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For Children, a Stake in the Future

Imagine an America where a 13-year-old girl attending a struggling public school logs on to the Internet or turns on CNBC every day to check her stock portfolio before her parents come home from work. Sound far-fetched? Not if you live in Britain, where Tony Blair's government has established child trust funds for every newborn Briton, beginning with an initial deposit of \$400 to \$800. The accounts grow with compound interest and with tax-free contributions. When a child reaches 18, the money is hers.

Meanwhile, here in America, President Bush plans to unveil his own series of proposals to create a new "ownership society." But his plan, unlike his British counterpart's, does little to help build the assets of those who have none. At least one-quarter of Americans are considered "asset poor"—meaning they could survive no more than three months without a source of income.

Millions of families are one pink slip, or one unexpected health care expense, away from rock bottom. Lack of wealth and savings is the largest factor behind the economic insecurity of many American families, most of which consider themselves middle class. Forty-seven percent of children in America, including 73 percent of African Americans, grow up in households with zero or negative assets—their parents owe more than they own. As a result, millions of young people lack a sound foundation for financial success. Worse, they lack a sense of ownership.

The time has come for a national strategy to give every child an ownership stake in America's future. In the tradition of the GI Bill and the Homestead Act, Congress should act on a bold initiative to introduce more middle- and lower-income Americans to the financial markets.

New Deal and Great Society programs have had great success reducing poverty. But these programs are not oriented toward wealth accumulation. To renew America's tradition of upward social mobility, we have to find new ways to help those living on modest incomes save and invest.

The president's plan focuses on creating new tax shelters for existing wealth. A wiser policy is to help more people become investors. For \$40 billion over the next 10 years—less money than the president's plan—we can build upon the British model and establish an "American Stakeholder Account," seeded with \$1,000, for every child born in America. Children living below the poverty line

could start with \$2,000. Additional contributions would reward children for performing community service and completing high school. Upon graduation, the young adult could use accumulated savings tax-free to pay college tuition, purchase a home, start a business or invest for retirement.

Second, the president's proposal should be transformed to reach more people. Low- and middle-income individuals do not need a tax shelter, they need an incentive to save. We should offer to match savings with a refundable tax credit that does not depend on one's tax liability. If you make a deposit but don't earn enough to get a tax break, you should still qualify for the match. For example, since a typical family of four earning around \$40,000 year has zero tax liability, it benefits only if the tax credit for savings is made refundable.

Finally, we should make existing programs broader in reach. The government already encourages wealth accumulation by allowing people to deduct retirement savings and mortgage interest. While this approach has certainly been a success in encouraging savings and homeownership, it excludes the families that could benefit the most, such as the 49 percent of Americans who don't own a retirement account or the 32 percent who don't own a home.

Ninety percent of these existing tax benefits reach households with incomes above \$50,000. By allowing families to claim these tax deductions as refundable credits, we can enable more Americans to buy a home or start building a savings account for the first time.

Building assets is not about combating inequality. Rewarding hard work, risk-taking and initiative is the American way. The problem is that too many low- to middle-income Americans are accumulating no real wealth despite working harder for longer hours. Without ways to reward work with an asset base that grows over time, it will be nearly impossible for these families to provide a better future for their children.

A true "ownership society" is one where all Americans have a stake. At the same time as we improve education, we should give every family the tools to achieve its financial aspirations. We should give every child an ownership stake in America's future.

The writer, a Democratic representative from Tennessee, serves on the Financial Services and Budget committees.