence calls for caution and forces us to reflect upon the results and goals of business development programs. Once again, the experience of the new social economy opens an avenue to explore the positive effects of economic development in communities.

First, we need to remember that during the employment crisis of the 1980s, a plethora of collective initiatives in services were put in place by social economy organizations to reverse the effects of socio-economic exclusion. These community-based service businesses (Laville, 1994) had a double mission – to contribute to the welfare of the community and to generate revenues through fee-based services that add to the viability of the business. These businesses could also rely on municipal, provincial and federal funding. The contribution of private sector partners and volunteer work are also an important part of the philosophy behind the economy that is both social and inclusive.

[4] For more information: www.vibrantcommunities.ca.

When these organizations take the legal form of a cooperative, they can redistribute part of the operation-generated profits to their members. On top of their income, members also see improvement in their financial situation through this distribution of wealth. In Quebec, ambulance service cooperatives are a great example of how social economy businesses can be excellent savings vehicles for their members. It is true that, in the case of other sectors, particularly housekeeping cooperatives, day-to-day operations rarely generate sufficient profits to allow sharing surpluses by means of dividends. However, the success of such cooperatives also resides in the creation of jobs and democratic participation.

Contrary to traditional businesses, the goal of social economy businesses is not only to make profits, but also to convey social values. As such, when there are surpluses, they tend to be lower than those generated in the private sector. In contrast, the survival rate of cooperatives, one of the components of the social economy, is twice as high as that of private businesses and 68 per cent of jobs created in cooperatives still exist after ten years (*Conseil de la coopération du Québec*, 2003: 10).

At the local level in Quebec, promoters of social economy organizations and businesses have access to financial support for start-up operation costs, company consolidation, as well as patient and venture capital. Following Quebec's 1996 Summit on Economy and Employment, the provincial government launched programs to develop this sector, believed to be a good means of job creation. Key players from the labour, community, and private sectors have also created financial tools adapted to the needs of social entrepreneurs. The main resources available include: Community Economic Development Corporations (CEDC), Local Development Centres (LDCs), the *Réseau d'investissement social du Québec (RISQ)*, *FilAction*, *Fondaction* and the *Fonds de financement coopératif*. For more information on these resources, please consult Appendix 1.

Since a financial support structure already exists for the development of businesses that rely on collaborative partnerships, we believe it would be appropriate to find out, in the case of cooperatives, in which ways future asset-building programs could stimulate the development of social economy businesses, create more employment in the community, and allow low-income workers to share in the wealth generated.

In order to do this, let us first recall how asset-building programs have worked in previous projects to encourage small business development. As is the case in homeownership programs, participants with the necessary profile are encouraged to save small amounts of money each week in a bank account, to which the government also adds an amount calculated at a fixed ratio. The goal is to help new entrepreneurs build investment capital to cover the start-up costs of their projects. These programs also include training and case management components.

In our opinion, these programs are an interesting starting point as they offer participants the opportunity of building capital, even in modest amounts. However, there are still many significant obstacles a person will need to overcome before being able to start up and operate a business. For example, new entrepreneurs may have accumulated investment capital of a few thousand dollars with the help of matched savings, but they will not

necessarily have access to credit. By partnering with other collective stakeholders, business projects have a much better chance of success.

According to Schreiner (2004), financially disadvantaged individuals face three important barriers to developing a small business. They have limited access to bank loans, a more limited ability to save for investment, and very little support from a social network. These findings lead us to believe that a partnership between individual financial training programs and the support structure for collective entrepreneurship in Quebec would increase the success rate of these entrepreneurial projects. The integration of these tools could be done through the following three channels:

1) Financing
   Individual financing, which calls for individual responsibility and participation, is complementary to financial support for collective projects with a social mission improves the resource potential and the base of the project. A partnership between these two types of grants also allows prospective entrepreneurs to come together, which can be valuable from a training standpoint and for sharing past experiences. Once the initial investment is attained, a start-up loan formula based on the solidarity loan principles proposed by the Grameen Bank of Bangladesh (Defourny, Develtere and Fonteneau, 1999) could even be considered.

2) Networking
   By definition, collective business projects call upon the creation of a network. In its early stages, this is a group of people that establishes the organization. For their part, the Board of Directors, sectoral associations and cooperative groups, and non-profit organizations form a base to access various skills and an expanded network. Another element of the social economy's way of doing business is to search for partners from different fields, which also has a positive impact on the extent of the network. Finally, Local Development Centres (LDCs) and Regional Development Cooperatives (RDCs) contribute to business networking by offering consulting services for the establishment of a social economy business plan.

3) Product and Service Development
   The involvement of several individuals and types of stakeholders in social economy business projects also offers the advantage of better opportunities to identify market needs and niches to fill, particularly in community service sectors.

At this stage of our study, we believe that many factors demonstrate the advantage of creating a partnership between the social economy and asset-building programs in order to maximize resources that encourage financial empowerment of individuals and communities in all parts of Canada. The incentives offered by asset-building programs stimulate a personal entrepreneurial motivation that, in some cases, can coexist with the values of collective development. For example, the option of starting a non-profit organization or a cooperative of a social nature and information on specific support programs could be included in training sessions offered to participants.

Conclusion

Asset-building pilot projects conducted in many parts of the world have demonstrated the positive contribution of tangible assets in a more holistic view of welfare. When participants start acquiring financial or tangible assets, their perceptions and behaviours undergo a transformation (Sherraden and Page-Adams, 1996). Furthermore, early empirical studies demonstrate that, in the case of women, the beneficial effects of financial empowerment are very significant (Maxwell, 2005). We have also noticed that newly arrived immigrants are interested in such assistance (SEDI, 2003). In Quebec and in Canada, there is a large segment of the working population for whom employment income is insufficient to cover the essential needs of the household. In the context of financial precariousness, the development of targeted support, such as asset-building programs, is certainly justified.

The goal of this study was to encourage debate and further discussion on the ways in which asset-building programs and social economy initiatives, as they exist in Quebec, might be mutually reinforced. We have chosen to lay the foundations for possible topics of discussion in relation to housing and small business development in the community. These ideas are directed to those in charge of promoting asset-building programs and the social economy as fields that can both benefit from partnership and can learn from one another.

With respect to the concept of integrating housing cooperatives into asset-building programs, we invite housing advocates to reflect upon the possible links between asset-building programs for low-income individuals and the social economy sector. In the housing sector, would it not be promising to encourage family units to become true owners of an affordable home within a renewed cooperative model? Whereas the concept of savings accounts for the purpose of homeownership calls for individual responsibility and participation, cooperative housing options, in the realm of the social economy and solidarity, offer personal support and democratic management. Therefore, bridging mechanisms should be studied. This being said, we do not believe in a miracle "one size fits all" cure. This proposal might not be the best avenue for everyone, but it does offer the chance for better community support, which, for many families, can make all the difference.

In terms of small business start-up, advocates for the social economy could rediscover the creative force behind individual motivation towards financial well-being. Even if individuals work on developing collective projects, they can still aspire to become homeowners or to have education funds for their children, so long as the principles of social justice, democracy, and sustainable development are respected.

We believe that in the field of business development, asset-building programs are excellent tools to increase workers' confidence in their ability to save and develop business plans when they are supported. However, we also believe that the participation of a range of stakeholders in the organization, as is the case in social economy businesses, would improve access to credit and to an expanded network. What's more, communities can benefit from other positive impacts like democratic management and the choice of shared local objectives.

In conclusion, we open the debate to representatives from institutions, practitioners, and researchers to determine the points of view of various stakeholders on the integration of asset-building programs and programs that support the development of the social economy. We believe that these strategies for development and the fight against poverty and exclusion share certain goals and can be complementary, particularly in the fields of housing and community entrepreneurship. Through increased community involvement, and that of stakeholders from different fields, the link between asset-building programs and the social economy sector could help maximize the impact of public policies. The next step is determining whether there is a consensus surrounding these integrated approaches for the financial empowerment of households and communities.

APPPENDIX 1

Community Economic Development Corporation (CEDC)
The main objective of a CEDC is to improve an individual's living environment through job creation and security, the development of the labour force, private and social entrepreneurship support, project development support, as well as territory revitalization initiatives. There are presently 17 CEDCs in Quebec, including 11 in the Greater Montreal Area. A product of the community movement, the first CEDC was established in 1984.

Local Development Centre (LDC)
The goal of an LDC is to mobilize all local stakeholders to adopt a common approach centred upon action, favouring economic development, and job creation within its territory through a joint partnership between the government and the local community. There are presently 119 LDCs in existence. The network was established in 1997 and is partly funded by the Quebec provincial government (70%) and municipalities (30%).

Réseau d'investissement social du Québec (RISQ)
RISQ is a non-profit-making venture capital fund whose mission is to provide financing to partnership businesses. Its objective is to support the economic development of partnership businesses by injecting monies that act as a financial lever to implement their projects.

FilAction
This fund primarily supports companies of all legal forms that encourage their workers to take part in the decision-making process in matters that involve them. In particular, *FilAction* supports integrated and social economy businesses as well as local development funds that favour the financial autonomy of individuals and groups.

Fondaction
This workers fund invests at least 60% of its assets in Quebec companies, particularly those that have adopted a participation-based management concept, that are self-controlled, cooperatives, or others whose charter sets out an equal division of votes between shareholders or members, or those whose decisions and work contribute to the protection and improvement of the quality of the environment.

Fonds de financement coopératif
This fund is dedicated to the capitalization of collective enterprises, cooperatives, and non-profit organizations. It is managed by FilAction.

Sources: Larose et al. (2005), www.fonds-risq.qc.ca, www.filaction.qc.ca and www.fondaction.qc.ca.

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An Examination of Asset-Building as a Means to Foster Financial Inclusion: The Case of Individual Development Accounts

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Abstract

This paper uses Individual Development Account (IDA) programs as a case study to examine the relationship between asset-building and financial exclusion. It begins by examining the nature, consequences and causes of financial exclusion. Then it analyzes how IDA programs address the causes of financial exclusion. It concludes that IDA programs can assist participants to overcome financial exclusion but only partly. The IDA program capacity to do this can be improved by adjusting program goals and training.

The author wishes to thank three reviewers, Jennifer Robson, Peter Hicks and Peter Nares for comments and suggestions they made on a previous version of this paper.

Introduction

Financial exclusion — when one has no, or a limited, relationship with a bank — seems to be on the rise in Canada evidenced by the growth of some fringe banks, particularly pay-day lenders. Limited data suggest that financial exclusion is negatively correlated with household income. Some asset-building programs such as Registered Retirement Savings Programs (RRSPs) are not tailored for low-income households and financial exclusion reinforces this. Other types of asset-building programs, like Individual Development Accounts (IDAs) and the Canada Learning Bond are designed to assist low-income households build assets and move out of poverty. Asset-building may also help some people overcome financial exclusion.

This paper begins by analyzing the nature, consequences, and causes of financial exclusion. Then the paper proposes a simple model of the household economy as a useful way to consider how financial exclusion and heavy reliance on fringe banks constrains economic improvement. Finally, drawing on the example of IDAs as an asset-building model, this paper seeks to analyze the relationship between an asset-building and financial exclusion. Ultimately, it is argued that IDAs can help reduce factors that constrain individuals to work with a bank but IDAs alone cannot address structural obstacles that underlie financial exclusion.

I. The Nature, Consequence and Causes of Financial Exclusion

The Nature and Size of Financial Exclusion

Large numbers of Canadians find themselves excluded from the mainstream financial system dominated by banks,[1] becoming dependent instead on fringe banks and informal financial systems. In particular, low-income adults find themselves dependent on pawnshops, cheque-cashers, pay-day lenders and rent-to-own firms, and informal financial systems provided by corner stores, bars, friends and family. This issue is important for public policy because financial exclusion is correlated with poverty and fringe banking, the bank of choice for many financially excluded people are, at present, weakly regulated and are, almost universally, charging annualized interest rates on small loans well in excess of the criminal rate of interest.[2] Financial exclusion refers to people who face costly and limited financial services because they do not have any, or a very limited number of services at a bank and who are largely or exclusively dependent on fringe and informal financial systems.

Measuring financial exclusion is more problematic. First, there is no universally accepted definition of financial exclusion. In some cases it refers to people who are completely "unbanked" while, in other cases, it includes people who are under-banked. Second, if measurement is done through telephone surveys there is an inherent underestimation problem since low-income people who are more likely to be financially excluded are also less likely to own a phone.

A 1996 survey of Canadians estimated that three per cent, or 650,000, of the total Canadian adult population and eight per cent of low-income households (incomes less than $25,000) do not have any type of deposit account or financial product with a bank. There are two points to highlight based on this data. First, the numbers point to a negative correlation between financial exclusion and household income. This is confirmed in data from the UK[3] and the US.[4] Second, three per cent is likely an underestimate of financial exclusion in Canada[5] as VISA International estimates that 15 per cent of Canadians do not have a bank account.[6] Rates of financial exclusion in the US are estimated at 9.5 per

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[1] Henceforth "bank" refers to all major deposit-taking institutions including credit unions, *caisse populaire*, trust and mortgage companies.

[2] Section 347 of the Canadian Criminal Code forbids the charging of interest in excess of 60 percent, the criminal rate of interest. However, this law has not been widely applied against fringe banks.

[3] HM Treasury, *Promoting Financial Inclusion* (London: HM Treasury, 2004), 10.

[4] Hogart, Jeanne M., Anguelov, Chistoslav E., Lee, Jinhook, "Who Has a Bank Account? Exploring Changes Over Time, 1989-2001," *Journal of Family and Economic Issues*, 26(1):14.

[5] These data are not highly reliable because they are from a 1996 random-sampled survey that contains some sample bias. While the survey relied on residence-based selection and did not depend on telephone interviews that would have given low-income households are likely to have a higher incidence of not owning a phone, the survey did evidence bias against non-english & non-french speakers (e.g., recent immigrants) and homeless people. Source: Task Force (Task Force on the Future of the Canadian Financial Services Sector), *Canadians' expectations and corporate conduct*, Background Paper No.4 (Ottawa: Department of Finance, Canada, 1998), 22 & footnote # 18).

[6] VISA International, *Payment Solutions for Modernising Economies* (San Francisco: VISA International, 2004).

cent among the total population and 22 perc ent for low-income households.[7] Financial exclusion rates are similar in the UK but much higher in countries in the global south, ranging from 54 per cent in South Africa to 80 per cent in India.[8]

The Consequences of Financial Exclusion

Financial exclusion and heavy reliance on fringe and informal financial services is associated with benefits such as convenience and control of money but they also lead to costs for the household, neighbourhood and the nation. This section examines these costs, categorized as costs to the household, costs to the neighbourhood, and costs to the nation.

a) Household Costs

Costs to financially excluded households include the higher fees for fringe financial services relative to bank services, the risk associated with using services from unregulated fringe banks, and the limitations of fringe bank services in terms of improving one's financial security and gaining employment.

In Canada and the US it is well documented that fringe financial service fees are significantly higher to equivalent services at banks.[9] In a study of pay-day lenders in Toronto, Ramsay[10] found APRs[11] ranged from 335 to 1,300 per cent while cheque-cashing costs for a $100 cheque ranged from $2.90 to $5.24. A study of fringe banks in Winnipeg found that APRs for fringe bank loans ranged from 210 to 675 per cent as compared with equivalent interest rates charged on credit cards and lines of credit hovering below 25 per cent. In Winnipeg it costs as much to cash two $100 cheques at a cheque-casher as to operate a "low-fee" account at a bank that would allow 12-15 transactions. An average North End household that regularly uses a pawnshop, a cheque-casher and a pay-day loan business might get 2.3 per cent of its income eaten up by fringe bank charges.[12]

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[7] Sherraden, M., & Barr, M. S., *Institutions and Inclusion in Saving Policy* (Boston: Joint Center for Housing Studies, Harvard University, 2004).

[8] VISA International, 2004.

[9] See the following: Ramsey, I., *Access to Credit in the Alternative Consumer Credit Market* (Office of Consumer Affairs, Industry Canada and Ministry of the Attorney General, British Columbia, 2000); Barr, M. S., *Banking the poor: Policies to Bring Low-income Americans into the Financial Mainstream* (Washington, D.C.: The Brookings Institution, 2004); Caskey, John P., "Fringe Banking a Decade Later" Presented to conference *Credit markets for the Poor* (Princeton University, 2-3 May 2003); Stegman, M. A., & Faris, R., "Payday Lending: A Business Model that Encourages Chronic Borrowing" *Economic Development Quarterly* 17 (2003): 8-32.

[10] Ramsay, 2001, 9 & 6.

[11] APR is generated by lumping together all fees and interest charges of the service and then converting it into an annualized interest rate.

[12] References to Winnipeg North End study from: Buckland, J., Martin, T., Barbour, N., Curran, A., McDonald, R., & Reimer, B., The Rise of Fringe Financial Services in Winnipeg's North-end: Client Experiences, Firm Legitimacy & Community-based Alternatives (Winnipeg: Winnipeg Inner-city Research Alliance, 2003).

The possibility of facing unfair business practices, such as hidden and complex fee schedules, escalating priced rollovers and hostile collection practices, results from a lack of regulation of fringe banks in Canada; this lack of regulation can also significantly add to the costs. For instance, a study in Winnipeg found that fee schedules were generally not posted and never available in the form of an APR. With pay-day loans the cost to the consumer escalates when they are unable to meet the repayment deadline and "roll-over" (extend the repayment deadline of) the loan. Data on the cost of pay-day loans resulting from a roll-over are limited for Canada, however, studies in the US have found that roll-overs and chronic dependence on pay-day loans is common. Caskey found that in Wisconsin a typical long-term client had 19 $245 loans or renewals per year costing $931 in fees.[13]

A third cost associated with fringe financial services and constrained financial security has to do with how their services are disconnected from mainstream banks and how a client's access to public programs is limited. By cashing a cheque and providing a short-term loan, fringe banks meet an immediate need. They do not provide the services that allow a client to deepen their financial assets, credit rating or otherwise build their financial security. For instance, timely repayment of pawn and pay-day loans will not improve one's credit rating through the credit bureau.[14] Relying exclusively on fringe banks also means the person is excluded from participating in public-supported programs such as RRSPs.[15]

Finally, Sherraden and Barr argue that, in the US, there is evidence that the high cost of cheque-cashing can undermine the capacity of tax credits (such as the Earned Income Tax Credit, EITC) and welfare programs that seek to encourage beneficiaries to join the workforce:

> The positive effects of the EITC and welfare reforms on workforce participation and income generation may be undermined by high-cost check-cashing services that reduce the effective income of those who are beginning to earn an income as well as former welfare recipients.[16]

To the extent that similar policies exist in Canada, costly fringe banking services may have this same dampening affect on encouraging workforce participation.

[13] Caskey, 2003.

[14] One pay-day lender claimed that after completing ten successive pay-day loans in a timely fashion the credit bureau would be informed and the client's credit record would be strengthened. To the contrary one banking industry insider commented that reference to any dealings with pay-day lenders —timely repayment or not— would be seen as blemish on one's credit bureau record. Source: Buckland, J., & Martin, T., "Two-tier banking: The rise of Fringe Banks in Winnipeg's Inner-city" *Canadian Journal of Urban Research* 21(2) (2005).

[15] Thanks to one of the reviewers of an earlier version of this paper for this insight.

[16] Sherraden & Barr, 2004, 23.

b) Neighbourhood and National Costs

A study of eight sites across the US found that, on a per capita basis, there are more fringe banks and fewer banks in neighbourhoods and census tracts that are disproportionately minority and/or poor.[17] A study of mainstream bank closures and pay-day lending outlets in Toronto and Vancouver found that they were concentrated in low-income neighbourhoods.[18] In Winnipeg's North End, an inner-city neighbourhood with average household income 64 per cent lower than the Winnipeg average, there has been an exodus of banks and rapid rise of fringe banks. In the last 25 years the numbers of mainstream banks and fringe banks have reversed: in 2003 there were 18 fringe banks compared with one in 1980 while there are only five bank branches compared with 20 in 1980.

A further cost to financial exclusion is the higher risk of theft associated with greater need for cash and cashing cheques. The introduction of direct deposit can reduce the number of people carrying money and subsequent loss or theft of cheques.[19]

Finally, financial exclusion can itself aggravate national inequality.[20] As low-income people are segmented into fringe financial services and pay higher fees for low and variable quality services, their low incomes and assets are further compromised. This is in contrast to middle- and upper-income households paying lower fees for more elaborate bank services allowing them to minimize fees and maximize income and assets. The segmentation of the financial service market can aggravate income and asset inequality and stimulate greater social tension.

Causes of Financial Exclusion

The causes of financial exclusion are rooted in four foundational economic theories: neo-classical economics, post-Keynesian, institutional economics, and behavioural economics. This paper assumes rational consumer behaviour and builds on assumptions from neo-classical, post-Keynesian economic, and institutional economics to identify market and state factors that explain financial exclusion.[21] From this perspective there are several factors that explain the existence financial exclusion in Canada and the US. These can be categorized as factors affecting demand, supply, and the policy environment of financial services. Demand-side factors relate to the nature of the household economy, stagnant incomes for the poor, and preference shifts towards greater control and autonomy. Supply-side factors relate to general issues of market failure, bank sector liberalization,

[17] Temkin, K., & Sawyer, N., *Analysis of Alternative Financial Service Providers* (Washington, DC: Fannie Mae Foundation, undated), 3.

[18] ACORN Canada, Protecting Canadians' Interest: Reining in the Payday Lending Industry (Vancouver: ACORN Canada, 2004).

[19] Sherradan, & Barr, 2004.

[20] Dymski, G. A., "Banking on Transformation: Financing Development, Overcoming Poverty" (*Seminario basil em desenvolvimento,* Instituto de Economia, Universidade Federale do Rio de Janeiro, 2003); Sherraden, M., *Assets and the Poor: A New American Welfare Policy* (Armonk, U.S.: M. E. Sharpe, Inc, 1991).

[21] Caskey, J. P., *Fringe Banking: Check-cashing Outlets, Pawnshops, and the* Poor (New York: Russell Sage Foundation, 1994); Dymski, 2003; Sherraden & Barr, 2004.

bank branch closures, and the bank's attitude towards the poor. In addition, the growing number of fringe banks is associated with shifts in key prices. Policy factors at work include: declining or more restrictive social programs, personal identification gaps, lack of regulation of fringe banks, and weak requirements for bank attention to financial exclusion.

a) Demand-Side and the Household Economy

Financial exclusion falls disproportionately on low-income households because of the nature of a low-income household economy, low-income households' vulnerability in the broader macro-economy, and other preference changes.

Fringe and informal financial services do not involve deposit accounts or sophisticated investment products but rather offer a series of basic financial services such as small-sum short-term loans, cheque-cashing, and money wiring. These services are directed at the household economy that is both risky and small.[22] The low-income household is more vulnerable to economic crises because of their lack of income and assets. In addition, illness, job loss and business collapse also put low-income households at more serious risk.[23] The household economy is also characterized by relatively small size associated with low levels of income, consumption, saving, and investment and is often associated with more limited means of transportation. Low-income households use other financial services such as bill payment and money wiring, again in small sums, but are less inclined to use more sophisticated financial instruments such as retirement savings schemes and mortgages. Low-income households are more likely to engage in numerous small sum savings, credit and bill payment transactions.[24] Unlike non-poor households, the value of these transactions is smaller resulting in higher transaction costs per dollar saved or borrowed for both borrower and banker. Financial service transaction costs refer to the cost of processing financial services including credit approval, cheque clearing and/or assessing the item for pawn.

Caskey identifies stagnating incomes for low-income households as a factor in explaining fringe banking growth in the US.[25] American households at the bottom income quintile experienced a drop in real income by one point five per cent during the 1980s. Similar trends occurred in Canada in the1990s when average Canadian market income declined and the percentage of households falling below the low-income cut-off increased.[26] In both respects improvements were seen in the latter part of the decade. Canadian income dynamics have documented a rise in inequality among wage-earning men during the 1980s[27] and households during the 1990s.[28] Wealth inequality has increased in Canada

[22] Matin, I., Hulme, D., & Rutherford, S., "Finance for the Poor: From Micro credit to Microfinancial services" *Journal of International Development* 14(2), (2002).
[23] Matin, Hulme, & Rutherford, 2002, 275.
[24] This is not to suggest that low-income households do not save. The evidence is growing the low-income households do save. See, Sherraden & Barr, 2004.
[25] Caskey, 1994.
[26] La Novara et al., 2003 La Novara, P., Lathe, H., Garneau, G., & Pringle, D., "2000 Income: An Overview" *Perspectives on Labour & Income* 15 (Spring 2003.
[27] Baker, M., & Solon, G., "Earnings Dynamics and Inequality Among Canadian Men, 1976-1992: Evidence from longitudinal income tax records" *Journal of Labor Economics* 21(2) (2003): 289-320.

between 1984 and 1999 and the median net worth of the bottom three deciles (by net worth) of the population declined between 1984 and 1999.[29] This data suggests stagnation or decline in income and wealth for low-income households in Canada in the 1990s.

The demand for fringe banking is also related to a growing consumer preference for greater control over one's money as well as greater anonymity. This was evidenced in a survey of fringe bank clients in Winnipeg's North End where some clients were accepting of the fact that fringe financial services are more expensive than bank services. Several respondents reported that they had previously found bank fees debited to their account with no explanation and, in some cases, respondents felt these automatically debited fees were unjustified and unfair. This is in direct comparison to fringe bank fees which are in cash and up-front, as is the case with cheque-cashing or when the loan is repaid as with pay-day and pawnshop loans. Even if fringe bank fees were not posted, respondents were familiar with the standardized fees charged by pawnshops. In addition, some clients in this survey preferred the perceived sense of anonymity associated with a fringe bank as compared with the disclosure of personal information required in opening a bank account. Respondents indicated a preference for a policy of "no questions asked" and indicated this was a common reason for pawning rather than borrowing from a bank. Caskey has argued that a growing preference for instantaneous transactions might also explain the boom in cheque-cashing outlets.[30]

b) Supply-Side

There are a series of reasons explaining financial exclusion from the supply-side of the market equation, relating to the following: market failure; the growing orientation of banks towards more profitable, especially global, markets; bank attitudes towards the poor; and fringe bank growth related to shifts in prices for gold and credit.

As financial markets continue to liberalize through the World Trade Organization, Canadian banks are looking to expand their operations in order to compete with foreign banks.[31] This has placed pressure on them to expand their foreign operations and holdings and cut back on domestic operations that are only marginally profitable like those bank branches in Winnipeg's North End. Simultaneously, Canadian banks have tried to maintain or improve consumer access by expanding their automatic teller machine, internet, and telephone banking facilities. For many middle- and upper-income Canadians this strategy has worked to maintain access but for low-income Canadians, who are more likely to rely on public transportation and less likely to have telephone,

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[28] Gray, D., Mills, J., & Zandvakili, S., "Statistical Analysis of Inequality with Decompositions: The Canadian Experience" *Empirical Economics* 28 (2003).
[29] Morissette, R., Zhang, X., & Drolet, M., "Wealth Inequality" *Perspectives on Labour & Income* 14 (Spring 2002).
[30] Caskey, 1994, 110.
[31] For instance Bond (2003) argues that bank mergers should be allowed to 'rationalize' the industry, reducing branches, the number of employees and allowing Canadian banks to expand operations outside Canada.

internet, and computer access, branch closures in some locations has significantly reduced access.

Studies in Winnipeg's North End and for Vancouver and Toronto[32] found that bank branch closures and fringe bank outlets are common in low-income neighbourhoods. Moreover, the study in Winnipeg's North End found that several fringe bank clients claimed that the attitudes of bank staff towards them were negative. This lack of courtesy has helped push some people to greater reliance on fringe and informal financial services.

Finally, Caskey comments that the rise of pawnshops in the 1980s in the US was correlated with the gold price increases in the 1980s. Similarly one might argue that the rise of pay-day lenders in the 1990s and 2000s is the result of interest rate decreases during that time. In each case, price shifts created new and profitable business opportunities that expanded the number of fringe banks.

c) *Policy Environment*

The policy environment must be taken into account to explain financial exclusion. Factors of note here include: the personal identification gap; welfare policy obstacles; and the lack of regulation of fringe banks and lack of requirements for banks to address financial exclusion.

Personal identification is necessary to use all financial services although the requirements are higher for mainstream banks. Technically, banks will accept two pieces of personal identification among a list of twenty possible cards[33] in order to open an account or cash a federal government cheque. Fringe banks have more lax identification requirements ranging from none for pawning through virtually any document for cheque-cashing to a single piece of photo identification for some pay-day lenders. In one study of fringe bank clients in Winnipeg several clients claimed that they lacked the identification required by the bank. The absence of a universal federal or provincial identification card helps to explain financial exclusion.

A second factor, which explains financial exclusion, is that welfare recipients are discouraged from saving.[34] In Manitoba, as in all provinces, this discouragement takes the form of government assistance policy that requires applicants to first exhaust their savings and then limits the amount of savings while on assistance. Moreover, the study of fringe bank clients in Winnipeg's North End found that fringe bank clients on welfare were actively discouraged from saving by their case worker and were under the impression that, if they saved any amount, their government assistance would be reduced. This provides another reason why social assistance clients are less likely to use bank accounts: they believe they are not allowed to save so they either do not save or save in less formal ways (for example, keeping the savings at home).

[32] ACORN Canada, 2004.

[33] These include over twenty types of cards such as a valid driver's licence, birth certificate, Certificate of Indian Status, a signed client card or credit card. See Financial Consumer Agency of Canada website: http://www.fcac-acfc.gc.ca (Accessed 28 March 2005).

[34] See: Buckland *et al.*, 2003; Sherraden, 1991.

Regulation of fringe banks in Canada falls under provincial jurisdiction but this regulation is very uneven, running from minimalist regulation of pay-day lending (Saskatchewan) to virtually no regulation (Manitoba).[35] This means that fringe bank fees are high, variable, and not fairly disclosed, and that business practices, such as roll-overs (extending the deadline for repayment of loan), and collection practices are questionable. This lack of regulation means that the fringe bank client faces considerable uncertainty in using the fringe bank and that the likelihood of experiencing unfair practices is higher than with bank services.

While some Canadian banks have voluntarily agreed to provide certain financial services, like low-fee accounts, they are not required by law to assist financially excluded households or neighbourhoods. This is in comparison to the US where the Community Reinvestment Act requires that banks reinvest in low-income communities. This fact also helps to explain financial exclusion and the growing numbers of fringe banks.

II. Asset-Building Programs, Poverty and Financial Exclusion

The majority of anti-poverty programs in Canada and the US have been more focused on income support and employment creation than on building assets.[36] Asset-building programs have a much longer tradition in the Global South where small business and peasant agriculture are still predominate. More recently, however, Canadian nongovernmental organizations using sustainable livelihoods and micro-credit strategies have sought to address poverty by supporting asset accumulation and new technologies. In addition, the US has also begun addressing poverty through asset-building programs. This may partly reflect a new consensus that the accumulation of assets is a necessary part of an anti-poverty strategy.

Most government strategies to assist households in building assets include supportive policies (income tax deductions for RRSP) and particular programs (Individual Development Accounts). Having said this, asset-building strategies may or may not target low-income households. RRSPs allow the purchaser an income tax deduction; however, low-income households are unlikely to save in a bank for retirement and likely pay little or no income tax, meaning they are less likely to benefit from this particular asset-building policy.

For the purpose of this paper asset-building is defined as “an approach to addressing poverty that provides access to personal savings and financial and tangible assets” (SEDI). Individual Development Accounts (IDAs) is one example of an asset-building program that fits this definition. The IDA model involves shorter savings period (1-3 years instead of savings from retirement) and matches household savings instead of providing a tax deduction. Other examples of low-income oriented asset-building programs include the Canada Learning Bond.

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[35] See, Lawford, J., Pragmatic Solutions to Payday Lending: Regulating Fringe Lending and "Alternative" Banking (Ottawa: Public Interest Advocacy Centre, 2003), 39-43.
[36] Sherradan, 1991.

Canada's largest IDA program, the *learn*$ave pilot project, is supported by the federal government, implemented by SEDI, and offered through community organizations in ten sites across the country with deposit account services provided by a mainstream financial institution.[37] Criteria for participating included limitations on income and assets and once accepted, participants were required to complete financial literacy and money management training in addition to engaging in a matched savings program. For every dollar the participant saves, the program matches it, on average, by three additional dollars, up to a maximum of $4,500 within one to three years of time. These savings are used by the participant to pursue education or small business start-up. The American Dream Demonstration and the Saving Gateway are similarly, but not identically, structured IDA pilot programs in the US and the UK.

This section seeks to examine the relationship between asset-building and financial exclusion. It begins by considering how low-income families must expand their income *and* assets to build their household economy. Financial exclusion constrains them from doing this. It is argued that asset-building programs can help a household out of financial exclusion; however, there are limitations to fostering access to banks through asset-building programs. Moreover, financial exclusion can act as a brake to the capacity of asset-building programs to successfully assist or work with low-income households.

The Limits of Fringe Banks in Building Household Income and Assets

The low-income household economy is characterized by numerous small financial transactions to process income, spending, savings, and investment. These transactions are associated with two general types of activities: flows (income and spending); and stocks (assets and debts). Cashing employment cheques, and paying utility bills and money orders are "money flows" in that money circulates through the household. These flows are necessary to meet daily household needs, such as paying for groceries and heating. Lifecycle needs, associated with birth, graduation, marriage, home purchase, retirement, and death as well as emergency needs, such as loss of employment, and illness, require access to a stock of funds that can come from the household or through borrowing non-households assets.

Household flows and stocks are interconnected and sometimes the distinction between the two is blurred. For instance, financial assets such as savings or debt are used to pay for major items of consumption like a fridge or car. Income flows can be accumulated to generate financial assets such as retirement savings or education programs.
A household must balance its interconnected financial flow and stock requirements. Without money flowing through the household it cannot meet its daily needs. Inadequate (or no) income or excessive spending requires a household to dis-save, or accumulate debt. Without building or gaining access to assets a household cannot meet major lifecycle or emergency needs. Investment opportunities such as attending an education program and emergency needs such as pharmaceutical bills could also not be paid for without access to household or non-household assets. These situations cannot continue

[37] Paul Kingwell, Michael Dowie, Barbara Holler, Liza Jimenez, *Helping People help Themselves: An Early look at Learn$ave* (Ottawa: Social Research and Demonstration Corporation, 2004).

for long before the household erodes its existing financial situation by exhausting its own assets and its credit-worthiness through excessive debt accumulation culminating in a declining household economy and possibly in bankruptcy.

The low-income household's economy is associated with small financial stocks and fringe banks provide services that *only* address flow requirements. Fringe bank services can assist in asset-building, although inefficiently. For example, some low-income households may purchase and hold on to money orders for spending later.[38] The cost of this service is substantial and, of course, no interest earnings are accrued. Fringe banks also constrain low-income households from building their stocks or assets, making it nearly impossible for a household to improve its own economy needs. For instance if a family member gains higher waged employment it can consume more and may seek to build its assets in order to enhance its capacity to meet lifecycle and emergency needs. Financial exclusion constrains this process by limiting financial services to ones that address flow requirements – for example, the absence of interest-bearing deposit accounts and RRSPs at fringe banks means that clients are unable to save for a consumer product, an education program or retirement.

Strengths of Asset-Building Programs to Overcome Financial Exclusion: Fostering Household Asset Accumulation

Successful completion of an IDA program or similarly structured asset-building programs may bring several benefits to the household that may reduce financial exclusion. These benefits include an expanded household economy, developing a relationship with a mainstream bank, and participation in financial management training. Data for this section and the next are limited due to the newness of the IDA programs, particularly the *learn*$ave project.

Considering the negative correlation between financial exclusion and household income, it is first necessary to consider the extent to which IDAs work with low-income households. Criteria to participate in *learn*$ave included having limited assets and household income less than 120 per cent of the relevant low-income cut-off; these limitations ensured that most participants were of low-income. In a preliminary assessment of *learn*$ave participants in comparison with the eligible population (those in the catchments who fit the program criteria), project participants were somewhat better educated, were more likely to be employed, and had a higher annual income.[39] American Dream Demonstration participants were similarly characterized[40] but Saving Gateway participants' average incomes were lower than those of the eligible population.[41] One study of American Dream Demonstration participants in Ohio concluded, "the IDA programs surveyed are

[38] Sherraden & Barr, 2004, 28.
[39] Kingwell *et al.*, 2004, 17-19.
[40] Sherraden, Michael, Schreiner, Mark, Beverly, Sondra, "Income, Institutions, and Saving Performance in Individual Development Accounts" *Economic Development Quarterly* 17(1) (2003): 100.
[41] Kempson, Elaine, McKay, Stephen, Collard, Sharon, *Incentives to Save: Encouraging Saving Among Low-income Households* (Bristol UK: Personal Finance Research Centre, University of Bristol, 2005), 13.

not attracting the poorly educated, single-parent households that comprise the chronically poor population."[42] Based on the information presented above, it is clear that low-income people do benefit from IDAs; however, there is also evidence that suggests that it is not the poorest, most financially excluded that participate in these programs.

The most basic benefit for the successful IDA participant is building the savings necessary to invest in his/her chosen asset. Actual monthly average savings for IDA participants range from $60 CAD for *learn*$ave through $57 USD for the American Dream Demonstration to $35 for the Saving Gateway.[43] In most cases, upon completion of the program, these savings are invested in an asset. For American Dream Demonstration participants, 28 per cent bought a home, 23 per cent started or expanded their business, and 21 per cent pursued higher education.[44] Assuming these investments increase household income and reinforce a virtuous cycle for the household economy, IDAs may enhance financial inclusion. Although there are no data to support this point, 60 per cent of Saving Gateway graduates agreed that they felt more financially secure since completing the program.[45]

Typically IDA participants are required to open and deposit their savings into a special account with a participating mainstream bank. In some cases IDA clients are assisted in opening their bank accounts – for example, clients go to the bank in a group, special appointments after hours or off-site from the branch are made, sometimes clients are escorted by a case manager. There are several potential benefits from this aspect of the IDA for the financially excluded. First, it provides a structured avenue through which the participant can establish and develop a positive relationship with bank staff, thereby encouraging the participant to seek a long-term relationship with a bank. Second, regular visits to the bank provide the participant the opportunity to gain more information about bank services and fees, allowing the financially excluded person to make more informed comparisons of services and fees between mainstream and fringe banks. Finally, upon completion of the program, the successful IDA participant may feel more self-confident to save with a mainstream bank in future.

In terms of opening and maintaining deposit accounts, it's not clear what proportion of *learn*$ave participants did this for the first time, but 86 per cent of them opened a deposit account since starting the IDA program.[46] While all Saving Gateway clients opened an account prior to joining the program, one-quarter of participants did not have a current chequing account and one-half did not have a savings account.[47] In terms of past and future savings habits, one-third of Saving Gateway respondents said that they previously had not saved while three to four months after graduating, 40 per cent of the clients

[42] Reutebuch, T., "An Exploration into Individual Development Accounts as an Anti-poverty Strategy" *Journal of Sociology and Social Welfare* 28(3) (2003) 103.
[43] Policy Research Initiative, "Exploring the Promise of Asset-Based Social Policies" Synthesis Report (Ottawa: Policy Research Initiative, 2003).
[44] Center for Social Development, "Asset Building: Individual Development Accounts (IDAs)." Available: http://gwbweb.wustl.edu/csd/asset/idas.htm [Accessed 12 July 2005] (St. Louis, US: Center for Social Development, Washington University, 2005).
[45] Kempson, McKay & Collard, 2005, 69.
[46] Kingwell, *et al.*, 2004, 25.
[47] Kempson, McKay & Collard, 2005, 21-22.

interviewed were still regularly saving and another 47 per cent said they would save intermittently, "as and when they could."[48] More Saving Gateway clients deposited their savings in a bank instead of informally. In fact, according to data, prior to joining the program 58 per cent of clients saved money informally while this figure dropped to 35 per cent after opening the account.[49] In addition, after completing the program most participants planned to leave at least some funds in their Saving Gateway account.[50]

Most IDA programs include training on financial management. This training may help the participant to understand the nature, costs, and rights of citizens to bank services. The training also allows the participant to better compare the relative merits of fringe versus mainstream bank services. In addition, the training also educates participants about organizations that support people in the area of financial services, including financial counseling agencies, consumer support organizations (Better Business Bureau), government agencies like the Financial Consumer Agency of Canada and provincial Consumers' Bureaus, and relevant non-profit organizations, like those providing micro credit programs. Greater awareness of these organizations and their services may provide more options for financially excluded people allowing them, for instance, to repair their credit rating.

learn$ave participants are required to complete a financial management training course. And, although, due to scheduling delays, participation rates were only 50 per cent when the 2004 preliminary assessment was done,[51] most participants found this training useful. So much so that the SEED Winnipeg, the non-profit organization implementing the *learn*$ave project in Winnipeg is now offering the financial management training as a standalone program.

American Dream Demonstration participants were also required to complete financial education and 85 per cent of those surveyed said that the training helped them to save more.[52] A smaller proportion (six per cent) of Saving Gateway clients completed non-compulsory money management training courses and those who completed the training felt it was helpful.[53]

Limitations of Asset-Building Programs to Overcome Financial Exclusion: Structural & Policy Obstacles

While IDAs and other forms of asset-building might facilitate reduced financial exclusion, they are not specifically designed with that goal in mind. There are limits to how well asset-building programs can foster financial inclusion; these limits relate to the inability of IDAs to address fundamental restrictions on the supply of banking services for low-income people and communities, other public policies needed to reduce poverty and foster financial inclusion, and the ways that IDA programs are typically designed.

[48] Kempson, McKay & Collard, 2005, 58, 70 & 79.
[49] Kempson, McKay & Collard, 2005, 74.
[50] Kempson, McKay & Collard, 2005, 80.
[51] Kingwell *et al.*, 2004, 28.
[52] Sherraden, Schreiner & Beverly, 2003, 106.
[53] Kempson, McKay & Collard, 2005, 46 & 70.

Asset-building programs are not able to address the fundamental supply-side and policy causes of financial exclusion. This includes the closure of mainstream bank branches, discourteous bank relations with low-income households, no expansion in bank technologies appropriate for the financially excluded, and the rise of relatively unregulated fringe banks. Mainstream bank branch closure must be addressed by state intervention; for example, through requirements of investment in low-income communities (US Community Reinvestment Act)[54]. Bank attitudes towards the financially excluded might be addressed through this type of legislation and through raising awareness among low-income people of their rights in regards to financial services. It is possible that within the structure of the IDA program bank staff behavior towards the financially excluded shifts. But whether this shift is extended to low-income people outside of the IDA program and when the IDA participant graduates, is questionable.

IDAs are also unable to directly address other policy constraints to greater financial inclusion discussed above, including the personal identification gap and welfare policy obstacles. While the IDA program will not generally provide the participant with “bankable” personal identification, it informs and, in some cases, assists participants obtain this identification in order to open and maintain their deposit account. IDAs do not address some welfare policy obstacles that aggravate poverty such as low levels of welfare, unemployment assistance and minimum wages.

Fringe banks provide financial services for low-income people to purchase consumer durables like fridges and stoves. IDAs, on the other hand, generally address only major investments like education and business start-up. Thus, many IDAs miss a tangible need for financially excluded households. Having said this, Saving Gateway IDAs do not restrict how the savings are invested and there are a couple programs —Savings Circle and Housing IDA— offered by SEED Winnipeg that are directed at shorter-term smaller-sum savings goals such as consumer durables.

How Financial Exclusion Constrains Participating in Asset-Building Programs

Financial exclusion can act as a brake on the effectiveness of asset-building programs in addressing poverty for many reasons, including the fact that financially excluded people lack a significant relationship with a bank, they are more dependent on fringe banks, and because they are disproportionately low-income.

A financially excluded household lacks a significant relationship with a bank. This might be the result of a lack, or a bad experience with a bank in the past. A financially excluded person is also less likely to have information about banks and, therefore, less information to make an informed decision between bank and fringe banks services and fees. This, in turn, might make it more difficult to attract a financially excluded person to an asset-building program.

[54] Interestingly, through the US Community Reinvestment Act one way in which a bank can achieve a strong performance is to support IDA programs. See, Center for Enterprise Development (CFED), *How IDAs Affect Eligibility for Federal Programs* (CFED: Washington, DC, 2002).

In a similar, but opposite, fashion heavy dependence on fringe banks by financially excluded people could act as a brake on participation with asset-building programs. This is because fringe financial services are generally "instantaneous" services. Cashing a cheque or pawning an item can be done very quickly. But asset-building programs are longer-term, perhaps involving savings over one or more years. This may be an obstacle to joining an IDA program for a person used to more instantaneous fringe bank services.

The correlation between financial exclusion and poverty may work both for and against interest in joining an asset-building program. On the one hand, asset-building programs offer an avenue through which a low-income person can improve their financial situation. On the other hand some low-income households might find the savings and time requirements limiting.

Conclusion

Targeted asset-building programs such as IDAs that support low-income households' economy with matched savings, financial training, and the requirement to open and maintain a deposit account can encourage participants to move to financial inclusion. However, financial exclusion is caused by structural and policy factors such as bank branch closures, bank staff attitudes towards the poor, and the lack of government policy for fringe banks that are not addressed in IDA programs. Moreover, financial exclusion among low-income households may hold back some individuals from participating in asset-building programs.

To more effectively address financial exclusion, IDA programs might deliberately add improving financial inclusion as a program goal. These programs might also: more carefully target financially excluded people; raise understanding among participants on the relative costs and benefits of bank and fringe bank services; build awareness among IDA clients on their financial consumer rights; establish IDAs for more immediate needs; and, collect more comprehensive data from their clients on their use of financial services (past, present and future). IDA staff might also advocate with government for bank reinvestment into low-income neighborhoods; regulation of fringe banks; establishment of personal identification, and assist participants in relations with bank staff during and after completion of the IDA program.

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The Federal Government and the Dream of Home Ownership for Low Income Households: The Assisted Home Ownership Program

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Introduction

Despite a progressive taxation system, Canada has been seeing a widening gap between the rich and the poor. In the last ten years, the incomes of the richest tenth of Canada's families have grown, while the incomes of the poorest ten per cent have remained stagnant; for many, incomes have actually decreased. [1]

Poverty in Canada has many costs, both social and economic. These costs range from the loss of human capacity when people are not able to achieve their full potential, to the pain and suffering of ill health often resulting from a lack of adequate nutrition and shelter. Without effective public policy to address the root causes of poverty in Canada, as well as the barriers that keep people there, these costs will continue to climb and Canada's social safety net may become economically unsustainable as well as inadequate in meeting needs.

In recent years a number of books and articles have appeared which support an approach to poverty reduction based on assisting people with low incomes to acquire assets. The latter, it is argued, would help many low income households escape poverty and stay out of poverty. Proponents content that promoting the acquisition of assets for low-income people has proven to be a cost-effective way of addressing the cycle of marginalization and isolation generated by living in poverty. [2]

Canadian governments do promote asset accumulation on a large scale – but not usually for the poor. On the contrary, social programs for the very poor, such as social assistance, require them to use up most of their assets before they are eligible for assistance.

This chapter is about a federal program in operation in Canada in the 1970s, the Assisted Home Ownership Program (AHOP), which was established with the

[1] Statistics Canada. "The Daily: Family Income," 2003 http://www.statcan.ca/Daily/English/050512/d050512a.htm

[2] Williams, Cynthia. "Poverty Is Not Just About Income – It's Also About Assets," Presentation to the conference: Investing in Self Sufficiency: Moving the Assets-Building Agenda Forward in B.C. Coquitlam, British Columbia, 2004

goal of assisting low-income households in the acquisition of an asset – a house. This program meant to show how, through ownership, low-income households would improve their housing, and develop a greater stake in the community. Over the dozen or so years of its operation the program was changed several times, each time moving further from its original objectives.

We begin the chapter by outlining the economic and social conditions existing for low-income people/Canadians immediately prior to the implementation of AHOP. We then review the history of AHOP over the years during which it remained in operation. It is our contention that the program was unable to meet its objectives largely for two reasons, the unprecedented rise in interest rates and the reduction of government roles in housing. During the 1970s, interest rates rose to unprecedented levels, as a part of the Bank of Canada strategy to fight inflation. The consequence was mortgage rates which climbed to highs of 20 per cent. During this same period the federal government began to reduce its role in housing, arguing that its business was in supporting the private sector. In short, AHOP moved towards the support of the industry and financial institutions and away from the support of low-income households.

In the final section we draw out the lessons to be learned from the experience of the AHOP program, and we make recommendations for how governments could effectively increase homeownership and housing security among low-income households.

I. The Economic and Social Conditions

The 1960s could be characterized as a period of enormous optimism. After the recession of the early part of the decade there came a long period of sustained economic growth just as the first of the baby boom generation began to look for employment. Employment, especially government employment expanded rapidly. Unemployment rates were falling in the 1960s, leading to general optimism about the possibilities for a world of plenty.

Overall, it was a period of continued expansion of the big city suburbs as the children of the baby boom began making their way into adulthood, first through university attendance. Consequently, there was a need to expand university residences, and to expand housing. As the parents of the baby boom began retiring there was a need for more housing for seniors. There was also a need for housing for the less affluent and changes to the National Housing Act in 1964 provided the provinces with the loans they wanted for a rapid expansion in the numbers of public housing units. Housing was booming.

Throughout this time governments continued to believe that they had the tools to successfully manage a market economy without moving to either large scale nationalization or back to the unregulated economy of the past. They were committed to the maintenance of low rates of unemployment, economic stability, growth, and the reduction of inequality in incomes. Four successive governments presided over the

development of a range of social programs that became the building blocks of a Canadian welfare state and the liberalization of social policy. The expansion of housing policy was a small but important part of these legislative changes.

II. The Assisted Home Ownership Program

The result of the 1963 election was a Liberal minority government led by Prime Minister Lester Pearson, and supported by the newly established New Democratic Party. In the following year, the federal government began a series of reforms to the National Housing Act (NHA) which expanded the programs of the Central Mortgage and Housing Corporation, and its own role in housing. It appeared that the role of government in the provision of affordable housing was changing. Following the 1964 NHA amendments, the provinces established provincial housing corporations to accept the federal loans and to manage the new affordable public housing construction.

1) Assisted Home Ownership, Phase 1: 1970 to 1975

A persistent theme in the 1960s was what Galbraith had called poverty amid affluence. In his book *The Other America*, first published in 1962 in the United States, Michael Harrington provided the numbers to support Galbraith's point. The post war expansion of production had not been translated into a similar increase in the incomes of people with little and in the US the revelation that there was still so much poverty led the federal government to declare its War on Poverty.

The same concerns spilled north across the border. For example, the preamble to the 1966 Canada Assistance Plan made clear that the purpose of the legislation was to assist those in financial need. Through the legislation, provinces were able to obtain federal government assistance for programs which were preventive of poverty. The 1968 report of the Economic Council of Canada, a federal government advisory body, was devoted to poverty. In the same year the federal election resulted in a Liberal majority government under Pierre Trudeau with the promise of the initiation of a "Just Society". In 1969, Liberal Senator David Croll initiated the establishment of a Special Senate Committee on Poverty.

Historically, there were several reasons why the federal government had not played a significant role in housing. Likely the most important reason was the dominance of the federal government by political parties which were either very cautious about, or opposed to, intervening in an area that was thought of as strictly a matter for the private sector. Almost of equal importance was the view that, due to the language of the constitution, housing should be the responsibility of the provincial governments. Yet with the amendments to the National Housing Act in the 1960s the federal government had more firmly entered the area. This was emphasized by the appointment in 1970 of the first Minister Responsible for Housing with responsibility for Central Mortgage and Housing Corporation. The Minister subsequently became responsible for the newly created Ministry of State for Urban Affairs.

During the 1968 election Prime Minister Pierre Trudeau had promised greater attention to the problems of Canadian cities. [3] Following the election, the Trudeau government had appointed a Task Force on Housing and Urban Development in 1968, led by Paul Hellyer, a former cabinet minister. The Hellyer Report presented an analysis of urban development and a series of recommendations, three of which stand out as particularly important. Hellyer recommended that the federal government facilitate and expand homeownership, reduce the cost of housing, and de-emphasize the nature and role of public housing. [4] In the same year the Canadian Welfare Council sponsored the largest housing conference ever held in Canada. [5] The conference highlighted housing as a social right and added to the political pressure for government intervention in the housing market. CMHC policy priorities during this time were clearly on assisting low-income housing, with over 50 per cent of its capital budget allocated to low-income housing. [6]

Following the recommendations of the Hellyer Task Force, the NHA was further amended in 1969, removing the ceiling formula for NHA mortgage interest rates, as well as separating mortgage maturity from amortization. This allowed CMHC to provide mortgages based on a five-year term, instead of the 25 years which had been standard practice previously, as well as to extend amortization to a maximum of 40 years. [7] NHA maximum house prices were also increased from $18,000 to $25,000 for new units and from $10,000 to $18,000 for existing units, as well as a reduction in CMHC mortgage insurance premiums from two per cent to one per cent. [8] In brief, these changes opened mortgage lending to a wider range of financial institutions, made mortgage lending more flexible, and extended mortgage insurance to higher priced housing. More funds became available for mortgages but not to lower income households.

On February 2, 1970, a Low-Cost Housing Program was announced by the federal government. For this purpose $200 million in funding was reserved in CMHC's capital budget with the intent of soliciting proposals on ways of realistically putting housing within reach of families earning between $4,000 and $6,000 per year[9], without the use of subsidies[10]. By the end of 1971, loans amounting to $187.2 million had been committed to 84 projects, meant to produce 14,129 new housing units. [11]

Using the momentum created by the 1970 program, and the formal identification by the government of housing policy as social policy[12], the federal government announced its first home-ownership assistance program on May 14, 1971 with the stated goal of assisting low-income households in the purchase of a home. Towards this goal, funding of $100

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[3] Rose, Albert. "Canadian Housing Policies (1935-1980)," Butterworths, Toronto, 1980.
[4] Rose, 1980
[5] Canada Mortgage and Housing Corporation. "Research Report: Corporate Profile" NHA 6065, October 1988.
[6] CMHC, 1988
[7] CMHC, 1988
[8] Rose, 1980, CMHC 1988
[9] This is the equivalent of an income range between $20,000 and $30,000 per year in 2005 dollars
[10] CMHC, 1988
[11] CMHC, 1988
[12] CMHC, 1988

million over two years was allocated to the program. [13] The program involved the granting of mortgages directly financed by CMHC at a subsidized interest rate. The level of subsidy was determined by a sliding scale, based on a ratio of gross mortgage service costs to household income. The objective was to maintain this ratio at 25 per cent; however, monthly carrying charges were not to exceed 27 per cent, in line with the generally accepted limit placed by financial organizations on the relationship between mortgage payments and household income.

Since the conventional mortgage rate in 1970 was around 10.5 per cent, this subsidy had the potential of offering an effective reduction of as much as two percentage points, down to the CMHC lending rate of 8.5 per cent. [14] What made the program possible was the preferred lending rate offered to CMHC by the Bank of Canada, a rate made possible by the latter's role as Canada's central bank. It was this arrangement which made it possible for the Corporation to lend money at a reduced rate without incurring any expense. The interest rate subsidy, provided to homeowners through this program was entirely made as a grant.

The program was designed to bring homeownership to 8,000 families with annual incomes between $4,000 and $6,000. Between 1970 and 1971, only 3,771 units were approved for homeownership under this program, representing a little under half of the target in the first two years. Since average annual industrial earnings were $6,594 in 1970, the program target was workers with incomes below the average but not the lowest paid. [15] Incomes of between $4,000 and $6,000 would place households outside of the range of eligibility for public housing, which fell below $4,000. Consequently the federal government announced this program not as a direct assistance measure to households with low incomes but as a preventive cost-saving measure, under the assumption that these families might otherwise require more costly public housing at a later date. [16] Rose explains how this phenomenon represented a major socio-economic and philosophical shift away from rental and social housing and in the direction of homeownership.[17] As such, this asset–based approach to housing security reflected new policy goals that emphasized homeownership as a means of reducing economic dependency over the long term.[18] The program also provided builders with CMHC loans under Section 58. Under the program, CMHC was able to provide insured financing to builders for the construction of housing units, without any guarantee that these units would ever be purchased by private homeowners.

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[13] CMHC, 1988
[14] Lithwick, Irwin. "An Evaluation of the Federal Assisted Home Ownership Program (1976)," Program Evaluation Unit, Corporate Planning Division, CMHC, July 1977.
[15] Statistics Canada, Historical Statistics of Canada, Table E86-103, Retrieved at http://www.statcan.ca/english/freepub/11-516-XIE/sectione/sectione.htm#Employ%20Earn
[16] Lithwick, 1977
[17] Rose, 1980
[18] Hicks, Peter. *As cited in* "Exploring the Promise of Assets-Based Social Policies: Reviewing Evidence from Research and Practice". Conference on Assests-Based Approaches. PRI Project, Gatineau, Quebec: Dec. 2003

Five months after the announcement of the first assisted homeownership program in October 1971, the Liberal government decided to use it in order to help stimulate the economy by extending program eligibility to households with incomes up to $9,000. [19] Although specific figures relating to the success of this program are not available, the number of real estate units held by the CMHC Mortgage Insurance Fund (MIF) shot up to 12,865 in 1972 from 2,331 in 1971, an increase which suggests a high default and foreclosure rate for the 8,000 new assisted units which were constructed with AHOP funding and MIF backing, but which were never sold to eligible private owners. [20]

In 1972, a Liberal minority government was elected with 109 seats, amidst fears of Quebec sovereignty, increasing national unemployment rates and growing concerns over global inflation. The balance of power was again held by the New Democratic Party. At the same time Canada's welfare state was newly emerging, placing unprecedented demands on government funds.

Table 1- Unemployment Rates (1972-1983)[21]

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
National Unemployment Rate (%)	6.2	5.5	5.3	6.9	7.1	8.1	8.3	7.4	7.5	7.5	11.0	11.9

Table 2 - Mortgage Interest Rates for NHA loans to home-owners (1972-75)[22]

Mortgage interest rates for home-ownership (%)	1972		1973		1974		1975	
	low	*high*	*low*	*high*	*low*	*high*	*low*	*high*
NHA Approved Lenders	8.76	9.14	9.00	9.98	9.90	11.80	10.40	11.90
NHA CMHC loans under sec. 34.15	8.75	8.75	8.75	9.50	9.50	11.25	10.00	11.75

In his January 11, 1973 speech in the House of Commons, the Minister of State for Urban Affairs, Ron Basford, announced a reorganization of CMHC "as a matter of social policy to be on the edge of development". [23] He declared housing to be a social right of Canadians and stated that CMHC would work in partnership with the private sector and individual Canadians to maintain the high rate of housing starts that were characteristic of the early part of the decade, as well as to increase the ability of low-income families to purchase homes. [24]

[19] Lithwick, 1977
[20] CMHC, 1988
[21] Guest, 2003.
[22] Central Mortgage and Housing Corporation, "Canadian Housing Statistics," Data and Systems, 1975.
[23] Commons Debates(b). "Hansard Records," Session of the 27th Parliament, January 11, 1973
[24] Commons Debates (b), 1973

Following this announcement, in March 1973, Bill C-133 to amend the National Housing Act was tabled in the House of Commons. Once passed with the cooperation of the NDP, the NHA underwent extensive amendments, granting CMHC greater authority to influence the housing market.

Table 3 - Housing Starts 1971-1975[25]

Year	1971	1972	1973	1974	1975
Housing Starts	233,000	250,000	268,521	222,123	231,456

As a result, ten new National Housing Act Programs were announced affecting both the public and private housing sectors. One such program was the Assisted Home Ownership Program (AHOP), authorized under sections 34.15 and 34.16 of the NHA, and designated under Part IV.2 as "Loans to Facilitate Homeownership". AHOP was essentially an extension of the previous 1970-72 direct lending program, except that now CMHC was able (under Sec.34.16) to further subsidize home owners with a $300 annual cash payout in addition to the interest reduction grant. All assistance under this program continued to be provided directly through the homeowner's CMHC mortgage account.

The stated objective of the 1973 AHOP was to "help lower income families with one or more dependent children become owners of new or existing housing, while assisting the building industry in producing low-priced housing". [26] As such, AHOP was extended to households with incomes ranging from $6,000 to $11,000[27] per year[28], while simultaneously establishing maximum house prices for program eligibility, in order to encourage the development of modest and affordable housing units. The direct grants available through the program were increased from $300 to $600 per annum in 1974.

CMHC's maximum house price (MHP) known originally as the Basic House Price Index (BHPI), was a powerful policy tool as it could be used to account for regional differences in the housing market. It also made it possible for the federal government to intervene in the housing market in areas of the country where intervention was needed. The MHP could be set higher in areas where there was high unemployment in the housing construction market, in order to stimulate employment and respond to demand from lower and moderate income households. At the same time it could keep the MHP low in areas where the housing supply was strong, so as to avoid unnecessarily increasing the demand for labour and materials for construction, which could exert inflationary pressure on housing costs.

[25] Central Mortgage and Housing Corporation(a). "Canadian Housing Statistics," Data and Systems, 1976.
[26] Government of Canada(a). "New National Housing Act Programs," Central Mortgage and Housing Corporation, 1973.
[27] Equivalent to between $25,000 and $47,000 annual income in 2005 dollars
[28] Government of Canada(a); 1973

Critics at the time claimed the maximum loans available through the program were not high enough, in relation to increasing house prices in many urban centres. Between 1973 and 1974 interest rates shot up from nine to 12 per cent, thereby encouraging real estate speculation and driving up housing prices. Although CMHC loan ceilings were raised in early 1973 from $25,000 to $30,000 for new units and from $18,000 to $23,000 for existing units, opposition parties claimed that the loan limit did not take into account the needs of low and middle-income people living in large cities, where inflated land prices were driving up housing prices. For example, the NDP's Ed Broadbent explained to the House of Commons how average house prices in Toronto were already at $30,939 in 1971. With a five per cent downpayment this would still require a minimum annual income of $12,700 in order to meet the established loan service-to-income ratio of 27per cent.[29] As a result he argued that the AHOP was doing nothing to address the needs of moderate income people earning between $8,000 and $10,000 a year, and they were therefore being forced to go to private lenders charging interest rates one to two per cent higher than CMHC.[30]

Table 4 - Average Characteristics of AHOP Recipients, 1973-1975[31]

	Units approved	Average family income	Average Federal Assistance per unit		Average estimated house cost	Income quintile (%)				
			interest	grant		1	2	3	4	5
1973-1975[32]	35,322	$10,536[33]	363	331	$24,980	13	31	38	14	4

At its inception, AHOP applied to both new and existing homes. After 1973 the escalation of housing costs made access for lower and moderate income households in urban areas more difficult. In June 1974, the federal government restricted the AHOP program to new housing units only, further aggravating the problem. CMHC appeared to add to the problem with an increase in its base mortgage rate from 8.5 per cent to 9.5 per cent in August 1973 and to 11.25 per cent in August 1974. Nonetheless, between 1973 and 1975 there were cumulatively over 35,322 loans provided through AHOP to assist lower and moderate income households in the purchase of a home, including 16,000 in 1973-74. This can be compared to only 5,000 under the 1972-73 $100 million program (see Table 5).[34]

[29] Commons Debates(c). "Hansard Records," Fourth Session of the 27th Parliament, March 16, 1973.
[30] Commons Debates (c); 1973
[31] CMHC; 1975 (table 99)
[32] This figure represents both Sec. 34.15 and Sec. 6. Section 6 relates to insurable loans, and it allows for owner-applicants and those purchasing homes from builders, who have secured mortgages with CMHC approved lenders, to receive Interest Reduction Loans (IRLs) – [CMHC 1978-p27]. Section 6 was for those AHOP loans secured through approved (and insured) lenders, whereas Sec.34.15 was for direct mortgage lending done by CMHC.
[33] This is representative of the average family incomes at the time (1971). Average income was $10,112 and the median income was $9,245. In 1974 average family income $14,485 and median income was $13,249. [1975, p.80]
[34] CMHC, 1975

Table 5 - Number Of Loans Approved Under Home-Ownership Assistance Programs, 1970-1975[35]

	1970-1971	1972-1973	1973-1974	1973- 1975
Homeownership Assistance Loans	3,771	5,000	16,000	35,322

2) Phase 2: AHOP, 1975-1978

Amidst after-shocks from the 1973 OPEC oil crisis, a national recession spanning 1974-1975, and rising unemployment and interest rates (see Tables 1 and 6), the Trudeau Liberal party was given a majority government in the spring of 1974 with 43 per cent of the popular vote. As a result of increasing land speculation, inflationary pressure on the cost of construction inputs, as well as the introduction of a tight monetary policy by the Bank of Canada, the residential construction industry was in a state of "severe economic distress".'[36] A University of Toronto study predicted a 17 per cent reduction in investment in this sector in 1975 alone. As the construction industry during the 1970s accounted for five cents on every dollar spent in Canada, as well as almost 400,000 direct and indirect jobs,[37] this reduction was predicted to have a serious dampening effect on the already struggling economy.[38]

Table 6 - Mortgage Interest Rates for NHA Loans to Home-Owners, 1974-1978[39]

Mortgage interest rates for home-ownership (%)	1974		1975		1976		1977		1978	
	low	*High*	*low*	*low*	*high*	*Low*	*high*	*low*	*high*	*low*
NHA Approved Lenders	9.90	11.80	11.49	10.16	11.17	10.14	10.97	10.16	11.17	10.16
NHA CMHC loans under sec. 34.15	9.50	11.25	11.50	10.25	10.50	10.25	11.00	10.25	10.50	10.25

In response to this concern, as well as the increasing costs of the AHOP program, Bill C-46 was introduced in the House of Commons in early 1975. This bill called for changes to the NHA to allow for approved *private* lending institutions to provide mortgage loans under the AHOP program. It was announced within an ideological framework of responding to the changing global economy and reducing government intervention in housing markets.

[35] CMHC, 1975 Table 62;, Lithwick, 1977
[36] Commons Debates(b), "Hansard Records," Second Session of the 28th Parliament, January 31, 1975.
[37] Howard, Ross, "Peel Region: lost control to builders and politicians," Toronto Star p.12-13, November 17, 1981.
[38] Commons Debates (b), 1975
[39] CMHC Canadian Housing Statistics, 1975-1979, compiled by authors.

Canada was seen as a country in transition and housing was described as "the cornerstone of a stable society."[40] Despite critiques from the NDP that the bill would result in public funds going to subsidize the profits of private institutional lenders, the bill was passed in March, thereby clearing the way for the Minister of State for Urban Affairs to introduce the Federal Housing Action Program (FHAP) on November 3, 1975. The FHAP objective, in contrast to that of the 1973 AHOP, was to, "stimulate production of the kind of good quality housing that lower and middle income Canadians need and can afford, and to stimulate employment throughout the country."[41] There was significant interest from private lenders to the FHAP/AHOP program following this change. This can be seen by the increase in the numbers of AHOP-approved mortgages between 1976 and 1977, with approved lenders accounting for 31,059 of a total 35,360 loans granted.[42]

Under the FHAP version of AHOP, CMHC's prime borrowing rate and the accompanying interest reduction grant was replaced with an Interest Reduction Loan (IRL) for the first five years of homeownership. In the first year successful applicants would still have a mortgage at CMHC's approved borrowing rate (eight per cent in 1975), but it would be the Interest Reduction Loan (not a grant) that would cover the cost difference between this rate and market mortgage rates. In the case of mortgages from approved lenders, assistance would be provided in the form of a cheque paid directly to the homeowner to subsidize payments for their first year of mortgage payments. Over the subsequent four years, the IRL would be decreased by one-fifth of its value, under the assumption that household income would increase to account for the difference in cost. In the sixth year, the IRL would begin to incur interest, and the homeowner would have several options for repayment of the IRL. These options included: 1) immediate repayment; 2) financing a second mortgage with CMHC to be repaid on an incremental scale increasing by one-fifth per year; 3) rolling-over the IRL into the first mortgage; and finally, 4) arranging a second mortgage with an approved lender. As such, the only cost incurred to the Corporation is the interest forgone during the first five years of the IRL.[43]

The second component of the FHAP/AHOP was a grant of up to a maximum of $750 per annum ($62.50 per month). These grants were available to those households receiving the IRL whose total mortgage servicing costs (including taxes) exceeded 25 per cent of their household income, as long as the borrower continued to occupy the property.[44] Payment of these grants was provided directly to the borrower by CMHC, along with the loan received under the IRL. In the first year the total amount of assistance approved was received by the borrower. In the subsequent four years the total amount of assistance received (both under the IRL and the grant) would be reduced by one-fifth or $240 per annum ($20 per month), whichever was less.[45] However, under this program the grant was reduced prior to reductions in the IRL, thereby extending the amount of time it would

[40] Commons Debates(a), "Hansard Records," Second Session of the 28th Parliament, January 27, 1975.
[41] Lithwick, 1977.
[42] Central Mortgage and Housing Corporation(a), "Canadian Housing Statistics," Data and Systems, 1977.
[43] Central Mortgage and Housing Corporation(c). "Assisted Home Ownership Program: Opportunities of Canada's lenders and builders in the production of moderately priced housing," 1976.
[44] CMHC (c), 1976
[45] CMHC (c), 1976

take households to pay off the IRL, and therefore ultimately increasing the cost of borrowing over the long-term.

General economic theory would suggest that high mortgage rates are simply a consequence of inflation and inflationary expectations.[46] When there is prolonged high inflation, interest rates will rise in order to compensate for the anticipated increased costs of lending. Unfortunately, for current and prospective homeowners, rising interest rates have a disproportionately large impact on the housing sector. Lawrence Smith, a professor of economics at the University of Toronto describes the “tilt-effect”, which arises because accelerating inflation initially increases housing costs more than it increases household income. However, higher inflation and mortgage rates do not necessarily reduce the desirability of homeownership, even for first-time buyers. In fact, it can even make it more desirable, as inflationary expectations lead people to buy houses at lower rates before inflation causes house prices to rise.[47]

AHOP operated under the assumption that because of the high prices of new housing and high interest rates, households were unable to meet the immediate “monthly cash payments … (for) buying an house”.[48] The assumption, therefore, was that, over time, a household’s ability to afford these payments would improve as incomes increased and interest rates declined or at least stabilized.

Table 7 - AHOP Loan Characteristics, 1975-1980[49]

	Units Approved	Average Family Income	Average Federal Assistance Per Unit		Average Estimated House Cost	Income quintile				
			Interest	*Grant*		1	2	3	4	5
1976-1980[50]	59,723	$17,734[51]	-	-	$36,252	39	32	18	7	4
Purchasers under Direct CMHC lending under Sec. 34.15										
1976-1978[52]	3,159	$14,456	758	535	$33,120	23	40	22	9	5.5
1976-1979	3,292	$14,476	849	515	$33,240	23	40	23	9	5.5
Purchasers with Approved Lenders, under Sec.6										
1975-1976	20,374	$15,431	400	600	$31,423	5	24	28	29	15
1975-1977	50,221	$16,393	398	599	$33,234	4.5	19	25	31	22
1976-1978	62,232	$17,161	801	553	$35,245	4	38	33	17	9
1976-1979	71,752	$17,508	805	555	$35,472	3.5	36	33	18	10
Graduated Payment Mortgage Programs of the NHA (introduced 1979)										
1976-1980[53]	3,185	$22,898	-	-	$40,470	12	31	26	17	15

[46] Smith, Laurence, B. “Mortgages… The tilt problem that bedevils the homeowner,” Toronto Globe and Mail,.12, March 19, 1980.
[47] Smith, 1980.
[48] Memorandum to the Cabinet, October 24, 1975, cited in Lithwick, 1977
[49] CMHC, 1977, Table 101; 1978, Table 104 & 105; 1979, Table 107 & 108; 1980, Table 92 & 93.

Eligibility for the IRL component of the AHOP was extended in 1976 to any household of two or more people purchasing a new home, regardless of income. The expansion of eligibility for the IRL led to an increase from approximately 9,000 units in 1975, to 38,000 in 1976.[54] This represents nearly one-quarter of all new units built for owner occupancy in 1976. As such, AHOP was held up as a great success by government and the media. In March 1977, Minister for Urban Affairs Andre Ouellet, was quoted saying, with reference to the AHOP that, "the experience of 1976 shows beyond question that our encouragement of moderately priced housing was right on the mark".[55] And, on March 19, 1977, the Financial Post wrote that, "Ottawa deserves some credit for redesigning AHOP assistance as a loan rather than an outright grant, and it should also be commended for the level of private participation it has been able to obtain."[56]

Despite this general optimism of the time, steadily increasing interest rates were exerting upward pressure on housing prices. In a 1977 CMHC report on the future prospects of AHOP, projections were made regarding the limitations and benefits of the program over the five years ending in 1980-81.[57] Although the projections made in this report were based on two major assumptions, namely that incomes would rise at a conservative rate of seven per cent annually over the five years, and second, that inflation rates would be lower in 1981 than at the time of writing, neither of which ended up being the case, the report concluded that even with these factors accounted for, "the average family (would be) in a bad financial position at the end of five years, those families receiving above average assistance or having below average incomes (would be) in even worse shape".[58]

However, due to the design of the IRL, in cases where households did not qualify for a grant, the largest subsidies, in the form of forgone interest, went to those with mortgages nearest the CMHC MHP (see Table 8). Of those receiving only the IRL, it was those in the higher income brackets of AHOP participants who were receiving the highest rates of assistance. This fact is obviously contradictory to the cost containment objectives which informed the 1975 changes to the program. It also draws into question how far from the original intent of the AHOP – to assist low-income families in the purchase of a home, and to promote affordable residential construction – had strayed. Further, the phasing out of CMHC's direct lending, in favour of private approved lenders, meant that the IRL was actually going to support the higher mortgage rates being charged by these institutions.

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[50] These figures include those receiving GPM as well as IRLs and Payment Reduction Loans
[51] This figure is significantly lower than the average and median incomes for the general population in 1979 which stood at $23,408 and $21,798 respectively, which may be as a result of the government's effort to limit assistance under the program to those in lowest income brackets.
[52] This jump in dates to 1976 instead of including 1975 figures as well, is significant because the FHAP version of AHOP was only announced November 3, 1975, and as such only the figures beginning in 1976 would depict the success of this new strategy. The declining state of the economy and rising inflation rates must also be taken into consideration when examining the numbers.
[53] All CMHC data for assisted home ownership are listed for 1976 through 1980, however the GMP was only introduced in 1978/79, These figures are probably only relevant since 1979.
[54] Lithwick, 1977
[55] Ricketts, Mark, "Ahop brings back the sales," The Financial Post,.23, March 19, 1977.
[56] Ricketts, 1977
[57] Central Mortgage and Housing Corporation(b), "AHOP After Five Years," Program and Market Requirements Division, June 1977.
[58] CMHC (b), 1977

Between 1974 and 1978, the profits of the five major chartered banks increased from $404 million to $904 million, representing an increase of 123 per cent. The AHOP was a contributing factor in this growing profitability of the large banks in the 1970s. At same time, however, AHOP was actually leading to increased indebtedness of lower income families and as a result exerting an upward pressure on inflation.[59]

Table 8 - Income and Average Assistance for AHOP Recipients, 1976[60]

Gross Income $	% of Total AHOP recipients	Average Assistance (IRL only) $	% of Total AHOP recipients	Average Assistance (IRL and grant) $
Under 6,000	-	593	0.2	1481
6,000 – 8,000	-	523	0.8	1502
8,000 – 10,000	0.5	650	4.4	1479
10,000 – 12,000	2.5	758	11.5	1460
12,000 – 14,000	6.2	819	13.1	1453
14,000 – 16,000	9.9	876	7.4	1578
16,000 – 18,000	10.3	905	2.6	1456
18,000 – 20,000	10.7	956	0.1	1331
20,000 – 25,000	14.1	1011	<0.1	2544
Over 25,000	5.3	1027	-	-

3) Phase 3, AHOP: 1978-1982

Although average incomes overall did increase at about the rate predicted, high inflation and rising house prices outstripped this growth. For example in 1978-79 average incomes increased by eight per cent, but average house prices rose by 11.3 per cent.[61] The sharp escalation in house prices throughout the late 1970s, coupled with record-high mortgage rates, was pushing homeownership increasingly out of reach of the majority of lower and middle-income Canadians (see Table 9). In 1977, the number of housing starts dropped 10 per cent from the 1976 level and the average cost of a home increased by 7.9 per cent with average mortgage downpayments required by CMHC rising 16.5 per cent above 1976 levels. Nonetheless, throughout 1977 households continued to participate in the program.[62] The speculative climb in house prices had to end sometime, and in 1978 the number of new entrants to the program dropped by 60 per cent, from about 1,900 approved loans in 1977 to 367 in 1978, and further fell to seven new starts in 1979.[63]

[59] Commons Debates(c), "Hansard Records," First Session of the 30th Parliament, November 14, 1980.
[60] CMHC(b), 1977.
[61] Canada Mortgage and Housing Corporation(a), "Canadian Housing Statistics," Statistical Services Division, 1979.
[62] CMHC(b), 1977
[63] Canada Mortgage and Housing Corporation, "Canadian Housing Statistics," Statistical Services Division, 1981.

Table 9 - Mortgage Interest Rates For NHA Loans To Homeowners, 1978-1982[64]

Mortgage interest rates for home-ownership (%)	1978		1979		1980		1981		1982	
	low	*High*	*low*	*high*	*low*	*high*	*low*	*high*	*low*	*high*
NHA Approved Lenders	10.14	10.97	10.77	12.93	12.95	14.90	15.17	21.46	14.13	19.42
NHA CMHC loans [65]under sec. 34.15	10.25	11.00	11.00	14.50	13.00	16.50	15.25	20.50	13.50	19.00

Due to rising inflation in the late-1970s, CMHC and private lenders were increasingly unable or unwilling to offer affordable mortgage rates, and default rates were beginning to increase.[66][67] Policy documents favouring private market solutions were being advanced and CMHC was examining ways of reducing costs by increasing its reliance on the private sector.[68] By mid-1978, major changes were introduced to the AHOP in order to reduce government subsidy expenditures, through the introduction of Payment Reduction Loans (PRL), in place of the IRL. Under the 1978 AHOP Program, loans were secured by an interest-bearing second mortgage exclusively with approved lenders. The PRL was available to homeowners within the first year of purchasing, and amounted to $2.25 per month, for every $1,000 of the borrower's original loan (first mortgage).[69] The amount of the second mortgage advance was then decreased to produce a gradual five per cent increase in the borrower's net principal and interest payments annually for the next five to ten years depending on household income.[70] The 1978 AHOP program was only designed as a transitional program pending the introduction of Graduated Payment Mortgages (GPM). Under this version, the grant portion was completely eliminated, paving the way for the program's elimination in 1979.

As a part of both the 1973 and 1975 AHOP programs "quit claims" had been granted to all participants. Quit claims allowed AHOP owners to surrender ownership and walk away from their homes without paying their initial mortgage nor the second mortgage covering the PRL/IRL. Furthermore they were able to do so without affecting their credit record. Although homeowners filing these claims also walked away from their investment up to that point, in many cases, due to the progressive design of AHOP mortgages, this investment was negligible in comparison to the high interest rates and declining housing prices. In essence, many lower income households faced with renewing their mortgages were better-off financially by walking away from their homes.

[64] CMHC, 1978-1982, compiled by authors.
[65] As the AHOP program under sec. 34.15 was discontinued in 1979-80 figures for 1981 do not exist, however, NHA mortgage interest rates on CMHC low-income loans under section 15, rose in 1981 to a low of 15.25% in January to a high of 20.5% in October and November.
[66] Figures range: government sources claimed just over 5% default rate for AHOP and opposition sources stated the rate was closer to 10% (Ferguson, 1978).
[67] Ferguson, John, "Housing and the Budget," Canadian Press, December 13, 1978.
[68] CMHC, 1988
[69] Government of Canada, 1978
[70] Government of Canada, 1978

Between 1978 and 1980, interest rates shot up from 15 per cent to 21.5 per cent.[71] Clearly this had serious implications for low-income households who had previously required subsidies to meet payments at much lower mortgage rates. Arrears and default rates began to rise and, by the end of 1978, 1.62 per cent of all AHOP mortgages were in arrears (see Table 10), compared with 0.99 per cent of all others; in some areas the situation was much worse. Defaults for AHOP units jumped from 248 in 1977 to over 5,000 in 1979 and continued to rise throughout the early 1980s as the mortgages of 1975-76 AHOP participants came up for renewal (see Table 11).[72]

Table 10 - AHOP Loans in Arrears for More Than Three Months (Average %)[73]

	1979	1980	1981	1982
AHOP mortgages	1.47	2.03 (4.55 in 2nd quarter)	1.06	1.20
All insured mortgages	0.91	0.71	0.50	0.80

Table 11 - Default Rates on AHOP Units 1977-1980[74]

	1977	1978	1979	March, 1980
Defaults	248	1,492	5,155	8,653

In February 1980, the Liberal Party, still under the leadership of Prime Minister Trudeau, was re-elected with a majority government, after having lost power for a brief time to Joe Clark's Conservative Party in May 1979. Coming in to office they faced high rates of unemployment and inflation, coupled with slow economic growth, all of which culminated in the recession of 1981-82.[75] The period from 1980 to 1984 was, therefore, characterized by restraint in government expenditure and the continued growth of the federal deficit.

The Graduated Payment Mortgage formula was not solving the foreclosure problem and the Mortgage Insurance Fund, as of 1980, was in a position of running a deficit of $80 million, with the government serving as lender. By 1983, the estimated loss climbed to $579 million, attributable in large part to AHOP.[76][77] The Graduated Payment Mortgage came under criticism from the opposition parties who believed that it was not a solution to the issue of affordability. The criticism also came from industry organizations such as the

[71] CMHC, 1988
[72] Kashmeri, Zuhair, "Interest rates take toll of 30 families a month under federal program," Globe and Mail,.10, Monday, December 17, 1979.
[73] CMHC, Canadian Housing Statistics, 1979-1982, compiled by authors.
[74] Commons Debates (b), "Hansard Records," First Session of the 30th Parliament, June 10, 1980.
[75] Guest, 2003
[76] This estimated loss includes those under the Assisted Rental Program (ARP) which also experienced high default rates during the period, reaching over 6,000 units by 1980 (CMHC(c),1980)
[77] CMHC, 1988

Canadian Institute for Public Real Estate Companies, which claimed that the GPM simply deferred the true cost of homeownership and did nothing to address affordability.[78]

The federal government responded to the criticism in 1981 by making further changes to the NHA. Under section 34.16 the government increased the annual grant contribution for remaining participants in the AHOP program to $1,800 per year in order to assist them in retaining their housing.[79] In 1982, the government extended its commitment by announcing the Canadian Mortgage and Renewal Plan (CMRP), which was meant to provide assistance to homeowners facing renewal of their mortgages at high interest rates. The CMRP offered assistance of up to $3,000 annually, or $250 per month, for households renewing mortgages between September 1, 1981 and November 12, 1982 in the form of a non-taxable grant.[80] Under the authority of John Turner, elected in June 1984 and Brian Mulroney, elected in September 1984, MIF premiums and fees were increased – a Mortgage Rate Protection Plan (MRPP) was introduced so that homeowners could buy some security against extreme rises in mortgage rates, and the government forgave $307.6 million in loans made by the MIF, resulting mainly from AHOP and ARP claims.[81]

Conclusions and Recommendations

The evidence from close to 12 years of federal experience with several forms of assisted homeownership suggests that forms of these programs were very successful at supporting the asset acquisition by lower and moderate income households through the purchase of housing. The program appears to have been most successful in the 1970s when government acted as a direct lender, when interest and mortgage rates were still in the moderate range, and when interest reduction grants and subsidies were readily available to support purchase.

At the same time, however, a review of the results suggest that fewer low-income households were able to acquire and hold a house purchased during the same period, thereby illustrating that most of the assistance went to moderate and above average income households. The higher the per household benefit, the higher the income of the household, which suggests that the program design did not actually favour the lower income households who were originally identified as the target of the program. In addition, the maximum price levels set in the program were often too high for a lower income household to be able to afford even under the most favourable of terms.

The initial success of the program may have been its downfall. Initially it was the government, through Central Mortgage and Housing Corporation, that operated the program by providing loans to those with the incomes to qualify. The terms of the program were consistent with the goal of increasing asset acquisition among those households with

[78] Commons Debates (a), "Hansard Records," First Session of the 30th Parliament, May 9, 1980.
[79] CMHC, 1988
[80] CMHC, 1981
[81] CMHC, 1988

lower incomes. In subsequent versions of the program the goals changed. When the goal was also to ensure that private lenders were involved mortgage costs increased, and when the loans were available to builders, the new purchasers had higher incomes than those who were initially assisted.

When the federal government switched the program to ensure full recovery of the interest reduction, it was only households with more moderate incomes who could afford to participate. The federal government program assumption was that lower income borrowers would increase their incomes over time. This may have been the case for young borrowers with expectations of higher incomes later in their careers, however, it did not account for those households whose prospects did not include better paying employment.

AHOP was also effective at contributing to a general expansion of moderately priced housing. Ironically, as a consequence of the economic conditions of the period, this expansion likely contributed to the general inflation which took place in the mid to late 1970s.

Lastly, when interest and mortgage rose to unprecedented levels, the federal government was unprepared for the impact on lower income purchasers and was ineffective at supporting AHOP borrowers at maintaining their housing. Instead they appeared to focus on making the terms and conditions of leaving their housing easier and making it more simple for private lenders to foreclose and turn the housing over to the federal government through CMHC's Mortgage Insurance Fund.

Despite the failure of this approach to provide substantial assistance to lower income households during the operation of the Assisted Home Ownership program, we continue to believe that this approach to asset acquisition holds promise. A government determined to assist lower income households through asset-building would be well advised to try a similar strategy emphasizing the following features:

- a relatively low maximum house price level to restrict access to the program to lower income households;
- a front end matching grant of up to five per cent of the purchase price to reduce the downpayment requirements of the purchaser to no more than five per cent;
- mortgages provided by the federal government at below market rates for up to 95 per cent of the purchase price;
- longer term repayment periods to reduce the monthly payments; and,
- annual purchase subsidies related to household income to reduce monthly repayments to no more than 25 per cent of income.

Conclusion

Peter Nares, Social and Enterprise Development Innovations

SEDI introduced asset-building as a social policy innovation in 1997 to address the severe wealth inequality that exists in Canada. Over the past nine years we have had the opportunity to learn from the asset-building experiences of numerous community organizations, international networks, the private sector, departments and agencies of all levels of government, and thousands of low-income individuals. This is noted not to claim this learning as entirely empirical but rather to illustrate the depth and scope of interest and attention that asset-building has generated in at least policy terms a very short period of time. Combined with the views and information contained in this book, this collective learning presents a compelling case for moving the asset-building agenda forward in Canada. This conclusion is a brief summary of what we know about asset-building and why policy makers, researchers and community leaders should continue to pursue its promise.

Asset-building is at its heart a simple, compelling and intuitively appealing idea. All the contributors to this book agree with the position that assets play a number of significant roles in the well being of individuals and communities. They agree on what we mean by assets and that owning assets increases opportunities for economic and social participation for low-income people. The authors vary in their views on the degree to which ownership of assets is critical to well-being and economic participation but they all acknowledge that a strong correlative exists. In short asset-building as a development strategy enhances lives and builds freedom.

Asset-building approaches are not new in Canada. There are deep historical connections to public policy and development of the country. Axworthy, Moscovitch and Germain's contributions clearly demonstrate how asset-building has, both in policy and in individual and community practice, been a part of the development of our nation. In addition, as several contributors noted, asset-building approaches already hold a place in the social policy architecture of the country. Canadian contributors identified the importance of asset-based approaches as historically relevant and as sometimes different but nevertheless complimentary to income security and social economy goals and initiatives.

Our strong historical links to the United States and the United Kingdom have and continue to influence how we frame our thinking about social policy in particular. As Maxwell pointed out, in the United Kingdom the Blair government has referred to assets as the third pillar of the social welfare state - education and income security being the other two. As our Amercian colleagues Sherraden and

Boshara illustrated, what is new about asset-building is that we are now debating its merits as a policy (rather than just an idea) to prevent and alleviate poverty; and, that we have tacitly accepted the economic benefits of asset acquisition for the non poor for some time.

At this stage in its development, asset-building should be viewed not as a magic solution to poverty but as a distinct new policy area with promise and with its own set of virtues and challenges. As asset-building as a policy concept gains profile and attention, some academics and traditional social welfare advocates have expressed concern that asset-building is a regressive strategy designed to download the responsibilities that should belong to government onto the shoulders of individuals. This biased (but in some ways typically Canadian) analysis risks diluting the strength of what asset approaches can bring to social policy and how it can complement what we hold as fundamental to well-being. Income and consumption based remedies for poverty are largely passive. Asset-building is by its very nature investment and development oriented. Thus, there is strong potential for complementarity between not only asset building and income security but also with other developmental approaches such as community economic development.

However, policy distinctions matter. Asset-building is not community economic development (CED) or the social economy but, as Vaillancourt and Kearny illustrate, it can complement CED and the social economy. While these can and probably should be considered in terms of two way mutual relationships, to achieve its maximum complimentary effects asset building policy must be understood and developed in its own right.

There are also different kinds of asset-building. Communities can build assets such as land trusts and individuals can build assets such as education, real-estate, stocks and bonds, businesses and cash savings. In both cases communities and individuals benefit. However, to achieve its full potential, each requires its own policy and program approaches. However, this should not preclude, where appropriate, building on existing community structures and processes.

We are in the early stages of asset policy development and should proceed with caution to acquire more knowledge and evidence about all the factors that contribute to an enabled asset-building environment. We have much to learn before a truly inclusive set of policies can be designed and implemented. While asset based approaches hold much promise, as Williams stated, there is more to learn before policy makers can proceed with confidence to design an asset-building framework inclusive to all Canadians. In addition, as Robson noted, our policy development efforts need to consider the key elements of an enabled

environment for asset building including: regulations- such as the treatment of savings and assets by provincial welfare authorities; community support services - such as financial capability which, as Buckland, pointed out develops human capital by teaching people about saving and investing; and, financial incentives such as matched savings contributions which change personal behaviour by encouraging individuals and families to save and invest their own money.

There are few who would argue that assets do not matter over the life course of all Canadians As the gap between rich and poor Canadians grows ever wider and more and more Canadians risk exclusion from the social and economic mainstream we are duty bound to examine the underlying causes. Whether you are a new immigrant to Canada, unemployed, working in a low wage job, struggling on welfare and/or have a disability, it is clear that you are likely better off if you possess and control assets. It is also clear that current asset-building incentives for the non poor have been effective in supporting upper income Canadians to accumulate assets and wealth through policies and programs like the tax preferred treatment of capital gains and to save for their retirement, home ownership and their children's education. As Robson noted last year alone governments subsidized asset building by the non poor in Canada to the tune of $22 billion.

This book was published to document that asset-building is a social policy innovation which holds real promise in making the country a better place for low income people in which to live and work. The contents reflect some of the learning, much of the promise and some serious cautions. It is information which is timely and deserves to be communicated. In total the contents of this book make a persuasive argument for the ongoing development of asset-based approaches in Canada. In fact, there is a certain sense of the inevitability of account based social policy which is the primary platform used to support the delivery of individual asset-building strategies. If this is true, it is vitally important that the direction taken be informed by those with the most at stake low-income people, community practitioners, the public and government policy makers. The next iteration in the development of the asset-building field in Canada will be to develop a policy context that ensures that future policies in this area are: universal (available to all Canadians) progressive (low-income people get more incentives and program supports) and complimentary (asset approaches complement rather than replace income security initiatives).

To accomplish this goal we also need to broaden the tent to involve more players. We need the research expertise of academics to create a solid body of theory, knowledge and evidence. We need the strategic policy development expertise of government workers to create policy frameworks from the acquired

research. We need the support and expertise of community based agencies who understand how policy and services such as financial capability should be designed to best respond to individual and community needs. We need the expertise of low-income people to ensure that research and policy development are relevant to their reality. We need the expertise of the financial services sector to ensure that asset approaches are market accessible to low income Canadians.

The policy supported asset inequality which persists in Canada is a major contributing factor to the growing gap between rich and poor Canadians. It is time for researchers, policy makers and community leaders to acknowledge this reality and examine how asset-based approaches can help resolve this fundamental inequity. The recently introduced Canada Learning Bond is a good start and provides a platform upon which to build so are the learning networks we have established with other countries.

Published in 2006 in Canada by

Social And Enterprise Development Innovations (SEDI)
1110 Finch Avenue West, Suite 406
North York, ON
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Tel: 416-665-2828

ISBN: 0-9731534-1-5