ENDING POVERTY ISN’T ENOUGH:
A Piketty-Informed Policy Agenda to Expand Economic Opportunity

by

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Fifty years after Lyndon Johnson launched the War on Poverty, we have a new guide for economic opportunity policy. Leading economists and political thinkers call Thomas Piketty’s Capital in the 21st Century groundbreaking, revolutionary, “the most important economics book of the year—and maybe of the decade.”

The Big Idea in this paper is big indeed—a wholesale shift in thinking around economic opportunity policy, informed by Piketty’s research. Prior research showed that savings and investments are closely linked to economic mobility. Piketty’s groundbreaking work finds that this type of wealth is also the driving force behind growing income inequality. This paper will show the extent to which America’s existing “upside-down” federal tax policies actively work to concentrate that wealth among the most prosperous citizens.

This Big Idea is not just a theory; it’s an actionable agenda with evidence-based policies ready for Congress to adopt and the White House to enact. Right-side-up policies would include but go further than traditional antipoverty proposals, because income is essential but not sufficient to build financial security and wealth. For example, if we want to focus on expanding opportunity for children, we cannot stop with policies that simply move their parents across the income poverty line. Children also need a financially secure household in which to thrive.

This is an exciting time for economic opportunity advocates. The country is engaged in a national debate about poverty, inequality, and mobility. We have groundbreaking research explaining centuries-long trends. And we have new evidence-based policies that could harness the research to ensure that every family can build wealth and invest in the talents and aspirations of their children.

This article begins with the War on Poverty and the relationship between income poverty and opportunity. It proceeds with a review of Piketty’s research and the connection between concentrated wealth and growing income inequality. With these connections in mind, the paper then reviews the existing federal transfer system, which provides income support to some and wealth support to a few. It concludes with a review of federal policy reforms that would give every family the opportunity to build wealth and invest in the talents and aspirations of their children.

**From Poverty to Financial Security**

Too often we forget the key line preceding President Johnson’s announcement of an “unconditional war on poverty.” Leading up to his famous declaration 50 years ago, LBJ first noted that “many Americans live on the outskirts of hope. ... Our task is to help replace their despair with opportunity.” Poverty was the immediate enemy, but expanding economic opportunity was always the ultimate goal.

The enemy labeled “poverty” was defined in terms of income, with an arbitrary line intended to mark the minimum flow of cash needed to pay for basic recurring expenses. Today that measure equals $11,670 for a childless graduate student, $15,730 for a single mother, and $19,790 for a family of three.

Scholars and policymakers have argued convincingly that the old definition of poverty fails to measure what it really takes to get by. In response, in 2011, the federal government began releasing the supplemental poverty measure, which takes into account costs such as healthcare and transportation, as well as income-enhancing programs including Social Security and the earned income tax credit.
However, the fundamental problem with both of these measures runs deeper than statistical methodology. The problem is with the assumption that opportunity is determined by income alone. Decades of experience have taught us that ending income poverty is not enough to move families beyond “the outskirts of hope.”

Consider the single mother with an income of $15,700. When her income increases to $15,800, statisticians will celebrate that we’ve moved her and her child out of poverty. This extra $100 will undoubtedly allow the mom to meet crucial immediate needs. But is she now financially secure? Is she more likely to invest in her own education? Is her child more likely to make it to college? Is she more likely to save enough to buy a home or build a retirement nest egg? In other words, by ending this family’s income poverty, have we replaced despair with opportunity?

Financial insecurity is broader than income poverty. We know that nearly all families experience fluctuations in income from year to year, and low- and moderate-income families are more likely to experience significant drops. One in three of these families experiences at least a 25 percent drop in income over the course of a year. We also know that fully one-quarter of families have no savings at all, meaning they are one big medical bill or broken-down car away from an economic crisis.

The combination of income fluctuation and little savings is a recipe for financial insecurity and constrained economic opportunity. Research shows that even modest liquid savings allow families to overcome the negative effects of income volatility—fewer missed housing payments, less food insecurity, less unmet essential expenses. And we know that there is a strong link between savings and economic mobility. Children born to low-income parents with savings are much more likely to move up the income ladder as adults.

This research tells us that escaping the perpetual financial insecurity of low-wage work requires more than incrementally higher wages; it also requires savings and investments for the future.

**Piketty’s Insight: Concentrated Wealth Drives Growing Income Inequality**

_Savings and investments (or “capital”) are where Piketty’s Capital in the 21st Century comes into the picture._

Piketty starts with a focus on income inequality, which has been on the rise for several decades. In the years leading up to the Great Depression, the share of income held by top earners rose quickly before precipitously dropping with the onset of depression and world war. There it remained, more or less, for the next three decades. But starting in the late 1970s, the share of income held by the top began to skyrocket again, even surpassing its previous 1920s’ record.

The revelation in Piketty’s book is not about what happened to income inequality over the past several decades; rather, it is about why income inequality grows.
For a 700-page book, Piketty’s explanation of growing inequality is surprisingly simple. Reviewing centuries of data across several industrialized countries, he finds that the rate of return on capital (home ownership, business ownership, stocks, bonds, and everything that makes up a household’s net worth) has regularly outpaced the growth of the broader economy, which includes the incomes of all working families. The economy tends to grow at 2–3 percent annually, whereas capital tends to grow at 4–5 percent each year. Because capital is concentrated among wealthier households, inequality accelerates. It’s simple math.

This is a particular problem in countries where wealth is distributed very unequally. In the United States, the top 1 percent of the population owns more than 35 percent of the wealth—more than the entire bottom 90 percent combined. In fact, the Corporation for Enterprise Development (CFED) has found that 44 percent of U.S. households have little or no savings. These “liquid asset poor” families are not only missing out on the returns from wealth; they’re also one economic shock away from financial disaster.

### Income Support for the Poor; Asset Support for the Wealthy

Each of the two strands of research focuses on wealth. The first strand finds that wealth is closely linked to financial security and economic mobility. The second strand, Piketty’s research, finds that wealth is the driving force behind long-term trends in income inequality. So, how do our public policies support the accumulation of wealth?

The federal government spends more than $500 billion annually to encourage Americans to save, invest, and build wealth. But the majority of this support goes to high-income households in the form of tax spending (also known as tax expenditures). From a federal budget perspective, spending a dollar directly is the same as forgoing a dollar of revenue. The former is direct spending, the latter is tax spending, and the effect on the nation’s bottom line is the same. For the recipient of the support, the effect is the same. So, although it may seem counterintuitive, a dollar of support received through a direct-spending program is the same as a dollar of support received through a tax-spending program.
Still, there is a key difference between existing government transfer programs. Support for low-income households tends to come in the form of income support for everyday expenses—for instance, to pay for food (Supplemental Nutrition Assistance Program [SNAP], formerly Food Stamps), rent (Section 8 vouchers), and health insurance (Medicaid). In contrast, support for high-income households tends to come in the form of asset support—for instance, to buy a house (mortgage interest and property tax deductions), invest in stocks (reduced rates on capital gains), and save for retirement (exclusion for 401k and Individual Retirement Agreement [IRA] contributions).12

This distribution of asset-based support occurs because these program benefits primarily flow through tax spending, which disproportionately benefits high-income households. These households receive greater support simply because they have higher tax liabilities that can be reduced through exclusions, deductions, and credits.

Imagine if our welfare policies were structured so that a family received more nutritional assistance as their income increased, with chief executive officers, oral surgeons, and investment bankers receiving the most SNAP assistance. This is functionally how federal tax policy boosts savings and investments, and it is upside down.

**Figure 2**

**Upside down: Four largest tax incentives to build wealth**

![Figure 2](image)

Source: Data World Top Incomes Database

In other words, the government spends to help low-income families get by, while it spends to help high-income families get further ahead. Piketty finds that concentrated wealth is the driving force behind income inequality, and federal policy is actively concentrating that wealth. This is no way to reduce inequality or expand opportunity.

Some may argue that low- and moderate-income families do not receive support for savings and investments because these families are simply unable to save for the future. But decades of research show that low- and moderate-income families will save if given the same opportunities afforded to high-income households. The five-year American Dream Demonstration, implemented by CFED in 13 communities across the country, showed that even the lowest-income families, when provided...
access to savings accounts and incentives, will save for college, home ownership, and entrepreneurship. A separate 10-year national demonstration project found that low-income families will save for their children’s future if given the opportunity.

In short, low- and moderate-income families have great capacity but little opportunity to build wealth. And existing federal policies do little to expand this opportunity for these families.

A Piketty-Informed Policy Agenda to Expand Economic Opportunity

Facing down the larger enemy of financial insecurity means empowering even very poor families to save and build wealth. The federal government already spends billions to ensure that the wealthy build more wealth, but we can expand opportunity by using these resources better. This is an American spin on the Piketty policy prescriptions. Whereas Piketty argues for taxing away wealth at the top, we argue for growing wealth at the bottom. We highlight a few of these policies below.

» **Empower every child to start building wealth early.** Children’s savings accounts (CSAs) give children the opportunity to start building assets early in life. Research shows that children’s savings can have a long-lasting impact well into adulthood. Early savings can change aspirations, improve childhood development, and increase college access and success. Children in low- and moderate-income families with even less than $500 saved for college are three times more likely to enroll in college and four times more likely to graduate than children without any savings.

CSAs are not just interesting theory; they’re an evidence-based policy that has been implemented on the ground for thousands of children through the country. Local and statewide CSAs have launched or are launching in San Francisco, Cuyahoga County (Ohio), Nevada, Colorado, and Maine. At the federal level, congressional leaders in House and Senate tax-writing committees have committed to support large-scale CSA legislation to provide every child born in the United States with a savings account.

» **Eliminate asset limits.** A parent who saves as little as $1,000–$2,000 risks getting kicked off public benefits like Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), and SNAP. These asset limits force families to choose between building (or rebuilding) a financial cushion and receiving benefits that help them make ends meet. Personal savings are precisely the resources that allow families to move off public benefits when they are ready. But instead of encouraging self-sufficiency, asset limits discourage families from saving for emergencies, education, home ownership, or retirement. If we want all families to build wealth, we must eliminate severe financial penalties for doing so.

» **Turn the upside-down tax code right side up.** The tax code is the single most important source of support for savings and investment in federal policy. However, most of this support goes to high-income households. For instance, the main source of support for higher-education savings is tax-preferred 529 and Coverdell college savings accounts. Although families have more than $200 billion saved in these accounts, the bottom half of households own just 1.1 percent of this treasure trove. In other words, the existing tax benefits build wealth for the wealthy, while doing little for most working families. When we examine the tax benefits for retirement savings and investments in home ownership, entrepreneurship, and liquid savings products, we find the same upside-down shape. As policymakers consider broad reforms to the tax code, they should turn these upside-down tax benefits right side up to ensure that all working families can build wealth.
» Ensure universal access to safe, simple, and affordable savings accounts. All the incentives in the world will not expand financial security if families lack access to a savings product. As a step toward addressing this issue, California and Illinois are exploring a policy called automatic-enrollment IRA to guarantee that families without an employer-sponsored retirement plan can save for the future. In addition, President Barack Obama recently announced the myRA, a U.S. Treasury-sponsored account aimed at removing barriers to retirement savings by creating a simple, safe, and affordable retirement savings product for working families. Building on these policies, additional reforms could guarantee that all families have access to accounts to save for emergencies and build wealth through home ownership, education, and entrepreneurship.

**Conclusion**

Like Piketty, many U.S. policy thinkers and advocates focus their attention on the concentration of wealth at the top. Instead, they should be considering what we can do to empower all working families to save, invest, and build wealth.

We know that wealth is closely linked to both income inequality and economic mobility. We know that existing federal asset policies focus, counterintuitively, on building more wealth for the wealthiest households. We believe that we can do better.

For families to escape the perpetual financial insecurity of low-wage work, our public policies must ensure that all families can save for college, buy a home, start a business, and invest in our nation’s economic growth. The federal budget and tax code devote billions of dollars annually to these goals, yet they fail to expand opportunity for most families. An asset agenda would use these resources more effectively and equitably by turning these upside-down policies right side up.

**Notes**


11. For an extended discussion of the consumption-based and asset-based transfer systems, see W. Elliott and M. Lewis, Harnessing Assets to Build an Economic Mobility System: Reimagining the American Dream (Lawrence, KS: Assets and Education Initiative, February 2014).

