WR-Assets

THE WHITE HOUSE

WASHINGTON

5/25/94

To: Bruce Reed
Kathi Way
Paul Weinstein
Sheryll Cashin

From: Jeremy Ben-Ami

Attached is a set of talking points/fact sheet on the elements of the plan that relate to assets and micro-enterprise. You may find it helpful to refer to if you are speaking somewhere or meeting with interested groups.

cc: Emily Bromberg (you may want to add to the set of fact sheets being prepared by HHS)

WELFARE REFORM HIGHLIGHTS

Asset Development and Microenterprise

The President's welfare reform plan takes several steps to assist people on welfare who are trying to become independent by starting their own business and to help low income families accumulate savings as a way out of poverty.

1. Encourage Savings and Asset Accumulation

Asset accumulation is one route out of poverty, yet current welfare rules require people to spend all their savings to be eligible for help. These rules are counterproductive, forcing people to sell cars they need to get to work and to give up whatever they may have saved to put a child through school. People who need help should be encouraged, not discouraged from saving for a home, further education or to start a business. Therefore, the Clinton plan:

- raises the limit on assets for eligibility from $1000 to $2000
- permits recipients to establish Individual Development Accounts in which they can save up to $10,000 to pay for further education, to invest in a home or in a business
- raises the limit on the value of an automobile from $1000 to the equivalent of $4500 of market value

2. Make it Easier to Start a Business

One way for some people to leave welfare and become self-sufficient is to turn a hobby such as providing child care, making jewelry or styling hair into a business. Microenterprise and self-employment programs throughout the country have successfully helped many people make the transition from welfare to independence. To make this a more viable option, the Clinton plan:

- disregards resources to be used for self-employment from the asset determination for eligibility
- makes microenterprise and self-employment eligible activities under both the JOBS and WORK programs
- commits to regulatory changes to make income rules work better for the self-employed

The plan contains nearly all provisions (or comparable ones) from HR 455 from 1993 and HR 11 from 1992.

3. Demonstrations

In addition to the national changes to the welfare program described above, the Clinton plan contains two demonstrations in the area of asset development and microenterprise:

Individual Development Accounts

The plan proposes a $100 million demonstration of a program to encourage savings by providing matching grants to people on welfare who work and save money for qualified purposes (buying a home, paying for education, and starting a business). The demonstration will evaluate the impact on savings rates of varying levels of matching bonuses and whether encouraging asset development helps people to get off welfare and become self-sufficient faster. The demonstration builds on bills offered previously by Rep. Tony Hall and Sen. Bill Bradley.

Microenterprise

The plan also contains a $40 million, five year demonstration of the effectiveness of various models of promoting self-employment and microenterprise development among low-income individuals including those in the new time-limited welfare program. This will represent the first effort by the federal government to perform a rigorous, randomized evaluation of the potential of such programs, and to compare different approaches that provide minimal and intensive technical assistance.

TONY P. HALL
THIRD DISTRICT, OHIO
COMMITTEE:
HOUSE COMMITTEE ON RULES
SUBCOMMITTEE ON RULES OF THE HOUSE

cc: Wm Raspberry

Congress of the United States
House of Representatives
Washington, DC 20515-3503

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File: WR-ASSETS

March 18, 1994

Mr. Bruce Reed
Co-chair, Welfare Reform Working Group
Domestic Policy Council
Old Executive Office Building, Room 216
Washington, D.C. 20500

Dear Mr. Reed:

Attached is a copy of a letter which we recently sent to President Clinton on our support for including asset-based anti-poverty strategies into welfare reform. These legislative proposals would remove the restrictions on asset accumulation by poor people by raising the Aid to Families with Dependent Children savings limit above the current $1,000 ceiling for recipients starting businesses, saving for education, or saving to purchase a new home. Another legislative proposal is the creation of Individual Development Accounts which would encourage poor people to save for a first-time home purchase, for a post-secondary education, or for starting a small business.

We would urge your inclusion of these proposals into welfare reform legislation.

Sincerely,

Tony P. Hall
Member of Congress

Bill Emerson
Member of Congress

Cardiss Collins
Member of Congress

Fred Grandy
Member of Congress

Congress of the United States
Washington, DC 20515

March 18, 1994

President William J. Clinton
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

We share your belief that asset-based anti-poverty strategies are an invaluable tool for breaking the cycle of poverty. The political will - in Congress and among the American people - exists for their implementation. If we intend for asset-based anti-poverty strategies to reach significant numbers of the poor, these strategies must be included in comprehensive welfare reform.

The current rules for Aid to Families with Dependent Children (AFDC) provide cash payments for consumption while discouraging savings and enterprise. Too often, welfare reform attempts have been centered on modifying recipients' behavior with penalties. In contrast, asset-based anti-poverty strategies create a path to savings, investment, and accumulation of assets which leads to ending one's own poverty with dignity.

Bills introduced during this Congress include the Microenterprise Opportunity Expansion Act and the Microenterprise and Asset Development Act. These bills propose many important anti-poverty measures including removing the restrictions on asset accumulation by poor people by raising the AFDC savings limit above the current $1,000 ceiling for recipients starting businesses, saving for education and training, or saving to purchase a new home. The Individual Development Account Demonstration Act proposes a five-year demonstration project that would encourage and reward poor people for saving towards homes, education, and businesses through Individual Development Accounts (IDAs). An IDA would be an earnings-bearing, tax-benefitted account whose deposits would be matched on a sliding scale by the Federal and/or State governments. Amounts from an IDA could be withdrawn without penalty only for the purposes of first-home purchase, post-secondary education, business development, and retirement. The Federal government would be supporting asset accumulation by the poor, just as it does for the non-poor.

The Federal government spends more than $100 billion per year to provide incentives to middle-income and upper-income people to accumulate savings and assets (e.g., home mortgage interest deductions and tax deductions for retirement pension accounts). Federal anti-poverty policy should support asset-building activities, not penalize them. Current policy is telling the poor that they cannot save for their children's education, that they cannot start their own business, or that they should sell everything they have just to get some temporary assistance. This traps people on welfare -- which is both morally wrong and economically foolish.

Believing that poor people can and should be supported to end their own poverty, we request that the proposals embodied in these bills be explicitly integrated into the Administration's welfare reform.

Sincerely,

Tony P. Hall, M.C.

Bill Emerson, M.C.

Cardiss Collins, M.C.

Fred Grandy, M.C.

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Curt Weldon, M.C.

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Steve Neal
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Tom Andrews
Thomas H. Andrews, M.C.

Maurice Hinchey
Maurice D. Hinchey, M.C.

Neal Smith
Neal Smith, M.C.

Bill Hughes
William J. Hughes, M.C.

Albert R. Wynn
Albert Russell Wynn, M.C.

C B Rangel
Charles B. Rangel, M.C.

Floyd H Flake
Floyd H. Flake, M.C.

Mike Parker
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Jim Moran
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James T. Walsh
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Richard Lehman
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Alex McMillan, M.C.

Peter Deutsch, M.C.

Martin H. Lancaster, M.C.

Bill McCollum, M.C.

CONGRESSIONAL HUNGER CAUCUS ROUNDTABLE
ON
ASSET-BASED WELFARE REFORM STRATEGIES

AGENDA

May 25, 1994
10:00 a.m. to Noon
The Capitol, Room HC-6

10:00 a.m. - OPENING STATEMENTS

1) Rep. Tony P. Hall - Chairman
2) Rep. Bill Emerson - Vice-Chairman
3) Other members of the Congressional Hunger Caucus

10:15 a.m. - PANEL I - LEGISLATIVE CHANGES IN WELFARE REFORM SUPPORTING MICROENTERPRISES AND IDAs.

1) Bruce Reed, Co-chair, President's Welfare Reform Working Group.
2) Rep. Robert Andrews -- Co-chair, Empowerment Caucus
3) Rep. Curt Weldon -- Co-chair, Empowerment Caucus
4) Rep. Cardiss Collins -- A member of the Congressional Black Caucus and the Congressional Women's Caucus.
5) Rep. Dave McCurdy -- Chairman, The Mainstream Forum

11:00 a.m. - PANEL II - PRACTITIONERS

1) Dennis West - Eastside Community Investments; Indianapolis, Indiana.
2) Pat King - IDA participant in Indiana.
3) Connie Evans - Women's Self-Employment Project; Chicago, Illinois.
4) Ms. Marie Hughes - A welfare recipient.
5) Senator Elaine Szymoniak - Chairperson, Iowa Senate Human Resources Committee.

11:45 a.m. - PANEL III - SUMMARY OF ASSET-BASED WELFARE REFORM STRATEGIES

1) Michael Sherraden - Washington University in St. Louis (Author, Assets and the Poor: A New American Welfare Policy.)
2) Robert E. Friedman, Chair - Corporation for Enterprise Development.

Congress of the United States
Washington, DC 20515

March 18, 1994

President William J. Clinton
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. President:

We share your belief that asset-based anti-poverty strategies are an invaluable tool for breaking the cycle of poverty. The political will - in Congress and among the American people - exists for their implementation. If we intend for asset-based anti-poverty strategies to reach significant numbers of the poor, these strategies must be included in comprehensive welfare reform.

The current rules for Aid to Families with Dependent Children (AFDC) provide cash payments for consumption while discouraging savings and enterprise. Too often, welfare reform attempts have been centered on modifying recipients' behavior with penalties. In contrast, asset-based anti-poverty strategies create a path to savings, investment, and accumulation of assets which leads to ending one's own poverty with dignity.

Bills introduced during this Congress include the Microenterprise Opportunity Expansion Act and the Microenterprise and Asset Development Act. These bills propose many important anti-poverty measures including removing the restrictions on asset accumulation by poor people by raising the AFDC savings limit above the current $1,000 ceiling for recipients starting businesses, saving for education and training, or saving to purchase a new home. The Individual Development Account Demonstration Act proposes a five-year demonstration project that would encourage and reward poor people for saving towards homes, education, and businesses through Individual Development Accounts (IDAs). An IDA would be an earnings-bearing, tax-benefitted account whose deposits would be matched on a sliding scale by the Federal and/or State governments. Amounts from an IDA could be withdrawn without penalty only for the purposes of first-home purchase, post-secondary education, business development, and retirement. The Federal government would be supporting asset accumulation by the poor, just as it does for the non-poor.

The Federal government spends more than $100 billion per year to provide incentives to middle-income and upper-income people to accumulate savings and assets (e.g., home mortgage interest deductions and tax deductions for retirement pension accounts). Federal anti-poverty policy should support asset-building activities, not penalize them. Current policy is telling the poor that they cannot save for their children's education, that they cannot start their own business, or that they should sell everything they have just to get some temporary assistance. This traps people on welfare -- which is both morally wrong and economically foolish.

Believing that poor people can and should be supported to end their own poverty, we request that the proposals embodied in these bills be explicitly integrated into the Administration's welfare reform.

Sincerely,

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Bill McCollum, M.C.

THE WHITE HOUSE

WASHINGTON

April 26, 1994

Dear Tony:

Thank you very much for your letter in support of asset-based strategies to break the cycle of poverty.

As you may know, I have long been a strong supporter of measures to help the poor build assets. The current welfare system discourages work and savings, instead of rewarding people for their own efforts to lift themselves out of poverty.

Microenterprise has been a high priority of the Small Business Administration since I took office. We are also working to make sure that microenterprise and Individual Development Account demonstrations are part of the Administration's welfare reform proposal. As I said in an address to Congress last year, our goal should be to help people not need us anymore.

Thank you for the bipartisan support you have given to these innovative ideas. We have an historic chance to reform our welfare system to provide the right incentives and convey the right values.

With best wishes,

Sincerely,

Bill

The Honorable Tony P. Hall
House of Representatives
Washington, D.C. 20515

HIGHLIGHTS OF THE PLAN: Assets and Microenterprise

1. Raises the asset limit

- generally to $2000 from $1000
- allows $10,000 in an IDA for education, home, business
- car limit raised to Food Stamp level

2. Easier for AFDC Recipient to start a business

- disregard from assets resources to be used for self-employment (subj to new regs to be issued by the Secy of HHS/Ag)
- Microenterprise and self-employment now eligible activities under both JOBS and WORK
- commitment to regulatory changes to make income rules work better for the self-employed

* Contains nearly all provisions (or comparable from HR 455 from 1993 - intro'd by Hall and much of language from HR 11 from 1992)

3. Demonstrations

- IDA demo: $100 million. Range of match rates from 1:2 to 4:1

- Language built on Hall and Bradley bills (Hall bill: HR456)
- Note: Hall wanted $100m/yr for five years

- Micro demo: $40 million. 2,400 new microloans.
- Purpose: evaluate effectiveness of this strategy for welfare recipients. Evaluate different models: hi-intensity vs. low-intensity TA.

REP. TONY P. HALL, OHIO
CHAIRMAN
REP. BILL EMERSON, MISSOURI
VICE-CHAIRMAN

JOHN MORRILL
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Congress of the United States
CONGRESSIONAL HUNGER CAUCUS

395 FORD HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6408

OPENING STATEMENT OF HON. TONY P. HALL AT THE CONGRESSIONAL HUNGER CAUCUS ROUNDTABLE MAY 25, 1994 ON ASSET-BASED WELFARE REFORM STRATEGIES

I would like to welcome everyone to this morning's hearing on asset-based welfare reform strategies. We have an exciting line-up of individuals who have been involved in these issues for some time who will be testifying before the Caucus today. I would also like to extend a special thanks to Robert Friedman with the Corporation for Enterprise Development for his assistance in funding the travel for many of today's witnesses.

Federal anti-poverty policy should support asset-building activities, not penalize them. Because of the $1,000 asset limit in AFDC, we are telling the poor that they cannot save for their children's education, that they cannot start their own business, or that they should sell everything they have just to get some temporary assistance. This traps people on welfare -- which is both morally wrong and economically foolish.

Many here have heard about the story of Grace Capitello. Grace was on welfare and she was able to save $3,000 toward the college education of her 5-year-old daughter, Michelle, by purchasing bulk foods and shopping at Goodwill stores. Most people would consider this mother a model. Yet, because Grace saved money while receiving public assistance, she was brought to court, convicted of fraud, and sentenced to prison.

Another example, is Mary Johnson who raises her three children while caring for her bedridden 71 year-old mother. She wants to work, and has obtained loan guarantees to start a computer billing service in her home. Yet she is forced to stay on welfare because owning computer equipment would put her over the asset limit for public aid. Buying a computer means instant loss of health care and assistance -- before she can get on her feet.

These examples demonstrate how federal policies block the poor from achieving self-sufficiency. Many poor people are held in poverty by not being allowed to develop assets. These policies need to be changed.

Therefore, the Hunger Caucus endorses two legislative initiatives which assist people by providing sensible self-help programs with the objective of permanent self-sufficiency. The Microenterprise and Asset Development Act

-more-

allows recipients to set aside up to $10,000 in restricted asset accounts for education, job training, home-purchase and provides for the special treatment of income from a microenterprise. The Individual Development Account Demonstration Act proposes a five-year demonstration project that would encourage and reward poor people for savings towards homes, education, and microenteprises through Individual Development Accounts (IDAs). An IDA would be an earnings-bearing, tax-benefitted account whose deposits could be matched by the Federal, State or Local governments.

In March of this year, Representative Bill Emerson, Representative Cardiss Collins, Representative Fred Grandy, and I sent a letter to President Clinton, signed by 68 members of the House of Representatives, to include these asset-based anti-poverty strategies into comprehensive welfare reform. The letter was bi-partisan and demonstrated the broad-based support for these ideas across the political spectrum.

I look forward to hearing from our witnesses today on how asset-based welfare reform strategies should be enacted into law.

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Congress of the United States
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395 FORD HOUSE OFFICE BUILDING
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STATEMENT OF THE HONORABLE BILL EMERSON
VICE-CHAIRMAN
CONGRESSIONAL HUNGER CAUCUS
MAY 25, 1994

I want to first thank everyone for their participation and interest in the Hunger Caucus' roundtable discussion of asset-based welfare reform strategies.

As a candidate, President Clinton quickly learned that the promise to, "end welfare as we know it," was popular across the nation. The popularity of this idea stems from the widespread realization that our country's current system has become a way of life -- and an often unhappy one at that -- for millions of people. The welfare debate is now heating up in Congress. While Members of Congress will disagree over HOW to reform the system -- and I would guess that even in this room there would be differences of opinion -- there is general consensus that some actions must be taken.

While virtually all of the current welfare reform proposals are aimed at getting people off the welfare rolls, very few recommendations deal with building long term self-sufficiency -- KEEPING PEOPLE OFF WELFARE. Asset Development and Microenterprise, unlike other welfare reform proposals, are anti-poverty strategies which work to help people get off welfare and STAY OFF.

With minimal federal costs, Asset Development and Microenterprise allow and encourage people to be responsible for themselves, thus becoming self-sufficient. These anti-poverty initiatives treat people on public assistance as people, and encourage them to save for education, save for the purchase of a home, save for retirement, and save for starting a business. These are the goals that people not on public assistance strive for, and we can do no less than offer and encourage the same aspirations for people on public assistance.

As our former colleague in Congress and fellow anti-poverty advocate, Mike Espy, recently said, "we spend billions of dollars to help poor people subsist. But unless they can accumulate assets, the poor will always be poor."

I look forward to an interesting discussion today, and to working with my colleagues in Congress to promote Asset Development and Microenterprise opportunities for the future. Tony Hall and I both strongly believe that any comprehensive welfare reform legislation needs to include a way off of welfare -- and a way to stay off of welfare. Microenterprise and Asset Development are two common-sense ways to accomplish these goals.

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CURT WELDON
7TH DISTRICT, PENNSYLVANIA

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THE EMPOWERMENT CAUCUS
CO-CHAIRMAN

Congress of the United States
House of Representatives
Washington, DC 20515-3807

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CHILDREN, YOUTH, AND FAMILIES

CONGRESSIONAL FIRE SERVICES CAUCUS
CO-CHAIRMAN

Statement by Congressman Curt Weldon (R-PA)
co-chairman, Congressional Empowerment Caucus

Congressional Hunger Caucus Welfare Reform Round Table
May 25, 1994

****

Thank you Tony Hall and Bill Emerson, for allowing me to discuss the issue of assets and the poor, a critical and often overlooked issue as we discuss reform of our welfare system.

Thank you also for you leadership on this issue. Long before anyone in the Congress or at the White House was discussing this issue in detail, the members of the House Select Committee on Hunger and now the Congressional Hunger Caucus were pushing this issue with legislation, dear colleagues, letters. I am proud to be a co-sponsor of H.R. 455 and 456, Tony Hall's bills dealing with Individual Development Accounts and microenterprise development for low-income Americans.

I want to talk a little bit about a new legislative initiative which the Congressional Empowerment Caucus is working on, which builds on the fine work of this caucus and its leadership. My friend Congressman Rob Andrews and I formed the Caucus last year to push for policies that help people help themselves. To that end, we have fought for the HOPE homeownership program, real enterprise zone programs, and welfare reform that emphasizes earnings and savings.

Congressman Andrews took the initiative to come up with a welfare reform plan for the caucus which would do two critical things.

- encourage innovation and creativity at the the state and local level, and
- promote asset development and investment for low-income Americans.

We feel that these are two critical areas where Washington can have a major impact on welfare policy without costly new programs or mandates. If we allow the states and localities to use welfare dollars more effectively to structure innovative work and training programs, and if we allow welfare recipients to work and save and invest, we will have done a great deal to break the cycle of poverty for our poorest citizens.

Our bill would allow states to decategorize various welfare funding streams, including AFDC, Food Stamps, SSI, Medicaid, housing assistance, Unemployment Insurance, LIHEAP, Social and Community Services Block Grants, CDBG, child care, and JOBS.

States could apply for waivers to decategorize these funds, and the bill provides a one-stop, fast-track waiver process to ensure that these waivers are acted on quickly. Cities, counties, and localities could apply for waivers by gaining the approval of the state. The bill allows for quick and easy expansion of state and local programs, and it rewards states with cash bonuses for each welfare recipient moved from welfare to work as a result of the state program.

Our plan gives states the authority to determine time limits, family caps, work history requirements, and case management responsibilities.

We feel strongly that key decisions about work programs, job training, and child care programs should b e made at the state and local level. Our responsibility should be to provide them with the flexibility to use existing funds in the manner that best fits their needs locally.

The bill also includes provisions for raising the assets limit for AFDC eligibility, and it provides for a very aggressive IDA program modeled on the work of this caucus. The bill establishes tax free IDAs to allow individuals to save up to $10,000 for qualified purposes. Employers as well as state and local governments would be permitted to match individuals' contribution.

Under our proposal, the income and savings of minor dependents would be excluded from AFDC eligibility and public housing rent tabulation.

I am pleased that we have Iowa Senator Elaine Szymoniak, one of the architects of the innovative Iowa Human Investment Plan. The Iowa plan does many things all of us support: it provides a comprehensive IDA program and it raises the assets limit to allow welfare recipients to save.

Our proposal would help a state like Iowa to use its federal resources more effectively. For example, the Iowa plan establishes a statewide network of "Workforce Development Centers," where state and federal funds could be used together to deliver job training services more efficiently. Our plan would allow the state to use whatever federal funds they wish in this state program. All they would need to do is to submit a waiver request which meets the needs of the population served, is revenue neutral to the federal government, and has an evaluation plan to monitor the results of the program.

We think our program, like the White House plan and the Mainstream Forum proposal, takes concrete steps to use asset development strategies to help low-income individuals break the poverty cycle through economic empowerment.

We feel strongly also that the Empowerment Caucus plan gives states and localities the necessary flexibility to meet the unique welfare needs of their citizens. And we do it without new spending or new bureaucracies.

This much we know: the status quo does not work. America has spent $5 trillion on social welfare programs since 1965, yet by almost any measure our social problems are worse. The poverty rate was actually slightly **higher** in 1991 than it was in 1965, when the War on Poverty began.

All of us here are dedicated to changing that. In the Empowerment Caucus, we feel that giving maximum flexibility to the states and giving the poor a chance to work and save their way out of poverty are two common-sense steps we can take right away to build a "ladder of opportunity" that all Americans can climb.

My friend Bob Woodson of the National Center for Neighborhood Enterprise, said recently "Poverty is not simply a crisis of lack of jobs and opportunity; it is also a crisis of the spirit. It is a crisis of self-esteem for those who live in a realm in which only negative behavior and deficiency are rewarded."

Empowering the poor through asset-based welfare policies will begin to ease that crisis of the spirit. If we offer people the rewards of work and savings and thrift, we will reawaken the creative and entrepreneurial spirit that will allow people to lift themselves out of poverty.

Mr. Chairman, thank you again for your tremendous leadership on this issue. I know that we can work together, here in the Congress and with the White House, to bring hope and opportunity to all Americans. Thank you.

Testimony Provided by
Dennis West
Eastside Community Investments, Inc.
May 25, 1994
Congressional Hunger Caucus Roundtable
on
Asset-Based Welfare Reform Strategies

Representative Hall, Representative Emerson and members of the Congressional Hunger Caucus Roundtable on Asset-based Welfare Reform Strategies, my name is Dennis West and I am the President of Eastside Community Investments, Inc. I wish to thank you for this opportunity to speak on behalf of asset building strategies and individual development accounts.

Eastside Community Investments, Inc. is an eighteen year old community based development corporation. Our mission has evolved from our incorporation where we talked in terms of "creating jobs and improving the quality of housing, " to a mission adopted in 1993 which talks about "building wealth, providing access to the private economy, building community and achieving these things by investing in people, land, buildings and industry." ECI is working to build and generate assets for families through four mechanisms: homeownership, business ownership, individual development accounts and homeownership development accounts. It is our aim to cause 500 families to be able to create wealth through the use of these asset building techniques during the next three years.

The near eastside of Indianapolis, the area which we serve has around 28,000 people, roughly one third of whom are living in poverty. We have around 3% of the population of Indianapolis, but around 12% of the public assistance caseload. Our rates for homeownership have dropped to around 40% in spite of the single family character of the homes. Nearly one half of the adults of our community lack a high school diploma. The number of jobs lost in the last decade exceeds 7,000 with seven major plant closing which have left behind around 3,000,000 square feet of vacant factory space. The fastest growing commercial enterprises have been checking cashing services and furniture rent to own operations.

In 1987, our community health center performed a survey in conjunction with Indiana University. One significant finding was that if you owned your own home, you had probably lived in that home for the past ten years. If you rented a home you had probably lived in the community for ten years but had moved on average 7.5 times. One effect of the movement has been a 100% turnover in some of our local schools.

What we know about our community is that we export too much wealth in the form of rent payments, utility bills which are unconscionably high, and to purchase goods and services no longer available in our community. Our asset strategies and particularly IDAs are a significant tool for the development of this strategy to build markets and reverse these trends of exporting our wealth.

ECI has worked effectively to build markets through real estate investments. These investments have greatly increased the willingness of banks, investors, corporations and government to invest in our community. Now our task has turned to the work of building markets from within. To this end our experience with IDAs has shown us that they make positive contributions to the building of markets, but just as importantly they open doors of economic inquiry.

When we first offered IDAs to young people in our YouthBuild program, we shared an analysis of the next ten years; renting versus owning a home, various projected incomes based upon educational attainment, the amount which Americans on average possess when they start a business, and also the effect of interest if the money was saved for ten years. After this explanation, one young man come to me the next day and said, "I have been walking these streets for twenty years, and last night I went by a house with a for sale sign in front, and for the first time I thought I could own that." That same week three other young people inquired about different vocational schools and programs. Three others talked openly about owning businesses and their ideas. Anecdotally, the presence of assets was opening the doors of inquiry and confirming what we learned in focus groups o teen age parents, they wanted access to good homes, steady jobs and a sense of opportunity.

Pat King has been real life market research for ECI to launch strategies of business ownership and homeownership. It was Pat's dream to have her own day care which provided the seeds of thought to work with women to improve the quality and build home day care enterprises. Pat and her husband John have four children. When I first met Pat she was working very hard to create economic progress for her family. She had returned to get her GED and had landed a job as an assistant teacher in Head Start. The home in which she was living was by anyone's assessment substandard. Pat's initiative and the ability of Pat to help us understand some of her market realities have meant that Pat has moved from assistance to owning her own business and owning her own home in seven years. All of her children are still in school: the eldest son is working on a post secondary associates degree, the two girls are in high school and the youngest son is in middle school. So far they are defying the odds where one in four African American males who enter are graduating from high school and around 50% of African American females graduate. But more than defying the odds Pat and her family are important symbols of what it means to have the tools available to give meaning and expression to dreams.

Our opinion and lived experience is that IDA's can be powerful tools to support people to have dreams and to build a future. This focus on asset development and removal of the barriers to asset accumulation must become part of our strategies to address poverty in America.

Women's Self-Employment Project
166 W. Washington Street
Suite 730
Chicago, IL 60602
(312) 606-8255

Good Morning

Distinguished Members of the Congressional Caucus on Hunger and Invited Guests:

My name is Connie Evans and I am the Executive Director of the Women's Self-Employment Project, the only non-profit financial services and entrepreneurial training program targeting low-income women throughout Chicago. Since its inception in 1986, WSEP has successfully supported the efforts of low-income women to increase family economic self-sufficiency, leave welfare, create new options for their children, achieve empowerment, and demonstrate credit worthiness by launching their own microenterprises. WSEP has distributed over $700,000 in small short-term loans and has provided business tools and information to more than 3,500 women. In addition, WSEP was the first microenterprise program in the United States to adapt the Bangladeshi Grameen Bank model to an urban context.

At WSEP, microenterprise ventures and asset -accumulation activities have always worked hand-in-hand as anti-poverty strategies. Microenterprise, in its simplest form, is a human investment strategy that promotes both economic and community development. As a viable option for job creation, microenterprise provides opportunities for those who are often excluded from traditional forms of education and business capital.

Through our success in microenterprise, WSEP has exploded the myth that poor people can't save. While the microenterprise field and savings are a relatively new concept in the United States, overseas, microenterprise and savings have been partners for at least 15 years. Poor people can and do save given the proper vehicle. The reality is that the barriers of maintaining a high balance and the account opening requirements are prohibitive. In our microenterprise program, we have established a culture of savings by requiring all borrowers to open savings and checking account. We have financial services agreements with five banks in the Chicagoland area that will open no-minimum savings accounts and low-cost checking accounts. Lessons from our program indicate that assets buffer people from everyday problems that might otherwise become a crisis. For example, having a car might mean the difference between someone keeping or losing a job. Furthermore, assets enable people to imagine and plan for a future and to invest in themselves and their children when no one else will.

The Women's Self-Employment Project strongly supports the concept of Individual Development Accounts. According to an article in the *Wall Street Journal,* published earlier this year, annual benefits to the non-poor total over $570 billion through such incentives as tax subsidies and capital gains, as opposed to $109 billion to the poor. While it is clear that money is being spent on the poor, we are not investing in them in a way that builds futures. Monies that are currently spent in public aid grants serve only to maintain people in poverty. It is important that low-income people have the same supports and opportunities to save as the non-poor.

IDAs are a critical piece to lifting people out of poverty, however, it is just as critical that exceptions for emergency situations be included in the design of the program. Some liquidity of savings is necessary to offset life's unexpected crises. Just as many of us maintain savings accounts for a "rainy day," it is unrealistic to think that poor people will not need the same cushions. Our research and experience clearly demonstrate that poor people who do not have any savings to fall back on can often find themselves starting all over after a debilitating illness or a broken down car.

Our current welfare system penalizes those who are making an earnest attempt to become self-sufficient. Let me give you two examples from our peer training program. "Michelle," a highly determined and business savvy participant was initially unable to pursue her word processing business because the computer needed for her business start-up cost $1300. Another program participant, "Sandra," was at first unable to maintain the inventory required for her clothing manufacturing business due to the asset limitation requirements. It is only with the passage of HB707, a self-employment exemption waiver, that Michelle and Sandra were able to acquire the necessary business assets for operation without worrying about any reduction in their grant level. In the past, reporting these business expenses to the Illinois Department of Public Aid would have meant a severe reduction of their grants and most importantly, for Sandra's children, an end to medical coverage. As I've learned through my experience at WSEP, asset limitations place an undue burden on those individuals who are often the most highly motivated to succeed.

WSEP recognizes the necessity for a welfare system that will serve as a safety net for those truly in need, but also insists that a net will never provide a route out of poverty. WSEP is committed to a development model of welfare, which also provides ladders, such as IDAs, which combine training programs, like microenterprise, that can lead to true economic self-sufficiency.

Women's Self-Employment Project
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Good Morning.

Distinguished Members of the Congressional Caucus on Hunger and Invited Guests:

My name is Marie Hughes and I am the proud owner of Marie's Spotless Maid Services, a growing business on Chicago's south side.

I have been a public-aid recipient for ten years. In 1993, I joined the Women's Business Initiative Program at the Women's Self-Employment Project, a training program geared to AFDC recipients. The goal of this program is to prepare participants for business ownership and operation through a 12 week course, covering issues such as bookkeeping, marketing, advertising, and how to reinvest profits back into a microbusiness. At WSEP, I learned everything I needed to start and maintain my business. When I was ready, a WSEP loan allowed me to purchase a car, which made it possible for me to take on new customers outside my immediate neighborhood. The car cost $2000, which wouldn't have been allowed under the present asset limitations without a waiver.

My business is doing very well; I have hired two part-time employees, and I have also begun subcontracting larger exterior jobs. My next step is to register as a minority- and female-owned business in order to bid for larger city contracts. As my business grows, I also improve the local economy by hiring new workers.

HB707, the self-employment exemption waiver in Illinois, has made all of this possible. It has enabled me to run my business while still receiving child care services and medical benefits for my children. Without the support and business loan from WSEP, I'm sure that I would have continued to receive my full grant from public aid indefinitely. I've always wanted my own business, but without any savings, it was impossible to put enough money away to purchase the equipment, insurance and supplies I needed to get started. In the past, if I could save any money I worried about my public assistance check being reduced.

Before I started my business, I never saved for the future. Now that I have my own business, I am realizing the need to save, both for my personal and business needs. I am interested in starting an IDA because it would help me to put aside money for a home of my own, and for the education of my two sons, who are now nine and five years old. I want them to learn the value of saving from an early age. As a business owner I have learned that businesses have their ups and downs. And as a mother I know that there are always personal emergencies that can eat up savings. I like the idea of IDAs because they would encourage me to put aside money for certain needs, like education or a first home.

I am trying to teach my boys about the values of hard work and saving for the future. Sometimes I take them to work with me and let them help. They see me work and they see my business grow. I would like them to also see me start IDAs for them to help pay for college education. When they are older they can practice savings themselves, by contributing their own earnings to their IDAs. I would like them growing up understanding that their education is important;

knowing that they have money for college might even help them to do better in school.

I am a success. My benefits have been gradually reduced and I will be completely out of the welfare system within the year. I am on my way to being free from dependence on government assistance, and I'm helping others to follow in my path.

Thank you very much.

Testimony
of
Robert E. Friedman
Chair, Corporation for Enterprise Development
at the
Congressional Roundtable on
Asset-Building Welfare Reform Strategies

Wednesday, May 25, 1994

For the past fifteen years the Corporation for Enterprise Development (CFED) has been researching, developing, demonstrating and disseminating economic development strategies with the dual goal of increasing economic vitality and productivity on the one hand, and economic opportunity and inclusion on the other.

I come before you today to thank you for focusing attention on the asset-building welfare reform strategies that are being pioneered in our communities and states, and fashioned into Federal policy proposals by a bipartisan group of pragmatic leaders. Taken together, these proposals not only tackle the most difficult challenges facing reformers -- the lack of good jobs and enduring escapes from poverty -- but also signal a fundamental and needed shift in our approach to poverty from a system based on spending and consumption to one based on savings and investment.

Ever since the New Deal, which set the framework for the United States transfer payment systems, US antipoverty efforts have focused on income maintenance and social service provision. The limits of this approach are becoming clear: as William Raspberry put it, the income maintenance system has become a sort of economic methadone which eases the pain of poverty and unemployment but does not address the underlying causes. Worse, if unintentionally, the current system actually penalizes poor families who attempt to move forward through education, work or self employment.

This welfare reform at the Federal level offers the possibility, for the first time in this century, to add a substantial development component -- one designed to encourage, enable and support low income people moving into the mainstream economy as skilled employees and entrepreneurs. There are many promising models for such an approach at the community, state and international efforts.

At the Federal level, policy proposals embodying a development strategy -- proposals like raising the permissible asset level for retaining AFDC eligibility, a national demonstration of Individual Development Accounts, and a system of 1000 microenterprise programs -- have not only drawn bipartisan interest, but won the endorsement of the President.

While there are certainly vast unmet needs for food, shelter, clothes and the other necessities of life, I am convinced that the economic, social, and political frontier of efforts to combat poverty in this country lies not so much in zero-sum income maintenance and income redistribution (though I do not oppose them), as in positive-sum efforts to increase the ability of poor Americans to compete with success in the world labor market. The problem with the current system is not that it rewards indolence, but that it penalizes effort. We must devote our attention to encouraging and enabling low income Americans to move forward as they see fit -- through education, employment, self employment -- to build their economic future and ours.

I believe we should take the charge of President Clinton, who understands economic development better than any leader we have ever had, very seriously: we must "empower... Americans to take care of their children and improve their lives." Only by creating viable paths out of poverty for those ready and able to move can we shrink the number of families dependent on public support and increase the adequacy of that support.

This strategy offers to expand the economic pie while including in that greater prosperity people and communities confined to the margins of the mainstream economy. It is an investment strategy designed to yield returns substantially in excess of the initial investment. It coheres with the values of most Americans who believe fundamentally with the proposition that all people deserve a reasonable opportunity to support themselves and their kids. It can breed social respect, trust, cohesion. It is the only engine powerful enough to pull a fundamental reform through Congress.

In the remainder of this testimony, I want to note the premises on which these recommendations are based, outline the elements of an asset building welfare reform, and then make a few observations about asset-building antipoverty strategies. But first, I want to offer a story.

In 1987, the Cherokee community of Kenwood, Oklahoma, was characterized by overwhelming poverty, unemployment, alcoholism and hopelessness. And also a concentration of some of the Cherokee Nation's most talented Artisans.

When Charlie Soap and Wilma Mankiller asked the community where opportunity lay as part of their Ga-du-gi ("community helps itself") Project, they suggested a marketing cooperative.

For the coop to be successful, the community artisans needed to join and work for it. The key, people in the community explained to Charlie, was to secure Betty Blackberry's support.

Betty Blackberry, at the time, 81 years old and nationally recognized as the one of the foremost basketmakers in the country, and universally admired in the community.

By the third meeting of the planning group, Betty Blackberry had joined. They agreed to plant a field with the reeds they needed to increase their production of baskets. A month later, the first show sold thousands of dollars of merchandise in two days. Within 2 months, Betty Blackberry and her family had an order for 5000 small gift baskets.

After four months the coop was dying. When asked why, participants explained that the state welfare officials, having seen the coop members' names on baskets, and jewelry and other items in shops, came to suspect them of not reporting all their income (which in many cases turned out to be true). Scared at the prospect of losing their only certain, if inadequate, means of support and medical coverage for children, the members stopped producing and working to develop the coop.

"But Betty," Charlie reasoned, "you know you can sell your baskets for $200 apiece -- probably for $400-1,000 if you develop your name. What do you make now?"

"$240. But what if I don't sell the two? I might feel comfortable if I could save some money, so that I could be sure to be able to market. But they won't let me even do that."

Betty Blackberry died a year later the way she lived: impoverished, dependent on Federal support, unknown and underrecognized outside her home community.

What concerns us about traditional welfare policy is the way it not only fails to encourage and enable economic opportunity and development of the Betty Blackberry's and Kenwoods of this country, but actually penalizes them. To be sure, some of the activities that state officials stopped were technically illegal; but just as surely, the effect of the welfare system as enforced was to penalize effort, to undermine earnings and entrepreneurship, to stymie community development, and to stigmatize and drive underground the very sort of enterprising activity and role models we should want to celebrate and reward.

We think that the economic, social, political and human cost of the focus on income maintenance is huge. And if the test of such policy were a matter of elemental fairness and commonsense, rather than the absence of random assignment, control group evaluations which are currently unavailable, the path forward would be clear.

What we seek to put forward is an Investment Package as part of an overall welfare reform proposal that encourages and supports the development of America's poor people and communities.

Premises

The antipoverty development strategy suggested in the remainder of this testimony is based on a series of premises about the nature of the welfare population and the economy. They are derived from the literature, our own studies of effective economic opportunity and development policies and programs, as well as direct experience with working with low income people escaping poverty. We cannot fully explicate and document them here, but we think it is important to be explicit about them.

Welfare Recipients

The success of any welfare reform strategy depends fundamentally on a understanding of who the people are we are dealing with. We start from some premises that are not necessarily universally shared:

- **AFDC recipients, though sharing poverty, are a tremendously diverse population.** There is a real danger if we pay attention only to averages and otherwise homogenize the poor.

- **Among AFDC recipients are people with tremendous skills, energies, aspirations, who are best helped by supporting their capabilities rather than treating only their perceived deficiencies.**

- **Just as people get poor for different reasons, so they will escape poverty through different routes. It is a mistake to search for a single approach that can liberate 50% of the poor; rather, it may make more sense to seek a series of 1, 3, and 5% solutions.**

The Economy

The national (and global) economy has changed in many ways that require changes in the strategies designed to include low income people and communities in the economic mainstream. Unfortunately, most of the changes make entry into the economic mainstream more difficult. Among the crucial changes:

- **The United States income maintenance system, like the British system on which it was modeled, was premised on Sir Thomas Beveridge's assumption that John Maynard Keynes had unlocked the key to full employment, and that therefore, all that was necessary for the income maintenance system to do was to support people until they were reabsorbed into the mainstream economy. It should be clear that that assumption is now clearly counterfactual, and that the income maintenance system must facilitate job creation and economic growth.**

- **Wage levels for low skilled employees have fallen. People with high school education or less have lost ground, and are likely to do more. Thus, short term training is even less likely to lead to jobs paying a livable income in the future than in the past.**

- **The education and skill level required for jobs offering incomes and benefits capable of sustaining a family above the poverty level have increased. Post-secondary level skills will increasingly be the necessary prerequisite.**

- **Entrepreneurial skills -- the ability to combine resources in new ways to add value -- will increasingly be required not only of business owners and managers, but also of employees.**

- **The rate of self employment, after declining almost from the founding of the Republic, has been increasing since 1973, both as a function of necessity and opportunity.**

Community and State Asset-building Antipoverty Initiatives
Precedents and Models

Around the United States and around the world, a number of asset-building antipoverty development initiatives have arisen which point the way toward a larger antipoverty development policy. It seems appropriate to review them briefly here.

Community Models

In the last 5-10 years, a couple hundred microenterprise programs which help low income Americans create jobs for themselves have emerged across the country in places a diverse as inner city Chicago, rural Nebraska, the border towns of Arizona and the Indian reservations of North Dakota. We are beginning to understand that these programs are not just business development programs, but also human and community development programs. A Directory of such programs soon to be released by the Self-Employment Learning Project of the Aspen Institute suggest the potential and growth curve of this strategy. From a handful of such programs as recently as five years ago, the Directory now lists 194 programs around the country[1] which have loaned $43 million, assisted in the creation of 21,160 new businesses and the expansion 36,000 while providing services to

[1] Up from 108 a year earlier, and this is undoubtedly not a complete list.

204,068 clients.[2] Seventy per cent of these programs work with low income people, and sixty-three per cent of these programs work with AFDC clients in spite of the fact that the current system offers severe penalties to both participants and program operators. While it is too early to know the full long-term impacts of such programs, a study of 302 borrowers from five leading programs found that 51% of the businesses were profitable on a monthly basis, over half earned under $1,000 a month in gross sales, 22% per cent earned from $1,000 to $2,500 per month and 24% earned over $2,500 a month.[3]

Self-help housing projects have sprung up in rural and urban communities across the country. "I Have a Dream Programs" in 40 cities assure disadvantaged students that they too can attend college. And savings clubs and innovative savings programs have developed in public housing complexes and rural communities.

Some communities have attempted to put a number of development strategies together into a comprehensive whole. Eastside Community Investments, a community development corporation in Indianapolis, Indiana operates everything from an industrial park to low income housing to teen parent programs, to self-employment, day care and individual development account programs. Every program ECI launches now is designed to include components to build marketable skills, character, assets, and community.

State Models

On Monday, March 26, 1993, the Iowa Senate passed the Iowa State Human Investment Policy legislative package 49-0; on April 19 the Iowa House passed the package 96-1. Republican Governor Terry Branstad has promised to sign the comprehensive package, crafted by the Corporation for Enterprise Development working with a broadly representative public-private Human Investment Council. The package included a far-reaching rewriting of the welfare program (now renamed the Family Investment Program) to assist progress toward economic independence, an asset-building strategy which would create 10,000 Individual Development Accounts, a

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[2] ***1993 Directory of Microenterprise Programs,*** Washington, D.C.: Self-Employment Learning Project of the Aspen Institute, forthcoming.

[3] Peggy Clark and Tracy Huston, ***Assisting the Smallest Businesses: Assessing Microenterprise Development as a Strategy for Boosting Poor Communities,*** Washington, D.C.: Self-Employment Learning Project of the Aspen Institute, 1993, pp vi-vii.

system of Family Development and Workforce Development centers operating with decategorized funding, and a high-wage economic development strategy. Republican Senator Maggie Tinsmore said the package "represented a fundamental change from an income maintenance system to a development system." The headline of the Des Moines Register's approving editorial read, "Finally, Real Welfare Reform." Marv Weidner, Director of Iowa's ADC Program, conveyed the premise of the reform most succinctly, "This is the first welfare reform plan in the country that trusts and respects welfare recipients."

What is notable about the plan from the national perspective is:

- Welfare reform is nested in a larger package which also includes policies on asset development (IDAs), family development, workforce development and economic development. An effective anti-poverty strategy is necessarily going to involve more than welfare reform.

- The orientation of the entire package is toward self-sufficiency, and there is a combination of economic and social policy elements designed to increase the productive capacity of the economy at the same time it seeks to include in that enlarged economy people confined to the margins.

- The welfare reform plan revolves around three themes: Transitions to Work, which removes the earnings and asset penalties currently facing recipients interested in earning their way off; Family Stability, which removes the penalties for family preservation or reunification; and Responsibilities with Consequences which allows for flexible Family Investment Agreements with the penalty of time-limited welfare for those who refuse to enter into such self-sufficiency contracts.

- The design of the individualized Family Investment Agreements provides an instructive model of how to deal with time-limited welfare. IFIP allows welfare recipients to enter into very flexible and individualized self-sufficiency plans which vary in length (we believe that the path off long-term welfare receipt is more likely to take four years than two, but the path off for most recipients may be much shorter), reserving time-limited welfare (three months of full benefits, and three additional months of benefits for children only) for those unwilling to enter into an Agreement.

- The plan fundamentally respects, demands and seeks to build upon the talents, energies and aspirations of the poor themselves. In short, it is and empowerment and investment strategy that requires the poor to assume responsibilities and co-invest in order to receive investment.

- Inherent in the plan are the principles of reinvented governance, including empowering the customer, decentralizing practice, public-private leverage and participation.

- While we will not know the full costs and benefits of the plan until it has run for some time, our best estimate is that an up-front investment is required which will entail net costs in year one, but achieve revenue neutrality by year three, and net profit to the state by year four due to increased employment and reduced dependency.

In the first six months of implementation, the Iowa welfare reforms have led to a fifty percent increase in the proportion of the caseload [illegible]

[illegible]

including California, Colorado, Florida, Iowa, Vermont, Virginia, and Wyoming, and six more have applied, including, Connecticut, Florida, Georgia, Ohio, Oregon, and South Dakota.

International Models

Developed countries of Europe and Asia, many of them countries that have progressed much further than the United States in creating the modern welfare state and extensive income maintenance programs, have faced the crisis of the Welfare State sooner than we have -- the [illegible] to continue to support it at traditional levels -- and have begun to move to developmental strategies aimed at increasing the productivity, growth and inclusiveness of the mainstream economy

For example, some 15 developed countries in Europe and Asia have changed their unemployment compensation and welfare programs to support rather than penalize unemployed people who try to create jobs for themselves.

Many developing countries, which have never been able to create social safety nets, have instead resorted to policies designed to support and build upon the self-help solutions of poor people themselves. While growing in very different cultural, political and economic circumstances, these efforts can enlighten and guide the development of US antipoverty efforts. Dr. Elizabeth Rhyne, a student of these Third World approaches, notes:

> Without welfare programs or formal sector employment opportunities, poor people in developing countries have evolved coping strategies through which they provide for their own basic needs -- income, shelter, and the like. In a growing number of instances, governments or other organizations in developing countries have created programs that support or enhance these strategies. While these mechanisms have clearly not been sufficient to eradicate poverty on a wholesale basis, they do help make lives more livable, reduce social alienation , and provide conditions for some individuals to break out of poverty. In effect, they constitute a social strategy based on: 1) the ability of poor people, their families, and their communities to develop effective solutions to their poverty-related problems, and 2) assistance efforts designed to help those solutions emerge and flourish.

Rhyne goes on to describe some of the strategies one finds used in poor communities of the developing world:

- "**Microenterprises.** When the mainstream economy is unable to supply formal sector jobs and there are no welfare programs, microenterprise, or self-employment, becomes a major source of income. Most microenterprises remain small and serve their own communities. A handful (perhaps 5 to 10 percent) grow to become important employers. But even the smaller ones maintain family income and finance investment in education or another business.

- "**Housing.** Most housing in developing countries is financed and built by the people who live in it, and their families and friends. Starting from a very simple dwelling, people invest in home improvement, provided title to their plots is secure.

- "**Transportation.** Private transport operators outperform public systems around the world, and eventually organize themselves to provide for their needs through services such as insurance and vehicle purchase plans.

- "**Savings and financial services.** The accumulation of assets is perhaps the most important strategy poor people use to pull themselves out of poverty. Savings pay for schooling and provide a cushion through bad times. Poor people develop informal savings clubs to help each other save enough money for major investments, including business investment.

- "**Family care.** Low income people rely on the extended family for child care and care for the sick and aged. The extended family is also a source of financial resources."

Federal Initiatives

While many welfare reform proposals have yet to reach the Congress as proposed legislation, already a general pattern is clear when it comes to asset-building reform proposals. Virtually every bill, whether introduced by Republicans, Democrats or bipartisan teams, recommends raising the asset limits. Most include provisions to make self employment and enterprise development a supported choice and would at least authorize welfare recipients to build Individual Development Accounts. And a few, including the Administration's proposal and HR 456, would fund a national Individual Development Account Demonstration with Federal matching contributions and rigorous evaluation.

Principles of an Asset-building Welfare Reform Strategy

These initiatives have a number of operating principles in common:

- They respect individuals seeking their own futures as the driving force of development; they recognize and build on the capacities, initiatives and dreams of poor people themselves; and they place services in a secondary and supportive role.

- They seek to create opportunity not by redistributing income, but by expanding the productive capacity, competitiveness and inclusiveness of the economy.

- They seek to invest resources in order to generate more resources in the future.

- They recognize that people get poor for different reasons, and will escape poverty through different routes at different speeds. There is likely to be no one 50 or 75% solution, but rather a series of 5% solutions.

- They recognize that human, family, community and economic development occur together in an interacting, uneven, and cumulative process.

- They are not a public strategy, but a single integrated private-public system focused on results.

Elements of a Developmental Welfare Reform Strategy

There seem to be four basic pieces to a Federal Asset-building Welfare Reform Development Agenda:

- 1. Removing the Penalties for Education, Employment, Assets and Self Employment;
- 2. Including self employment and other economic development as legitimate options and linking welfare reform to other education, employment, economic and social development programs;
- 3. Investing in Individual Development Accounts and other economic development strategies; and
- 4. Reinventing the Governance of the System

1. Remove the Penalties for Education, Employment and Self Employment: Perhaps the most pernicious aspect of the current AFDC system is the way it penalizes attempts to move forward through training, education, employment, and self-employment. Undertaking any of those paths forward inherently imposes more costs, as well as exposing individuals to risks they would otherwise not face. This system seems to serve no one well: AFDC recipients or the taxpayers who must support their continued dependency. A full list of the penalties and disincentives that should be removed, let alone a detailed description of appropriate changes, is beyond the scope of this testimony, but we can cite a number of general recommendations as examples:

- Raise the $1,000 asset limitation for eligibility for AFDC and similar restrictions in Medicaid and Food Stamps, which effectively prevents business creation, saving for college education, home purchase or even simply a cushion against emergencies, illnesses and accidents.

- Raise the asset limitation for the value of a automobile to a level capable of covering a reliable vehicle (certainly above the current $1,500) and adopt uniform treatment among different programs (e.g. Food Stamps and AFDC).

- Reduce the earned income disregard to at least 50%.

- Limit grant reduction for business income to net profits taken out of the business, and standardize and conform the treatment of business expenses to the IRS treatment of all other businesses. See H.R. 455 for specific language.

- Establish long term economic independence as a central goal of the welfare system.

- Extend the duration of child care and health insurance coverage to a more realistic transition period of two years.

- Cap the amount of income that must be paid for subsidized housing.

- Eliminate the 100-hour rule for Unemployed Parents.

- Reduce or removing marriage penalties, including the 100-hour rule.

2. Include self employment and other economic development as legitimate options and Link with Other Federal Training, Employment and Economic Development Strategies. As many have suggested, the ultimate answer to welfare (and the poverty that underlies it) lies beyond the welfare system. Any reform cannot become the whole of a development strategy. All the more reason why a welfare reform should seek to remove the barriers to participation in other Federal (and non-Federal) training, education, employment and economic development programs by AFDC recipients and other low income people. This linkage strategy minimizes the need for new funds while allowing low income people to gain some of the benefits of those initiatives. There is a particular advantage into tapping into Federal initiatives that create jobs, some of which might be filled by welfare recipients. I fear that public employment programs for welfare recipients fall too easily into the trap of seeming to be make-work (based as they are on a job creation purpose), are too expensive, and create a job ghetto rather than leading to unsubsidized private sector employment. Among the linkages that might be established:

- Insure that self employment and microenterprise development are explicit, legitimate and supported choices in any JOBS, WORK or other set of self-sufficiency services and option.

- Tap into SBA Microloan, JTPA, CDBG and Department of Agriculture Rural Development support for microenterprise programs so that interested welfare recipients can participate.

- Link welfare recipients into new apprenticeship, training and school-to-work transition programs.

- Tap into Federal community economic, business and housing development programs to get them to serve welfare recipients.

- Utilize the National Service program and Empowerment Zone programs.

- Increase the flexibility for states and communities to devise their own economic independence/development strategies.

3. Create Direct Federal Investment Programs. While we have spent on the poor, we have rarely invested in them. Most Federal programs to help the poor are income maintenance or social service programs, while most Federal investment programs are not directed to the poor at all. It is time to begin at least experimenting with direct Federal investment in the ability of the poor to move forward. Here we use investment in the old fashioned sense: the appropriation of $X today in order to generate $X+ tomorrow by engaging the skills, vision, and energy of people and groups. If we are right as a nation to invest in the asset building of the non-poor through the home mortgage deduction, preferential capital gains rates, and pension fund exclusions, then we should also invest in the asset-building of the poor. Any asset building welfare reform package should:

- **Authorize the national demonstration of Individual Development Accounts.** The distribution of assets in this country is much more unequal even than income distribution: while the top 10% of Americans command 40% of national income, the top 1% control 90% of assets. Fully one third of American households have no or negative investable assets; more than half have negligible amounts. This at a time when the price of entry to the American economic mainstream -- measured in terms of the cost of an adequate education, business capitalization or home ownership -- has increased. Asset owning has become a sort of economic grandfather clause, every bit as insidious as the voting clauses of days passed that said you could only vote if your grandfather did.

  This pattern of asset-holding is abetted by a bifurcated national policy: we subsidize asset acquisition for the non-poor to the tune of $100 billion annually at the Federal level in the form of the home mortgage deduction, preferential capital gains, and pension fund exclusions. Meanwhile, as already pointed out, we actually penalize asset acquisition by the poor.

  It is possible to create asset building policies that do not discriminate against the poor. In the Homestead Act, we provided 160 acres and a mule to Americans willing to work the land. Through the GI Bill we bought college educations for a generation of people who served their country in time of war; they in turn drove our post-war economic expansion.

  Michael Sherraden has proposed a Homestead Act for the 21st Century: the Individual Development Account

(IDA).[4] Modeled on the Individual Retirement Account, the IDA would be available and tax-sheltered for all Americans, with the public co-investing with the poor on a sliding scale, to insure that (unlike IRAs and most US asset policy) the poor are not excluded from its benefits. All Americans would be able to save, say $1,000 per year tax-sheltered, with the government matching the investments of the poor on a sliding scale. The accounts could be tapped for any of a set of permissible, productive investments: college education, training, first home, business capitalization.

While it is too early to set up a national system of IDAs, it is not too early to begin to experiment with them (as some communities and states are already doing). One approach is suggested in H.R. 456, and another in the Administration's proposal, but many other variations are possible.

Establishing IDAs serves another crucial function: it vests control of the service system in the hands of the intended beneficiaries -- it establishes the broad ownership critical to an effective, transforming development strategy.[5] It also thereby integrates the system from the bottom.

- **Create a competitive Innovation and Investment Fund to support investment programs designed to generate future savings and returns.** We are low on the learning curve of identifying effective antipoverty development strategies. A modest investment fund could encourage more community and state experiments, and accelerate the learning. Currently, the Federal government is requiring that hard-pressed states, communities and non-profit groups to front the investment, even though the Federal treasury has the most to gain. Investment should be on a competitive basis according to the probability and amount of prospective return. Appropriate evaluation should be required as a condition of such investments.

4 Michael Sherraden, ***Assets and the Poor: A New American Welfare Policy***, Armonk, New York: M.E. Sharpe, c1991. See Appendix D.

5 See Doug Ross and Robert Friedman, "The Emerging Third Wave..." op. cit.

4. Adopt New Forms of Governance No system needs to learn from and adopt new governance systems more than the Federal antipoverty system. The notions of empowering beneficiaries (customers), decentralizing decision-making and encouraging entrepreneurship, holding people accountable for results and easing process controls, utilizing competition in service delivery, creating new learning and information systems and the like are as necessary here as elsewhere. Among the reforms that are needed:

- **Ease the Section 1115 Waiver process** to allow more state and community innovation.

- **Create a Return on Investment Budgeting System** which considers a longer term and a wider array of costs and benefits. As long as we emphasize near term costs and benefits, or only those returns that accrue to agency budgets, the real economics of investments made and forgone will remain underappreciated.

- **Encourage a range of evaluation/learning strategies**, rather than an overwhelming reliance on random assignment, control group methodology with its high cost and anti-innovative bias. We need better feedback loops and outcome tracking in order to learn better and more continually from reform initiatives.

- **Use new management practices** that can maximize state and local creativity while holding agencies accountable for results and protections, and harnesses the potential contributions of non-profit, community organizations.

The Best Use of the Next Dollar: Economic, Social and Political Advantages of the Investment in Economic Development

Bob Greenstein, and staff leaders on Capitol Hill, like to ask, "Is this the best use of the next (all-too-scarce) dollar for combating poverty?"

Certainly, if one looks at the extent of hunger, homelessness, poverty and want, the immediate need seems to be the provision of survival money, goods and services.

But the need for such resources so outscales the potential funds, that for any variety of reasons, it is difficult to imagine more than incremental and inadequate progress.

And the truth is that of every dollar we spend on the poor, 90 cents or more goes to income maintenance, a few cents go to training and placement, and a penny at most goes into economic development.

More fundamentally, such help treats the symptoms but not the problem: it does not create jobs or enhance the capacity of poor people to earn a living in the mainstream economy. It does not tap, build or utilize their talents. It does not offer to remove people from dependence on income maintenance over time. It penalizes effort and undermines hope. It subsidizes consumption but does not invest in production. It shrinks the economic pie, rather than expanding it.

We would argue that investing in the talents, energies and abilities of poor people is the best use of the next dollar of antipoverty spending.

As compared to more traditional income maintenance and social service programs, developmental antipoverty strategies offer several advantages. Among them:

- **Economic:** They are investment strategies in the old-fashioned sense: they are premised on their ability to generate returns tomorrow that significantly exceed their cost today. While they may require up front investment before returns can begin to accrue, and although these are often longer term, deeper investment strategies, they are intended to -- and should only be supported to the extent that -- they are likely to expand the total value and productivity of the economy in the future. Even the prospects of those who can never be expected to support themselves in the mainstream economy can gain by removing those who can become economically self-supporting from the welfare roles, freeing existing expenditures.

- **Social:** Development strategies require a quid pro quo from the investees in terms of co-investment of time, effort, vision and often resources. Moreover, these can be fashioned as universal systems designed to increase opportunities for all Americans. These approaches resonate well with the values and opinions of Americans as revealed in polls indicating strong support for work and opportunity programs as opposed to maintenance and charity approaches.

- **Political:** As the bipartisan support at the state and federal levels for the few investment approaches thus developed indicates, these strategies spans the political spectrum.

Cautions and Criticisms

To be sure, support for developmental strategies is not universal. Among the criticisms voiced:

- The interest in such strategies as microenterprise and asset-development is merely faddish.

- The potential of such strategies is limited to small numbers (and percentages) of welfare recipients, and offers only limited possibility of income gains.

- This is not the best use of the next dollar when there are so many maintenance and survival needs.

- There is little objective evaluative data to support the efficacy of such approaches.

- These proposals lure unsuspecting people into failure.

There are many answers to such cautions -- and many answers are lacking. What seems to be clear is that unless there is more experimentation and room for such initiatives, we will never generate adequate answers.

Observations on Asset-Building Welfare Reform

In closing, I would like to underscore seven points:

1. The real limit to effective welfare reform -- everybody admits -- is the lack of quality jobs and enduring escapes from poverty. Most welfare recipients currently revolve between low wage temporary work and welfare. A job -- any job -- does not offer an enduring escape. Almost all of the reform plans offer short term placement remedies. Only the asset building approaches offer the hope of creating enduring escapes from poverty.

2. The forgotten welfare recipients of the current debate over welfare reform are those who still carry the American Dream -- who are ready to save and invest their own time and effort and resources to pursue education, to work, and even sometimes to create their own jobs. If only the government will allow them to do so.

The American Dream is dying in our poor communities. Twenty years ago even in poor communities, poor people believed in the promise of education, and jobs and business and housing. Today, the dream is fading, and with it, hope.

The real promise of the policy changes we recommend is, as Michael Sherraden puts it, "They are hope in concrete form".

3. Asset building Welfare Reform proposals are based on -- inspired by -- pragmatic and innovative initiatives at the state and local level. What America's communities and states ask is that the Federal Government become a partner rather than an obstacle.

4. There is general bipartisan agreement on these proposals.

5. While the Congressional Budget Office will assign a fairly high cost to these initiatives since they will not project behavioral changes, we regard them as investments likely to produce returns -- to welfare recipients, the government, and the general public -- well in excess of their cost.

6. Taken together,. these policies reflect a fundamental shift in American social and economic policy -- from one based on spending and consumption maintenance to one based on savings and investment.

7. This whole story is the great secret of welfare reform debate. A secret we hope these hearings let out.

WR- ASSETS

March 30, 1994

MEMORANDUM FOR THE WELFARE REFORM WORKING GROUP

FROM: Sheryll Cashin
Bonnie Deane
Paul Weinstein
Jeremy Ben-Ami

SUBJECT: UPDATE ON ECONOMIC DEVELOPMENT AND WELFARE SUBGROUP

The Economic Development and Welfare Group has developed recommendations and legislative specifications in three areas:

I. <u>Microenterprise</u> -- A demonstration of the impact of microenterprise programs for welfare recipients and other low-income individuals

II. <u>Individual Development Accounts</u> -- a demonstration of the impact of a program that includes a federal match to provide an incentive for people on welfare to save as well as the creation of a "no-match" IDA, in which deposits would be disregarded for purposes of determining eligibility for welfare

III. <u>AFDC rules changes to permit savings and self-employment</u> -- a series of statutory and regulatory changes to permit and facilitate savings, self-employment and entrepreneurism among welfare recipients

This memo summarizes the issues and proposals in these threeareas. Detailed specs are provided in attachments and in sections of the reinventing and JOBS specs.

I. <u>Microenterprise</u>

Microenterprise programs have proven effective in this country and abroad as a vehicle for some number of low-income individuals to work their way out of poverty and off welfare. Community-based organizations have been working with both HHS and SBA over the past several years to develop some of these programs, but there has been no comprehensive effort to evaluate their effectiveness generally or to test different program models.

Our proposal is to fund a five-year demonstration to be jointly administered by SBA and HHS that would provide loans, training and technical assistance to approximately 2400 participants. The demonstration would be subject to a randomized evaluation overseen by HHS/ASPE to test among other things the effectiveness of programs with minimal and substantial levels of technical assistance and the differing impact for people in a time-limited welfare program and for other low income individuals.

The specifications for the demonstration are nearly complete and cost figures are being finalized. A preliminary estimate of the cost for five years is $50 million.

Issues:

(1) Who administers the program: Our proposal is to have joint administration of the program by both HHS and SBA. This idea has been developed in conjunction with program staff of both agencies.

(2) How should funds be targeted: Our proposal tries to balance two objectives -- to allow both welfare recipients and non-welfare/low income individuals to participate and to test the effectiveness of this strategy for participants in a time-limited system. We have proposed requiring that each project include a percentage of JOBS/WORK participants to be set by the Adminstrator and Secretary.

(3) Level of Services: There are differing opinions about the importance of providing training and other support services in conjunction with loan money in microenterprise programs. One of the goals of the demonstration is to test different strategies thoroughly and to evaluate their effectiveness for different populations.

II. Individual Development Account -- Demonstration of Effectiveness of Matching Savings

While there are a considerable array of programs to promote economic and business development, few have been designed to promote asset development for the poor. Yet, a growing community of poverty experts in this country believe that one strategy for helping people help themselves emerge from poverty is to encourage savings and asset accumulation. Several proposals to create Individual Development Accounts (IDAs) to provide a vehicle for poor people to save have been introduced on the Hill in the past (including a proposal sponsored by then Congressman Espy). Establishing an IDA program was also a Presidential campaign promise.

In the Reinventing specifications, we propose creating a national "no-match" IDA program to allow AFDC recipients to save for specified purposes without losing their benefit eligibility. Our demonstration proposal, however, is distinct from that proposal, going one step further to test the effectiveness of matching funds as an incentive to AFDC recipients to save and to use those savings to move off of welfare.

The attached draft legislative language outlines in more detail the purposes of the demonstration which include testing the impact of an asset based strategy as well as a proposed structure for the program.

Issues:

(1) Who administers the program: Our proposal is that the Community Development Bank and Financial Institutions (CDFI) Fund administer the program. This new institution will be working with the very community based financial institutions which we anticipate will be administering these programs on the local level, and as an institution it will be philosophically supportive of this type of approach to fostering self-sufficiency. Banking Juris?

(2) Where IDAs are defined: Our proposal is to create and define IDAs in the tax code and then to refer to them in other areas such as the Social Security Act or Food Stamps law, so that competing structures and definitions do not emerge in a variety of places. We are meeting with Treasury to discuss their openness to this idea. good

(3) Extent of the match: One of the more controversial elements of the IDA program is the extent to which the federal government provides matching funds as an incentive for AFDC recipients to save. Previous proposals on the Hill have proposed as much as a 9:1 match. We propose testing a range of matches as part of the demonstration from 4:1 to 1:1. OK

(4) Limit on match: We limit the match amount to $3,000 per EITC unit.

(5) Eligibility: Eligible participants limited to EITC-eligible families with annual income under $20,000.

→ Needs to report to Fraud Control

III. AFDC and Food Stamps rules changes to Permit Savings and Self-Employment

We are also proposing a series of modifications to AFDC and Food Stamp eligibility rules which will permit both savings and self-employment.

Savings -- During the campaign, the President pledged to raise the general asset limit to $10,000 so that families would not be barred from saving to assist them in getting out of poverty. A proposal on the general asset limit is presented elsewhere in the specs, but financial considerations will not permit us to go to a general $10,000 limit.

As an alternative, designed to take us in that direction, we are proposing to disregard up to $10,000 placed in an IDA. This would be separate and apart from the demonstration of the matching IDA program described above. Money in an IDA could be used to pay for education, a home, or to capitalize a business.

Self-Employment/Microenterprise -- AFDC and Food Stamps statutes and regulations currently contain a number of provisions that make it very difficult for individuals to try to start a business without immediately losing their eligibility. We have made several suggestions for changes that are included in the specs. Some of the salient points are:

- The rules should apply to self-employment and micro-enterprises
- We suggest limiting the exclusions to those people with an approved business plan as part of their JOBS and/or WORK partcipation.
- We suggest including microenterprise/self-employment as acceptable JOBS and WORK activities explicitly in the statute and amending the 20-hour rule to ensure that participation is defined more flexibly for those pursuing this option.

good

WR - Assets

→ MTGS. IN NOVEMBER W/GROUPS ON DEVELOPMENT PIECE
- List from Patricia: CBP, CLASP, CDF
→ Give them list of Hill ~~staff~~ + members

Alternative ways to reconnect people to the economy
- capacity bldg for indivs. (not just jobs + training)
- IDAs, microenterprise (5% of caseload)
- CDBG + JTPA $ - fed. rules
- SBA microloan prog. doesn't have enough $ to help welfare recips.
- esp. rural areas
- Coops, ESOPs, flex. mfgr networks
- self employed people

Adding a **Federal Antipoverty Development Package** to Welfare Reform

A Preliminary Proposal

The Federal Welfare Reform Proposal being prepared by the Working Group on Welfare Reform, Family Support and Independence, offers the possibility, for the first time in this century, to add a substantial development component -- one designed **to encourage, enable and support low income people moving into the mainstream economy as skilled employees and entrepreneurs**. There are many promising models for such an approach in existing community, state and international efforts. At the Federal level, policy proposals embodying a development strategy -- proposals like raising the permissible asset level for retaining AFDC eligibility, a national demonstration of Individual Development Accounts, and a system of 1000 microenterprise programs -- have not only drawn bipartisan interest, but won the endorsement of the President.

States
1. Iowa
→ 2. N. Carolina

SUCCESS STORIES TO VISIT

While there are certainly vast unmet needs for food, shelter, clothes and the other necessities of life, we are convinced that the economic, social, and political frontier of efforts to combat poverty in this country lies not so much in zero-sum income maintenance and income redistribution (though we do not oppose them), as in positive-sum efforts to increase the ability of poor Americans to compete with success in the world labor market. The problem with the current system is not that it rewards indolence, but that it penalizes effort. We must devote our attention to encouraging and enabling low income Americans to move forward as they see fit -- through education, employment, self employment -- to build their economic future and ours.

Principles of an Antipoverty Development Strategy

The proposals outlined below have a number of operating principles in common:

- They respect individuals seeking their own futures as the driving force of development; they recognize and build on the capacities, initiatives and dreams of poor people themselves; and they place services in a secondary and supportive role.

- They seek to create opportunity not by redistributing income, but by expanding the productive capacity, competitiveness and inclusiveness of the economy.

- They seek to invest resources in order to generate more resources in the future.

- They recognize that people get poor for different reasons, and will escape poverty through different routes at different speeds. There is likely to be no one 50 or 75% solution, but rather a series of 5% solutions.

- They recognize that human, family, community and economic development occur together in an interacting, uneven, and cumulative process.

- They are not a public strategy, but a single integrated private-public system focused on results.

Elements of a Developmental Welfare Reform Strategy

There seem to be four basic pieces to a Federal Antipoverty Development Agenda:

- 1. Removing the Penalties for Education, Employment and Self Employment;
- 2. Linking with Other Federal Training, Education, and Economic Development Programs;
- 3. Direct Federal Investment in Economic Opportunity and Development for Welfare Recipients; and
- 4. Reinventing the Governance of the System

These elements could be easily reframed to fit under the themes of the Working Group: They are parts of making work pay, of enabling people to get off welfare and stay off. They include job creation strategies and are part of a transitional, time-limited support system to allow people to work. A full description of the components of a developmentally-oriented welfare reform policy is still difficult, but some of its elements are clear.

1. Remove the Penalties for Education, Employment and Self Employment Perhaps the most pernicious aspect of the current AFDC system is the way it penalizes attempts to move forward through training, education, employment, and self-employment. Undertaking any of those paths forward inherently imposes more costs, as well as exposing individuals to risks they would otherwise not face. This system seems to serve no one well: AFDC recipients or the taxpayers who must support their continued dependency. A full list of the penalties and disincentives that should be removed, let alone a detailed description of appropriate changes, is beyond the scope of this testimony, but we can cite a number of general recommendations as examples:

- Raise the $1,000 asset limitation for eligibility for AFDC and similar restrictions in Medicaid and Food Stamps, which effectively prevents business creation, saving for college education, home purchase or even simply a cushion against emergencies, illnesses and accidents.

- Raise the asset limitation for the value of a automobile to a level capable of covering a reliable vehicle (certainly above the current $1,500) and adopt uniform treatment among different programs (e.g. Food Stamps and AFDC).

- Remove penalties for employment and earnings including reducing the 100% effective tax rate on earnings after four months. The effective tax rate (benefit reduction ratio) should be no more than the tax rate facing the weathiest Americans, and preferably should be no more than the tax rate on earned income at the same level.

- Limit grant reduction for business income to net profits taken out of the business. See H.R. 455 for specific language.

- Establish long term economic independence as a central goal of the welfare system.

- Extend the duration of childcare benefits to a more realistic transition period.

- Cap the amount of income that must be paid for subsidized housing.

- Eliminate the 100-hour rule for Unemployed Parents.

- Reduce or removing marriage penalties, including the 100-hour rule.

2. Link with Other Federal Training, Employment and Economic Development Strategies. As many have suggested, the ultimate answer to welfare lies beyond the welfare system. Any reform cannot become the whole of a development strategy. All the more reason why a welfare reform should seek to remove the barriers to participation in other Federal (and non-Federal) training, education, employment and economic development programs by AFDC recipients and other low income people. This linkage strategy minimizes the need for new funds while allowing low income people to gain some of the benefits of those initiatives. There is a particular advantage into tapping into Federal initiatives that create jobs, some of which might be filled by welfare recipients. We fear that public employment programs for welfare recipients fall too easily into the trap of seeming to be make-work (based as they are on a job creation purpose), are too expensive, and create a job ghetto rather than leading to unsubsidized private sector employment. Among the linkages that might be established:

- Link welfare recipients into new apprenticeship, training and school-to-work transition programs.

- Tap into SBA Microloan, JTPA, CDBG and Department of Agriculture Rural Development support for microenterprise programs so that interested welfare recipients can participate.

- Tap into Federal community economic, business and housing development programs to get them to serve welfare recipients.

- Utilize the National Service program and Empowerment Zone programs.

- Increase the flexibility for states and communities to devise their own economic independence/development strategies.

3. **Create Direct Federal Investment Programs.** While we have spent on the poor, we have rarely invested in them. Most Federal programs to help the poor are income maintenance or social service programs, while most Federal investment programs are not directed to the poor at all. It is time to begin at least experimenting with direct Federal investment in the ability of the poor to move forward. Here we use investment in the old fashioned sense: the appropriation of $X today in order to generate $X+ tomorrow by engaging the skills, vision, and energy of people and groups. In this line, the Working Group might

- **Authorize the national demonstration of Individual Development Accounts that President Clinton endorsed during the campaign.** Americans may escape poverty the same way they achieve wealth -- through asset development. Michael Sherraden has proposed a Homestead Act for the 21st Century: the Individual Development Account (IDA).[1] Modeled on the Individual Retirement Account, the IDA would be available and tax-sheltered for all Americans, with the public co-investing with the poor on a sliding scale, to insure that (unlike IRAs and most US asset policy) the poor are not excluded from its benefits. All Americans would be able to save, say $1,000 per year tax-sheltered, with the government matching the investments of the poor on a sliding scale. The accounts could be tapped for any of a set of permissible, productive investments: college education, training, first home, business capitalization.

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[1] Michael Sherraden, ***Assets and the Poor: A New American Welfare Policy,*** Armonk, New York: M.E. Sharpe, c1991. See Appendix D.

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- **Create a competitive Innovation and Investment Fund to support investment programs designed to generate future savings and returns.** We are low on the learning curve of identifying effective antipoverty development strategies. A modest investment fund could encourage more community and state experiments, and accelerate the learning. Currently, the Federal government is requiring that hard-pressed states, communities and non-profit groups to front the investment, even though the Federal treasury has the most to gain. Investment should be on a competitive basis according to the probability and amount of prospective return. Appropriate evaluation should be required as a condition of such investments.

4. Adopt New Forms of Governance No system needs to learn from and adopt new governance systems more than the Federal antipoverty system. The notions of empowering beneficiaries (customers), decentralizing decision-making and encouraging entrepreneurship, holding people accountable for results and easing process controls, utilizing competition in service delivery, creating new learning and information systems and the like are as necessary here as elsewhere. Among the reforms that are needed:

- **Ease the Section 1115 Waiver process** to allow more state and community innovation.

- **Create a Return on Investment Budgeting System** which considers a longer term and a wider array of costs and benefits. As long as we emphasize near term costs and benefits, or only those returns that accrue to agency budgets, the real economics of investments made and forgone will remain underappreciated.

- **Encourage a range of evaluation/learning strategies**, rather than an overwhelming reliance on random assignment, control group methodology with its high cost and anti-innovative bias. We need better feedback loops and outcome tracking in order to learn better and more continually from reform initiatives.

- **Use new management practices** that can maximize state and local creativity while holding agencies accountable for results and protections, and harnesses the potential contributions of non-profit, community organizations.

Costs and Benefits

We believe that the returns of the above investments will exceed their initial cost. But the Congressional Budget Office, reluctant as it is to project behavior changes in the absence of demostrable proof, is unlikely to see it that way. Thus, while we work on developing better Return on Investment data, we would propose budgeting an investment budget of $1 billion or 20% of the Reform Package budget (whichever is more) to fund the above intiatives, and consider limiting Federal tax-based subsidies for asset acquisition by the non-poor, to cover this investment (e.g. limit the Home Mortgage Deduction to a single house, or limit the pension exclusion).

We further believe that only a development approach yields the kind of economic, social and political dividends capable of moving a broader reform initiaitve. That is, only by creating additional paths our of poverty can we expect to be able to shrink the group dependent on federal support, and generate additional maintenance resources.

We would be the first to admit that the array of effective development strategies is not yet adequate to provide the quantity and quality of jobs or paths to them that are necessary. But Federal policy does not yet even support the development strategies we understand. And, unless the Federal government becomes an active partner with innovative communities and states, we will never evolve an adequate strategy.

WR - Assets

II

103D CONGRESS
1ST SESSION

S. 863

To provide for the establishment of demonstration projects designed to determine the social, psychological, and economic effects of providing to individuals with limited means an opportunity to accumulate assets, and to determine the extent to which an asset-based welfare policy may be used to enable individuals with low income to achieve economic self-sufficiency.

IN THE SENATE OF THE UNITED STATES

APRIL 30 (legislative day, APRIL 19), 1993

Mr. BRADLEY (for himself, Mr. BIDEN, Mrs. BOXER, Mr. BRYAN, Mrs. FEINSTEIN, Mr. HOLLINGS, Mr. KERREY, Ms. MIKULSKI, Ms. MOSELEY-BRAUN, Mr. REID, Mr. ROBB, Mr. ROCKEFELLER, Mr. SIMON, Mr. WELLSTONE, and Mr. HATCH) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To provide for the establishment of demonstration projects designed to determine the social, psychological, and economic effects of providing to individuals with limited means an opportunity to accumulate assets, and to determine the extent to which an asset-based welfare policy may be used to enable individuals with low income to achieve economic self-sufficiency.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Assets for Independence Demonstration Act".

SEC. 2. FINDINGS.

The Congress finds that—

(1) traditional welfare programs in the United States have provided millions of low-income persons with critically needed food, health, and cash benefits, and such programs should be improved and continued;

(2) while such programs have sustained millions of low-income persons, too rarely have such programs been successful in promoting and supporting the transition to economic self-sufficiency;

(3) millions of Americans continue to live in poverty and continue to receive public assistance;

(4) in addition to the social costs of poverty, the economic costs to the Federal Government to provide basic necessities to the poor exceeds $120,000,000,000 each year;

(5) poverty is a loss of human resources and an assault on human dignity;

(6) poverty rates remain high and welfare dependency continues, in part, because welfare theory has taken for granted that a certain level of income or consumption is necessary for one's economic well-

being when, in fact, very few people manage to spend or consume their way out of poverty;

(7) economic well-being does not come solely from income, spending, and consumption, but also requires savings, investment, and accumulation of assets, since assets can improve economic stability, connect people with a viable and hopeful future, stimulate development of human and other capital, enable people to focus and specialize, yield personal, social, and political dividends, and enhance the welfare of offspring;

(8) income-based welfare policy should be complemented with asset-based welfare policy, because while income-based policies ensure that present consumption needs (such as food, child care, rent, clothing, and health care) are met, asset-based policies can provide the means to achieve economic self-sufficiency and, accordingly, to leave public assistance;

(9) the Federal Government spends more than $100,000,000,000 each year to provide middle- and upper-income persons with many incentives to accumulate savings and assets (including tax subsidies for home equity accumulation and retirement pension accounts), but such benefits are beyond the reach of most low-income persons;

(10) under current welfare policies, poor families must deplete most of their assets before qualifying for public assistance;

(11) the Federal Government should develop policies that promote higher rates of personal savings and net private domestic investment, both of which fall behind the levels attained in other highly developed industrial nations; and

(12) the Federal Government should undertake an asset-based welfare policy demonstration project to determine the social, psychological, and economic effects of asset accumulation opportunities for low-income persons and to determine if such a policy could provide a new foundation for anti-poverty policies and programs in the United States.

SEC. 3. INDIVIDUAL DEVELOPMENT ACCOUNT DEMONSTRATION PROJECTS.

(a) PURPOSE.—The purpose of this section is to provide for the establishment of demonstration projects designed to determine—

(1) the social, psychological, and economic effects of providing to individuals with limited means an opportunity to accumulate assets; and

(2) the extent to which an asset-based welfare policy may be used to enable individuals with low income to achieve economic self-sufficiency.

(b) APPLICATIONS.—

(1) SUBMISSION.—Not later than April 1, 1994, any organization may submit to the Secretary of the Treasury (in this section referred to as the "Secretary") an application to conduct a demonstration project under this section.

(2) CONTENTS.—The application shall contain—

(A) a description of the demonstration project;

(B) information about the ability of the organization to—

(i) assist project participants in achieving economic self-sufficiency through the project; and

(ii) administer the project;

(C) a commitment made to the organization by the State in which the project is to be conducted that the State will provide a specified amount of funds to the organization for the project, and any similar commitment made to the organization by any other non-Federal public entity or by any private entity; and

(D) a plan to provide the organization evaluating the project with such information with respect to the project as may be required for the evaluation.

(3) CRITERIA.—In considering whether or not to approve any application to conduct a demonstration project under this section, the Secretary shall assess the following:

(A) SUFFICIENCY OF PROJECT.—The degree to which the project described in the application appears likely to aid project participants in achieving economic self-sufficiency through activities requiring qualified expenses (as defined in section 529(c)(1) of the Internal Revenue Code of 1986). In making such assessment, the Secretary shall consider the overall quality of project activities and shall not consider aid in making any particular kind or combination of qualified expenses (as so defined) to be an essential feature of any project.

(B) ADMINISTRATIVE ABILITY.—The ability of the applicant to responsibly administer the project.

(C) COMMITMENT OF NON-FEDERAL FUNDS.—The aggregate amount of funds from non-Federal sources that are committed to the project.

(D) ADEQUACY OF PLAN FOR PROVIDING INFORMATION FOR EVALUATION.—The adequacy of the plan for providing information relevant to an evaluation of the project.

(4) APPROVAL.—Not later than June 1, 1995, the Secretary shall, on a competitive basis, approve such applications to conduct demonstration projects under this section as the Secretary deems appropriate, taking into account the assessment required by paragraph (3).

(c) DEMONSTRATION AUTHORITY; ANNUAL GRANTS.—

(1) DEMONSTRATION AUTHORITY.—If the Secretary approves an application to conduct a demonstration project under this section, the Secretary shall, not later than July 1, 1995, authorize the applicant to conduct the project for 5 project years in accordance with the approved application therefor and this section.

(2) GRANT AUTHORITY.—For each project year of a demonstration project conducted under this sec-

tion, the Secretary shall make a grant to the organization authorized to conduct the project, on the first day of the project year.

(3) LIMITATIONS ON GRANT AMOUNTS.—

(A) MAXIMUM.—The amount of each grant under paragraph (2) shall be not more than $20,000,000.

(B) FIRST YEAR GRANT LEVEL ASSURED.—The amount of each grant to an organization under paragraph (2) after the first such grant shall be not less than the amount of such first grant.

(C) GRANTS REDUCED, IF NECESSARY, IN PROPORTION TO ANY REDUCTIONS IN APPROPRIATIONS AFTER FIRST YEAR.—If the amount appropriated to carry out this section for any particular fiscal year after fiscal year 1995 is less than the amount so appropriated for fiscal year 1995, then the limitations of subparagraphs (A) and (B) shall each be reduced for the particular fiscal year in equal proportion to the reduction of such appropriations, but only to the extent that the reduction of such limitations is made necessary by the reduction in such appropriations.

(d) RESERVE FUND.—

(1) ESTABLISHMENT.—Each organization authorized to conduct a demonstration project under this section shall establish a Reserve Fund which shall be used in accordance with this subsection.

(2) AMOUNTS IN RESERVE FUND.—

(A) IN GENERAL.—As soon after receipt as is practicable, the organization shall place in the Reserve Fund established under paragraph (1)—

(i) all funds provided to the organization by any public or private entity to conduct the demonstration project;

(ii) the proceeds of any investment made under paragraph (3)(B).

(B) INDIVIDUAL DEVELOPMENT ACCOUNT PENALTIES.—

(i) PENALTY AMOUNTS AUTHORIZED TO BE APPROPRIATED FOR PAYMENT TO THE RESERVE FUND.—For payment to the Reserve Fund established by an organization that provides financial assistance under subsection (g) of this section to any individual who pays, or from whose individual development account is paid, a penalty amount, there is authorized to be appropriated to the Secretary, without fiscal year limitation, an amount equal to the penalty amount.

(ii) PAYMENT TO RESERVE FUND OF PENALTY AMOUNTS APPROPRIATED THEREFOR.—The Secretary shall immediately pay to the Reserve Fund any amount appropriated pursuant to clause (i) for payment to the Reserve Fund.

(C) UNIFORM ACCOUNTING REGULATIONS.—The Secretary shall prescribe regulations with respect to accounting for amounts in Reserve Funds.

(3) USE OF RESERVE FUND.—

(A) IN GENERAL.—The organization shall use the amounts in the Reserve Fund established under paragraph (1) to—

(i) assist participants in the demonstration project in obtaining the skills and information necessary to achieve economic self-sufficiency through activities requiring qualified expenses (as defined in section 529(c)(1) of the Internal Revenue Code of 1986);

(ii) provide financial assistance in accordance with subsection (g) to individuals selected by the organization to participate in the project;

(iii) administer the project; and

(iv) provide the organization evaluating the project under a contract entered into under subsection (k) with such information with respect to the project as may be required for the evaluation.

(B) AUTHORITY TO INVEST FUNDS.—The organization shall invest such amounts in the Reserve Fund as are not immediately needed to carry out subparagraph (A) of this paragraph, in accordance with guidelines which shall require such investments to be highly liquid and of low risk.

(C) LIMITATION ON ADMINISTRATIVE EXPENSES.—Not more than 10 percent of the amounts provided to the organization under subsection (c)(2) may be used to administer, or notify the public about, the demonstration project.

(4) UNUSED FEDERAL GRANT FUNDS TRANSFERRED TO THE SECRETARY WHEN PROJECT TERMI-

NATES.—Notwithstanding paragraph (3), upon the termination of any demonstration project authorized under this section, the organization conducting the project shall transfer to the Secretary an amount equal to—

(A) the amounts in the Reserve Fund at time of the termination; multiplied by

(B) a percentage equal to—

(i) the aggregate amount of grants made to the organization under subsection (c)(2); divided by

(ii) the aggregate of the amounts provided to the organization by all entities to conduct the project.

(e) ELIGIBILITY FOR ASSISTANCE.—Any individual who is a member of a household that meets the following requirements shall be eligible for assistance under a demonstration project conducted under this section:

(1) INCOME TEST.—The income of the household for the immediately preceding calendar year is not more than 200 percent of the poverty threshold for such period.

(2) NET WORTH TEST.—The net worth of the household, as of the close of such immediately preceding calendar year, is not more than $20,000.

(f) SELECTION OF INDIVIDUALS TO RECEIVE ASSISTANCE.—From among the individuals eligible for assistance under a demonstration project conducted under this section, the organization authorized to conduct the project shall select the individuals—

(1) whom the organization deems to be best suited to receive such assistance; and

(2) to whom the organization will provide financial assistance in accordance with subsection (g).

(g) PROVISION OF FINANCIAL ASSISTANCE.—Each organization to which a grant is made under subsection (c)(2) of this section for a project year shall, during the project year, deposit directly into the individual development account of any individual selected by the organization under subsection (f) of this section an amount determined in accordance with the following table:

If the income of the individual for the applicable period is the following percentage of the poverty threshold:	The amount is not to exceed the lesser of:		
	The following percentage of the qualified savings of the individual for the period:	OR	The following dollar amount:
Not more than 75 percent ...	300	or	$1,500
More than 75 percent but not more than 125 percent.	100	or	$1,000
More than 125 percent but not more than 160 percent.	66	or	$750
More than 160 percent but not more than 200 percent.	33	or	$500.

(h) LOCAL CONTROL OVER DEMONSTRATION PROJECTS.—Each organization authorized to conduct a demonstration project under this section shall, subject to the provisions of subsection (j), have sole authority over the administration of the project. The Secretary may prescribe only such regulations with respect to demonstration projects under this section as are necessary to ensure compliance with the approved applications therefor and this section.

(i) SEMIANNUAL PROGRESS REPORTS.—

(1) IN GENERAL.—Each organization authorized to conduct a demonstration project under this section shall prepare 10 semiannual reports on the progress of the project, including—

(A) information on participation of individuals in the project;

(B) information on amounts in the Reserve Fund established with respect to the project;

(C) information on amounts in the individual development accounts of the individuals to whom assistance is provided under the project; and

(D) such other information as the Secretary may require to assess the project.

(2) SUBMISSION OF REPORTS.—The organization shall submit each report required to be prepared under paragraph (1) with respect to a demonstration project to—

(A) the Secretary; and

(B) the Treasurer (or equivalent official) of the State in which the project is conducted.

(3) TIMING.—The first report required by paragraph (1) shall be submitted at the end of the 6-month period beginning on the date the Secretary authorized the organization to conduct the demonstration project, and subsequent reports shall be submitted 6 months apart.

(j) SANCTIONS.—

(1) AUTHORITY TO REVOKE DEMONSTRATION AUTHORITY.—If the Secretary determines a demonstration project is not operating in accordance with its application and this section (and has not implemented any recommendations made by the Secretary), the Secretary may revoke the original authorization to conduct the project.

(2) ACTIONS REQUIRED UPON REVOCATION.—If the Secretary revokes the original authorization to conduct a demonstration project, the Secretary—

(A) shall suspend the project;

(B) shall take control of the Reserve Fund established pursuant to subsection (d) as part of the project;

(C) shall make every effort to find another organization willing and able to conduct the project in accordance with the approved application therefor (as modified, if necessary, to incorporate the recommendations) and this section;

(D) if the Secretary finds such an organization, shall—

(i) authorize the organization to conduct the project in accordance with the approved application therefor (as modified, if necessary, to incorporate the recommendations) and this section;

(ii) transfer to the organization control over the Reserve Fund established pursuant to subsection (d) as part of the project; and

(iii) for purposes of this section, consider—

(I) such other organization to be the organization originally authorized to conduct the project; and

(II) the date of such authorization to be the date of the original authorization; and

(E) if, by the end of the 1-year period beginning on the date of such revocation, the Secretary has not found such an organization, shall—

(i) terminate the project; and

(ii) from the Reserve Fund established as part of the project, remit to each entity that has provided amounts to the organization originally authorized to conduct the project, an amount equal to that percentage of the aggregate of the amounts so provided by all entities that is represented by the amount so provided by such entity.

(k) EVALUATIONS.—

(1) IN GENERAL.—Not later than July 1, 1995, the Secretary shall enter into a contract with an independent research organization that requires the organization, in accordance with this subsection, to evaluate the demonstration projects conducted under ~~this section, individually and as a group.~~

(2) RESEARCH QUESTIONS.—In evaluating any demonstration project conducted under this section,

the research organization shall address the following questions:

(A) What types of information and public education efforts are successful in attracting project participants?

(B) How can participation in the demonstration project be made as easy and accessible as possible for participants?

(C) What level of financial incentives is required to stimulate participation in the demonstration project, and does this vary among different populations?

(D) What program features in conjunction with individual development accounts (such as peer support, structured planning exercises, mentoring, and case management) increase the rate and consistency of participation in the demonstration project?

(E) What are the economic, psychological, and social effects of asset accumulation, and for whom? To what extent, under what circumstances, and for whom does asset accumulation under the demonstration project lead to any or all of the following:

(i) A greater sense of security and control;

(ii) Greater stability in the household;

(iii) A more positive future outlook;

(iv) More long-term planning;

(v) Increased efforts to maintain and develop assets;

(vi) Greater knowledge about savings, investments, and other financial matters;

(vii) Increased effort and success in educational achievement (including those of parents working to provide for the education of their children);

(viii) Increased specialization in career development;

(ix) Greater self-esteem and personal efficacy;

(x) Improved social status;

(xi) Increased political participation;

(xii) Increased community involvement;

(xiii) Increased labor earnings in the long term;

(xiv) Decreased reliance on traditional forms of public assistance in the long term?

(3) METHODOLOGICAL REQUIREMENTS.—In evaluating any demonstration project conducted under this section, the research organization shall—

(A) use control groups to compare participants with nonparticipants as much as possible;

(B) before, during, and after the project, obtain such quantitative data as are necessary to thoroughly evaluate the project; and

(C) develop a qualitative assessment, derived from sources such as in depth interviews, of how asset accumulation affects individuals and families.

(l) DEFINITIONS.—As used in this section:

(1) APPLICABLE PERIOD.—The term "applicable period" means, with respect to amounts to be paid from a grant made for a project year, the calendar year immediately preceding the calendar year in which the grant is made.

(2) HOUSEHOLD.—The term "household" means all individuals who share use of a dwelling unit as primary quarters for living and eating separate from other individuals.

(3) HOUSEHOLD NET WORTH.—

(A) IN GENERAL.—The term "net worth" means, with respect to a household, the aggregate market value of all assets not excluded under subparagraph (B) that are owned in whole or in part by any member of the household, minus the obligations or debts of any member of the household.

(B) ASSETS EXCLUDED.—The following assets (and obligations or debts with respect thereto) shall be excluded in determining the net worth of any household:

(i) $35,000 OF HOME EQUITY.—The lesser of—

(I) the equity of the members of the household in the dwelling unit in which the members reside; or

(II) $35,000.

(ii) MOTOR VEHICLE.—The most valuable motor vehicle owned by any member of the household.

(iii) FURNITURE; APPLIANCES; CLOTHING.—All furniture, appliances, and clothing used by any member of the household in the course of daily living.

(iv) ART OBJECTS.—All art objects displayed in the dwelling unit in which the members of the household reside.

(v) JEWELRY.—All jewelry owned by any member of the household.

(4) INDIVIDUAL DEVELOPMENT ACCOUNT.—The term "individual development account" has the same meaning given such term in section 529 of the Internal Revenue Code of 1986.

(5) PENALTY AMOUNT.—The term "penalty amount" means any of the following:

(A) FINANCIAL ASSISTANCE FORFEITED.—Any amount paid into the general fund of the Treasury of the United States under section 529(e) of the Internal Revenue Code of 1986.

(B) 10 PERCENT ADDITION TO TAX.—Any additional tax imposed by section 529(f) of the Internal Revenue Code of 1986.

(C) OTHER PENALTY TAXES.—Any tax imposed with respect to an individual development account by section 4973, 4975, or 6693 of the Internal Revenue Code of 1986.

(6) POVERTY THRESHOLD.—The term "poverty threshold" means, with respect to a calendar year, the Federal poverty line for the calendar year for the

relevant family size, as defined annually by the Bureau of the Census.

(7) PROJECT YEAR.—The term "project year" means, with respect to a demonstration project, any of the 5 consecutive 12-month periods beginning on the date the project is originally authorized to be conducted.

(8) QUALIFIED SAVINGS OF THE INDIVIDUAL FOR THE PERIOD.—The term "qualified savings of the individual for the period" means the aggregate of the amounts contributed by the individual to the individual development account of the individual during the period.

(m) LIMITATIONS ON AUTHORIZATION OF APPROPRIATIONS.—

(1) IN GENERAL.—To carry out this section, there are authorized to be appropriated to the Secretary of the Treasury not to exceed $100,000,000 for each of fiscal years 1994, 1995, 1996, 1997, and 1998.

(2) CERTAIN AMOUNTS TO BE USED FOR EVALUATIONS.—The Secretary shall expend from amounts appropriated under paragraph (1) such amounts as the Secretary determines appropriate to

obtain evaluations of the projects in accordance with subsection (k).

SEC. 4. INDIVIDUAL DEVELOPMENT ACCOUNTS.

(a) IN GENERAL.—Subchapter F of chapter 1 of the Internal Revenue Code of 1986 (relating to additional itemized deductions for individuals) is amended by adding at the end the following new part:

"PART VIII—INDIVIDUAL DEVELOPMENT ACCOUNTS

"SEC. 529. INDIVIDUAL DEVELOPMENT ACCOUNTS.

"(a) ESTABLISHMENT OF ACCOUNTS.—

"(1) IN GENERAL.—An individual development account may be established by or on behalf of an eligible individual for the purpose of accumulating funds to pay the qualified expenses of such individual.

"(2) ELIGIBLE INDIVIDUAL.—The term 'eligible individual' means an individual for whom assistance is (or at any prior time was) provided under section 3(g) of the Individual Development Account Demonstration Act.

"(b) LIMITATIONS.—

"(1) ACCOUNT MAY NOT BE ESTABLISHED FOR BENEFIT OF MORE THAN 1 INDIVIDUAL.—An individual development account may not be established for the benefit of more than 1 individual.

"(2) ELIGIBLE INDIVIDUAL TREATED AS ELIGIBLE INDIVIDUAL ONLY WITH RESPECT TO 1 ACCOUNT.—If, at any time during a calendar year, 2 or more individual development accounts are maintained for the benefit of an eligible individual, such individual shall be treated as an eligible individual for the calendar year only with respect to the 1st of such accounts.

"(3) ANNUAL LIMIT.—Contributions to an individual development account for any taxable year shall not exceed $2,000. No contribution to the account under section 3(g) of the Individual Development Account Demonstration Act shall be taken into account for purposes of this paragraph.

"(c) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

"(1) QUALIFIED EXPENSES.—The term 'qualified expenses' means 1 or more of the following, as provided by the organization providing assistance to the individual under section 3(g) of the Individual Development Account Demonstration Act:

"(A) POST-SECONDARY EDUCATION EXPENSES.—Post-secondary educational expenses paid from an individual development account directly to an eligible educational institution. For purposes of this subparagraph—

"(i) IN GENERAL.—The term 'postsecondary educational expenses' means—

"(I) tuition and fees required for the enrollment or attendance of a student at an eligible educational institution,

"(II) fees, books, supplies, and equipment required for courses of instruction at an eligible educational institution, and

"(III) a reasonable allowance for meals, lodging, transportation, and child care, while attending an eligible educational institution.

"(ii) ELIGIBLE EDUCATIONAL INSTITUTION.—The term 'eligible educational institution' means the following:

"(I) INSTITUTION OF HIGHER EDUCATION.—An institution described in section 481(a)(1) or 1201(a) of the Higher Education Act of 1965 (20 U.S.C. 1088(a)(1) or 1141(a)), as such sections are in effect on the date of the enactment of this section.

"(II) POSTSECONDARY VOCATIONAL EDUCATION SCHOOL.—An area vocational education school (as defined in subparagraph (C) or (D) of section 521(4) of the Carl D. Perkins Vocational and Applied Technology Education Act (20 U.S.C. 2471(4))) which is in any State (as defined in section 521(33) of such Act), as such sections are in effect on the date of the enactment of this section.

"(B) FIRST-HOME PURCHASE.—Qualified acquisition costs with respect to a qualified principal residence for a qualified first-time homebuyer, if paid from an individual development account directly to the persons to whom the amounts are due. For purposes of this subparagraph—

"(i) QUALIFIED ACQUISITION COSTS.—The term 'qualified acquisition costs' means the costs of acquiring, constructing, or reconstructing a residence. The term includes any usual or reasonable settlement, financing, or other closing costs.

"(ii) QUALIFIED PRINCIPAL RESIDENCE.—The term 'qualified principal residence' means a principal residence (within the meaning of section 1034), the qualified acquisition costs of which do not exceed 110 percent of the average area purchase price applicable to such residence (determined in accordance with paragraphs (2) and (3) of section 143(e)).

"(iii) QUALIFIED FIRST-TIME HOMEBUYER.—

"(I) IN GENERAL.—The term 'qualified first-time homebuyer' means a taxpayer (and, if married, the taxpayer's spouse) who has no present ownership interest in a principal residence during the 3-year period ending on the date of acquisition of the principal residence to which this subparagraph applies.

"(II) DATE OF ACQUISITION.—The term 'date of acquisition' means the date on which a binding contract to acquire, construct, or reconstruct the principal residence to which this subparagraph applies is entered into.

"(C) BUSINESS CAPITALIZATION.—Amounts paid from an individual development account directly to a business capitalization account which is established in a federally insured financial institution and is restricted to use solely for qualified business capitalization expenses. For purposes of this subparagraph—

"(i) QUALIFIED BUSINESS CAPITALIZATION EXPENSES.—The term 'qualified business capitalization expenses' means qualified expenditures for the capitalization of a qualified business pursuant to a qualified plan.

"(ii) QUALIFIED EXPENDITURES.—The term 'qualified expenditures' means expenditures included in a qualified plan, including capital, plant, equipment, working capital, and inventory expenses.

"(iii) QUALIFIED BUSINESS.—The term 'qualified business' means any business that does not contravene any law or public policy (as determined by the Secretary).

"(iv) QUALIFIED PLAN.—The term 'qualified plan' means a business plan which—

"(I) is approved by a financial institution, or by a nonprofit loan fund having demonstrated fiduciary integrity,

"(II) includes a description of services or goods to be sold, a marketing plan, and projected financial statements, and

"(III) may require the eligible individual to obtain the assistance of an experienced entrepreneurial advisor.

"(D) RETIREMENT EXPENSES.—Expenses for which amounts may be distributed from an individual retirement plan, subject to the same requirements and limitations as apply to such amounts.

"(E) TRANSFERS TO IDA'S OF FAMILY MEMBERS.—Amounts paid from an individual development account directly into another such account established for the benefit of an eligible individual who is—

"(i) the taxpayer's spouse, or

"(ii) any dependent of the taxpayer with respect to whom the taxpayer is allowed a deduction under section 151.

"(2) INDIVIDUAL DEVELOPMENT ACCOUNT.—The term 'individual development account' means a trust created or organized in the United States exclusively for the purpose of paying the qualified expenses of an eligible individual, but only if the written governing instrument creating the trust meets the following requirements:

"(A) No contribution will be accepted unless it is in cash.

"(B) The trustee is a federally insured financial institution.

"(C) The assets of the account will be invested in accordance with the direction of the eligible individual.

"(D) The assets of the trust will not be commingled with other property except in a common trust fund or common investment fund.

"(E) Except as provided in subparagraph (F), any amount in the account which is attributable to assistance provided under section 3(g) of the Individual Development Account Demonstration Act may be paid or distributed out of the account only for the purpose of paying the qualified expenses of the eligible individual.

"(F) Any balance in the account on the day after the date on which the individual for whose benefit the trust is established dies will be distributed within 30 days of such date as directed by such individual to another individual development account established for the benefit of an eligible individual.

"(4) TIME WHEN CONTRIBUTIONS DEEMED MADE.—A taxpayer shall be deemed to have made a contribution on the last day of the preceding taxable year if the contribution is made on account of such taxable year and is made not later than the time prescribed by law for filing the return for such taxable year (including extensions thereof).

"(d) TAX TREATMENT OF DISTRIBUTIONS.—

"(1) IN GENERAL.—Except as otherwise provided in this subsection, any amount paid or distributed out of an individual development account shall be included in gross income of the payee or distributee for the taxable year in the manner provided in section 72.

"(2) DISTRIBUTION USED TO PAY QUALIFIED EXPENSES.—A payment or distribution out of an individual development account shall not be included in gross income to the extent such payment or distribution is used exclusively to pay the qualified expenses incurred by the eligible individual for whose benefit the account is established.

"(3) ASSISTANCE PAYMENTS.—For purposes of section 72, contributions to the account under section 3(g) of the Individual Development Account Demonstration Act shall be treated in the same manner as earnings on the account.

"(e) TAX TREATMENT OF ACCOUNTS.—

"(1) EXEMPTION FROM TAX.—An individual development account is exempt from taxation under this subtitle unless such account has ceased to be an individual development account by reason of paragraph (2). Notwithstanding the preceding sentence, any such account is subject to the taxes imposed by section 511 (relating to imposition of tax on unrelated business income of charitable, etc. organizations).

"(2) LOSS OF EXEMPTION OF ACCOUNT WHERE INDIVIDUAL ENGAGES IN PROHIBITED TRANSACTION.—

"(A) IN GENERAL.—If the individual for whose benefit an individual development account is established or any individual who contributes to such account engages in any transaction prohibited by section 4975 with respect to the account, the account shall cease to be an individual development account as of the 1st day of the taxable year (of the individual so engaging in such transaction) during which such transaction occurs.

"(B) ACCOUNT TREATED AS DISTRIBUTING ALL ITS ASSETS.—In any case in which any account ceases to be an individual development account by reason of subparagraph (A) as of the 1st day of any taxable year—

"(i) all assets in the account on such 1st day which are attributable to assistance provided under section 3(g) of the Individual Development Account Demonstration Act shall be paid into the general fund of the Treasury of the United States, and "(ii) paragraph (1) of subsection (d) shall apply as if there was a distribution on such 1st day in an amount equal to the fair market value of all other assets in the account on such 1st day.

"(3) EFFECT OF PLEDGING ACCOUNT AS SECURITY.—If, during any taxable year, the individual for whose benefit an individual development account is established, or any individual who contributes to such account, uses the account or any portion thereof as security for a loan—

"(A) an amount equal to the part of the portion so used which is attributable to assistance provided under section 3(g) of the Individual Development Account Demonstration Act shall be paid into the general fund of the Treasury of the United States, and

"(B) the remaining part of the portion so used shall be treated as distributed to the individual so using such portion.

"(f) ADDITIONAL TAX ON CERTAIN AMOUNTS INCLUDED IN GROSS INCOME.—

"(1) DISTRIBUTION NOT USED FOR QUALIFIED EXPENSES.—In the case of any payment or distribution to which subsection (d)(1) applies, the tax liability of each payee or distributee under this chapter for the taxable year in which the payment or distribution is received shall be increased by an amount equal to 10 percent of the amount of the distribution which is includible in the gross income of such payee or distributee for such taxable year.

"(2) DISQUALIFICATION CASES.—If an amount is includible in the gross income of an individual for a taxable year because such amount is required to be treated as a distribution under paragraph (2) or (3) of subsection (e), such individual's tax liability under this chapter for such taxable year shall be increased by an amount equal to 10 percent of such amount required to be treated as a distribution and included in such individual's gross income.

"(3) DISABILITY OR DEATH CASES.—Paragraphs (1) and (2) shall not apply if the payment or distribution is made after the individual for whose benefit the individual development account becomes disabled within the meaning of section 72(m)(7) or dies.

"(g) COMMUNITY PROPERTY LAWS.—This section shall be applied without regard to any community property laws.

"(h) CUSTODIAL ACCOUNTS.—For purposes of this section, a custodial account shall be treated as a trust if the assets of such account are held by a bank (as defined in section 408(n)) or another person who demonstrates, to the satisfaction of the Secretary, that the manner in which he will administer the account will be consistent with the requirements of this section, and if the custodial account would, except for the fact that it is not a trust, constitute an individual development account described in subsection (c)(2). For purposes of this title, in the case of a custodial account treated as a trust by reason of the preceding sentence, the custodian of such account shall be treated as the trustee thereof.

"(i) REPORTS.—The trustee of an individual development account shall—

"(1) prepare reports regarding the account with respect to contributions, distributions, and any other matter required by the Secretary under regulations, and

"(2) submit such reports, at the time and in the manner prescribed by the Secretary in regulations, to—

"(A) the individual for whose benefit the account is maintained, "(B) the organization providing assistance to the individual under section 3(g) of the Individual Development Account Demonstration Act, and

"(C) the Secretary."

(b) CONTRIBUTION NOT SUBJECT TO GIFT TAX.—Section 2503 of such Code (relating to taxable gifts) is amended by adding at the end the following new subsection:

"(h) INDIVIDUAL DEVELOPMENT ACCOUNTS.—Any contribution made by an individual to an individual development account described in section 529(c)(3) shall not be treated as a transfer of property by gift for purposes of this chapter."

(c) TAX ON PROHIBITED TRANSACTIONS.—Section 4975 of such Code (relating to prohibited transactions) is amended—

(1) by adding at the end of subsection (c) the following new paragraph:

"(4) SPECIAL RULE FOR INDIVIDUAL DEVELOPMENT ACCOUNTS.—An individual for whose benefit an individual development account is established and any contributor to such account shall be exempt from the tax imposed by this section with respect to any transaction concerning such account (which would otherwise be taxable under this section) if, with respect to such transaction, the account ceases to be an individual development account by reason of the application of section 529(e)(2)(A) to such account.", and

(2) by inserting ", an individual development account described in section 529(c)(3)," in subsection (e)(1) after "described in section 408(a)".

(d) FAILURE TO PROVIDE REPORTS ON INDIVIDUAL DEVELOPMENT ACCOUNTS.—Section 6693 of such Code (relating to failure to provide reports on individual retirement accounts or annuities) is amended—

(1) by inserting "**OR ON INDIVIDUAL DEVELOPMENT ACCOUNTS**" after "**ANNUITIES**" in the heading of such section, and

(2) by adding at the end of subsection (a) the following new sentence: "The person required by section 529(i) to file a report regarding an individual development account at the time and in the manner required by such section shall pay a penalty of $50 for each failure, unless it is shown that such failure is due to reasonable cause."

(e) SPECIAL RULE FOR DETERMINING AMOUNTS OF SUPPORT FOR DEPENDENT.—Subsection (b) of section 152 of such Code (relating to definition of dependent) is amended by adding at the end the following new paragraph:

"(6) A distribution from an individual development account described in section 529(c)(3) to the individual for whose benefit such account has been established shall not be taken into account in determining support for purposes of this section to the extent such distribution is excluded from gross income of such individual under section 529(d)(2)."

(f) CLERICAL AMENDMENTS.—

(1) The table of parts for subchapter F of chapter 1 of such Code is amended by inserting at the end the following new item:

"Part VIII. Individual development accounts."

(2) The table of sections for subchapter B of chapter 68 of such Code is amended by striking the item relating to section 6693 and inserting the following new item:

"Sec. 6693. Failure to provide reports on individual retirement accounts or annuities or on individual development accounts."

(h) EFFECTIVE DATE.—The amendments made by this section shall apply to contributions made after June 30, 1993.

SEC. 5. FUNDS IN INDIVIDUAL DEVELOPMENT ACCOUNTS OF DEMONSTRATION PROJECT PARTICIPANTS DISREGARDED FOR PURPOSES OF ALL MEANS-TESTED FEDERAL PROGRAMS.

Notwithstanding any Federal law (other than the Internal Revenue Code of 1986) that requires consideration of 1 or more financial circumstances of an individual, for the purpose of determining eligibility to receive, or the amount of, any assistance or benefit authorized by such law to be provided to or for the benefit of such individual, funds (including interest accruing) in an individual development account (as defined in section 529 of the Internal Revenue Code of 1986) shall be disregarded for such purpose with respect to any period during which such individual participates in a demonstration project conducted under section 3 of this Act (or would be participating in such a project but for the suspension of the project).

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