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Policy Report

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THE HISTORY AND STATUS OF CHILDREN'S ALLOWANCES: POLICY BACKGROUND FOR CHILDREN'S SAVINGS ACCOUNTS

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THE HISTORY AND STATUS OF CHILDREN'S ALLOWANCES: POLICY BACKGROUND FOR CHILDREN'S SAVINGS ACCOUNTS

Children's allowances, a common feature of twentieth century welfare states, are cash grants to families with children. Unlike most economically developed nations, the United States has not enacted a universal children's allowance (CA) policy. The United States has been a cautious and reluctant welfare state, and the concept of a CA has conflicted with America's primary values of individual initiative and limited influence of government. The idea of providing a monthly cash benefit as income security for all children has never had widespread political appeal.

Despite this history of opposition to children's allowances, proposals for universal support of children are currently under review in the United States -- but in the form of savings rather than income for consumption. Although the proposals vary, we can generally refer to them as Children's Savings Accounts (CSAs). CSAs would use public resources to promote savings and asset accumulation of all children. The typical proposal is for educational savings, e.g., the KIDSAVE proposal of Senators Joseph Liberman (D-CT) and Bob Kerry (D-NE). Other policy makers have proposed CSAs for purposes such as homeownership, business initiatives, and other development goals. At present, Singapore may be the only country with a universal children's saving account. The Singapore program is called Edusave, and the government deposits a given amount annually in the Edusave accounts of all Singaporean children, to be used for educational expenses (briefly described in Sherraden et al., 1995).

Taking the long view, there is reason to believe that domestic policy will shift away from income transfers and toward asset accounts in many countries (Sherraden, 1996, 1997). In many respects, asset-based domestic policy would be consistent with American

political traditions of self-reliance and individual control. If a shift to universal asset accounts occurs in the United States, it is quite possible that CSAs would play a leading role.

Before pursuing CSAs, it may be helpful to understand the history and current status of children's allowances in other nations to see what we can learn about child support policies. Like most policies of twentieth century welfare states, CAs have been designed to promote income-for-consumption rather than savings-and-investment. Nonetheless, we can perhaps learn something from the trends and structure of CA policies.

History and Development of Children's Allowances

The original concept of children's allowances, also known as family allowances, began in France in 1870. Employers, trying to ease the family burden of their employees, decided to assist workers with children in meeting their family responsibilities. Almost 50 years later, at the end of World War I, Germany became the second country to initiate an employer-based CA program (Haanes-Olsen, 1972). In both countries, the allowances were designed to give large families with low wages more financial support without having to increase wages for all employees.

In the 1920s and 30s, policy makers in several countries began discussing CAs as a function of government. At that time, the debates were concerned mainly with population issues rather than social protections. Many of these countries, including Sweden and the United Kingdom, were worried about low and falling birthrates and felt they could increase birthrates by offering CAs as incentives. However, this approach was not readily accepted, and in many cases it was pushed aside by the pressures leading up to World War II.

Following the war, worldwide expansion of CA programs accelerated. Most of the

new programs have focused on social policy with the welfare of children as the primary objective, but there are still a few countries today, including France, that consider CAs a part of their population policy.

In 1940 only seven countries had CA programs, but by 1949, 27 countries had some form of CA, including France, Germany, Canada, Sweden, and the United Kingdom. By 1958, there were 38; and by 1967 there were 65. The number of countries that have adopted a CA policy has continued to grow. As of 1995, 81 countries had CA programs (US Social Security Administration, 1995). Some 35 of these countries are in Europe, where virtually every country has some form of a CA. On other continents, 23 African countries, 12 Asian countries, two Central American countries, six South American countries, two Oceania countries and Canada also have children's allowances (Table 1). The United States is the only developed nation that does not provide any direct support to families with children. (The United States does provide income transfers to families, but the benefits are contingent upon characteristics and behaviors of parents and are not considered a consistent benefit to children. This is even more true with the curtailment of Aid to Families with Dependent Children in the "welfare reform.") Of those countries that have allowance systems, 25 have universal programs, including 22 European nations; 45 have employment-related programs; and six have social assistance (means-tested or targeted) programs, with the remaining five unidentified (Table 1).

Table 1

CHILD ALLOWANCES BY GEOGRAPHIC AREA AND TYPE

	Employment Related	Universal	Social Assistance
AFRICA			
Northern Africa			
Algeria	X		
Morocco	X		
Tunisia	X		
Western Africa			
Benin	X		
Burkina Faso	X		
Cape Verde	X		
Cote D'voire	X		
Guinea	X		
Mali	X		
Mauritania	X		
Niger	X		
Senegal	X		
Togo	X		
Eastern Africa			
Burundi	X		
Madagascar	X		
Mauritius			X
Middle Africa			
Cameroon	X		
Central African Republic	X		
Chad	X		
Congo	X		
Equatorial Guinea	X		
Gabon	X		
Zaire	X		
ASIA			
Western Asia			
Armenia		X	X
Cyprus		X	
Israel		X	
Lebanon	X		
South Central Asia			
Kyrgyzstan			X
Iran	X		
East Asia			
Hong Kong			X
Japan	X		X
LATIN AMERICA			
Central America			
Costa Rica	X		X
Nicaragua	X		
South America			
Argentina	X		X
Bolivia	X		

Table 1 (continued)

	Employment Related	Universal	Social Assistance
South America (continued)			
Brazil	X		
Chile	X		
Columbia	X		
Uruguay	X		
EUROPE			
Eastern Europe			
Belarus		X	X
Bulgaria	X		
Czech Republic	X		
Hungary		X	
Moldova		X	X
Poland		X	X
Romania		X	
Russian Federation		X	
Slovakia			X
Ukraine	X		X
Southern Europe			
Albania	X		
Greece	X		
Italy	X		
Malta			X
Portugal	X		
Slovenia		X	
Spain	X		
Yugoslavia	X		
Northern Europe			
Denmark		X	
Estonia	X		
Finland			X
Ireland		X	X
Latvia		X	
Lithuania			X
Norway		X	
Sweden		X	
United Kingdom		X	
Western Europe			
Austria		X	
Belgium	X		
France		X	
Germany		X	
Luxembourg		X	X
Netherlands		X	
Switzerland	X		
NORTH AMERICA			
Canada		X	
OCEANIA			
Australia		X	X
New Zealand		X	X

Source: U.S. Social Security Administration (1995).

Turning to levels of funding, a survey of 12 Western European countries finds that expenditures on children's allowances range from 0.1 percent of GDP in Greece to 3.3 percent of GDP in Denmark, with an average of 1.8 percent of GDP (Table 2). CAs are typically 5 to 10 percent of total social expenditures in the more economically advanced European countries (Belgium, Denmark, Germany, France, Luxembourg, Netherlands, and United Kingdom).

Although CAs have been initiated for many different reasons, it is evident that, in the countries that have enacted such policies in recent years, the welfare of children is the major focus. The purpose is not entirely, or even primarily, humanitarian. The emphasis on children is a direct reflection of a country's concern for its future. The move toward general financing in children's allowances reflects the commonly-held perspective that everyone must be responsible for the rearing of the next generation (Haanes-Olsen, 1972). Moreover, the movement toward universal benefits indicates that many nations are concerned with the well-being of families with children as a whole, not just the well-being of a selected group. CAs are broadly viewed as policy strategies that reflect society's share in the economic responsibility of raising children, just as society shares in the economic benefits when the children become productive adults (Kahn and Kamerman, 1983).

Table 2

EXPENDITURES ON CHILDREN'S ALLOWANCES, WESTERN EUROPE, 1993

	Total Social Expenditure (% of GDP)	Children's Allowances (% of GDP)
Belgium	27.6	1.9
Denmark	29.8	3.3
Germany	31.0	2.2
Greece	16.3	0.1
Spain	24.0	0.2
France	30.9	2.4
Ireland	21.4	2.2
Italy	25.8	0.8
Luxembourg	24.9	2.7
Netherlands	33.6	1.6
Portugal	18.3	0.8
United Kingdom	27.3	2.6
European Average	27.7	1.8

Source: Eurostat, ESSPROS Database and Demographic Statistics.

Another trend is away from tax deductions and toward refundable tax credits. A child tax deduction is a deduction from income before taxes are calculated; depending upon their marginal tax rate, families benefit differently from a tax deduction. Those with high incomes and high marginal tax rates benefit the most. People in the lower income brackets benefit less, and the very poorest do not benefit at all. A refundable child tax credit, on the other hand, is a direct credit to all families regardless of their income or tax liabilities. Every family benefits at the same level. The refundable tax credit can also be progressive; as income goes up the credit can gradually go down, giving greater benefits to those in lower tax brackets. For example, Canada has instituted a refundable child tax credit in place of tax deductions and direct transfers. Other countries have combined refundable tax credits with existing programs. Notwithstanding the increasing use of CAs in social policy, these transfer payments have never been intended as a complete substitute for other types of income. In many countries, the allowances are between 5 and 10 percent of the average wage (Kamerman and Kahn, 1988). There is no indication that this pattern will change in the foreseeable future.

The Structure of Existing Children's Allowances

For the 81 countries that currently provide some form of CA, there are 81 policy designs and methods of disbursement. The four general dimensions along which CA programs differ are types of systems, sources of funds, eligibility, and benefits.

Types of Systems. Three main types of CA programs are prominent today: universal, employment-related, and social assistance. Universal systems cover all families with children, regardless of their income or employment status, insuring that the most needy children are not overlooked. Moreover, the stigma and social pressures commonly attached to ”means-tested” welfare programs are avoided when benefits are given to all families. Also, uncertainty in the

family is reduced because benefits do not rely on earnings (Meyer et al., 1991).

The second type of CA program is employment-related. In general, this type of system is thought to encourage work. Employment-related programs are based on an individual's employment status and are usually intended for both wage and salaried workers. A few countries have a provision that includes self-employed workers, and some countries also include those who are registered as unemployed (that is, not employed but looking for work). If workers do not employ in an industry or career that furnishes CAs, they are not entitled to benefits.

A small number of countries have social assistance programs, which grants CAs through income-testing. (This is somewhat like the former Aid to Families with Dependent Children program in the United States, except that social assistance CA benefits would be available to *all* children at particular levels of family income, regardless of characteristics and behaviors of parents.) Often, a social assistance CA is a supplement to the already existing program, i.e., benefits are structured progressively so that the poorest households receive larger supplements.

Sources of Funds. Universal CA systems, including those of most western nations, are customarily financed through general revenues of the federal government. Employment-related systems are funded in a variety of forms. In some countries, such as Colombia and Togo, employers bear the whole cost of the program; Colombia employers pay four percent of their payroll into the program, while Togo employers pay ten percent. Other programs are funded by a combination of employer, government and in a few cases, employee contributions. In Mali, employers contribute eight percent of their payroll to the plan, and the government makes up any deficits. In Greece, insured persons contribute one percent of their earnings and the employers also contribute one percent.

Eligibility. In universal systems, the primary program criteria are the number of children in a family, the age of the children, and their residency. Most countries begin allowance payments with the first child, although France begins with the second. Termination ages range from 12 to 19, and sometimes higher if the child is in college or disabled. In the United Kingdom, for example, the allowance begins with the first child, and continues until the child is 16, or 19 if he or she is a full time student. In Germany, like the UK, the benefit begins with the first child and continues until the child is 16, but unlike the UK, proof of school attendance is required, and age exceptions go as high as 21, if the child is unemployed and registered with an employment office, and as high as 27 if the "child" is a student.

In employment-related CA systems, rules on ages and numbers of children are similar to those of the universal systems. The primary difference is that one of the parents has to be employed. Coverage is often contingent on how much time an employee has been in the workforce and the number of hours he or she is presently working. For example, Niger's CA program requires that an employee must be employed for at least six months prior to the start of the benefit, and he or she must currently be working 18 days a month. In some countries, employment-related CA programs are based progressively on income level, not unlike social assistance programs.

Benefits. Most allowances are paid on a monthly basis; however, some countries pay weekly, some quarterly, and others annually. Allowances are usually given as a direct cash benefit for each child, and depending on the country, the amount varies according to the number and ages of children. For instance, in Sweden the allowance is a monthly cash benefit that increases with every child up to the fourth, and then a level amount is given for each child thereafter. As of 1995, a Swedish household with one child received US$99 a month, with two

children $199, with three children $325, and with four it was $505. Each additional child after four received $99 a month. In Luxembourg, the 1995 allowances ranged from US $99 a month for the first child up to $545 a month for three children, with $277 for each additional child; families also received an additional $16 a month for any child between the ages of six and 11, and $48 for any child 12 or older. Other countries, such as Morocco, decreased the benefit as the number of children increased. The first three children received a level amount, but for the fourth through sixth child, allowances decreased; after the sixth child, no additional allowances were granted.

Canada's benefit is somewhat different from the previous examples; it comes in the form of a yearly refundable tax credit. The basic benefit starts at US$740 a year for each child with an additional $55 for the third child and each child thereafter. The credit is slightly progressive. After a net family income exceeds $18,800, the credit decreases by five percent for families with two or more children, and decreases by 2.5 percent for single child families. Canada also has a supplement credit for low-income working parents. The supplement increases at a rate of eight percent of annual earnings to a maximum credit of $362. When a family income exceeds $15,160, the credit is reduced by ten percent. Families not claiming child care deductions receive an additional $155 per year for each child under the age of seven (1995 figures). Benefits are paid monthly based on the total family income of previous years.

Looking at other variations, Algeria, Argentina, Cote D'ivoire, Gabon, and Luxembourg also give education allowances for school age children in addition to regular child allowances, and Switzerland grants higher education allowances. In Estonia, each child establishing his or her first residency away from home is granted a "start in life" allowance from the government.

Proposals for Children's Allowances in the United States

Americans have sought values other than social solidarity around which to construct national unity, and this is reflected in America's ambivalent history of public income transfers. For many decades assistance for the poor came from churches, charitable organizations, and settlement houses. Not until the early twentieth century did the states assume an active role in providing relief to poor families through "Mothers Aid" laws, and not until 1935 did the federal government provide cash assistance to single mothers with children, with the passage of the Social Security Act. Today, the US voluntary sector continues to play an important role in assisting the needy. Indeed, many Americans say they would prefer that the voluntary sector assumes the major responsibility in relief efforts. The recent retreat of the federal government in "welfare reform" is consistent with this pattern. And, as mentioned above, the United States is the only industrialized nation that does not provide some form of CA funded by public resources.

Nonetheless, political discussions regarding financial help to families with children arise occasionally. In 1966, Alvin Schorr proposed a taxable preschool allowance of $50 per month for all children under the age of six. He suggested that all tax deductions for children could be eliminated and the program could be financed through general revenues. Several versions of CA proposals were generated over the next several years, but because of the perceived high cost of these programs, the ideas were never politically viable. During the late 1980s modest CA programs were again proposed, but with no greater success.

Although the United States has not embraced the idea of a CA, there has been movement toward a more progressive tax policy aimed at helping working families with children. In 1975, the Earned Income Tax Credit (EITC) was introduced as a special tax benefit for working people who earn low to moderate incomes. Workers raising one child in their home in 1995 could get a

tax credit up to $2,094. Workers raising more than one child could receive up to $3,110. Workers with no children were eligible for a tax credit up to $314 (Center on Budget and Policy Priorities, 1996). The EITC was initiated as an incentive to encourage families to work rather than go on welfare, and the EITC has enjoyed bipartisan political support.

The Child and Dependent Care Credit (CDCC) is another tax benefit for working families with children or adult dependents. It is a universal and progressive tax benefit, but it is not refundable. In other words, if a family does not make enough money to pay taxes, the CDCC does not benefit them. In some cases, receiving both EITC and CDCC credits is possible.

In 1995, a bill for a $500 per child tax credit to families earning up to $110,000 was passed by the House. The tax credit would gradually be reduced after $110,000 per year and would be completely extinguished at the $150,000 income level. At first glance the bill looked like a sound family policy proposal, but upon closer evaluation, several weaknesses were apparent. Because it was not refundable, families with no tax liabilities would not have benefited from the credit. Under the House-passed credit, the 40 percent of families with the lowest incomes would have received only 3.5 percent of the benefits. In comparison, the wealthiest 40 percent of children would have received almost two-thirds of the total benefits (Shapiro, 1995). The original version of this bill, which was introduced in the “Contract for America,” called for a partial refund of the tax credit that would have benefited the lowest income group, but this provision was abandoned by the House (Center on Budget and Policy Priorities, 1995).

It should be noted that the tax credit would have been up to $500 per child, meaning that the higher the income, the higher the credit. To qualify for the full benefit from the House-passed credit, a family’s income would have to be more than $30,000 (Shapiro, 1995). Support

for the bill came mostly from Republicans. President Clinton vetoed the bill as part of the Balanced Budget Act in December 1995. In his budget proposal released close to the time of the Republican bill above, the President proposed a $300-per-child tax credit for dependent children below the age of 13 in families with annual incomes below $75,000, with the credit decreasing until it was phased out at the $130,000 income level.

To put President Clinton's proposal in perspective, in 1989 President Reagan and the Congress established the National Commission on Children. The commission was assembled to assess the state of children in America and give a report of their findings and policy recommendations. After more than two years of work, the commission issued its final report. Among its recommendations in child welfare, the commission advocated as its largest federal expenditure a $1,000 refundable child tax credit for families that need it (National Commission on Children, 1991). The members of the commission felt this would be the most effective way to help families with children, and Governor Bill Clinton of Arkansas was one of the members.

The Emergence of Proposals for Children's Savings Accounts

Introduced in 1995 as the first major CSA legislation, KIDSAVE would allow parents eligible for a child tax credit to put the money in an Individual Retirement Account (IRA) for their children. Like a conventional IRA, taxes would be deferred on the principal and interest until withdrawn. The main difference would be that the child could borrow from the fund temporarily in the form of a ten-year loan for the costs of higher education without incurring any tax penalty. Other than the education loan, the money would not be available without a penalty until age 59 ½ (as with a regular IRA). In its original form, KIDSAVE would have made the deposit of the tax credit into IRAs mandatory. However, to build stronger support among lawmakers, the proposal was changed to make the KIDSAVE IRA optional.

The shift to CSA proposals has been building momentum. A more comprehensive proposal introduced by Representative Amo Houghton (R-NY), known as the Children's Financial Security Act of 1997, would establish a Child Retirement Account (CRA) for every US citizen and resident alien under the age of six. The bill is similar to KIDSAVE in that it is a retirement account that permits borrowing for higher education and also for first-time home purchase. Unlike KIDSAVE, this bill calls for the US Treasury to contribute $1,000 directly to each CRA every year until the child reaches the age of six. In other words, every child, regardless of socio-economic status, would accumulate significant assets in a CRA.

Several bills have been introduced with refundable tax credits and educational savings accounts. In January 1997, Senator Tom Daschle (D-SD) introduced the Education for the Twenty-first Century Act, which would establish a refundable tax credit of up to $1,500 per academic year for higher education expenses for the first two-years of a student's post-secondary education. The bill would also provide an annual tax deduction of up to $10,000 per individual for higher education expenses, as well as tax deductions for interest paid on student loans. In May 1997 Representative Joseph Pitts introduced the Children's Education Tax Credit, which would allow an annual refundable tax credit of up to $450 per child for educational expenses.

In the Taxpayers Relief Act, which President Clinton signed into law in August of 1997, parents with children ages 16 and under are entitled to a $400 tax credit for fiscal year 1998, raising to $500 a child in ensuing years. The benefit begins to fade for couples with income of $110,000 and single parents with incomes beginning at $75,000. A key feature in this bill is that many families with incomes between $15,000 to $25,000 are able to receive the tax credit. Unfortunately, 31 percent of children in families with the lowest incomes do not qualify for the credit (Center on Budget and Policy Priorities, 1997).

In addition, the 1997 tax law provides for the creation of educational IRAs and other education benefits. Under the educational IRAs, starting in 1998, taxpayers are allowed to contribute $500 annually to an account for each child under the age of 18. Although the accounts are nondeductible, withdrawals are tax-free if the accounts are used to pay for higher education expenses. Phase out limits begin when a couple's income reaches $150,000 and $95,000 for a single parent. Two other educational incentives include the HOPE tax credit, which allows a maximum credit of $1,500 against expenses for the first two years of college with phase outs between $80,000 and $100,000 for joint filers and $40,000 and $50,000 for singles, and the Lifetime Learning Credits (LCCs), which allow for a 20 percent tax credit for the first $5,000 of tuition and fees through 2002, rising to $10,000 thereafter. LCCs phase out with incomes concurrent to the HOPE credit.

The 1997 tax legislation, although it included several incentives for saving, did not reduce proposals for CSAs. In September of 1997 Senator Bob Kerry delivered a speech at the National Press Club entitled "Who Owns America? A New Economic Agenda," which suggested that a $1,000 "investment account" be opened for each of the approximately four million babies born each year in America, and that the recently enacted $500-per-child tax credit should be refundable, i.e., available to lower-income children as well, and that it be placed in a "child's investment account" for the first five years (Kerry, 1997).

In October, Senators Paul Coverdell (R-GA) and Robert Torricelli (R-NJ) proposed "educational savings accounts," which they called "A+ Accounts." These accounts, opened in the name of an individual child, could accumulate up to $2,500 per year in after-tax dollars, and deposits could come from parents, grandparents, or scholarship organizations. The savings would earn interest and withdrawals for educational purposes would be tax-free. This proposal

would yield greater benefits to families with higher incomes; for example, after five years of deposits of $2,500 in an account earning 7.5 percent annual interest, a family in the 15 percent tax bracket would save $406 and a family in the 36 percent tax bracket would save $974. Another controversial feature of this proposal is that the money could be used for private school tuition at the primary or secondary level. The bill's regressivity and support for private education led to objections from the White House, and Senate Democrats stalled the bill in the fall of 1997.

In sum, serious policy proposals for CSAs are, at this writing, coming from both political parties. The proposals differ considerably in content, but the overall message is that savings for children, particularly savings for education, is becoming a major policy discussion.

Discussions

When compared to other economically developed nations, the United States has been a laggard in federal spending for the support of children. In assessing US policy, we can offer the following observations: in not providing monthly cash benefits to all families in the form of CAs, the US government has "saved" billions of dollars annually in domestic spending, when compared to other economically developed nations. In the United States, outlays for a CA at the European average of 1.8 percent of GDP (see Table 2) would total over $140 billion per year. This is roughly twice the sum that would be needed to deposit $1,000 into a savings account for every child in America under the age of 18, year after year. Even at the lowest European CA expenditure level of 0.1 percent of GDP in Greece, the US equivalent would be $8 billion per year, which is twice as much as would be needed to deposit $1,000 into a "start in life" account for every newborn child in America.

Another way to look at this is that, compared to virtually every other economically advanced

nation, the United States underinvests in children. This underinvestment in children is a growing national problem. At any given time, more than 20 percent of US children live in households below the income poverty line, and more than 30 percent live in households with zero or negative net financial assets. These figures can be approximately doubled for African American and Latino children. On a number of important indicators of health, education, and well-being, US children rank very poorly when compared to other nations. Of greatest concern is lagging educational performance. The nation's future prosperity depends foremost on development of human capital, and a large proportion of US children are not growing up to be productive. Therefore, for both humanitarian and practical reasons, it would be self-defeating for the nation to proceed on the present course.

Fortunately, there are indications that political leaders now recognize this. Despite the dominant US values of non-intervention in the lives of families, there is today growing political support for child care and other investment in children. This is a marked change. A flurry of recent proposals indicate that the Congress, on both sides of the aisle, is moving toward legislation with significant levels of expenditures to increase investments in children. But virtually none of these recent proposals is for a traditional CA income support policy. What are the best policy alternatives for investment in children? In addition to child care, CSAs would be a high return public investment.

Growing awareness of the importance of education, a general shift toward asset-based policy, and the disappearing federal budget are converging to make a new politics of investment in children not only possible, but likely. Values for savings have always been strong in the United States, and proposals to increase savings have bipartisan political support. CSAs would provide children from low wealth families an opportunity to secure a better future for themselves

by using their savings for asset building and education. There may be particularly strong public support for “start in life” deposits into CSAs, with private sector participation in building accounts over time.

Policy Directions

With the history and status of Children’s Allowances in mind, the following principles would seem desirable for Childrens’s Savings Accounts:

- Coverage should be universal, so that every young person has an account.
- Funding should come from general revenues, augmented by partnerships with families and the private sector.
- Eligibility should extend from birth through the age of 18.
- Deposits should be governed by annual limits.

What should be the level of public commitment to CSAs? The United States should decide to devote a given proportion of GDP to CSAs for education, much the same way that a company would devote a certain percentage of revenues to research and development to increase its future productivity. As a reluctant welfare state, America is not likely to be overly generous. This is not ideal, but it is workable. If the U.S. Government were to devote even the lowest European CA percentage of only 0.1 percent of GDP (about $8 billion per year in the United States) to CSAs, it could be a far-reaching policy innovation, with very positive long-term effects. If the federal government were to devote one percent of GDP to CSA's (which is a little over one-half the European average of 1.8 percent of GDP for children's allowances), $1000 per year could be deposited into the account of every child in American from birth through age 18.

How should CSAs be funded? Direct government deposits would be most desirable. Tax credits could also work well. These are not mutually exclusive; a CSA policy could have

elements of both direct deposits and tax credits. Unfortunately, the most popular tax proposals currently before the Congress are not refundable tax credits and therefore would not benefit the poor. The best tax proposals would be refundable, i.e., they would operate like a negative income tax, with payments from the US Treasury to households that have no tax liability. What would be desirable characteristics of a beginning CSA policy in the United States?

- CSA policy should be created for all newborn children.
- CSA coverage should expanded gradually with each new cohort to eventually include everyone through the age of 18.
- Each CSA would begin with a "start in life" deposit of $1,000 from the federal government (budgeted at approximately $4 billion per year).
- Additional funding would be to poor families through a progressive refundable tax credit for deposits into CSAs, with greater benefits going to families with lowest incomes, as with EITC policy.
- There should also be tax incentives for individual and corporate contributions to CSAs. Voluntarism has always been a unique strength of US society and CSD policy should build on it
- Creative state and local responses in design, funding, and use of CSAs should be encouraged, as is today occurring with individual development accounts (IDAs).
- Benefits from CSAs should accrue on defined contribution principles, i.e., the assets eventually available for use would depend on amounts deposited and investment performance.
- Assets in CSAs should be invested individually in a limited range of investment options, covering a reasonable range of risk and potential return.

- CSAs should be designed with post-secondary education as the primary intended use; funds could later be used for home purchase, business capitalization, and eventually retirement.

Conclusion

A global view of children's allowances (CA's) suggest that the United States is an intentional laggard in investing in children. Historical perspective also informs us that Americans are unlikely to embrace a consumption-oriented CA, but are much more favorably inclined toward savings. These two conclusions suggest that universal public investments in children are overdue in the United States, and when created, should be in the form of children's savings accounts (CSAs) instead of CAs.

How should the United States proceed toward CSAs? Political success will require a broad coalition. On the political Right, the traditional interest in promoting self-sufficiency should be leavened with the understanding that government rules and tax incentives are how most middle class Americans accumulate assets, primarily in the form of home equity and retirement pension accounts (Sherraden, 1991). Similar incentives should be available to the entire population, and CSAs would be a good place to begin. On the political Left, the traditional focus on income maintenance should be enriched with the understanding that subsistence income by itself does not move people out of poverty. Income-for-consumption should be complemented with savings-and-investment.

It would be desirable to begin in a savings policy for children in the form of CSAs, because investing in children, particularly for education, will have the greatest long-term pay-off for children, families, and the nation. Over time, CSAs could become an important step toward a broader domestic policy based on asset accounts, perhaps under the name of Universal Savings

Accounts, or USAs (Corporation for Enterprise Development, 1996). There is reason to believe that US policy is already and will continue to shift in this direction, but there is also a danger that the poor will be left behind in this transition (Sherraden, 1996, 1997).

In closing, it is not accidental that during the twentieth century the United States never adopted a CA policy as did the other Western welfare states and much of the rest of the world, and we do not suggest that the United States should adopt such a policy today. But it is increasingly clear that something substantial must be done to invest in US children, and CSAs are emerging and gaining momentum as the century comes to a close. CSAs are consistent with US political values and the imperative to develop the human capital of the nation's children as we approach the twenty-first century. Just as another asset-based policy, the GI Bill, promoted human and social capital development in the middle of the nineteenth century -- with enormous payoffs in educational attainment, increased productivity, and widespread home ownership -- a CSA policy would democratize educational opportunity, spread the distribution of wealth, build stronger households and communities, and promote economic growth.

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Appendix

Proposal for
CHILDREN'S SAVINGS ACCOUNTS
(Originally prepared at the request of the Bush White House, 1991)

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By most estimates, human capital makes up most (as much as three-quarters) of the total wealth in the United States. With each passing year, knowledge becomes a more important factor of production.

No nation will be competitive in the 21st Century without educating her children to the greatest possible extent.

Asset accumulation in individual accounts for post-secondary education and training is the best possible investment the nation can make.

Every child in America should have a Children's Savings Account (CSA) for post-secondary education and training.

Long-Term Vision

The current social policy system in the United States (and most other Western nations) is insupportable in the long-term. It cannot be paid for, and it operates as a giant transfer and consumption promoter.

US domestic policy should be transformed in coming years to balance income-and-consumption with savings-and-investment.

Public policy can and should facilitate asset accumulation across the entire population (as now occurs in today's successful tax policies for home equity and retirement pension assets for the middle class).

The best way to do this is to build on the concept of individual asset accounts.

In gradually phasing in individual asset accounts and gradually phasing out social insurance, it makes sense to start with children. We would, in effect, be raising a generation of asset holders who would view domestic policy entirely differently.

As capital accumulates over many years in individual accounts, much of what we today call "social policy" (for retirement security, housing, health care, and others areas) is likely to be financed out of asset accounts.

In a word, CSAs would be an important step toward eventual transformation away from social insurance and toward individual savings as the primary vehicle for domestic policy.

Due to the coming fiscal strain in social insurance, the transformation to individual accounts in domestic policy is all but inevitable. In fact it is already occurring with the rapid growth of defined contribution plans, 401(k)s and 403(b)s, in the private sector, and proposals for expanded IRAs in the public sector.

The great danger is that poor people will be left behind in this transformation. This is unacceptable for both humanitarian and economic reasons. If the nation is to prosper in the 21st century, all Americans must save, invest, and become productive citizens.

Policy Strategy

Create a refundable tax credit for a universal system of Children's Savings Accounts (CSAs).

Features

Enact a Children's Savings Account Tax Credit of $500 per year.

Make it fully refundable, i.e., regardless of income level or tax obligations, every child in America would be eligible for the tax credit, from birth through age 18.

The tax credit would go into a restricted Children's Savings Account, to be used for post-secondary education and training. At some point in the future, use of the account would be expanded to include home ownership, starting a small business, or other development purposes.

An intensive public education campaign would be mounted to urge all families in America to participate. The participation goal for CSAs would be 98 to 100 percent of all children in America.

Money would accumulate year by year with deposits plus earnings.

Investment options would be much like those that currently prevail for Individual Retirement Accounts (IRAs).

Economic literacy and financial planning would occur in schools, neighborhood associations, and churches regarding CSA investment decisions and planning for life goals.
To control misuse and abuse, money would not directly enter the hands of individuals. It would accumulate in restricted accounts (as with IRAs), and would be allocated directly to approved educational institutions (as with Guaranteed Student Loan distributions).

Policy Options

It is possible to think of many variations of this policy strategy, but some of the major options are as follows:

Allow other deposits into CSA accounts (recommended). If families, charities, or corporations wish to contribute to CSA accounts, especially for poor households, they should be encouraged to do so. The added fiscal cost in forgone tax revenue would leverage savings for education, a good investment of public dollars.

Use the federal tax credit as active leverage to mobilize state and local support for CSAs (recommended). The best use of federal policy is to mobilize local energy and participation. The federal CSA tax credit could have matching requirements for state government, local government, foundations, corporations, non-profit organizations, and participating families. If this is done, the federal tax credit should especially reward private sector organizations and individuals who contribute to CSAs of poor children.

Make the CSA tax credit refundable only for households with earned income (not recommended). This option at first glance seems sensible because it would reward work. But on further consideration this is not a desirable option because the logic of CSAs is to raise a new generation of asset holders. CSA money would be saved for education of the children, not consumed by parents. CSAs would enable children from all families, including non-working families, to launch themselves into productive adulthood.

Impacts

CSAs would be a tax cut that does not detract from the national savings rate, and indeed, would create a structure to increase savings and investment in the future.

With CSAs, every child in America could begin a savings account during the first year of life. At $500 per year plus earnings, substantial capital would accumulate in these individual accounts.

With CSAs, children would be empowered to reach their fullest potential. Regardless of race or class background, all children would have access to a vehicle for success. From the outset, they could dream and plan. They would become stakeholders and their behavior would change as a result.

Racial differences in asset holding and net worth would gradually diminish, bringing African-Americans, Latinos, and other nonwhites into property owning and the American Dream.

With CSAs, the growing capital in individual accounts would lay the foundation for eventual transformation away from unfunded social insurance and toward funded individual accounts in domestic policy.

When this occurs, people would be empowered to make their own "social policy" choices out of

these accounts. Decisions on social expenditures would be more flexible and more efficient.

At the macroeconomic level, the nation's savings rate would rise. This would contribute to reduced interest rates, a stronger currency, greater investment, and increased productivity. In the long-run, the macroeconomic impacts would be as important as the household social impacts. Social and economic policy would become more integrated.